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The State and Economic Involution: Russia Through a China Lens

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Summary. — Why has the Russian economy declined at the rate the Chinese economy has grown? In China the party-state has made possible the decentralization of property relations and the hardening of budget constraints whereas in Russia the disintegration of the party-state has led to privatization and soft budget constraints. Whereas the former combination entailed accumulation, the latter combination entailed "involution," that is, an economy that eats away at its own foundations by funnelling resources from production to exchange. Russia's involution has proceeded in a combined mode, that is, through a series of phases in which government policies try to rectify the unintended consequences of previous policies. Involution is also uneven as different industries adopt different strategies. Some rapidly exited from the old order and then disintegrated while others voiced their demands to the state and declined more slowly. Copyright © 1996 Elsevier Science Ltd

1. INTRODUCTION

Reformers in Russia and China were equally enamored of markets but their attitudes toward the state were diametrically opposed. For the Russian "reformers" the party-state was so morally and politically repugnant and its incumbents so corrupt and venal that the destruction of the state apparatus was worth any price. The Chinese "reformers," on the other hand, were prepared to go to any lengths to preserve the party-state but realized that if it were to be sustained the system of rules and incentives that connected the central state to the regions and thence to localities had to be drastically changed to allow the reconstruction of state-society ties at the local level. The jury is, of course, still out in both cases — but at the present time the Chinese strategists can look back on a period of continuous growth, while Russia's reformers seem to have destroyed the economic capacity of their society in the process of saving it from the state (Table 1).

This paper uses the local dynamic of the more synergistic Chinese case as a contrasting lens to illuminate the local problems created by the Russian strategy, where disabling the state to accelerate the creation of markets has come at the cost of production. The first part shows how the Chinese party state has promoted accumulation, while the Russian democra-

tic state has created a developmental disaster I call "economic involution." The second part focuses on the succession of state interventions, intended to promote market economy in Russia, which have expanded the sphere of exchange but at the expense of production. The third part compares two Russian industries which have adopted opposite strategies in order to shed further light on why destroying the state to save the economy has not worked.

2. WHY CHINA SUCCEEDS WHERE RUSSIA FAILS

There is no shortage of theories that purport to explain the discrepant trajectories and outcomes of Russian and Chinese economic reforms. But as I argue

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	1989	1990	1991	1992	1993	1994
China (Real GNP)	4.4	4.1	8.2	13.0	13.4	11.4
Russia (Real GDP)	3.0	-2.1	-12.9	-18.5	-12.0	-15.0

Table 1. Economic growth rates for China and Russia (%)*

below they are all flawed by giving short shrift to the political dimension of economic transition — not only the external relation of state to economy but also internal political processes within the economy.

(a) Neoliberal, evolutionary and institutional theories

According to the neoliberal strategists, a market economy can be and has to be introduced at one stroke. Architects of shock therapy, Lipton and Sachs, argue that,

Both economic logic and political situation argue for a rapid and comprehensive process of transition. History in Eastern Europe has taught the profound shortcomings of a piecemeal approach, and economic logic suggests the feasibility of a rapid transition (1990, p. 99).

What is the compelling economic logic? Lipton and Sachs itemize the Stalinist legacies which have to be superseded - state ownership of economic enterprises; state regulation of prices, taxes, investment, and interest rates; restricted private sector; distorted prices; overinvestment in heavy industry, absence of small to medium-sized firms; central regulation of entry and exit of enterprises; excess demand which creates barriers to private enterprise and leads to backward integration into supply. These defects are the product of the shortage economy whose source is soft budget constraints and whose remedy lies in deregulating prices, tightening credit and monetary supply, introducing bankruptcy laws, privatizing state enterprises and liberalizing trade. It must all happen at once, "the transition process is a seamless web" (1990, p. 99).

If economic logic calls for comprehensive and radical change, why does the political situation require it? Here Lipton and Sachs identify two barriers to the transition: populist upheaval against inevitable economic deterioration of standards of living and bureaucratic inertia from officials who were accustomed to running the old command economy. So new governments should cash in on their legitimacy by undertaking as much as possible as quickly as possible. In this way political dissent, whether bureaucratic or popular resistance, will mount their challenge only when it is too late.

In this view the creation of the new within the shell of the old is impossible. The past must be liquidated. But then how can we explain the success of China, where the party state remains in tact and the economy continues to grow? In a fascinating defence of neoliberalism Sachs and Woo (1994) argue that Russia and China are not comparable. China is an underdeveloped agrarian society making a transition to industrialism whereas Russia is an overdeveloped industrial society, needing to restructure its sclerotic economy. Russia requires much more drastic medicine than China. It is possible that the state can play an important role in China but in Russia only markets can simultaneously destroy the old and create the new. Sachs and Woo never spell out how the state promotes economic growth in China, nor for that matter how markets are supposed to miraculously generate growth in Russia.

On the other hand, neoliberals have no difficulty in explaining the dramatic decline in the Russian economy. That was exactly what they seemed to desire. Indeed, the more rapid the decline the sooner the recovery. Just as socialists used to say of capitalism "the worse the better" so now neoliberals say the same about Russia. Both take the utopian view that the radiant future will be conceived immaculately out of the ashes of the old order. As we shall see a new order has taken root but instead of a modern bourgeois capitalism we behold a new-fangled rentier or merchant capitalism, one that reminds us more of the Third World than the promised modern capitalism. While some neoliberals (Aslund, 1994; Boycko, Shleifer and Vishny, 1995) celebrate price liberalization and privatization as setting Russia on the correct road even if at great cost, others, such as Sachs himself, are less sanguine about the future. They argue that shock therapy was improperly executed or that Western governments and particularly the United States failed to deliver on their promises (Sachs, 1994a, 1994b).

In all these accounts the untheorized but very present actor is the state — its capacity and its interests. The paradox of the neoliberal position, what Kahler (1990) and others have called the "orthodox paradox," is that the anticipated resistance from the crusty old order calls for practical measures that only a strong state could implement, yet their ideology denies the

^{*}Data from Economist Intelligence Unit, Country reports.

state an active role. Where the Bolsheviks at least understood the problem of the state and had a theory, both of the withering away of the state and its centrality, the neoliberals take a step backward and simply refuse to countenance the state. That is why they are baffled by China's success, refusing to admit it as a comparable case.

Among economists, evolutionists offer the main challenge to neoliberals. They join the mounting chorus of criticism of neoclassical economics (the theoretical foundation of shock therapy) for its assumptions of complete information, frictionless transactions, unambiguous property rights, profitmaximizing actors. and market equilibria. Information problems are intrinsic to the operation of markets and, therefore do not guarantee allocational efficiency (Stiglitz, 1994). Indeed, Murrell (1991) argues from empirical data that state socialism was no less efficient in allocating resources than equivalent capitalist societies. What distinguishes capitalism from state socialism is the former's dynamic efficiency, the pressure to innovate - Schumpeter's "gales of creative destruction." But such innovation requires an institutional environment that fosters risktaking, that establishes trust and guarantees contracts, that promotes confidence in the future (Nelson and Winter, 1982; North, 1994).

Liquidation of the old regime, the strategy of shock therapy, destabilizes old institutions and is the worst possible context for dynamic accumulation. Therefore, evolutionary theory proposes to compromise with the past while creating the new. This twotrack strategy, whose advocates include Kornai (1990, 1992), Poznanski (1993), Murrell (1991, 1992a, 1992b, 1993), and Goldman (1994), involves channelling resources into an emergent private sector while trying to harden the budget constraints of the state sector. Their strategic focus is on promoting independent entrepreneurship rather than rapid privatization of the state sector. China with its policy of decollectivization, beginning in the late 1970s, and its promotion of small-scale industry is the shining example of gradualism. Evolutionary theory certainly explains the relative success of China as compared to Russia but it does so in very general terms. It misses the specificity of the political dimension of the reforms in each country and overlooks exactly how state policies lead to economic accumulation in the one case and its antithesis - economic involution in the other.

There is one body of theory that does take politics more seriously, that treats the state as more than a deus ex machina for desirable policies. In this institutionalist view the lesson of China is that economic reforms must precede political reforms. Shirk (1993) concludes that Russia's mistake was to embark on political reforms that brought down the entire order before economic reforms could be implemented. Opening up

the party-state is more dangerous than liberalizing the command economy. Such "sequencing theory" exaggerates, however, the separation of the political from the economic — in both countries economic and political reform proceeded in tandem (Friedman, forthcoming). In studying the political logic of economic reform, Shirk may explain why the center adopted particularistic rather than redistributive reforms (profit sharing rather than taxation), but not how this leads to economic growth. This requires going beyond a politics of economic reform to a political economy which embeds fiscal constraints and property rights in political relations.

(b) Budget constraints: hard and soft

The Chinese economic reforms of the late 1970s were directed at both fiscal and property relations, changing who controlled the surplus produced in the economy. The 1980 fiscal reforms decentralized the control over surplus by establishing contractual revenue sharing agreements between center and region, known as "eating in separate kitchens." According to Shirk decentralization of the fiscal and *nomenclatura* systems led to the economic ills of overheating, inflation, price gouging, balkanization of the economy and local protectionism.

A very different view emerges from the work of Oi (forthcoming), Solinger (1993) and Walder (1994a and 1994b). Looking below the regional level at the county, township and villages levels Oi discovers that decentralization of the fiscal system encourages government at these levels to promote local economic growth. Since local government is now a residual claimant, that is, it retains the surplus after remitting taxes to the central state, it has a direct interest in the prosperity of local enterprises. Rather than maximizing appropriation and then redistributing, the central state appropriates a contractually specified amount and redistributes less. On the one hand, it becomes more difficult for local government to bargain upward for resources, while on the other hand there are much greater rewards for local accumulation. Given the tax system local government retained more revenue from industrial enterprises than from agriculture and this in part explains the rapid expansion of township and village enterprises. In short, the county, township and village administration have the autonomy and the interest to work out their own strategy of development because they are subject to hard budget constraints from above.

In Russia by contrast the center still strives to be the residual claimant, struggling to maximize appropriation in order to redistribute. Following this redistributive logic, instead of investing in local accumulation, the region expends political energy trying to maximize what it obtains from the center and minimizing what it gives up. In the northern Republic of Komi, for example, where my research took place, the regional office of the Central Bank is inundated with demands for loans to keep local industry alive. In turn it works with regional government to demand more resources from Moscow. The Komi government seeks every opportunity and subterfuge to reduce the taxes it pays to Moscow, and retain control over its own territorial resources even if this means concealing the amount it produces.

Woodruff's (1994)fascinating Krasnoyarsk, Vladivostock and Samara shows how local enterprises pass their debts on to the local electrical power companies because they are the ones with the greatest power to extract concessions from the center. They can threaten to pull the plug on the region's electricity. Regional governments try to orchestrate the distribution of debt in a way that most effectively blackmails the center into distributing credits. One of the reasons miners have figured so prominently in political struggles has been their ability to paralyze industry and thus blackmail the Russian government. Chinese regions are more autarkic and less interdependent than those in Russia, that is, they pose a weaker threat to the integrity of the whole country. They have less power in bargaining with the center and have to look downward to expand their resources.

The first paradox is that in order to maintain political order without the party the Russian state reasserts central redistribution of economic resources and thereby reproduces soft budget constraints, whereas in China precisely because the party is such a powerful integrative force, the state can relax redistributive imperatives, give regions greater control over their resources and thereby harden budget constraints.

(c) Property relations: decentralized and privatized

In China regional and local governments strategize how to generate more resources from below whereas in Russia they strategize how to extract resources from above. But how does local government in China manage to foster economic growth? Oi (forthcoming) once more has a convincing model of how this works. She likens the local economy to a corporation with local administrators acting as owners who seek control over managers of enterprises. The secret of the expansion of rural industry then lies in what she calls "local state corporatism." In this scheme enterprises are not privately but locally owned - a form of collective or social ownership. "A contract responsibility system" governs the relationship between local administration and managers, typified by various bidding and leasing arrangements that hold managers accountable to local government while they also retain a definite share of profits.

Social ownership is a decentralized property relation but not yet privatized. Managers cannot freely dispose the capital they use but they may control income flows, use of capital, and production. Because we are here dealing with townships and villages the corporate owners, that is, the local state, can both monitor enterprise managers and apply sanctions for malfeasance. Indicative planning can actually work quite effectively at this level. Even where enterprises are nominally private they are dependent upon public enterprises, often in the urban areas, for orders and supplies, and on the local government for loans, subsidies, licenses and so forth. The distinction between social and private ownership loses its significance.

In Russia, on the other hand, property relations have been privatized so that the state lost control over local resources. Voucher privatization has legalized de facto managerial control of enterprises, which lie beyond the influence of the local state. Once enterprises were handed over to their employees then managers could pursue short-term financial interests by investing resources in the banking sphere, or by selling off assets for quick returns but at the expense of long-term interests. Those concerned to keep production going are swept up in immediate problems of finding working capital to obtain supplies and pay wages. When time horizons are so short privatization leads to the outflow of resources from the sphere of production to the sphere of circulation, whether trade or finance.

We arrive at the second paradox: in Russia markets combined with privatization led to disinvestment whereas in China markets combined with public ownership stimulate accumulation. Behind the mutual stimulus of production and exchange lies the Chinese party-state. behind the wanton destruction of Russian industry lies liberal democracy.

(d) Accumulation vs. involution

Both Max Weber and Karl Marx agreed on one thing, namely the radical distinction between modern bourgeois capitalism and its predecessors — adventure, booty, speculative or more generally merchant capital. For Weber the distinction lay in "the rational organization of formally free labor" while for Marx it lay in the transition from the extraction of "absolute surplus value" to "relative surplus value." For both the hallmark of modern capitalism lay in the way markets generated a process of dynamic accumulation through the rationalization of work, the development of new technology, and the invention of new products. Under the auspices of the party-state such accumulation appears to be occurring in China, but not in Russia.

Marx and Weber appreciated that the expansion of markets did not of itself lead to accumulation and rationalization. Indeed, it more usually entailed the preservation of precapitalist forms as in the celebrated cases of feudalism (Brenner, 1976; Dobb, 1947) or the putting out systems of early industrialism (Levine, 1977). Similarly, slavery in the Americas was intensified rather than undermined by the expansion of commerce (Fox-Genovese and Genovese, 1983). Today in Africa, Asia and Latin America merchant capital inhibits development as it extracts profits from trade without transforming precapitalist production (Kay, 1975).

A similar process is taking place in Russia today but with even more devastating consequences. Whereas in the Third World, precapitalist production often intensifies under the pressure of merchant capital, in Russia production falls as its "Soviet" form is preserved. In Third World countries production and trade are insulated from each other, whereas in Russia there is a massive exodus of human, material and financial resources out of production and into exchange. A top-heavy superstructure of distributive transactions is erected on an ever-shrinking productive base.

I call this process of "preservation-destruction" economic involution, conceived of as an alternative to both "revolution" and "evolution." It implies profound economic degeneration in which an economy feeds upon itself. It is the opposite of accumulation. In using the concept of involution I do not mean to imply a self-generating economic process but one that is always politically constituted. There is no escaping the political dimension of the unfolding dynamic of involution, what I call combined involution as well as in the variation of trajectories by sector or region or what I call uneven involution.

3. THE PHASES OF COMBINED INVOLUTION

Comparing Russia with China highlights first the importance of political relations between center and region in determining budget constraints and thus the interests of the local state in accumulation, and second, property relations in determining the state's capacity to stimulate local growth. But this comparison is a static one and we must now study how these factors work themselves out dynamically, how successive stimuli from the Russian Federal government preexisting regional combine with political economies to generate repercussions far from those intended. The interventions of the Russian government have generated three phases of economic involution - disintegration, reform and stabilization each phase establishing conditions that disabled the next ensemble of policies.

(a) Disintegration: the hypertrophy of the Soviet economy

We begin with the phase of disintegration which we shall place as beginning in 1989 with the national strike of the miners. Failure to repress this strike marked the beginning of the end of the Soviet state. It is commonly thought that disintegration of the party-state brought about the collapse of the old order. Nothing could be further from the truth. Many features of the administered economy were in fact strengthened. The economy had already assumed an autonomy that allowed its own reproduction, indeed expanded reproduction.

Specifically, the withering away of the party-state initially gave more power to the conglomerates that organized the economy by sector and region. The party had sought to confine the monopolistic tendencies engendered by an administered economy that regarded duplication and competition as wasteful. When these constraints evaporated conglomerates sought to advance their own economic interests — continuing to demand subsidies while increasing their control over the terms and proceeds of sale. As part of this expansionist drive lateral barter relations flourished. Barter relations had always existed between enterprises as a way of expediting exchange of scarce resources but they had been regulated by party supervision which had now evaporated.

Finally, in addition to the strengthening of monopolies, the extension of barter relations, the disintegration of the party-state increased worker control over the shop floor. It had always been considerable both due to the power employment security gave to workers and due to management's dependence on workers for improvisation. Faced with material shortages, unreliable machinery, and rush work to meet plan targets, management relied on the cooperation of its work force. With the exodus of the party, however, management lost what was their most trusted instrument of control over the shop floor.

In short, disintegration of the party-state did not unleash new kinds of productive organization but resulted first in the hypertrophy of old economic forms. This early phase of market emergence encouraged enterprises to seek profit from trade rather than from transforming production. Since managers did not control production and at the same time could charge monopoly rents, the disintegration of the party encouraged the rise of merchant rather than modern bourgeois capitalism.

(b) Reform: monetization of soft budget constraints

If in the first phase markets emerged spontaneously, in the second phase they were created delib-

erately. Economic reform began January 2, 1992 with price liberalization. The effects of price liberalization were shaped by the preexisting economic order, in particular by the prior disintegration of the party state and by the presence of powerful regional monopolies. The state did not have the capacity to impose bankruptcy on those who were failing in the new market environment. Conglomerates were able to extract subsidies and loans from the Central Bank, which itself operated with a will of its own, independent of the government. Where loans were not forthcoming enterprises simply did not pay their bills, and chalked up huge interenterprise arrears which according to Ickes and Ryterman (1992, 1993) amounted to between 25% and 40% of the GDP. To attempt to impose bankruptcy in this context would create havoc within the economy. It was not possible to distinguish efficient from inefficient enterprises. More important, there was no knowing what chain of consequences would follow from any given liquidation. In short, given the relative balance of power between state and economy price liberalization was not accompanied by stabilization. The economy was monetized but at the cost of runaway inflation, averaging over 20% a month.

According to reformers the problems of the market transition lay with a predatory state. Privatization was, therefore, designed to strip the state of its economic power, to depoliticize the economy as quickly as possible (Boycko, Shleifer and Vishny, 1995), Learning from Eastern Europe the Russian government recognized that to wait for buyers of Soviet enterprises would postpone privatization indefinitely and that the only option was to give enterprises away. Decrees in the summer of 1992 launched voucher privatization, which gave each citizen 10,000 rubles to invest in an enterprise of their choice. In its most popular form, privatization entailed the sale of 51% of the shares to employees at a nominal price. This effectively concentrated control of the enterprise in the hands of managers who continued to pursue short-term strategies. Instead of investing in their own enterprises, however, they poured resources into the burgeoning financial and banking sector.

Banks, for their part, insofar as they operated according to hard budget constraints — and indeed many tried to — would lend out their own funds at high interest rates (although until the end of 1993 they were still negative in real terms) and for only very short time periods, a maximum of three months. Bank loans tided enterprises over during payments crises and covered shortages of working capital. Alternatively, they were given to commercial ventures with rapid turnover. Again, trade, commerce, finance benefited at the expense of production. Investment steadily dropped each year so that by 1994 it was only 28.4 of the 1990 figure.

In this period (1992–93), the economy was rapidly

monetized and enterprises were privatized but the government and the Central Bank continued to hand out low-interest credits to those who had the political capital to garner them. The recipient's bank had to guarantee these cheap credits, something it was reluctant to do but had no alternative when, as was often the case, its clients were also its owners. Those enterprises who did not have the political capital to obtain cheap state credits survived by going heavily into debt, so that interenterprise arrears spiralled upward to be only temporarily arrested by the mutual cancellation of debts in the summer of 1992.

Industrial managers invested resources in the flourishing, independent financial sector, while banks invested their own funds in commerce or in other banks. On the one hand, economic reforms accelerated the flow of resources out of production and into exchange, moving merchant capitalism from trade to finance. On the other hand, the economy was kept afloat in a sea of soft budget constraints. Price liberalization and privatization, far from turning managers into cost-cutting, innovative entrepreneurs, intensified the scramble for credit. Soft budget constraints were not hardened but only monetized.

(c) Stabilization: the restoration of barter and the rise of the mafia

According to Aslund (1994), advisor to Russian government, the success of economic reforms was marked by "gray apparatchiki" (typified by Prime Minister Chernomyrdin) taking over the reigns of power from the "bright young economists" (typified by Gaidar and Fyodorov). Visionaries had fulfilled their mission and they had to give way to pragmatic, consensus-building politicians who would execute the policies.3 Indeed, following the elections of 1993, when the "visionaries" Gaidar and Fyodorov lost or resigned their positions, the government did indeed move ahead with stabilization, adopting more stringent fiscal policies. Loans were harder to obtain as interest rates climbed and inflation began to fall. Given the previous two phases of the transition, however, the effects often intensified economic involution. Many enterprises turned back to barter and the mafia expanded its sphere of operations.

The restoration of barter after monetization can be attributed in part to the paternalistic state that fore-stalled bankruptcies and in part to the arcane legacies of the Soviet budgetary system, specifically the coexistence of two types of money — cash (nalichnye) and non-cash (beznalichnye) — which are convertible under very restrictive conditions. Interenterprise transactions for the most part operate through "non-cash transactions," regulated by banks. When an enterprise can no longer pay its debts, its bank opens

up a special "deficit fund" and supervises all economic transactions. In particular, banks are responsible for ensuring that funds, entering the account of such a loss-making enterprise, are first directed to unpaid taxes and utility bills. Enterprises in the red, therefore, conduct transactions through their bank only when they see a brighter future or if their bank promises short-term loans that will cover working capital. As real interest rates increased and loans became more scarce, loss-making enterprises had less to gain from conducting business through banks. Instead they operated outside the banking sphere — either with direct cash transactions or more usually through barter.

This return to barter, therefore, is not a residue from the past but a strategic response to the exigencies of debt and taxation, and a way of avoiding bankruptcy. Those who can continue their transactions with money, while those who cannot are forced into barter relations. Each mode of transaction tends to develop its own distinct network of enterprises which do business with one another. Some enterprises, such as the large parastatal utility companies, have a mixed profile receiving some payments in money and others in barter and pay their workers in mixed forms too. Operating in the monetary circuit is risky when payment is so uncertain, leading to wage payment months in arrears. For example, miners striking in March 1995 were demanding payment of their November wages. Unable to compel coal consumers to pay their bills, the state extended loans to debtor enterprises, such as the steel complex at Cherepovets, earmarked for delinquent payment to the mines.

The absence of effective and legitimate public institutions to enforce contracts and compel enterprises to meet their economic obligations, stimulates the appearance of agencies for private protection, loosely described as the "mafia" (Gambetta, 1993). As interest rates increase and loans are harder to obtain creditors, such as banks, become increasingly concerned about debtors who default on their obligations, so they enroll the services of security agencies or criminal organizations to guarantee the payment of debts. These mafiosi divide up the economy both regionally and by sector. They are often associated with conglomerates. Within their domain they have a monopoly of protection and can force all businesses to provide a service fee or rent in exchange for protection. Of course, "protection" can become prohibitively costly as it blends into extortion. The mafia is also active as guarantor of illegal economic transactions, since these are obviously outside the purview of the state. In the illegal export of oil or importing of stolen cars the chain of transactions has to be carefully supervised at every link. Once more an organization which specializes in protection along the chain is necessary.

The mafia, its coercive means notwithstanding, provides a service without which many economic

transactions might not take place. In substituting for a weak and ineffectual state, the mafia exploits the existence of surplus and underpaid state personnel to assume the work of private protection — from police to army officers, from servants of the KGB to party officials. They are all experienced in security: the use of force, surveillance and gathering information.

If the upshot of the first phase is the disintegration of the Soviet state but the hypertrophy of Soviet organization of production, and of the second phase the monetization of transactions but the maintenance of soft budget constraints, in the third phase stabilization leads to a resurgence of barter and the extension of the mafia. In this last phase, when budget constraints harden and money becomes scarce, powerful economic actors sponsor their own "quasi state" to regulate transactions, increasing the cost of those transactions and absorbing resources that might otherwise have been devoted to production. At each step of the transition the absence of an effective state explains the unintended consequences of reform as the acceleration of economic involution.

4. UNEVEN INVOLUTION

If disintegration of the party-state, economic reform and stabilization combine in succession to produce economic involution, they do so in an uneven way. Based on their internal structure and their bargaining power with the state, industries respond differently to the opportunities offered by soft budget constraints and privatization.

At one end of the spectrum we find industries that pursue pure privatization at the cost of losing subsidies. They follow the strategy of exit, that is, they leave the conglomerates that still regulate the economy, giving up protection and subsidy for the sake of freedom to produce what they want, buy what they need and sell to whom they wish. Privatization is a key to their strategy. At the other end we find industries that cling to their nationalized property status for fear of losing subsidies, secure supplies and guaranteed markets. In order to maximize what they extract from the state while minimizing what they give up, they follow the strategy of voice.

There are many examples of mixed strategy, but here I focus on two cases, one of exit and one of voice, drawn from a five-year study in the northern Republic of Komi. Specifically, I examine why the timber industry, where privatization strategies of exit prevail, has undergone rapid decomposition whereas the coal industry, which clings to nationalization and voice, has experienced a more gradual decline. Thus, whereas coal output fell by only 25% during 1990–94, the production of raw timber fell by 44% during 1990–93 and a further 42% in the first six months of 1994. One

might have expected the opposite, given the multiple uses of timber and the dependence of Vorkuta coal on a single consumer — the steel industry at Cherepovets. We shall see how the internal organization of the conglomerate and its external relations to the state determine very different patterns of involution.

(a) Timber: exit and the politics of privatization

The Republic of Komi is located in Northern European Russia, that is, to the West of the Urals. Its contribution to the Soviet economy came from its rich natural resources, preeminently oil, coal and timber. Although it had long been a favourite Czarist region for exiled prisoners and political dissidents, labor camps were most extensively developed during Stalin's reign.

The lumber villages, scattered in remote areas throughout the region are particularly well suited for prison labor. They are grouped around timber farms which collect and sort the timber. From there it is transported mainly by river but sometimes by road to processing plants or to the huge paper plant located near the capital city of Syktyvkar, or the timber may be directly exported. Processed wood is then used in fabricating plants, such as the furniture factory where I worked in 1991 (Burawoy and Krotov, 1992). We have here a simple commodity chain which, under the Soviet regime, was organized by the Komi Timber Conglomerate.

All industries were grouped together into such "conglomerates," under the direct control of ministries, regional in the case of timber and all-Soviet in the case of coal. Every enterprise in the wood industry had to be attached to the conglomerate which dictated the distribution of resources along the chain. In return for timber delivered by the lumber camps, the conglomerate would guarantee supplies of food, housing, equipment and materials as well as employee wages. The conglomerate organized the sale of the raw and processed wood and invested the proceeds in those enterprise that would bring the greatest "advantage" to the industry as a whole. In this redistribution, the processing and fabricating plants benefited at the expense of the timber farms and their lumber camps.

With price liberalization at the beginning of 1992, the timber enterprises along the chain, particularly the lumber camps and timber farms, were keen to escape their exploitative subordination to the conglomerate. They began to sell their wood outside the conglomerate to the highest bidder. Privatization plans, which were initiated in the second half of 1992, accelerated the impetus toward autonomy. With privatization they were now released from any obligations to the conglomerate. Accustomed to a seller's market each

timber farm, indeed each lumber camp, assumed it would be able to make a windfall. While true for any individual exit, when all exited, the conglomerate collapsed and the lumber camps quickly found themselves without buyers for their wood. As the timber chain collapsed the shortage economy became a surplus economy. Bound by local rationality, lumber camps and timber farms had pursued their self-interest at the cost of their collective interest. Many became insolvent and found themselves without working capital. To make matters worse freight charges increased at such a rate as to make it unprofitable to sell wood outside the republic. At first the state bailed them out with special loans but when these ran out in the third phase of involution, their bank accounts were frozen and they resorted to barter.

With the collapse of the conglomerate, the planning and coordinating center of the industry also disappeared. The conglomerate split into two: one part was absorbed into the Komi Ministry of Industry, Transportation and Communications while the other part became a private company providing services to and making small investments in the industry. A myriad of commercial operators, among them "mafia"-like organizations and joint ventures headquartered in Moscow and St. Petersburg, swarmed around the decaying industry trying to exploit the disappearance of the conglomerate. Such piecemeal attempts at reconstructing the wood chain from below had only limited success.

In a belated attempt to rebuild the wood chain from above in 1995, the government used its residual ownership of the timber industry to reorganize the industry into six financial companies. The idea was to bind timber suppliers to one another and to the processing plants. Market forces, however, have so far proved much stronger than property relations and the timber camps continue to sell to the highest bidder. The timber industry has been given a temporary boost by the doubling of the international price of paper and cellulose, leading Syktyvkar's paper mill to begin buying up wood from all over the territory. Given the declining demand at home and the collapse of local manufacturing industries, the timber industry is now subject to the whims of the export market.

In short, the manifest redistribution of resources along the timber chain led those at the bottom to exploit privatization and open markets by exiting from the conglomerate. In attacking the conglomerate's redistributive function, the timber enterprises also destroyed its coordinating and interest representation functions, spelling the demise of the entire industry. Enterprises that left the conglomerate to enhance their autonomy found themselves either out of business or subordinated to an even more capricious monopsonistic buyer (the paper mill), itself struggling to find a place in an increasingly competitive global arena.

(b) Coal: voice and the politics of redistribution

Where the timber industry is scattered over the entire area of Komi, the size of California, mining is concentrated in two neighboring cities, Hinta and Vorkuta, beyond the Arctic Circle. Vorkuta, the larger and more important of the cities has a population of 200,000. Its only reason for existence is its coal, most of which is sent to the large steel complex at Cherepovets. There are 13 mines. One has already been closed and there are plans to close down four more. Since its inception in the 1930s and particularly since WWII, when the Ukraine was cut off by the German occupation, the Vorkuta coal industry has been regarded as a national industry. Vorkuta, therefore, always looked to Moscow rather than to the capital of Komi, Syktyvkar, for its resources. Its managers often came from Moscow for a stint in the provinces before being promoted to the commanding heights of the administrative apparatus back in the capital. Miners themselves came from all over the Soviet Union, a large percentage from Ukraine but also from the Baltics, Tartarstan, Byelorussia and Siberia. Until the mid-1950s workers were locked in labor camps, populated by war prisoners as well as internal political exiles and criminals. Labor later came to Vorkuta voluntarily, attracted by its high wages. In short, since the beginning of WWII Vorkuta has been a cosmopolitan, multiethnic, multinational

In 1989 and then again in 1991 Vortuka was the center of a militant working-class movement, linked to other coal centers in Siberia and the Ukraine. The miners not only demanded better working conditions and the end of the feudal disciplinary code which bound them to their mine, but also the reorganization of the Soviet political and economic order. They called for an end to central planning and party political monopoly to be replaced by greater control of their mines, the right to retain the proceeds of their labor. Their anarcho-syndicalism was couched in the demand for a market economy and democratic elections to all significant positions in government. These were radical demands indeed.

In 1991 Yeltsin ascended to the lofty position of President of Russia, in part, by successfully negotiating on the miners' behalf with the Soviet government. With each strike wave the miners managed to attract greater attention and more resources for the industry. Not only did wages increase but in 1992 the economic reforms allowed mines to export up to 17% of their coal to the West in return for consumer durables that were offered to employees at heavily discounted prices (Burawoy and Krotov, 1993).

Holding the government for ransom, through actual or threatened strikes, was an effective way of garnering resources, maintaining subsidies, obtaining higher wages, only so long as the Russian government was concerned about the loss of Vorkuta's coal supplies or about the demonstration effect of strikes. This was the case in the first phase of involution. But as the economy worsened and their political influence in Moscow began to wane in 1993, miners turned from unconditional supporters of Yeltsin to the opposition. Notwithstanding conflicts between the conglomerate and the mines, and between workers and managers, the Vorkuta coal industry managed to maintain a united front in the face of the threatened withdrawal of subsidies.

The differences between timber and coal make voice a much more effective strategy in the latter. First, coal has had a long history as a key and favored industry with lavish subsidies from the central government. Komi's timber industry, by contrast, is not a national but a regional industry, competing with other regional timber industries all over Russia. It did not receive subsidies from Moscow around which the conglomerate could rally support. The timber industry had to fend for itself after price liberalization in 1992. Second, the concentration of mines into a single city fosters a working-class unity and community solidarity that is impossible to achieve in the timber industry, composed as it is of numerous tiny centers scattered all over Komi. Working together with managers and the conglomerate, miners could effectively shut off the supply of coal to the steel and energy industries.

Apart from external relations to the state, another difference makes voice a more likely strategy in coal than timber, namely the internal relations among enterprises. The individual mines of Vorkuta were not arranged in an interdependent hierarchical chain but existed as autonomous units not bound to one another but to the conglomerate. They were not trapped at the bottom of an expropriating hierarchy but lay at the end of spokes radiating horizontally from a center that was Vorkuta Coal, the coal conglomerate. Mine managers saw their interests, therefore, in presenting a united front to the state in order to maximize subsidies. Privatization was rejected as it might have jeopardized their bargaining power with the state.

Nevertheless, there were internal conflicts that made exit tempting. The richer mines resented the way the conglomerate redistributed resources to the poorer mines. Indeed, miners at the richest mine, Vorgashor, struck for its independence at the end of the 1989. It left the conglomerate to forge direct links to the Ministry of Fuel and Energy in Moscow. In 1992 another group of mines was plotting its separation from the conglomerate, resentful that the coal industry subsidized the social sphere - hospitals, kindergartens, canteens, dairy farms, water and sewerage works. By breaking away they hoped to create their own autonomous association and to take with them the bulk of government subsidies. They began by creating their own bank to exercise greater control over their financial transactions. In the end these plans came to nothing since they could never challenge the conglomerate's control of subsidies from Moscow.

In the third phase of involution, the phase of stabilization, the position of the coal industry, and Vorkuta in particular, became weaker. The Russian government accepted the World Bank's proposals for downsizing the industry, so the exit option became even less attractive. The mines regrouped even more solidly around the conglomerate. In an unparalleled show of unity, official and independent trade unions joined forces with the mine managers to support the conglomerate's bargaining in Moscow. All parties were now fighting for the very existence of Vorkuta (Burawoy and Krotov, 1995). Here, at least, there was still the possibility of voice, long since eclipsed in the timber industry where fissiparous tendencies had led to spiralling involution.

Vorkuta Coal did not collapse because it managed to monopolize access to state resources. Its redistributive function in tact, it could continue to coordinate the collective interests of the community as a whole. Rather than fighting mine closures — five out of the 13 mines — the conglomerate sought to conduct the restructuring in a rational manner, redistributing labor, dispensing benefits to retirees, and redirecting investment toward the more profitable mines. The coal conglomerate could still organize, what Oi calls "local state corporatism," a role denied the timber conglomerate, which disintegrated as the industry, over which it had reigned, fragmented.

The timber industry destroyed itself, the coal industry is being destroyed. The government has endorsed World Bank proposals to cut production — already down from 428 million tons in 1988 to 320 million tons in 1992 — to 230 million tons by 1996. This would mean closing 100 of the 300 mines and reducing the labor force by 40%. The intended effect is produced by cutting subsidies to the conglomerates, and thereby decentralizing the responsibility for "restructuring." The World Bank reports plot the demise of the coal industry on the basis of the decline of the whole economy. In the neoliberal vision liquidation has to be planned but new industry will rise spontaneously like phoenix out of the ashes of the old order.

Planned or anarchic, slow or fast, combined or uneven, involution is involution. In both cases industry declines without the new being born. This is not creative destruction but ruinous destruction. Price liberalization, monetization, privatization, stabilization may transform and modernize the sphere of circulation but at the expense of production.

5. THE STATE AND TRANSITION TRAJECTORIES

Instead of conceiving of the Russian transition as revolutionary or evolutionary we see it as a process of economic involution — the decomposition of production brought about through the recomposition of exchange. In looking at Russia through a Chinese lens we awarded central importance to the role of the state in the organization of the economy, in establishing budget constraints and property relations. That is, the state mediates between the market and its effects — accumulation in China and involution in Russia. The failure of the Russian state to organize the market economy has led to a coordination and entrepreneurial vacuum into which have stepped conglomerates, banks and mafia, siphoning off surplus from production to exchange.

Table 2 places the comparison between Russia and China in a broader context. Here we compare the configuration of budget constraints and property relations in China and Russia with those of ideal typical "capitalism" and "socialism" (as it once existed). The first point to notice is that the form of ownership (public or private) does not determine the tightness of budget constraints (Cui, 1994a, 1994b). This is not to say that ownership is unimportant but rather that what is important is the way property rights are embedded in political and economic relations. By decentralizing property relations under the umbrella of the partystate the Chinese government gives local states the resources to monitor and guide accumulation much as owners of capitalist corporations control their managers. Furthermore, by decentralizing control over surplus the Chinese government has created incentives for the local state to act as an entrepreneur, promoting local economic growth through hardening budget constraints. In Russia the opposite situation pertains. Privatization has put local enterprises outside the control of local states, which in turn are encouraged to seek the redistribution of resources from higher levels of the state. Far from hardening budget constraints privatization reproduces soft budget constraints.

If property rights do not determine budget constraints, then we can also say that budget constraints do not determine economic growth. Again the missing variable is the underlying political and economic relations. While in China hardening budget constraints have indeed promoted local accumulation, in Russia's third phase of involution hardening budget constraints

Table 2. Trajectories of transition

		Budget Constraints		
		Hard	Soft	
Property	Private	"Capitalism"	Russia	
Relations	Public	China	"Socialism"	

increased transaction costs as a result of the restoration of barter and the rise of mafiosi. Since the expansion of the mafia and barter leads to regional autarky, I would expect the Russian government to relent on its stabilization policies, attempt a remonetization of the economy through central loans and credits and thus soften budget constraints again.

If the Russian state has failed to establish the conditions for accumulation this is not because it is not sufficiently autonomous or because it is not embedded in the economy (Evans, 1995). Rather it is because the national state seeks to use the economy for political ends. The Russian and Chinese polities face a common problem, namely how to govern vast and diverse regions in the process of transforming the national economy. The Russian state has no communist party to fall back on in its project of national integration and therefore it has sought to use economic concessions and soft budget constraints to contain centrifugal pressures. The result has been economic involution. The lesson is an old one that Karl Polanyi taught us long

ago: there is no market road to a market economy, a "hard" state (Unger and Cui, 1994) is an essential player in the transition.

Because they fail to appreciate the significance of the state, both local and national, neoliberals deem infeasible the cells occupied by Russia and China in Table 2. As far as they are concerned these forms can only only be temporary and unstable aberrations. I argue that they are emergent and enduring types, that there is nothing inherently unstable about them. Adopting the neoliberal view that there are only two alternatives - failed communism and successful capitalism - Russia's reformers attempted to leap straight from one to the other and they plunged the economy into the abyss of involution. Rejecting this manichean view China has manufactured a more effective transformation of socialism, creating a fourth alternative, which for all its problems offers some optimism for the future. Table 2 instructs us not to reduce the future to the past, nor marginalize originality in the present.

NOTES

- There is considerable disagreement over the performance of the large state enterprises. Many, such as Sachs and Woo (1994) or Qian and Weingast (1995), are convinced that the state sector is dominated by "standard socialist dinosaurs" and all the dynamism has come from the growth of town and village enterprises (TVE). Others, such as Grove et al. (1994), McMillan and Naughton (1992), Naughton (1994) argue that large state owned enterprises have also shown significant increases in productivity, as they have been obtained greater control over their revenues. Shirk (1993) and Rawski (1994) also observe state enterprises seeking to partake in economic growth. Those who would compare the TVEs and the old state-owned enterprises miss the symbiotic relationship between the two. Many of the TVEs have subcontracts from large state enterprises, while others are direct spinoffs from the state sector. It is, therefore, misleading to contrast dynamism of the collective and private sector with stagnation in the state sector.
- 2. I borrow the concept of "involution" from Geertz's study of Indonesian agriculture. He defines involution as "the overdriving of an established form in such a way that it becomes rigid through overelaboration of detail" (1963, p. 63). Geertz is referring to the way capital-intensive culti-

- vation of an export crop (sugar) reproduces rather than transforms dependent, labor-intensive cultivation of a subsistence crop (paddy). In Russia the analogous process is the reproduction of the old system of production alongside a transformed and expanding sphere of circulation. Geertz's work has spawned an enormous, largely critical literature that contests his understanding of Java and of underdevelopment more generally.
- 3. In his earlier writings these same "apparatchiki" bore the brunt of his attack as incorrigible opponents of reform: "...the Russian state directors seem to have all the characteristics that we would like to avoid: they have little knowledge of economics; they are firmly molded by the old Soviet command economy; they know nothing of the outside world; their purpose for coming to power is to gain wealth for themselves and their narrow constituency. It is difficult to imagine any grouping that would be less suitable for governing a country in transition, and it is strange that these obvious arguments have not won the Russian debate" (Aslund, 1993, p. 33).
- 4. Figures are from the respective conglomerates, the Komi Timber Industry and Vorkuta Coal.

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