

# MARKETS OR MAFIOSI?

BY STEPHEN F. WILLIAMS

In Moscow it is said these days that there are two ways of reforming the Russian economy, a realistic way and a fantastic way. The realistic way is that a bunch of foreign merchants will fly in from another planet and reform it. The fantastic way is that the Russians will do it themselves. Too true.

The night I arrived in Moscow we went to a restaurant near what used to be Dzerzhinsky Square (now Lubyanka Square). Down the street is an intense open-air market, where hundreds of sellers are offering all kinds of items—food, clothes, small household goods. As a new arrival, I read it as proof of the market's irrepressible spirit, a living rebuke to Felix Dzerzhinsky and the others who spent 74 years trying to stamp it out. But when I left two weeks later, the market at Dzerzhinsky Square seemed more a sign of how communism is able to contaminate the little shoots of free market coming up amid the ruins.

The Russians throw the word *mafia* around rather loosely. If here it means organized crime, there it need not be organized, or even criminal. They have a word, *mafiozny*, or "mafia-ness," which covers not only organized crime but also all the sorts of side deals and behaviors that were necessary under the command economy to prevent a complete breakdown—bribes, back scratching, extortion, protection, theft, playing connections. But because the old system continues, with markets like those in Dzerzhinsky Square arising only at the periphery, *mafiozny* continues to thrive.

Indeed, my group faced it before we were even legally in the country. The Russian embassy in Washington had made a mistake on our visas, filling in an entry date three days later than when we were in fact scheduled to arrive. At the airport the Russian immigration officials spotted the gaffe (if it was a gaffe), and told the U.S. embassy officials that it could be straightened out for \$100 a visa



A horrified woman told me, "They sell the goods for more than they paid for them!" (surprising that a Russian fine should be stated as a nice round dollar figure!). Our officials bargained them down to \$55 a head, but we have no way of knowing where the money went.

One nice lady, a school teacher, at a market like the one at Dzerzhinsky Square, told me in tones of horror, "You know, they sell the goods for more than they paid for them!" The remark tells a lot about the residue of communist ideology, but it also raises a good question: How did the goods get there? If they were originally sold at competitive prices in state stores, how could it be worth the buyers' and sellers' time to exchange them in this rather awkward market? The answer is almost certainly that they were not sold at competitive prices.

More likely, they traveled into the private sector the same way tickets to the Bolshoi do. Nominally these sell either in a dollar market, for \$80 a ticket (with some discounts), or in a ruble market, for 14 rubles a ticket, or about 15 cents. Since at the absurd ruble price the queue would probably fill Red Square, there is some system—some variant of *mafiozny*—by which they get out into the market and are

then resold at more realistic levels. (Before a performance at the Bolshoi, ticket hawkers swarm at all the approaches.) To ordinary citizens, then, the free market means the sales of quasi-hot goods; profit is the reward of *mafiozny*. Not a good foundation for a market system.

The popular notion that the market is a cause of increased mafia-type behavior is in part true. What makes the Dzerzhinsky Square market possible is that the private sale of goods is no longer a crime, so that mafia-type deals are better rewarded and thus, surely, more frequent. By the same token, to the extent that ability to pay is related to economic contribution—less so than in a true market system, but more so than before there was any private sector—the now-legal after-market indirectly stimulates contributions to production and distribution.

Why does *mafiozny* persist? Its core is betrayal of trust. But that betrayal was the essential grease of the old command economy. Under central planning almost all economic actors are theoretically agents of the state (and thus, supposedly, of the public). But, as 74 years of communism showed, the state couldn't even identify the public interest in any meaningful terms; it couldn't tell whether a load of steel was more to be valued for apartments in Moscow or tractors in Vladimir. So it was hardly objectionable that state agents betrayed their nominal trust and used side deals to make some production possible. And because the state could not monitor all its agents, the betrayal was not only desirable but pervasive. So long as almost the entire system of production and distribution is in state hands, the pattern seems bound to continue.

Why has privatization proceeded so slowly? Much of the answer must lie in Russian tradition; as a guide said apologetically when discussing a painting of Lenin haranguing some Komsomol members, hung at the top of a grand stair-

case in the Kremlin's Crown Palace, "We cannot escape our history."

Bureaucratic hierarchy and corruption are a way of life going back long before the Communists. On my next-to-last night in Moscow I saw the ballet *Anyuta*, based on a story of Chekov's. The heroine marries a fat, dull, but ambitious bureaucrat. She secures his advancement by sleeping with his boss—getting the boss to betray his trust. One of the dances is called "Red Tape, Hymn to Bureaucracy" and another "Congratulations of Subordinates, Hymn to Servility." Of course Gogol's *The Inspector General* is a set of variations on the theme of bureaucratic betrayal of trust.

While bureaucracy flourished, the roots of private property were thin, even in 1917. Both before and after emancipation, the serfs held most of their land communally. Only with Stolypin, starting in 1906, was there even an effort to establish private ownership. And that effort was largely abortive.

As then, so today. Few apply for land. One factor must be fear of their neighbors' likely envy. As one Russian professor said of his countrymen, "These are the people who in the '20s burned the kulaks' houses and in the '30s tattle-tailed on their neighbors to send them to the gulag."

They may also fear tax burdens. Certainly that is a reason that apartment tenants, who can demand title to their apartments, give as an explanation for not exercising the right. Again the fear seems quite reasonable—Russia sets very high nominal tax rates, with an income tax that reaches 60 percent at an income of about \$4,000, and a value-added tax of 28 percent, actually calculated more like a gross-receipts tax. (Much of the revenue goes to support the money-losing state enterprises.) When they get around to property taxes, the same spirit will probably prevail.

**T**hen consider some of the reasons offered for the government's going slow on privatization, for not simply forming enterprises into corporations and issuing the shares to the current workers:

1) They might fall into the wrong hands—mafia types. Of course they might, but look whose hands they're in meanwhile.

2) Worker-owners might pursue foolish strategies, favoring current consumption over reinvestment. Again, quite possible. But so long as the shares are marketable, more efficient managers can buy them; and if a worker-managed firm goes bankrupt (a process few Russians have heard of), it will be recycled through bankruptcy into more adept hands.

3) The results might be unequal; some workers would get shares in winners, others in losers. Again, true enough. But one wonders why that would be worse than the present, which combines inequality with waste and *mafiozny*. To prevent inequality, the official policy seems to be that privatization should take the form of market sales at full economic value. But since there are only feeble credit institutions and only rudimentary market prices, these have largely stalled (less so in some of the non-Russian republics, such as Kazakhstan). In the name of a theoretically better but rarely achievable form of privatization, the government passes up the simpler device of just issuing stock to the current workers.

Meanwhile, most of what privatization occurs is in the form of insiders taking over, either managers or simply other people with good connections. So privatization, far from enjoying a populist cast or in any way burnishing the image of the market, is instead contaminated by the prevailing corruption.

The distrust of individual choice is staggering. Only recently did a decree permit an owner of factory land to sell it, and that decree only covers enterprises worth a 100 million rubles (roughly \$1 million) or less. You still need a state permit to move to Moscow or St. Petersburg, and it won't be issued unless you convince a bureaucrat that there is some special "need" for your skills there.

Finally, the underpinnings for privatization are weak. The idea of neutral rules of law is scarcely grasped. For years, judges were notorious for their "telephone justice"—decisions based solely upon the Party's orders. As a sign of their lowly and pliable character, the judges stood while taking their telephone directives. Their job in criminal trials has been to secure conviction: Even today, if there are gaps

in a prosecutor's case, the judge points them out and gives him a chance to fill it in. Acquittal is almost unknown—10 acquittals in a million cases, we were told.

While judges nowadays are understandably keen on the idea of judicial independence, they seem to have the words but not the music. Some judges, for example, believe it means that the judge decides as he likes; to have to follow precedent, some told us, would violate the judge's independence.

**A**nother institutional gap is the lack of rudimentary honesty in the regulatory branches of the bureaucracy. One morning we were addressed by the chief judge of the Supreme Court of Arbitration, which despite its name is actually the court for most "business" lawsuits. These include suits against government agencies for wrongful withholding of government permits. At dinner the very same day, I mentioned the court—and this part of its work—to an American businessman. He laughed. Then he said, "Everybody knows the only way to get a permit is with a bribe." He could not imagine the court as a working remedy, at least for getting a permit in "real time," as he put it.

This is rather a gloomy report, I fear. I do see one positive feature: Hardly anyone is willing to put in a good word for socialism—the big exception is Mikhail Gorbachev. To some extent this may be a sort of herd instinct, and in conversations with Americans, it may sometimes be an effort to please one's guests.

But even if the market is far from established, the absence of an affirmative antimarket ideology has two pluses: It makes it less likely that the ruling elite would again silently allow the resumption of Stalinism in its pure form, and it removes the communist crusade as a basis for foreign adventures. Over the next few decades (or centuries), market-democracy may flourish.

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# ALMS AFTER THE STORM

BY MARTIN MORSE WOOSTER

By now the Los Angeles riots have been covered by every magazine in America that could conceivably have an interest in the subject. *Premiere*, for example, did several articles about the effect of the riots on Hollywood; *The Spectator* had a piece by the London *Times*'s Los Angeles correspondent, William Cash, filed from the Playboy Mansion.

The riots were an invitation for journalists to examine both the problems of America's cities and the legacy of the Great Society. What was surprising was that few observers took the side of the rioters. In the 1960s, many journalists, fueled by the radicalism of that era, tended to assume that any unrest in the ghetto was an expression of political disgust, that the people who were looting and destroying were committing nonverbal political protest.

That sort of argument was rarely used this time. Far more typical on the left were the comments offered in the May 25 *New Republic*, a special issue devoted to the riots. "More than [the Watts riot of '65, this was a war of each against all," said Harold Meyerson, executive editor of the leftist *L.A. Weekly*. "Even on the wacko nether-reaches of what remains of the American left, this will be a hard riot to romanticize."

"The urban uprisings of the '60s turned into orgies of looting and arson," added former *New Republic* editor Hendrik Hertzberg, "but they had, however fleetingly, some twisted hint of the form of political demonstrations. These riots had none of that... On television it all looked more like 'Mad Max' than the Bastille."

Even the journals of opinion that would, in the past, have reflexively sympathized with the rioters had to strain to



support their position. The genteel editorialists at *The New Yorker* at first declared that there was a simple solution to the problems that resulted in the Los Angeles riots: more money. Being genteel, of course, they didn't use the word *money*; they instead declared in their May 11 issue that America had two options: "Either we can start to seriously confront the plight of our inner cities, and treat it as the national emergency we all know that it has become...[or] we can ignore the problem, and continue to humiliate and dehumanize the residents of our inner cities, and try to contain their rage by relying more and more on the prison system."

Four weeks later, *The New Yorker*'s editors realized that such a position was inadequate and decided to back up their views. The "single policy failure" that led to the riots, *The New Yorker* said, was "the abandonment of our cities by the federal government. Since 1981, direct federal spending on cities has declined by more than sixty percent. The inevitable result has been a reduction in public services, hastening the flight of the black and white working and middle classes to the suburbs, and leaving behind an ever denser concentration of poverty and unemployment."

As evidence, *The New Yorker* quoted

two men. One, a gang member named "G-Roc," didn't have very much to say; the other, a British social critic named Stuart Hall, wrote that the rioters were people excluded from society, living in poverty so long that they "are permanently out of sight of the society at large: living behind God's back." "How much longer do we plan to keep millions of Americans living behind God's back?" *The New Yorker* asked.

Aside from the interesting theological questions raised by this analysis (I wasn't aware that God even had a back), what is important about the *New Yorker* piece is to whom the editors did *not* turn for analysis: the black civil-rights establishment. Indeed, the major losers in the post-riot debate were the National Urban League, the NAACP, the National Urban Coalition, and other main-line civil-rights organizations. Whatever the Los Angeles rioters wanted, it was not affirmative action, quotas, or winning litigation conducted under Title VII of the Civil Rights Act of 1964.

In the May 16 issue of *National Journal*, reporter Rochelle Stanfield interviewed prominent blacks, including critics of the civil-rights establishment. "The civil rights struggle in America is over and it is won," economist Walter Williams told Stanfield. "The civil rights organizations can die and they are dying. The NAACP is going through the process now. It is dying."

The civil-rights establishment countered by claiming that they were not quite dead yet, but that crime, poverty, and the underclass were messy issues best discussed behind closed doors. "We have not been able to get a handle" on how to deal with the problems of the inner city, said NAACP national legislative director