

# Interest Representation in Sverdlovsk and the Ascendancy of Regional Corporatism

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**A**mong the most significant features of Russia's current economic and political transition that gained increasing prominence during the Gorbachev years has been the crystallization of corporate-administrative "clan" interests that evolved out of the preexisting Soviet system. Pressure for fundamental change intensified under Gorbachev as those who supported the preservation of socialism were challenged by others favoring radical transformation. Moves away from central planning and state ownership in the economic sphere were accompanied with growing urgency by calls for democratization in the political sphere. Three distinct clusters of economic interests became clearly evident as this clash of perspectives intensified during the 1980s. Conservatives were opposed by active proponents of two contrasting visions for Russia. One interest grouping favored privatization of state property and assets in a strongly corporatized context. Another advocated broad democratization and the building of institutions that would support open market relations and provide a hospitable environment for new business ventures. This article focuses on Sverdlovsk in examining the dimensions of that contest at the regional level and in analyzing the basis for the ultimate success of corporate-administrative clan interests over their competitors.<sup>1</sup>

Early in the Gorbachev period, when the focus was predominantly on scientific and technological development and the improvement of Soviet production, Sverdlovsk oblast enterprises in the military-industrial complex seemed to be well suited to benefit. But with the policy shift that soon followed, it became clear that the prime beneficiaries of perestroika in Sverdlovsk would be those who controlled resources that could be competitive in the market. Gorbachev's democratization initiatives also seemed ready-made for Sverdlovsk, where grassroots

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democratic activism gained early prominence compared with most other regions in the Soviet Union. But the democratization movement did not successfully penetrate entrenched relationships in policymaking authority. Rather, the early 1990s saw decisive moves within Russia to reestablish a vertical executive structure in the wake of the CPSU's weakening position and ultimate demise. On key dimensions, then, the transition in Sverdlovsk mirrors the shifting fortunes of different economic and political interests in Russia overall. Further, the evolution of relations between Sverdlovsk and Moscow highlights the basis for rising tensions between the center and powerful regional elites—a theme to which we will return in the concluding section of this article.

### **Interests Favoring Preservation of the Soviet System: The Military-Industrial Complex**

When Gorbachev came to power, Sverdlovsk's strong position among Russia's regions was in substantial measure due to the prevalence of military-industrial complex (VPK) enterprises there. The industrialization of the Urals had begun under Peter the Great, following the discovery of resources in the region that were important for weapons production. This specialization was further developed over time, and during World War II more than four hundred additional enterprises, many of them strategic, were moved to the Urals because of its remote location. In the 1980s, 45 percent of the Sverdlovsk working population<sup>2</sup> were employed in the VPK, which produced 30 percent of the oblast's industrial output.

One of the main initial ideas of perestroika had been to use defense sector achievements in science and technology as the principal vehicles for accelerating development in civilian production. The plan required a coordinated, "Soviet-type," nationwide campaign to build support and marshal resources for the massive investment that would be required to upgrade facilities, pursue new lines of scientific and technological research, and acquire new technology from the West. Gorbachev's emphasis on divergent interests within the USSR, in contrast to the "unity of interests" doctrine that had prevailed earlier, combined with the developing emphasis on enterprise self-management, worked against the successful realization of any national campaign.<sup>3</sup> As perestroika unfolded, available options for financing the restructuring became increasingly limited. Falling prices for world oil in 1986 dealt a severe blow to the Soviet Union's strategy for obtaining hard currency. The USSR's economic strength was also reduced by growing opposition to arms exports consistent with the "new thinking" that was becoming a keynote feature of Gorbachev's approach.<sup>4</sup> The most competitive products on the world market that the Soviet Union offered for sale were military weapons, which were the country's second largest source of income from foreign trade, behind oil and gas.<sup>5</sup> But in 1989, the USSR's share of arms sales on the world market took a sharp downturn, falling from 38 percent in 1988 to 5 percent in 1992.<sup>6</sup>

With low investments for conversion and diminished opportunities for export of military weapons and other products of heavy industry by the late 1980s, many VPK elites began to see a strengthening of central authority as their best hope. The overall thrust of Prime Minister Valentin Pavlov's economic proposals, be-

gining in early 1991,<sup>7</sup> was a sign of VPK influence, as was the coup attempt in August, which was organized with strong participation by VPK representatives. The director general of one of Sverdlovsk's largest VPK enterprises, Aleksandr Tiziakov, was among the principal coup leaders.

Following the breakup of the Soviet Union, VPK executives, having lost much of their former preeminence and influence, lobbied heavily against Gaidar's program, which included further sharp reductions in funding for military production. Many of them participated in forcing his ouster in December 1992, but Viktor Chernomyrdin's policies have not favored them much better. From 1990 to 1994, defense production in the Sverdlovsk oblast fell 65 percent. Until 1994, some of the slack in military output had been taken up by an increase in civilian production within the VPK,<sup>8</sup> but in 1994, civilian output in these enterprises also fell. The principal reasons seemed to be that demand was declining, competition from imports was becoming more fierce, VPK producers tended to have weak skills in marketing strategies, and investments in conversion were continuing to decline. Consequently, the VPK share of total industrial production in the oblast fell by about 50 percent in four years.<sup>9</sup>

Before the transition under Gorbachev began, VPK executives had been Sverdlovsk's most influential businessmen, and their enterprises had been the most important determinant of the region's privileged position. Today, core entities of the military-industrial complex are struggling to survive. Their strategy in this situation has been to establish closer ties with Sverdlovsk regional authorities in their efforts to increase, or at least maintain, their funding from the state. In many cases, the importance of these enterprises and the influence of their directors now derives more from their significance for the regional infrastructure, and their contribution to social stability among workers whose jobs are in jeopardy, than from their place in the scheme of national military priorities. A number of these enterprises, in smaller cities and towns of the oblast, are not only the principal employer but also the provider of housing, education, medical care, and social services of various types. Even in Yekaterinburg, their presence remains critical. Both of Sverdlovsk's heads of administration, Eduard Rossel and Alexei Strakhov, therefore, have made it an important priority of their administrations to promote the interests of VPK enterprises in Moscow. Because a high proportion of the region's population work in the military-industrial complex, the success of candidates for office at every level turns to a substantial degree on the extent to which VPK welfare is promoted with tangible results by regional officials.

The economic problems of Spetstekhnika, a weapons producer that relocated in Sverdlovsk during World War II, illustrate the political importance and continuing volatility of falling VPK fortunes. Spetstekhnika underwent privatization in 1993 and was soon confronted by a severe financial crisis. The firm's 1,500 workers were not paid for six months. Many joined a hunger strike, demanding that the enterprise be renationalized. The oblast property management committee began proceedings to liquidate the firm, but the oblast дума, then chaired by Rossel, intervened—pressuring the oblast administration, which was then headed by Strakhov, to take responsibility for keeping Spetstekhnika in operation,

although the oblast budget was already overextended. Rossel supporters used the Spetstekhnika crisis effectively against Strakhov in the 1995 gubernatorial race, accusing Strakhov of being insensitive to the needs of local workers. Since Rossel was elected governor, he has not been able to ease the difficulties of VPK industries in Sverdlovsk, however; although the problem has major political implications, no regional-level solutions are available.

### **Corporate-Administrative Clan Interests Involving Privatized Property and Assets**

An “administrative market” developed in the USSR after the Stalin era—a system for ordering both vertical and horizontal relations and allocating resources that was based more on bargaining and interest representation than on command in most matters concerning production and resource distribution. Under these institutional conditions, “administrative currency” was vital to transactions, and “anything could be bought and sold.”<sup>10</sup> Exchange relations in the Soviet administrative market tended to follow the two divergent but overlapping organizing principles around which chains of authority were crystallized in the official hierarchy: departmental (branch) and regional.<sup>11</sup> Analysts in the West often describe what ensued as reflecting top-to-bottom corruption. Leitzel, Gaddy, and Alexeev argue, for example, that “the old system was one of near-total corruption” in which the economy “was controlled by what was in essence an organized criminal syndicate: the Communist Party.”<sup>12</sup>

Indeed, the institutional basis for an extensive range of transactions in the Soviet Union involved a form of “private ordering,” to use Oliver Williamson’s terminology, rather than ordering according to statute law or formal rules of any kind.<sup>13</sup> These transactions were the core of shadow economy activities. Officially approved transactions in this system, on the other hand, operated according to *de jure* rules governing *nomenklatura* and civilian (non-*nomenklatura*) activity. The “unity of interests” doctrine was a key constraining influence on visible manifestations of self-aggrandizement in the official economy, and it typically did keep *nomenklatura* gains in the Soviet system at lower levels than might have been expected in its absence. Thus, although Robert Putnam’s characterization of Mafia organization in Italy as “fundamentally hierarchic” and “exploitive” in nature<sup>14</sup> applies to the Soviet system as well, the “unity of interests” idea was more than a slogan to a large number of administrative market participants, especially before the Gorbachev period, and it did affect both values and behavior among many *nomenklatura* members and those who monitored their activities.

Although transactions in the shadow economy followed a somewhat different set of *de facto* rules from those of the official economy, these exchanges were essential for the functioning of the official economy as well. They enlivened and gave direction to a decision-making process that would have otherwise been moribund, and they helped to make up for omissions and lapses in official procedures for planning and allocation. In the Soviet system, both the official economy and the shadow economy not only accommodated each other but also developed com-

plex and resilient institutional arrangements that ordered relations both within and between official and shadow activities.<sup>15</sup> The CPSU was the principal integrating structure in this system. The avowedly criminal underworld—with its own distinct culture and loyalties, if not with methods that differed greatly from those of officialdom on a number of dimensions—operated partially on the outside through most of the Soviet period.<sup>16</sup>

Key features of these institutions were not challenged through the reforms that were initiated either by Gorbachev or Gaidar. A principal casualty of perestroika and of the Gaidar reforms that followed was the “unity of interests” doctrine. The institutional arrangements that had created Soviet departmental and regional clans were left largely intact below the top levels. Dissatisfaction with the “unity of interests” doctrine, which was important to perestroika’s appeal among many members of the nomenklatura in the 1980s, found even fuller expression in the reform proposals of the late 1980s that were intended to replace the socialist economy with a market economy.<sup>17</sup> And with the highest administrative and planning levels eliminated beginning in 1990, regional and departmental clan structures—comprising representatives from the decapitated but hardy bureaucracy, executives in highly profitable areas such as raw materials export and banking, and criminal elements—were able to command even greater power and control more resources than before.

Ironically, the Gaidar team and their Western advisers believed that, through their reform initiatives, *they* were “co-opting” Russian administrative and enterprise personnel.<sup>18</sup> It is clear, however, that what actually happened in the early 1990s was very different. Powerful individuals in regional and departmental positions finally achieved, with Yeltsin’s ascendancy and the Gaidar economic program, objectives they had been seeking since the Gorbachev period—and in many cases for an even longer time. They obtained freedom from CPSU control. They received ownership of vast amounts of property and resources. And they got these things in a context that would permit the maintenance of barriers against competition in an open market environment. A new era had begun in Russia, but it did not signal the advent of an open market economy.

### **The Initiation Phase**

Experimentation with alternative economic arrangements began early in Sverdlovsk relative to most other Russian regions. In 1984, enterprises in two Union ministries adopted new management practices that were intended to reduce the role of central planning agencies in the USSR economy. The plan was developed under the leadership of Nikolai Ryzhkov, who was brought to Moscow from his position as director general of Uralmash, one of the largest machine-building enterprises in the USSR.<sup>19</sup> The ministries involved were the Ministry of Heavy and Transport Machine Building and the Ministry of Electrical Equipment Industry—both of which were well represented in the Urals and particularly in Sverdlovsk. In the experiment, the operations were given an increased role in planning and in production and investment decisions. Uralmash, which then employed more than 40,000 people, was one of the participating facilities. This

initiative was significant in bringing economic reform issues to the forefront of public discussions in Sverdlovsk.

Beginning in 1986, a series of liberalization initiatives broadly expanded the permissible boundaries for income-generating activity. When these innovations were first introduced, they sought to retain a socialist grounding for new cooperative enterprises and joint ventures—requiring that cooperatives be organized as collectivities rather than sole proprietorships, for example, and that majority ownership of joint ventures be Soviet rather than foreign. Soon, however, the distinctively socialistic features of the new economic arrangements became blurred. What happened as officials and enterprise executives began openly moving into entrepreneurial activities has been described by several analysts. Olga Krysh-tanovskaya, for example, discusses “a new system of privileges” that was created during this period, which included the privatization of state structures and property before “people’s privatization” officially began. These developments were carried out in the economic management system, the distribution system, and the banking system, and they involved privatization of assets and privileges of enterprise operations that were especially profitable.<sup>20</sup>

Russian analysts have termed the state enterprise-cooperative configurations that were created during this time *pocket structures*, because they became a way for enterprise directors to gain a measure of freedom from state control. Cooperatives thus provided a legal opening for the transfer of state resources and production facilities into the private sector. They represented a significant step toward privatization of state property through the creation of a “second economy” (as distinct from the nonlegal “shadow economy” that already existed).

From its inception, Sverdlovsk’s second economy was in ferment. At the end of 1989 there were 332 production cooperatives in the oblast that employed about 6,900 workers, but a year later the number of production firms had been nearly halved. The number of workers had increased by 50 percent, however. These changes meant that entrepreneurs were exploring unfamiliar terrain, with the newly legitimated profit motive pointing the way. Many of these ventures failed, but in those that succeeded, business people had learned how to effectively use state assets and employees in the pursuit of personal profits. At this point, about 80 percent of all production cooperatives in the USSR were operating through some kind of affiliation with state enterprises for their production requirements (personnel, equipment, or supplies). About 70 percent of cooperative production was sold to state enterprises, and of the remaining 30 percent that went to the market most was purchased by the state sector.<sup>21</sup> Sverdlovsk cooperatives generally reflected this pattern.

There was a marked shift from production to retail trade in the cooperative sector during this period. The growth in building cooperatives was explosive, and service cooperatives of many types sprang up to meet unsatisfied demand.<sup>22</sup> In 1989 there were more than 2,159 registered and operating cooperative enterprises in Sverdlovsk, employing more than 46,000 people. In 1990 the total number of cooperatives jumped by 72 percent (to 3,742), and the number of workers by 137 percent.<sup>23</sup>

Gorbachev's economic initiatives also had an international focus. The move to decentralize foreign economic relations, which began in 1986 and gained rapid momentum thereafter, was actually a step toward dismantling the long-standing monopoly of foreign trade that the Soviet government enjoyed. With the reduction in power of the Ministry of Foreign Trade that accompanied the reorganization, direct foreign trading rights were handed over to selected Soviet enterprises and ministries.

The Uralmash Production Association in Sverdlovsk was one of the firms that was empowered to conduct its own foreign trade negotiations. At about the same time, joint ventures were legalized for existing state enterprises. Although the overall contribution of joint ventures to economic restructuring was small, this development, along with related innovations in foreign trade, had profound significance in opening doors to a broad spectrum of Soviet officials for highly profitable export-import activity. Whereas cooperatives had offered a way for enterprise directors to begin openly privatizing state property and resources that were under their control, the liberalization of foreign trade regulations and the legalization of joint ventures, along with related developments in banking and finance, furnished mechanisms for party and other administrative officials to begin decisively joining the trend away from an officially mandated collectivity emphasis in the economic sphere and toward the legalized pursuit of private profit.

Interural, a firm created in 1989, illustrates the rapid turn to the market that a number of favorably situated individuals were able to realize when Sverdlovsk's natural resources were made available for business ventures. Interural was organized as a Soviet-Swiss joint venture from Sreduralstroi, which was one of the largest construction associations in the Urals. Rossel was director general of Sreduralstroi—a vertically integrated consortium of construction operations and manufacturing plants for building materials. Interural was established to link Sreduralstroi to foreign firms that could provide opportunities for capital investment and technology transfer. Alexander Tikhonov, who previously worked at the Ministry of Foreign Trade, was made director general. Soon, copper export had become a major focus of Interural's activity. By 1991, about 90 percent of all copper exports from the Sverdlovsk oblast were going through Interural, and the firm's principal work had shifted to export-import operations. (Natural resources were the primary export, and foodstuffs were the chief import product.)

Numerous nonstate firms were created out of state enterprises during this period with the participation of managerial and administrative nomenklatura. Claiming for themselves the most lucrative niche that they could find, businessmen drew in relatives and influential officials who could promote the firms' interests ably. This "advanced privatization stage" of economic restructuring, which was carried out in production, distribution, and financial institutions throughout the economic system, effectively divided the "cream of the cream" of the business opportunities that were available in Russia during that period. By the time that most Russians were allowed to participate in the voucher privatization initiative, called "people's privatization" under Yeltsin, the consolidation of new economic arrangements was already well under way.

### The “Regional Interests” Theme

The Urals Republic idea, which was evolving by 1990, was intended from the outset to serve as a vehicle for pursuing the interests of regional economic elites. At that time, Rossel, who was then chair both of the Sverdlovsk oblast soviet and of the oblast soviet executive committee, requested permission from Ryzhkov, then USSR Council of Ministers chair, to export large volumes of raw materials and weapons and to use the revenues for food imports, which would help make up for Moscow’s failure to provide needed resources for the oblast. Once granted authority for these exports, after warning Moscow that a civil war might begin in Sverdlovsk because of shortages, Rossel licensed Interural and several other nonstate firms to carry out the export-import operations. Later, Rossel was criticized by democratically aligned oblast deputies for misuse of revenues from the project, but when they attempted to launch an investigation the initiative was quickly stopped. Rossel’s daughter had by then been appointed a representative of Interural in Germany, and the son of the oblast party first secretary who had succeeded Yeltsin in Sverdlovsk had become manager of the Interural office in England. Yeltsin’s son-in-law had joined Interural’s Moscow headquarters.<sup>24</sup>

Of course, most businesses are not as closely tied to first-tier regional administrative elites and top-ranking party leaders as Interural has been. Yet, the pattern that is evident in Interural’s evolution illustrates a process that has been repeated many times throughout Russia—a process in which business interests depend heavily on the favor of officials for privileges and benefits that range from securing buildings and equipment to receiving necessary permits and licenses and being granted special tax consideration. These debts are sometimes repaid in lucrative jobs for relatives of officials, sometimes with payments in money or goods, and sometimes with “currency” of other types.

This continuation of administrative market mechanisms remains largely intact from the Soviet period, although coordination is now more region-centered than it was previously. Today, regional policies often diverge markedly, as elites within each region work to create conditions that will serve their own interests—with “regional benefit” as their public rationale. It has now become acceptable to elevate regional interest over the national interest emphasis that formerly prevailed in public justifications for policymaking. These “regional benefit” themes characteristically mask policy directions whose advantages accrue to a small group of regional elites.

The short-lived Urals Republic was announced in July 1993. Rossel justified it at that time by arguing that more regional authority would prevent the center from enforcing decisions that ran “counter to the interests and plans” of local people. Rossel insisted that Russia would also benefit from this move because the Urals Republic would still pay taxes. Moscow authorities did not agree to the new arrangement, and on 9 November Yeltsin issued a decree abolishing the Urals Republic and dismissing Rossel as head of the oblast administration. Two days later Rossel was elected president of a regional association for economic cooperation.<sup>25</sup> This was clearly an anti-Moscow move by local elites, and from this power base Rossel immediately started creating a new association, “Transforma-



tion of the Urals.” Most founding members of Transformation had close political and economic ties with Rossel. In December he was elected to the Federation Council as the Transformation nominee. (Rossel insisted that the association he created was nonpolitical, but it nominated him for the Federation Council in 1993 and for the governorship of Sverdlovsk in 1995.)

Rossel was elected speaker of the Sverdlovsk oblast дума in April 1994—a position from which he could prominently oppose Strakhov, who had been appointed by Yeltsin to succeed him as head of administration. Strakhov had the support of Chernomyrdin’s Our Home Is Russia movement in the 1995 gubernatorial election campaign. It was a contest of regional interests versus Moscow interests. At another level, Rossel represented region-based corporate interests and Our Home Is Russia sectoral (branch) interests. At the time, a common appellation in Russia for Chernomyrdin’s movement was “Nash dom Gazprom” (“Our Home is Gazprom”). Rossel’s victory over Strakhov attested to the appeal of the corporatist strategy with a regional focus that he had consistently promoted since 1990.

In January 1996 Rossel succeeded in finalizing a power-sharing treaty with the Russian government. Chernomyrdin, who had long opposed Rossel’s moves toward regional autonomy, acknowledged at the time of the treaty signing, “We have agreed on the main thing. It is no longer possible to give orders from Moscow.”<sup>26</sup>

#### Shadow Economy Activity

The organization and institutions of the Communist Party itself are deeply implicated in Russia’s extreme problem with corruption and criminality at the heart of economic relations. This problem intensified with the conscious effort in Gorbachev’s reforms to draw shadow economy initiatives into the mainstream economy. The original idea was to invigorate the socialist economy with the creation of a legal second economy that would operate as a supplement to the existing system. The “500 Days” proposal continued this theme, emphasizing the large size of the Soviet shadow economy and advocating “the utilization of shadow capital” in the transition to a market economy. Yavlinsky et al. estimated at the time that shadow economy income totaled 20 percent of the national GNP.<sup>27</sup> Their rationale for bringing this capital into the reforms was that, since “the main cause of the existence of the shadow economy on this scale . . . is the absence of private property as a means of production” as well as “the predominance up to now of command and administrative methods,” liberalization and privatization would themselves be effective in overcoming corruption and economic crime more generally. Gaidar’s economic program carried this strategy even further. As a result, corruption and criminality increased dramatically throughout Russia during the 1990s.<sup>28</sup>

Sverdlovsk is one of Russia’s most troublesome regions on this dimension, where highly profitable export operations now unite a number of entrepreneurs,

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officials, and criminals in clan activity. Close examination of these developments is beyond the scope of this article. In broad outline, what ensued with the government's economic strategy was that the shadow/criminal approach to economic relations transformed the mainstream economy rather than being transformed by it. The mainstream economy took on features of the shadow economy that have continued to develop and further crystallize since the beginning of reforms. Elsewhere we identify key causes of this evolution.<sup>29</sup>

### **Democratic Grassroots Activism and Interests Favoring Open Market Relations**

Gorbachev wanted to employ democratization as a vehicle against party conservatives who were obstructing his reform initiatives. This theme was supported from the beginning by many reform-oriented individuals who saw democratization as potentially serving to effectively undermine existing political and economic arrangements. Ideologically driven reformers who opposed CPSU power *in principle* were joined by a number of others who had more pragmatic concerns. Among those who would become active in the second economy, for example, there was widespread affinity for democratization initiatives that offered the hope of loosening the CPSU's hold over their economic activities.

The gathering momentum toward democratization that was evident in the early days of perestroika, as an alternative to the established "unity of interests" theme, became prominent in Sverdlovsk earlier than in many other regions of Russia. One reason was that the city of Sverdlovsk reflected several features characteristic of big-city life that were conducive to the formation of activist grassroots organizations. A second reason for Sverdlovsk's centrality to democratization initiatives can be accounted for by Boris Yeltsin's prominence as one of the USSR's leading symbols of opposition to CPSU domination. Having come from Sverdlovsk, and widely viewed there as Sverdlovsk's "own," Yeltsin significantly colored the local political climate.

A large number of highly educated professionals live in Yekaterinburg (renamed in 1991), which is Russia's third-largest city. Engineering and technical personnel are particularly well represented there. In the 1980s, many of these individuals shared with a large number of Russian intelligentsia an emphasis on reforming the Soviet system. Sverdlovsk was unusually fertile ground for anti-establishment mobilization. Workers' clubs began to appear throughout Russia in response to perestroika initiatives,<sup>30</sup> and in Sverdlovsk there was already a tradition of informal organization around nonpolitical interests of several types, from discussion groups to housing cooperatives and independent youth organizations.

Gorbachev's call for "the profound democratization of society" in January 1987 and for restructuring through "reliance on the vital creativity of the masses"<sup>31</sup> fit well, therefore, with currents that were already manifest at the time in Sverdlovsk. In early 1987, a group calling itself "Discussion Tribune" was formed with the support of the Sverdlovsk *obkom* (the oblast CPSU committee) that was to have substantial impact on public life. Gennady Burbulis, then a professor of Marxism-Leninism, was the first chair of Discussion Tribune—a position he

retained until his departure for Moscow. According to the Tribune participants we interviewed, discussions during those years, before contested elections were permitted, often were “heated and ahead of their time.” Out of this ferment came a circle of people who became the heart of the democratic movement in Sverdlovsk, and in retrospect, a number of leaders and analysts in Sverdlovsk credit the Tribune with having created the basis for the strong political interest that Sverdlovsk’s population showed through the end of the decade. Into the 1990s, having belonged to the Discussion Tribune in its early days was proof of having been at the forefront of political transformation.

Yeltsin’s dismissal as Moscow party first secretary in November 1987 and his resignation from the Central Committee sparked a succession of meetings throughout the city of Sverdlovsk. Participants were ready to fully support Yeltsin’s emerging anti-establishment image. A wave of meetings and demonstrations in the oblast led to the formation of many associations that shared the objective of furthering democratization.<sup>32</sup> Several nationalist and socialist parties also came into being that opposed the ruling regime.<sup>33</sup> Although Yeltsin ran as a Moscow candidate for the Congress of People’s Deputies in March 1989, the outcome of the contest was closely followed by Sverdlovsk voters. At the time of the elections, the “political temperature [in Sverdlovsk] was red-hot,” as one Sverdlovsk analyst described it: “The people were, for the first time, electing their own deputies.”

The first wave of massive worker strikes in recent Soviet history were seen in 1989—clear products of perestroika and Gorbachev’s continuing “diversity of interests” emphasis. At that time, the democratic movement in Sverdlovsk and throughout Russia began losing its spontaneous character. Leaders of the democratization movement were beginning to understand that mobilization of the masses around democratic themes could be a powerful weapon in their struggle to gain ascendancy over party and administrative elites.

The Movement for Democratic Choice was organized in Sverdlovsk in October 1989.<sup>34</sup> Created to unite democratic forces, it was a major player in the 1990 elections to the oblast and city soviets. Of 194 candidates elected to the Sverdlovsk city soviet, the Movement for Democratic Choice had endorsed 80.<sup>35</sup> The Communist faction in the city soviet accounted for not more than twenty people, making the city soviet of Sverdlovsk the third most democratic in Russia, after the soviets in Moscow and Leningrad. (The oblast soviet of people’s deputies was more conservative, with only fifteen elected deputies having the support of the Movement of Democratic Choice.)

### **The Democrats’ Declining Influence**

The rapid upsurge of democratic activism in the late 1980s and early 1990s ultimately failed to achieve the key political and economic goals of the movement.<sup>36</sup> Leading democrats wanted to bring an end to the CPSU’s power monopoly and, in the process, to strengthen the authority of legislative bodies. The Communist Party was brought down, but the trend that had been under way to balance executive power with increased legislative authority—a trend that Gorbachev had ini-

tiated—was soon reversed in Sverdlovsk, as it was in Russia more generally. The democrats had wanted a transition to an open market economy, with freedom of property for individuals and enterprises. The economic transition in Sverdlovsk, however, has facilitated the transfer of Soviet nomenklatura power into privatized nomenklatura property.

By early in 1990, the democratic movement throughout Russia was taking on fundamentally different coloration, as the movement developed a more cohesive organizational structure. This trend began at the regional level, where umbrella organizations such as the Movement for Democratic Choice in Sverdlovsk were formed to coordinate the work of several independent groups that saw enough commonality in their objectives to work together. The next step was vertical coordination at the republic level, and according to that principle, Sverdlovsk's Movement for Democratic Choice joined Democratic Russia in the fall of 1990. The idea for Democratic Russia had come from Moscow elites as they organized support for the March 1990 elections to soviets at all levels.<sup>37</sup>

Perhaps few within the democratic movement realized in 1990 what was under way with the drive to coordinate grassroots initiatives: that the CPSU monolith was being challenged by a foe whose mode of operation, even in this embryonic phase, gave clear evidence of developing along similarly authoritarian lines. Opposition to the CPSU was the central goal of democratic forces, and the battles that would have to be won in pursuit of that goal were specified by their leaders. Russia should declare sovereignty; the CPSU's constitutionally guaranteed supremacy should be overturned. Russia should have a popularly elected president. Democratic grassroots organizations gave strong support to these campaigns, and they succeeded. In Sverdlovsk, democrats enjoyed impressive success through the spring and summer of 1991 in building a broad constituency for Yeltsin's presidential campaign, and their work was pivotal in mobilizing local popular resistance against the August coup attempt. These were their final victories. With Yeltsin's assumption of Russia's top leadership position, the process of attempting to reestablish a vertical executive structure, following the pattern of the Soviet system from which Yeltsin had come, quickly became evident in Sverdlovsk.

A critical factor in these developments was that the impressive superficial gains of democrats during perestroika did not take away the power of many traditional elites. In Sverdlovsk, even at the height of the democrats' public visibility, when grassroots organizations were popular and the candidates they endorsed were winning seats in the local soviets, power was being solidified in the oblast executive committee under Rossel's leadership. Elected chair of the Sverdlovsk oblast executive committee in April 1990, Rossel was then also elected to chair the oblast soviet in July. Yeltsin had suggested this arrangement—having a single person head both branches of power in Sverdlovsk—shortly after he was elected chair of the RSFSR Supreme Soviet. Yeltsin termed it an "experiment." Local elites supported Rossel to head the Sverdlovsk oblast administration following the August 1991 coup, and Yeltsin appointed him. Democrats in Sverdlovsk had overwhelmingly opposed Rossel for that position, insisting that

he was too closely connected with shadow economy interests. The democrats' setback in the Rossel appointment was indicative of their declining influence in Sverdlovsk political life—a trend that was already evident at that time.

The achievement of strong democratic representation in the city soviet did not solidify support among the electorate for the democratic movement. Members of the democratic faction in the soviet were given low overall marks by their constituents. There was a pronounced decline in political activism and interest in political participation among the Sverdlovsk population over the course of 1991. Many did not believe that notable changes for the better were resulting from democratic activity, and democratic groups had proven unable to articulate compelling programs. A number of opinion polls during 1991 showed a sharp drop in citizen involvement in politics. According to a survey by Vyacheslav Zhitenev, by November 1991, substantially more people in the city preferred that their leaders come from the ranks of professional politicians than that they be democrats (43 percent and 28 percent, respectively). By November, in contrast with March, substantially more people were inclined to seek out economic opportunities on their own rather than pursue political solutions to economic problems.<sup>38</sup>

Among political leaders in Sverdlovsk, also, 1991 saw an end to the expansion of democratically aligned forces among elected officials and a decline in the strength of democratically oriented political groups. Democratic blocs began to dissolve because of personality conflicts and disagreements about strategies and priorities. Many people left the movement because they found it impossible to achieve their personal and political objectives. A significant factor in this loss of democratic momentum was that a number of deputies who had been elected as democrats began to use the opportunities of their office to become business people themselves. At the same time that they had been active in organizing the democratic movement, business structures had begun to appear that provided tempting opportunities. We found that a substantial number of democrats, both elected officials and other movement leaders, shifted their emphasis from political to economic activities during the 1990s.<sup>39</sup>

### **Summary and Conclusion**

Sverdlovsk's corporate-administrative clan interests found an opening under Gorbachev to effectively turn their positions, in the case of nomenklatura members, and their hidden capital and connections, in the case of many shadow economy participants, into legal property ownership and enhanced power through perestroika initiatives. These interests were further advanced with Gaidar's voucher privatization program, as formal economic "rules of the game" directed the transfer of state property into the hands of enterprise personnel while allowing core institutional arrangements that had bestowed power and privilege in the Soviet system to remain largely intact. In sum, new de jure rules were "created to serve the interests of those with the bargaining power to create new rules," as Douglass North describes a characteristic development in which path dependence prevails.<sup>40</sup> This is a central reason why the extensive formal change of ownership from the state into private hands and evidence of such trappings of democratic

governance as elections and lively parliamentary discussion do not signify the strengthening of institutions that would support open market relations or broad democratic institution building in Russia.

Moscow's influence in Sverdlovsk has declined markedly, however. Few levers are available to state officials that could restrain the economic ambitions of corporatist interests in Sverdlovsk, which can benefit more from autonomy than from subordination to Moscow. Although Yeltsin started building his vertical executive power structure shortly after the failed 1991 coup,<sup>41</sup> it was soon apparent that he could not effectively stem the growing power of regional elites. Sverdlovsk is one of several Russian regions in which Yeltsin's struggle against Gorbachev and the Soviet center is again being replayed, this time with regional leaders on the offensive, and so far successfully.

#### NOTES

1. This study is part of a larger project that we have carried out since 1992 in four Russian regions: Moscow (city), Yekaterinburg and the surrounding Sverdlovsk oblast, Voronezh (city and oblast), and Smolensk (city and oblast). In 1995 we added Kazan and the Republic of Tatarstan to this grouping. We used several types of data for this article, including background contextual and statistical information regarding recent reform developments, primary and secondary documents from a variety of sources, and data from 2,529 personal interviews in the Sverdlovsk oblast between 1992 and 1995 with oblast and city officials, privatization decision makers, enterprise managers, workers, politicians, journalists, activists, and analysts. Details about our data collection procedures and our research methods are available in Lynn D. Nelson and Irina Y. Kuzes, *Property to the People: The Struggle for Radical Economic Reform in Russia* (Armonk, N.Y.: M. E. Sharpe, 1994); Lynn D. Nelson and Irina Y. Kuzes, *Radical Reform in Yeltsin's Russia: Political, Economic and Social Dimensions* (Armonk, N.Y.: M. E. Sharpe, 1995); and Lynn D. Nelson and Irina Y. Kuzes, "Continuity and Change in Interest Representation from the Soviet Period to the Present," paper submitted to The National Council for Soviet and East European Research, September 1996.

2. The population of the Sverdlovsk oblast was 4.7 million in mid 1995, 4.1 million of whom lived in urban areas. See Goskomstat Rossii, *Rossiiskii statisticheskii ezhegodnik* (Moscow: Goskomstat Rossii, 1995), 524.

3. See Nelson and Kuzes, "Continuity and Change in Interest Representation."

4. See Eduard Shevardnadze, *The Future Belongs to Freedom* (New York: Free Press, 1991), 44, 66; and Nikolai I. Ryzhkov, *Desiat' let velikikh potriasienii* (Moscow: Kniga.Prosveshchenie.Miloserdie, 1995), 267–69.

5. Charles Wolf Jr., Henry S. Rowen and Jeanne Zlotnick, "Introduction: Defense Conversion and Economic Reform," in *Defense Conversion, Economic Reform, and the Outlook for the Russian and Ukrainian Economies*, ed. Henry S. Rowen, Charles Wolf Jr., and Jeanne Zlotnick. (London: Macmillan, 1994), 3.

6. The United States, on the other hand, almost doubled its sales of weaponry to developing countries in 1990–93 compared with sales in the period 1986–89. See Ryzhkov, *Desiat' let velikikh potriasienii*, 268–69; Lora Lumpe, "Economic Costs of Arms Exports: Subsidies and Offsets," testimony to the Subcommittee on Foreign Operations, Appropriations Committee, U.S. Senate, 23 May 1995 (available from [www.fas.org/pub/gen/atwg/conduct/lltest.html](http://www.fas.org/pub/gen/atwg/conduct/lltest.html); World Wide Web); and "Global Arms Trade," *The Boston Globe* (special report) (available from [www.boston.com/globe/nat/arms/armusa.htm](http://www.boston.com/globe/nat/arms/armusa.htm); World Wide Web).

7. Pavlov was appointed prime minister in January 1991, replacing Nikolai Ryzhkov as head of the government.

8. Institute of Economics, Russian Academy of Sciences (Urals Branch); and Sverdlovsk Oblast Statistics Committee.

9. Goskomstat RF, Sverdlovsk Oblast Statistics Bureau, "Sverdlovskaiia oblast' v 1990–1993 g.g." (Yekaterinburg: Goskomstat RF, 1994); Goskomstat RF, Sverdlovsk Oblast Statistics Bureau, "Finansovoe polozhenie predpriatii i organizatsii Sverdlovskoi oblasti v 1993g" (Yekaterinburg: Goskomstat RF, 1994); and Elena L. Krotova, "Sotsial'no-ekonomicheskie problemy strukturnoi perestroiki staropromyshlennogo regiona," Interregional Scientific Conference, Institute of Economics (Urals Branch, Russian Academy of Sciences), Yekaterinburg, 1995.

10. Vitaly Naishul, "Liberalism, Customary Rights and Economic Reforms" (available from [www.fe.msk.ru/koi/libertarium/homepage/html](http://www.fe.msk.ru/koi/libertarium/homepage/html); World Wide Web). See also, for example, Simon Kordonsky, "Tenevaia ekonomika v tenevom obshchestve: transformatsii administrativnogo rynka," *Predely vlasti* 4 (1994): 102–32.

11. See Vladimir A. Lepekhin, *Lobbizm* (Moscow: Fond "IQ," 1995); and Ekspertnyi institut RSPP, *Lobbizm v Rossii: Etapy bol'shogo puti* (Moscow: Ekspertnyi institut, 1995).

12. Jim Leitzel, Clifford Gaddy, and Michael Alexeev, "Mafiosi and Matrioshki: Organized Crime and Russian Reform," *The Brookings Review* 13 (Winter 1995): 27.

13. Oliver E. Williamson, "The Institutions and Governance of Economic Development and Reform," in *Proceedings of the World Bank Annual Conference on Development Economics 1994*, ed. Michael Bruno and Boris Pleskovic (Washington, D.C.: The International Bank for Reconstruction and Development/The World Bank, 1995), 182–88.

14. Robert D. Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993), 147.

15. Institutions, in Douglass North's words, "are the humanly devised constraints that structure human interaction." They "are the rules of the game." Douglass C. North, "Economic Performance Through Time," *The American Economic Review* 84 (June 1994): 360, 361.

16. See, for example, Stephen Handelman's *Comrade Criminal: Russia's New Mafiya* (New Haven: Yale University Press, 1995).

17. Nelson and Kuzes, "Continuity and Change in Interest Representation."

18. Anders Åslund, "Political Ideas and Considerations behind the Russian Privatization Program," statement to the House Committee on Small Business (103rd Congress), 14 April 1994: 15 (mimeo).

19. Ryzhkov later became the chair of the Council of Ministers under Gorbachev.

20. Olga Kryshtanovskaya, "Kto nami pravit?" *Otkrytaia politika* 1 (1995): 13–19; Ol'ga Kryshtanovskaia, "Transformation of the Old Nomenklatura into a New Russian Elite," *Russian Social Science Review* 37 (July–August 1996): 18–40. See also Svetlana Glinkina, "Tenevaia ekonomika v sovremennoi Rossii," *Svobodnaia mysl'* 3 (1995): 26–43; and Irina Savvateeva, "O tekh, kto nami pravit," *Izvestiia*, 18 May 1994, 2.

21. V. Zubakin, "Vtoraia ekonomika," *Voprosy ekonomiki* 11 (1994): 156–57.

22. For elaboration of these points see Anthony Jones and William Moskoff, *Ko-ops: The Rebirth of Entrepreneurship in the Soviet Union* (Bloomington: University of Indiana Press, 1991).

23. Goskomstat RF, Sverdlovsk Oblast Statistics Bureau, "Sverdlovskaiia oblast' v 1990–1993 g.g."

24. See Sergei Roshchin, "Metastazy is proshlogo," *Yekaterinburgskaia nedelia*, special edition, 15 August 1995, 2; Viktor Smirnov and Elena Kotel'nikova, "Ural stremitsia vesti sobstvennuiu investitsionnuiu politiku," *Kommersant-daily*, 6 August 1993, 3; and Lidiia Malash, "Yekaterinburg polozhil Moskvu na lopatki: Ural'skii klan privatiziruet Rossiiu," *Megapolis-express*, 8 December 1993, 11.

25. The Urals Region Association for Mutual Economic Assistance.

26. Quoted in Vasily Kononenko, "Eduard Rossel Materializes at Last His Idea of Partial Sovereignty of Sverdlovsk Region," *Izvestiia*, 13 January 1996; in *Soviet Press Digest*, 13 January 1996. Available from RUSSICA Information, Inc. (Lexis-Nexis).

27. G. Yavlinsky, B. Fedorov, S. Shatalin, N. Petrakov, S. Aleksashenko, A. Vavilov, L. Grigoriev, M. Zadornov, V. Machits, A. Mikhailov, and E. Yasin, *500 Days: Transition to the Market* (New York: St. Martin's Press, 1991), 126–28.

28. See, for example, L. Ia. Drapkin, "Bessmertna li Rossiiskaia mafia?" in *Organizovannaia prestupnost': sostoianie i tendentsii*, ed. I. V. Safonova and N. N. Stepanova (Yekaterinburg: Ural'skaia gosudarstvennaia iuridicheskaia akademiia, 1995), 24–34; Vladimir S. Ovchinsky, *Mafiia: neob'iavlennyi vizit* (Moscow: INFRA-M, 1993); A. Nesterov and A. Vakurin, "Kriminalizatsiia ekonomiki i problemy bezopasnosti," *Voprosy ekonomiki* 1 (1995): 135–42; Igor' Sundiev, "Kriminal'nye komponenty sovremennoi sotsial'noi dinamiki Rossii," *Biznes i politika* 9 (1995): 3–9; Glinkina, "Tenevaia ekonomika v sovremennoi Rossii;" and Nelson and Kuzes, *Radical Reform in Yeltsin's Russia*, 75–78.

29. Lynn D. Nelson and Irina Y. Kuzes, "The Shadow Economy, Criminality and Clan Structures in Sverdlovsk," report submitted to The National Council for Soviet and East European Research, February 1997.

30. See Jonathan Aves, "The Russian Labour Movement, 1989–91: The Mirage of a Russian Solidarnosc," in *The Road to Post-Communism: Independent Political Movements in the Soviet Union, 1985–1991*, ed. Geoffrey A. Hosking, Jonathan Aves, and Peter J. S. Duncan. (London: Pinter, 1992), 139–40.

31. "O perestroike i kadrovoi politike partii," *Pravda*, 28 January 1987, 2 (speech by M. S. Gorbachev). The speech was delivered at the Plenary Session of the CPSU Central Committee on 27 January.

32. See M. Steven Fish, *Democracy from Scratch: Opposition and Regime in the New Russian Revolution* (Princeton: Princeton University Press, 1995), 140–42.

33. Among these were the Russian Union, the Russian National Union, the Social Democratic Party of Workers, and the People's Labor Front. Fatherland appeared in December 1986 as a historical and cultural union, and it became the basis for Russian Union—a nationalist party—in December 1991. Before the perestroika period, a club was formed among young workers, Young Marxists, for the theoretical study of Marxism. This group, and others that joined it, had evolved into the bloc "Worker" by August 1988. "Worker" distanced itself from democrats in the early 1990s and began to oppose Russia's presidential system.

34. The name was changed in the fall of 1990 to the Movement for Democratic Choice—Democratic Russia.

35. See Peter J. S. Duncan, "The Rebirth of Politics in Russia," in *The Road to Post-Communism*, ed. Hosking, Aves, and Duncan, 88.

36. See, for example, Hosking, Aves and Duncan, eds., *The Road to Post-Communism*; and Fish, *Democracy from Scratch*.

37. Democratic Russia bloc was created in the new RSFSR Congress of People's Deputies. Many of its organizers were also members of the Inter-Regional Group of Deputies (MRGND) that Yeltsin had helped to create in the USSR Congress during 1989. During the summer, RSFSR deputies from the Democratic Russia bloc and democratic activists throughout Russia worked out arrangements to create a republicwide coordinating organization to carry the struggle against CPSU power. The Democratic Russia Movement (DDR) was formally established in October.

38. Yacheslav B. Zhitenev, *Yekaterinburg na poroge rynochnykh reform* (Yekaterinburg, 1992), 34.

39. Indicative of this growing trend was the creation of a joint stock company, People's Concern, by the oblast Movement for Democratic Choice in September 1991. Organized for the stated purpose of helping to fund the democratic movement, People's Concern went bankrupt amid charges that its founders, who were known throughout Yekaterinburg as pioneers in the democratic movement, had enriched themselves in the process.

40. North, "Economic Performance Through Time," 361.

41. Yeltsin decreed on 31 August that regional presidential representatives would be appointed to facilitate the implementation of federal policies.



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