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Discussion Paper No. 2001/58

Clans, Cliques, and Captured States

Rethinking “Transition” in Central and
Eastern Europe and the Former Soviet Union

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August 2001

Abstract

Informal systems of relationships may be the most appropriate unit of analysis for understanding the patterns of development of many aspects of corruption, organized crime, markets, and the state. The lack of attention to informal systems can produce unanticipated and undesired outcomes in reform and foreign aid efforts. Focussing on economies in transition, this paper will (i) review pertinent literature on informal groups and networks and states since the fall of communism; (ii) discuss the applicability of conventional models to them; and (iii) examine the social organization of states and pose questions to help analyze and compare the role of informal systems in shaping states.

Keywords: informal social networks, corruption, social capital, economies in transition

JEL classification: O17, P26, P33, Z13

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Introduction

The study of “transition” in Central and Eastern Europe and the former Soviet Union has been dominated by a formalistic view of institutions, in which the role of informal systems has been undervalued or even overlooked. In general, networks, mediation, informal systems of communication, and resource exchange have been poorly studied in all kinds of states—capitalist, communist, and developing. Yet informal dimensions are especially critical in economic and political development, particularly in newly forming governmental, electoral, financial, and commercial structures. A much more explicit and informed analysis of informal systems, the structure of influence, and the nature of the state is called for in Central and Eastern Europe and the former Soviet Union.

A focus on informal systems takes as a given that established social relations, especially informal ones, often crucially *support* the development of new groups and institutions. Or, they can *obstruct* formal institutional change and reform. Much evidence worldwide suggests that informal networks and groups facilitate, inhibit, and alter industrialization, urbanization, bureaucratization, and democratization.¹

Further, informal systems inevitably undergird corruption and organized crime in a given state. Informal systems enable organized crime, which fosters corruption and is closely linked to it in myriad ways. As Roy Godson (1998:6) writes: “Although corruption exists without the presence of organized crime, criminal enterprises on a local or national level usually cannot long exist without the corruption and collaboration of public- and private-sector officials.” Phil Williams (1996:20) adds that “One way of minimizing risk [for criminal organizations] is through the widespread use of corruption.”

Finally, informal systems should be of special interest to analysts of Central and Eastern Europe and the former Soviet Union. As we shall see, informal systems played a pivotal role not only in the institutions and workings of the communist state but also in many reform processes of the 1990s. Endre Sik and Barry Wellman (1999:248) argue not only that “there is more network capital under communism than under capitalism,” but also that “there is even more under postcommunism than under communism.”

Indeed, informal groups and networks have shaped—and continue to help shape—many of the crucial economic, political, and societal developments in Central and Eastern Europe and the former Soviet Union, including the distribution and management of resources, patterns of privatization and ownership, the structure of influence, and perhaps the very nature of the state. Clearly, any attempted reforms—from privatization

¹ Standard vocabularies, and the theoretical habits they rest upon, ignore the possibility that such change often involves complex and rapidly alternating interactions between the new and the old. Anthropological models of complex social transactions (particularly those of the ‘British school’) offer an indispensable vocabulary for analyzing the organizational foundations of institutional change. ‘Social networks’, ‘brokerage’, ‘clientelism,’ ‘quasi-groups’ and other connective informalities have been perceived as indispensable concepts for interpreting rapid top-down nation-building and ‘modernization’ in developing countries. Such processes of change implied complex combinations of the traditional and the new, and anthropology responded by seeking to develop appropriately complex tools. (This perspective is informed by the work of Madeline Landau.)

and public administration to health care reform or development of the nongovernmental (NGO) sector—will be affected by informal systems and must take account of them if they are to have the desired results. Therefore, informal systems of relationships may be the most appropriate unit of analysis for understanding the patterns of development of many aspects of corruption, organized crime, markets, and the state. The lack of attention to informal systems can produce unanticipated and undesired outcomes in reform and foreign aid efforts.

This paper will

- i) review pertinent literature on informal groups and networks and states since the fall of communism;
- ii) discuss the applicability of conventional models to them; and
- iii) examine the social organization of states and pose questions to help analyze and compare the role of informal systems in shaping states.

1 Informal groups, networks, and the role of the state

Informal groups and networks in Central and Eastern Europe and the former Soviet Union developed in the context both of the legacy of communism and the experience of nearly a decade of reform in some countries of the region. These legacies appear to have encouraged the development of informal groups and networks in the transitional years in at least two ways: as suggestive idioms (e.g., “mafia” and “clan”) that resonate throughout the region; and as powerful agents reorganizing state and market institutions. With regard to the former, the resonance of “mafia,” “clans,” and other informal groups (in some contexts more acute than others) can be instructive in terms of how they operate and how they are changing and interacting with ‘reform’ processes.²

With regard to the role of informal groups as agents of reorganization, informal groups and networks—can be complex in their social organization. They combine patronage, the ability to access state and market resources, and sometimes coercion. The strength of these groups lies in their ability to circumvent, connect, over-ride, and otherwise reorganize political and economic institutions and authorities.

The role of the state is a crucial element in the evolution of informal groups and networks and their role in market and institutional outcomes, both under communism and under the reforms of post-communism. Under communism, the key to state power was its expansionist bureaucracy that monopolized the allocation of resources (Verdery

² Throughout the region, people subsume a wide variety of groups and activities under *mafia*. These include officials who accept bribes and former *nonmenklatura* (communist) managers who acquired state factories at firesale prices, as well as common street criminals and ex-convicts with their own armed police forces. Mafia can also have an ethnic dimension, in which Poles talk of Russian mafia, and Russians of Chechnyan mafia, and so on. As Nancy Ries (1998: Abstract) points out: “The mafia is...present in everyday talk and in popular culture; mafia is a key symbol through which people convey their perceptions and moral evaluation of systemic transformation.” For an analysis of reasons for the resonance of *mafia* and *clans* in the region, see Wedel 2000, section on “The Meaning of Mafia.”

1991, 1996). In a shortage economy in which demand always outpaced supply (Kornai 1980), control over resources insured state power.

However, state distribution systems and formal bureaucratic procedures were transformed through extensive use of informal social networks, as documented by anthropologists of Central and Eastern Europe (e.g., Hann 1980 and 1985, Kideckel 1982 and 1993, Sampson 1986, Wedel 1986 and 1992). The most important 'good' was typically information disseminated through informal networks based on trust: information about who, how, and where was the lifeblood of economic and political survival. Networks connected individuals and groups to the state economy and bureaucracy and pervaded those institutions. Further east, patronage networks virtually ran various regions of the Soviet Union (e.g., Albini, Rogers, Shabalin, Kutushev, Moiseev, and Anderson 1995, Fainsod 1975, Hough 1969, Hough and Fainsod 1979, Orttung 1995, Ruble 1990, and Willerton 1992). Although not explicitly institutionalized, these relationships were regularized and exhibited clear patterns.³

The states of the region might have appreciably weakened in 1989 (as the communist regimes of Central and Eastern Europe collapsed) and in 1991 (as the Soviet Union broke apart), but not "dirty togetherness."⁴ During such precarious moments of legal, administrative, political, and economic transformation, old systems of social relations, such as the informal groups and networks that functioned under communism and helped to ensure stability, could become crucial instruments of change. Many informal groups, empowered by the erosion of the centralized state and enticed by countless new opportunities for making money and wielding influence, rose to the occasion. Precisely by providing unrestrained opportunities for insiders to acquire resources, some reform processes have fostered the proliferation and entrenchment of informal groups and networks, including those linked to organized crime.

What do we know about the workings of informal groups and networks in the post-communist period?

Katherine Verdery (1996:193) describes Romanian elite networks as *unruly coalitions*. According to Verdery, unruly coalitions are "loose clusterings of elites [largely former Communist Party apparatus], neither institutionalized nor otherwise formally recognized, who cooperate to pursue or control resources." Verdery (1996:194) writes that "what defines unruly coalitions in contrast to political parties is that they are less institutionalized, less visible, less legitimate."

David Stark (1996) and Stark and Laszlo Bruszt (1998:142-153) write of *restructuring networks* that shape Hungarian privatization processes. He identifies the resulting property ownership in Hungary as neither private nor collective but "recombinant" property. Stark describes how Hungarian managers acquire shares in one another's companies; a pattern of institutional cross-ownership of companies is thus created. Only people with the right contacts have the inside information required to take part in such arrangements.

³ For further analysis of such relationships, see Wedel 1992, Introduction.

⁴ Polish sociologist Adam Podgorecki (1987) coined this term.

Janine Wedel (1992:13-14) discusses the Polish *srodowisko*, or social circle, as a unit that served—and to some degree still serves—to shape politics and business. The circle is dense and multiplex; its members operate in many arenas and have multiple functions vis-a-vis one another. Members of these publicly informal but internally rigorous elite circles worked together for years and developed intricate, efficient, and undeclared networks to get things done in the face of dangers and difficulties that cemented bonds. In the post-communist period, members of a few elite social circles have put their fingers into a multiplicity of pies—in politics, business, NGOs, foundations, and international organizations.⁵

Further east, Russian analysts detail the ‘clan’ system. A ‘clan’, as Russian social scientists and citizens use the term, is an informal group of elites whose members promote their mutual political, financial, and strategic interests. With expansive influence, members of clans are not typically bound by kinship ties, as in the classical anthropological definition, but rather connected by long-standing association and common experience. According to Russian sociologist Olga Kryshaovskaya (1997b):

A clan is based on informal relations between its members, and has no registered structure. Its members can be dispersed, but have their men everywhere. They are united by a community of views and loyalty to an idea or a leader...But the head of a clan cannot be pensioned off. He has his men everywhere, his influence is dispersed and not always noticeable. Today he can be in the spotlight, and tomorrow he can retreat into the shadow. He can become the country's top leader, but prefer to remain his grey cardinal. Unlike the leaders of other elite groups, he does not give his undivided attention to any one organisation.

The following common features of these informal groups and networks can be identified:

The clique: For many groups here specified, notably clans and social circles, the classic ‘clique,’⁶ as defined by Jeremy Boissevain (1974), identifies their basic features. A ‘clique’ is a core group of people who contact one another for many purposes. The clique is, of course, comprised of networks. But the clique is much more than a collection of networks. Networks that comprise the clique are ‘dense’ in that members of a person's network are in touch with one another independently of that person; each member of the clique is linked to every other member. Also, networks in the clique are ‘multiplex’ (rather than single-stranded) in that clique members are connected to one another for multiple purposes, often political, economic, and social. This feature of

⁵ The social circle served—and, to some degree, still serves—to organize Polish politics and business. For example, members of the various post-communist governments belong to previously existing and identifiable social circles. While leaders of the first post-communist government of Tadeusz Mazowiecki largely hail from a Krakow Catholic intelligentsia circle, those of the government of Jan Krzysztof Bielecki come from a Gdansk circle. See Wedel (1992) for indepth analysis of the social circle.

⁶ In the study of political anthropology, approaches within ‘action theory,’ which concentrates on face-to-face interactions within given socio-political contexts, have emphasized the importance of such informal groups as cliques.

operating in many arenas—not only political—shows that cliques cannot be reduced to interest groups, factions, or coalitions.

The clique is a strategic alliance that responds to changing circumstances and helps its members promote common interests through concentration of power and resources. The clique has both an objective existence, in that “it forms a cluster of persons all of whom are linked to each other,” and a subjective one, “for members as well as nonmembers are conscious of its common identity” (Boissevain 1974:-174). Although the ‘clique’ provides some basic parameters for understanding informal groups, it is somewhat generic and would probably characterize many informal groups worldwide. Analysts from Central and Eastern Europe and the former Soviet Union have identified the features of informal groups and networks much more precisely.

Institutional nomads: Polish sociologists Antoni Kaminski and Joanna Kurczewska coined the term ‘institutional nomads’ (1994:132-153) to mean members of social circles whose primary loyalty is to the circle rather than to the formal positions that members of the circle occupy. Circumstances demand that members be loyal to their circle but not necessarily to the institutions with which they are associated. Kaminski’s and Kurczewska’s ‘institutional nomads’ bears similarity to Kryshtanovskaya’s depiction of the Russian clan whose “members can be dispersed” and who “have their men everywhere” (ibid.).

In the case both of Polish ‘institutional nomads’ and Russian ‘clans,’ a civil servant (dependent on the tenure of a specific political leadership, if not actually brought in or bought by it) is typically more loyal to his or her clique than to some office or position. In both cases, resources and decision making in economic, political, and societal arenas tend to be concentrated in just a few hands.

Penetration of the state: The extent to which informal groups and networks penetrate, or ‘capture,’ the state is one of the most important issues facing the countries of Central and Eastern Europe and the former Soviet Union. Margaret Beare (1997:158) suggests that the ability of individuals and groups to corrupt depends on the extent to which they are integrated into “‘legitimate’ society.” She writes:

If they have secured positions of influence and power and therefore have entwined themselves into the power structure through either the economic sphere, political alignments, or the enforcement/criminal justice field, their activities are more easily defined as legitimate. With this integration comes invisibility in that decisions taken, policies passed and agreements signed are not defined as corruption but rather as ‘normal’ operations of business or enterprise.

Therefore, the greater the ability to corrupt, the greater the ability to remain invisible, or to be seen to be legitimate—unless the entire system is blatantly corrupt and has redefined payoffs and the like as publicly recognized business procedures. The problem arises that at the most sophisticated integrated level, the ability to corrupt enables one to control the definitions of what is or is not defined as corruption.

To what extent has power in Central and Eastern Europe and the former Soviet Union been yielded to private players who can control the definition of corruption? Under communism, the ability to access economic opportunities depended on political

connections. During the transitional years, informal groups could serve as crucial supports for, or obstacles to, the development of new institutions; they could help shape the very development of the state. Informal groups and networks in the region (including Romanian unruly coalitions, Hungarian restructuring networks, Polish social circles, and Russian clans), evolved, or continued to evolve, in a context in which the communist state's monopoly control over resources was crumbling or had collapsed, and opportunities for filling the void abounded. Although there was no longer monopoly control during the transitional years, the ability to access economic opportunities remained contingent on political connections, as shown by the operations of the groups and networks here described.

2 Dichotomies that distort

The specific ways in which conventional models of institutional change and state development do not apply to states in Central and Eastern Europe and the former Soviet Union is instructive. Many 'transition' studies and development projects in Central and Eastern Europe and the former Soviet Union have tended to assume that conventional models were universally applicable—even to societies with vastly different histories. Yet the conventional vocabularies from comparative politics, public administration and sociology are insufficient to probe changing state-private and political-administrative relations in complex administrative states. Conventional vocabularies often neglect the role of informal relationships, their historical foundations, and their ability to shape state and market institutions. Conventional models tend to conceptualize institutional change in terms of discontinuities,⁷ but informal systems resist accurate conceptualization as such. This is important, because reform programs often assume the efficacy of these categories.

The following four characteristics of the informal groups and networks here described challenge conventional models.

- i) *Informal groups and networks operate in the multiple arenas* of politics, economics, and law. They are not confined to any one arena, but traverse them. Such groups and networks are not 'castes' or 'classes,' nor can they be reduced to 'interest groups,' 'factions,' or 'coalitions'—as these terms are typically used in social science literature. The potential influence of a Russian clan, for example, is much more widespread and monopolistic than that of interest groups, factions, or coalitions. So it is misleading to assume that clans are just another form of those. Terms such as 'oligarchs'⁸ and 'financial-industrial

⁷ These tendencies derive from the classical social theories of the nineteenth century and from the structural-functionalist 'integration' models of sociological theory employed by many fields. These models reinforce this tradition of dichotomous thought through their assumption that effective institutionalization of a new system requires a tight and standardized mode of integration. (This perspective is informed by the work of Madeline Landau.)

⁸ Oligarchy, in its classic definition, means rule by a few, and often accumulation of wealth by a small group which could not maintain power without military and governmental support. See *Encyclopaedia of the Social Sciences*, Pp. 462-464.

groups' now employed to describe the structure of power and the wielders of influence in the region capture this quality of interdependence among arenas.

- ii) *Informal groups and networks work in and mediate different domains.* They both operate in and liaise between state and private domains, bureaucracy and private enterprise, legal and illegal, and central and peripheral levels. Formally, the members of a group may work in business or private organizations, but the group's strength and potential influence may derive in significant part from its ability to participate in the state sector and simultaneously access its advantages.⁹

Social scientists from the region have conceptualized the ways in which cliques operate in different domains. Kaminski's and Kurczewska's 'institutional nomads' and Kryshtanovskaya's 'clan' captures how members of cliques access resources in the different domains in which members are affiliated, their loyalty always to the clique. While informal groups and networks access the resources of the state through various members, their ability to traverse domains is essential to their influence.

Just as cliques operate in and traverse domains, so can officials of 'the state.' Alexei Yurchak (1998) describes a dual structure of state and private within a government agency in Russia. Russian entrepreneurs, he has observed, seek protection from state organizations whose officials call upon anti-crime measures available to them through law, as well as for protection by criminal affiliates and groups. The same officials will seek help both through legal means and by calling up criminal affiliates, as warranted in a given situation.

Because informal groups such as clans intersect the domains of state and private, bureaucratic and market, legal and illegal, and centralized and decentralized, the conventional vocabularies employed in a variety of fields tend to obfuscate and mislead when applied to Central and Eastern Europe and the former Soviet Union. The conceptualizing of institutional change in terms of such sharp polar opposites simply distorts our analysis.

The classic definition of corruption, "the abuse of public office for private gain" (PREM, The World Bank, 1997:8) reflects this dichotomous way of thinking and may warrant reconsideration. Ken Jowitt holds that "a major weakness of current approaches to corruption" is that they emphasize "the difference between public and private aspects of social organization" (1983:293). He (1983:293) further explains:

⁹ Albeit a somewhat different case from the informal groups and networks here discussed, the examination of patterns of household employment reveal a similar problem with the application of conventional categories of state versus private. Evidence suggests that households tend to pursue diversified strategies that blend state and private domains. A problematic application of Western models in the economic-social arena involves the assumption of two separate and distinct domains of activity and employment: state and private. Economists have begun to study the strategies of household units but these models tend to assume the existence of separate domains (see, e.g., Johnson, Kaufmann, and Ustenko 1995). Yet in reality, these domains may not be so easily separable. Household strategies and patterns defy the neat ideological categories of planned economy versus market and state versus private sector. (See Wedel 1996b.)

Reliance on this difference makes it impossible to specify the existence and meaning of corruption in settings where no public-private distinction exists institutionally. The definition of corruption offered here emphasizes the difference between general and particular interests in an organization or institution, with corruption referring to a situation in which organizational members confuse/equate their particular interests with the organization's general interests, and organization leaders fail in operationally establishing the difference between general and particular interests.

Jowitt (1983:275) redefines corruption as "An organization's loss of its specific competence through failure to identify a task and strategy that practically distinguish between rather than equate or confuse (particular) members with (general) organizational interests."

- iii) *The unit of decision making is often the clique.* Individuals appear to take the interests of their clique into account when making choices about how to respond to new opportunities. Operating as part of a strategic alliance enables members of the clique to survive and thrive in an environment of uncertainty and indeterminacy. This is a different unit of economic analysis than is usually considered. We tend to think of individuals as the primary unit to take advantage of economic opportunities. But in the environments in which these cliques operate, the unit of analysis of responses to economic incentives is not necessarily the individual; it is often the clique.
- iv) *Informal groups and networks can wield influence and control resources to the extent they do because of the contexts in which they operate.* To varying degrees, the rule of law is weakly established, and, in some countries of the former Soviet Union, large parts of the economy remain 'up for grabs'. Of course, opportunities differed during different phases of 'transition'. The aftermath of the fall of communism in particular was an "open historical situation"—a period of immense change in which structure is so in flux that it provides myriad possibilities as historian Karl Wittfogel (1981:8,15ff,437,447f) described it. Such open moments encourage a free-for-all in which many resources and opportunities can be divvied up. Those people who are most energetic, savvy, and able to take advantage of opportunities are the most successful.

3 The social organization of the state

The extent and the very *nature* of the penetration of the state by informal groups and networks is one of the most crucial issues of corruption and organized crime. The following questions are instructive: How are informal groups and states mutually responding, and what patterns of relationships are emerging between cliques and states in specific countries? To what extent is a society clique-based, and what is the nature of clique-state relationships? Have informal groups and networks *replaced* the former centralized state, or simply *penetrated* it to some degree? In what ways? To what extent do informal groups and networks merely use the state for their own purposes, and to what extent have they reorganized it?

The answers to those questions critically help to shape the capability (or lack thereof) of constructing centrist, nonaligned institutions and, ultimately, to build democracies. Two distinct patterns of clique-state relationships have been identified in Central and Eastern Europe and the former Soviet Union: the “partially appropriated state” and the “clan-state.”¹⁰

The first form of clique-state relations is the “partially appropriated state”, in which informal groups such as Polish social circles, Hungarian restructuring networks, and Romanian unruly coalitions take over from the state, or privatize, certain functions. Under the “partially appropriated state”, informal groups clearly work with relevant state authorities or what is left of them, but the group as such is not synonymous with the authorities. The partially appropriate state model is based largely on Polish material.

3.1 The Polish case

In Poland, state-private-relationships and ownership have taken on various forms, which the privatizations of the latter days of communism and early transition helped to mold. During those times, some Polish officials and managers took advantage of lucrative opportunities for deal-making based on insider information and contacts.

Under *nomenklatura*¹¹ privatization, for example, enterprise managers acquired enterprises or parts thereof as their own private property. In one version, company insiders procured shares of newly converted companies at firesale prices. In another variant, company insiders formed spin-off private companies, some with expatriate associates. These spin-off companies then made sweetheart deals with the old state enterprises and depleted their resources by leasing state machinery at bargain-basement prices. The new company owners served as intermediaries between the state and the private sector.¹²

State officials have used their positions to further private interests in a number of ways. Some high government officials set up consulting firms that did business with their own ministries. In one case, a deputy minister who was in charge of joint ventures also owned and operated a consulting firm that specialized in joint ventures. When, in 1990, Prime Minister Tadeusz Mazowiecki issued a decree forbidding members of his government from owning consulting firms, the deputy minister signed the firm over to his wife. Many of his colleagues employed similar subterfuges (Kaminski 1996). As Kaminski (1997:104) observes, “[a] distinctive mark of the post-Solidarity elite’s rule was considerable tolerance of conflicts of interest.”

¹⁰ These concepts, which were coined by Wedel, are elaborated in Wedel (2000).

¹¹ Under the system known as *nomenklatura*, responsible positions in all spheres of government had to be approved by the Communist Party, creating a tangle of loyalties and favoritisms that precluded broader political and social participation. The *nomenklatura* had the power to accept or veto candidates for any state job and asserted a final voice over responsible positions in all spheres, from police and army posts to factory management and school principalships on the basis of Party loyalty, not ability or qualifications.

¹² For further description of such arrangements, see, for example, Kaminski (1997:98-100), Meaney (1993), Staniskis (1991), and Levitas and Strzalkowski (1990).

Legal steps facilitated such conflicts. Since 1989, legislative initiatives have enabled the creation of corporate, profit-making bodies, that are formally nongovernmental but that “involve the resources of the state” and that “rely on the coercive powers of the state administration.” These bodies make it legally possible for private groups and institutions to appropriate public resources to themselves “through the spread of political corruption,” as Kaminski (1996:4) has called it. He (1997:100) elaborates:

One way of obliterating the distinction between public and private consists in the creation of autonomous institutions, ‘foundations’ or ‘agencies’ of unclear status, with broad prerogatives supported by administrative sanctions, and limited public accountability. The real aim of these institutions is to transfer public means to private individuals or organisations or to create funds within the public sector which can then be intercepted by the initiating parties.

The system of *agencje* (agencies) is a prime example. *Agencje* have been created in all ministries that have control over property, including the ministries of transportation, economy, agriculture, treasury, and defense, according to Piotr Kownacki, Deputy Director of NIK (Supreme Chamber of Control), Poland’s chief auditing body.¹³ Formally nongovernmental organizations, *agencje* are set up by state officials, attached to their ministries or state organizations, and funded by the state budget. The minister typically appoints an *agencja*’s supervisory board; his selections are often based on political connections, according to legal analyst Jan Stefanowicz. Some 10 to 15 percent of an *agencja*’s profits can be allocated to ‘social’ purposes: If the *agencja* accrues profits, those profits go to the board, sometimes being funneled into political campaigns. On the other hand, any losses are covered by the state budget.¹⁴

These entities are enshrouded in ambiguity. They are part and parcel of the “privatization of the functions of the state,” as Kownacki puts it, and they represent “areas of the state in which the state is responsible but has no control.”¹⁵ The entities’ “undefined functions and responsibilities” are a defining characteristic, as Kaminski (1997:100) explains:

From the government's point of view, [these entities] have the legal status of private bodies, whereas from the point of view of the collectives controlled by these bodies, these are public institutions.

It is precisely such ability to equivocate that may afford these entities their strength and may in part explain the potential influence and resilience of the state-private relationships they embody. The partially appropriated state model (as well as the “clan-state” model to follow) involves individuals, groups, and institutions whose status is difficult to establish.

¹³ Interview with Piotr Kownacki, Deputy Director of NIK, July 26, 1999.

¹⁴ Interviews with Jan Stefanowicz, July 14 and 15, 1999.

¹⁵ Interview with Piotr Kownacki, Deputy Director of NIK, July 26, 1999.

These relationships are unlikely to vanish; on the contrary, they appear to be institutionalized. And, as Stefanowicz observes, “There is a silent truth between political parties. No financial report has ever disclosed how much political support is allocated to political campaigns [through *agencje* and similar entities].”¹⁶

Some 30 percent of the economy lies somewhere between the private and the state sector, according to Stefanowicz.¹⁷ The net effect of such state-private relationships may be the enlargement of the state sphere. Kaminski (1996:4) argues that post-communist legislative initiatives have facilitated “an indirect enlargement of the dominion of the ‘state’ through founding of institutions that in appearance are private, but in fact are part of the [appropriated] public domain.”

The second form of clique-state relations is the “clan-state”, a state captured by unauthorized groups and characterized by private property and pervasive corruption. The notion of the “clan-state” builds on Thomas Graham's (1995, 1996) observation of Russian clans whose influence can be countered only by competitor clans. In such a state, which incorporates elements of the partially appropriated state, individual clans, each of which controls property and resources, are so closely identified with particular ministries or institutional segments of government that the respective agendas of the state and the clan become indistinguishable.

Under the clan-state, the clan uses state resources and authorities (to the extent they can be separately defined in a given instance) but also keeps state authorities far enough away so that they cannot interfere with the clan's acquisition and allocation of resources, but close enough to insure that no rivals can draw on the resources. This enables the clan to bypass other sources of authority and influence, and thereby to enhance its own.

The clan-state operates in a context where there is little separation of the clan from the state. The clan and the relevant state authorities comprise the same people with the same agenda. The clan is at once the judge, the legislature, and the executive. The system is weak in constitutional terms and lacks outside accountability, visibility, and means of representation for those under its control. Generally, a clan's influence can be checked or constrained only by a rival clan, as judicial processes are frequently politically motivated.

3.2 The Russian case

Even more than in Poland, the privatizations of the latter days of communism and the subsequent years of reform shaped ownership structures and state-private relationships in Russia. Kryshtanovskaya and White speak of the “privatization of the state,” in which officials, using their formal authority, privatize sectors of the state for which they are responsible. They write (1996:720):

Such a process began in 1987 and had largely concluded by the time a privatisation programme for the population at large was ready to be

¹⁶ Interviews with Jan Stefanowicz, July 14 and 15, 1999.

¹⁷ Interviews with Jan Stefanowicz, July 14 and 15, 1999.

launched. This kind of privatisation included wholesale changes in the system of economic management, banking and retail sale, and the sale of the most profitable enterprises. Ministries, for instance, were turned into concerns. The minister typically retired, or became a consultant to the concern that had succeeded the ministry. The president of the concern, as a rule, was a former deputy minister. The concern acquired the status of joint stock company. The shareholders were typically the most senior management of the former ministry, together with the enterprises for which it had been responsible. The ministry's property, in this way, became the private property of its leading officials; and they themselves did not simply privatise the organisation for which they were responsible, but did so for their own benefit.

The "close intertwining of power and property," as Graham (1999:326) puts it, captures the essence of Russian groups known as 'clans,' 'oligarchies,' and 'financial-industrial groups' (FIGs), and indeed, the clan-state. Their development is a consequence both of Soviet institutional legacies as well of the reforms of the 1990s. Juliet Johnson (1997:360) explains:

The traditional close ties between enterprises and the state, the penchant for creating giant economic concerns, the insider-dominated transactions, the bureaucratized corruption, and the importance of accumulating political power in order to wield economic clout all had their roots in Soviet times. These tendencies were exacerbated by Russia's transitional conditions, which allowed well-placed individuals to concentrate assets in their own hands in an atmosphere of uncertain property rights, an under-developed legal system, and poor investment conditions. This combination of factors led both influential bankers and investment-hungry enterprises to run not to each other but to the Russian state in order to meet their respective needs.

The transitional years saw economic crises characterized by monopolies, uncertain property rights, and, as Svetlana Glinkina (1998a:18) writes, "most notably, rent-seeking, in which wealth is sought not through profits from market competition with other firms but through access to government subsidies and granting of monopoly status." Glinkina (1998a:19-20) elaborates:

What took place was the privatization of economic power without any public oversight or legal foundation. In addition, the character of the process was heavily influenced by the traditions established by command-system behavior. The shadow market took over not only all monetary resources but also the right to administer, organize and control the posts of government officials of varying rank.

Transfers from the state budget were quickly "privatized." Access to the budget of the Russian Federation became the main goal of any minimally serious commercial structure. This in turn served as a foundation for skyrocketing growth in the country's level of corruption and for the criminalization of the economy in general. An audit conducted by the State Accounting Chamber [Russia's chief auditing body] revealed that in 1995, income to Federal Targeted Budget Funds (whose sources and spending aims are regulated by law) as reported by the Finance Ministry has been under-reported

by almost 1.2 trillion rubles, and income from sales of state reserves of precious metals and gems was under-reported by 875,603 billion rubles.

Underpinning losses to the state budget and other such activities are *people* and *groups* known as ‘oligarchies’ and ‘clans.’ Borne of the intertwining of the economic and political arenas, the oligarchies of the 1990s include alignments of former *nomenklatura*, officers of the military and KGB, and organized crime groups.¹⁸ By 1995, four political-economic coalitions had crystallized as the main political players on the national scene (Graham 1999:329).¹⁹

Clans constitute some of the building blocks of these oligarchic structures. As mentioned earlier, Russian sociologist Kryshtanovskaya (1997b) has elaborated the workings of clans—informal groups of elites whose members promote their mutual political, financial, and strategic interests.²⁰ The case of the ‘Chubais Clan’, which became one of Russia's most powerful clans during the 1990s and which Wedel (1996a:571-602, 1998:120-163, 1999:469-500) has documented, is instructive. The Chubais Clan traces its roots to the mid 1980s to Leningrad (now St Petersburg). The chief figure in the group is Anatoly Chubais, who, underwritten by the West, led economic reform and privatization efforts and wielded tremendous influence (both in and out of government) from 1992 to the present.

During the years of economic reform, roughly 1992 to 1997, the Chubais Clan acquired a broad portfolio and often operated through presidential decree. The Clan spanned the domains of state and private structures and institutions, and bureaucracy and private enterprise. It operated in multiple arenas of government, law, economy, and reform (including privatization, private sector development, and capital markets) and also competed for control and resources in the political arena.²¹

Oligarchies and clans find their financial bases in FIGs, which have come to control a huge portion of Russia’s economy as well as most key national media. FIGs consist of two types, bank-led and industry-led, both of which combine private banks with industrial enterprises. Oligarch Boris Berezovsky has stated that six of the seven FIGs control more than half of the nation’s economy (Johnson 1997:333). That estimate is likely exaggerated, although the economic power of FIGs is hardly in doubt (Johnson 1997:333). One FIG, ONEKSIM-bank’s Interros group, is believed to hold significant shares in seven of the country’s twenty largest companies, including oil concerns and producers of nonferrous and ferrous metals, which constitute more than half of the country’s industrial production (Johnson 1997:345).

¹⁸ For example, see Palmer (1997:8).

¹⁹ For an excellent analysis of the “reform” decisions that gave rise to the development of the oligarchies, see Matt Bivens and Jonas Bernstein (1998: 617-619 “Spinning Government Connections into Gold”).

²⁰ For an analysis of the development of the clan system, see Coulloudon (1997:537-544).

²¹ As Kryshtanovskaya (1997b) writes, “Gradually, his [Chubais's] men started controlling not just privatisation, but also the anti-trust policy, the bankruptcy mechanism, taxes, relations with regions (including the organisa-tion of the gubernatorial elections) and what was called ‘the propaganda work’ in Soviet times.”

Indeed, the economic power of FIGs is highly contingent on political power. Johnson (1997:348) explains: “Since 1993, the political power of the bank-led FIGs, driven by their status as economic heavyweights, has come from three major sources: their acquisitions in the Russian media; their activity in campaign finance, and the revolving door between executive positions in the banks and government.” The political and economic arenas are so interdependent that, as Coulloudon (1997:75) expresses, “the distinction between lobbying and corruption has disappeared.”

So, too, has any clarity about state-private relations. The ambiguity that characterizes the informal institutions and groups of the partially appropriated Polish state similarly applies to the oligarchies, clans, and FIGs of the Russian clan-state.

Under such circumstances, links between oligarchs and organized crime groups or figures are not surprising. Kryshtanovskaya (1997a:15) holds that “Corruption in Russia has now extended into literally all institutions of power. Persons bought off include government officials whose legal jurisdiction covers issuing permits for the export of oil, metals, and the like. The aluminum and oil scandals are cases in point.”

Glinkina has attempted to quantify the extent to which crime is integrated into the economic organizations of government. She (1998b:49) writes that some 87 percent of staff and management of the various government departments fighting organized crime reported that organized crime groups have “very close links” with institutions of power and especially local government. Some 64 percent of these officials assumed that those groups are also connected with law enforcement; 31 percent indicated a connection with the highest public administration.

Such “symbiotic relationships” between organized crime and governments at all levels, as Louise Shelley (1994:343) puts it, are not easy to break. “As the Italian experience has shown,” she (1994:343) explains, “once organized crime becomes so intertwined with all levels of government, the relationship cannot easily or rapidly be reversed.”

The question of the extent to which informal groups provide services to citizens and thereby fulfill state functions inevitably arises. Shelley (1995:834) contends that:

Organized crime has supplanted many of the functions of the state....Organized crime provides many of the services that the collapsed social welfare state can no longer provide. Citizens receive services from organized crime that were once furnished by the state-protection of commercial businesses, including employment for citizens and mediation in disputes. Private security, often run by organized crime, is replacing state law enforcement.

3.3 The Ukrainian case

Ukraine’s structure of clique-state relations appears to bear similarity to that of Russia’s. The Soviet-era roots of these relations are, of course, the same. As Anderson and Albin (1999:282) write:

The ‘new oligarchy’ was borne out of the network of government *nomenklatura*, organized criminals, and the KGB’s successor who

cemented their ties in a massive effort to transfer state resources to themselves and their private interests (and ensure their control over them) as the Soviet Union crumbled...In Ukraine (as in Russia), the 'new oligarchy' firmly controls the country's economic and political systems.

Although very little data on Ukrainian informal groups and networks are available, several Ukrainian analysts have outlined the clan system. These analysts' descriptions of the various clans, whose members have worked together, have common backgrounds, and, crucially, share resources and power, bear similarity to those of Russian clans.²² In the Ukrainian case, clans are often regionally and even family based. Oleg Soskin contends that competition for the economy spurred "dynamic competition" among regional clans and crystalized the clan system by 1996.²³

Soskin refers to a "totalitarian clan" system, in which "power belongs to several clans, which can alternate at power by nominating their totalitarian dictator."²⁴ Writing about the economic power and interests of clans, Oleksandr Turchynov (1996) divides clans into "central administrative-economic groups," "regional administrative-economic groups," and "foreign administrative-economic groups". Some of these groups operate in or are connected to the criminal world. All are intimately linked to and dependent upon political power.²⁵ Soskin discusses "regional clans as the major factor of the state-monopoly pattern"²⁶ and maintains that "clans determine most of the money flow in Ukraine."²⁷

Is the net effect of such state-private relationships the expansion of the state sphere, as in the Polish "partially appropriated state"? As in the partially appropriated state, it appears that the clan-state may enlarge the dominion of the state through the proliferation of institutions that are part of the appropriated public domain.

3.4 Essential difference between the partially appropriated state and the clan-state

Under the "partially appropriated state" model discussed earlier, cliques use state actors, who are corruptible and 'bought'. For example, cliques in Poland may use or help to place non-clique members in Parliament. However, in Russia, under the "clan-state" model, clan members actually occupy positions in the executive branch as a clan and are

²² Interviews with Oleg Soskin (July 9, 1999) and Oleksandr Turchynov (July 9, 1999).

²³ Interview with Oleg Soskin, July 9, 1999.

²⁴ Undated article, "Political System and Institutional Changes in Ukraine: Interrelation and Dependence," given by its author, Oleg Soskin, Director of the Institute of Society Transformation, to author.

²⁵ Interview with Oleksandr Turchynov (July 9, 1999) and Turchynov (1996).

²⁶ Undated article, "What Socio-economic Model Does Ukraine Choose? On a Difficult Way to the Status of the Central European Country," given by its author, Oleg Soskin, to author.

²⁷ Interview with Oleg Soskin, July 9, 1999.

themselves ‘bought’. Because, under the latter, there is so little separation between the clan and the state, the “clan-state” allows for maximum deniability. If the state is criticized, activities can be attributed to the clan. If the clan is criticized, activities can be attributed to the state. This setup institutionalizes deniability.

3.5 Common features of the partially appropriated state and the clan-state.

- i) Both the partially appropriated state and the clan-state imply a fragmented state. Verdery describes a state in which “the center has lost control over political and economic processes, and the structures of domination are segmented.” Some analysts, with a Weberian state model of rational bureaucracy in mind, have characterized this as a weak or ‘failed’ state. However, such categorizations leave little room for analysis of the processes and dynamic relations shaping the state. For example, under the Russian clan-state, ministries—indeed, entire segments of government—are controlled by powerful clans, some of which have appropriated billions of dollars in assets to their own private (typically foreign) bank accounts. The parts of the state that are empowered by the clan can hardly be characterized as ‘weak’.
- ii) Institutional nomadism, as defined earlier, characterizes both models.
- iii) Ambiguous status of entities, institutions, and informal groups situated somewhere between state and private domains,²⁸ as discussed earlier, is a feature of both models. The domain of activity of these entities, institutions, and groups is neither fixedly public nor private, neither firmly political nor economic; their activities are neither fully open nor completely hidden and conspiratorial. This malleability affords them considerable flexibility and maneuverability and also the opportunity to reduce accountability to bodies, procedures, and structures.
- iv) Economic opportunities remain contingent on political connections as in the previous communist system. Under communism, bureaucrats and Party apparatchiks had long-term understandings with one another in which favors were exchanged. But even their advantages rarely could be pooled. Understandings had to be reached one at a time and face to face, not with wholesale efficiency.²⁹ In similar fashion, under both the partially appropriated state and the clan-state, it remains difficult to compound advantages: The most enterprising person can make deals, albeit only similar deals over and over again without entering into additional negotiation.

Although economic opportunities continue to depend on connections in the state economy and bureaucracy, two major differences characterize the current system. First, no single group allocates resources (as under communism), although a single group can monopolize an entire sector or sectors (e.g., Russian aluminum, gas, etc.). Second, the relationship of power to property is

²⁸ Patricia Rawlinson (1996:28) discusses the “Chameleon Syndrome”—“the ability of organized crime, through its interaction with the legitimate structures, to merge with and eventually play a proactive role in the Russian state.”

²⁹ For further analysis, see Wedel (1992: Introduction).

no longer one way. As Graham (1999:329) expresses it, “Not only can power be converted into property; property can be converted into power.”

- v) The state-private entities and arrangements common to both the partially appropriated state and the clan-state appear to expand the dominion of the state.

Conclusions

The partially appropriated state and the clan-state fall along a continuum—from some appropriation of the state by private actors to a considerable degree of appropriation. The partially appropriated state and the clan-state share a number of features: both imply a fragmented state privatized to some extent by “institutional nomads” whose economic opportunities remain contingent on political connections. Both models are characterized by ambiguous entities, institutions, and informal groups situated somewhere between state and private domains. The state-private entities common to both models appear to expand the dominion of the state.

The major difference between the partially appropriated state and the clan-state is that, under the former, cliques use state actors, who have been corrupted, or ‘bought.’ The clan-state model goes much further along the same continuum: actors actually occupy state positions as a clan and are themselves ‘bought’. Because the clan-state is characterized by very little separation between the clan and the state, actors are afforded maximum deniability. If the state is criticized, clan members’ activities can be attributed to the state; if the clan is criticized, their activities can be blamed on the state.

A number of issues are pertinent in examining the ways in which relations between states and cliques will evolve in Central and Eastern Europe and the former Soviet Union. These include: the extent to which independently sustainable institutions can be built; the degree to which state authorities are able to remain separate from the agendas of the clique; the capacity of the state to create, not just to divest resources; the access of citizens to the state; the extent to which the public at large can demand accountability; and the opportunities and constraints under which specific groups at specific times are operating.

Clearly, the relations that are emerging between states on the one hand, and cliques on the other, have enormous implications for the future shape of states, politics, economics, and societies in Central and Eastern Europe and the former Soviet Union. Indeed, lack of understanding of the role of informal groups and networks in change processes has far-reaching ramifications. The analysis of informal groups and networks and their links to state and market institutions can inform a wide variety of processes, from those of money laundering and drug dealing, to those organizing political parties or privatization. In the absence of such understanding, attempts to change many economic, financial, investment, and political processes are unlikely to have the intended effects.

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