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Author(s): JANINE R. WEDEL

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JANINE R. WEDEL
George Mason University

Dirty Togetherness: Institutional Nomads, Networks, and the State-Private Interface in Central and Eastern Europe and the Former Soviet Union*¹

Abstract: The global vernacular of “civil society,” “NGOs,” “deregulation,” and “privatization” often obscures the fact that there has been little in-depth research into organizational patterns of existing state-private relationships so integral to governance and society. Conventional vocabularies of state development and institutional change may be inadequate to probe changing state-private and political administrative relationships in any complex administrative state—let alone in states transitioning away from central planning. To compensate for this deficiency, ethnographers studying Central and Eastern Europe and the former Soviet Union have invented terms such as “institutional nomads” and “clan-states” to capture the role of informal systems in shaping state and market institutions. Two types of states—the partially appropriated state and the clan-state—distinguished by different degrees and character of penetration by informal groups and networks, are identified in the region. These findings present a challenge to the concepts of corruption and “captured states.”

Keywords: Social Networks, Social Organization, State, State Development, State-Private Interface, Corruption, Clans, Institutional Change

The past two decades have spawned a global vernacular of such terms as “civil society,” “NGOs,” “deregulation,” and “privatization.” Worldwide use of the terms, bolstered by the discourse of globalization, often obscures the fact that there has been little in-depth research into organizational patterns of existing state-private² relationships so integral to governance and society. In particular, the role of informal structures in shaping overall systems has been undervalued and sometimes even overlooked. In general, social networks, mediation, informal systems of communication and resource

Author's Address: School of Public Policy, George Mason University; 3401 North Fairfax Drive, MS 3B1 Arlington, Va, USA; e-mail: jwedel@gmu.edu

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² Although this paper juxtaposes “state” and “private,” how these terms are used and the relationships among them are key questions for empirical and theoretical study. (For an analysis of alternative historic views of relationships among public, private, state, and market, see Weintraub 1997.)

exchange have been poorly studied in all kinds of states—capitalist, communist, and developing.

Yet these informal dimensions are critical to economic and political development, particularly in newly forming governmental, electoral, financial, and commercial structures. A focus on informal systems takes as a given that established social relationships (such as networks and groups), especially informal ones, often crucially *support* the development of formal institutions and reform. 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.³ The strength of informal systems lies in their ability to circumvent, connect, override, and otherwise reorganize political and economic institutions and authorities.

The way in which “transition” in Central and Eastern Europe and the former Soviet Union generally has been studied is consistent with the focus on formal institutions. Yet informal systems should be of special interest to analysts of post-communist countries, given the central role of the communist state and the informal systems that developed in conjunction with it. As the command structures of the state broke down, informal groups and networks were positioned to step into the vacated space.

Informal groups and networks in the region developed in the context both of communism and of, by now, a decade or more of reform. The circumstances of both communism and reform mobilized informal groups and networks, which sometimes served as powerful agents reorganizing state and market institutions. Some anthropologists and sociologists who set out to chart the relationships underpinning institutional change have invented new terms to capture the complex interactions, embracing formal and informal, new and old, that make up the rich mix of organizational forms pervading and molding state and market institutions.

Informal systems 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; structures of influence and governance; and perhaps the very nature of the state. Some analysts (for example, Sik and Wellman 1999) contend that “network capital” played an even greater role in the 1990s than during the previous period. My goal here is to highlight some key drivers of development and institutional change in the region. The paper will (1) present ethnographic material examining the roles of informal groups and networks; (2) discuss common properties of informal systems and consider the suitability

³ Standard vocabularies, and the theories behind them, 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 imply complex combinations of the traditional and the new, and anthropology has responded by seeking to develop appropriately complex tools. (This perspective is informed by the work of Madeline Landau.)

of conventional models to explain them; and (3) analyze some prevailing patterns of interconnectedness between state and private spheres under communism and post-communism, assessing the applicability of the concepts of corruption and “captured states.”

Dirty Togetherness⁴

Through its exercise of monopolistic economic, political, and legal control the state has played a crucial role in the evolution of informal groups and networks and of their influence over state and market institutions, both under communism and the reforms of post-communism. Under communism, the key to state power was its expansionist bureaucracy that monopolized the allocation of resources. Economic decisions were made in the political domain, and control over resources ensured state power. Demand always outpaced supply, creating economies of shortage, as Janos Kornai (1980) has detailed.

Individuals, groups, and even state institutions responded by using informal social networks to circumvent shortages, bureaucracy, and the constraints of central planning. This entailed activating existing networks or creating new ones by personalizing relationships (for example, Wedel 1986: 50–51). Informal networks connected individuals and groups to the state economy and bureaucracy and pervaded those institutions; such networks became an integral part of the workings of formal structures (for example, Kawalec 1992: 136–137 and Fairbanks 1999: 48).

Over time, such networks altered the effects of many state distribution and bureaucratic procedures in Central and Eastern Europe, as documented by anthropologists and sociologists (for example, Hann 1980 and 1985, Kideckel 1982 and 1993, Kurczewski 1985, Sampson 1986, and Wedel 1986 and 1992). Further east, patronage networks virtually ran various regions of the Soviet Union (for example, Ledeneva 1998 and Willerton 1992). Although not explicitly institutionalized, these relationships were regularized and exhibited clear patterns.⁵

Skirting the system became a way of life with its own language, impulses of discretion, and habits of secrecy. Nearly everyone engaged in what Westerners might consider corruption, such as under-the-table deals and payments, simply to survive or to have a somewhat better life. “Dirty togetherness,” Adam Podgórecki’s (1987) reference to cliquishness and close-knit networks in the context of scarcity and distrust of the state, was endemic to the communist system.

Underneath the facade of innocuous everyday routine, nearly everyone was vulnerable and therefore potentially guilty. As in economic decisions, legal decisions were under the sole control of communist authorities. Without firm standards independent of politics, law often was applied arbitrarily. The identity of an alleged perpetrator frequently determined the definition and severity of a crime. As a popu-

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

⁵ For further analysis of such relationships, see Wedel 1992: Introduction.

lar saying in People's Poland went, "Give me the person, and I'll find the law [that he broke]" (Morzoł and Ogórek 1992: 62).

In a system in which dirty togetherness was a part of daily life, people developed ethical systems in which what was regarded as moral often diverged greatly from the law (for example, Wedel 1986: 61 and Humphrey 1999: 199). Given state control over the economy and ownership of production and property, such a discrepancy was especially evident in economic transactions. In Polish factories of the 1980s, workers made ethical distinctions between "lifting" factory goods ("belonging to everyone and no one") for their own personal use on the one hand and "stealing" on the other. It was "stealing" and morally wrong for a worker to take from his fellow worker any goods that the latter had set aside for personal use (Firlit and Chłopecki 1992).

The development of such informal practices and relationships was a response to interlocking economic, political, and legal domains under the monopolistic control of the state. Informal relationships and practices penetrated and stood apart from the state while, at the same time, being circumscribed by it.

Dirty Togetherness II

What happened to these informal systems in 1989, when the communist governments of Central and Eastern Europe collapsed, and in 1991 when the Soviet Union broke apart? 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 Karl Wittfogel (1981: 8, 15ff, 437, 447f) has described it. During such precarious moments, old systems of social relationships, such as the informal groups and networks that functioned under communism and helped to ensure stability, could become crucial instruments of change.

In the legal, administrative, political, and economic opening moments that followed the collapse of communist governments, many informal groups and networks were empowered by the erosion of the centralized state and enticed by new opportunities for wielding influence and making money. They stepped in to fill the vacuum and helped to shape the new orders that emerged. The people who were the most energetic, savvy, and well-positioned to take advantage of opportunities were the most successful. Dirty togetherness thrived.

Far from disappearing, informal systems played a pivotal role in many reform processes of the 1990s. From privatization and economic restructuring to public administration and the development of "civil society" and NGOs, informal systems became integrated with the reforms themselves and helped form their development. By providing opportunities for insiders to acquire sizable resources, some "reforms" fostered the proliferation and entrenchment of informal groups and networks, including those linked to organized crime.

For example, in Russia there was mass *grabitization* of state-owned enterprises, as many Russians came to call the privatization that was linked to organized crime (for example, Wedel 2001: 138–142). The "reforms" were more about wealth confiscation

than wealth creation; the incentive system encouraged looting, asset stripping, and capital flight (for example, Nelson and Kuzes 1994 and 1995, Bivens and Bernstein 1998, Hedlund 1999, Klebnikov 2000). E. Wayne Merry, former chief political analyst at the U.S. Embassy in Moscow, observed “We created a virtual open shop for thievery at a national level and for capital flight in terms of hundreds of billions of dollars, and the raping of natural resources...”⁶ Billionaire oligarchs were created virtually overnight.

Across Central and Eastern Europe and the former Soviet Union, groups that originally coalesced under communism (including *nomenklatura*) have played a major role in shaping property relations and politics in the post-communist period. In Romania, certain elites—largely former Communist Party apparatus—worked together to control resources. These *unruly coalitions*, as Katherine Verdery (1996: 193) calls them, are “loose clusterings of elites, neither institutionalized nor otherwise formally recognized.” Unruly coalitions, Verdery writes, are “less institutionalized, less visible, less legitimate” than political parties (1996: 194).

In Hungary, it restructuring networks shaped privatization processes. David Stark (1996; Stark and Bruszt 1998: 142-153) identifies the resulting property forms as neither private nor collective, but as “recombinant” property. Stark describes how Hungarian firms developed institutional cross ownership, with managers of several firms acquiring interests in one another’s companies. Only people with extensive inside information have the knowledge necessary to participate in such deals.

In Poland, the *it środowisko*, or social circle, a reference group of actual and potential friends and acquaintances (brought together by family background, common experience, and/or formal organization, Wedel 1992: 13–14), played a significant role in organizing Polish politics and business well into the post-communist 1990s.⁷ More specifically, “institutional nomads,” a term coined by Antoni Kamiński and Joanna Kurczewska (1994: 132–153), are members of a social circle who have come together to achieve concrete goals. They do so by putting their fingers into a multiplicity of pies—government, politics, business, foundations, and nongovernmental and international organizations—and pooling their resources to best serve the interests of the group. Institutional nomads owe their primary loyalty to their fellow nomads, rather than to the formal positions that they occupy or the institutions with which they are associated.

Grażyna Skąpska stresses that vested interests are at stake in the circulation of nomads among institutions and that mutual loyalties are rooted in their “organizational... access to big money.” The concept of dirty togetherness, she observes, is fitting here because people involved in deals know something “dirty” about members of their group and can blackmail one another. Thus, whether they come from former

⁶ *Frontline* “Return of the Czar” interview with E. Wayne Merry, May 9, 2000. Available at PBS web site www.pbs.org/wgbh/pages/frontline/shows/yeltsin/interviews/merry.html.

⁷ Many members of the first post-communist governments belonged to previously existing and identifiable social circles. For example, while leaders of the first post-communist government of Tadeusz Mazowiecki largely hailed from a Kraków Catholic intelligentsia circle, those of the subsequent government of Jan Krzysztof Bielecki came from a Gdańsk circle. See Wedel (1992: 1–20) for an in-depth analysis of the social circle.

Opposition or Communist Party milieu, and whether they were workers or directors, “members will-nilly must stay loyal and collaborate.”⁸

Further east, in Russia and Ukraine, analysts have charted the system of *clans*. In these contexts, clans are grounded in long-standing association and incentives to act together, not in kinship or genealogical units as in the classic anthropological definition. A clan, as Russian social scientists and journalists use the term, is an informal group of elites whose members promote their mutual political, financial, and strategic interests. As Olga Kryshstanovskaya (1997) has explained it:

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.

Elsewhere in the former Soviet Union, Caroline Humphrey (1991: 8) writes of “organizations and enterprises in the [former Soviet] regions, run in a personal way almost as ‘suzerainties’ by local bosses.” Nora Dudwick (1997: 89–90) describes what Armenians call “mafias” as “clusters of relationships based on networks of relatives, friends, colleagues, acquaintances, and neighbors, hierarchically bound together through the ongoing exchange of favors and obligations.” Hilda Eitzen (1997: 8) suggests that although local Kazakh *zhuz* (clans) “can provide a balance of power to an authoritarian center, they can also increase the possibilities for rent-seeking behavior [in which profits are sought through government subsidies and favors, rather than through market competition] and corruption on many different levels.” Kathleen Collins (1999) discusses how clan networks interact with the state in Kyrgyzstan, Uzbekistan, and Tajikistan.

Why “Institutional Nomads”?

It is not accidental that much of the ethnographic material here presented employs terms invented by the researchers themselves (for example, “institutional nomads,” “unruly coalitions,” “restructuring networks” and “clan-state”). This suggests that conventional vocabularies of state development and institutional change are inadequate. The ways in which the vocabularies do *not* apply to states in Central and Eastern Europe and the former Soviet Union may be instructive.

Underlying many “transition” studies and development projects, as well as the West’s export to Central and Eastern Europe and the former Soviet Union of anti-corruption and rule-of-law programs, are conventional models that inform public administration, comparative political science, sociology, popular discourse, and policymaking.⁹ These models or vocabularies tend to conceptualize institutional

⁸ Personal communication with Grażyna Skąpska, October 14, 2002.

⁹ For a thorough discussion of the public-private dichotomy, see Weintraub (1997).

change in terms of discontinuities,¹⁰ but informal systems resist accurate conceptualization as such. The vocabularies may be insufficient to probe changing state-private and political-administrative relations in any complex administrative state—let alone in states transitioning away from central planning.

Three properties common to the informal groups and networks of the post-communist region demonstrate incongruity with conventional models. The first property of these informal systems is that *the unit of decision making is the informal group*. As Westerners look to those capitalizing post-communist nations there is a tendency to overemphasize the role of individuals without a sense that individuals are acting as part of a group whose members' agendas and activities are interdependent. Yet in the contexts of uncertainty and weakly established rule of law, individuals must take the interests of their groups into account when making choices about how to respond to new opportunities. Operating as part of a strategic alliance that pools its resources enables members of the group to survive and thrive in an environment of uncertainty and indeterminacy. Because economists tend to think of the individual, rather than a network or group, as the primary unit to take advantage of economic opportunities, outside analysts tend to blame individuals rather than groups for violating Western institutional boundaries.

Social-political analysts from the post-communist region stress that individuals are anchored primarily in the group rather than in any institution with which they are formally associated. Kamiński's and Kurczewska's (1994) *institutional nomads* and Kryshtanovskaya's (1997) *clan* capture how members of informal groups acquire resources in multiple spheres (for example, of state and private) and domains (of politics, economics, and law) with which members are affiliated, their loyalty being always to the group.

In operating in varied spheres and domains, informal groups often reveal—or leave traces that reveal—the group's relationship to the institutional world. Kamiński's and Kurczewska's institutional nomads bear similarity to Kryshtanovskaya's depiction of the Russian clan whose “members can be dispersed” and who “have their men everywhere.” Informal groups and networks have access to state resources through their variously-placed members, and they maximize their flexibility and influence precisely by blending and traversing multiple spheres and domains.

With regard to both 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 off by it) is typically more loyal to his or her group than to an office or position. In both cases, resources and decisionmaking in economic, political, and societal domains tend to be concentrated in a few individuals.

¹⁰ These tendencies derive from the classical social theories of the 19th 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.)

The Situational State

The second property of informal systems is that *informal groups and networks mediate between, blur, and organize the interdependency of the different spheres*—state and private, bureaucracy and market, legal and illegal—boundaries that infuse rhetoric and are widely accepted in the Western practice of public policy and administration. In post-communist societies, much political-economic influence has accrued to those who skillfully blend, equivocate, mediate, and otherwise work these spheres. The group's strength derives in significant part from its ability to access the resources and advantages in one sphere for use in another."¹¹ Indeed, political-economic influence has resided precisely in the "control of the interface between public and private," as Helen Sutch put it.¹² So many outcomes, such as the distribution and ownership of resources, have been shaped by struggles at the state-private nexus.

Public and Private *State Spheres*:

Some ethnographers have pointed to a situational quality of the state itself, in which spheres within and around the state are flexible and fluid. They are situationally and even fleetingly activated, deactivated, and otherwise molded by actors operating under various configurations of state and private rubrics who employ state-ness and private-ness strategically to achieve individual, group, and even official goals.

Alexei Yurchak (1998, 2002) analyzes how the Russian state adapted to new circumstances when the Soviet Union fell apart. He charts two separate spheres *within* the Russian state—the "officialized-public" and the "personalized-public." He argues that it was principally the officialized-public sphere, with its institutions, laws, and ideologies, that succumbed to crisis. Yurchak (2002: 311) observes:

the personalized-public sphere expanded into new areas of everyday life, and many of its relations and understandings became even more important....the state's personalized-public sphere did not collapse but rather re-adapted to the new situation.

Yurchak's "officialized-public" and "personalized-public" spheres within the state represent different types of practices that coexist and can overlap in the same context. Russian entrepreneurs, he notes, seek protection from state organizations—ranging from tax police and inspectors to bureaus for monitoring organized crime. To aid these entrepreneurs state officials call upon anticrime measures available to them through the law while at the same time may seek the assistance of criminal affiliates and groups. That is, officials provide different forms of protection and risk management, such as information about business practices and competitors or protection from mafia

¹¹ The examination of patterns of household employment reveals a similar problem with the application of conventional categories of state versus private. A problematic application of Western models in the economic-social domain involves the assumption of two separate and distinct spheres 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 spheres (see, for example, Johnson, Kaufmann, and Ustenko 1995). However, evidence suggests that households tend to pursue diversified strategies that blend state and private spheres that may not be easily separable. Household strategies and patterns defy the neat ideological categories of planned economy versus market and state versus private sector (for example, Wedel 1996).

¹² Personal communication with World Bank economist Helen Sutch, November 1, 2001.

or debtors. The *same* official can seek help both through legal means and criminal affiliates.

Yurchak shows that transactions that rely on the personalized-public sphere can benefit all actors *and* do so legally in terms of the officialized-public sphere. He (2002: 301) emphasizes that the actors involved

distinguish between those state laws that they perceive as meaningless and counterproductive and those that they perceive as meaningful and important. The former type of laws (e.g., unreasonably high taxes, constraints on the withdrawal of cash from accounts, privileges given to random groups of citizens) they treat as a formality that has to be followed in officialized-public terms only and that, in fact, can be subjected to hybrid entrepreneurial technologies. The latter type of laws they follow in earnest. Perceiving the state and its laws in accordance with this hybrid model means always expecting that some steps and regulations of the state will be positive and meaningful and some will be negative and unreasonable. The entrepreneurs have to relate to the state in this discriminating manner all the time.

Thus, in Yurchak's account, actors switch the context in which they are operating from officialized-public to personalized-public as their goals and/or the definition of the situation changes.

Such switching back and forth need not be cynical. Legitimacy can be hybrid. As Yurchak (2002: 302) argues, it "allows entrepreneurs to be involved in informal activities and at the same time have a genuine desire for the democratic rule of law in the country."

Flex Organizing:

"Flex organizations,"¹³ so-called in recognition of their impressively adaptable, chameleon-like, multipurpose character,¹⁴ have emerged precisely at the state-private nexus (Wedel 2001: 145–153, 156, 172). Flex organizations are janus-faced in that they keep changing their facade. They switch their status back and forth according to the situation, strategically maneuvering the spheres of state and private to best gain access to state, business, and sometimes international and foreign aid resources. In "flex organizations," as in Yurchak's "officialized-public" and "privatized-public" spheres, actors switch the contexts in which they operate in order to achieve their goals.

Legally, flex organizations may share the same standing (or aspects thereof) as state organizations, and/or they may be NGOs. Whatever their specific legal standing in a particular country, they traditionally are set up by high state officials and they depend on the coercive powers of the state and continued access to and relationships with officials in power. For example, there may be overlap between officials of a particular ministry, and the leadership of a flex organization that is legally an NGO. These officials then play dual roles, representing and empowering both "state" and "private" organizations. The influence of flex organizations and the actors who empower them turns on their ability to go back and forth between state and private and is enhanced by the ambiguity surrounding the roles of the actors.¹⁵

¹³ "Flex organizations" are defined and analyzed in Wedel (2001: 145–153, 156, 172).

¹⁴ The concept bears some similarity to anthropologist Aihwa Ong's notion of "flexible citizenship" in the sense that social structures enable alternative and multiple presentations as actors operate in and respond to a diversity of situations (Ong 1999).

¹⁵ With regard to the flex organizations I have charted in Russia and elsewhere, I can think only of examples in which actors use them to pursue their own group and private goals. This is unlike Yurchak's

Flex organizations are empowered by informal groups. Three traits of flex organizations make them especially useful to the groups and individuals that control them: (1) the ability to shift their agency—the flexibility after which they are named; (2) the propensity to bypass otherwise relevant institutions, such as those of government (executive, judiciary, or legislative); and (3) deniability, which they achieve through shifting agency.

Russian flex organizations: After the Soviet Union was dismantled, Russia embarked on a course of economic reform with the help of international financial institutions and Western donor organizations. Flex organizations, the vehicles through which economic reforms were to take place, became prime recipients of foreign aid funds.¹⁶ They were created around, and run by, a small, interlocking group of transnational actors made up of representatives from Russia (Anatoly Chubais and the so-called Chubais Clan) and the United States (a group of advisers associated with Harvard University).

This Chubais-Harvard partnership presided over the planning and implementation of economic reforms and the organizations that received economic aid, such as the Federal Commission on Securities and Capital Markets (also called the “Russian SEC”), the State Property Committee, the Russian Privatization Center, the Institute for Law-Based Economy (ILBE), and the Resource Secretariat. Although these organizations ostensibly were engaged in different parts of the economic reform agenda, the same tight-knit group of interconnected individuals appeared to run them, along with significant parts of the Russian government. They were additionally connected with each other in a variety of capacities, including personal business activities.

The Russian Privatization Center, which received hundreds of millions of dollars in loans from international financial institutions and aid from bilateral donors, was the donors’ flagship project—and an archetypal flex organization. Concerning the first trait of such organizations—the ability to shift agency—the Center switched its status according to its needs. Although legally it was nonprofit and nongovernmental, it was established by a Russian presidential decree and received aid because it was run by members of the Chubais Clan, who also played key roles in the Russian government. The Center was an NGO, but it helped carry out government policy on inflation and other macroeconomic issues and also negotiated and received loans from international financial institutions *on behalf of the Russian government*; traditionally these institutions only lend to governments. (This introduced still more ambiguity between state and private roles and responsibilities.) Additionally, as an NGO, the Center received tens of millions of dollars more from Western foundations, which like to support NGOs.

With respect to the second trait of flex organizations—the propensity to bypass otherwise relevant institutions such as those of government (executive, judiciary, or legislative)—the Center was set up precisely to circumvent such institutions. It by

account, in which actors pursue both private and official goals in both the officialized-public and the privatized-public spheres. However, one can imagine that flex organizations could also be used in pursuit of official goals.

¹⁶ See Wedel (2001: Chapter 4).

passed the democratically elected parliament and the Russian government agency formally responsible for privatization. According to documents from Russia's Chamber of Accounts (the government's chief auditing body), the Center wielded more control over certain privatization directives than did the government privatization agency.¹⁷ Two Center officials¹⁸ were in fact authorized by the Russians to sign privatization decisions on Russia's behalf. Thus a Russian and an American, both of them officially working for a *private* entity, came to act as representatives of the Russian state.

The third trait of flex organizations—deniability—results from the ability to shift agency. Flex organizations lend individuals and groups the ability to deny responsibility. If the Center came under fire for its activities as a state organization, it could legitimately claim to be a private one. If the Harvard advisers with signature authority for some Russian privatization decisions were asked by U.S. authorities to account for their decisions, they could say they made those decisions as Russians, not Americans. The ability of actors to evade or challenge, at any given moment, the state-ness or private-ness of their flex organization is crucial to their influence. It is precisely this ability to equivocate that affords such entities their strength and in part explains their resilience.

The three traits of flex organizations—the ability to shift agency, the propensity to bypass otherwise relevant institutions, and deniability—pose problems for parties that seek to monitor organization activities. Flex organizations afford maximum flexibility and influence to those who use them, and burden them with minimal accountability.

The political-economic-cultural environment made possible the development—or perhaps the continuation—of flex organizations in the Russian context. Although they were created by foreign aid organizations and Harvard University, and propelled by millions of dollars from the West, flex organizations mimicked the dual system under communism, in which many state organizations had counterpart Communist Party organizations that wielded the prevailing influence. Such organizations were highly compatible with Russian practices regarding influence and ownership. A number of analysts have pointed out that *de facto* control and influence over property are more important than *de jure* ownership.¹⁹

The creation of flex organizations and outside underwriting may have facilitated the development of what I call the “clan-state,” a state that is powered by competing, tight-knit-closed clans in the government and pervasive corruption, which I detail later. E. Wayne Merry, a former U.S. senior political officer, regretted the U.S.-sponsored creation of “extra-constitutional institutions to end-run the legislature.”

¹⁷ Wedel interview with and documents provided by Chamber of Accounts auditor Veniamin Sokolov, May 31, 1998. See State Property Committee order no. 188 (which gave Jonathan Hay veto power over the Committee's projects), October 5, 1992.

¹⁸ These were the Center's CEO from the Chubais Clan (Maxim Boycko) and the Moscow representative (Jonathan Hay) of the Harvard Institute for International Development, which managed virtually the entire \$350 million U.S. economic aid portfolio to Russia. (See Wedel, 2001: 145–153).

¹⁹ For further analysis, see, for example, Anne Williamson's Congressional Testimony Before the House Committee on Banking and Financial Services, September 21, 1999, and commentaries in *Johnson's Russia List* by Jerry F. Hough (no. 3051, February 11, 1999), S. Lawrence (no. 3072, February 28, 1999), and Edwin G. Dolan (no. 3073, March 1, 1999).

He added that “many people in Moscow were comfortable with this, because it looked like the old communistic structure. It was just like home.”²⁰

Flex organizations, understandably, call to mind the notion of conflict of interest. But they serve to *obfuscate* conflict of interest. Unlike a lawyer who represents a client who has embezzled funds from a bank on the one hand, and represents the bank on the other, in flex organizations, roles are ambiguous. In a conflict of interest, an actor can deny the facts, but not the conflict if the facts are true. But with flex organizations, it is not clear what the conflicts are because the structures themselves are ambiguous. An actor can plausibly deny responsibility and get away with it. The difference lies in the ability of a flex organization to exploit the ambiguity.

Polish agencies and targeted funds: In Poland in the mid-1990s information began coming to light of the existence of state-private hybrid organizations called agencies (*agencje*) and targeted funds (*fundusze celowe*). Although they lack the inherently situational quality of flex organizations, the denning feature of agencies and targeted funds is their unclear responsibilities and functions (Kamiński 1997: 100). These organizations do not have the same legal status as state bodies, but they use state resources and rely on the coercive powers of the state administration. They have broad prerogatives that are supported by administrative sanctions and are subject to limited public accountability. They are part and parcel of the “privatization of the functions of the state,” as Piotr Kownacki, deputy director of NIK (Najwyższa Izba Kontroli) [The Supreme Chamber of Control] the Polish government’s chief auditing body, has put it, and they represent “areas of the state in which the state is responsible but has no control.”²¹

Agencies and targeted funds have come to play a major role in the organization of Polish governance and in the collection and disbursal of public funds. Some one-fourth of the state budget was allocated to them in 2001, according to NIK.²² In addition, some agencies and targeted funds are or have been authorized by the state to conduct and receive moneys from commercial activities, invest in the stock market, start new companies, spawn new agencies, and manage foreign aid funds.

Agencies have been created in all ministries with control over property. These include the ministries of transportation, economy, agriculture, treasury, and defense, according to NIK Deputy Director Kownacki.²³ For example, with so much property under their control, including state farms inherited from the communist past, agricultural agencies have begun “to represent [their] own interests, not those of the state,” according to Kownacki. He observes that “most of the money is taken by intermediaries” and the state has very little control over this process.²⁴

Coal mining and arms also are dominated by agencies and present myriad opportunities for corruption, reports Kownacki.²⁵

²⁰ Interview with E. Wayne Merry, May 23, 2000.

²¹ Interview with Piotr Kownacki, Deputy Director of NIK, July 26, 1999.

²² Interview with NIK official Andrzej Łodyga, July 24, 2002.

²³ Interview with Piotr Kownacki, Deputy Director of NIK, July 26, 1999.

²⁴ Interview with Piotr Kownacki, Deputy Director of NIK, July 26, 1999.

²⁵ Interview with Piotr Kownacki, Deputy Director of NIK, July 26, 1999.

The coal industry, for example, appears to be under the control of a group of *institutional nomads* who simultaneously hold and/or circulate in key positions of government, agencies, targeted funds, and business. Collectively, the nomads organize themselves to cover all the bases by having their fingers in as many as possible influential administrative, business, and political positions, relevant to their success in the industry, regardless of which political parties are in power (Gadowska 2002).

Some agencies and targeted funds have become vehicles through which foreign aid is distributed, although they generally are not initiated by aid organizations, as were the Russian flex organizations described earlier. Notable current examples are the European Union's SAPARD program to restructure Polish agriculture, and some EU programs to improve environment and transportation.²⁶

Like Russian flex organizations, Polish agencies and targeted funds are *not* holdovers from communism, although they are firmly rooted in the political-economic-social organization and culture of communism. Rather, they have been created and enabled by legislation enacted *since* the fall of communism.

Agencies and targeted funds make it legally possible for private groups and institutions to appropriate public resources to themselves "through the spread of political corruption," as Kamiński (1996: 4) has called it. He maintains (1997: 100) that "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."

Many Poles might find agencies and targeted funds unacceptably outside the interests of the *społeczeństwo*, or society. However, such organizations remain somewhat hidden from public view. Only a few analysts, journalists, and notably, NIK, have tracked limited parts of what constitutes a huge portion of the state or public budget. At various times throughout the past decade, journalists have reported that specific agencies and targeted funds have reaped profits that allegedly have gone into private pockets. Former NIK Director Lech Kaczyński confirms that, under the system of agencies and targeted funds, "much tax-payer money flows to private hands on a large scale."²⁷

Agencies and targeted funds appear to have become an institutionalized part of the Polish state-public sphere. A number of analysts have linked the continued existence of these organizations to campaign finance. As legal analyst Jan 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 agencies and similar entities]."²⁸

It is telling that the saying "*teraz kurwa my*," roughly translated as "now it's our f***ing turn [to steal from the state]," entered the political discourse during the latter 1990s. In coining the phrase, Polish politician Jaroslaw Kaczyński, an oppositionist during the communist period, implied that the Solidarity party of the 1990s, AWS (*Akcja Wyborcza Solidarność*), exhibited the same attitude as the post-communists

²⁶ Interview with NIK official Andrzej Łodyga, July 24, 2002.

²⁷ Interview with Lech Kaczyński, July 14, 1999.

²⁸ Interviews with Jan Stefanowicz, July 14 and 15, 1999.

toward accessing public funds for their own use. He characterized—and derided—the Solidarity party attitude as “*teraz kurwa my*,” which now is known simply by its acronym, TKM.

Politicized Law

The third property of informal systems is that *informal groups and networks mediate among and organize the interdependencies of the domains of politics, economics, and law*. Access and success in one domain often are contingent on access and success in another. Informal groups and networks can wield influence and control resources to the extent they do because of the legal contexts in which they operate. To varying degrees, “the rules are what you make them,” as one informant put it.

Under communism, the ability to access economic opportunities depended almost entirely on political connections. During the transitional years, informal groups and networks in the region evolved, or continued to evolve, as the communist state’s monopoly control over resources was crumbling or had collapsed, and opportunities for filling the void abounded. Although the Communist Party ceased to exert monopoly control over the economy, the ability to access economic opportunities often remained contingent on political connections.

Terms such as “oligarchs”²⁹ and “financial-industrial groups,” which are now widely employed to describe the structure of power and the wielders of influence in Russia, capture this quality of interdependence among domains. In that nation, the political-economic structure that has evolved under post-communism differs from communism in two major respects. First, no single group allocates resources, as under communism, although a single group can monopolize an entire sector or sectors (for example, Russian gas or aluminum). Second, the relationship of power to property is no longer one way. As Thomas Graham (1999: 329) expresses it, “Not only can power be converted into property; property can be converted into power.”

Many economic opportunities remain contingent on political connections, as under 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.³⁰ In similar fashion, it remains difficult in some post-communist contexts to compound advantages: The most enterprising person can make deals, albeit only similar deals over and over again, without entering into additional negotiation.

For its part, the application of law under post-communism, as under communism, is often discretionary (the degree to which this is the case depends of course on the particular context) and highly compatible with the political-economic structure described

²⁹ Oligarchy, in its classic definition, means rule by a few, and often accumulation of wealth by a small group that could not maintain power without military and governmental support. See International Encyclopaedia of the Social Sciences (1991).

³⁰ For further analysis, see Wedel (1992: Introduction).

earlier. Formal law is frequently employed situationally. If invoking the law is impractical or disadvantageous, people can use informal practices. The reverse may also be the case: Law can be put to use for extracting advantages, bargaining, and ad hoc purposes. Breaking the law does not necessarily determine criminality because many people, in different walks of life, routinely violate the law (for example, Ledeneva 2001: 13). And, as under communism, law in Russia is sometimes used to disadvantage or discredit political or economic opponents (for example, Whitmore 2000).

The continued interdependence of legal, economic, and political domains in Russia helps explain why the potential influence of clans and other informal structures can be much more widespread and monopolistic than that of interest groups or coalitions. Clans, which have multiple goals and may operate with little legal restriction to achieve them, cannot so be reduced.

The Social Organization of the State

The extent and the very *nature* of the penetration of the state by informal groups and networks are a crucial issue. What patterns of relationships are emerging in specific countries between informal groups and states as they mutually respond? Have informal groups and networks *replaced* the former centralized state—or major parts of it—(which, as discussed earlier, also had been permeated by personalized relationships) or have they 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.

I have identified two patterns of relationships between the state and informal groups: the “partially appropriated state” and the “clan-state.”³¹

The “Partially Appropriated State”:

Under the partially appropriated state, informal groups such as Polish institutional nomads take over from the state, or privatize, certain functions. 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.

I base the partially appropriated state model largely on Polish material. In Poland, as noted previously, approximately one-fourth of the state budget in 2001 was allocated to hybrid state-private organizations (agencies and targeted funds), over which the state has limited control. The organizations and relationships underlying the privatization of state functions appear to be institutionalized.

The “Clan-State:”

My notion of the “clan-state” (1999) 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, certain clans, each of which controls property and resources, are so closely identified

³¹ These concepts are elaborated in Wedel (2003).

with particular ministries or institutional segments of the state that any differences between state and clan agendas appear nonexistent.³²

Under the clan-state, the clan not only uses state resources and authorities (to the extent they can be separately defined in a given instance), but it also keeps state authorities far enough away so that they cannot interfere with the clan's acquisition and allocation of resources, yet close enough to ensure 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 same people with the same agenda constitute the clan and the relevant state authorities. The clan is at once the judge, jury, and legislature. As a system of governance, the clan-state 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. I base the clan-state model on Russian and Ukrainian data, although the model also is reminiscent of developments in some other post-Soviet countries, as well as in present-day Yugoslavia.³³ With regard to the former, Collins' (1999: 124–125) analysis of the state, derived from Central Asian material, appears similar to the clan-state, as does Steven Sampson's (1998: 7) description of "mafia kingdoms."

The Partially Appropriated State and the Clan-State in Comparison:

Differences between the "partially appropriated state" and the "clan-state" appear to lie in (1) the degree of penetration of state bodies and authorities and the nature of vertical linkages and (2) the degree to which politics is dominated by groups such as institutional nomads and clans and has become merely a means for them to access state resources for themselves. The partially appropriated state and the clan-state fall along a continuum—from substantial appropriation of the state by private actors to sweeping appropriation and from considerable use of politics to access state resources to a near wholesale intertwining of state resources and politics.

With regard to (1) the degree of penetration of state bodies and authorities, a clan-state is characterized by a much higher degree of penetration than a partially appropriated state. The nature of vertical linkages may play a role here. Under the "partially appropriated state," informal groups use state actors, who are corruptible and "bought." For example, informal groups in Poland may use or help to place non-group 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 themselves "bought." Because, under the latter, there is so little separation between the clan and the state, the "clan-state" institutionalizes deniability. If the state is

³² For example, the Chubais Clan, which monopolized Russian economic reform and foreign aid during the 1990s, was closely identified with segments of government concerned with privatization and the economy. Competing clans had equivalent ties with other government organizations such as the "power ministries" (the ministries of defense and internal affairs, and the security services). For details, see Wedel (2001: 123–174).

³³ See, for example, "Seven Biggest Plunders of the Milosevic Regime: Plunder Worth \$30 Billion" ("7 Najvećih Pljački Miloševićevog Režima"), Duga, Belgrade, Yugoslavia: April 2001, pp. 4–34.

criticized, activities can be attributed to the clan. If the clan is criticized, activities can be attributed to the state.

With respect to (2) the domination and use of politics, in the clan-state, as contrasted with the partially appropriated state, politics is less a way to present competing views of public policy to voters, and more a means to split up the spoils of state resources. As Federico Varese has put it, “Even the Communist opposition in Russia is deeply connected to the organs of power and able to distribute state resources to supporters and party officials.”³⁴

The partially appropriated state and the clan-state model share a number of features. First, institutional nomadism, as defined earlier, characterizes both models. Second, although many economic opportunities remain contingent on political connections as in the previous communist system, no single group allocates resources and the relationship of power to property is no longer one way.

The third common feature of the models is the ambiguous status of individuals, informal groups, entities, and institutions situated somewhere between state and private spheres³⁵ (as discussed earlier) in the parts of the state that have been appropriated. The arena of activity of individuals is neither fixedly state nor private, neither firmly political nor economic; their activities are neither fully open nor completely hidden and conspiratorial. It is precisely this ability to equivocate that affords them their strength and explains in part the potential influence and resilience of the state-private relationships they embody. This malleability affords them considerable flexibility and maneuverability and also the opportunity to skirt accountability to outside authorities.

Fourth, both the partially appropriated state and the clan-state imply a fragmented state. Verdery (1996: 226) describes a state in which “the center has lost control over political and economic processes, and the structures of domination are segmented.” Some analysts 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 millions or even 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.”

At the same time, other segments of the clan-state—typically those segments that are poorly funded or without substantial resources at their disposal (in Russia, that includes the ministries responsible for education, health, and social welfare)—may be of little interest to clans and remain largely independent of or “uncolonized” by them. In Ukraine, a study (Kennan Institute Summary 1999) found that, although politically powerful clans wield tremendous influence over state action, in “certain key areas the Ukrainian state demonstrates a capacity to serve a public good rather than simply the narrow interests of powerful political and economic groups.”

³⁴ Personal communication with Federico Varese, November 26, 2002.

³⁵ 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.”

Finally, the state-private entities and arrangements common to both the partially appropriated state and the clan-state appear to expand the sphere of the state. Andrzej Kamiński (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 result may be an expanded state that is composed of individuals, groups, entities, and institutions that are characterized by equivocation and ambiguity. In theory, that state is responsible. In practice, however, it has little control.

Corruption, Captured States, and Conventional Wisdom

The analysis here presented constitutes a critique of some conventional views of state development and institutional change, which appear ill-equipped to capture the complexity of the state-private relationships that are emerging in the post-communist region. The analysis also poses a challenge to several additional concepts.

The first is corruption, widely defined as “the abuse of public office for private gain” (for example, the World Bank (PREM, 1997: 8)). This approach to corruption depends on the state (or public)—private dichotomy and assumes that it is universal. It also assumes that the dichotomy affixes itself in similar ways to diverse societies, which, in fact, may be organized in vastly different ways. Indeed, as ethnographic findings from Central and Eastern Europe and the former Soviet Union show, the state-private distinction may be fluid, subdivided, overlapping, or otherwise obscure. Ken Jowitt (1983: 293) has argued that approaches to corruption based on the public-private dichotomy are weak. “Reliance on this difference,” he explains, “makes it impossible to specify the existence and meaning of corruption in settings where no public-private distinction exists institutionally.”

Another concept worthy of scrutiny is that of “captured states,” identified in recent literature on corruption (for example, Hellman, Jones, and Kaufmann (2000) and Hellman, Jones, Kaufmann, and Schankerman (2000)). World Bank analysts (2000: xv–xvi) define “state capture” as

the actions of individuals, groups, or firms both in the public and private sectors *to influence the formation* of laws, regulations, decrees, and other government policies to their own advantage as a result of the illicit and nontransparent provision of private benefits to public officials. There are many different forms of the problem. Distinctions can be drawn between the types of institutions subject to capture—the legislature, the executive, the judiciary, or regulatory agencies and the types of actors engaged in the capturing—private firms, political leaders, or narrow interest groups. Yet all forms of state capture are directed toward extracting rents from the state for a narrow range of individuals, firms, or sectors through distorting the basic legal and regulatory framework with potentially enormous losses for the society at large. They thrive where economic power is highly concentrated, countervailing social interests are weak, and formal channels of political influence and interest intermediation are underdeveloped.

The notion of “state capture” in the context here presented is problematic in several respects. First, the image of a “captured” state conjures up a state that was somehow taken over unwittingly—while it was not looking—in wholesale fashion. It implies the existence of a prior independent, wholly “uncaptured” state. Yet, any

complex administrative state contains informal networks that are linked to non-state entities. A pristine state of the state exists only in theory: There is no prior independent state that is separate from the networks that make it up. Any “capture” must be done through those networks and *with their full complicity*. The state cannot be taken over inadvertently.

Second, as discussed earlier, states in Central and Eastern Europe and the former Soviet Union (if not elsewhere, according to both different and similar patterns) are characterized by fragmentation. Because a clan-state embodies competing clans within the executive branch, the state is not a monolithic body that can be thoroughly taken over.

Third, the state has at its disposal many resources that private actors, on their own, without some connection to the state, cannot gain access to. In this respect, the “private” depends on the “state”; “state” and “private” cannot blend together if access is to be acquired. In Russia many of the people who amassed wealth during the years of “reform” did so *because* of the state, not by capturing it. They used their networks within the state (or they themselves were those networks) to access the goods, services, and privileges leading to wealth.

Such ethnographic findings and analyses have wide implications for scholarship and policy. Much is to be learned from the ethnographers who have invented “institutional nomads,” and other terms to convey patterns of organization not captured by outside vocabularies. When combined with inspection of conventional categories, further ethnographic work in the region could lead to the development of powerful theories. My hope is that such theory-building will be done and that it will encourage comparative questions and research by scholars from the post-communist region into similar questions in the United States.

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