



The rebuilt Cathedral of Christ the Savior

THE FUTURE OF CORPORATISM—II

The Rise of Moscow, Inc.

*Russia's capital city is thriving these days, but the
force at work is not neomarket capitalism.*

by Blair A. Ruble

Moscow at night glitters as never before. The Russian capital—850 years old last year—is vibrantly alive, almost pulsating with energy. To take an evening walk through the Garden Ring boulevards that define the city's center, as I did last fall, is to be in the midst of a vast swarm of Muscovites, scurrying hither and yon. Some are heading for the theaters, others are checking out the latest fancy

stores such as Benetton and Galerie Lafayette, still others are just strolling about, pausing now and then in the chill night air to watch one of the various street performers. Mayor Yuri Luzhkov has seen to it that virtually every building facade, every urban surface, is well-scrubbed or freshly painted—and brightly lit. Very brightly. Hundreds, perhaps thousands, of spotlights and streetlights have been installed by Luzhkov's government to display the new Moscow to best effect. And the sight is indeed impressive. In its central districts, Moscow can be compared to the downtowns of the great cities of Europe—something that could never have been said truthfully before, at least not since 1913.

Mayor Luzhkov's renovations are not mere blandishments—what the Russians call *pokazukha*—tacked on to impress the visitors at last year's extravagant (\$60 million), three-day celebration of the anniversary of Moscow's founding. His administration has made substantial improvements to the city's infrastructure—its roads, bridges, sewer and water systems, and telecommunications. And, perhaps most significant, the Moscow economy is now sustaining a small but growing middle class, with white-collar Muscovites now working as computer specialists, lawyers, accountants, and secretaries, often for foreign companies. Crime remains a serious problem—kidnappings and assassinations by rival businessmen, in particular, remain common—but official figures indicate that homicides and thefts declined markedly last year. Walking around Moscow last fall, I had much less fear for my safety than I did four or five years ago. If the Russian capital can stay on its present course, it seems bound eventually to take its place among the world's leading cities.

Hopeful analysts might interpret Moscow's recent progress as a triumph of market reform. Indeed, an observer who remains within the Garden Ring boulevards might easily conclude that Russia is becoming a "normal" country. But even in Moscow, as in Russia as a whole, the reality beneath the glittering lights is far more complicated. One need only ride the Moscow metro a few stops beyond the Garden Ring to see the crumbling high-rise buildings and potholed streets, vivid testimony to what the dynamic mayor has so far been unable to fix. Moreover, his impressive accomplishments turn out to have relatively little to do with neoliberal market principles. Instead, they represent the ascendancy of an imperial urban corporatism that might well undermine Russia's transformation into a true free-market democracy.

The man responsible for the new Moscow is a short, stocky, 61-year-old carpenter's son and native Muscovite who, before turning to city government, made his career as a manager in the Soviet chemical industry. Yuri Luzhkov graduated from the Moscow Institute of the Oil and Gas Industry in 1958, then worked for six years at a plastics research facility before being elevated to a high position in the Soviet Union's Ministry of the Chemical Industry. He was a Communist but never in the party's top

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Mayor Yuri Luzhkov cuts the ribbon to open the Moscow Stock Exchange last year.

ranks. In 1987 he entered the city government, eventually becoming head of the Moscow City Council. In August 1991, Luzhkov staunchly supported Russian president Boris Yeltsin against the hardline Communists whose attempted coup spelled the end of the Soviet Union. That same year, Luzhkov was elected deputy mayor on a ticket headed by Gavriil Popov, a Yeltsin ally. When Popov resigned in 1992, Yeltsin intervened to name Luzhkov mayor by decree, thus sparing him from having to compete in an election demanded by the City Council. His performance over the next four years so impressed the city's voters that they returned him to office in 1996 by a landslide, a 90 percent majority.

Clearly, Muscovites appear to like the new Moscow that their tough, autocratic mayor has given them.

The origins of Moscow's urban corporatism lie in a bitter, 18-month battle Luzhkov waged with national economic reformers over control of the city's privatization programs. The mayor maintained that privatization chief Anatoli Chubais (now first deputy prime minister) and his "reform" team were systematically undervaluing the public assets slated for privatization. The municipal government then owned about two-thirds of the property in the city, with the Russian government owning the rest. In an intense campaign begun in August 1993, Luzhkov and his administration argued that privatization of real estate and local enterprises should be placed entirely in the hands of local authorities. By February 1995, the battle was over: Luzhkov had secured a decree from Yeltsin proclaiming, in effect, that, unlike the rest of Russia, Moscow would set its own privatization rules.

Luzhkov's city government now could assess the assets of Moscow's enterprises at a higher level than was standard everywhere else, and it

The influence of Luzhkov's Moscow, Inc. extends well beyond the city limits.

could keep effective title to all of its real property in the city, with the right to grant long-term leases (up to 49 years). These two powers enabled the city government to micromanage land use and to manipulate rents and prices—and, together with the taxing power, to generate the vast sums of money Luzhkov has used to renovate his city. Thanks to his victory over the reformers, the municipality became the senior partner in all local economic activity. “Moscow, Inc.” was born.

By late 1995, increased income, unmatched elsewhere in Russia, was starting to flow into Moscow's municipal coffers. In 1996, the city government took in \$7 billion, according to official figures reported by the *New York Times*. Income from real estate alone was more than \$300 million (an amount that was expected to triple last year). But most of the city's revenues—\$6 billion in 1996—came from corporate, personal income, and value-added taxes. Luzhkov got some of this revenue as a result of an odd provision in Russian tax laws. All enterprises were obligated to pay their taxes through the jurisdiction in which their headquarters were located. For most large firms, that meant the nation's capital. Thus, Russia's massive energy sector paid taxes in and to Moscow, not to governmental entities in distant production regions. Though Yeltsin ordered an end to this practice in late 1997, Luzhkov, not surprisingly, is fighting the change.

In a Russian era of declining economic performance, loosely enforced tax laws, and disintegrating infrastructure, Luzhkov has succeeded in creating a government with the resources to *act*. In all of the country's 89 regional and local jurisdictions, this is a unique distinction. Like Chicago under the first Mayor Richard Daley, Moscow under Luzhkov is a “city that works.” And as in Daley's Chicago, not all the deals made are above board. Indeed, corruption in Moscow is rampant and blatant. Along with the official flow of money into Moscow's City Hall is an underground stream of informal payments in kind and cash. But whatever the sources of their newfound wealth, Luzhkov and his colleagues—to their credit—have put a lot of it back into the city, in the form of construction and infrastructure improvements. Indeed, they are transforming the face of Moscow.

In Russian society today, there are deep divisions over the very meaning of *Russia*, and Luzhkov seems to grasp that an ideological void needs somehow to be filled. One of post-Soviet Russia's most aching questions is what and who is “ours” (*nash*), and what and who is “not ours” (*ni nash*). More than any other Russian politician (with the possible exception of Yeltsin), the populist Luzhkov has understood how to draw political sustenance from such heartfelt issues. Perhaps his most audacious construction project is the rebuilding, in the center of Moscow, not far from the Kremlin, of the gold-domed Cathedral of Christ the Savior. The original cathedral, built in the 19th century to commemorate Russia's victory over Napoleon, was

destroyed by order of Stalin in 1931. The reconstruction, not yet complete, has already cost \$200 million. But Luzhkov is convinced of the project's worth. "I believe that the cathedral will become a source of comfort for society," he has said. Besides restoring old churches and cultural symbols, Luzhkov (like regional and municipal leaders elsewhere in the country) has erected new monuments, such as the Victory Memorial on Poklonnaya gora (Moscow's "Hill of Salutation"), which was completed on the eve of the 50th anniversary of the end of World War II.

Luzhkov has spent lavishly in support of the arts and culture in Moscow, tried to revive ailing "rust-belt" manufacturers (such as the Zil and Moskvich auto companies), launched public works projects to pump money into the pockets of the dispossessed, and, in general, given the impression that Moscow can "work" for all of its residents, at least all who are "real" Muscovites.

But just who among the 10 million people of Moscow is a "real" Muscovite, and who is not? Or, once again, who is *nash*, and who is *ni nash*? Luzhkov's administration continues to enforce the Soviet-era residential permit (*propiska*) system based on birth, marriage, and employment, even though the Russian Federation's 1993 constitution forbids any restrictions on where people can live. Local police are notorious for forcing out of town any people whose features suggest that they come from the Caucasus region. And a November 1997 municipal decree threatens local firms with severe fines for hiring unapproved "foreigners." Meanwhile, from all those "real" Muscovites who owe their jobs and opportunities to the city government, the mayor and his colleagues demand, in return, obeisance.

Thus, Luzhkov has given Moscow what amounts to a corporatist municipal economy, in which the line between public and private remains obscure—a municipal socialism far more flexible than its heavy-footed Soviet predecessor. Wealth is generated through alliances with municipal agencies, while independent small-scale entrepreneurs are sometimes systematically undermined in their pursuit of profit. Luzhkov's bright lights are hardly beacons signaling the arrival of a market economy.

The influence of Luzhkov's Moscow, Inc. extends well beyond the city limits. At least 80 percent of all private capital in Russia today is in Moscow's banks and other financial institutions. "Bank capital is like a swarm of honeybees that takes off looking for a place to settle down," Luzhkov has observed. "We have succeeded in having it settle in Moscow." The success is easily explained. Most of the banks in Russia today got started with the assets of one or another Soviet ministry or state enterprise—and most of the institutions' headquarters during the Soviet era were located in Moscow. In the early 1990s, insiders often bought the state assets at fire-sale prices, or else acquired them through various political or bureaucratic maneuvers.

Luzhkov has had some dramatic dustups with the city's financial barons, but his and their interests are intertwined, and he has more or less made his peace with them. Since regional leaders and entrepreneurs elsewhere find that they need to secure investments from Moscow, many Russian regions

are slowly but surely being drawn into the orbit of Luzhkov's Moscow, Inc. Moscow banks take over nascent local financial enterprises, Moscow moguls gain control over regional and local newspapers and electronic media, and Moscow's mayor gives support to candidates running in other areas of the country.

On occasion, however, Luzhkov and Moscow, Inc. have overplayed their hand. After a hotly contested 1996 mayoral election in St. Petersburg, in which Vladimir Iakovlev, then, in effect, the deputy mayor and widely perceived as "Luzhkov's man," defeated the internationally known incumbent, Anatoli Sobchak, Luzhkov flew to the former czarist capital with a planeload of other Moscow officials to survey the conquered territory. The independent-minded and sometimes

haughty Petersburgers were quite insulted. Almost as soon as Luzhkov's plane left the tarmac for the trip home, local leaders rushed to establish closer ties with the World Bank and other international lending agencies.

From the very first free elections in St. Petersburg (then Leningrad), in 1989, voters there have demonstrated again and again that they constitute the most liberal electorate in Russia. Everywhere else, the opposition to the August 1991 coup attempt was far less than it appeared at the time, but in

Leningrad, a third of



An Estée Lauder boutique is among the many fancy shops in the new Moscow.

the city's five million people turned out in Palace Square. August 1991 was a genuine revolutionary moment in that city. It is noteworthy that most of the members of First Deputy Prime Minister Chubais's current "reform" team have many common ties to St. Petersburg.

Other Russian cities have also evinced enthusiasm for market reform and democracy. Ekaterinburg (population 1.4 million), for instance, has displayed—in its enthusiasm for free speech, elections, and reform politics—an almost primal democratic impulse. Nizhnii Novgorod (population 1.4 million) continues to be worthy of reform "poster child" status. Nizhnii

Novgorod shows the tremendous effect that a reform leader such as its former governor Boris Nemtsov—now a deputy prime minister under Yeltsin (and a possible future presidential candidate himself)—can have. The Volga River city, in what was one of the more militarized parts of the Soviet Union, has been a leader in promoting small businesses, such as bakeries and food processors. In fact, the investment climate of Nizhnii Novgorod and vicinity is so favorable that Bank Austria in 1996 ranked it third in that category among Russian cities, behind Moscow and St. Petersburg.

On a per capita basis, however, the small, but reform-minded northwestern city of Novgorod Veliki (population 250,000)—a competitor to Moscow until Ivan the Terrible virtually wiped it out in the 15th century—might have benefited more from the events of the last decade than any other metropolitan area in Russia. The investment climate has been made so attractive that in 1995 alone, new foreign investment soared from \$2.8 million to \$44.7 million. The biggest new project in town is a \$151 million factory built by British chocolate giant Cadbury-Schwepps.

But it is in St. Petersburg that the commitment to market reform and democracy is strongest. That city has developed the most market-friendly strategy for regional development in the country, adopting tax breaks and various other laws and policies to encourage investors. Even so, St. Petersburg is still struggling to attract the capital it needs to jump-start the local economy. Small-scale entrepreneurial activities have provided some sparks, but the engine really has yet to turn over. Moscow financiers generally refuse to help, preferring Luzhkov's rules to market principles. And international investors remain focused on Luzhkov's city, mesmerized by the dynamic mayor and his bright lights. Foreign investors have poured billions of dollars into Moscow in recent years, \$4.6 billion in 1996 alone.

While St. Petersburg has tried to resist the allure of Moscow, Inc., many local leaders elsewhere have succumbed. Luzhkov recently established an association of some 1,200 Russian mayors, a move that simultaneously facilitates the forging of economic ties with Moscow and creates a base of support for his possible presidential bid in 2000. The imperial mayor and the imperial metropolis are reaching out to the historic central Russian hinterland for sustenance.

In the end, it is the rough-hewn Luzhkov's brightly lit Moscow, the new Moscow, the home base of Moscow, Inc. that is lighting up post-Soviet Russia. His city, the corrupt but gritty "city that works," seems at times almost an elemental force of nature, crude but powerful. It is Moscow—not the more reform-minded, more decorous St. Petersburg—that mesmerizes. And it is Moscow, perhaps, that is defining Russia's future.