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## The Law of Unnatural Selection

By Konstantin Sonin

According to basic economic theory, market competition should result in the survival of the companies that are best adapted to their surroundings -- companies that do the best job of cutting costs, increasing efficiency and breaking into new markets. Companies that fail to do these things are supposed to disappear.

Yet the examples of Yukos, on the one hand, and of Gazprom and Rosneft -- widely considered the least efficient companies in the Russian oil and gas sector -- on the other provide convincing proof of the contrary. Yukos, a company that restructured, increased efficiency and successfully gained access to new markets is becoming extinct; Gazprom and Rosneft, which have done none of these things, will survive.

What's more, Gazprom's acquisition of Rosneft will automatically make the enormous unified company more attractive to investors simply because of its power to influence market prices. In terms of overall market efficiency -- that is, taking into account the merger's impact on consumers as well as companies -- this is, of course, a bad thing.

So has basic economic theory been overturned? Quite the opposite. The case of Gazprom and Rosneft confirms the theory. The success of these companies has nothing to do with the laws of the market, and everything to do with the current economic climate in which lack of transparency (above all) and proximity to power at the highest levels (which is very difficult for a transparent company to maintain) are the best possible strategy for corporate survival.

None of this would bear mention, however, if the government were not currently pursuing an economic policy intended primarily to prolong and even develop the environment in which monsters like Gazprom thrive. It would, for example, be highly surprising if reports -- or at least rumors -- didn't surface soon about upcoming mega-mergers in the ferrous metals sector.

For the economist, the problem is not that the timing of President Vladimir Putin's approval of the Gazprom-Rosneft merger was obviously dictated by political considerations, but that the president seems sincerely to believe that restoring the discredited Soviet system of economic management is the best thing for the Russian economy today.

The Soviet Union was many things to many people: a gigantic social experiment or a meat grinder that chewed up the best and brightest; a superpower or a scarecrow on the world stage; the land of happy childhood or totalitarian childhood.

But the Soviet Union was most definitely not a successful economic experiment.

One of the most distinctive traits of the Soviet economic model, especially in the last 20 years of its existence, was a lack of natural selection. Inefficient enterprises weren't closed down, nor was there even a mechanism in place for doing so. In fact, inefficiency frequently ensured a comfortable existence for the managers.

When presented with proposals for new enterprises, the political leadership was most likely to approve the most outlandish and expensive of the bunch. I could mention the Belarus tractor plant or the plan to reverse the major rivers of Siberia and send them flowing south into Central Asia. But all of this was described in great detail by the newspapers -- 15 years ago.

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