Quality, Experience, and Monopoly: Regulating the Soviet Seller's Market for Military Goods

Andrei Markevich

Open Lyceum,
All Russian External Multi-Disciplinary School,
Moscow State University

and

Mark Harrison

Department of Economics,
University of Warwick
and
Centre for Russian & East European Studies,
University of Birmingham

Abstract

Military market places display obvious inefficiencies under most institutional arrangements; that of the Soviet Union was characterized by monopoly and a seller's market to an unusual degree. Monopoly is a particular problem where experience goods are traded since the consumer cannot respond to bad experience by switching repeat purchases to another supplier. The consumer's likely response is to invest more in evaluation of quality prior to purchase, to be more reluctant to buy, and to exploit the available non-market means to influence the seller. In the case of the Soviet market for military equipment the Russian archives provide evidence of these in the activities of the military procurement agents of the defence ministry. The effectiveness of the military agents was limited by the seller's counteractions and because the buyer was obligated to come to a compromise with the seller. The outcomes, including persistent low-quality output and its rejection up to a point, were in the common interest of both buyer and seller.

Acknowledgements

We thank Valery Lazarev and Michael Waterson for advice.

Address for correspondence: Harrison, Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Email: mark.harrison@warwick.ac.uk.

Date of draft: 21 June 2004