

# **CONTRACT ENFORCEMENT UNDER DICTATORSHIP: THE CASE OF THE SOVIET ECONOMY <sup>\*</sup>**

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The system of contract enforcement that emerged under the Soviet dictatorship included two official and one informal institutions: administrative enforcement, the system of arbitration courts, and unofficial relational contracting. Official institutions supported transactions that targeted fulfillment of the dictator's objective. Legal contract enforcement emerged owing to the dictator, who sought to escape trifling decisions and to provide economic agents with an incentive to resolve disputes instead of violating contracts. However, underpricing of legal services diminished the reliability of legal system and led to a "black market" for legal services. Relational contracting emerged against the dictator's will and persisted despite its illegal status. It allowed agents to secure planned transactions without calling upon the dictator or legal system and helped to conceal self-serving transactions. Adapting findings on contract-enforcement institutions and the theory of endogenous business networks, the paper shows that relational contracting persists under dictatorship even if the legal system improves.

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