

Source Articles from

THE WALL STREET JOURNAL.

CLASSROOM EDITION

Chapter 2 Economic Systems

This article from the April 1999 *Wall Street Journal Classroom Edition* describes the problems that can arise as countries make the transition to a free market economy from a centrally planned economy. “A River Runs Through It,” by Wall Street Journal Staff Reporter Andrew Higgins, tells the story of two cities on the Narva River: Ivangorod in Russia cannot pay its water bill, so Narva in Estonia turned off Ivangorod’s water supply. Estonia is moving to a free market economy more rapidly than Russia, and this difference is having a serious impact on relations between these neighboring towns.

Before reading the article below, you may want to look up the following terms: *autonomy, clambered, decrepit, demise, divergent, doused, erratic, fecal, glowered, implacable, lament, miserly, reneging, retaliated, revelry, slake, subversive, withering, and woe.*

IVANGOROD, Russia—Under threat from implacable forces across the river, officials in this decrepit Russian border town huddled in a snowy wood this past New Year’s Eve fortifying their feeble defenses.

In a last-ditch plea for mercy, Deputy Mayor Antonina Kostitsina tracked down the enemy on his mobile telephone. “I begged for the whole town,” she says. “I pleaded, ‘Please, please give us more time.’” She was told it was already too late.

On the other side of the river, a workman clambered down a rusty ladder into an underground cavern in the Estonian town of Narva. There, with a quick heave on a big metal wheel, he put an end to months of haggling—and to Ivangorod’s water supply.

Authorities on the Russian side retaliated swiftly. Ivangorod’s mayor told municipal workers to open a gate, sending thousands of gallons of sewage cascading through an underground pipe into the Narva River. From watchtowers on opposite banks, Russian and Estonian border

guards now survey the slimy slick through binoculars, a fast current sweeping the muck off toward the Baltic Sea after it bubbles to the surface.

Ms. Kostitsina went on local television to explain to Ivangorod’s 12,000 residents why taps had gone dry and to appeal for calm. “It was not pretty,” she says.

For centuries, Ivangorod and Narva glowered at each other across the river, each bank dominated by an imposing stone fortress. In the past, Russia has worn down each of its rivals, from the Danes who built a castle in Narva in the thirteenth century to the Nazis who staged a ferocious last stand there in 1945.

Today, Ivangorod confronts a modest but subversive challenge from across the icy water. Its foe doesn’t want ter-

ritory. It just wants Russia to pay its bills.

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“They begged me to turn the tap back on,” says Narva’s acting mayor, Ants Liimets, the man Ms. Kostitsina had pleaded with. “They think this is political. But it is a very simple economic problem: We aren’t Communists here anymore. If you don’t pay, you don’t get.” The dispute, he says, is a “clash of two systems.”

Indeed, the tale of the two cities traces the divergent paths taken since the bridge between them became a floodlit border post back in 1991.

Under the Soviet Union, they were inseparable, sharing water, buses, fire trucks, and even cemeteries. Their schools played each other in ice hockey. Everyone spoke Russian. More than 1,000 Ivanogorod residents, including Ms. Kostitsina, worked in Narva.

The two towns still speak Russian—most residents in both are ethnic Russians—but now belong to different countries, and different worlds. Russia’s economy shrank 3.3 percent in the first nine months of 1998. Estonia’s grew by 5.6 percent. Russia courts Serbia and Iraq as friends. Estonia wants to join NATO and the European Union.

When the Soviet Union perished, Narva got the water and sewage-treatment systems. (It also got the best fire trucks, leaving its neighbors unable to reach flames higher than the fourth floor.) Ivanogorod got three big crumbling factories, only one of which—a former graphic-machinery plant—still produces. The plant now makes umbrellas and cheap knickknacks.

The withering of Ivanogorod’s economy isn’t all bad: At least its sewage is less hazardous. “We are only dumping fecal material, not industrial waste,” says the mayor, Anatoly Potapov. “Basically, our factories don’t work anymore.” Environmentalists warn that the damage could still be serious. How bad won’t be known until ice now shielding the banks of the Narva melts—and swimmers return to beaches downstream.

Mr. Potapov says he can’t afford Narva’s rates for sewage treatment and has “no other exit” but to pour waste into the river. He hopes the mess will awaken Moscow to his town’s economic plight and boost miserly federal funding. More than 400,000 gallons of slop from sinks and toilets now drain each day into the waterway. Mr. Potapov says, “It is not that much really,” but he worries about the smell once the weather warms.

The Estonian government, which has forked out cash in the past to foot part of Ivanogorod’s sewage and water bill, is now considering further “humanitarian aid” to again help the Russian town cover treatment fees. At the headquarters of Narva Vesi, the once-shared water utility, director Aksel Ers keeps Ivanogorod’s unpaid bills in a bulging purple folder. They total \$1.3 million. “They are definitely our most difficult customers,” he says.

Mr. Ers started to get heavy in January 1998. He cut water supplies by half. Ivanogorod quickly coughed up some cash and got its water back.

When payments again dried up, he again closed the tap halfway. Again Ivanogorod scraped together some money—or said it did: The funds vanished in the rubble of Russia’s banking system after its August 1998 financial blowout. The demise of the ruble added further woe: Estonia demands payment in its own, more-solid currency, the kroon. Mr. Ers ordered his workmen to cut water by 75 percent.

Just after Christmas, Ivanogorod got an ultimatum: Pay up or slake its thirst by itself (Estonians who don’t pay get cut off, too). Ivanogorod decided to go it alone, mobilizing money and municipal workers for a frantic well-digging drive.

Officials spent New Year’s Day shivering in the snow, supervising the emergency water system. (The town started the system years ago but gave up when promised funding from Moscow dried up.) Local civil-defense units went on alert. Firemen practiced drills fetching water from the river.

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The pumps now splutter and groan and provide erratic supplies for three or four days a week. Nonetheless, Mayor Potapov still prefers to sleep in a hotel with its own pump. His family stays in St. Petersburg. His deputy, Ms. Kostitsina, scurries about with buckets, stockpiling water to cover days when taps yield only air.

The water war has doused the embers of a more-serious conflict. When the Soviet Union fell apart, many of Narva’s mostly Russian population felt marooned. Loyal to Moscow, not the Estonian capital of Tallinn, they lobbied for autonomy. Vladimir Zhirinovskiy, Russia’s eccentric nationalist politician, demanded that Narva be handed over to Russia and, to enforce the claim, proposed setting up big fans to blow radioactive waste across the Baltics.

Today, Narva’s Russians complain about having to learn Estonian before they can become full citizens. But they count their blessings: salaries and pensions paid on

time and well-tended streets. Many still shop in Ivanogorod, where bread and sausage are cheaper, but curse Russia for reneging on its debts and fouling the river.

An informal survey by Narva’s main newspaper found overwhelming sympathy for Mr. Ers’s hardball tactics. “The tea is definitely sweeter on this side of the river; we all admit that,” says Vladimir Chuikin, a former head of the Narva city council and leader of a now-abandoned campaign to integrate more closely with Russia.

Meanwhile, many in Ivanogorod lament being stuck in Russia. Even Russian nationalist Vasily Vdovin, an Ivanogorod businessman and head of the local branch of Mr. Zhirinovskiy’s Liberal Democratic Party, admits that life across the bridge is better. Looking wistfully across the river toward Narva from his apartment, he

says: “Over there is Europe. Here we are in—to tell the truth, I’m not sure where Russia is.”

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QUESTIONS FOR DISCUSSION

1. What is the current source of conflict between Ivangorod and Narva?

2. How has their relationship changed since 1991?

3. **Recognizing Cause and Effect** How have the economic changes in each country influenced its position in the current conflict?

4. **Identifying Alternatives** What alternatives has Ivangorod explored to deal with its loss of water? Suggest another alternative.

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