Russia?s fast track to ruin

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At the end of March IMF Director Michel Camdessus commended Yeltsin for his ?bold and comprehensive economic reform programme? launched on 2 January. IMF membership is Russia?s prize. What reward the Russian peoples can expect from capitalism, Camdessus did not say. Keith Harvey surveys the restoration process and looks at the options for Yeltsin and his imperialist backers.

During the second half of 1991 Russia entered onto the fast track of capitalist restoration. The open pro-imperialists, the republican nationalists, those members of the nomenklatura ? symbolised by Yeltsin ? who had plumped for capitalism in earlier years of perestroika now hold political power. To paraphrase Lenin in diametrically opposite circumstances, the task of the new bourgeois government is to accommodate the existing economic system to the future one in a series of progressively linked steps.

The transformation undertaken by Yeltsin has a complex pre-history in the reforms enacted under Gorbachev, and has many parallels with the situation in Eastern Europe. But events in Poland, Hungary and the CSSR since 1989 should provide a cautionary tale for Yeltsin and his advisors. Early ?success? of stabilisation programmes in bringing inflation under control and freeing prices has produced the expected catastrophic slump in output, but as yet no sign of the promised economic upturn that holds out the promise of regeneration on a capitalist basis.

None of the Eastern Europe countries have managed to control their budget deficits. In part this is due to the failure of tax reform to bring in state revenues but in the main it is due to government inability or reluctance to cut through the financial chains that secure thousands of loss-making enterprises to the central banking system.

In Hungary it seems to be within grasp at least, but Poland has definitely retrenched. Here the crisis of bourgeois leadership ? accentuated after the outcome of the October 1991 elections ? prevents the final decisive stage in the transition being completed: the ruthless closure or mass sackings in at least a third of the 8,200 state enterprises.1

Everywhere the privatisation schemes are far less advanced than envisaged two years ago, while being seen as more central than hitherto to the process of transition to capitalism. The republics of the CIS, or whatever may succeed it, approach their capitalist destination with all these problems ahead of them and no magic solutions available to circumvent them.

It is difficult here to encompass the sheer unevenness of the republics of the CIS, Georgia and the Baltic states as they head into the maelstrom of capitalism?s cruel discipline. For these reasons we concentrate upon the Russian republic, upon whose fate so much else depends in the former USSR. Vast natural reserves are concentrated there, along with 51% of the ex-USSR?s population of 288 million, generating 60% of all output.

We have no reason to expect that the range of national bitterness and social collapse will be any less in the ex-USSR than currently being experienced in Eastern Europe, from the relatively stable case of Hungary to the starvation and anarchy of present day Albania. If revolutionary Marxists seem at present to be modern day Cassandras ? prophesying with unerring accuracy but destined not to be believed ? then it is only for the present, and only because of the vast discredit that Stalinism has brought to the concepts of collectivism, workers? democracy and planning. But the harsh truth of capitalist entrenchment in the next years will revive the appeal that these ideas have for workers.

Were they alive today, it would surely be embarrassing for Stalinist fellow travellers in the western intelligentsia to read their glowing accounts in the 1930s of comrade Stalin?s successes in the economic arena. It seems an epoch ago that the achievements of the first five year plans in the USSR were hailed by these ?socialists?, and by the dumb-struck apologists of the decrepit capitalist system.

Indeed, it seemed true enough that by centralising and co-ordinating all aspects of production and distribution, growth could be sustained in a way that market forces were evidently incapable of after 1929. Planning appeared to have need of no more vindication than its results. But this romantic assessment of planning in the USSR could not withstand either the test of time or the penetrating vision of scientific analysis.

Planning cannot be disembodied from the social agency that controls it, and in the USSR this has been the bureaucracy. This parasitic and usurping caste gathered together the reigns of political power into its hands after 1923, at first marginalising and then terrorising its political opponents and the working class. The planning mechanisms were constructed in this very process of Thermidor. They were not constructed (as genuine soviet democracy was) and later altered unrecognisably through bureaucratic degeneration. The USSR?s system of planning, the formulation of goals and implementation and supervision of results, was at its very heart a bureaucratic system from start to finish.

The nature (i.e. lawfulness) of planning in the USSR can only be understood in relation to the production and reproduction of the bureaucratic caste?s privileges. Plan targets were formulated, measurements devised and forms of plan supervision implemented in a way designed to maximise the stability, power and wealth of the ruling caste. Everything destructive, dysfunctional and undemocratic in the USSR system of planning flowed from this fact.

A democratic plan would necessarily include as one of its goals a gradual diminution of inequality and reduction in the role of the state. At the economic level this would mean an increase, over time, of the quantity, range and quality of consumer goods. An increase in labour productivity would allow these objectives to be met and for the plan to aim for optimum output ? a balance between maximising output and reducing the working week for the benefit of all workers. But bureaucratic planning is counterposed to such objectives, serving as it does narrow caste interests.

Bureaucratic planning cannot utilise incentives based on the achievement of the greater social good, and instead has to set targets at the most crass individual and material short term level. Pursuit of these rewards can run directly against the longer term, rational society-wide interest.

Examples abound, for instance the bonus system for taxi drivers. Each driver has to record a monthly target of passenger miles in order to get their bonus. If at the end of the month it looks unlikely that they will clock this up then they may drive around the city for hours without passengers to attain the mileage; the cost of the extra petrol to them is more than compensated for by the bonus they will get. The unnecessary wear and tear on the car and roads, the fumes and the waste of petrol are obvious draw-backs, but no method of marrying the interests of the individual and the collective exists!

This example is illustrative of a system designed for the needs of the bureaucracy itself. It is estimated that enterprise managers derive around 50% of their financial rewards from bonuses for fulfilling plan targets for output. This leads them to amass large amounts of materials, hoarding labour and keeping as much of it secret from the ministries as possible in order to meet their targets or any sudden extra demands.

Targets for plan fulfilment are set in quantitative terms. These are the easiest targets to measure and attain and hence to achieve the rewards. The quality and life-cycle of the product are not measured in the performance function because if they were it would add to the costs (e.g. a certain percentage of output would be rejected at source, follow up services would have to be built into the costs structure) and in turn this would reduce the bonuses available.

Without doubt the most drastic defect of bureaucratic planning is its inability to systematically raise the productivity of labour, that is, to economise on the use of labour time. It is this failure that led to the growing tendency for the USSR to fall behind western imperialist countries ? increased military obligations could not be met without a further falling away of the living standards of the Soviet masses.

Improvements in labour productivity are a yardstick of social progress. In the USSR the only real method of addressing this was to increase the intensity of labour through discipline or bonus systems, whereas the major way should be through successive cycles of technological innovation and their application to the production process. But this was thwarted at every level of the bureaucracy. At the ministry level research was concentrated on military projects with few spin offs for other sectors. The sheer size and political weight exerted by this fraction of the bureaucracy ensured systematic disproportionality between sectors.

This also occurred at enterprise level. The application of technological improvements would invariably imply short-run disruptions to the production process, with drastic implications for meeting plan targets. They were therefore resisted by the enterprise managers who were also reluctant to shed labour, since plan fulfilment required the co-operation of the workforce in many ways, for example flexibility to meet the uneven work load through the month. Any improvements in productivity, and therefore output, that were achieved would lead to a revision upwards of the plan targets, and hence increase the pressure on the enterprise bureaucracy and reduce the scope for flexibility.

The sheer size of the enterprise management layer of the caste ensured that its actions, and its resistance to change, would be crucial. In 1988 Gorbachev himself spoke of the power of this layer to obstruct reform. He estimated that the size of the managerial and technical staff at enterprise level in the USSR was 13.1 million, that is, ?a manager for every six or seven people.2

The system of bureaucratic planning, once able to deliver the massive increase in production witnessed in the 1930s, nevertheless had its own internal contradictions which made it incapable of innovation and qualitative development of productive capacity. It was this that produced the decline we have witnessed. The only motor force capable of injecting dynamism into a non-market economy ? the conscious direction and carrying out of planning by the producers and consumers themselves ? was absent in the USSR. Without this the spiral of decline, with receding growth rates, stagnation and eventual collapse, was inevitable.

By the first half of the 1980s it became clear to the more forward looking of the nomenklatura in the USSR that the Soviet economy was in a perilous state. Even according to the inadequate official statistics, the average annual rate of growth of net material product (NMP) fell from 7.8% in 1966-70, to 5.6% in 1971-75, 4.3% in 1976-80 and 3.2% in 1980-85. All subsequent studies suggest that these figures are inflated, but the trend remains clear.3

This secular decline in growth rates is a result of the nature of command planning. Ever since the first five year plan (1928-32) growth depended upon the extensive use of vast supplies of labour and raw materials. Extensive growth implies dependence on the increase in the quantity of inputs rather than increased productivity. Labour supplies could be increased by drawing in labour from the countryside and by the mobilisation of women into the workforce. But by the early 1970s the increase in the rate of labour participation ? already far higher than Europe or North America ? could no longer be sustained.

In Russia the birth rate, and consequently rate of population growth, had declined, and there was a marked resistance on the part of the rapidly growing population of the eastern republics to migrate to areas of labour shortage. By the time Gorbachev became General Secretary the growth in employment was half the rate of the early 1970s.

By the early 1980s this was compounded by declining investment in industry. Earlier increases in proportion of national income available for investment were carried out at the expense of production in consumer goods, with a resulting attack on the living standards of the mass of the working class. By 1985 growth rates in capital stock were only two-thirds the levels of twenty years earlier. The figures for net fixed investment (i.e. gross investment minus scrappings) were much worse. The rates were falling year on year in the five years before 1985. The real situation in non-defence sectors was much worse than the aggregate figures suggest, as it was in this period that Reagan?s new Cold War offensive imposed a further shift of declining resources into the military sphere. Finally, costs of extracting raw materials were increasing steadily as easily accessible resources were steadily depleted. The crisis would have hit earlier than it finally did if it was not for the transfer of resources into the USSR from abroad as a result of the increase in oil prices after 1973.

In the face of these developments only a sustained improvement in the productivity of labour, that is, increasing the rate of return on each new input, could have reversed the crisis of command planning. The first instinctive bureaucratic response to this crisis, in the last years of Brezhnev?s rule, was to increase the existing system of bonus rewards for meeting output targets. This could only have the effect of further entrenching the short term prejudices against innovation and improved productivity.

When Gorbachev came to power he inherited an economy in strategic decline. The structure of planning had not changed much over the years, despite various minor experiments. Up until 1957 it had been structured on a fairly tight vertical basis. The line of authority went from All-Union ministries down to local enterprises. This tended to result in the duplication of facilities between branches of industry; each sector might have its own separate repair and transport sections, for example.

After 1957 this changed to the horizontal principle, organising the plan on a regional or territorial basis, which instead produced duplication of facilities between the regions and republics. After 1965 a new switch occurred to an essentially vertical system but with some regional devolved powers. Within this system the power of the Council of Ministers (government) over the economic direction of the country was great. It was entrusted with both the short term supervision and the long term management of the economy. At the very centre of the system were the Ministry of Economy and Forecasting (Gosplan), the Ministry of Material Technical Supply (Gosnab) and the Union Central Bank (Gosbank).

Through these agencies the Council of Ministers and the Politburo would set overall targets for output levels, the gross allocation of investment and labour. These figures would then get sent down the system to enterprise level and be broken down on the way into the relevant industrial association, sector and enterprise directives. The latter would determine what implications these would have for their input requirements and they would then send ?requisitions? (zaiavki) back up the chain of command.

Finally, Gosplan would compute these zaiavki and aggregate them into material balances for each sector. In the 1970s there were 40,000 to 50,000 material balances to compute. Gosplan and Gosnab would make adjustments to their original assessments to make them balance (?norm-forcing?) or they would shift the burden of any obvious shortages into ?buffer sectors?, that is, in other words, the consumer goods sector.

This system was highly centralised and gave very little scope to the enterprises. Most of the reforms in the USSR had concerned the formulation of prices, changes in the bonus systems, improving the techniques for assessing inputs and outputs, and redefining the measurement of the profits of the enterprises.4

This is system the system Gorbachev took command of in 1985. The USSR possessed about 47,000 industrial enterprises whose operations were coordinated through 100 Union and 800 republic ministries. Gosplan drew up its annual plans on the basis of 1,800 products before giving Gosnab the job of turning them into 13,000 items for the other ministries; they broke them down further into 40,000 balances for the enterprises.

Initially little was done to change this structure. Gorbachev preferred to adjust priorities within the existing set up. Between Gorbachev becoming General Secretary in March 1985 and the Law on State Enterprises in July 1987, the main emphasis was on shifting the allocation of investment resources towards the civilian machine goods sector, improving quality controls and, through glasnost, encouraging criticism of bureaucratic obstructions. There was also an anti-alcohol campaign as part of a general drive to improve labour discipline. This had an initial positive effect but the investment programme soon ran up against capacity constraints and its effect petered out. The attempts at quality control likewise faltered after they ran into serious obstruction from the enterprises.

A new phase of economic reform was signalled at the 27th Party Congress in February 1986. These reforms, codified in the July 1987 Law on State Enterprises, were similar to ?market socialist? experiments tried elsewhere in Eastern Europe in previous years.

Before this the enterprises were commanded to obey very detailed directives from above concerning their inputs and outputs. With the new law enterprises were free to set out their own five year and annual plans, based on the central plan guideline. The bulk of long term investments would continue to be allocated by the centre and it would retain control of price setting. Yet enterprise autonomy was to become a reality in certain regards.

The enterprise was given profit norms to attain and mandatory output targets were abolished; short term investment decisions could be taken by the manager who was free to contract directly with suppliers and customers.

After meeting their obligatory state orders (from the ministries) the enterprises were free to sell their surplus wherever they could find a buyer. They could use the revenue to finance new plant and equipment or increase bonuses. Moreover, the conduct of fiscal and monetary policy was intended to become increasingly free of the plan.

Gorbachev hoped that this system of central decisions combined with contractual obligations would get rid of most of the worst features of command planning. But the reality was somewhat different. Production went into free-fall.

By the beginning of 1990 12% of enterprises, accounting for 10% of industrial output, were involved in some self-financing arrangement. The introduction of self-financing allied to partial deregulation of prices had caused an acute supplies crisis throughout the economy. Big increases in the prices of fuel, electricity and freight transport caused many problems for the self-financing sector. Since they were obliged to meet most if not all costs out of revenue, their reaction was to either try and eliminate cheap product lines to maximise revenue or, more commonly, to refuse to negotiate or honour contracts to supply other industries.

In the same period the old command relations had been significantly weakened. In his first two years Gorbachev had reduced the staff of Gosplan by a third to 2,000, and later the number of Central Committee economic departments was cut from twenty to nine. The Ministry of Machine Tools saw its staff reduced by two-thirds to 500, and some of the lower ministries, for example the Union Ministry for Light Industry, were abolished.

But no new nexus of market relations or institutions were in place to co-ordinate the exchange and distribution of goods, hence degeneration occurred making the situation worse than under the old command system. Many firms, suspicious that they would not get paid, insisted on money in advance for supplying goods, or would trade with customers on a barter basis only. Within the factories delayed or absent supplies resulted in escalating lay-offs and loss of wages. Whilst the central apparatus took its hands off the steering wheel of the economy it nevertheless continued to increase the supply of money. This fuelled a big rise in incomes, encouraged speculation and hoarding, and led to an explosion in the numbers of mafia in the supply sector which further curtailed supplies.

By 1990 all this was compounded by the economic disruption caused between the various republics, itself a result of the devolution of economic and ministerial powers from the Union to the republican level. Independence movements grew and long established links between republics and between enterprises were strained or broken.

The USSR was heading for a crisis that could only be resolved in one of two ways: either the working class could impose its solution on the chaos by smashing the bureaucracy, instituting a workers? government and enacting a genuine democratic emergency plan, or the pro-capitalist logic would be recognised by more and more forces insisting that Gorbachev?s half-way house solution was insufficient.

1989 was decisive for a number of reasons. On the political front the forces of restoration made considerable gains in the spring elections to the Congress of Peoples? Deputies, restorationist nationalists increased their influence in the republics and events in Eastern Europe saw fervent restorationists kick out the discredited proponents of ?market socialism? and half measures. At the same time economic performance visibly deteriorated.

Clearly Gorbachev?s reform programme was not enough, but the test was whether, having led the old hulk of the bureaucracy down the path of ?market socialism?, he could overcome their fear of anything more radical, since they could see that the whole edifice of their power and privilege as a caste would crumble if capitalism was ushered in.

Gorbachev continued to pursue a reform programme which he hoped would draw the mass of the bureaucracy behind him. In July 1989 he established a State Commission of the Council of Ministers on Economic Reform with powers over all other layers of the economic apparatus. It was inclusive of all opinion in the reform camp. It was meant to reconcile differences and bring about a common policy on the next stages. Instead it became the site of conflict and counter-position. Various plans were drawn up and the consensus edged towards a full-blown advocacy of the market over the plan rather than an attempt to reconcile them.

The first major document of this nature was Abalkin?s October 1989 programme. Rearguard action by the conservatives ensured that it was never in with a chance of being operational. But Gorbachev?s election as President in March 1990, followed by the increased powers granted to him in July at the 28th CPSU Congress, shifted the balance more decisively towards the open capitalists. On election as President, Gorbachev announced the need for ?the formation of a normal, full-blooded market.? From this point onwards the debate was to be about the tempo and form of capitalist restoration rather than the choice between restoration or ?market socialism?.

In August 1990 the Ryzkhov government came up with the Abalkin Plan and in September Yeltsin tried to trump that by sponsoring the Shatalin ?500 Days? plan. The surface difference between them lay on the pace of reform and on the relative power of the Union and the republics in the transition. Abalkin?s plan was much more gradualist, and he argued for preserving as much as possible of the bureaucratic caste (and CPSU) in the transition to a state capitalist Russia.

By contrast Shatalin spoke for Yeltsin (who had left the CPSU at the 28th CPSU Congress) and those who had either abandoned the nomenklatura or were never part of it, who wanted to break up the statified economy as quickly as possible and with it the bureaucratic caste. Since they recognised that its central power lay within the all-Union apparatus it was natural and even essential that they push for the transfer of power over price liberalisation and privatisation into the hands of the republics.

When a compromise failed to emerge between the two packages Gorbachev used his executive powers first of all to stem the disintegration by issuing instructions that the existing supply links be maintained throughout 1991, and secondly to outline his ?Basic Guidelines for Stabilisation of the Economy and Transition to a Market System?.5 In essence this document accepted the goal of capitalism, revealing that Gorbachev had moved from an objectively restorationist stance to a subjectively restorationist one.

His programme made many concessions to the Shatalin Plan in relation to the devolved powers to the republics in the transition period, but it was essentially of a piece with the Abalkin gradualist proposals.

In reality politics was to prove as decisive as economics in determining whether Gorbachev was to get the time to oversee his programme. By the spring of 1991 what was left of the hard line Stalinist nomenklatura had decided that Gorbachev had effectively gone over to the camp of those like Yeltsin who wanted to break up the Union. This they decided to resist in August of 1991 with tragi-comic results.

They only succeeded in propelling to power their arch enemy Yeltsin who quickly dumped his equivocal rival. It became clear in the aftermath of the coup attempt that Gorbachev, whatever his social programme, was determined to protect as much of the old CPSU nomenklatura in that process of transition as possible. This was totally unacceptable to Yeltsin and pro-imperialists as at best it would have seen the CPSU turn itself into the bourgeois class and at worst would have made the implementation of a restorationist programme immensely difficult. With Yeltsin in power in the White House after mid-August the scene was set for a Shatalin-plus fast track push for capitalism.

For two months after the failed coup attempt Yeltsin concentrated on political tasks, putting together a government of loyalists and destroying the CPSU?s independent power, wealth and influence.

Various decrees were announced abolishing the role of Gosplan and other ministries, but the formulation of a strategic economic plan had to wait until 28 October 1991 when Yeltsin set them out in a speech. He made it clear that Russia would closely follow the Polish road, and chose 2 January, the second anniversary of the Polish Big Bang, to launch the Russian equivalent. Yeltsin?s programme called for immediate price liberalisation of the bulk of goods and the restoration of budgetary equilibrium through cutting subsidies and raising revenues. An ambitious privatisation programme was announced for 1992.

This plan was the outcome of a debate and struggle within the restorationist bureaucracy that echoed the earlier arguments. The goal of capitalism was not in question but the tempo and means chosen to get there still were. On the one side stood the state capitalists who were more reluctant to advance a fast plan for destatification and stressed the need for price liberalisation and budgetary stabilisation.

Naturally, this view corresponded to the interests of those entrenched within the old Stalinist bureaucracy within the state administration. They had much to lose from a rapid de-nationalisation programme and much to gain if they could keep their jobs in the process of transition to a highly statised form of capitalism. In the past figures such as Ryzkhov, and later Pavlov, spoke for this view. They had no compunction about placing the greatest stress on liberalisation of prices so that the working class would suffer the consequences of their ambitions.

Against that faction were ranged those like Yeltsin and Gaydar (and previously the academic economists) who opposed the old nomenklatura and economic bureaucracy being allowed to inherit the spoils of victory. For them macro-economic stabilisation had to be accompanied by a plan of rapid privatisation strictly supervised to prevent the nomenklatura using its illicit wealth and political position to profit from a policy of rapid ?spontaneous? privatisation.

Paradoxically, the route to capitalism for Yeltsin did not only lie through the Big Bang (essentially a monetary and fiscal stabilisation plan) but also through a short term reassertion of the old system of material resource allocation in relations between the republics and the state enterprises.

The day after the Big Bang (3 January) the Russian government announced an ?Inter-Republic Enterprise Links Protocol for the first quarter of 1992,? which began: ?In order to prevent the shutdown of production facilities, enterprises, associations and organisations ? irrespective of their form of ownership ? which are located on the territories of the commonwealth member states are to ensure that economic links operating in 1991 are preserved for the first quarter of 1992, and that contracts for delivering raw and other material components and finished products are honoured and met on a scale of not less than 70% of the volume of deliveries in Q1 1991.?6

This reluctant defence of the old proportions inherited from command planning was a sober assessment of the difficulties of moving overnight to a regulated capitalist market economy. Far from going against restorationist interests they were in fact only following the advice of the IMF, World Bank and OECD, whose joint survey of the USSR, in February 1991, argued: ?While the existing Soviet system of production and distribution is inadequate and inefficient, it should not be dismantled without giving time for more efficient systems to evolve and replace it.?7

The ex-USSR had been living for several years in a twilight world of disintegrating plan and ascending market relations. Under Gorbachev there had been a considerable erosion of Union ministries? power, and in the weeks after the August events Yeltsin had abolished most of those that remained, thus destroying the centre of economic regulation.

But capitalism did not thereby spring into existence like Athena from the brow of Zeus. Capitalism ? even its most rudimentary of forms ? requires laws, institutions and a social division of labour. This remains absent in the USSR and has to be created from above and below at the same time. The bureaucratic bourgeois government of Yeltsin-Gaydar has to create the social foundations of its own stable existence. But in the meantime abolishing the directing and supervisory role of the centre does not resolve the problem of relations between the enterprises. In reality it aggravates them. It was therefore inevitable that one of the first acts of capitalist restoration would involve the promulgation of a lower, attenuated, form of bureaucratic planning.

In its schema the government hoped to reform the fiscal and monetary situation along with ownership changes, and then use these instruments as a weapon to force through the decisive changes in the pattern of investment and behaviour of enterprises. In the same OECD report Yeltsin?s imperialist tutors explain: ?. . . the principal element of market economy is the allocation of resources on the basis of market signals. More specifically, the allocation system requires: (1) prices as the primary market signal; (2) profits as a guide to identifying the most effective activities and enterprises and thus to aid capital allocation; and (3) enterprise autonomy which allows adjustment to be made in response to market signals.?8

In the first days of 1992, the year of the 75th anniversary of the Russian Revolution that overthrew capitalism, Boris Yeltsin and his government set out to reverse history.

On 2 January 90% of consumer prices and 80% of industrial goods prices were freed. Those prices that remained regulated by the government were increased by around three to four times. Altogether in January the average price level rose by between 300% and 500%.

The real motivation for sweeping price reform was not ? as pro-capitalist propaganda designed to pacify the Russian masses claimed ? that it was necessary to encourage producers and suppliers to put more goods in the shops and markets, increasing choice and overcoming the chronic underproduction of consumer goods.

Choice is meaningless if you cannot afford the prices, but the fact is that no such new production is evident, nor was any expected. There was some increase in availability due to the ?mafia? releasing previously hoarded stocks. They had bought cheap or stolen over previous years, waiting for just such a price liberalisation. Thus price reform has brought the black market to the surface. Prices have only acted to balance supply and demand of existing goods and services and forced Russian workers to spend their mountains of involuntary savings from years when there was nothing to buy (now in excess of R42 billion) on the open market. Any increase in the volume of consumer goods resulted from the Gorbachev regime?s earlier decisions to shift production away from defence and towards consumer goods (so-called conversion programmes).

Given the highly monopolised nature of the Russian production and supply system it was inevitable that these enterprises would not be compelled by competition to increase their efficiency, increase their output and moderate their price increases. Rather, they would exploit their monopoly power to hold or decrease output and push prices as high as possible. This last fact probably ensured an unsustainably high average price increase for January. In February the average increase came down.

As a result of the 2 January measures there has been a slump in output across the board. Provisional government figures suggest a 10-15% fall in Russia. The figures for other CIS states are worse ? possibly double, as in Byelorussia. This is due to their greater dependency on external trade and the fracturing of the Union into separate republics.

In reality the government?s price liberalisation was motivated by the need to establish a number of preconditions for capitalist transformation. These include the requirement that prices accurately reflect the real costs of production, measure real gains in productivity and thereby act as a signal for those in possession of capital to invest it where they can get the best returns.

Only when prices do this will investment lead to an increase in this or that sector of production according to profitability. So long as an all-pervasive system of government cross-subsidies exists, affecting the bulk of prices, then this is not possible. For example, due to the very low prices charged for most energy in the USSR the price of the final product was often less than the real value of the inputs that went into producing it.

Furthermore, liberalising prices and cutting subsidies helped government attempts to eliminate the budget deficit. This deficit was systematic in the USSR, reaching 20% of GDP in 1990 and 1991. Money and credit creation far outstripped production in the last years of Gorbachev?s rule, as wages were increased to ensure compliance with the reform programme and loss-making state enterprises were kept running. But all the time Gorbachev?s half-measures ensured a collapse of output and hence declining wealth creation and revenue collection.

Ending this situation (a touchstone for IMF backing) is the key to inducing real changes in enterprise behaviour. In mid-February Deputy Prime Minister Gaydar responded to an enterprise director in St Petersburg who complained that price increases had sharply raised the costs of supplies and made it difficult to sell his final product:

?Those who have purchased goods cannot settle their accounts, and there is nothing left with which to pay their own suppliers. And there is not enough money to increase wages. There is only one way out ? to grant free credit. But the whole point is that we are doing everything possible to bring about a money shortage . . . this means that you have to work even harder to settle your accounts and stop relying on parliament or the government to write debts off. The main point now is not to give in to pressure or loosen the financial constraints and not allow anybody to ?bribe? the Central Bank and force it to keep giving out cheap credit.?

Already the Central Bank has stopped extending credits to the other banks at 6-9% interest a year, well below the prevailing inflation rate, setting a new rate of over 20%. On this basis the commercial banks, themselves still a dependent arm of the Central Bank, advance credit to the enterprises at 35-40%.

Yet in practice the credit policy has been lax in the first three months of 1992. Some subsidies remain and the government has consciously sought to spend in order to ensure a measure of social stability while price liberalisation takes place. They bought the miners off through a series of pay increases in January, and have recently agreed to double the minimum wage (although this does not adequately compensate for the price rises). In addition they do not want unemployment to rocket at the same time as they let prices rip. In the same period revenues have not come in as expected since the enterprises are not paying the VAT that has replaced sales and turnover tax. This has eased the situation facing the enterprises but has led to a complete failure of the state to balance its budget as planned in the first three months.

But in general there is no doubting the intention of the plans. The government?s 27 February ?Memorandum on Economic Policy?, detailing the transition programme for April onwards, states: ?Within a certain period of time interest rates will become the chief indicator regulating investment of financial resources in the economy.?9

In other words, an independent commercial banking system, advancing credit to make a profit, will supervise and govern the accumulation process of a new Russian capitalism and the allocation of resources. But when is a ?certain time? likely to have elapsed? What obstacles stand in the way? The same document makes their hopes clear: ?The remaining benefits to the enterprises supplying outputs to the state will be significantly reduced in the course of 1992. All other elements of the centralised distribution of material resources will be removed by the end of 1992.?10

This is an ambitious timetable, given the results of the first three months, and in the light of the difficulties being encountered by Poland?s bourgeois restorationists in exercising discipline over state enterprises two years after their Big Bang. To go from ?stabilisation? to ?structural transformation?, from the last death throes of a degenerate workers? state to struggling state capitalism, is more difficult than their self-comforting propaganda allows for. The obstacles of a class character and the intrinsic difficulties of the economic programme are manifold.

The first objective problem concerns the implementation of the harsh credit policy over the enterprises. With so many monopolist producers still distorting the price structure of inputs, with so many enterprises hampered by low efficiency, and with so many enterprises carrying huge reserves of labour it is extremely difficult for the banks to discern which enterprises to advance credit to. Which ones have no hope of surviving in the harsh climate of world competition, which are profitable now and which could be if kept alive for sometime while structural transformation takes place? The pressure to maintain a lax attitude to credit policy is obvious.

The OECD report, reflecting on the experience of Eastern Europe over the last two years noted in sober fashion:

?Efforts in other countries to place state enterprises under hard budget constraint and to subject them to market discipline, however, have not always worked out well in practice. It has been found to be very difficult to insulate state enterprise management from political pressures and the non-economic objectives of governments.? 11

Enterprise managers, works councils and state economic administrators not tutored in the western business schools present huge barriers to capitalist production relations taking hold. The state economic functionaries have already been eroded as a force but not destroyed yet. The post-April plans aim to cut another 5% of them from the payroll and a further 10% by the end of 1992. Those who survive will be retrained to act according to commercial criteria.

Obstacles to restoration will be found not only at a state-wide level. As Poland illustrates, changing the pattern of authority within the individual enterprise will be more difficult again. There are long standing ties between works councils and the managers, who are used to collaborating and conspiring against the central authorities in order to ?storm the plan? and enhance bonuses. These will prove difficult to destroy on the altar of profit, especially when commercial relations may signal loss of caste status and mass unemployment.

Over the last few years the enterprises have been relatively free to choose how to use their retained surplus finances. Ideally these could have been invested profitably. But money cannot find a suitably ?abstract? form at present, and therefore cannot be moved anywhere at will. In principle it can be invested back into the enterprise, but frequently money earmarked in this way is diverted to boost incomes. Nobody has the rational class interest to defer immediate consumption for longer term profitability.

To crack this nut the government has already radically changed the property laws concerning ownership, outlining detailed programmes on destatification and privatisation. This is what is meant by ?structural transformation?: the changes necessary within ownership of the means of production to ensure that directives have their designed effect over relations within and between enterprises.

The Shatalin ?500 Day? programme distinguished between ?destatification? and ?privatisation?. The former was a type of public ownership with stocks held by a holding company and strategic decisions over investment and employment in the hands of a board of directors who could discipline the manager.

This distinction still appears in the Yeltsin government?s privatisation and destatisation programme announced on 29 January. The whole of state industry is placed in the hands of the State Committee of the

Russian Federation for the Management of State Property (SCMSP), a sort of Russian Treuhand.12

Compared to what has been achieved in the rest of Eastern Europe the plans are ambitious enough. By the end of 1992 the government aims to sell R92 billion worth of assets and use these for social security measures. This would amount to 60-70% of the light and food industries, 70% of motor vehicle transport, 60% of trade and 50-60% of public catering. But even this would not be a majority of state controlled production. The large enterprises, those with over 10,000 employees, would not be privatised until 1993 or beyond.

Once the SCMSP initiates or receives a privatisation proposal it has to value the assets and issue stocks. It can choose the road of de-statification or outright sale to the private sector through competitive tender or by auction. It is also charged with preventing nomenklatura ?spontaneous privatisation? ? the transfer of state assets to their private pocket ? which has happened on a wide scale since August 1991, particularly with municipal property. The works collective in the plant is guaranteed 25% of stocks free and a further 10% at discount, but none of this will confer voting rights. Foreign capital is restricted in its rights of purchase at present due to the low value of the rouble against the dollar.

Once substantial segments of both industry and banks are transformed in this way and the credit system functions as planned, then capitalism will truly rule over the Russian workers. Under it they can expect a total dismantling of the remaining gains of October 1917. The 35 million industrial workers can expect unemployment to reach 20%. Their pensions and social welfare funds, presently attached to and controlled by the enterprises, will be syphoned off and privatised. Indeed, special facilities such as creches or food stores attached to the enterprises are already disappearing.

When they are thrown onto the dole workers will face a new benefit system. Instead of the present entitlement of 100% of average wages for three months followed by the minimum wage, after June they will face a dual system. Those who become unemployed due to closure or redundancy will get a ?higher? benefit, based on 90% of their previous wage, for a period of six months. After that they will join the rest of the unemployed on the ?lower? benefit which will be reduced to 75% of the minimum wage.

There will be a further drastic deterioration in industrial output and workers? living standards in the immediate months ahead. April is bringing price rises of at least another 50-60%. Fuel prices will be liberalised substantially leaving only rents and children?s food at regulated rates. This will take place in conditions where the ?buffer? of the last three months, based on hoarded supplies and running down savings, will cease to exist. Production will continue to slump well into the second half of next year.

But what could possibly emerge from the other side of the balance sheet of this great social ?experiment?, taking place at the expense of the Russian workers? There is every reason to be sceptical about the viability of any future capitalist regime, despite Russia?s size and natural resources and its consequent advantages compared to the rest of Eastern Europe and the ex-USSR states.

More than half the productive assets of the ex-USSR are obsolete, according to Russian and IMF studies. One report suggests:

?. . . it would require about fifteen years to bring as much as a quarter of the industrial base up to competitive levels . . . Soviet economists estimate that less than 30% of serial machine-building production can compete on the world market . . . If such claims are borne out, the liberalisation of foreign trade would set into motion a devastating de-industrialisation which few enterprises will be able to survive. Forty per cent of all Soviet enterprises cannot make a profit today . . . At least half of them would probably go under if exposed to international competition, putting up to a third of the labour force out of work.?13

Those in any doubt about the magnitude of the problem do not need to speculate. Simply look at the experience of Germany since 1990. The GDR was one of the more industrially advanced of the degenerate workers? states before it collapsed into the arms of the strongest imperialist nation in Europe. But in 1991 and 1992 it will have cost Germany around $200 billion in investment and grants (and more in 1993) to turn this country of 16 million into a relatively backward part of an enlarged imperialist country. The more favoured East European states like Hungary ? which has received about 50% of all imperialist investments into the ex-Stalinist states in the last two years ? can only point to about $300-500 million a year of inward investment.

Credit is a claim upon future profits. But if it is difficult for potential creditors to see through the mass of inefficient plant and equipment to what may be profitable then credit will not be advanced. Moreover, in the current phase of imperialist contraction the financial system is having to contend with the aftermath of a too rapid and extensive expansion of credit in the 1970s and 1980s and is currently seeking controlled destruction of government and corporate debt and trying to build up bank capital liquid reserves against bad debts taken on in the past. All this impedes a big explosion of entrepreneurial capital in Russia.

Russia therefore faces an enormously bleak future as a capitalist country. There is no room in the late twentieth century for another imperialist nation to emerge.

Short term profit maximisation for Russia would have to come from intensive exploitation of its mineral wealth and the imperialist multinationals are keen to advance capital in this sector if nowhere else. The most likely scenario for Russia towards the new millennium is, therefore, that it becomes a dependent semi-colonial country, providing cheap raw materials for western industry and offering its relatively skilled, educated and very low-waged workforce for EC and Japanese owned industrial assembly operations.

This is all the more likely if the ?single economic space? of the CIS states falls short of its original ambition. Inter-state rivalries make it improbable that in the short term at least the CIS can even attain the degree of economic integration and harmonisation that prevails within the EC. Given the pre-existing inter-dependency on trade between the CIS member states, failure to stop the multiplication of currencies, the erection of tariff walls and custom posts would spell economic disaster, making Russian enterprises easy prey to imperialist predators.

One reason that the major imperialist countries cannot engage in a great effort of co-operation in Russia today is that they pursue different strategic aims. All have agreed, via the various multi lateral agencies, to provide a limited amount of directed finance to prevent widespread starvation, or to underpin the creation of market institutions.

A probable spring agreement by the IMF to admit Russia to its ranks will allow Yeltsin?s government to draw upon even more bridging finance to support the rouble in Gaidar?s bid to stabilise its level around a rate (R35=$1) that will cheapen the raw material important that are so vital to the short-term viability of many factories.

But in general imperialism is cautious about handing large amounts of money over to the present government for the simple reason that the west is not convinced that with the present balance of forces within the government much of this money would be used to prop up the old system rather than usher in the new. Further structural transformation and commercialisation of the finance system will be essential to soothe the west?s fears.

Beyond these reasons we have to consider that imperialism is by no means of one mind on the Russian restoration process. Germany, although presently constrained by domestic transition issues, clearly sees the hegemonisation of first the East European buffer states (Hungary, Poland and Czechoslovakia) and then the more stable CIS republics, as a central task to be accomplished in its maturation as a global imperialist rival to the USA.

The USA by contrast has for the moment reluctantly acknowledged its weakness in this process and prefers to bolster its hold in the Pacific and even work through countries like Turkey in promoting US interests in parts of the crumbling ex-USSR, as for example in the Central Asia states.

An altogether different class structure is set to emerge from the wreckage of the current neo-liberal experiment. At the top of the pyramid would be a heterogeneous layer of rouble millionaires ? maybe up to 100,000 of them ? who were already in place before Gorbachev came to office. In recent years the explosive growth of the co-operative movement has bolstered their numbers still further ? fifteen-fold in two years. They now control 250,000 small scale enterprises employing nearly five million workers. They probably generate about 10% of Russian national income and use it liberally in the service of pro-capitalist politicians and agencies.

Those within the nomenklatura who successfully, if illegally, transfer property to themselves, will form another ruling layer both in co-operation and in conflict with the first strata. A huge gulf will separate these two layers from the working class. It is estimated that only 2-5% of workers have enough savings to buy into the privatisation programme even at a minimum level. Fashioning a stable labour aristocracy and middle class will be difficult and it will be at best a thin layer, as it is in all semi-colonies.

The Russian working class has for decades been atomised. Its historical memory is badly clouded. In the last few years its most militant fighters ? such as the miners ? have been co-opted by a wretched pro-imperialist trade union leadership which has deliberately fostered a narrow, sectional outlook amongst them. In this year?s opening phase of the rush for capitalism this preparatory work has allowed Gaidar and company to cynically buy them off in order to keep the workers divided in the face of the Big Bang. But these are only the opening skirmishes of the class war to come.

Poland shows that workers respond to such shock therapy as one would expect: they are stunned and part-paralysed. Years of Stalinist misery combined with ideological priming by pro-capitalists have created a degree of goodwill towards those now in government who are unleashing these savage attacks. But the workers expect to gain from enterprise reform, and they believe the pain must be remedial, not ultimately destructive. When their faith is shown to be misplaced we can expect a different reaction.

Apart from pockets of isolated, desperate anger against shortages and hunger we can expect Russian workers to reserve their most tenacious and generalised fight to the struggle against the full effects of structural transformation, rather than rally themselves against the initial effects of price liberalisation. When the Russian workers do move on this front then the well laid plans of Yeltsin will meet their sternest challenge.

NOTES
1 See our article on Poland in this issue
2
3 See A study of the Soviet economy, Vol 1b (IMF, WB, OECD, EBRD) p11
4 For an account of the system Gorbachev intended and his early reforms, see N Spulber, Restructuring the Soviet economy, Chapter 3 (Ann Arbor 1991)
5 For a detailed account see A study of the Soviet economy, op. cit, Vol 1, Chapter II.3
6 Quoted in BBC World Service Monitoring Service USSR Weekly Economic Report, 6.3.92

7 A study of the Soviet economy, op cit, Vol 3, p303
8 Ibid, p302
9 Quoted in BBC World Service Monitoring Service USSR Weekly Economic Report 6.3.92
10 Ibid
11 A study of the Soviet economy, op cit, Vol 2, p23
12 Quoted in BBC World Service Monitoring Service USSR Weekly Economic Report, op cit
13 P Flaherty, ?Privatisation and the Soviet economy?, Monthly Review, January 1992, p3-4

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