Russia: The death agony of a workers? state

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In March 1997, Russian President, Boris Yeltsin formed a new government after a major shake-up of his cabinet.

The existing Prime Minster, Victor Chernomyrdin, was pushed to the background while two new first deputy Prime Ministers were appointed ? Anatoly Chubais and Boris Nemtsov.

This was no mere cosmetic change of face at the Kremlin. It represented a watershed in the post-1991 history of Russia. For the last five years Yeltsin has tried to balance the competing factions within the post-Stalinist ruling elite while destroying all vestiges of the bureaucratic planned economy.

But putting a capitalist restorationist in the Kremlin has proved easier than carrying out capitalist restoration in Russia.

Yeltsin began with a state machine determined to restore capitalism. His main aim has been to create a viable and functional capitalist class to underpin the efforts of that state machine. However, the state machine itself has ? for much of the last five years ? been the site of battles waged by the factions of a disintegrating bureaucracy and a rising entrepreneurial elite. On occasions the conflict within Yeltsin?s executive threatened to engulf him.

Despite crushing the Communist Party in 1992, despite taming Parliament in 1993 and mass privatisation during 1993-94 ? and despite re-election in 1996 ? Yeltsin?s appointed governments have failed to push his social counter-revolution to the point of restoring capitalism. The many far-reaching changes in ownership rights have failed to complete the decisive shift in the social relations of production and exchange.

The appointment of the latest Cabinet now signals a determination to do just this. As one major western adviser noted recently, ?What we are seeing now is a really massive reform offensive?1

Chubais and Nemtsov have purged ?conservative? opponents and set out a programme that aims to overcome all the remaining structural barriers to capitalist domination of the Russian economy. Their aim is to end the long transition period, which opened in 1992, during which the country has endured the protracted death agony of a workers? state.

Key elements of the new programme include:

? the break up of the monopolies,
? the ?war on corruption?,
? restoring stable government finance,
? the imposition of laws to allow new owners to push through key changes in the enterprises.

Will they succeed? Yeltsin and his governments have survived because the scale of the suffering of the Russian working class has, so far, not been matched by the necessary level of conscious and co-ordinated political resistance. If the acute and persistent crisis of leadership within the Russian workers? movement is not overcome very shortly and the workers remain passive in the face of the coming attacks on welfare and employment, then Chubais and Nemtsov will probably succeed.

The Rubicon is in sight. But the Russian workers still have it in their power to prevent Yeltsin and his army of restorationists from crossing it.

Two scenarios for capitalist restoration

In 1936 Leon Trotsky outlined two possible roads back to capitalism for the USSR. First:

?If . . . a bourgeois party were to overthrow the ruling Soviet caste, it would find no small number of ready servants among the present bureaucrats, administrators, technicians, directors, party secretaries and privileged upper circles in general. A purgation of the state apparatus would, of course, be necessary in this case too. But a bourgeois restoration would probably have to clean out fewer people than a revolutionary party. The chief task of the new power would be to restore private property in the means of production. First of all, it would be necessary to create the conditions for the development of strong farmers from the weak collective farms, and for converting the strong collectives into producers? co-operatives of the bourgeois type ? into agricultural stock companies. In the sphere of industry, denationalisation would begin with the light industries and those producing food. The planning principle would be converted for the transitional period into a series of compromises between the state power and individual ?corporations? ? potential proprietors, that is, among the Soviet captains of industry, the émigré former proprietors and foreign capitalists. Notwithstanding that the Soviet bureaucracy has gone far toward preparing a bourgeois restoration, the new regime would have to introduce in the matter of forms of property and methods of industry not a reform, but a social revolution.?

Trotsky then outlines a second scenario which assumes that neither a revolutionary overthrow, nor a counter-revolutionary overthrow from outside the bureaucracy occurs:

?The bureaucracy continues at the head of the state. Even under these conditions social relations will not jell . . . it must inevitably in future stages seek supports for itself in property relations. One may argue that the big bureaucrat cares little what are the prevailing forms of property provided only that they guarantee him the necessary income. This argument ignores not only the instability of the bureaucrat?s own rights, but also the question of his descendants. The new cult of the family has not fallen out of the clouds. Privileges only have half their worth, if they cannot be transmitted to one?s children. But the right of testament is inseparable from the right of property. It is not enough to be director of a trust; it is necessary to be a stockholder. The victory of the bureaucracy in this decisive sphere would mean its conversion into a new possessing class.?2

Trotsky, understandably, foresaw that either the ruling bureaucracy would convert itself into a ruling class, or this bureaucracy would be overthrown from within by an open bourgeois party.

During the actual restoration process, more than fifty years after Trotsky wrote, these alternatives occurred in a modified but combined form.

On the one hand, the counter-revolutionary party emerged as a faction within the Stalinist bureaucracy and, under Yeltsin?s leadership, broke with the leading nomenklatura. They destroyed and purged the political core of the bureaucracy ? the CPSU ? together with the personnel of the key economic ministries of the state planning system. On the other hand, the industrial directors and upper managers of the old state enterprises and many officials within local, regional and city government are undergoing the ?conversion into a new possessing class?.

The bureaucracy did not ?continue at the head of state? as Trotsky foresaw. Indeed, Yeltsin called upon representatives of imperialism from outside the old ruling caste in order to staff his executive. Nevertheless, the thinness of this layer meant that they had to rely upon the conversion of many bureaucrats into free-market evangelists who would subsequently work under their direction.

If we combine the two variants we can see that the purgation of the state apparatus, the conversion of the planning principle for a transitional period, the denationalisation of light industry and above all, the social counter-revolution in property forms, have ? as Trotsky predicted ? been central to the experience of Russia over the last six years.

Naturally, elements of Trotsky?s prediction have not been borne out. The collective farms have not been the first to suffer privatisation. Land in general, for industrial or agricultural use, has not been turned into private property in

Russia to date.3

In addition, and most important, we have to deepen Trotsky?s insight that ?the chief task of the new power would be to restore private property in the means of production.? When Trotsky envisaged this within his second hypothesis (the victory of a counter-revolutionary party from outside the bureaucracy) he clearly believed that such a victory would effect the transformation of the economy quickly.

As it has turned out the social counter-revolutions ?in the matter of forms of property and methods of industry? have not been synonymous. The former was achieved rapidly in Russia ? within two years (1993-94) the mass of industry was denationalised and handed over to new private owners. But as we will show the transformation in ?the methods of industry? (and of trade and finance) did not follow automatically.

On the contrary, the specific feature of the Russian transition has been the enormous contradiction between the form of property ownership and the content of the social relations of production and exchange that lay behind the legal form. This was due to the combined, and hence compromised, character of the transition process. The process has relied on an uneasy compromise between the forces of bourgeois counter-revolution representing interests outside the ruling Stalinist strata4 and those within it who are seeking to convert themselves into an important section of the new capitalist class.

Constructing the bourgeois state apparatus in Yeltsin?s Russia, 1991-97

In the process of capitalist restoration the state is the dynamo of transition. The state has to destroy the old apparatus of economic administration and create the legal and political framework within which capitalist social relations of production emerge. This framework has to define relations between the working class and the new exploiting class and impose the costs of restoration upon the workers. This is the first and most fundamental task of the state machine during the restoration of capitalism.

At the same time the new administration has to establish the ground rules for inter-capitalist competition. The state must act as a general executive of the capitalist class, raising itself above and over the competing capitalists. It has to enforce the general logic of capitalist accumulation against individual capitalists and against blocs of capital owned by the state itself. This second, specifically capitalist, function of the state apparatus generally takes longer to become fully operative.

Neither of these aspects of the state machine emerged fully formed. Like the changes in the economy, the political change is a process: one that started with Yeltsin?s victory over the Stalinist nomenklatura in August 1991. This gave Yeltsin possession of the executive of the state machine and with it the loyalty of the bulk of the high command of the armed forces.

With Yeltsin?s victory in 1991 and the subsequent dissolution of the Soviet Union, Russia was transformed into a moribund workers? state5. This can be defined as a degenerate workers? state in which a bourgeois restorationist government has come to power committed to the restoration of capitalism. The immediate objective is the destruction of those institutions of command planning which had been left untouched by ?market socialist? reforms; above all, the break up of the ruling Communist Party apparatus within the state machine and inside the factories. By destroying the ?directing brain? of the planned economy the first steps are taken in the ?de-politicisation? of the economy. Other early measures included the adoption of a series of laws that recognised the right to own means of production and the unrestricted right to enjoy profits by exploiting labour.

Of the two aspects of the emerging post-Stalinist state machine, the task of imposing the domination of the new embryonic ruling class over the workers is the most immediate. Yeltsin set about this task immediately with the implementation of the economic shock therapy in January 1992.

The big bang; all shock, no therapy

Under Gorbachev?s rule (1985-91) the CPSU had loosened the reins of command planning and direct physical resource allocation. Adopting and adapting various reforms implemented in most East European countries after 1968, perestroika edged Russia towards a system of indirect planning in which the enterprises operated with considerable autonomy from ministerial directives. This was achieved through the national supervision of a set of closely connected monetary and fiscal mechanisms ? direct subsidies, controlled prices, investment credits and negative interest rates.

Nevertheless, indirect planning was still central planning, in which the planning agencies set definite targets for the pace and content of economic development. In early 1992 Yeltsin?s new government quickly ended even this degree of direction, destroying the centralised planning and supply structure.

The effect of this, in the absence of a new capitalist class and an alternative motor of accumulation, was to ensure a fall in material production and investment:

?The European Bank for Reconstruction and Development (EBRD) estimated that real GDP fell by 19% in 1992, 12% in 1993 and 15% in 1994 . . . an awesome decline, which no architect of the economic policies, or adviser or institution pressing for them, had forecast.?6

The new government saw to it that the burden of this historically unprecedented collapse fell on to the shoulders of the Russian working class. It used inflation to impoverish both wage earners and pensioners, by obliterating the real value of their incomes and benefits. With inflation running at 2,300% in 1992 and more than 800% in 1993, wages fell by two-thirds during 1992-94, by which time Yeltsin conceded that half of all Russians were living below the official poverty line.7

This fall was engineered by the government so that the value of wages would more accurately reflect the real nature of value added to products by Russian labour when compared to prevailing international levels of labour productivity. This was a precondition for attracting foreign investment and making Russian goods competitive in international markets.

Unemployment increased dramatically, despite the absurdly low figures for official unemployment in Russia ? around 2% in 1994. The low official level is explained by a combination of factors, the most important being the low level of benefits, lack of entitlement to them, the difficulty of registering, the stigma and the low possibility of finding another job.8 Real open unemployment was more in the region of five times the registered rate. 9

The big bang also included the liberalisation of most prices and trade. This important restorationist measure had the effect of converting money from a passive instrument of accounting, as it was under the degenerated workers? state, into an active agent capable of signalling relative productivity performances of the different uses of labour.

These immediate ?stabilisation? policies were, for the new restorationist government, critical preconditions for the transition to capitalism; without them it would have been impossible to measure ?progress? reliably. But they were only preconditions. Without far-reaching changes in property rights and, beyond that, a fundamental counter-revolution in the social relations of production, it would be impossible to pass from a destructive phase of transition to a new period of accumulation.

The contradictory nature of the privatisation process

?A collapse of the Soviet regime would lead inevitably to the collapse of the planned economy, and thus to the abolition of state property. The bond of compulsion between the trusts and the factories within them would fall away. The more successful enterprises would succeed on coming out on the road of independence. They might convert themselves into joint stock companies, or they might find some other transitional form of property ? one for example, in which the workers should participate in the profits.?10

Trotsky?s remarks turned out be to be remarkably prescient. The collapse of the planned economy led to the swift abolition of most state property. A ?transitional form? of property did emerge in which the Russian workers became shareholders.

One of the tasks to be undertaken by the government of Russia?s moribund workers? state is to create a capitalist class to undertake the transition to capitalism and, eventually, help transform the character of the state machine itself into a fully fledged capitalist one.

The process of denationalisation undertaken by the Russian government after 1992 was phenomenal in its scope and speed. Between October 1992 and June 1994 more than 15,000 medium and large state enterprises were privatised. By 1996 nearly 18,000 were in private hands, accounting for 80% of the industrial workforce and 88% of industrial production.

The privatisation scheme was devised by a team led by Alexander Chubais, appointed Minister of Privatisation in November 1991, (later Yeltsin?s Chief of Staff and now first deputy Prime Minister). Having secured control of the executive after the failed coup by Stalinist hardliners in August 1991, the new bourgeois government under Yeltsin moved quickly to ?de-politicise? the economy for several reasons.

In the first place, the state had quickly divested itself of the legal responsibility for organising the demand for products and providing investment funds, but no new owners existed who could be responsible either. There was only de facto possession of the enterprise and a general inertia in production and distribution. In the slump conditions that prevailed during 1992 each factory just struggled to keep going. As one report put it:

?State-owned enterprises had no clear owners and managers were left with no incentives to invest . . . Managers yielded to wage pressures and used most income flows, or even sold off machinery, to pay for higher wages.?11

The bourgeois government had to try and create a class of bourgeois owners in order to root the new bourgeois state in a new capitalist system. Privatisation also aimed to create competition between different blocs of capital. The new joint stock companies under state ownership would be one such bloc of capital. Competition for market share and investment funds is essential under capitalism if innovation and efficiency are to improve. Breaking up the huge monopolies was part of this process of creating competition. Finally, privatisation was recognised as essential in most industries if the enterprise was to get access to international capital markets for investment.

All this was the beginning of wisdom. The hard part was to devise a form of privatisation that was politically acceptable. Should the enterprises be sold for cash after being painstakingly valued, as in the west? Should foreign companies and banks be allowed to bid?

The legislation was adopted in June 199212 after a struggle between the Presidential executive, local administration and the enterprise managers who had a strong voice in a Parliament still made up of unelected deputies from the Gorbachev era.

The power of the ministries was first diluted by making all state enterprises self-governing joint stock companies under the control of a board of directors, prior to being privatised.13 The programme was also devised so that permission for privatisation did not rest with the Ministries but could be initiated from below by the enterprises.

The critical question was, who would the new owners be? In the wake of Yeltsin?s victory over the Stalinist hardliners in August 1991 all those who backed him in his counter-coup were united in following this victory through with a form of privatisation that would further weaken the power of the old economic ministries, where support for the now outlawed CPSU was strongest. As one account put it:

?The present and former bureaucrats in the ministries traditionally responsible for certain industries also entered the property battle. They wanted the enterprises in their former areas of responsibility to be organised into production associations with . . . large ownership stakes and a good deal of control over these huge conglomerates of companies. Sometimes they envisioned the state retaining ownership of the enterprises while they ran them.?14

In the spring and summer of 1992 the Minister of Industry, Alexander Titkin, gained some support for this in the Cabinet. Despite opposing this the Yeltsin camp was not agreed on its own alternative. One faction of the restorationists led by Boris Fedorov (former Finance Minister) and Grigory Yavlinsky wanted to sell the enterprises off to the highest bidders as this would attract capital investment. This would inevitably have led to extensive foreign ownership by western multinationals, which would have caused a storm of protest, and so was rejected by Chubais.

On the other hand, the idea that the ?working class owned the economy?, even if they did not control it, was widespread, an ideological leftover from the degenerated workers? state. Moreover, Gorbachev?s reforms strengthened this outlook when they gave the enterprise workers the power to elect their directors in the factories in 1987. As Trotsky predicted, some ?transitional form of property ? one for example, in which the workers should participate in the profits? ? was inevitably backed by many.

At the same time if ?insider ownership? was to happen, it had to appeal to the enterprise managers, especially since, ?The top managers . . . were virtually in complete control of their factories after Gorbachev removed the power of the cabinet ministries to fire them . . .?15

During 1992 and 1993 the managers pressed the Yeltsin government hard for the companies to be handed entirely over to them as ?closed joint stock companies?. They failed but they did ensure that they would gain greatly from the privatisation through ?insider ownership?.

While the managers did not favour employee ownership, the fact that the trade unions were effectively in the pocket of management led the directors to believe they would dominate any ?partnership? in the privatised firm. Given the atomised character of working class consciousness and organisation the managers feared potential outside investors far more than they did their own workers.

In Parliament the managers controlled a powerful force in the shape of Arkady Volsky?s Civic Union. In this climate, and given the pressure for speedy change, Chubais had to devise a plan that would embody massive inducements to managers.

The managers would have preferred the firms to be handed over to the workers and managers as a closed partnership. But Chubais resisted this since it would have made the firms immune to outside market pressure and ownership.

In the end Chubais had to compromise and allow managers and workers to buy 51% of voting shares at a nominal price of 1.7 times the book value of assets. The book value was based on the original cost of the buildings, equipment and assets of the enterprises in Russia. This was designed to prevent individually drawn-up, firm-by-firm valuations.

Russia, as a degenerated workers? state, simply did not have the range of information, mechanisms and institutions necessary to make a scientific valuation of the ?worth? of assets, based on international comparisons.16 Privatisation in the west took place in an established market, whereas in Russia privatisation was the mechanism by which to create the market.

The effect of the administrative valuation was to massively undervalue assets (minimally by 40 times and as much as 1,000 times)17 and make them cheap to buy, especially in the light of prevailing inflation.

Managers and workers could pay for their shares in cash, with vouchers or retained earnings from the firm. Chubais claimed one important victory: he ensured that workers were free to sell their shares which held out the prospect of significant outside ownership in the future.

This scheme of ?insider control? was a compromise between the Yeltsin neo-liberals and the enterprises. In order to outmanoeuvre the economic bureaucracy Chubais sought to gain support from the mass of the Russian population for his scheme, not just the 17 million enterprise workers, by giving away a minimum 29% of the remaining shares in each company, free of charge, to all of the 149 million Russian citizens through a system of vouchers.18

Between October 1992 and February 1993 144 million Russians (98% of those entitled) claimed a voucher worth 10,000 roubles. They could sell it, hand it over to a fund to invest or personally buy shares at a share auction of any company in the country.

This move broke the back of resistance to privatisation within the old Stalinist milieu since they did not want to be seen as advocating the confiscation of the people?s assets.19 Chernomyrdin, an advocate of the financial-industrial groups solution, denounced the scheme on becoming Prime Minister in December 1992. But he dropped opposition to it a month later. From that point on the anti-Yeltsinites among the dispossessed bureaucrats in Parliament only argued that the vouchers should be used to purchase health care and education.

The first auction took place in November 1992 and by the summer of 1994 most industry was in ?private hands?. The result was to create, in terms of ownership, a class of capitalists forged out of the top managers of the former state enterprises.20

The new bourgeoisie took to its task with relish, using every legal and illegal means to concentrate ownership in its hands. This involved a dual process of buying up the shares of their own workers and diluting the weight of shares held by outside owners.

During the privatisation process itself (1992-4) the managers weakened the influence of the outside owners by a number of means. They set up subsidiary companies to buy shares, they issued new shares, with little or no notice to outsiders that they were being offered, and then bought them out of ?loans? issued to themselves from the firms? revenues.

By the end of 1994 nine out of ten privatised companies were majority owned by a combination of managers and workers. On average, ?outsiders? owned 20% and the state around 10% of the shares.21

Over the next 18 months the manager-capitalists increased their number of ?insider? shares to around a third of all insider shares; but they failed to prevent an increase in the proportion of shares held by outside investors. In 1996 only six out of ten firms were majority insider-owned.

Average outside ownership rose to 32% in 1994-95 as employees started to sell their shares to outsiders when the price of shares rose. Already workers have sold a quarter of the shares they bought in 1993-94.

But outside ownership is not as strong as it might appear. Some of these outsiders were front companies set up by managers. Also, outside ownership is quite concentrated where it exists; one tenth of companies have no outside ownership and a quarter have less than 20%. Finally, during 1995/1996 ? as Yeltsin?s position weakened and Zhuganov?s KPRF and the Nationalists gained a majority in the new Parliament ? plans to privatise government shares to outsiders were shelved.

The rise in the votes for Zhuganov in the December 1993 Duma elections reflected growing disillusionment with the results of ?reform? thus far. Further closures and mass sackings that would result from a push to increase the power of outside investors over the enterprises seemed politically impossible to Yeltsin during the whole of 1996, a year plagued by illness and the need for Yeltsin to secure enough popular support to win a second Presidential term.

As the chief economist at the World Bank said on a visit to Moscow in 1997: ?I think structural reform had well and truly stalled last year.?22

The new Yeltsin cabinet appointed in March 1997 has already gone onto the offensive. A new law has been drafted to strengthen the rights of outside investors. Sergei Vasilev, head of the Russian Federal Securities Commission, noted that:

?Outside shareholders have already won control of one quarter of Russian enterprises and that a fierce battle is raging between insiders and outsiders at the remaining companies.?23

The outcome of that battle will be critical in shaping Russia?s new capitalist class and the enemy facing Russian workers.

The problem of agency; legal form versus social relations.

Privatisation created a class of private owners of industrial assets. But the behaviour of the new owners and the government over the two years after privatisation was substantially completed indicated that the change in the form of ownership in itself does not resolve the problem of how the enterprises will be run.24

There was a contradiction between the legal form and the social content of the new relationships between the state, the managers and the working class. This contradiction has pervaded the whole of the moribund workers? state phase in Russia. To hand over control and ownership of productive assets is one thing; to make the owners act as agents of capital and force the workers to submit to being a surplus-value producing exploited class is quite another.

Transforming the relationship between the new owners of capital has proved just as difficult. So has changing the relationship between the government and the newly privatised firms.

The essential task of the transition process is to make owners act like capitalists: to take systematic decisions regarding investment, production and sales that act to maximise the long run return on investments and/or maximise the stock market value of the company.

As Marx insisted:

?The creation of surplus value is . . . the determining, dominating and overriding purpose of the capitalist; it is the absolute motive and content of his activity.?25

In Russia after 1992, a number of firms started to make operating profits, whereby sales revenue was greater than the costs incurred in production. But it is important to understand the short term one-off causes of this and distinguish it from the profit maximisation that flows from the normal pattern of capital accumulation.

In the first place, wage costs were savaged by holding wages below the very high rate of inflation (2,300% in 1992). This high inflation also eroded the value of enterprise debt, which itself had to be serviced and was thus a cost to the firm.

In some of the larger firms in the energy sector, operating profits were an outcome of the monopoly they held in the domestic market which allowed high prices to be charged. Finally, privatisation resulted in a massive mark-down in the value of all company assets. Since the rate of return on investment is conventionally measured by sales as a percentage of assets, profits could rise initially.

Thus, early on in the transition, rates of profit reflected monopoly, one-off adjustment factors and the effects of inflation. All of these diminished with time. More and more firms became loss-making as the restoration process dragged on. To have a determining effect on the investment process (i.e. the overall accumulation of capital in Russia) profits have to be, in essence, an indication of the underlying productivity of a firm. For this, action in restructuring the labour process and the use of investment funds are the decisive indicators of the rational actions of the ?agents of capital? in the production process.

By contrast, many firms in the old USSR were value-destroying: many more operated at a loss. Surplus labour was hoarded by enterprise managers for possible future ?storming of the plan targets?; the productive capacity of the firm was often hidden from ministry officials.

The EBRD summed up the inheritance and the task facing the enterprises in 1995 as follows:

?Many of these enterprises are saddled with a product range for which there is little or no demand, obsolete equipment, an oversized workforce with an inappropriate mix of skills for a market economy, a set of expensive social responsibilities to their workforce and large debts.?26

Restructuring a firm has a twofold aim during the restoration process. On the one hand, it involves a purely technical change in what Marx called the ?use-value? character of the labour process. The pattern of production in the old USSR was broken up; established markets in Eastern Europe were destroyed, the preponderant weight of the defence sector in the life of many firms had to change. Consequently, many enterprises had to change their product lines and find new markets.

But the most important change concerns the transformation of the labour process into a ?valorisation process?; that is, the new products manufactured had to become at the same time exchange values which embody a surplus value over and above that necessary to replace the cost of raw materials and machinery and to reproduce the labour force.

This entails shedding labour, attracting capital for new plant and equipment in competition with other firms. It also means introducing parts of the valorisation process entirely absent in the old USSR, such as sales and marketing divisions, to ensure that the surplus embodied in the new products is actually realised through sales.

But acting as an agent of capital inside the firm is not ?natural? human behaviour ? contrary to what the ideologues of the free market may like us to believe; it is socially learned behaviour. The workers and most managers in the degenerate workers states did not learn it and had to be taught it. The average age of an enterprise director in Russia in 1993 was 54, with thirty years of training in the bureaucratic command economy.27

One key aspect of social reality for worker and manager under the degenerate workers? state was the notion of the ?labour collective? in the enterprise:

?The essence of this phenomenon consists in the fact that everybody who works in the enterprise has the same status as a hired labourer. The contradiction between the interests of the worker and those of the administration, while they are very significant, nevertheless take second place to the contradiction between the labour collective of the enterprise and the external administration, and now even the market environment.?28

In other words, despite the shock of the economic big bang and the privatisation programme, the process of class differentiation within the independent enterprises has been slow. The capital-labour relation has not fully emerged from the chrysalis of the ?labour collective?.

It is not surprising that under these conditions the restructuring of the enterprises, even after privatisation, has been slow and hesitant. Ruthless, profit-maximising behaviour in the labour process would demand mass sackings, attracting investment for new equipment. But as the EBRD ruefully noted in its 1995 report, in factories where worker-ownership predominated the primary objective ?is likely to be first to preserve employment and then to maximise wages, subject to the firm remaining solvent.?29

When it came to using enterprise savings during the 1991-93 period, rather than use them for investment, ?The savings of enterprises were in many instances financing an accumulation of inventories in the form of unsellable goods. ?.30

As regards the pattern of investment in general the EBRD claimed:

?The high reliance on internal finance by state enterprises or those that have been privatised to dispersed outside shareholders or to insiders resembles the pattern of enterprise finance from the previous regime, in terms of management and decision-making process and the aggregate flow of funds.?31

Perhaps the most stark illustration of the suppressed character of the capital-wage labour relationship in the Russian moribund workers? state is to be found in the nature of Russian unemployment. Reference has already been made to the low registered and even lower level of open unemployment: 9.3% by the ILO?s definition in 1996.

But this figure is no guide to the total surplus labour in the enterprises. While sackings did occur it was nothing like on the scale that would be implied by the collapse of output. In reality a number of surveys have shown that ?the concealed unemployment index? was, by 1994, around 33% of all workers in Russia.32 How could the huge gap be explained?

Without sacking them managers did lay off workers for varying lengths of time; 5% of all Russian workers were on unpaid leave in 1992/93. In July 1994, 5,000 factories were not working at all and one estimate suggested that 7% of the working year was not worked due to partial or total shutdowns in 1994.

But all these ?surplus? workers officially stayed on the firms? books as employees. This allowed managers to avoid having to pay severance money and the workers were still entitled to their share of firm-based benefits: food, household goods, holiday trips, hospital costs, day care centres, nurseries and subsidised housing. Although all these were harder to come by they were important given the low wages.

The bottom line was simply that managers did not feel compelled to turn concealed into open unemployment:

?There has been excessive wage flexibility, excessive in the sense that it has been easy for managements to avoid or reduce wage costs, and therefore they have been under little pressure to remove surplus labour.?33

But this phenomenon of the Russian transition is ? from the standpoint of the transition to capitalism ? one of the more backward features. It accounts in part for the fact that the Russian moribund workers? state phase has been so protracted. While surplus labour was legally freed from its attachment to the enterprises by Yeltsin it has been more difficult in practice to create the mobile reserve army of labour that is essential to a capitalist economy.

The total transformation of Russian labour power into a commodity has still not been completed. While wage differentials have emerged within and between industries, the commodification of labour power has stalled since non-wage goods and services from the enterprises can account for more than actual wages themselves.

The consequence for the privatised enterprises is clear; it prevents them from becoming profit centres:

?It has been estimated that 20% of total compensation paid by Russian industrial firms is accounted for by social services?.34

One manager noted:

?The expenses for the plant?s day-care centres, apartment houses, medical centre, and farm take up a good part of our total sales for a month!?35

And another:

?Payroll accounts for 22% of our costs. But we have social programmes for employees that account for about 25% of our costs.?36

A key task of the restoration process, then, is to devolve responsibility for non-wage benefits away from the firm and onto national and local government so that the costs of production in each enterprise can be brought below the surplus generated by the workforce itself. At the same time, wages would then have to rise to a level which more accurately represents the cost of reproducing labour power without systematic recourse to goods and services which themselves are distributed to the workforce in a non-commodity form.

In mid-1996 it was estimated that workers? wages only account for 40% of household income ? down from 60% two years earlier ? with the rest coming from petty trading, dividend income from shares etc. Once again, these figures reflect the protracted and difficult process of crystallising out a fully formed proletariat dependent on the sale of its labour power alone.

Moreover, the phenomenon of non-payment of wages only serves to reinforce this view. Many workers do not sell their labour-power, they give it away. In a situation of high inflation, a serious delay in the payment of wages also amounts to non-payment.

In 1996 the government estimated that unpaid wages amounted to $4.5 billion. The amount had doubled in the first eight months of 1995. But even this is a gross underestimate. During the March 1997 protest strikes against non-payment of wages the Russian media reported the total to be nearer $500 billion!37

Around one-third of all firms in late 1995 owed wages to their workers.38 This amounted to an average of 7% of sales revenue.

Thus, non-payment probably made the crucial difference between profit and loss for a firm.

Under capitalism surplus value is indeed drawn from the unpaid labour of the workers, but this is not direct robbery since, in value terms, the workers receive the value of their labour power in the form of wages. Under capitalism exploitation is a function of the immense productive power of labour which generates more value than it itself contains when it is applied to production.

But in the Russian moribund workers? state, while pockets of capitalism seek to push their way through, the economy is completely disfigured by a labour process in which surplus value is at the expense of wages, in which the working class is indeed robbed but in which it gets partial compensation by receiving charitable handouts from the firm in the form of non-wage goods.

It is not the case that restructuring is entirely absent in the Russian moribund workers? state, but it has been of a generally passive character. Generally speaking, productivity falls during this phase since demand slumps faster than jobs.

But productivity improvements in most firms where they have begun, take place on the old technical foundation inside the firm. That is, they result from sackings and using existing equipment more intensively, rather than on the basis of new investment.

Even this level of restructuring does not disguise the fact that decisions are generally taken in a moribund workers? state to preserve the enterprise as much as possible from the effect of the operation of the law of value. As the World Bank ruefully noted:

?The bottom line is that management-employee buyouts can lead to managerial and worker entrenchment that blocks further reform.?39

Relations between enterprises

Matters stand no further advanced in the moribund workers? state when it comes to relations between the independent enterprises. Capital has to differentiate itself not only from wage labour but also from itself. It was hoped that once they were free from the directives of the ministries the prospective capitalist-managers would engage in open, unchecked competition with each other for a greater share of social surplus value. But once again the record of the first five years of transition in Russia indicates that these relationships have acted to impede the spread of the law of value to the state and the privatised firms.

More than 60 years ago Trotsky had already predicted that with the abolition of the planning agencies ?the bond of compulsion between the trusts and the factories within them would fall away?. But what would replace it?

Here we must turn to explore the significance of Trotsky?s brief remark that under a new bourgeois regime, ?the planning principle would be converted for the transitional period into a series of compromises between the state power and individual ?corporations? ? potential proprietors, that is, among the Soviet captains of industry.?

In effect in Russia, during 1992-94 the ?bonds of compulsion? were replaced by what we might call ?the bonds of custom and practice?. Having lost the organising centre of the branch ministries which had issued the state orders, the majority of enterprise directors established a series of bilateral ties and with it a chain of orders that either continued the line of supply and demand of the old regime or set up new ones to compensate for the loss of markets in Eastern Europe.

Many firms in the new moribund workers? state adjusted to the loss of state orders by, as far as possible, seeking to reproduce through a series of bilateral relations the proportions of the old command system. Although the ?planned economy?, like the Cheshire Cat, faded from view its smile, or rather its grimace, persists during the phase of the moribund workers? state.

The common response was to continue as far as possible in maintaining the flow of materials from established suppliers and selling goods to established customers. Yet because state subsidies had been cut, and prices liberalised, more and more firms were unable to pay for the goods they received. They were neither paid by their customers nor did they pay their bills to suppliers. A vicious spiral of inter-enterprise debt (IED) began. By mid-1994, according to official Russian government figures, 39,000 enterprises were in serious debt:

?Only 11.7% of all firms had no debts to banks or other enterprises . . . 56.3% of firms stated that they owed more than was owed to them.?40

By August 1994 the government estimated total IED to be US$40 billion.41 By the end of 1995 enterprises? liquid assets covered less than 25% of debts due compared to 51% in 1993.

In turn the accumulation of debts was little more than an accumulation of losses. The number of loss-making firms continued to grow after privatisation. In 1995 25% of all industrial enterprises were reported to be loss-making compared to 10% in 1993.42

A comprehensive study of Russian industry in 1995-96 summarised its results by categorising firms in one of four groups: ?clear winners? who will survive and finance investment from their own profits; ?potential winners? which are profitable but need new capital to prosper; ?uncertain? firms which are sliding towards bankruptcy; and ?losers? which ?need to go bankrupt because it is impossible to operate them successfully?.43

The authors reported that, as of June 1996:

?No more than a quarter of Russian companies are clear winners . . . The bad news is that three-quarters of Russian corporations are in need of radical and far-reaching restructuring. At least a quarter of those firms should be bankrupt.?44

Government intervention in the moribund workers? state

A crucial factor in our understanding of the ?moribund workers? state? is that the government ? despite its impeccable pro-IMF credentials ? was a grudging but active participant in this series of compromises. It underwrote ? on an extending scale ? non-commercial economic behaviour.

During 1992-94, this included the Finance Ministry and Central Bank themselves issuing budget subsidies to ailing firms. For much of this period control of the money supply and credit was in the hands of Parliament, which in turn was dominated by anti-Yeltsinites. Similarly, bankruptcy legislation, formally adopted in 1993, was not enforced. On the contrary, typically for a moribund workers? state, bankruptcy legislation was used by those in debt to protect themselves from the claims of creditors; that is, to prevent the enforcement of the law of value upon ailing or failing firms.

While this does not seem rational from the point of view of the capitalist goal, it is explicable from two angles.

First, just as the political balance of forces in 1992-93 had demanded a compromise between Chubais and Parliament in drawing up of privatisation proposals, so Yeltsin was balancing between neo-liberal hardliners and forces that favoured heavy state support for Russian industry. In many Russian cities, dominated by nationalist and KPRF local administrations and heavily dependent for employment on one or two major enterprises, the pressure to preserve many firms from the market was immense.

Secondly, even the most fanatical restorationist recognised that at least until privatisation and the breaking up of huge monopolies took place there was a case for preserving bankrupt industry to see if they could be ?turned around? under changed ownership.

It is important to understand that this paradox is not the result of insufficient determination on the part of the restorationists but rather constitutes an acknowledgement by them of an objective difficulty at the heart of the process.

The bulk of material production in the moribund workers? state can become surplus-value generating production only on condition that its present unprofitable character is sustained and reproduced for some time in the transformation process. A generalised and immediate imposition of the law of value on the labour process in the bulk of Russian factories would have destroyed the possibility of future surplus value creation.

It is typical behaviour of the state, in this phase, to actively underwrite the extension of loss-making production. While capitalism can tolerate and approve of the partial negation of the law of value implied in selective state subsidies, it is hardly capitalism when a majority of firms owe more than their assets are worth and these losses are absorbed into the state through the medium of the government?s budget deficit.

The government also had conjunctural reasons for extending support to loss-making firms; without it mass privatisation would have been politically impossible. If tens of millions of Russians found themselves, overnight, in possession of shares of privatised firms that had gone out of business there would have been major repercussions.

As a result of all this, during privatisation throughout 1992-94:

?Firms continued to receive most of their credits through the central bank, and often paid interest on these credits out of government subsidies they received from the national budget. Loans were repaid with proceeds from new loans. In 1992, government subsidies and central bank credits together added up to over 40 percent of the GDP.?45

This politically directed indiscriminate support for enterprises was checked in late 1993, after the grip of the ?anti-reformers? in Parliament over the Central Bank was broken by Yeltsin?s October 1993 coup against Parliament, followed by new elections to it.

This had the effect of controlling the money supply and hence capped inflation. Real interest rates were also made positive for the first time in 1994. Inflation fell from 20% a month in 1993 to around 5% a month in August 1994. But far from forcing the ailing firms to act like capitalist units all this succeeded in doing was to shift the burden of propping up industry elsewhere.

Non-commercial loans from the private banks continued for a while and local government has extended credit to local firms.46 But the main basis of support to firms, and a key factor in easing their financial crisis, has been rolling over the huge amounts of IED and the toleration of generalised non-payment of enterprise taxes to the government. The result has been the proliferation of loss-making production by means other than Central Bank credits or government subsidies.

To date the Russian government has chosen, as happened in all other moribund workers? states, to use bankruptcy laws to protect rather than destroy failed enterprises.47 The laws that were drafted in 1992-93 do not empower creditors to enforce the bankruptcy of a debtor but rather leave the initiative with the government. It has steadfastly chosen not to use this power.48

Bankruptcy has the function of releasing capital locked up in failed firms so it can be redistributed to profitable concerns; it is the supreme negative moment during which the law of value is enforced. But in Russia, since 1992, it has not been enforced. On the contrary, the number of firms protected by the government against closure has multiplied with each passing year of the transition. As of June 1996, ?Oleg Soskevets, former first deputy prime minister, said that 35% of industrial enterprises were technically bankrupt.?49

A tale of two hundred cities

In many of Russia?s one-industry cities the whole community is drawn ever deeper into the vicious circle of inter-enterprise debt and non-payment of wages. The result is barter between local industry and suppliers and ad hoc local ?currencies? being used to trade goods and services within the towns.

An example of what this means for millions of Russians is Zlatoust.

In Zlatoust (1,320 km south-east of Moscow) the steel factory is the main or only source of employment for the 200,000 inhabitants. It is badly in debt and the enterprise director said:

?In Russia we have a crisis of payments ? money just doesn?t work any more, so we mostly live on barter.?50

Since late 1995 the factory has issued its own cheques as currency. The workers only receive $30 of their monthly wages in cash. The other $115 is in factory cheques, ?to buy a Soviet-style selection of foods and consumer goods from the factory stores, pay for rent and local utilities and even purchase bus tickets.?51

The local government allows the factory to pay off its tax debts in these cheques, which in turn are used to pay for child allowance and pensions.

This experience was replicated across the country during 1995-96. From the vantage point of the restoration process it represents a massive breakdown in the circulation of ?capital? in Russia. This latter process demands that money becomes more and more ?abstract?, that is, disinterested in its origin and capable of being transformed into all and any concrete use-values, accumulated in savings accounts and be capable of being invested in myriad profit centres. Only in this way can money serve as capital, as ?self-expanding value?.

But in Russia, in 1995-96, the rouble, far from being the ?universal equivalent? acting as a servant of capital accumulation, was being discarded in favour of local currencies which serve only as an acceptable means of payment in many disconnected patches of Russian territory.

?A crisis of the state?

Towards the end of 1996 the Russian restoration process was in crisis, and not for the first time. The paralysis of the state was symbolised by Yeltsin?s prolonged illness and recuperation after heart surgery. The Russian state was consumed by the failures of the push for capitalism and seemed incapable of rising to its mission as architect of the transition.

Michael Camdessus, managing director of the IMF, claimed at the end of last year that Russia was suffering from a ?crisis of the state?. By this he meant not simply a run of the mill conflict within the government of the day, or between the administration and the opposition. He was referring to something altogether more fundamental: a crisis of existence. What was at stake was the very ability of the state to function as the ?general executive committee of the ruling class?, to use Engels? phrase.

The state had proven its anti-working class credentials in driving through the momentous lowering of wages, pensions and state benefits and increasing unemployment. But it was faltering in its ability to raise itself above the squabbles of the emerging Russian bourgeoisie, to adjudicate the rival claims of the different factions, to draft and enforce the most basic laws that determine ?the rules of the game? by which all capitalists have to play: the respect for rules that govern inter-capitalist competition.

In the early years of transition (1993-95) the most powerful symptom of this crisis was the inability of the state to enforce ?the rule of law? over the Mafia-capitalists. It could not root out the many bought and paid for bureaucrats and politicians within the state apparatus that protected the Mafia.

But the problem went deeper than the issue of criminality. It is a structural problem, the most obvious evidence of which is the fiscal crisis of the state. Any class state has to be able to draw off a part of the social surplus generated in production, through general taxation, in order to sustain its apparatus of administration and coercion. But the Russian moribund workers? state has proven incapable of raising, or collecting, the taxes it needs to carry out its basic functions. As Chubais noted in April this year:

?Russia is experiencing a monstrous state budget crisis, whose parameters, if the truth be told, call into question the ability of the state to perform its functions.?52

The problem originated in 1992-94. By rejecting cash sales of state assets the Russian privatisation programme deprived the government of valuable revenue with which to finance the budget deficit. This deficit mushroomed during 1994-95 because of growing unemployment and a collapse in tax revenue during the slump. Further tax concessions were made to enterprises so as not to push them to the wall.

But this problem led to another: many officials of the state bureaucracy (police and tax collectors) were as much victims of the widespread non-payment of wages and salaries as teachers and other state employees. As one report put it:

?Russia?s guardians of law and order ? police and tax inspectors ? are forced to live off bribes rather than their unpaid salaries.?53

Time and again over the last few years the government has insisted that the taxes must be paid to fund the transfer of social benefits from the enterprises to federal and local government. Time and again the enterprises refuse to pay the taxes in the belief that the government will use the revenue for other purposes. It is a powerful symptom of the inability of the aspiring capitalist state in Russia to command the loyalty and obedience of the emerging capitalist class which it strives to serve.

The same phenomenon is revealed by the battles waged between the rival owners of capital for control of the privatised enterprises. The state has proven worse than useless as an instrument for regulating the conflict between ?insiders? and ?outsiders? for control over share capital, a key issue in the fight to impose the ?logic of capital? over the behaviour of the enterprise directors. All kinds of breaches of law have taken place by ?insiders? to thwart the ability of shareholders to exert their power over restructuring. Dmityr Vasilev, the Chairman of the Federal Securities Commission, which regulates Russia?s capital markets noted in April this year:

?At the moment I have insufficient enforcement powers. I cannot fine directors or put them in jail.?54

Of course, weak or corrupt states can be found in many fully developed capitalist countries, especially in semi-colonies. But in Russia these structural deficiencies are not simply disfiguring the process of capital accumulation and the running of the state machine, but are impeding the very emergence of capitalism and the law of value as the governing set of social relations.

Yeltsin?s new government, appointed in March, has made the solution of this problem its key task. On corruption, laws have been tabled to end the established relationship between the state and ?authorised? banks which handle the federal government money. A public tender system has been introduced to oversee government contracts; officials of the state will be obliged to declare the source of their income and their families.

To regulate inter-capitalist competition the government is drafting legislation to increase shareholder power over the directors.

As for public finances, the government appointed by Yeltsin in August 1996, just after his re-election, had already abolished all the tax breaks and privileges announced by Yeltsin during his campaign. But the reshuffle in March this year has signalled major new reforms. Chubais plans to break the power of the Russian monopolies. Gazprom alone generates 8% of Russia?s GDP. The prices it sets for the rest of industry is part of the reason for the widespread arrears and debt problems. By breaking up this and other monopolies, and lowering prices, the state aims to ease the restructuring of capital and get in the tax arrears.

If the new government implements its plans successfully the Russian state machine will undergo a major transformation. It will gain all the attributes of an embryonic bourgeois state, determined to shed Russia of the final characteristics of a moribund workers? state by overseeing the necessary restructuring measures over the key industries.

Russian Finance Capital?

What will be the fate of a future Russian capitalism? Is it destined to be a semi-colonial ruin, dominated by European Union and US multinationals, eventually falling submissively into imperialism?s diplomatic and military alliances?

Or, as an ex-?superpower?, can it fend off the encroachments of imperialist capital and, behind a wall of protectionist measures, build its own sectors of monopoly finance capital capable of first dominating the Russian economy and later the CIS and further abroad?

Without the fairly swift concentration and centralisation of capital in Russian industry and finance the latter development is unlikely to occur. On the other hand, opening up Russian companies indiscriminately to the kind of investment most need in order to restructure them along capitalist lines threatens to hand over control to ?outsiders?, foreign multinationals among them.

To date, foreign imperialist investment in Russia has been slight ? just $5.3 billion between 1989-96,55 deterred by the unprofitable character of most industry and the fact that investment does not guarantee any power to impose restructuring.

In addition capital markets ? another potential source of investment funds in Russia ? are small and with little turnover. Very few of the major companies trade shares on the stock exchange and of those that do less than a fifth of their shares are available for trading.

It is in the relationship between Russian industry and Russian banks that the key to the future lies. After 1992 there was a massive growth in commercial banks in Russia. This experience was very different to Central Europe where there were very few private banks until recently and most of these are state banks that have been privatised once the very long process of ?retiring? their massive debts was achieved.

In Russia the hyperinflation of 1992-94 effectively destroyed most of the debts of banks and new banks were allowed to set up with minimum capital. Over 2,500 sprung up, 80% of them using capital from sponsoring enterprises.56 For most of the inflationary period the banks wanted to make profits from short-term speculative investments in the high yield finance markets (buying government debt to finance its budget). Consequently few invested in industry.

Many banks were receiving funds for enterprise investment from the state, intended to be passed on to the enterprises. But they were withholding them and speculating with them in short term deals on currency markets. Bank lending in 1993 for investment was a mere 8% of all investment and even this was not for new equipment (as in the old USSR) but went to finance stock holding.

During its phase as a moribund workers? state Russian enterprises have relied for most of their investment needs on their own cash reserves and/or privileged access to non-commercial loans from state banks. Clearly, this situation is incompatible with capitalism, a system which demands that investment is directed at those industries that have the best future prospects and is drawn from funds that are centralised and depoliticised. Investment that is, in general, based on privileged political access based on past ties is not capitalist.

Nor is a system whereby profits generated from within one enterprise are not circulated to capital as a whole via banks, investment or pension funds, which in turn lend them on at commercial terms to those sectors most likely to produce the best rates of return. A society in which profits only remain available for use within the firm that generated them, irrespective of its performance, is not a society in which the law of value holds sway over the accumulation process.

But there are signs that this situation is changing as the character of Russian banks is transformed. The assets of banks are becoming more concentrated as many banks go bust and regulations on their operations are tightened. The relationship between the major banks and their original sponsoring enterprises has become inverted:

?From being auxiliary financial branches of their corporate sponsors, they became in effect the principals in new diversified conglomerates.? 57

The catalyst for this inversion was the introduction of a loans-for-shares scheme in the second half of 1995 when the government sold its share of equity in the privatised firms to the banks in return for loans to the government.

This in turn meant that banks:

? . . . even while reluctant to lend to potential investors, have moved towards involvement in capital formation in the real economy: they have acquired privatised domestic enterprises. This process, which took off in 1995, became feasible and extremely profitable owing to the severe undervaluation, in terms of a normal international comparison, of the fixed assets of the Russian enterprises, including the huge energy and high-tech producers.?

This process has led to a new form of conglomerate?the financial-industrial groups (FIGs). The FIGs usually comprise banks (or investment funds) and industrial and trading enterprises:

?By mid-February 1996 there were 30 officially registered FIGs, up from 15 in August 1995. All together, they controlled nearly 300 industrial enterprises and 70 banks and employed 2.5 million people. The state is a partner in each of these FIGs; its holding varies but it is below 25% in every case.?58

Some commentators suggest that these conglomerates are shaping up to be the Russian version of the Korean chaebol or Japanese keiretsu, huge cartels with interlocking ownership and dominant over the entire economy.

However, there are two kinds of FIG, each with very different implications for the restorationist process in Russia. One type resembles a typical merchant bank of the west. One survey has described this in the following manner:

?The merchant bank does not have to worry about stock markets, share registries, struggles with managers, or half-hearted commitment to restructuring plans. The general director of a typical bank FIG described his operation: ?We own fifty privatised companies and have twenty people engaged in buying stock of employees at these enterprises?. ?59

While the weight of FIGs in the Russian economy is small at present it is dynamic and growing.60 And as the same report notes:

?The main objective of the FIGs is to introduce transnational Russian companies to the world scene and allow them to become active in the economies of the former Soviet republics.?61

The other kind of FIG has been labelled a ?capitalist politburo? whose purpose ?seems to be to protect the current management of the companies and recreate the massive associations of companies that typified Soviet industry?.62

Gazprom and Ruskhim (chemical giants) are cited as examples of this kind of FIG, huge energy monopolies with vast assets which ?want to channel their capital to the weak companies, in effect to create a kind of closed capital market in which enterprise managers can deal with people they know rather than the anonymous market.?

The danger posed to the restoration process by this kind of FIG is clear to leaders like Chubais in the new government. They may impede or block the necessary restructuring, encouraging all the vices of monopoly capital (parasitism, decay, anti-innovation, protecting market share rather than dynamic expansion), without having acquired any of the virtues of capitalist competition that might equip them for doing battle in the future with the major MNCs of the EU, Japan and the USA in global markets.

That is why Chubais? new government aims to push through anti-monopoly measures to break up these potential Russian chaebols at least until they have proven their worth in overcoming the remaining obstructions to capitalist restoration itself.

Nevertheless, it is clear that in principle the shape of a new Russian finance capital can be discerned.

The working class in Russia during the transition

The Russian workers have borne the full brunt of the rush for capitalism. Real wages had fallen by two-thirds up to 1994 before stabilising. Pensioners have been utterly impoverished by inflation. Unemployment, while officially low, is in reality is over 10%.

There have been alleviating factors. The privatisation process briefly gave many workers a few dollars in vouchers to supplement their meagre incomes. Moonlighting has marginally raised household income above nominal wage levels. Continued access to a much reduced supply of consumer goods via the factory also helped alleviate the worst shortages caused by poverty incomes.

But the poverty, insecurity and humiliation has been immense.

Naturally, the workers have not suffered in silence. But while strikes and street protests have continued throughout the restoration process, the class struggle has been at a very low level. In 1992-94 less than 2% of the enterprises experienced strikes. And most of these were initiated or supported by enterprise management in order to extract subsidies from the government or were a weapon used by one faction of management against another.63

Starting with the national protest against non-payment of wages in October 1994 there was a ninefold increase in the number of strikes in 1995. But only 3% of these took place in the now privatised industries. Over 95% of them occurred in the impoverished public sector (especially within education and among the miners), again demanding payment of back wages.64 Even strikes were rarer in Russia in 1995 than in the USA.

The weakness of the Russian workers? response is partly due to the scale and depth of the economic attacks in 1992. They were so generalised and dramatic that millions were thrown back on their heels in shock and their only thought was survival through to the end of each week.

Nevertheless, the reaction, at least of the vanguard, could have been different had the Russian workers not been languishing under the long-term effect of an historic political defeat inflicted upon them in 1920s and 1930s when all independent working class organisation was crushed, when the political vanguard was imprisoned and murdered. Stalinism obliterated the memory of the tradition of the struggle against the Tsar and of the working class? role in leading the October Revolution.

In 1936, Trotsky argued that despite the triumph of Stalinist dictatorship over the Soviet working class, ?the social revolution, betrayed by the ruling party, still exists in property relations and in the consciousness of the toiling masses?.65

By the time of the death agony of Stalinism in 1989, the ruling caste had effectively severed the connection between the property relations and the consciousness of the masses.

A protracted anti-Stalinist mass struggle in the 1980s and early 1990s may have gone some way to reviving a tradition of independent working class action. But by the time of the overthrow of Gorbachev, left-wing parties had barely reached the stage of small propaganda groups among the intelligentsia. As for the many workers? committees set up in

1989-91, ?in the course of a few years many leaders of the strike committees became successful business entrepreneurs and state administrators.?66

Lacking independent political parties the working class looked its trade unions. But these were fatally compromised. The old unions, embracing the bulk of the workers, had been no more than appendages of the ruling Communist Party in the factories and state farms. When the CPSU was kicked out of the enterprises, the union bureaucracy drew even closer to the enterprise directors. These bosses allowed the unions to continue to supervise the provision of social welfare, a responsibility inherited from the degenerated workers? state.67

The new unions, originating in the strike committees of 1989 that struggled against Gorbachev, were, by and large, labour aristocratic or avowedly and narrowly craftist:

?Their main feature was the refusal to attempt to express the interests of the whole collective . . . often sharply distinguishing their interests from those of the bulk of the employees.?

The miners for example, believed that ?economic independence? of their own mines would allow them to prosper. Many of them were avowedly non-political and raised the self-defeating slogan, ?The Workers? Movement Out of Politics?.

But in reality, their leaders often backed Yeltsin and the so-called ?democratic camp?. When Yeltsin became President of the Russian Federation in 1990 he poured 40 million roubles into the coffers of the Independent Miners Union (NPG) to set up a union in Vorkuta. In the summer of 1991 Yeltsin favoured the miners with a big pay rise that angered many other sectors.

Even after 1991 when Yeltsin launched the ?big bang?, these unions continued to support him and directed their anger at enterprise directors rather than the federal government. Only with the gradual withdrawal of the subsidies in 1992 and after and the realisation that ?independence? under the market would not bring prosperity but only unpaid wages, did rank and file miners begin to shift their allegiance. While the NPG leaders still supported Yeltsin in his clash with Parliament in October 1993 there was no enthusiasm for this on the part of the mass of miners. From 1994 the NPG would be forced into struggle against the non-payment of wages.

As a result of the ties between the new unions and Yeltsin, it was the old trade unions, during the ?big bang? of 1992/93, that many Russian workers looked to for protection. These unions, organised inside Russia in the Federation of Independent Trade Unions (FNPR), survived the big bang organisationally intact. In 1993 more than 90% of all firms had recognised trade unions.68 In 1994 the number of workers in unions was still 74%, after two years of decline. The FNPR claimed 56 million members, 60% of all adults.

The problem was not the numerical strength of the trade unions but the role played by their bureaucratic leadership. In short, the unions continued to thwart the emergence of independent class struggle politics as they continued to carry out the functions that they had under the old Stalinist system:

?A survey of presidents of enterprise trade union committees in 1993 found that 95% of them saw themselves as part of management.?69

On the other side, the enterprise directors continued to be members of the trade unions rather than members of employer organisations, further weakening the unions.70

Surveys indicate that the unions failed to prevent the collapse of wages in 1992-94 and they had some effect in maintaining occupational and gender wage differentials; but they also limited the growth in the numbers of the very low paid.

In these circumstances what would explain the high level of union membership? As Boris Kargalitsky argued:

?The traditional unions continued performing the role of consumer co-operatives and of a ?safety net?, helping people resolve numerous everyday problems from purchasing cheap sugar to organising places in children?s summer camps; in conditions of acute economic crisis, these functions were valued more highly than ever.?71

This role accounts for the high unionisation rate. All surveys show that factories with unions were more likely to provide benefits than factories without unions. So important was this function that the new unions that emerged in opposition to the CPSU and old trade unions in 1989-91, and which had initially refused to be part of the social welfare system, scrambled for such a role after 1993. However, the power to preside over the allocation of food, consumer goods, holiday vouchers etc., rested with the management, which devolved this responsibility onto the trade union bureaucracy in the knowledge that they could always take it away from them.

Despite their continued existence as an extension of enterprise management (or possibly because of it) the unions did organise strikes in 1993 as the effects of the big bang took their toll on the working class. Matters came to a head when the government refused to honour a collective wage agreement with the FNPR in August 1993. During the first ten days, one and a half million people went on strike at different times. Kargalitsky said of these strikes:

?For the first time since 1905, workers? protest actions were occurring simultaneously in various sectors and regions, in response to calls by the trade unions and on the basis of general all-Russian demands.?72

But the trade unions were weakened by the outcome of the clash between Parliament and Yeltsin in October 1993. The FNPR strikes abated while the political struggle between Yeltsin and Parliament intensified. The FNPR sided with Parliament but only threatened action ?right up to the use of the strike weapon.? This did not frighten Yeltsin:

?Following the bombardment of the White House, real panic broke out among the FNPR leadership. The government confiscated the social insurance fund from the trade unions, and in some regions the authorities attempted to seize trade union property.?73

The national leadership of the FNPR resigned and the whole defeat led to a significant erosion in union membership inside the factories in 199474. Strikes continued in 1994 (especially in March and October) but they were ?warning strikes? which were largely ignored by the government. Only an all-out offensive by the unions would have been enough, but the leadership refused to countenance this since it would have challenged the government and they had no alternative to propose.

During 1994 united fronts began to emerge between the old and new unions and rank and file disillusion in the leaders became widespread, though it did not lead to any effective challenge to them.

The last two years have been the worst from the point of view of active resistance to Yeltsin.

Political hostility has been channelled by a revitalised Communist Party and by Lebed?s nationalism. On 27 March this year, however, the FNPR organised national protests under the slogan, ?For labour, justice and social guarantees.? The strikes were generally token stoppages of an hour or two to allow people to attend demonstrations throughout the country.

Many of them took place with the permission and co-operation of management who wanted to deflect the protests away from themselves and direct them at the government. Tens of thousands, rather than hundreds of thousands, was the norm. The FNPR claimed over 20 million workers participated in protests, with 5.1 million workers joining strike action for part of the day.75 Crucially, however, 94 of the 100 Kuzbass coal mines worked normally.

The main demands were for immediate payment of wage arrears, but in a few protests political demands for the resignation of the government were prominent. Reflecting growing frustration with the fact that strike actions are limited and remain ignored by the government, miners in Kiselevsk seized the town hall on 7 April in their fight for the payment of wage arrears:

?Seizing officials as a way of demanding payment is gaining popularity in the Kuzbass.?76

Reports of similar actions have been made in Prokopyevsk and Soloir. Most recently:

?In Ustllimsk, Siberia, unpaid teachers and doctors briefly took a group of local bankers hostage in an effort to extract their unpaid wages from the regional administration.?77

The Russian working class has suffered terribly these last six years; but some of the biggest attacks lie ahead. Chubais? anti-monopoly legislation and his plans to increase shareholder power quite simply means a huge push to restructure the 35% of Russian industry that is ?technically bankrupt?. This will lead directly to mass unemployment.

Yet these impoverished workers will find it more difficult than ever to survive once ?released? from the enterprise, with its informal lifeline to certain essential goods.

Chubais? call for ?sound public finances? has been concretised into a proposal for £10.7 billion to be slashed from public spending to balance the budget. Rent subsidies and child allowances will be cut or eliminated just at the time that the Russian masses are having to endure below poverty level state handouts and mass non-payment of wages.

The grandparents and great-grandparents of today?s Russian working class made a revolution that changed the course of world history. Rediscovering that tradition, embodied in a party and programme that stands in direct revolutionary continuity with 1917, is critical if the impending catastrophe is to be avoided.

Footnoates

1 A Aslund quoted in the Financial Times, 28 April 1997
2 L Trotsky, Revolution Betrayed, London 1973 pp253-54
3 Some 95% of Russian land is still state-owned. The 1992 agrarian ?reform? offered to give land to the state farm workers but given the lack of credits for machinery and the fact that they could not sell it, few took up the offer. Meanwhile, the state farms are deprived of subsidies and investment. Output collapsed, 3 million have left the land in the last four years and those on the farms are impoverished, existing on subsistence and ?selling? food to factories that cannot pay for it. See International Herald Tribune, 20 March 1997
4 Perhaps Gregor Yavlinsky and his Yabloko Party with its open pro-imperialist economic policy is the best example of such an anti-nomenklatura party, followed by Gaider?s Democratic Choice. Between them they got 23% of the vote in the December 1993 elections for the Duma.
5 The unique conditions of the first reverse transformation from planned economy to capitalism in history, and the prolonged, contradictory character of the process, obliged us to refine the Marxist analytical vocabulary. Trotsky had referred to Stalinist Russia as a degenerated workers? state. Our use of the term moribund workers? state drew predictable criticism from those too enmeshed in reliving the mistakes of the past to care about innovating within the Marxist method.
6 G Standing, Russian Unemployment and Enterprise Restructuring, London, 1996, p7
7 Poverty, ill-health and suicide led to a fall in the birth rate, a rise in the death rate and consequent fall in total population in 1994.
8 G Standing op cit pp20-24. Other official figures show that total employment fell 1990-94 by over 5 million while the overall labour force grew, thus refuting the unemployment figures.
9 ibid p19
10 L Trotsky, op cit p250-51
11 United Nations, World Economic and Social Survey, 1996 p119
12 Local government was mollified by being given the revenues from cash sales of most shops and some small firms. As Trotsky predicted, light industry (textiles and food) was forcibly privatised, while larger manufacturing firms needed Chubais? permission; key strategic industries (defence, energy) needed cabinet approval. Finally, privatisation of education, health, rail and space exploration was banned.
13 The board consisted of four members: the director, a trade union official and one representative each from national

and local government. The ministries were thus sidelined.
14 Kremlin Capitalism, J Blasi, M Kroumous, D Kruse, New York 1997, p36-37. Another account by Chubais? deputy confirmed that ? . . . the sectoral ministries started advocating the idea of a new privatisation mechanism through the creation of financial-industrial groups, which would be very large clusters of enterprises linked to supply chains and co-ordinated by the ministries.? see Privatising Russia, M Boycko, A Shleifer, R Vishny, London 1996 p81
15 ibid, p36-37
16 ?One calculation indicated that it would take decades to privatise Russia this way. Another . . . that the whole process could be accomplished in 150 years!? see ibid p39
17 ibid, p42. After the privatisation process was complete ?the implied aggregate value of Russian industry was under $12 billion? (see M Boycko et al, op cit, p117), less than the value of BT alone in the UK. No wonder the Economist called it the ?sale of the century?. Gazprom, the Russian natural gas monopoly eventually fetched $228 mn in voucher auction, one thousand times less than the value put on it by foreign investment banks! (ibid, p109)
18 The government retained an average of 10-20% of the shares in privatised firms (more in strategic industries), to be sold for cash at some future date.
19 Russia was not alone in devising a voucher privatisation scheme but it was unique in giving these vouchers a cash value (as opposed to points) and for allowing them to be traded on an open market. This allowed people to sell them for cash they needed (at a big discount). Each voucher was worth about $84 in June 1992 when the average monthly wage was then about $50. But more importantly from the point of view of restoration the move allowed big funds to buy up blocks of vouchers and hence shares, helping to concentrate ownership.
20 Not least of the results was to destroy the influence of the ministries. According to Boycko, writing in 1995, ?The sectoral ministries, which only two years ago were still making decisions for firms from Moscow, have faded into irrelevance and obscurity.? M Boycko et al, op cit, p122
21 J Blasi et al, op cit, p51-52
22 Vladimir Konovalov quoted in Financial Times, 28 April 1997.
23 Quoted in the ?Survey on Russia? Financial Times, 9 April 1997.
24 ?A change in ownership from public to private can no longer be seen as a sufficient condition for comprehensive enterprise restructuring.? EBRD, Transition Report, London, 1995, p128
25 K Marx, Capital Vol 1, Harmondsworth 1976, p990. This law applies equally to the actions of the banks in extending loans to firms.
26 EBRD, op cit, p5
27 It is not surprising therefore that one survey of the Czech republic revealed; ?only half the managing directors felt that a ?very important? goal was to maximise profitability; among board members less than half shared this view.? (see OECD, 1995-96 Survey Paris, p72). The majority of those surveyed thought that ?supervising assets? was their main responsibility.
28 Vladimir Ilyin, ?Russian Trade Unions and the Management Apparatus in the Transition Period?, in Conflict and Change in the Russian Industrial Enterprise, ed S Clarke, London 1996, p67
29 EBRD, op cit, p119
30 United Nations, op cit, p136
31 EBRD, op cit, p99
32 G Standing, op cit, p88
33 ibid p139
34 J Blasi et al, op cit, p142
35 ibid p143
36 ibid, p109
37 BBC, Russian Broadcasts, 27 March 1997, pC/1
38 J Blasi et al op cit p111
39 World Bank, Economic Survey, October 1996, p55
40 G Standing, op cit, p56
41 ibid p8

42 As a result transactions between enterprises often became demonetised and replaced by barter arrangements. One survey showed that barter increased year on year from 1992-94, accounting for as much as 10% of output in the construction materials industry in 1994. ibid, p43
43 J Blasi et al, op cit, p176-77
44 ibid, p178
45 M Boycko et al, op cit, p131
46 After lobbying from the enterprise directors, central bank credits spewed forth again in the late summer of 1994 leading to a collapse of the rouble and a further squeeze. After that federal government credits became more selective, aimed at defence and agriculture. In addition, ?in many cases where the central government has reduced its control over firms, local governments have stepped in and increased theirs, largely because social services continue to be provided through firms.? ibid , p122
47 J Blasi et al, op cit, p178
48 In Russia ?up to half the judgements of Russian courts go unenforced? according to the United Nations, op cit, p93
49 J Blasi et al, op cit, p178
50 Financial Times, 2 January 1997
51 ibid
52 Quoted in Financial Times, 19 April 1997
53 Financial Times, 28 April 1997
54 Financial Times, 22 April 1997
55 Financial Times Russia Survey, 9 April 1997. This compares with $11.5 bn in tiny Hungary between 1989-95.
56 By 1997 a mere 20-30 of these new banks dominated the bulk of commercial lending. Although 66% of total banking assets are held by the new banks, by far the largest bank is Sberbank, the state-owned Russian savings bank which has 25% of all bank assets and is six times the size of its nearest rival bank. see ibid
57 United Nations, op cit, p141
58 ibid, p140
59 J Blasi et al, op cit, p156. Examples of this kind of merchant banks are Alfa Bank, Inkombank, Bank Menatep, ONEXIM Bank.
60 Nearly 200 major investment programmes worth $3bn have been undertaken by the FIGs. But they still only own about 3% of the Russian economy.
61 J Blasi et al, op cit, p157
62 ibid, p156
63 G Standing, op cit, p209-210
64 J Blasi et al, op cit, p114
65 L Trotsky, op cit, p255
66 B Kargalitsky, Restoration in Russia; Why Capitalism Failed, London 1995, p138
67 V Ilyin, ?Russian Trade Unions and the Management Apparatus in the Transition Period? in S Clarke ed, op cit, p82
68 G Standing, op cit, p194.
69 ibid
70 In 1994 only 8% of managers reported that they were in an employers? organisation and all of these were also in the trade union. ibid, p227
71 B Kargalitsky, op cit, p140
72 ibid, p143
73 ibid, p145
74 G Standing, op cit, p194
75 Predictably, the Interior Ministry claimed only 1.8 million took part in action across 1,280 towns at 1,286 rallies. BBC, Russian Broadcasts, 31 March 1997, pC/4
76 Russia Broadcasts, 8 April 1997 pC/1
77 The Guardian, 19/20 April 1997, p2