

Privatization and the Development of Capitalism in Russia

The almost universal assumption, at all points of the political spectrum, is that Russia is in the throes of a painful transition to capitalism.¹ Privatization is seen as the key to this transition, and resistance to privatization is accordingly seen by the Western Left as the essential basis of a progressive politics seeking to salvage something from the debris of the collapse of the Soviet system. In this article I want to question all three of these assumptions.² The fundamental error underlying the conventional interpretation is its implicit identification of the development of a market and the privatization of the enterprise with the development of capitalism. To understand the dynamics of the transformation of the Soviet mode of production we have to look behind juridical and political changes to the development of the social relations of production. It remains an open question whether the dynamics of this development determine a transition to capitalism, but this transition will not be determined by the relatively superficial changes which have taken place so far, but by the development of class struggles over the social relations of production.³

The Development of the Social Relations of Production

Privatization is the culmination of a period in which the growth of the market and the collapse of the administrative-command system has meant that the control of state property has largely passed out of the hands of the state. However, to see this as the end of the process is to adopt a very superficial understanding of the transition to capitalism, which focuses on juridical and political changes, without reference to the development of the social relations of production. This is not a dogmatic theoretical point, emanating from an outmoded Marxism.⁴ It is merely the conceptual expression of a very obvious social reality.

Capitalist elements have undoubtedly emerged in Russia, but these remain in the interstices of the former administrative-command system, and are largely parasitic on it. The disintegration of the administrative-command system has not been accompanied by any transformation of production relations at the enterprise level. The growth of the market has not been associated with the development of competition, through which enterprises would be subjected to the law of value, but to the consolidation of monopolies and cartels through which enterprises suppress competition and resist pressures for fundamental change. The liberalization of prices has not provided the basis for the growth of the capitalist sector, but for its absorption by the state sector, in removing the dualistic price system which was the basis of the most profitable forms of entrepreneurial activity. The growth of a banking sector has not subjected enterprises to a 'hard budget constraint', but has removed all constraint by fuelling an explosion of credit. However, although there is no evidence to support the argument that Russia is in transition

¹ Boris Kagarlistsy, 'Russia on the Brink of New Battles', and Ken Livingstone, 'Can Democracy Survive in Russia', *NLR* 192, March–April 1992, pp. 85–104.

² This article is based primarily on research on labour organization in enterprises in Russia which I have been carrying out with Peter Fairbrother, funded by the ESRC and the University of Warwick Research and Innovations Fund. A longer version will appear in Simon Clarke et al., *What About the Workers?*, Verso, London, forthcoming 1993. In addition to my many informants, I am particularly grateful to Peter Fairbrother, Michael Burawoy, Don Filtzer, Vadim Borisov, Pavel Krotov, Vladimir Ilyin and Petr Biziukov.

³ This article is only concerned with privatization in Russia, although the issues involved are general to the former Soviet bloc as a whole. For doubts about the prospects for capitalist development in Hungary, the East European country in which capitalism is most developed, see Michael Burawoy, 'A View from Production: The Hungarian Transition from Socialism to Capitalism', in Chris Smith and Paul Thompson, eds., *Labour in Transition*, London 1992; David Stark, 'Privatisation in Hungary: From Plan to Market or from Plan to Clan', *East European Politics and Societies*, vol. 4, no. 3, 1990, pp. 351–92.

⁴ Marxists have traditionally argued that the juridical transformation of property forms is only an expression of the more fundamental transformation of the social relations of production. 'Post-Marxists', drawing on the Weberian tradition, have argued that the state has to be regarded as a relatively autonomous social power, so that the exercise of state power can transform the social relations of production through the juridical transformation of the forms of property (Simon Clarke, ed., *The State Debate*, Basingstoke 1991).

to capitalism, most commentators simply assume that such a transition is inevitable.⁵

Michael Burawoy has drawn the analogy with the transition from feudalism to capitalism. Feudalism saw the emergence of money and commercial capital at a very early stage in its development, but this capital was for a long time parasitic on, and subordinate to, feudal social relations of production and so played a conservative rather than a revolutionary role.⁶ Burawoy sees Russia as a social formation in transition to a kind of parasitic 'merchant capitalism'. However, the failure of capital to make any significant inroads into the sphere of production must lead us to ask whether what we are observing is not the development of any kind of capitalism, but a restructuring of the soviet system from below, subordinating capital and the commodity to the reproduction of the existing social relations of production. To put the point aphoristically, it is not the state which is privatizing the soviet enterprise in Russia, but the soviet enterprise which is privatizing the state.

Property and the Social Relations of Production in the Soviet System

The characterization of the soviet mode of production has been a notorious lacuna in both Marxist and bourgeois social theory, depriving us of the conceptual tools to understand what is happening in Russia. The most common conception, among both bourgeois and Marxist theorists, is that which sees the Soviet system as 'state capitalist', in which case the collapse of the administrative-command system would set free the elements of the capitalist mode of production which have been contained by the bureaucratic state apparatus. However, there is no basis for this conception. Capital did not exist in Russia, and played no role in the soviet system of production.

The Soviet system was based on a form of wage labour, but it was not based on social relations of capitalist production. While the system as a whole may have been subject to the international operation of the law of value, Soviet enterprises most certainly were not subjected to the law of value, and so to the production and appropriation of surplus value. Production was neither based on nor regulated by abstract labour, but was based on the reproduction of the labour collective and regulated by the Plan. This was expressed in the essentially non-monetary character of economic transactions.

⁵ Don Filtzer makes this assumption, although his own work substantiates the argument that the social relations of production are not changing (Don Filtzer, 'The Contradictions of the Marketless Market: Self-Financing in the Soviet Industrial Enterprise 1986-90', *Soviet Studies*, 1991, and 'Economic Reform and Production Relations in Soviet Industry 1986-90', in C. Smith and P. Thompson, eds., *Labour in Transition*, London 1992).

⁶ Michael Burawoy and Pavel Krotov, 'The Soviet Transition from Socialism to Capitalism: Worker Control and Economic Bargaining in the Wood Industry', *American Sociological Review*, 57, 1992, pp. 16-38, and in Clarke et al., *What About the Workers?* I am very grateful to Michael for crystallizing my own doubts about Russia's capitalist future in a discussion in Moscow in December 1991, when I had just returned from the Urals.

Soviet enterprises produced according to the plans negotiated with the centre. All transfers of products between enterprises were equally directed, at least in principle, by higher authorities. Although prices were attached to these transfers, and monetary balances were adjusted correspondingly, such transactions were only nominal since the 'money' in question was strictly money of account, which could not be diverted to other purposes or converted into cash. The bank balances of enterprises, whether they were in credit or in deficit, were equally nominal. Only wage payment involved a transfer of purchasing power, but the enterprise was strictly limited in the amount it could pay out as wages by its wage fund, while workers were limited in what they could buy by the availability of goods. Although the state bank and the Ministry of Finance kept a strict eye on financial transactions, money played no regulatory role in either production or reproduction.

The fact that the Soviet system was not ruled by the law of value, and that money accordingly played no regulatory role in the system of social production, meant that there was no way in which money could appear as the independent form of value, and so no basis on which social property could assume the independent form of capitalist private property.⁷ The enterprise made profits (and losses), but these profits had a purely formal significance, and certainly did not derive from the valorization of capital. The reappropriation of residual profits by the state was equally a book-keeping exercise, although it was certainly not seen as such by enterprises.

For the Marxist and bourgeois theorists of 'state capitalism' this merely shows how deformed was the soviet capitalist system, the source of its irrationality lying in the failure of its attempt to mimic the operation of the law of value. Plan indicators, however sophisticated, are a poor substitute for the abstract universality of money, while the absence of private property deforms incentives by detaching effort from reward. But this argument, first wielded against mercantilism by Adam Smith, presumes the universality of capitalist rationality, reducing every social formation to a capitalism deformed by human frailty, greed and ignorance.⁸ It does not help us to understand the specific rationality of the soviet system.

The same weakness is found in bourgeois analyses of the soviet enterprise, which are based on the argument that the economic irrationality of managerial behaviour can be understood as a rational response to an irrational system.⁹ While such analyses provide useful insights, the narrowly economic conception of rationality that they deploy limits their ability to understand the dynamics of the system in change, for it implies that the liberation of management from political

⁷ The only legitimate basis of personal ownership was labour income, and this led to considerable ambiguity as the law expanded the sphere of private property, without a corresponding expansion in the rights of ownership. The article of the Russian Criminal Code prohibiting private entrepreneurial activity was only removed in December 1991!

⁸ Simon Clarke, *Marx, Marginalism and Modern Sociology*, Basingstoke 1991.

⁹ David Granick, *Management of the Industrial Firm in the USSR*, New York 1954; Joseph Berliner, *Factory Manager in the USSR*, Cambridge, Mass. 1957.

constraint would immediately lead to the spontaneous emergence of capitalist rationality as the enterprise sheds all the impedimenta of soviet life. Most Marxists too see soviet enterprise managers as proto-capitalists eager to shed their soviet skin.

The soviet enterprise is almost as different from the capitalist enterprise as was a feudal estate from a capitalist farm. Like the feudal estate, the soviet enterprise is not simply an economic institution but is the primary unit of soviet society, and the ultimate base of social and political power. The basis of the soviet enterprise was not capital, but the productive activity of the labour collective. The public measure of its success was not its profit, but the size of its labour force and the number of tons they produced, the houses it had built, the number of places for children in its kindergartens and in summer camps, the sporting, medical and cultural facilities it provided, the number of pensioners it supported. The achievements of the enterprise were represented as the achievements of and for its labour collective. This was not just rhetoric, it was an ideological expression of the social relations of production and forms of surplus appropriation on which the soviet system was based.

The labour collective was the basis of a system of production in which the surplus was appropriated from the direct producers in kind. The ministry allocated supplies to the enterprise, and directed exactly how much of what it should produce and to whom it should be delivered. In order to meet these demands the enterprise did not simply require a number of wage labourers who could be set to work to produce surplus value. It required a 'collective labourer', with the skills, motivation and equipment needed to transform the assigned inputs into the products demanded. The task of the enterprise administration was not to secure the expanded reproduction of capital, but the expanded reproduction of the labour collective. Any profits which remained to the enterprise, once it had met its obligations, were not appropriated as capital, but were generally spent on improving the working and social conditions of the labour collective.

This by no means meant that production was subordinated to the needs of the labour collective. The needs of the labour collective were subordinated to the production and appropriation of a surplus product, and were determined by the need to secure the expanded reproduction of the collective labourer as an object of exploitation. This subordination permeated the system, from the centre, where the aspirations of the working class as a whole were expressed by the Central Committee of the Communist Party, to the enterprise and the shop, where they were handed down in the minutiae of the plan and the target, and used as the means of disciplining and controlling the labour force. The fetishized form in which the social character of human labour confronted every individual worker in the alienated form of the Party was the state socialist equivalent of the capitalist alienation of labour in the fetishized form of the commodity.

The system was regulated primarily through the centralized control of supplies, including the money that served to pay wages, and the

allocation of labour, and this was the focus of negotiations not only between the enterprise and the ministry, but also within the enterprise between the administration and shop chiefs, between shop chiefs and brigade leaders, and even between brigade leaders and individual workers. The fact that allocations were negotiated was not a distortion of an otherwise rational system of planning, but was at the heart of a rational system of surplus appropriation.

The irrationality of the system lay in the contradiction it set up between production and appropriation. The development of the forces of production was constrained by the exploitative social relations of production, and it was this specific contradiction that underpinned the collapse of the administrative-command system. The stagnation of production eventually undermined the expanded reproduction of the system, but the attempts to reform the system from above in a bid to increase the rate of exploitation only opened up the underlying contradiction between the role of the collective labourer as direct producer and the role of the collective labourer as object of exploitation. The struggle to secure the independence of the enterprise from its subordination to the ministerial system was represented as a struggle of the labour collective, usually personified by the enterprise Director, to secure to itself the full fruits of its labour.

The collapse of the administrative-command system did not overcome or transform the alienated form of social labour. The social relations of the soviet enterprise were largely unchanged, with the enterprise administration acting on behalf of, and in the name of, the labour collective. However, the enterprise administration was now under attack from within and without. From within, the workers themselves began to challenge the right of the administration to act in their name. From without, the liberal reformers sought to transform the enterprise by subordinating it to the law of value. The disintegration of the administrative-command system opened up the class struggle over the transformation of the social relations of production. This is the fundamental significance of the debate around privatization.

The Disintegration of the Administrative-Command System

At the centre of Gorbachev's reform programme lay the attempt to replace 'administrative' by 'economic' methods of regulation. This programme involved the decentralization of decision-making within the administrative-command system, and an increased reliance on the market regulation of contractual relationships between enterprises. This implied the general application of the principles of self-financing, the juridical autonomy of the enterprise as an accounting unit, and its constitution as a juridical subject able to enter into commercial and financial contracts. This in turn implied the transformation of the unitary form of state property into the differentiated form of private property.

The attempt to decentralize the system was far from new. The system of 'self-financing' developed from the 1970s had tried to give the enterprise an incentive to increase productivity by giving it a right to

retain a share of above-target 'profits' and, more recently, to dispose of above-plan output freely on domestic or foreign markets. However, the enterprise had no juridical rights to its residual earnings, and in practice the impact of the reforms was constantly negated as surplus profits were appropriated by the ministries. Such repeated violations led to growing demands on the part of enterprise management and of reformers that the rights of enterprises should be juridically recognized. It was these demands that eventually underlay the pressure for privatization, which came to be seen as the key to reform from the beginning of 1990.

The pressure for privatization steadily increased as the attempts to establish the juridical independence of the enterprise were thwarted by the ministries.¹⁰ The 1987 Law on State Enterprise (Association) had defined the enterprise as a juridical subject, disposing of its own property, but left power in the hands of the ministries. The 1990 Law on Property allowed state enterprises to convert to the form of joint stock and limited companies, subject to the approval of the labour collective. However, the law made this conversion conditional on the decision of an authorized state body, which would normally be a ministry or the Council of Ministers, and few state enterprises were able to take the step. Nevertheless, enterprises were increasingly asserting their independence, often with the orchestrated backing of the labour collective, and were increasingly looking to privatization as the only way to provide some juridical guarantee of that independence. At the same time the failure to establish a juridical form appropriate to the growing independence of enterprises was becoming a serious barrier to the programme of reform because it was impossible to subject enterprises to a 'hard budget constraint' unless they could be made juridically responsible for their own activity.

Although privatization was at the heart of the neo-liberal programme for the transition to capitalism, it was by no means only the neo-liberals who backed it. Gorbachev affirmed the centrality of privatization to the programme of perestroika in his notorious speech to industrial executives in December 1990, which supposedly marked his turn to the right. Gorbachev argued that 'property relations are the core of radical economic reform. It was necessary to awaken people's interest, to give them some motivation for increasing production . . . There is no other way. Therefore, by the way, planning had to be relaxed in order to give enterprises oxygen and economic freedom . . . Once there are owners, there must also be space in which they can operate . . . a market.'¹¹ More to the point, a study by a group of Soviet economists concluded that 'privatization of enterprises was regarded as a necessary precondition for imposing financial limits on

¹⁰ The ministries were made the scapegoat for the failures of the soviet system which they had been called on to administer. However, their resistance to enterprise independence was by no means irrational bureaucratic obstructionism. The ministries were highly professional organizations carrying out an almost impossible task with minimal political support (Paul R. Gregory, *Restructuring the Soviet Economic Bureaucracy*, Cambridge 1990). As soon became clear, they were right to warn that the only alternative to the ministerial regulation of production and exchange was economic collapse.

¹¹ *Current Digest of the Soviet Press* (CDSP) 42, no. 49, 1990.

them. The general opinion was that only private property, understood as any form of non-state property, can guarantee strict financial limits.¹²

The main barrier to privatization was not so much opposition to the fact of privatization as disagreement about its form. In itself the juridical definition of the form of property does nothing to change the social relations of production. However, different forms of privatization express quite different strategies of social and economic development and so become the focus for intense debate and growing struggle.¹³

For all the laws, plans and programmes, culminating in the Privatization Laws of July 1991, and despite the growing consensus on the importance of privatization within the ruling stratum, very little progress was made during 1990 and 1991. Only a handful of state enterprises were privatized. Meanwhile independent capitalist activity was expanded rapidly, particularly in commerce and finance, construction and consumer services, and parts of state enterprises were being handed over to co-operatives and small enterprises. Many commentators have seen this activity as the basis of a process of 'spontaneous privatization' through which capitalist activity displaces and absorbs the state enterprise.

Spontaneous Privatization and the Development of Capitalism

The disintegration of the administrative-command system passed power into the hands of enterprise management, and provided managers with the opportunity to turn their position to their own advantage. This created the possibility of 'spontaneous privatization' through which they could appropriate state assets for their own benefit. Much has been made of this process, which many see as the basis of a transition to capitalism. However, the extent to which the means of production have passed into private hands has been much exaggerated.

Much of the attention in the discussion of 'spontaneous privatization' has focused on the straightforward plundering of public assets, which has been most dramatically demonstrated in the private appropriation of the property and financial assets of the Communist Party and the Komsomol by Party officials, on the one hand, and the extensive involvement of the 'new democrats' in the private appropriation of urban property, particularly in Moscow and St Petersburg, on the other. However, while this kind of theft has produced a handful of multi-millionaires, it has no significant implications for the development of the social relations of production.

¹² *Izvestiya*, 31 January 1991; CDSP 43, no. 5, 1991.

¹³ For a survey of the 1990–91 debate over privatization, see Patrick Flaherty, 'Privatization and the Soviet Economy', *Monthly Review*, vol. 43, no. 8, 1991, pp. 1–4. The most sophisticated (and utopian) liberal theorist of privatization is Vitalii Naishul', 'Problems of Creating a Market in the USSR', *Communist Economies*, vol. 2, no. 3, 1990, pp. 275–90, and 'Can the Soviet Economy Stay Left of the American?', *Communist Economies*, vol. 2, no. 4, 1990, pp. 481–97.

A second form of 'spontaneous privatization' develops out of the formation of co-operative and small leasehold enterprises as subsidiaries of state enterprises, which were originally set up to bypass central controls, particularly over wages and financial flows, and to evade taxation. Many commentators have seen these subsidiaries as a stage in the privatization of state assets, as enterprise managers hive off the profitable parts of the enterprise into subsidiaries and then abandon the unprofitable shell of the state enterprise to set themselves up as independent private capitalists. This has certainly happened, but its scale and its implications have been greatly exaggerated. Most of these enterprises are very small. Moreover, the vast majority remain subordinate to the state enterprises on which they rely for supplies, labour, financial resources and political protection.¹⁴

A third form of 'spontaneous privatization' is through the siphoning off of profits from state enterprises through private commercial and financial intermediaries, which have been the basis of most of the private fortunes created under perestroika and have been acclaimed as the harbingers of the new capitalist order. However, like the production co-operatives, commercial and financial co-operatives also have very important functions for state enterprises seeking to break out of the restrictions of the administrative-command system. Commercial co-operatives, and later the commodity exchanges, provided a channel through which state enterprises could sell their products (or even their raw materials) at market prices, or secure scarce supplies. The fortunes of these private enterprises were therefore dependent on their contacts in the state sector, and above all on the dualistic price system that prevailed until the end of 1991. This was the activity that was hit hardest by Yeltsin's price liberalization as enterprises set up their own commercial departments and forged direct links, cutting out the capitalist middlemen.

Co-operative banks played a vital role in the laundering of bank credit. A state enterprise could not spend the money it held in the bank at will, since the money was merely money of account held in earmarked funds. A co-operative was subject to no such restrictions, so the enterprise could transfer bank credit to the co-operative, which could then withdraw the funds in cash and return the money to the state enterprise, or make purchases on its behalf. This was the basis of the early growth of co-operatives in the banking and financial-services sector. This activity was banned by the 1990 Law on Co-operatives,

¹⁴ At the peak of the co-operative movement in 1989, 200,000 co-operatives employed just over 2 per cent of the labour force, but only 1.4 per cent of productive assets, with another 0.9 per cent in private hands. Over 80 per cent of co-operatives were not private enterprises, but had been created under state enterprises. From 1990 co-operatives began to be displaced by 'small enterprises'. On 1 October 1991 Russia had 10,696 small enterprises, of which 9,229 were state property, 1,358 were in collective ownership, and only 39 were privately owned. As was the case with the co-operatives, many of these small enterprises are in repair and construction, trade and services, with relatively few engaged directly in production (Simon Johnson and Heidi Kroll, 'Managerial Strategies for Spontaneous Privatisation', *Soviet Economy*, vol. 7, no. 4, 1991, pp. 288-9).

but by then banks had switched to the joint-stock form.¹⁵ The vast majority of the commercial banks today are owned (individually or in consortia formed on an industrial or a regional basis) by enterprises and associations, their boards are dominated by the managers of state enterprises, who provide the overwhelming bulk of their deposits and take the vast majority of their loans (around half of all bank lending is to the enterprises which own the bank)—hardly the independent financial sector that is supposed to subordinate enterprises to the law of value.¹⁶

Despite the well-publicized cases of 'spontaneous privatization', private ownership has made very little headway in the productive sphere. At the beginning of January 1992 in the Russian Federation there were 21,945 state-owned industrial enterprises, of which 3,042 were leased, and only 992 non-state industrial enterprises, of which 272 were collectively owned, 162 were joint-stock companies, and only 70 in private ownership. State enterprises still accounted for 96 per cent of industrial production. In terms of their turnover the collectively owned enterprises were relatively small, and the private ones minute, while the joint-stock companies were relatively large, accounting together for 1.5 per cent of industrial production, but the bulk of the shares in the joint-stock companies are owned by the state or by other state enterprises.¹⁷

The Industrial Nomenklatura, Privatization and the Development of Capitalism

Although the new millionaires have flaunted their wealth, the main beneficiary of the process of perestroika has been the 'industrial nomenklatura' of directors of enterprises, associations and concerns, who have been able to wrest control of their enterprises from both the Party and the state apparatus, and who have often managed to find ways of enriching themselves without necessarily overstepping the law. These are the people who have appropriated the basis of power in Russia. If capitalism is to develop in Russia, it can only be through the transformation of the industrial nomenklatura into the spearhead of the capitalist class. There are certain sections of this stratum who would like to enrich themselves, and a few have done so through the process of 'spontaneous privatization'. However, this stratum is not motivated primarily by financial gain, since there are far easier ways of making money, but by a combination of professionalism and power, expressing their functional role within the soviet system. The main concern of the vast majority is not ownership but control.¹⁸

¹⁵ Many of the early commercial banks were established using Party and Komsomol funds, because at the time these organizations were tax-exempt, and were effectively the only organizations permitted to dispose freely of money balances. Similarly most stock and commodity brokers had a Party or Komsomol background that provided them with commercial contacts and political protection.

¹⁶ Half the 1,500 banks at the beginning of 1991 had been founded by enterprises in the same business, or regional branches of the state banks, simply to lend to themselves (*Economist*, 4 January 1992, p. 39).

¹⁷ *Ekonomika i Biznis*, 14 April 1992.

¹⁸ This is probably why it is mainly middle managers who have been active in setting up small private enterprises, since they are trading one subordinate position for another more lucrative one.

There is no realistic possibility of enterprise managers expropriating their enterprises for their personal benefit, either legally or illegally, on a significant scale. The only way in which they could become owners would be on the basis of very substantial borrowing. Schemes for highly levered management buy-outs, borrowing at low rates of interest from pocket banks, are common, but in general such schemes are nebulous and implausible, and would effectively hand control over the enterprise to outsiders.¹⁹ Having fought so hard to establish their independence from the state, enterprise directors are not going to give it up so easily. Moreover, the scandals raised by such ventures as the Kolo privatization,²⁰ and the conflicts with the workforce unleashed by attempts on the part of managers to carry through anything smacking of a 'nomenklatura privatization', have shown that politically such schemes are at best highly risky.²¹ Virtually all of the well-publicized attempts at the spontaneous privatization of productive assets have been blocked.

Enterprise managers are strongly in favour of privatization to give them juridical guarantees of their independence from state control, particularly over the disposal of their profits. However, they are not willing to allow control to pass to outsiders. The form of privatization most attractive to the industrial nomenklatura is one in which shareholding is diversified but a controlling interest remains in the hands of the labour collective. This is not because of any commitment to workers' self-management on the part of the apparatus, but because management has in the past been able to keep a firm grip on the organs of workers' representation, while the ownership of the enterprise by the labour collective provides the material base for a strategy of 'social partnership' through which the management hopes to reproduce the subordination of the labour force in production, motivating the workers and reducing labour turnover, while consolidating the political allegiance of the workers to the enterprise administration. Minority shareholdings equally have a specific part to play in linking particular interests to the fate of the enterprise. Shares in the hands of local and Republican government bodies retain connections with the state apparatus. The sale of shares to outsiders can consolidate links with customers and suppliers, as well as providing a source of funds.²²

¹⁹ Cf. Johnson and Kroll, p. 308.

²⁰ The Kolo privatization was an operation in which eighteen prominent individuals valued their own 'intellectual capital' at 212 million roubles, giving them 20 per cent of the shares in the Kolo conglomerate, which combined profitable fragments of diverse state enterprises. Although approved by the Deputy Chair of the privatization agency, who was sacked for his involvement, the deal was blocked by the anti-monopoly committee.

²¹ Conflict over management's privatization plans arose in many large enterprises during 1991, including Electrosila, Polygrafmash and the giant Kirov plant in St Petersburg, and the car producers VAZ in Togliatti, and AZLK in Moscow. All these plans were blocked.

²² This was the pattern established by the pioneering KamAZ privatization in July 1990. Fifty per cent of KamAZ shares remained in state hands, with voting rights on half of them assigned to the labour collective, 45 per cent were sold to outsiders, mostly taken by 1,200 enterprises and organizations which were its suppliers and consumers. Five per cent of the issue was allocated for purchase by KamAZ workers and pensioners, who received a discount of between 20 per cent and 60 per cent, depending

The ideal way of achieving such a pattern of share ownership is through the initial transfer of a controlling interest to the labour collective, through which the administration can then control the allocation of further holdings to its partners, through sale and share swaps, their sale to outside investors, and to themselves.

Privatization to the labour collective only serves the administration's interest if it can control the representation of the workers' shareholding, and this clearly presents a fundamental barrier to any attempt to transform the social relations of production in order to subordinate labour to the valorization of capital. In the last analysis the barrier to the transformation of the ruling stratum into a capitalist class remains today what it always has been, the barrier of the working class. This barrier is not constituted by the working class as a self-conscious force, but is an expression of the existing social relations of production, reinforced by the tendency in the period of perestroika for the enterprise administration to rely heavily on mobilizing the nominal support of the labour collective, through its 'representative' bodies, for its own ambitions. Far from weakening with the collapse of the administrative-command system and the Communist Party, this tendency has grown stronger as the enterprise administration has been left politically more vulnerable. At the beginning of July 1992 it was institutionalized at the national level with the formation of the 'Russian Assembly of Social Partnership', which united the official trade-union leadership with the representatives of the industrial nomenklatura.

The attempt to reconstitute the soviet system on the basis of the existing social relations of production can only be thwarted if the enterprise is subjected to the law of value through the external pressures of the market, enforced by the imposition of a 'hard budget constraint' on enterprises, which would compel the enterprise administration to confront the working class in order to subordinate it to the imperatives of capital accumulation. For this reason the issue of privatization is inextricably linked by the neo-liberal reformers to the issues of financial reform, competition and de-monopolization, which proved to be the main political battleground through 1992. It was a battle which the neo-liberals had lost before it had even begun.

The Neo-Liberal Programme

The neo-liberals are committed to privatization as the means of forcing a rapid transition to capitalism on state enterprises. They have two priorities. First, privatization should be as rapid as possible. Second, privatization should be closely linked to a policy of de-

²² (cont.)

on length of service, but this was financed from KamAZ's own resources, and was also subject to tax and social insurance payments. By May 1991 just over half of KamAZ's 150,000 workers had bought shares (down by 20,000 since privatization, with most of the job losses women and working pensioners). The KamAZ board was, of course, dominated by KamAZ management (*Izvestiya*, 17 August 1991; 22-23 May 1992). By the middle of 1992 the gilt had worn off. Although KamAZ shares had appreciated eight-fold on the exchange, the price had not kept pace with inflation, and industrial conflict was growing.

monopolization and financial regulation. The form of privatization is of much less concern to the neo-liberals. Provided that enterprises are subjected to the law of value through competition, it does not much matter who is the owner of the enterprise. If those who initially acquire the enterprise do not manage to make it profitable, it will soon pass into the hands of those who can. As Gavriil Popov argued, 'it is necessary first . . . to give privileges to the labour collectives. They will be, so to speak, "pre-owners". They will enter the market. Competition will show who is able to conduct business . . . It is not difficult to predict that quite a few of these "pre-owners" will end up having their enterprises go to the auction block.'²³

The neo-liberals' confidence in the coercive force of the law of value has led them to back forms of privatization which offer the line of least resistance. One of the leading neo-liberals, Vitalli Naishul', caused a stir at the end of 1990 by backing nomenklatura privatization on these grounds, concluding that 'the changeover to a market in our country will be completed when all the most energetic and influential members of the nomenklatura have found themselves seats in the new structures.'²⁴ However, nomenklatura privatization did not prove as straightforward as he had hoped, since it provoked widespread political opposition and aroused the indignation of workers. The neo-liberals therefore shifted tack.

Some neo-liberals supported proposals for a voucher privatization, along the lines of those in Poland and Czechoslovakia, and provision for this was included in the 1991 Russian Law. However, voucher privatization was administratively extremely difficult to handle, and was full of pitfalls. Yeltsin's initial programme of December 1991 downplayed the voucher system. Chubais, the minister responsible for privatization, explained that this was because the resources to handle such a form of privatization were not there: 'When I took my current post I immediately came to understand that we wouldn't be able to quickly fulfil this promise. To finance this effort we would have needed 1,400 million roubles plus 40 million dollars. Where is the office equipment? Where are the premises—to develop a system of inscribed deposits. Would we have to double the floor space of savings banks all over Russia? We decided that the introduction of deposits had to be put off until early 1993.'²⁵ Despite widespread opposition, including that of the World Bank, vouchers were soon resurrected for straightforwardly populist reasons.

By the end of 1991 some of the radical neo-liberals were backing the demand of the industrial nomenklatura, also put forward by the neo-Stalinists and the workers themselves, for the transfer of ownership to labour collectives without charge. The most outspoken proponent of this view was Larisa Piyasheva, who was appointed by the Mayor of Moscow, Gavriil Popov, to implement a crash programme of privatization of all trade and services in the capital within two months, based

²³ *Izvestiya*, 20 May 1992, p. 4; CDSP 44, no. 20, 1992, p. 3.

²⁴ *Izvestiya*, 9 December 1990; CDSP 42, no. 49, 1990.

²⁵ *Moscow News*, 3, 1992, p. 10.

initially on transfer to the labour collective. It soon turned out that Piyasheva had been caught up in a struggle for control over privatization and its proceeds between Popov and his deputy, Luzhkov. The outcome was that Piyasheva's reform was denounced by the Yeltsin government as illegal and as 'pure adventurism', the government insisting that 'real privatization is a long process'.²⁶ Piyasheva was forced to resign, Popov patched up his differences with Luzhkov, got Yeltsin's political backing, and crash privatization was put on the back burner.

Piyasheva emerged from this bruising experience as the principal liberal critic of the government's privatization plans, which she denounced as fraudulent. She condemned the liberalization of prices, in the absence of privatization, as nothing more than monopolistic hyperinflation, and the government's privatization plan as a bureaucratic programme in the best Bolshevik style, in which privatization was subordinated to the need to raise revenues. She insisted, against the Russian government, that privatization should not involve the sale or transfer of state property, which would simply transfer it to dubious commercial enterprises at knockdown prices, but 'restoring to the people what was taken away from them'. Under the Soviet system the state had owned property in the name of the people, but now the state planned to confiscate that property from the people, claiming the right to sell or redistribute the property that it had appropriated. The primary claim of ownership is not that of the state, but of the labour collective. 'There is no legal, moral or logical basis for the conduct of competitions and auctions of those places where people work, treasure their property, and do not renounce their right to own it . . . So wherever the work collective is prepared to "redeem" (if it were up to me, I would simply give them gratis), all rights are on its side.'²⁷

The neo-liberals were enraged not only by the government's failure to make progress with privatization, but equally by its failure to subject enterprises to the discipline of the market. The government liberalized prices at the beginning of 1992 without taking any steps to break up monopolies, or to subject them to the force of international competition. The government committed itself to the elimination of the budget deficit, but continued to hand out subsidies right and left, and did nothing to control the expansion of credit by the banking system. The result of its reforms was not the subjection of enterprises to the law of value, but monopolistic hyperinflation fuelled by an explosion of credit.

Privatization and the State

For all the dramatic political changes following the coup of August 1991, the constraints to which the government was subject did not change, although Yeltsin's popularity gave it considerably more leeway than its predecessors had enjoyed. The main priorities of the government continued to be dictated by the deteriorating economic situation. Yeltsin's anti-crisis programme, announced at the end of

²⁶ *Moscow News*, 5, 1992, pp. 8–9.

²⁷ *Ibid.*

October, was remarkably similar to that which had been announced by Pavlov in April 1991. The main difference was that Yeltsin was in a position to implement the programme.

Despite its neo-liberal facade, Yeltsin's reform programme by no means marked a decisive break with the past. Yeltsin himself is a man of the apparatus, and his administration was carefully constructed according to traditional principles to establish a balance of conflicting forces. The government's neo-liberal enthusiasm was checked at all stages by Yeltsin's pragmatic responses both to political pressures and to the representations of the monopoly producers who dominated the economy. Gaidar was allowed to free state enterprises from the shackle of controlled prices, although many restrictions remained, but the plan to freeze wages never got off the ground, the attempt to cut the budget deficit and limit the expansion of credit was severely constrained, and privatization and de-monopolization were stalled. This was why the public opposition to Gaidar's programme on the part of the old power structures was so muted.

Yeltsin's main priority was economic stabilization, and this underlay the pragmatism that led his government to move progressively closer to those who held the reins of economic power, the industrial nomenklatura. The first decision to dismay the neo-liberals was that to give priority to the liberalization of prices over privatization and de-monopolization. Gaidar and his associates argued that giving priority to price liberalization and financial stabilization had become unavoidable. In the face of rampant inflation, a soaring budget deficit and a credit explosion, the attempt to control prices was merely adding to the dislocation of the economy. Short of the restoration of the full rigour of central control, which was both technically and politically out of the question, there was no alternative but to free prices. Successive governments had shied away from price increases, for fear of the political consequences, but Yeltsin had the political support which made it possible to introduce such a policy, and in Gaidar he had somebody whose political ambition made him willing to be the fall guy.

Gaidar's reversal of the liberal priorities met with vociferous opposition from radical reformers, including Piyasheva, Selyunin and Yavlinsky. Even Yeltsin's closest associate, Burbulis, was still cautioning against liberalizing prices too quickly: 'We can't free prices until we create at least some kind of dynamism in basic privatization. In conditions of economic monopoly freeing prices will yield nothing. We will not release a mechanism of real economic competition between producers.'²⁸ Burbulis was right, far from hastening the development of a capitalist economy, the rapid liberalization of prices cut the ground from under the feet of the commercial and financial capitalists, who had been able to exploit their freedom from restraint to make large profits. State enterprises could now consolidate their monopoly powers, establish commercial relations without having to go through intermediaries, and sell directly for market prices. But while the policy undercut the strategy of transition to capitalism, the

²⁸ *Financial Times*, 2 November 1991.

priority had to be to stabilize the disintegrating economy, and this could only be on the basis of the existing relations of production.

Yeltsin's policy on privatization was unveiled in his October programme and implemented in a series of 'guidelines' rushed out in December 1991. It was clear that the form of privatization was not determined by any attempt to foster the development of a capitalist economy, but by the need to raise revenue to support the budget, split between local and federal authorities, and the need for populist measures to attract support for the government's programme. The former objective was to be achieved by selling shares at auction, although it was not clear where buyers would be found. The latter objective was to be achieved by a free or subsidized distribution of shares to the workers. The voucher scheme was held in abeyance on the grounds of administrative difficulty.²⁹ The programme envisaged the process of privatization taking a period of three to five years, with the first stage concentrating on the formation of joint-stock companies and the sale of services and small enterprises by municipal authorities. The government expected to raise 92 billion roubles in 1992 and over 300 billion in 1993, as against the 2 billion roubles raised in 1991.

The government hoped that its concessions to labour collectives would buy the workers' support for the programme, even though it denied the labour collective the possibility of acquiring a controlling interest. As Chubais told *Moscow News*, in relation to the free allocation of shares to workers, 'our objective today is to set up a social stratum, geared and committed to privatization. To achieve this corresponding instruments are necessary. . . . If we didn't accept that, the work collectives would hardly support privatization. But now they have "suddenly" shown an interest in the law and started egging on the administration. The state has to pay for this social awakening, otherwise the best bits of property would have been sold without undue noise at the citizens' cost.'³⁰

The first phase of the privatization programme was primarily the responsibility of local authorities, but it made little headway. In the first two months of 1992, by which time Piyasheva had proposed to privatize 36,000 establishments in Moscow alone, a total of 18 small workshops, 58 eating establishments, and 153 trade outlets had been privatized in the whole of Russia. In the whole of Russia 17,500 apartments were privatized in January, of which 11,400 had been handed over free of charge.³¹ At the end of February the government announced a revised programme, which sought to revive popular

²⁹ Unlike the neo-liberals, both wings of the ruling stratum had always been strongly opposed to giving state property to the people free of charge, which was supposed to display a Bolshevik mentality of 'levelling' that would only reinforce the culture of dependency expressed in the expectation that 'the state will provide'. Quite apart from political objections, there was a realistic fear that a free distribution of shares would prove inflationary, as workers sought to cash their gains. Nevertheless, political expediency prevailed as the government's popularity declined and the voucher scheme was soon reintroduced.

³⁰ *Moscow News*, 3, 1992, p. 10.

³¹ CDSP 44, no. 12, 1992, p. 31.

enthusiasm by reintroducing the voucher scheme that Chubais had abandoned as unworkable in December, but reiterated its rejection of the principle of transfer of ownership to the labour collective. According to Chubais, 'collective ownership suffers from an incurable congenital disease that the specialists call wage consumption of revenues.'³² Privatization receipts for the first quarter of 1992 amounted to less than 300 million roubles, against the target of 3 billion, which was not even enough to cover Chubais's administration costs.³³ Chubais cut his target for the year from 92 to 72 billion roubles, and introduced new proposals at the end of March which made some more concessions to labour collectives, with half an eye on the forthcoming Congress of People's Deputies.

Harmonization of Interests

Criticism of the privatization programme mounted. For all its liberal rhetoric, the government was actually doing nothing but issue more and more bits of paper while investment collapsed and the economy faced ruin. The government had set a deadline of 1 September for enterprises to convert to joint-stock status, which had been identified two years previously as the essential precondition for subjecting the enterprise to any kind of budget constraint, but provided no guidance as to how this was to be done.³⁴ The productive economy was effectively demonetized, as enterprises placed orders and received deliveries without making any payments, and the shortage of cash meant that there were not enough banknotes even to pay wages. The non-payment of taxes undermined the government's attempt to bring the budget under control, and even with a tight monetary policy money and credit grew rapidly, fuelling inflation and the depreciation of the rouble. Meanwhile hyperinflation added weight to the criticisms of any scheme to sell off state property in exchange for 'wooden' roubles, and the demand that property be transferred to labour collectives became increasingly widespread.

One Russian government economic adviser, Ulyukayev, condemned the increasingly insistent proposals to hand enterprises to the labour collectives as 'harebrained schemes', because 'collective ownership by labour collectives is extremely inefficient: it is conducive to the eating up of fixed assets and the preservation of a backward production structure', and Gaidar reaffirmed the government's rejection of any schemes for rapid privatization. However Yevgeny Yasin, the government's representative in the Supreme Soviet,³⁵ signalled a possible

³² *Izvestiya*, 26 February 1992; CDSP 44, no. 9, 1991, p. 7.

³³ CDSP 44, no. 12, 1992, p. 31. The total receipts amounted to little more than the market price of one of Moscow's suburban apartment blocks, at the then current auction price of 2.2 million roubles for a one-room apartment. The rate of privatization increased from April, particularly in Moscow which accounted for half the total for the country as a whole.

³⁴ Enterprises were reluctant to transform themselves into joint-stock companies because applications were subject to anti-monopoly scrutiny. Most proposals to form joint-stock companies in the first half of 1992 were blocked on anti-monopoly grounds.

³⁵ Yasin is also head of the Expert Institute of Arkadii Volsky's Russian Union of Industrialists and Entrepreneurs, which represents the interests of the industrial nomenklatura.

reversal of the government position when he noted that 'the buying out of the means of production by labour collectives is a very promising approach, since it promotes the harmonization of the interests of various social groups at the same time as it ensures a rather high degree of economic effectiveness', while privatization on the basis of the Western model is 'fraught with the possibility of social explosion'.³⁶

The paralysis of government persisted through May and June, but at the beginning of July, just before the summer holiday, an avalanche of new programmes and decrees emerged from the White House. On 1 July decrees were issued on the formation of joint-stock companies (which included provision for the formation of trusts and holding companies), the creation of privatization commissions, and the securitization of debt (which effectively replaced the decree on bankruptcy, issued to a great liberal fanfare two weeks before). On 9 July the decree on privatization, agreed by the Supreme Soviet a month before, was finally published, and two days later the government's 'programme for deepening economic reforms', written for the Munich meeting of G7, was issued. This package, far from clarifying the situation, only accentuated the contrast between the government's ambition and its achievement.

The July privatization programme made substantial concessions to the industrial nomenklatura over the participation of the labour collective, although it continued to prohibit collective ownership and the formation of closed companies. The workers would now be able to purchase a controlling interest in the enterprise directly, instead of having to bid at auction. Alternatively, the workers could receive 25 per cent of the shares free, in the form of non-voting stock, with a right to buy a further 10 per cent with a 30 per cent rebate (and the senior management would have an option on a further 5 per cent); or a minimum of one third of the workers could form a partnership to buy the enterprise outright through auction with a 30 per cent rebate; or, if the enterprise is sold at auction, the workers receive up to 30 per cent of the proceeds. Additional variants provided for leasing with a subsequent right to buy, primarily designed for the privatization of bankrupt enterprises.

Various measures ensured that workers would have the money needed to buy the shares allocated to them. First, enterprises were permitted to assign all residual funds, plus 50 per cent of their retained profits at 1 January 1992, to personal privatization accounts for the benefit of their workers. These accounts could be augmented by additions from current profits, and would also receive 10 per cent of the revenue raised from the privatization itself. Second, commercial banks and local councils were permitted to extend credit for the purpose of privatization. Third, shares did not initially have to be paid for in full. Fourth, the voucher scheme would provide 10,000 roubles for every man, woman and child to participate in the privatization exercise. These vouchers could be used to buy shares in one's own enterprise, to subscribe to the purchase of shares at auction, to subscribe to

³⁶ CDSP 44, no. 12, 1992.

investment funds, or sold for cash.³⁷ Overall the government expected 20 per cent of the money subscribed in 1992 to come from private funds, 15 per cent from foreigners, and 65 per cent from enterprise funds, excluding that made available in the form of vouchers.

The valuation of enterprises for the purposes of privatization was a major problem. First, it was not clear what assets and liabilities should be attached to what units. Enterprises often own large stocks of housing, educational, sporting, cultural and holiday facilities. From a 'socialist' point of view these are an asset, but from a capitalist point of view they are a liability. Similarly enterprises have extensive welfare obligations, and often provide a range of municipal services, including transport, heating, and so forth. Moreover, the lines of demarcation of property and responsibility between the enterprise, the trade union, the central government and local authorities are not clearly drawn. According to the privatization laws, these facilities and obligations should be taken over by state and municipal bodies, but the latter did not have the resources to run those that made a loss, and enterprises and trade unions were not willing to hand over those that made a profit. The result was that nominal ownership was transferred to state bodies, but finance and administration remained in the hands of the enterprise.

Second, it was impossible to define the financial prospects, or even the current financial position, of enterprises in a highly monopolistic economy, with gross disproportionalities between sectors of production, hyperinflation, and the extensive de-monetization of the economy. Underlying all these ambiguities was the problem that enterprises could not be valued until it had been determined what they were being valued as.³⁸ Were they being valued as the means by which a community could secure its social and material reproduction, or as the basis for the production and appropriation of surplus value? The problem of valuation is not a problem of accountancy, but of

³⁷ Workers in industrial enterprise were expected to use their vouchers, and those of their relatives, to buy shares in their own enterprises on extraordinarily favourable terms. The remaining vouchers would be used to acquire assets sold at auction, but it was not clear that any assets worth purchasing would remain. Realizing this difficulty, the Supreme Soviet proposed that vouchers should be redeemable for apartments or land, but this would involve selling assets which people already had in their possession, and in which they believed that they already had proprietary rights. If the voucher scheme does not collapse completely, it is most likely that those who do not have access to privileged share purchases will sell them for cash. These shares are most likely to end up in the hands of investment companies financed by commercial banks, and ultimately controlled by state enterprises or their nominees, to keep the shareholding 'in the family'. The initial take-up of vouchers, which were issued on 1 October 1992, was very slow. Chubais announced at the beginning of October that the 10,000 rouble vouchers were worth 200,000 roubles at current prices. Russia's capitalists had different ideas. On the exchanges over October and November the vouchers traded at between 4,000 and 9,000 roubles.

³⁸ KamAZ was initially capitalized at 4.7 billion roubles. In its first full year of operation as an independent enterprise, KamAZ made a declared profit of 2 billion roubles. The proposed sale of VAZ, maker of Lada cars, to Fiat has been stalled over, amongst other things, the matter of valuation. VAZ is one of the few manufacturing enterprises which can be valued on the basis of its integration into the world market,

anticipating the future course of the class struggle over the form of the social relations of production.³⁹

Reconstitution from Below

Hyperinflation made the problem of valuation even more complicated. The 1991 privatization programmes had cut through all the problems by valuing enterprises arbitrarily, on the basis of the depreciated book value of the enterprise's assets at historic cost. Even in 1991 inflation meant that this grossly undervalued the assets of enterprises, but by July 1992 prices had risen between twenty and thirty times. Enterprises, backed by the Central Bank, had been demanding a revaluation of their assets to provide a realistic baseline on which banks could extend credit to enterprises so as to increase their available working capital in line with inflation, while keeping it within determinate limits. However, the government refused to take this step on the official grounds that it would delay privatization, although its critics argued that it was simply a ploy to make privatization more attractive. The July plan retained the previous method of valuation, adjusted to take account of various balances, at 1 January 1992—in other words at the old state prices, with an arbitrary multiplier of 1.7 subsequently being imposed by the State Property Committee in the attempt to discourage purchase by the labour collective. The effect was that enterprise privatization funds plus privatization vouchers would easily cover the cost of purchase of the labour collective's shareholding in the vast majority of enterprises, sometimes with money left over for workers to buy additional shares through open bidding. For all its rhetoric the government was in effect giving the controlling interest in enterprises to the workers free. The remaining 49 per cent of shares would remain in state hands, and would supposedly be the subsequent object of competitive bidding with the remainder of the 'funny money', since the main participants would be the investment funds set up with privatization vouchers, and enterprise privatization funds, which together exceeded the valuation of the enterprises under privatization many times over.⁴⁰

³⁸ (cont.) but valuations, commissioned at great expense from Western accountancy firms, vary widely. VAZ, keen to secure a sale to Fiat, values itself at \$4 billion. The Russian government, anxious to raise hard currency, secured a valuation from Bear, Stearns of \$9 billion. Fiat, meanwhile, insists that VAZ is worth no more than \$2 billion (*International Herald Tribune*, 3 March 1992). At a stormy three-day meeting of the labour collective in July 1992, at which the Fiat deal was not even mentioned, VAZ proposed what was in effect a free transfer of the controlling interest to the labour collective, a proposal which Chubais, who attended the meeting, immediately rejected. The VAZ scheme was taken as a model by other labour collectives in the auto industry, including AZLK, ZIL and GAZ, but the ZIL management forced through its own programme, provoking a potentially explosive conflict with its workers.

³⁹ In fact, the government sidestepped the issue by valuing enterprises as a collection of physical assets. The Nizhny Novgorod experiment in municipal privatization, backed by enormous financial and technical support from the World Bank and the US government, set the auction guide price of shops and small enterprises on the basis of a debt write-off, a five-year lease of property, and the valuation of stocks and physical assets at historic cost.

⁴⁰ The government planned to issue about 1.5 trillion roubles worth of vouchers by November 1992. However, the total privatization valuation of the productive assets of the whole of the USSR in 1991 was less than 2 trillion roubles. The total privatization receipts anticipated for 1992–94 were 892 billion roubles. Against this, outstanding inter-enterprise debt at the end of June 1992 amounted to four trillion roubles, and unpaid wages amounted to a further 400 billion roubles.

The sense of unreality of the whole exercise was brought to the point of farce by the timescale attached to it. The decree was published on 9 July, just before the summer holiday, with the requirement that all medium and large enterprises (apart from those strategic enterprises whose privatization is banned), should have transformed themselves into joint-stock companies, drawn up privatization plans, discussed them with the labour collective, submitted them to a meeting for its approval, and got them in to the appropriate privatization committee for endorsement by 1 September. Many companies were closed for this entire period, with the workers sent on 'administrative vacation', and much of senior management was basking by the Black Sea. Meanwhile, not only did they not have the documentation required to carry out the process, or any guidance through the maze of conflicting laws and decrees, in some places even the privatization committee that was supposed to superintend the whole process did not yet exist.⁴¹

The government 'programme for deepening economic reforms (up to 1995–96)', prepared with the help of leading experts and distinguished foreign advisers, and issued two days later, only confirmed that the government had completely lost touch with reality. However, the increasingly fantastic character of the government's programmes, contrasted with its consistent inactivity, was acquiring the shape of a coherent strategy of playing up to the neo-liberals, and particularly to the international capitalist community, while allowing the real world to take its course, and that course was one in which the old system was reconstituting itself from below.

The reconstitution of the system has had three elements. First, enterprises have had to replace the system of planned distribution by one based on horizontal contacts. This simply meant maintaining old links in a new form, which only created problems where links were broken by the collapse of foreign trade and the disintegration of the Union. Second, enterprises had to determine the prices at which to enter into contracts. In the absence of any other basis, enterprises simply continued the old practice of cost-plus pricing, with differential prices for traditional customers, new customers and commercial sales. Buyers were willing to pay the price demanded, since they merely passed it on in increased costs. In most cases buyers had no choice of supplier because of the extraordinarily high degree of monopoly in the soviet system, which was reinforced by regionalization and by the formation of cartels through 1992. Third, enterprises were now self-financing, and so had to ensure that they were profitable. However, it by no means followed that they had to become capitalist, only that

⁴¹ The State Property Committee later extended the deadlines to 1 October, and 1 January 1993 for the largest enterprises. The privatization committees not only had to supervise the formation of joint-stock companies and formulation of privatization plans, they also had to evaluate any proposals of enterprises to restructure their management, production or labour force, and take into direct administration all bankrupt enterprises under their jurisdiction, while they were simultaneously required to establish the voucher system and allocate individual privatization cheques by 1 November, and to 'create and contribute to the creation of financial institutions (investment companies, funds and others) and provide for extensive enlistment of entrepreneurial structures to participate in them' (Article 7.1).

they had to be able to cover their costs, and in practice this meant simply that the enterprise had to maintain a positive cash flow. The enterprise had nothing to pay for buildings, plant and equipment, all of which had been provided through the old ministries, so that they only had to cover their current costs to be profitable. However, they also had nothing to pay for their regular supplies, since the banks extended unlimited credit by following the traditional practice of adjusting enterprise balances to mirror the flow of goods, and this was the principal source of the explosion of debt. Other supplies were acquired primarily by barter, with raw materials displacing consumer goods as the preferred means of exchange.

In general, the only monetary cost the enterprise had to meet was its wage bill, and any enterprise which could get hold of enough cash to pay its wages could keep trading. Even this was not an effective constraint, since the acute shortage of banknotes provided a pretext for any enterprise to defer payment of wages, or to pay them in kind or with credit notes negotiable in company or local shops. Far from enterprises being subjected to the hard budget constraint which is the precondition for subjecting them to the law of value, they were subject to no effective budget constraint at all. In effect a system of production for production's sake was being fuelled by debt growing at a rate of 25 billion roubles a day, which amounted to about half the value of all inter-enterprise transactions.⁴²

The neo-liberals were only too well aware of what was happening. They insisted that the banking system be brought under control, and that bankruptcy legislation be introduced. Yeltsin had issued a draconian bankruptcy decree in the middle of June, only to replace it with a programme of securitization of debt, which was effectively a debt write-off, at the beginning of July. Meanwhile a long struggle for control of the Central Bank culminated in the replacement of its chief, in which the neo-liberals lost again. The new Bank chairman provoked a furore by sending a telegram to all banks at the end of July instructing them to grant credit to enterprises to cover their debts, while nothing was done to prevent debt from continuing to increase. In the meantime, banknotes were printed so fast that the cash shortage was overcome during August, laying the foundation for a hyper-inflationary explosion from September.

The Reproduction of the Soviet Enterprise in the Market Economy

The explosion of credit provided the space within which enterprises could continue to operate, and within which the enterprise administration could represent itself as defender of the interests of its workers. The limits of the situation appeared when enterprises had to find

⁴² Expert Institute of Russian Industrialists and Entrepreneurs, *Rossiiskie Predpriyatiya: Zhizn' v Usloviyakh Krizisa*, Moscow 1992 (published in an abridged version in CDSF 44, no. 26, pp. 12–14). The Expert Institute also produced the most devastating assessment of the first three months of Yeltsin's reforms, *Reforms in Russia: Stage Two*, Moscow 1992. See also Yavlinsky's onslaught, published in *Moscow News*, 24 May 1992, pp. 9–16, and reproduced in CDSF 44, nos. 23, 24 and 25.

a final consumer who would take delivery of the product. The withdrawal of military orders hit the huge defence sector hard, but producers of investment goods were hit by the collapse of investment, consumer-goods producers were hit by the collapse of incomes and the inflationary erosion of savings, and agriculture and food processing were hit by a 'scissors crisis', as prices of fuel and producer goods, which were bought on credit, rose more sharply than did those of consumer goods, which were ultimately sold for cash. The result was that the main symptom of the crisis was a generalized contraction of production.⁴³

There was some reorientation of production to meet consumer demand, but most of this was grossly inefficient small-batch production using inappropriate labour and equipment, designed to secure cash flow at any price. The most profitable new outlets were not the consumer market, but the market for standardized intermediate goods and processed raw materials, either for export or to serve as the means of exchange in domestic barter, both of which diverted resources and increased the supply problems faced by domestic producers. To the extent that the market was operating, it was acting not as an agent of restructuring but as a disintegrative force.

Enterprises did not stand idly by while the economy collapsed around them, but tried to create autarchic production and distribution networks on a local and regional basis. One aspect of this was that each enterprise sought to meet the consumption needs of its own workers, acquiring consumption goods by barter and on contract. Large enterprises even bought collective farms, food processors, and footwear and clothing manufacturers to meet their workers' consumption needs, and construction enterprises to build housing. The other aspect was the development of organizations on a local and regional basis, in association with state bodies, to sponsor the regional integration of production and distribution and to handle interregional transactions. This reconstitution of a system of planning from below was the basis of growing pressure for regional autonomy, but was also the basis on which demands grew for the reintroduction of effective planning at the national level.

The reconstitution of systems of planning represents the class interest of the industrial nomenklatura, but it does not necessarily represent the interests of individual enterprise directors, particularly in branches of production which have enjoyed new opportunities with the collapse of the old system, and this limits the extent to which the old system can be reconstructed spontaneously by the industrial nomenklatura. In the end it is only the active intervention of the state that can impose the interests of the class on each of its individual members.⁴⁴

⁴³ In the fantasy world of the economics textbook, inhabited by the IMF and its advisers, the collapse of production was the result of the failure of monopoly producers to reduce prices in the face of a shortfall in demand. In fact the opposite was the case. Rising prices were the result of the desperate attempt of producers to maintain production. Thus the fall in production was only about half the fall in the level of retail trade. Similarly the growth of credit was a reflection of rising prices, not, as the economists imagined, its cause.

⁴⁴ Simon Clarke, *Keynesianism, Monetarism and the Crisis of the State*, Aldershot 1988, ch. 5.

Privatization and the Class Struggle

The impracticality and inconsistency of all the laws and decrees produced by the government meant that in practice they were not prescriptive but permissive. For all its bluster, the government is unable to force privatization on an enterprise. However, enterprises have been drawing up privatization plans in their own time, and for their own purposes. Their main aim is the familiar one of establishing their independence and securing control of the disposal of their profits, but privatization has the added appeal in the present situation of being attractive to the workers, in providing the basis on which the enterprise can increase wages and social expenditure, so sealing the alliance between management and workers, on which the former have come to rely politically. Finally, enterprises are concerned to privatize on their own terms, before anyone else tries to do it to them. For these reasons enterprises have fallen over themselves to formulate privatization plans, and to submit them for approval as rapidly as possible.

Many enterprise directors see their new-found independence as a basis on which to take advantage of new opportunities, finding new sources of supply, acquiring modern technology, developing new product lines and diversifying their activities. However, there are very few enterprises which envisage any significant restructuring of the social relations of production within the enterprise. This is expressed in the management's identification of the enterprise with the labour collective of which it is the leader, and whose interests it represents.⁴⁵

Although it was the strike waves of 1989 and 1991, led by the miners, that brought the system down, the workers had neither the time nor the space in which to constitute their own organization, and consequently have had a very small part to play in the unfolding of the crisis. However, the issue of privatization is one which brings the class struggle back home. While most people have little idea of what privatization involves, workers have a very clear idea of what they want to get from it in their own enterprise. On the one hand, they want the profits which have always been taken from the enterprise to be used to increase wages and social expenditure.⁴⁶ On the other hand, they see privatization as a way of curbing the power and cutting the privileges of the enterprise administration. Workers do not aspire to take day-to-day control of their enterprises, but they demand cuts in the administrative staff, the power to dismiss incompetent or corrupt managers, and effective protection of workers' rights, while they resist attempts by managers to increase their own pay or to hive off profitable parts of the enterprise. These demands lie behind the workers' insistence that the labour collective should retain a controlling interest in the enterprise, a demand that is acceptable to the administration, and the attempt of worker activists to democratize the

⁴⁵ This does not preclude the reduction of the labour force by removing 'unproductive' workers, particularly female administrative and clerical workers, who are often not considered to form a part of the labour collective.

⁴⁶ Both workers and managers tend to look to external sources, including outside investors, rather than profits, as the source of new investment.

representation of the labour collective, which is not at all to the administration's liking.⁴⁷ Ironically, privatization to the labour collective provides much more potential for the democratization of the enterprise than did the 1987 Law on State Enterprise, to which managers so fiercely objected, because ultimate power is placed in the hands of the shareholders' meeting, at which workers can vote on the basis of 'one share—one vote'.

Privatization by no means guarantees the democratization of the enterprise, but it provides a framework in which a struggle for control is put on the agenda, and through which it can develop. The Law requires the involvement of worker representatives in the formulation of privatization plans, and the approval of those plans by the labour collective. Once privatization is carried through, the annual shareholders' meeting not only elects the council that will supervise the management of the enterprise, but can also make a contract with the General Director, in which the shareholders can specify the Director's duties and responsibilities. Of course, there is plenty of scope for the administration to subvert this process by traditional methods. However, in our experience of enterprises going through privatization such attempts provoke an angry reaction from the workers, and to forestall such a reaction the administration will go to unprecedented lengths to explain its programme to the workers in the attempt to secure their approval.⁴⁸

It would be naive to see the struggle over privatization as one which necessarily unifies the working class. Privatization can also be the basis of divisions among workers. Entitlements linked to length of service discriminate against women, young and temporary workers. Privatization to the labour collective leaves out all those not attached to state enterprises as employees or pensioners. Sale to the labour collective at knock-down prices benefits workers in profitable enterprises, while burdening the unprofitable. Like all struggles, the struggle over privatization is one in which workers have to construct a unity, which is extremely difficult in the absence of effective organizations within which differences of interest can be democratically resolved. Privatization is certainly not a victory for the workers, but nor is it a defeat. It is only the beginning of a struggle which for the first time since the 1920s can be fought out on the workers' own ground, within the enterprise, the 'state within the state' which is not just the place of work, but a way of life.

⁴⁷ The vast majority of enterprises have opted for the second variant of privatization, which gives the controlling interest to the labour collective. Some worker activists in enterprises with a conservative or incompetent management have pressed for the first variant, favoured by the liberals, which gives the workers a minority holding on more favourable terms, on the grounds that the subsequent sale of the majority holding to outsiders will remove the existing management.

⁴⁸ We have found a number of enterprises which were privatized to the labour collective in 1990–91, most of which were very paternalistic, in which the management has found the workers' shareholding to be a barrier to its plans and is now proposing a restructuring of the company to bring in outside shareholders. In every case this has provoked sharp and active opposition from a hitherto quiescent labour force.