

## Why the Transition failed: Towards a Political Economy of the Post-Soviet Period (so-called Transition period) in Russia-Part One.

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### Introduction: Significance of the Failure of the 'Transition'

The thesis of this article is that there has been no transition to capitalism in the post-Soviet space and that there has been no transition because there could be no transition. The pre-conditions for a move to capitalism have been absent throughout this time. We have been witnessing a continuing disintegration of the previous system leading into a disintegration of the society itself through national independence, civil war, emigration, growth of criminal enterprise and the exclusion of ever greater numbers from direct participation in that society. Every society must have a social form, which we call its social system and if that social system is disintegrating without replacement, it follows that the society itself must begin to disintegrate. This article is an attempt to theorize and so understand the nature of the 'transition'. It does not attempt to uncover yet more empirical details, something that is amply dealt with by quality newspaper and periodical articles. Instead the article tries to take part in the process of discussing the salient features of what might be termed a 'frozen transition' or 'continued disintegration'.

The failure of the Former Soviet Union to move decisively into a capitalist future has played a crucial role in the evolution of the global capitalist system in two respects: one ideological and the other economic. Ideologically, the post-1989 triumphalism has proved ephemeral. The failure of the market to provide a higher and qualitatively better standard of living for the residents of the FSU has been of epoch making significance. The local populations no longer look to capitalism, if they ever did, as a solution to their problems. The Western working class and the third world peasants and workers are aware of this failure and hence remain potential recruits to the cause of socialism. This was already true before the economic crisis around the devaluation of the ruble in August 1998, although those events reinforced anti-capitalist sentiment.

Economically, the dismal economic record of the FSU, and indeed of much of Eastern Europe, has meant that the earlier hopes that these countries could provide a market for the goods and an opportunity for the surplus investment funds, now sloshing around the developed countries, have been dashed. The decline of the military sector in the developed countries, following the end of the Cold War, has made the hunt for an alternative investment outlet a priority. Today China is regarded in much the same light as the post 1989 USSR. It lacks, however, the educated workforce, the relatively more sophisticated consumers and the apparent receptivity to capitalism of the FSU. The Communist Party of China may prove to be the true Capitalist Party of China but there is still considerable doubt that it will go the whole way to capitalism. The question of China's future remains open and with it the whole question of the direction of global investment.<sup>2</sup>

The collapse of the South East Asian economies and Japan has now raised the more general question of whether any economy, other than those of North America and Western Europe, can develop a

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<sup>2</sup> See the article on page 19 of the Financial Times of 10/11/1997 on China. The contradictions of contemporary China are vividly described: 'overinvested property market..state banks on the brink of insolvency..rising stocks of unwanted manufactured goods..and signs of corruption.., slow down in growth, exports, a fall to half of contracted foreign investment.'" Reform of the state sector and re-employment of workers are mentioned at the same level as the other problems. In fact, strikes have increased and it is no time to commence an attack on workers in the state sector. The article argues the need to devalue the currency which in the end goes back to the point that wages and productivity have changed adversely. By the time, the collapse of the stock markets of the 'emerging countries' took place, the West was desperately trying to prevent the Chinese currency being devalued.

capitalism which is relatively independent of the metropolitan powers. Before 1989, the view that capitalism had underdeveloped the third world appeared at best partial. Since then and particularly since 1997, that thesis has been powerfully rehabilitated particularly since Eastern Europe has not been industrially regenerated. The USSR had been an industrial power, with all the faults of Stalinist industrialisation. It was clearly inferior to Western capitalism. Today its successor appears to be on the path to large-scale de-industrialisation, becoming a raw materials producer. This end is unlikely but that does not alter the trend.

In this context, the effect of the East Asian crisis on Russia and the CIS has been the final blow to any pretensions of successful transition. The attempted IMF bailout of Russia in the third quarter of 1998 must be regarded as a desperate measure to prevent Russia and much of the FSU falling into an abyss of riots, insurrection and possible mass starvation. The devaluation of the ruble could only lead to higher food prices, bank bankruptcies and the entrenchment of the former USSR in a non-monetary economy, while, paradoxically, the Russia continued to export around 20 billion dollars to the West. The absurdity of the West proposing to supply over 22 billion dollars in two years when Russia was exporting twice that amount to the West was lost on no-one. The IMF is a virtual prisoner of the process in the FSU, rather than the FSU being a prisoner of the IMF. Indeed, when Russia threatened to default on its debt to the IMF, the latter agreed to lend it the precise sum required to avoid default.

The impact on the West, and particularly Germany, is incalculable. Russia triggered the currency and stock market crises of August-September 1998 but it did not cause them. There were already sound reasons for the collapse of overblown stock markets and currencies. Articles in the press never tired of pointing out the small size of the Russian economy and the tiny extent of their stock market, meaning that economic problems of Russia could not really affect the West. While the argument was essentially correct as a technical argument it omitted two things. Firstly the very large debt, over 150 billion dollars, owed by Russia to the West on a long term basis. Secondly, the collapse of the transition to capitalism made capitalism itself questionable and hence more unstable.

The limited revival of the Russian economy beginning in 1999 consequent on the massive devaluation of the ruble combined with the rise in oil prices has stimulated some optimism among the marketeers<sup>3</sup>. Although industry has grown, barter remains dominant and investment is a small fraction of the level of 1990. The fundamental tendencies of the transition remain. In reality, however, the physical liquidation of the towns of Chechnya and the unbelievable cruelty used to defeat Chechnya itself only demonstrates that the truth that a disintegrating system, which has no replacement, will lead to the dissolution of society itself.

Russia is already providing fertile ground for theorists and sociologists to consider the nature of societal disintegration. We are familiar with the disintegration of the Roman Empire but not with a contemporary example of where a society so disintegrates that the individual is so forced to fend for himself that he has to go back to small plot cultivation to survive. I would argue that such disintegration is occurring because the working class cannot constitute itself as a class, while no capitalist class can constitute itself either. The fall of Stalinism is itself irreversible. The science fiction future of a no man's land of isolated social entities now appears real. For critics of capitalism, the future now appears even more barbaric than the last century not just for the former Soviet Union or Eastern Europe but for the whole world. An alternative more optimistic scenario is also possible, of course, in which the working class and intelligentsia do move to a democratic socialism but, while that is my view, it is held by very few.

Against the trend, Simon Clarke has demonstrated that the private plot does not play a crucial role in the income of the average family.<sup>4</sup> That leaves open its role on the margins and for particular families. His conclusion is more hopeful in that it does away with the picture of a nation of atomised peasants, but it does not remove the picture of a society whose fabric is tearing.

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<sup>3</sup> Anders Aslund: New York Times, January 18, 2000, reproduced in Johnson's List, January 18, 2000

<sup>4</sup> Simon Clarke: Making ends meet in a non-monetary market economy  
[www.warwick.ac.uk/fac/soc/complabstuds/russia/russint.htm](http://www.warwick.ac.uk/fac/soc/complabstuds/russia/russint.htm)

Hence the failure in the former Soviet Union looks like playing a central role in the future of capitalism in 3 respects

- ◆ Ideologically, in disproving the superiority of capitalism itself, creating a demand for an alternative to both capitalism and Stalinism.
- ◆ Economically, in the West, in first contributing to rather than in solving the problem of the ongoing surplus of investment funds in the West but then, paradoxically, in contributing to the opposite process of liquidating financial instruments of both public and private lenders.
- ◆ Economically, in the East and in the third world more generally, in compelling the native residents to find an alternative to a failed transition to capitalism.

### **The Major tendencies or laws operating in the so-called transition.**

In this article, I adduce a number of laws or tendencies apparently operating in the FSU.

The fundamental law is one of continued disintegration. Every society operates through a particular system, which may be a mode of production, socio-economic system or formation or a temporary social system. What is crucial is that there be a fundamental social relationship through which it operates and ensures the stability of the form of the society. The old Stalinist system crucially lacked that fundamental relationship. As a result, the form of the society through which it existed was itself unviable. (Its form, in a sense, was the form of no form.) By comparison, Capitalism has the law of value, in Marxist terms, or the market in orthodox terms. Stalinism, on the other hand, functioned through the direct centralised organisation of the society using bureaucratic/administrative means interacting with direct force. Atomisation was its counterpart at the micro level. This is not the place to repeat my arguments on why the USSR was unviable and what brought it to an end because I am trying to discuss its successor.<sup>5</sup>

The essential point is that the dissolution of the Stalinist system removed the direct centralised form and also reduced the level of atomisation of the society. It thereby removed its sole means of integration. As long as the society was organised and people were atomised the society could function, however much people were opposed to it. Once the central planning apparatus was removed and the role of the secret police diminished, the integrating mechanism within the system and so within society itself began to dissolve. In other words, the system began to disintegrate and the society with it. Capitalism or the market provides an alternative means of integrating the society but it has not been introduced. The concept of disintegration of the system and hence of the society is, therefore, the key to understanding the different aspects of the former Soviet Union.

This disintegration is one which proceeds logically to the level of the individual unit or even the individual person. Its first obvious manifestation was the way in which the national units of the former USSR proclaimed themselves independent. Thereafter regions and cities played with being autonomous from the centre of the newly independent nations. However, even factories and enterprises have been compelled to operate as autonomously as they could in order to survive.

At the point of the dissolution of the old system the components of the different entities in the society were standing in stark opposition one to another. Production stood opposed to consumption, industry to agriculture, investment to current production, management to labour, men to women. These poles have not ceased to be antagonistic one to the other and precisely for that reason the entities in which they are involved have tended to disintegrate. The disintegrative process itself has provided a temporary resolution.

In all the instances cited above the poles themselves have suffered a decline. In the case of the population both men and women have lost jobs, but the position for women has deteriorated considerably

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<sup>5</sup> See my book: H.H.Ticktin: Origins of the Crisis in the USSR: Political Economy of the disintegration of a system, Myron Sharpe, Armonk, 1992.

further than that for men in that proportionately more have lost jobs, and suffered a decline in income. The result has been to disadvantage women more than men and so make them more dependent both on men and on the political system. The conflict is thereby temporarily resolved because women have less opportunity to pursue the conflict and less desire to do so under conditions where the men supporting them are also in grave economic trouble. Under present day conditions total production is under half what it was, so that even Soviet type goods can be an object of desire, particularly where the population do not have money to buy goods, most particularly imported goods. Soviet type goods may not have been able to be sold under late Soviet type conditions but where it is better to have an inferior, or even a vastly inferior good rather than starve or go without, the Soviet type goods find a market today. This is particularly the case when the poverty of the countries of the disintegrating system leads to a massively depreciating currency and so to the relative cheapness of home produced products.

We can understand the emergence of barter through such a disintegrative analysis. The overall tendency has been one of disintegration to the atomised unit. The exact unit has moved, from the nation-state, to the enterprise to the final individual person or family. In the latter case, further disintegration is impossible. Indeed, it is not hard to detect in the way many families or individuals have turned to their own private plot to get whatever food that they could cultivate, in order to survive, even if it is neither enough nor an everyday occurrence. In addition, some proportion of the population has turned to individual selling of their own goods supplemented by other acquired items in order to survive. Others have become petty criminals. Many have resorted to working in more than one job. This is subsistence existence and not any form of accumulation nor the basis of any new system. Where the individual or unit operates on a subsistence basis they cannot get the exchange necessary to acquire other goods. Hence some form of barter becomes a necessity. This relationship is in itself haphazard, changing from individual to individual and from one day to another.

In the case of enterprises, each unit is forced to operate on its own individualised basis, unless it wants to completely restructure itself along capitalist lines. Since that involves the loss of a large proportion of both management and workers, and possibly even the loss of the enterprise itself, each unit continues to try to exist as best it can. Since the enterprises are not based on profits or an excess of revenues over expenditure, under present conditions, barter succeeds in maintaining a declining entity, where money would not. Of course, as pointed out by observers,<sup>6</sup> it pays the enterprise to use barter to avoid taxes and other money forms but in the end the reason boils down to the fact that their survival demands it. The enterprise stands directly opposed to the state apparatus in its collection of taxes and imposition of various other rules, without any integrating mechanism. It, therefore, hides its production as best it can and pays criminals to protect it.

In other words, the disintegrative process has led to a drive towards the autonomy of every unit and barter is one way of maintaining that autonomy. In reality, the autonomy existed in opposition to the organisational drive of the centre in the old system. But the administrative or organisational drive of the centre did limit that autonomy. Without the so-called planning apparatus that limitation is absent and the old forms can expand. As a result, the old relation between enterprises continues but without the more generalised 'planned form'. This victory for the individual unit cannot become an entrepreneurial form unless the social relations themselves become value relations. Labour must become abstract labour and if that is impossible, the market is impossible and hence the enterprise is forced to go back to a pre-capitalist form.

### **The Role of International Capital**

The law of value or the market does not automatically impose itself, unless the social relations are conducive. The IMF seems to agree in its own inimitable and fetishized way, as the following quote

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<sup>6</sup> IMF Monthly Bulletin February 1999: The IMF continued to worry, however. "The economic situation in Russia continues to give cause for concern. In the absence of a concerted policy response to ongoing financial and macro-economic instability, the country is increasingly faced with the serious risk of accelerating inflation, further exchange rate weakening and continued economic contraction....We once again expressed our concern regarding the accumulation of arrears on debts due by Russia."

implies.: “Widespread graft and a culture of nonpayment—with the government itself, at central and local levels, repeatedly failing to meet its obligations to public sector wage earners, pensioners, and suppliers—have eroded the social fabric. The lack of political consensus and commitment to the reform process caused the situation to deteriorate until the accumulation of debt and erosion of confidence made it untenable. and make further progress with structural reforms, but in the absence of further, sustained fiscal and structural adjustment the external position will remain vulnerable.”<sup>7</sup> The IMF authors thus also give the impression that while there is a structural problem it is basically in the mind. Provided the culture of corruption and non-payment can be overcome and there be some consensus among the politicians, the market can be installed, reforms be successful and Russia bloom. In other words, they realise that the ordinary workers are opposed to the markets because such market reforms have been against their interests but it is implied that such workers are misinformed and that if only they supported the market their standard of living would rise. It has taken a decade for the august IMF to realise that there are real obstacles to the reform but even now the market is regarded as eternal while the non-market features of Eastern Europe appear as enforced by fanatical dictators.

The point, however, is that International Capital has played a crucial role in facilitating this disintegrative process. Although Capital has been trying to replace the Stalinist system with capitalism, it has not succeeded. Instead, the old system has continued to disintegrate in parallel with the injection of a parasitical finance-capitalist sector. Finance does not in itself develop capitalism. Financial and merchant capital have existed for thousands of years without the evolution of capitalism itself.

It is, therefore, another law governed regularity that the same decadent finance capital which had gone to war in 1914 and fallen before the Russian Revolution, should be unable to replace Stalinism. It is not hard to project a massive injection of several trillion dollars into Russia over 10 year period, which would both fuel a world boom and turn the former USSR into a major industrial capitalist nation. There were indeed, and still are, voices which called for a Marshall plan for Russia and Eastern Europe.<sup>8</sup> It is clear that if sufficient capital had been supplied to replace Soviet machinery in key industries and enough money provided to pay good unemployment benefits to those rendered redundant, FSU industry would have been competitive on a world scale and workers would have been less discontented. Whether that would have been enough to surmount the transition is not clear. Such a formula would have given capitalism some base and the failure would not have been as clearcut as it appears today. Why then has capital not made the necessary investment and perhaps preserved itself for another 50 years?

There are two parts to the reply. The first is embedded in the above IMF reply, where the continuing decline is seen as a series of pragmatic failures. In other words, the dominant form of modern capitalism is finance capital and hence it naturally transferred operations to that region as soon as possible. Since finance capital is above all short-termist, it could only view Soviet industry as an incubus to go the same way as East German industry, so leaving the former USSR with only an extractive industry and a hypertrophied Russian finance capitalist branch of United States capital. The rise and rise of parasitic and criminalized finance capital is a natural, pragmatic response to Russia being thrown into the maelstrom of modern capitalism.

Nonetheless, finance capital is also abstract capital and as such fully capable of planning a strategy for capital as a whole. That it did not do so must mean something. It seems to me that we must understand that modern capital is afraid of developing industry unless they have necessary control over the workers. It appears as if Stalinism collapsed at the very time when capitalism could not provide the “Marshall Plan” so necessary to the revival of the FSU. Everywhere, capital is in retreat, destroying industry with the insane slogan that financial services are just as good as industry for a modern economy. Some, less intelligent members of the capitalist class and their economists may actually believe this slogan. Others realise that the

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7 IMF: WORLD ECONOMIC OUTLOOK May 1999

A Survey by the Staff of the International Monetary Fund, ch1, p.15.

<sup>8</sup> See for instance: Rudiger Dornbusch in 'Nothing left to steal.' He argues for a Marshall Plan for Russia and says reforms failed because there was no Marshall Plan.

Financial Times, London, Thursday 23.09.99 p.30.

continuation of the post-war boom was unsustainable because the workers would necessarily demand control over production and so the society. The USSR fell just at the time when capitalism could not absorb it, except as a doormat.

This does not mean that Western Capitalism engineered the fall of the USSR in order to turn it into a supplier of cheap raw materials and a limited market for Western goods. Such is the view of Edward Herrman<sup>9</sup> and Michael Hudson. Herrman argues that it is wrong to state that Clinton's short or long term goals have not been achieved in the former Soviet Union as the goal of the West was never democracy but rather to 'make the death of socialism irreversible' and turn Russia into a client state. As the USSR was not socialist by any reasonable criterion, socialism could not be overthrown. Presumably Herrman is arguing that the West wanted to remove the Stalinist regime and prevent any future move to socialism. That does not seem unrealistic but if that was its goal, it may have failed. Stalinism is irreversible but the discontent of the workers of the former USSR may well be channelled towards a demand for socialism, given the clear failure of the market. This move against the market is a predictable result of the destruction of industry in Russia itself and hence if the above was the aim of the West, then its goals were conflictual and hence could only fail. One is driven to the conclusion that the aims of the West were pragmatic and ambiguous. They wanted the destruction of Stalinism and the implantation of the market. Further than that there was no clarity. They assumed that the introduction of the market would mean that Russia would look like the West economically, if less developed.

The naivety of the approach of International Capital was shown by its attitude to East Germany whose industry was wiped out by a combination of an overvalued exchange rate and privatisation. The effect was to turn East Germany into a permanent basket case which has been subsidized to the tune of 150 billion DM per annum for almost 10 years. That in turn destabilised Germany as a whole, creating a special problem for the EU. It is impossible to believe that the West wanted this result.

### **The Goals of the Reforms**

By starting with the attitude of International Capital, I have raised the whole question of the goals of the reforms. In the early period of the transition the goals seemed so clear that few asked what they were. It seemed clear that the aim was the market plus democracy and the two were often assumed to be automatically joined in a kind of unconscious tribute to Marx's theory of historical materialism. To this apparent aim was added the need for speed in order to ensure irreversibility. There was no historical analysis of the nature of the market or of democracy. They were simply assumed to be natural, necessary and morally sound goals. If the Soviet Union was not the evil empire, it was necessarily inefficient, warlike, oppressive and exploitative and the market was of necessity superior. Even those who questioned the efficacy of the market and criticised the West for its democratic limitations generally saw the goals in this light because they separated the market from capitalism as some kind of ahistorical mechanism.

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<sup>9</sup> West Edward S. Herrman:

Russian Corruption and the shakedown state model  
Spectre, no 8, Autumn 1999.

"It is clear that the primary Western policy objectives in Russia were to make the death of socialism irreversible, to reduce Russia's economic and political power, to facilitate western economic penetration, and even to transform that country into a Western client state."

He takes issue with Katrina Vanden Heuvel who argues that none of Clinton's short or long term goals were achieved (Nation, Sept 6/13, 1999). He argues that democracy was never the West's aim, no more than it has been in Saudi Arabia, or Suharto's Indonesia. The stated aims of the US administration are a blind, in other words.

Berezovsky has obviously learned something of capitalism from the Stalinist textbooks that he read.<sup>10</sup> He argued in an interview with Newsnight that big capital rules. Martin Wolff of the Financial Times clearly does not think that Big Capital rules, as he says that if that is the case the future for Russia is dismal.<sup>11</sup> The market has only existed in its full form under capitalism and cannot exist in any other way, in spite of the now largely discredited market socialists. The role of capital may be nuanced and often indirect but that does not alter the point that in a market profit is crucial and those who control those profits are critical to the society. The implication of the marketeers, however, was that the market requires competition and competition needs a large number of firms, none of whom can influence the price. Hence their goal was that of the destruction of the existing large Soviet type enterprises and their replacement with a multitude of small firms. Profit rules but through competitive small to medium enterprises. There can be no doubt that many economists, academics and international bureaucrats have taken this view. It is the dominant attitude in most of the Western official and semi-official organisations dealing with the former USSR.

In times to come, academics will wonder how there could be such people. Our society is not of that type and one can ask whether it ever was. Although, one can find a few industries approximating to this utopian picture, the dominant industries—the Car/Automobile Industry, the Pharmaceutical Industry, the Computer Industry and the Arms industry and are all dominated by a few giant firms. The small to medium firms which often supply these industries are subject to or controlled by their buyers. Almost 50 years ago Paul Baran argued that the economists' worship of the small firm arose out of their intermediate position in the society.

In short, the goal of the Western organisations was to introduce a Utopian market, whereas the goal of capital itself was more pragmatic. It was to seek out and find sources of profit. It had no objection to establishing local industries but it often had no way of making them profitable as we saw in the case of IBM and Philips which both withdrew from production in Russia. There was no overall goal to destroy Russian industry, even if it looks as if that has been achieved.

In other words, behind the rhetoric of the importance of the transition to the market, large corporations and finance capital operators saw an opportunity to make money. That, after all, is their function but the project has largely failed with the potential exception of the raw material producers. The reasons for the failure is discussed below.

So Herrman and Hudson are wrong in that there was no pre-existing goal of simply taking over the Russian economy or turning Russia into a client state, even if some capitals might have wanted to do so. The fact that Russia is a client state and its economy is devastated has to be explained in other ways. Essentially they are wrong because they fail to see the contradictions in the nature of the old system and consequently in the transition itself. They are right, however, in pointing to the reality.

### **What has happened in Russia?**

One aim of the reformers was to reduce the size and importance of the state and yet it is a standing paradox that the opposite has occurred. The harder the centre tries to reduce its size and apparent role, the bigger the centre grows and the more important its apparent role. The more the state has tried to divest itself of its former power, the greater grows its size and its determination to exercise more power. In short the state has grown in size but grown ever weaker in its ability to enforce its commands.

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<sup>10</sup> Martin Wolff in FT 29-03-2000, p23: *A journey into the unknown*

Refers to Berezovsky's remarks that big capital will influence events as unfortunate. 'Already, Boris Berezovsky, among the most successful exploiters of post-communist chaos, has warned that the influence of what he calls "big capital" can only grow further in Putin's Russia. If so, the chances of turning Russia into a country governed by law, with a monetised economy, an effective public service and a functioning federalism must be slim.' Martin Wolff takes the opposite view to Daniel Treisman on Yeltsin and his successor arguing that Yeltsin was 'ignorant, shrewd and compulsive' and he says. 'Mr Putin is no Yeltsin'

<sup>11</sup> *ibid*

In the old regime, there was a similar tendency for the political-economic apparatus to centralise as much as possible in order to control the political economy of the society. The problem, however, was that the more centralised the society became the more decentralised it also became because there is no way that the centre can exercise such total control. As the Stalinist system grew, therefore, the more difficult it became to control the totality and so the more the periphery grew independent in its real relations even if formally it remained wholly subservient to the central apparatus. In the absence of a chain of command, with the different links accepting the authority of the system, each peripheral unit necessarily operated in its own interests. As a result, the system was correctly described as one of organised chaos.

In the new regime, there has been a conscious attempt to divest the centre of its direct economic control over the system, through the abolition of Gosplan and the powerful economic ministries. The State apparatus itself has been nominally curtailed in that the institutions of the KGB, the military, the Communist party and the state-political apparatus have either been abolished or cut back. Nonetheless, both the economic and political apparatus are back in business. It is not the identical business, although the directors are largely the same people, but it is uncannily similar in its operations, though not in its form. The form of control has changed but the control itself has remained, even if diminished in power.

The economic ministries have been replaced by a few financial conglomerates, and a so-called military-industrial complex, which is more appropriately called the potential native bourgeoisie and the IMF-Western interests. They have different aims and interests but they issue instructions to their subordinates which may or may not be obeyed, depending on the interests of the particular unit. The financial conglomerates have the most control over their own units because they are largely financial. Whether a financial group will succeed in controlling a series of industrial enterprises and developing them is still to be seen. However the point is that spontaneously acting small to medium private enterprise is yet to become important in the FSU. Private enterprise at the large enterprise level is either the old enterprises operating as before but under a new rubric or large scale financial or industrial enterprises operating in collaboration with the bureaucratic apparatus. The post-August 1998 problems of the financial sector reinforces this tendency.

The problem is that the financial sector can only establish dominance over the economy by massive de-industrialisation but if it were to do so, it would lose its source of revenue. Financial groupings established their original viability through the profits made through purchases of state bonds, often financed by hard currency loans. These loans, themselves, were given on the basis that the Russian state would be able to raise the revenue through taxation on the economic enterprises and those who work for them. Clearly if there are few viable enterprises and massive unemployment, the state would have a low tax yield. There was, therefore, an implicit assumption that Russia would eventually succeed in transferring to capitalism, even if in a slimmed down form. To a degree, these Financial groupings also obtained revenues or at least returns from industry. Even if they invested in extractive industry, in order to obtain the hard currency from its exports, that industry itself is closely integrated into the Russian economy. The investment required to turn Russian extractive industry into a modernised capitalist form could only come from Western firms, such as the oil companies. The problem, there, however, is that such firms would then ease out their Russian partners. In other words, the potential Russian bourgeoisie is not too eager to invite in foreign capital, at least before they are themselves secure as a bourgeoisie. This same would-be financial bourgeoisie, however, is not eager to invest in Russian industry, because of the risk involved and the long term nature of such investments. It has the same nature, to put it bluntly, in this respect, as Western finance capital.

We can, therefore, deduce that the process of transition itself is driving towards both a decline in industry and the rise of a particularly parasitic finance capital. Since finance capital has been in the driving seat, the process of transition is, therefore, caught in its own contradictions. It must rejuvenate and convert Russian industry but it is afraid to do so and prefers instead to cream off the surplus produced in the Russian economy either to support their own life-styles or for the purpose of exporting abroad. Their own existence is tenuous as shown by the August 1998 crisis and hence their own actions are typically short term. As a result, we can say that they have been created by the disintegrative process itself and tend to

accelerate it. However, in order to survive they have to use extra-economic means, and these have involved both the use of the state apparatus and the employment of criminal means.

In the end, the reason for this hypertrophy of the state apparatus is that the emergent class is trying, with limited success, to halt the disintegrative process in order to establish itself as a class. In other words, this disintegrative process has established a weak potential bourgeoisie which is attempting to use extra-economic means to ensure its own survival, at the same time as it has relinquished the old extra-economic state forms. These old forms relied on the existence of nationalised industry and an organised economy, from which the newly emerging bourgeoisie has broken free, as if from a chrysalis, which is necessarily destroyed. Without it, however, they do not have the means to control the economy or the workers.

A second law could be called the law of reversibility. A number of politicians in the former USSR and Eastern Europe argued that it was necessary to proceed in haste in order to make the process irreversible. In fact, the more the system has been changed the more reversible it appears.

It is not at all clear that the process could ever be irreversible. The various political, ideological and journalistic statements emanating from the former Soviet Union and the West, which speak of irreversibility cite no evidence in support. If the majority of the population should vote for an economic version of the old system without the secret police and Communist Party, which is not impossible, restoration would be on the agenda. If it is argued that the full Stalinist system cannot be restored, that is self-evidently true because no one would want the old form of terror and atomisation used, as it was, to support the rule of the elite. Privatisation, however, has so far brought little more than misery for the majority and hence it is not popular. Indeed there is no evidence that it is more efficient than the old system on the macro scale. The efficiency savings made at a micro level, through downsizing, higher labour productivity and cost savings must be offset by the macro inefficiencies of mass unemployment, loss of such morale as existed before and the extra costs involved in introducing a complex financial system.

Hence the process is reversible in two ways. In the first instance, a reactionary party like the KPRF could come to power and restore parts of the old system. As it already rules in various regions, this is clearly possible. The deliberate decision of the Primakov government to print money, invest in industry and use partial re-nationalisation did not reverse the process but it shows its possibility. More likely, is the second instance where the rumbling revolt of the workers takes on more aggressive forms and overthrows the existing regime or causes its overthrow.

It has to be remembered, furthermore, that the old system operated with a few crucial and shadowy figures making critical decisions. They are almost certainly making the same kind of decisions today, leaving the President and his crew to deal with the execution of those decisions and with the trivia of government. If these shadowy men consider that the present form of government is not serving their interests, they will try to change it.<sup>12</sup> That, in part, has happened with the selection of Primakov as Prime Minister, his dismissal and the dismissal of his replacement in order to establish Putin as President.

### **Why has the Transition Failed? Six Views**

At one level, it looks as if the ghost of the Soviet Union stands over the capitalist world triumphantly laughing at the way the end of the Cold War has brought the capitalist world more problems than when the Soviet Union was alive. To the question of the reasons for the collapse of the Soviet Union, there is now added the problem of the reasons for the failure of the 'transition'. These may be divided along a number of planes. One series of reasons

One reason constantly given in the FSU, almost as a popular refrain, is that the Soviet Union itself remains the cause of the failure. The old system, in other words, continues even if in a new and openly

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sssssss<sup>12</sup> The phrase shadowy people comes from Russian. This point has been derived from my own interviews in Russia over a number of years. This point was first made to me just before 1992 and I could not believe that anyone could think that they could introduce capitalism and then withdraw it, but it now looks more credible, given the disastrous failure in the former Soviet Union.

disintegrating form.<sup>13</sup> While this argument is plausible, it provides only the basic material for the explanation not the detailed theorisation. Practically every particular feature of the new 'system' can be adduced as a major obstacle to the formation of capitalism and then attributed to the old system. The criminalisation of private enterprise, monopolies, clans, the state-finance capital bloc, the absence of the rule of law, the limited form of democracy etc can all be given as reasons for the absence of capitalism and then explained as deriving from the Soviet Union. The real question, however, is why there remains no rule of law, why private enterprise remains criminalised even if respectable, why the 'system' remains in the hands of state-banking capital, why Yeltsin broke the rules of Western democracy etc. One can argue in terms of particular obstacles for only so long before these obstacles appear part of a wider or more complex picture.

Yavlinsky, the former journalist and present-day opposition politician puts a particular version of this viewpoint when he argues in the above terms: that monopoly is maintained, that personal contact with the authorities plays a crucial role in business, that land is not denationalised, that private property remains ambiguous. He then adduces the reason: : "The main goal of such a system and its driving force is to maximize income for a small nomenklatura group at any cost."<sup>14</sup> Clearly this is correct but it does not explain why this new version of the old elite had to take this form. Why can they not move to capitalism proper? Is it only because they fear being ousted by other members of the elite or higher intelligentsia? Where does big business not play a dominant role under capitalism? Yavlinsky appears to be arguing for a utopian capitalism, while ignoring the real socio-political relations in Russia. If it is only the nomenklatura preventing the move to capitalism, then their power has to be explained. After all, the reformers were in government for a considerable period and the old nomenklatura has never been in government under the new regime.

Yet another version, calling the post-Soviet system, 'nomenklatura capitalism' attributes the post-Soviet failure to the absence of a 'supportive political culture'. In other words, the former USSR had a political culture which tended to negate the development of capitalism because the old system led to a ruthless and corrupt political culture with those at the top being of that kind. Precisely because they were of this culture they were able to seize control of the assets of the society. Martin Wolff, argues that "The resulting symbiosis of property with illegal power has a host of malign consequences."<sup>15</sup> He then attributes managerial theft, lack of state resources for essential tasks, monopolisation of the market by inefficient firms, lawlessness, capital flight and lack of long-term investment to the fact that the capitalists are illegitimate. For good measure we are told that they are undermining faith in private property.

Such a view has an oddly optimistic view of the nature of capitalism and capitalists in the West. Much of the third world has capitalism with 'legitimate capitalists' yet it suffers from all these problems. It is true that different countries suffer to different degrees from each of these troubles but the overall problem remains. The whole question of corruption is mired in questions of definition. Is the British 'old boy network' a form of corruption? Does Big Capital, in the West, obey the law when it finds it troublesome or does it pay lawyers to find ways around the law? When the US state pays the military thousands of dollars for an item like a screwdriver, is this a case of corruption, lawlessness, undermining the legitimacy of capitalism, inefficient monopoly power? In short, the transfer of property to the old elite did not in itself stop the development of capitalism. There is no evidence that any other Russian group would have been better. Indeed the alleged transfer of money to Western advisers, which led to their dismissal from an institution of higher education in the United States, illustrates the fact that corruption may not have been confined to those used to Stalinism. In short, Martin Wolff, who is a major contributor to the Financial Times, also has a utopian view of capitalism.

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<sup>13</sup> 'My friends in the former Soviet Union are forever throwing up their hands at this or that disaster or petty problem and naming the cause of it all—in Almaty, Magadan, Moscow, Tashkent, or Nizhny Novgorod--"Sovetsky Soyuz!" 'Johnson's Russia List, 26 March 1997 1. Wallace Kaufman: Collapse and Reform.

<sup>14</sup> **Obshchaya Gazeta, No. 27 July 10-16, 1997**

Article by Grigoriy Yavlinskiy: "Yabloko Knows Where To Get the Money", Johnson's Russia List.

<sup>15</sup> Martin Wolff, "Caught in the Transition Trap", Financial Times, 30<sup>th</sup> June 1999, p.23.

The consequence, of seeing capitalism in such a religious form, is that the real obstacles to its introduction are missed. In the end, they are only stating that the author hates the old elite. It does not see the old system as it existed and its real structures. It also makes the working class entirely passive.

Another form of the ‘political culture’ or simply institutional argument is put forward by a number of practical economists and political scientists. Thus Alan Greenspan, U.S. Federal Reserve Board Chairman, in argued at one point in 1997 that there were a series of cultural requirements necessary for capitalism, absent in the old Soviet Union<sup>16</sup>. He declared that: “Certainly, if generations of Russians have been brought up on the Marxist notion that private property is "theft," a breakdown of the Soviet central planning infrastructure is not going to automatically alter the perceived moral base of its social system. The right to property in market economies, on the other hand, is morally rooted in its culture.”<sup>17</sup>

Private property then is the fundamental basis of capitalism. Unless it is accepted and institutionally rooted in the society, there can be no market, other than a black market. It is hard to argue with Greenspan. Indeed both left and right would agree on this statement.

Greenspan, however, is making a distinction between economics and culture, which less orthodox economists would either reject or regard as dubious. In other words, Marxists and heterodox economists can argue that a transition to capitalism necessarily involves a move from a nationalised and administered or organised economy to an economy based on decentralised private property. This raises the question of the viability of ‘market socialism’, of course and hence of any economy other than capitalism and a future non-Stalinist socialism. Greenspan, in the same speech, roots the failure of the USSR economy in its inability to initiate and so respond to producer and consumer signals. The Soviet economy, of course, was not consumer oriented, worker oriented, or oriented to the ordinary population. It is tautological, however, for someone who sees the market as a unique consumer machine to argue that the USSR failed because it was not like the market, in being consumer orientated. The poor or defective product was the form of low productivity in the Stalinist system. Whatever the signals, the enterprise could not alter the result. Indeed, all planners, workers and economists knew what was required, both for the system and for the individual entity at any one time. The problem was that it was not in their individual interests to conform to the signals. The failure lay in the incentive system or put more generally, in the social relation between the social groups in the society. Whereas capitalism provides unemployment as the whip and more money as the carrot, neither existed under Stalinism. Neither existed for the very good reason that the population was opposed to both. While individuals may have wanted more goods, they objected to incentive systems in which some received considerably more than others. All workers opposed unemployment. This is the so-called cultural gap that has to be changed but which cannot be changed because the society is fundamentally egalitarian. Stalinism did try to remove the egalitarianism but it failed to do so. In one sense, the attempted shift to the market was a method of destroying that egalitarianism. Greenspan and others dare not state this proposition because it is subversive. Stalinists from Stalin to Gorbachev used to rail against so-called levelling ie the demand for equality.

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<sup>16</sup> **Remarks by Chairman Alan Greenspan  
At the Woodrow Wilson Award Dinner of the Woodrow Wilson International Center for Scholars,  
New York, New York  
June 10, 1997**

“Much of what we took for granted in our free market system and assumed to be human nature was not nature at all, but culture. ... There is a vast amount of capitalist culture and infrastructure underpinning market economies that has evolved over generations: laws, conventions, behaviors, and a wide variety of business professions and practices that have no important functions in a centrally planned economy.” (paragraph 5) Further on in his speech he enunciates some of the requirements of a market economy. He declares that the former Soviet Union transferred from central planning to black markets. “Black markets, by definition, are not supported by the rule of law. There are no rights to own and dispose of property protected by the enforcement power of the state. There are no laws of contract or bankruptcy, or judicial review and determination again enforced by the state. The essential infrastructure of a market economy is missing.”

<http://www.federalreserve.gov/boarddocs/speeches/1997/19970610.htm>

<sup>17</sup> *ibid* paragraph 16.

This poses the simple question of whether the genie of egalitarianism can be put back in the bottle.<sup>18</sup> It was released in 1917 and all attempts to restore the genie back to its home have failed. The Stalinist system can be regarded from this viewpoint as an attempt to divert the move to socialism into a form more congenial to a rising elite. Will workers ever accept that others control their working lives? Will workers ever accept that those in control are entitled to salaries many times their own? The answer in any country is probably in the negative. The USSR had a unique situation where the inequality was balanced with a degree of control over the labour process and so over the system itself. This was not enough to ensure approval for the Stalinist system but it allowed an atomised functioning of the system. It is this that must be undone and cannot be undone by formal means alone. No one will accept a parliamentary system in which the both main parties ignore the interests of the majority. No one will accept enterprises in which workers only sell their labour power. Whereas the American population can rejoice in a profound cynicism and not care to take part in the democratic process, a regime which is socially unstable needs something more democratic to allow capitalism to work. As such a regime does not exist, the transition is necessarily mired.

Another approach<sup>19</sup>, which is really a negative form of the previous argument, is to list a series of pre-conditions which were and still are absent. The main difficulty with this approach is that the authors seem to have a limited understanding both of the nature of the old system as well as of the nature of capitalism. They argue that there has first to be the rule of law, intermediary institutions and regulations, competition, labour-management co-operation, a proper banking system, and considerable foreign investment, but this is to put the cart before the horse.<sup>20</sup> We have to ask quite simply why labour would want to co-operate, when their standard of living was being forced down or when they were being given another undemocratic factory/enterprise system? We have to ask how one can have the rule of law before the market is introduced, when the rule of law is a product of the market? How can one have a banking system when there is no money? How can one have competition when enterprises are gigantic in size and require to be radically changed in their nature?

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<sup>18</sup> See AER Proceedings of January 99 Conference, where \* argues for inequality.

<sup>19</sup> Johnson's Russia List, 12-11-96: Kenneth Zapp of Metropolitan State University: "In recent articles (including one in Problems of Post-Communism) I identified six prerequisites for privatization schemes to be successful: 1. competition among enterprises; 2. macro-economic stimulation, 3. competent managers, 4. intermediary institutions and regulations, 5. physical infrastructure, and 6. labor-management cooperation.

Stanley Kober added his three in an excellent posting 1. rule of law, 2. competent banking system, and 3. foreign investment. Using either or both sets of criteria to rank the countries of Eastern and Central Europe according to their preparation for the market, most of us would agree that Slovenia (where I have worked since 1990) would be near the top and Russia at the bottom.

To me this means that the first steps in Russia had to be the development of these missing links before privatization and the sweeping changes we have since called shock therapy should have been implemented. Some of us have been saying this since 1989 but we were often ignored as the purveyors of "radical" reforms won political favor among politicians here and there whose primary concern was to proclaim their pro-market and anti-communist credentials. In a rare moment of candor, Jeffrey Sachs, the architect of shock therapy, said in a paper given in Slovenia (January, 1991) that the goals of instant privatization were to weaken enterprise councils and to insure that the former communists would never be able to reassert state control over the economy. These are political aims and we should know the dangers of mixing political purposes with the economy, especially in Eastern Europe."

<sup>20</sup> Thus "**Unlocking economic growth in Russia**", McKinsey Global Institute, **Moscow, October 1999**, Chapter 4, page 3, under the heading of "**Most common explanations for Russia's continued economic decline**": "The most commonly cited problems are chronic macroeconomic instability, poor corporate governance, lack of effective and independent legal infrastructure, lack of clear property rights, rampant corruption and increasingly powerful organized crime, poor infrastructure, prevalence of non cash transactions, bankrupt banks, absence of land code, red tape, and inadequate management skills." The authors go on to provide their solution, which unsurprisingly is that of raising labour productivity and investment.

In other words, all these pre-conditions are merely re-stating the nature of the market before the market exists. They would no more accomplish the object than the existing failed measures. The point is to get to the root of the matter and not provide a circular argument or at best utopian qualifications.

A fourth view is very simple. It states that the reforms have been thwarted by the old line Stalinists and others. Hence the genuine reforms could not be carried out. As a result the transition has not progressed. Such a view is taken by Vladimir Mau, deputy head of the Institute headed by the displaced private enterprise Prime Minister, Yegor Gaidar.<sup>21</sup> This is an extreme view which has little justification as Mario Nuti noted.<sup>22</sup> Even if it were true, we are left with the question as to why the reformers were prevented from carrying out their plans. Forces internal to the FSU stopped them, not just in Russia but also in the other FSU countries. While one may attempt to separate the political causes from the economic causes, in this case such a difference would be regarded as tendentious and self-serving. The Gaidar reforms were stopped or slowed down because those sections of society that had to implement them found them intolerable. Even if we discount these objections, the question then becomes whether a forcible implementation of the reforms was possible or whether the retreat involved did not save such reforms as were introduced. In the end, the political discussion becomes the same as the political-economic discussion. In other words, it is always easy to say that the reforms did not succeed because they were not properly introduced. This may be true in the case of certain great historical changes but the onus is on the reformers to prove a difficult case.

Nuti's argument, that the reforms were flawed from the beginning, was made at the time by the prominent economist, V. Petrakov, who argued that the reforms of Jan 2 1992 were badly prepared and therefore the pre-conditions for a genuine reform were absent.<sup>23</sup> The question then becomes what reforms, if any, were possible. Implicitly there is an argument here that reforms towards the market were possible but not the ones associated with Yeltsin-Gaidar. This is then the fifth case.

The fact that the regime went through numerous changes of course from the time that Gorbachev announced the need for reforms, which was shortly after he came to power in 1985, might argue, however, that no programme to move to the market could succeed. Gorbachev embraced a programme of 'market socialism' which had manifestly failed by 1990. Thereafter he tried to introduce the market by gradual means, which also failed. By that time, however, aspects of the market had already been introduced, which negated the old system and created an increasingly chaotic economy. Yeltsin attempted to be decisive by introducing market type reforms by instant decree, promising a rising standard of living in 6 months and

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<sup>21</sup> Jamestown Monitor: 14 April 1997-Taken from Johnson's Russia List-14 April 1997.

IS RUSSIA A SPECIAL CASE, OR JUST A HARD CASE? At a weekend conference of Slavists in Cambridge, England, economists discussed the status and prospects of the Russian economy. Debating the causes of Russia's seven years of falling output, Vladimir Mau and Mario Nuti both addressed the perennial question: is Russia different? Both contended that it is not, but otherwise their accounts of Russia's current problems differed sharply. Mau, deputy director of a Moscow think-tank headed by Yegor Gaidar, argued that political opposition had simply delayed Russia's economic liberalization and financial stabilization. At every stage, he said, the advancement of reform had been forced to await shifts in political interests. In other words, the reformers had been trying all along to do the right thing, but were impeded.

Mario Nuti of the London Business School countered that Russian reforms were badly flawed from the start. Nuti described Russia's success in lowering inflation as fraudulent, not because the statistics were cooked, but because the reduction of inflation to its current annual rate of about 18 percent was achieved by the government "not paying for what it bought:" that is, not paying government sector salaries and not paying factories for goods delivered. It was grotesque, Nuti declared, that the IMF stood by and applauded a "stabilization" achieved by such means. In forcing the population to "lend" to the state, the Russian government was behaving no better than the Soviet government used to when it forced the population to save by allowing chronic shortages to prevail.

<sup>22</sup> *ibid*

<sup>23</sup> **Moscow News, no.4, 1992, backpage.**

then a year. That too failed. Hence, it is not at all difficult to argue that all attempts to introduce a successful market appear to have been exhausted.

As most of the former USSR continues to hit new misery indices, the focus of the argument has changed. The fifth view blames the West. As noted above, Rudiger Dornbusch argues that the fault lies with the Western agencies in not providing enough resources. A Marshall Plan would have pushed the society towards capitalism.<sup>24</sup> Professor Dornbusch astutely notes that much of the opposition would have been neutralised had the standard of living been rising, instead of falling. There can be no doubt that the Marshall Plan was intended to prevent countries in Europe turning to Stalinism or alternatively against capitalism, which of course is not the same thing as Stalinism and hence its invocation is appropriate. Dornbusch is arguing for the future not the past and hence wants the Marshall Plan for the former Soviet Union to be implemented as soon as possible.

Any real investigation of the early transition would show that the standard of living would have to drop without outside aid. Clearly the costs of a transition from one system to another have to come from somewhere. It is clear, however, that the reformers East and West did not expect such a profound economic depression either in the former USSR or in the other countries. Germany continues to suffer under the burden of integrating the GDR. Marshall aid would have to compensate for this drop and more to give the impression that capitalism was superior. The costs in the former USSR were and are enormous. It involves the total replacement of fixed capital and much of the old infrastructure. Assuming that one is talking of a self-sustaining capitalism and not one reliant on permanent handouts, the costs involved would run to several hundred billion dollars per annum, if not more. If we use the comparison with the GDR, where Germany has spent around 150 billion DM per annum and multiply the figure by around 9 to deal with the difference in populations we arrive at a figure of DM1350 billion or 750 billion dollars per annum for Russia alone. It could be argued that Russia had a lower standard of living and hence Russians would accept less but Russia has other problems such as the very large infra-structure, the weather, the large military apparatus etc. This figure is arbitrary but a real figure which would work in the only meaning of that word is not far from it. Once the standard of living began to rise to Western standards Russians, Ukrainians and other nationalities would want the same standards as in Western Europe and any hiatus in movement to that goal would become dangerous.

The point is that Dornbuscher is correct to argue that a Marshall Plan might have achieved the object but the amount of money involved could not have been and cannot be provided. All countries claimed and still claim to be mired in austerity programmes. The working class of each country would object to such largesse going outside their own country, when their governments have consistently argued that the budget had to be balanced, wages contained and the public sector reduced. Had such reforms been on the agenda in 1949, it is an open question whether the money could not have been made available. The GNP gap with Europe was not as large and the United States had large surpluses on its balance of payments. Today such a perspective simply looks utopian. It was utopian in 1989 or 1992 as well and hence this reason for the failure of the transition must be regarded as part of the necessary conditions for the failure, rather than the particular reasons for failure.

A more straightforward anti-Western view, from the West, is that put forward by Paul Welfens.<sup>25</sup> He argues that the IMF helped cause the collapse of 1998 in Russia through its policies of reducing inflation and the budget deficit instead of going for competition and intelligent privatisation plus investment through a 'functional banking system and capital markets'. The IMF is clearly vulnerable to such a critique and not just in Russia, given that its prescription for economic disease is similar throughout the world. However, in this instance, the IMF does not appear quite so stupid as Paul Welfens allows. There is no point in going for competition if money and so profits do not exist. Hence the emphasis on prices, low inflation, and a low budget deficit made sense, given the IMF's assumption that it wanted the former USSR to move to capitalism as soon as possible. Nonetheless, the IMF's target was unreachable unless they did go for a Marshall Plan and I have argued that the funds were not available in the West.

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<sup>24</sup> Financial Times, 23/09/99 p Rudiger Dornbusch:

<sup>25</sup> Paul Welfens: What Went Wrong at the IMF, Financial Times.-Tuesday 5.10.99, p.29.

Finally, one can take a non-governmental approach and look at the reality of the reforms and the effects on the society. One observer put it like this: "The real reason for perestroika 10 years ago was to preserve a system that was breaking down on its own," says Yevgueni Nemets. "Since then there have really been two layers of change--official change, which has mostly been geared toward preserving the old power centers, and the spontaneous changes that are the result of the old system breaking down and haphazard reforms."<sup>26</sup> In other words, one can argue on a completely different plane, which, I would maintain, makes more sense. The old system was disintegrating and the elite/government introduced reforms to preserve their privileges, or control over the surplus product, one way or another. This was done either through the acquisition of private property internally or through the export of their assets, legitimate or illegitimate. The actual economic reforms, in so far as they did not serve this purpose, were secondary to the elite's intentions. The fact that the economy continued to disintegrate was to be expected.

From this point of view, the interesting questions concern the nature of the interaction between the preservation, maintenance and extension of the 'elite's control over the surplus product, or in other terms, their privileges, with the continued disintegration of the political economic structure of the old system.

The situation in the non-Russian countries of the FSU is governed by this process both through the domination of the Russian elite and through the attempt by the local elite to follow the same path. Nonetheless their situations are not identical partly because of the different strengths of the local elite, their particular relations to the West, and the relative power of the working class and peasant/agricultural working class in the different countries.

#### The Abstract Nature of the Post-Soviet Regime

Part of the reason for these theorist/observers' problems lies in their unthinking use of terminology, which necessarily traps them into a sterile line of thought. Is the FSU capitalist? Yavlinsky, Martin Wolff and others use the term nomenclatura capitalism, without defining its nature as a new form of capitalism. If its difference lies in the fact that a small number of once privileged bureaucrats have assumed command over property, as opposed to a pristine pure group of owners of capital in the West, then it is manifest nonsense. Implicit in this argument, however, is the view that capitalism can be separated from the market. Quentin Peel makes such a distinction.<sup>27</sup> Hence one can have a non-market capitalism as in Russia. The existence of barter, non-payment of wages etc is put down to the non-market nature of the capitalism which exists there. On the other hand, there is no official plan, there are owners of enterprises, prices are set independently if not by a market and workers formally sell their labour power. Hence it is said to be capitalism. Since prices mean little when barter is used and workers are not paid, while workers cannot sell their labour power when they are seldom paid and continue to work much as they did under the old system, the basis of the word capitalism rests on the existence of capitalists and the abolition of the old system of centralised planning. As the latter is a negative condition, we are left only with the existence of owners of privatised enterprises and finance capital. In reality both privatised enterprises and finance capital are closely enmeshed with the state and bureaucracy.

One can only call the former USSR countries capitalist if the categories of money, prices, capital, wages, wage-labour are looked at in a purely formal and superficial manner. It is absolutely clear that all categories exist only in a partial and highly conflicted and contradictory form.

I have argued above that these theories are fundamentally flawed for two reasons. They do not comprehend the nature of capitalism and they did not understand the nature of the former USSR. In my view, we have to see the FSU as a disintegrating Stalinism in the context of a world capitalism. The market cannot succeed in the FSU partly because it is itself in decline in the West and partly because the labour force in the FSU cannot accept the discipline of capitalism.

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<sup>26</sup> Wall St Journal 9th July 1996:in "Russians Raise Their Expectations" By THERESE RAPHAEL

<sup>27</sup> Quentin Peel: "The Cold Peace." Financial Times, June 17<sup>th</sup> 1999, p. 16.

There remains, however, one other possibility which has been raised in reaction to the above. Could the FSU not be a new mode of production? This seems an odd argument as the USSR itself cannot easily be called a new mode of production precisely because of its necessary inefficiency and so limited life. The same objection would apply but even more strongly. More fundamentally, capitalism is governed by the law of value or in Marxist terms: by the making of profits. What principle or law governs the FSU? Just as the USSR was internally conflicted so is the FSU. We have to put together short term profit making, with the extensive use of force in the market, the wide application of barter and the export of capital to the West. The marriage of the state with finance capital and criminality has a limited life and is only a prelude either to further disintegration or to another revolution. There is no third way.