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Managers and Capitalists: The Emergence of New Class Forces in the Early Post-Soviet Economy

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In October 1992, Maksim Boiko (chief aide to presidential adviser, Chubais) said:

"There already was in the socialist times a privileged class - huge and hidden ... In a market economy, of course, it becomes open and evident."(1)

The purpose of this article is to investigate whether they were (and are) one and the same. With the collapse of the Soviet Union, there opened up in Russia the space for a new kind of 'privileged class' and a new kind of State. The new roles awaited new actors to fill them. Those that actually stepped forward from the wings, however, were by no means made for the part.

Managers

The notion that the managers (or 'the industrial nomenklatura', or more broadly just 'the nomenklatura') have taken over the former state industries and now occupy positions of power (if not the most powerful positions) in post-Soviet societies, has almost become the 'common sense' view of the events of 1989-1991. It is often used to justify a minimalist account (in terms of social change) of the 1989-91 revolutions. The individuals that were in charge are still in charge, and therefore the 'revolutions' were a bit of a sham. The hope in 'the technocracy' as a rational, modernising agent (as opposed to Party ideologues) often expressed by western analysts in the late 1950s has been transformed into the accusations of the 1990s.

In Russia itself, support for this version of events eventually spanned the political spectrum. On one side, as early as September 1990, the Moscow branch of the Movement of Left Forces accused a section of the Communist Party and the liberal intelligentsia of plotting "the seizure of ownership by the party nomenklatura, black marketeers and foreign capital, since it is these groups which dispose of the greater monetary means and power." Three months later, Aleksandr Buzgalin (Marxist Platform/CPSU) said:

"...we have a situation where the old leaders are changing their political power into money and property... There is the development of what we call 'nomenklatura capitalism'."(2)

On the other side, Konstantin Borovoi (founder of the pro-market Party of Economic Freedom) believed that Russia was still in the hands of the nomenklatura: "To this day, some ten thousand officials control all mechanisms of distribution." While Igor Portyanskii, the director of "a leading consulting group" in Moscow said that "The party apparatchiks - the smart ones - look at what happened to the Communists in Eastern Europe...They want to be sure that they've made the crossover in time."(3)

As the centralised system began to disintegrate, industrial managers stepped up to pursue their own interests (and, as they saw it, those of their enterprises) - just as they had done in previous periods of

decentralisation. The opportunities this time around, however, were much greater. Thus began the process known as 'spontaneous privatisation'. Managers awarded themselves with the title, 'owner'. Despite official (Russian) government policy, which opposed a 'give away' of assets to managers, this was the way in which the process began to move.(4)

It received encouragement from a wide variety of sources. Economic reformers believed that it was necessary:

"...to ensure speedy privatisation...breaking the ownership position of the branch ministries was the overwhelming priority if the irreversibility of the transition was to be ensured...the speed deemed necessary could not be attained without 'bribing' the insiders."(5)

From within the Russian government, Gennadii Burbulis wrote in *Izvestia* that the desire of the managers to be owners "objectively works for a market economy...". Those with a vested interest had a predictable view. A former Soviet Minister stated that the only people with the experience and background to manage giant enterprises were, for example, former Soviet Ministers: "There are no people", he said, "but the same people." Aleksandr Vladislavlev, a director of the Scientific Industrial Union (a powerful association of industrial managers) agreed: "We have to enter the Promised Land with what we have." Russian free market economists felt the same way. Vitalii Naishul' wrote

"From all indications, our transition to the market will be completed when all the most energetic and influential nomenklatura have found themselves a place in the new structures."(6)

It was usually done through the enterprise Councils of Labour Collectives (STKs). These bodies were almost invariably under the control of management - a fact underlined by the demand of the All-Union meeting of Directors of State Enterprises (in December 1990):

"At state enterprises, resolve the question of ownership of the means of production unequivocally in favour of the labour collectives..."(7)

In 1989 the Law on leasing had allowed the STKs to lease production facilities from the State, and to buy them outright. The Privatisation Law gave them special access to purchase shares in their firm.(8) The STKs provided the best of both worlds for ownership-hungry managers, since "employees are much more likely in normal circumstances to be passive owners than outside investors would be." Successful privatisations of this type meant that:

"...directors nearly without exception not only keep their jobs but are able to maintain full executive control of the firm, and often gain a considerable share of ownership."(9)

The object of the game, as far as the market reformers were concerned, was either to have the former state managers transform themselves into 'proper' capitalists, or eventually to hand over to (or be bought out by) those who could do the job. As Gavriil Popov (liberal economist, former mayor of Moscow) put it:

"They will be, so to speak, 'pre-owners'. They will enter the market. Competition will show who is able to conduct business."(10)

There is certainly no shortage of examples of managers moving to take control of their enterprises through 'spontaneous privatisation'.(11) No wonder then, that by 1992 a survey of industrial managers revealed that 58% of them wanted to transfer the enterprises in their entirety to the STKs. Of all the available privatisation options, that which lent itself to 'nomenklatura privatisation' proved to be overwhelmingly the most popular.(12)

Some managers began to expand their operations, combining enterprises into

'concerns' and 'associations', and establishing banks and trading companies. In 1990, managers of the 26 largest enterprises in Leningrad formed an Association of Industrial Enterprises, founded the Rossiya bank, and created the firm Nevskaya perspectiva.(13)

It was not only managers that moved to take advantage of their positions. Officials, up and down the Soviet hierarchy, tried to shift into the new structures:

"Of the 60 to 70 full ministers in the Soviet union, about 25% are involved in creating private companies out of the monopolies they used to control."(14)

While somewhat lower down the scale, in the Moscow district of Oktyabr'skaya:

"...the chairman of the District Soviet, the chairman of its executive committee, and almost all his deputies, having become heads of the district's political structures, are at the same time directors of cooperatives, commercial banks and firms..."(15)

In Primorskii Krai, the managers got together with much of the rest of the former elite to form the Primorskii Association of Commodity Producers (PACT):

"...included were the directors of almost all of the major state enterprises in every sector of the economy, key officials (former directors of state enterprises), the editor-in-chief of Primorskii's leading newspaper, etc."

PACT loaned money to its members and pressured the local administration to ensure that it kept control of the privatisation process. In time, however, not that much pressure was needed, since the new governor, E. Nazdratenko, was the former director of the Dal'negorsk state mining company - a friend and colleague of the PACT members. On the more political side, local Krai politicians took part (in the summer of 1990) in the formation of the Far Eastern Association

of People's Deputies - which was accused of being:

"...the former party nomenklatura [which has] retained its power through a series of tactical manoeuvres...here were gathered exclusively the higher party nomenklatura."(16)

In view of these events, it seemed plausible to suggest that (in Naishul's phrase) the "representatives of the nomenklatura (deideologised Party workers, managers of enterprises and departments)...managers of co-operatives and joint ventures, newly elected deputies of local Soviets"¹⁷ and others had made the transition: from holders of power in one system to holders of power (and property) in another. They would be the new bourgeoisie - and they would become the new (or perhaps re-cycled) ruling class.

But the reality was rather more complex.

In examining what has really happened, we would do well to remember that developments in the Soviet economy (if such a thing were to continue to exist), or in the Republican economies (if it were not) were not solely determined by events within the Soviet economy or those of its former Republics.

It was the world market that would determine the parameters within which the Soviet/FSU economies could now operate: which sections would survive, and which would be consigned to the scrap-heap.

The verdict of the world market - not, of course, delivered either speedily or all at once - was a harsh one. For enterprises and industries (and their managers) that could achieve world standards, adjust their management methods, and somehow plug into the globalised manufacturing system, the collapse of the command economy created the opportunity to accumulate capital and slip into the cycle of productive investment. For those that could not, the abyss beckoned. It soon became apparent

that much of Soviet industry fell into the latter category.

The rapid technological advances of the global economy (from which, hitherto, the Soviet economy had been largely excluded), ensured that "With rare exceptions... it is uncompetitive in free market conditions."(18) In other words, it was obsolete. Even in the Military Industrial Complex (MIC): "...[the enterprises] do not have unique technology. They have very ordinary technology...it is impossible for them to use their technology and equipment to produce new products and new markets."(19) The result had already been seen in East Germany, where (according to Rosefielde), "the government discovered that few of the nation's productive assets could be salvaged after reunion, and most enterprises had to be scrapped."(20)

The sheer size of Soviet economic units added to their problems: they were too big for the flexibility that the world market required. It was necessary, argued Stephen Fortescue, "to get Russian industries back to basic building blocks so that a new structure...could be built."(21) And it was anyone's guess how many 'blocks' would have to be sacrificed along the way. As it was:

"Studies generally reveal that a large proportion of Soviet enterprises are 'value-subtractors' in the sense of achieving negative value-added at world prices."(22)

The subjection of the former Soviet economy to the full rigour of the global law of value would have meant the extinction of large numbers of enterprises, the probable elimination of entire industries, and the break-up of those that remained. In this situation, even if the former 'nomenklaturists' had tried to evolve into 'proper' capitalists - that is, if they had attempted the accumulation of capital in order to invest - the very mechanics of capitalism itself would have destroyed them. Global capital would have

handed the new Soviet 'owner' a metaphorical gun, shown him or her the library, and expected the honourable thing to be done. It was not to be expected. As Burtin wrote:

"For the director of such an enterprise...full ownership would mean rapid and inevitable bankruptcy. Why would he start digging his own grave?"(23)

This was not the case for all of Soviet industry, however. Simon Clarke notes that in the post-Soviet economy, there were "branches of production which have enjoyed new opportunities with the collapse of the old system..."(24) Nevertheless, the fundamental blockage to the transformation of even parts of the Soviet economy was the fundamental obsolescence of nearly all of it. The industrial managers, plus the local officials and former Party workers, moved into positions of power not in order to transform themselves into a new bourgeoisie, but in order to survive as best they could. Their survival entailed forms of behaviour that were in fact antithetical to the market capitalist project:

(a) No restructuring

Managerial privatisation was undertaken as a means of preserving the status quo, not of adapting to market conditions. Enterprises privatised in this way therefore attempted to change as little as possible in their methods of operation.(25) Minakir asked:

"...who will change the management? And why? Who will vote for increasing unemployment? Nobody. Who, among the managers, will vote for changing management?"(26)

David Young, in his study of the Hungarian firm Videotron (in a country, we should remember, with twenty five years' experience of exposure to market mechanisms), discovered that attempts to restructure the huge operation were

frustrated by intense management resistance. The managers fought against the firm's division into smaller (more flexible, and more easily privatised) units. Instead, they favoured the single sale of the whole operation - even though "a single sale to a single entity was no solution to the fundamental structural problems of the group...". The preservation of the whole firm, on the other hand, offered the managers "a better chance of keeping at least part of their empires intact."(27)

Soviet managers were generally able to enlist the support of their workers for projects of non-restructuring (again, ensuring management control of the STK), through promises of continued spending on social infrastructure and the maintenance of full employment.(28) This, unfortunately, was not the road to the world market.

(b) Preservation of old structures

"...many enterprise directors have continued to behave as if the regime had not changed."(29)

Managers were no longer subject to the discipline of central planning - but they did not yet have to worry about making a profit. State subsidies were still forthcoming(30):

"They don't want to be responsible competing capitalists independent of state support. They want to be what they are - irresponsible 'socialist capitalists' sponging off the state."(31)

They therefore demand the continuation of state subsidies. According to Burbulis, this constitutes "the trend of a substantial part of the so-called 'director corps'...". They use their close ties with administrative organs to protect their subsidies, and they receive considerable support from that quarter. As Hanson concludes: "...regional authorities...[view] the solution merely as acquiring higher subsidies and new credits from the centre...". Loss making decisions

can be offset by the printing presses of the central bank.(32) As a result, the monopolistic position of enterprises is maintained, while at the same time, they remain dependent on a state-controlled economy. This is not market capitalism in embryo - it is an obstacle to its development. It is, in the words of Ulyukayev (an economic adviser to the Russian government) "conducive to the eating up of fixed assets and the preservation of a backward production structure..."(33)

(c) 'Kleptocrats'

With the continued (post-Soviet) decline of the state economy, and the prospect of subsidies drying up, significant numbers of managers have turned away from the preservation of the enterprise and towards its cannibalisation in order to ensure their own survival.

"...in some cases insiders may see their position as an end game, pumping out all value from existing enterprises before finally abandoning the wreck."(34)

Rosefielde sees this as an example of 'utility maximisation' in disordered market conditions; this "leads to the wasting of the capital stock and really profound anti-competitive behaviour..."(35)

Many managers had been engaged in quasi-legal and illegal activities for years, which were based "not on the productive employment of capital, but on the exploitation of the irrationalities of the administrative-command system..."(36) Now, however, they were engaged in the obstruction and destruction of productive capital in order to generate wealth for themselves.

Rosefielde describes this group as 'kleptocrats':

"...bureaucrats, managers and other state officials who have privatized state assets...and/or diverted state revenues to themselves, while remaining dependent on

state contracts... their wealth and interests depend on the solicitude of the state."(37)

These people are engaged in 'asset-stripping' (or, more prosaically, pillage) - selling off parts of firms either for the revenue, or at bargain-basement prices to companies which they control (leaving the original firm only with the debts). The Economist points out that "In many ways these kleptocratic directors are behaving perfectly rationally." Rational (in terms of income maximisation) it may be; capitalist it is not.

"When state managers have private control over the revenue stream, the first thing they invest in is a new car...This has nothing to do with the long term efficiency of the firm; but...[they] maximise their utility by essentially stealing the assets..."(38)

Many of them, of course, went a good deal further than buying a new car.

(d) Hesitation, complacency and incompetence

As we have noted, the belief that inspired those who encouraged managerial privatisation was that managers (and others) would eventually be transformed into capitalists - even the kleptocrats amongst them:

"Most people let themselves believe that criminality in the end is not so bad because people accumulate capital and then, since they're rational, they'll take that capital and they'll invest it, and they'll start some new industrial order...'robber barons' in America is their example."(39)

We have seen that the main reason that this does not happen lies in the obsolescence of most of Soviet industry. So Clarke is correct to point out that "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."(40)

There are two further factors that militate against such a transformation. Firstly, to

launch a Soviet enterprise into the uncertainty and hostility of market capitalism required a degree of risk-acceptance, entrepreneurial flair and sheer bloody-mindedness (in order to cope with the social problems that would ensue) which most industrial managers - as order takers under the Soviet State - simply did not possess. Far better (and far safer) to stick with the system they knew - and to try to preserve it for as long as possible.

"Even if the kleptocrats were tempted to become real capitalists, they'd have to be awfully brazen and great risk-takers. And what for? They live like kings in Moscow..."(41)

The second reason, closely connected with the first, is that most managers (and other nomenklaturists) made very bad capitalists. Their instincts, after all those years of getting around Plan targets and bartering supplies, led them to see the absence of central controls "simply as an open season with no rules."(42) With state subsidies to fall back on, they had no real incentive to become more efficient. The former Soviet population recognised this. They disliked the "nomenklatura capitalists" not just because of envy, writes Naishul', but because of "a scornful underestimation of the business capacities of the nomenklatura."(43)

The interests of the majority of industrial managers - of those who had become owners, and those who had not; of those inside the MIC and outside it - were quite distinct from those of real entrepreneurs. Thus:

"There is little love lost between the 'old' and 'new' business elites. State directors see the new entrepreneurs as at best middlemen, at worst thieves. The latter see the state managers as left-overs from the old system who deserve to lose their factories in the current economic collapse."(44)

Burawoy and Krotov suggest that the specific interests of the industrial

nomenklatura can be seen as merchant capital (as opposed to modern capitalism): "since the driving force behind strategies of enterprises and conglomerates is the maximisation of profit through trade by selling dear and buying cheap." Like the absolutist State before it, the post-Soviet environment is conducive to the development of merchant capital, which grafts itself onto pre-existing structures. But then:

"Merchant capital throws up a barrier to its self-transformation. It tends to preserve rather than dissolve existing systems of production...it attempts to stifle the growth of a rival industrial capitalism...the clientelistic links between Russian managers and organs of political power prevent the growth of an autonomous bourgeoisie."(45)

Capitalists

(a) Former managers

A number of managers have attempted to transform themselves into capitalists. As during the period of perestroika, their ability to do so was, more often than not, ascribed to their individual psychology - to their confidence in their business abilities, or to whether they realised the necessity of reform, whether they were intelligent enough to see the benefits of it, or vigorous enough to carry it out.(46) In fact, their ability to make the transition depended on the viability of their enterprise in the new market conditions.

One or two of the best and brightest have been discovered picking their way out of the rubble of the Soviet economy, usually to the breathless excitement of the business magazines: the director of a former MIG avionics plant in St Petersburg; the general director of a Science Research Institute in Chelyabinsk; the director of the Vakhrusheva mine in the Kuzbass ("with high quality coal and good export potential"). Four examples of relatively successful privatisation and a turn to capitalist methods under the old

management were discovered by Clarke and his co-workers (though they point out that "Only the most prosperous of enterprises" was in a position to do this).(47) The fact that each example is leapt upon with such glee serves to emphasise the fact that the examples are few and far between.

For Soviet industrial managers of viable enterprises to become capitalists however, meant a good deal more than a change in their job description. It was not enough just to take their plants out of the hands of the State. Nor was it sufficient to implement strategies of the "find new customers; reduce head count" variety.(48) The relatively small number of industrial managers in this category had to make the move from being employees of the Soviet state to being entrepreneurs/owners - from a position in which their decisions were based on central directives, to one in which they were based on market mechanisms.(49)

If they made this transition, it meant that their relationship to the means of production had changed. This was most often outwardly manifested in terms of ownership. Two writers for the Harvard Business Review maintained that Russians should be given ownership of joint ventures because:

"Ownership...encourages responsibility, adaptability and hard work. The potential benefits heighten motivation; the risks sharpen the mind."(50)

Changing their relationship to the means of production meant that these managers would have to carry out an entirely different function to the one that they had been performing in the Soviet economy. This, in turn, meant that in class terms they were (and are) no longer the same people that they had been - even if, physically, they were the same individuals. This was not 'the industrial managers' moving smoothly from their position in the Soviet economy into the vacant shoes of the new

bourgeoisie. It was a small section of the managers ceasing to be Soviet managers and becoming something else - perhaps a part of a future bourgeoisie.

Where such a change in relationship to the means of production did not take place, business failed. A survey of Russian entrepreneurs, carried out between 1992 and 1994, by the Centre for Political Technology revealed:

"Nor were many of the successful business leaders from the communist nomenklatura...Many of these ex-officials moved into business, often privatising state property into their own hands ... However, while the practice was widespread, it has not created successful business leaders."(51)

One reason for this was that a change of function and a change of class necessitated a great shift in psychological outlook. Managers were continually condemned for being incapable of such a change. The survey concluded that "experience has made these men too conservative to succeed in business." According to various authorities, their managerial qualities were "suspect"; they lacked skills and experience to convert from the Soviet system to the market; they showed a lack of interest in expanding production; they remained subservient; and they were hopeless at "marketing, business strategy, or commercial accounting."(52) Overcoming such 'weaknesses', however, was not simply a matter of human (or even managerial) will. It depended on the viability of the enterprise as well as on the flexibility of the manager.

In viable enterprises, managers were needed "who have such qualities as enterprise, an inclination to innovation, commercial skill"(53) and who (like their privatising Western counterparts) could have "changed corporate culture, transformed accounting, installed quality control, introduced new products, built

marketing departments, and forged closer ties with suppliers."(54)

If the incumbent managers were not up to the mark, they had to be replaced. The chief expert of the Russian Coal Corporation (an export industry with viable parts) was blunt: "fresh blood is needed: an influx of business people, investors and bona-fide owners, foreigners included."(55) One of those foreigners was the global corporation ABB, which, when it took over the Polish company Zamech, tossed out the old managers and sought new ones:

"ABB was looking for 'hungry wolves' - smart, ambitious change agents who would receive intense training and be the core engine of Zamech's revival."(56)

We are here a long way removed from the traditional Soviet manager - in class terms, and consequently in psychological ones as well.

(b) Entrepreneurs

Before 1991, elements of private capital were allowed to emerge within the Soviet economic structure, but they were significantly limited in their activities. The pre-coup premier, Valentin Pavlov, said:

"It is necessary to preserve the backbone of industry, to give it a stimulus for development. Privatisation should go around the mighty state nuclei, filling in the niches and pores. This is the only effective method in our conditions."(57)

In 1991 (the time of Pavlov's interview), this was more of a hope than a reality. The co-operatives had moved beyond the "niches and pores" left open or neglected by state industry. Co-operative enterprises had grown to such an extent that Academician Tikhonov could assert "...the cooperative represents a typical form of free enterprise economics. As such it poses a serious threat to the State economic monopoly..."(58) The expansion took place largely in the area of services(59) - financial services in particular.

It was from this quarter that a political expression of interest emerged against the attempted coup in August. The private insurance company, ASKO, ensured that one thousand 'Big Mac' hamburgers were delivered to the defenders of the White House. Delovaya Rossiya, a private bank, gave a million rubles to a fund "for the liquidation of the consequences of the coup". Other banks and insurance companies initiated a fund for the creation of a Russian National Guard. Members of the fledgling Moscow Stock Exchange, led by Borovoi, initiated protests in the streets.(60)

Nevertheless, at the time of the Soviet collapse, private industry was dependent on the state enterprises (due to the restrictions placed on it by the State)(61) and was generally concentrated in areas outside the productive sector. It has remained excluded by virtue of 'nomenklatura privatisation' - and it is for this reason that Burawoy concludes that the co-operatives do not seem to be "the harbingers of a modern capitalist order."(62)

Minakir remarked that after 1991, there were two "private sectors": that which was connected with the administrative structure (large production enterprises); and that which was not - the real private sector, which the administration regarded as "chuzhaki" (aliens).(63)

This was not always the result of state managerial machinations; on occasion, the new entrepreneurs wanted it that way. The former manager of an East German computer software company at first wanted to privatise it. Subsequently, he decided instead to get out and start another company altogether. He had decided that the old company was not, and could not be made, capitalist enough. The Harvard Business Review reporter commented:

"...[his/her] instinct is right: it may be possible to change or revitalize people one by one, but to build a truly different

organization you have to start from scratch."(64)

Separation from the state structures and their practices was regarded as a healthy sign by the new entrepreneurs. Thus, Sergei Grachev, marketing director of the new airline, Transaero: "We refuse to hire anyone who has had more than five minutes' work experience with Aeroflot..."(65)

The entrepreneurs were not, generally speaking, former industrial managers. Bunin's survey revealed that those profiled were too young to have held powerful economic positions under the Soviet system.(66) The majority of them came from the middle layers of enterprise management, local administration and the Party (particularly from the Komsomol). They included significant numbers of engineers, technicians and academics.(67) According to Burawoy and Hendley, this began with the co-operatives formed within Soviet enterprises. They were "invariably run by young men", being "well-connected middlemen who were usually prior Rezina employees..."(68) Those from the middle levels had less to lose by getting out and starting anew than the managers themselves. If they stayed, they faced the prospect of an uncertain career in an obsolete enterprise, operating in a declining industry - without even the spoils of nomenklatura privatisation to lighten their load. The risks of the market must suddenly have seemed not so terrifying.(69)

In their study of Rezina, Burawoy and Hendley discovered that the STK of the enterprise "was dominated by middle-level management" - by engineers and technical specialists.(70) It became the bastion of those who wanted a real privatisation (and a break-up of the conglomerate), as opposed to the old managers. For help, the STK turned to one of the "Centres for the Scientific-Technical Creativity of Youth" (NTTMs):

"These NTTM centres have been established in many enterprises with the purpose of furthering the careers of 'young specialists', particularly those who had been active in the Komsomol."(71)

While of the Komsomol, we should note:

"...the Komsomol is the Harvard and Yale of the new business culture, churning out privileged entrepreneurs...Komsomol leaders have set up huge commercial banks...that are beginning to dominate the financial scene."(72)

One further source of entrepreneurial activity should be mentioned - the illegal side of business (which it is, at times, hard to strictly differentiate from any other side): the mafia.

Once again, there are optimists who believe that a capitalistic butterfly can emerge from the mafia grub: "Some executives believe that the crime wave will lose steam as legitimate business gains momentum and society stabilizes" reported Nikolai Shmelev. He continued:

"There's a saying...My grandfather was a bandit, my father graduated from high school, and my son went to Harvard."(73)

Illegal activities - corruption, bribery, protection - certainly represent a leakage of funds which could be used for capital accumulation and productive investment. But in terms of short-term income maximisation, those activities are of greater utility to the mafia gangs than the sober prospect of long term investment in fixed assets. For that reason, they are reasonably content with the system - the disordered market, the weakened State - and with themselves, as they are. They will only lose interest in illegality when the market value of short term profit drops below that of long term investment. At this stage, prospects for long term investment are still concentrated in the state sector - where of course, they are being subjected to the short term interests of the nomenklatura 'capitalists'.

The entrepreneurs were not a product of 'nomenklatura privatisation'. They came from other sections of the population and they set up their businesses outside the state industries. Even when they were physically located within the enterprises, as with the original co-operatives, they moved out of them as soon as they could.

The setting-apart of private enterprise from state industry was generally treated as a virtue, especially by business writers.(74) However, it also had its disadvantages. While entrepreneurs could squeeze themselves into the spaces left free by state industries (in services, finance and so on), they were also confined to those spaces. It proved very difficult, even after 1991, to make the move into productive industry. The entrepreneurs were certainly a class of capitalists, but while they remained trapped in services and excluded from the main processes of production, they were a weak class.(75) To increase their strength, they needed to be the link between Russia's potentially viable industries and the world market - and this they were prevented from doing.

For these reasons, neither the managers nor the various types of entrepreneur were able to fill the vacancy left by the destruction of the Soviet ruling class - the Party leadership - that followed the defeat of the coup in August 1991. In the aftermath, no renewed Soviet ruling class emerged. Those that managed to retain or attain positions of power in Soviet society rapidly discovered that the interests of what was left of the elite were no longer aligned - the Russian politician was ranged against the kleptocrat, who sneered at and obstructed the entrepreneur, who fought with the bureaucrat, who had made a deal with the mafia. The market had divided them; and they would never be re-united. The serious and vengeful splits that now opened up within the 'directors' corps' were symptomatic of the divisions within the elite as a whole.(76) This was the fundamental basis of the political

instability that afflicted the FSU, and Russia in particular.

Just as the giant Soviet conglomerates and production associations had to be broken up, the Soviet command economy itself - as a giant, coordinated enterprise - had to be divided. The world economy could not digest it. And the world market would not tolerate such 'national' units, not subject to its own laws, but directed by 'national' interests.

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1 Quoted by John Lloyd, Financial Times 2.10.1992.

2 Movement of Left Forces (Moscow) in International Viewpoint No. 94 12.11.1990 p. 9; A. Buzgalin: "Self-management vs nomenklatura capitalism" International Viewpoint No. 198 21.1.1991 pp. 11-12.

3 Borovoi in Moscow Tribune 21.10.1992 p. 1; Portyanskii in David Remnick: "Nomenklatura Quick to Seize Capitalist Opportunities" Washington Post supplement/Guardian Weekly 9.6.1991 (henceforward Remnick/Nomenklatura).

4 Pekka Sutela: "Insider Privatization in Russia: Speculations on Systemic Change" Europe-Asia Studies XLVI (3) 1994 pp. 417-435 (henceforward Sutela/Insider) at p. 420.

5 Sutela/Insider p. 418. This was the view endorsed by, among others, the economic adviser Jeffrey Sachs (see International Viewpoint 17.2.1992 p. 22).

6 Burbulis in Izvestia/Financial Review 7.2.1992 p. 29; Vladislavlev in Remnick/Nomenklatura; V. Naishul: "Kto stanet sobstvennikom?" Izvestia No. 342 9.12.1990 p. 2 (henceforward Naishul/Kto).

7 Reported in Ekonomika i zhizn' No. 51 December 1990 p. 5.

8 Simon Clarke et al: What About the Workers? Workers and the Transition to Capitalism in Russia Verso, London 1993 (henceforward Clarke/Workers) p. 207; Susan J. Lintz: "The Privatization of Russian Industry" RFE/RL III (10) 11.3.1994 (henceforward Lintz/Privatization).

9 Sutela/Insider p. 421; Eric Lohr: "Arkadii Volsky's political base" Europe-Asia Studies XLV

(5) 1993 pp. 811-829 (henceforward Lohr/Volsky) at p. 821.

10 Quoted in Simon Clarke: "Privatization and the Development of Capitalism in Russia" New Left Review No. 196 November/December 1992 pp. 3-27 (henceforward Clarke/Capitalism) at p. 15. Aleksandr Yakovlev described the process as "the primary accumulation of capital" ("Mozhno li ochelovechit' vlast'" Moskovskie novosti No. 56 13-20.11.1994 p. 8). Jacek Rostowski (on Poland) believed that "the nomenklatura would with time transform itself into a new capitalist bourgeoisie..." ("The Decay of Socialism and the growth of private enterprise in Poland" Soviet Studies XLI (2) April 1989 pp. 194-214 at p. 209. Igor Filatotchev, Trevor Buck and Mike Wright said that spontaneously privatised firms would "evolve fairly quickly into conventional capitalist firms..." ("Privatisation and Buy-outs in the USSR" Soviet Studies XLIV (2) 1992 pp. 265-282 (henceforward Filatotchev/Buy outs) at p. 279.

11 See for example: the Kamaz privatisation (The Economist 28.9.1991 p. 83); the Vladimir Tractor Factory (The Economist 3.7.1993 p. 59); ZIL (The Economist 16.10.1993 pp. 81-82); and the voucher auction in Yaroslavl oblast (Sutela/Insider p. 421).

12 Sutela/Insider p. 426, 420.

13 David Seppo: "Who gets the enterprises?" International Viewpoint No. 197 24.12.90 pp. 9-11 (henceforward Seppo/Enterprises) at p. 11; David Seppo: "The Soviet economy: the fight for control" International Viewpoint No. 200 18.2.1991 pp. 14-17 (henceforward Seppo/Control) at p. 17.

14 Financial Review 7.2.1992 p. 27.

15 Seppo/Control p. 16. See also Michael Burawoy on regional CP leaders leaving to become enterprise directors: "The End of Sovietology and the Renaissance of Modernization Theory" Contemporary Sociology XXI (6) 1992 pp. 774-785 (henceforward Burawoy/Sovietology) at p. 783, and Philip Hanson: "Local Power and Market Reform in Russia" Communist Economies and Economic Transformation V (1) 1993 pp. 45-60 (henceforward Hanson/Local Power) at p. 55.

16 Russian Far East Update February 1994 p. 11; Peter Kirkow and Philip Hanson: "The Potential for Autonomous Regional Development in Russia: The Case of Primorskiy Krai" Post-Soviet Geography XXXV (2) February 1994 pp. 63-88 (henceforward Kirkow & Hanson/Potential) at p. 82; Zakhar Vinogradov: "Far Eastern Regionalism" Vostok Rossii No. 7 February 1992 in SUPAR No. 13 July 1992 p. 31.

17 Naishul/Kto; see also Rakitskaia/Property p. 16.

- 18 Yuri Burtin: "Nomenklatur'naya sobstvennost' vchera i segodnya" *Moskovskie novosti* No. 35 28.8-4.9.1994 p. 7 (henceforward Burtin/Nomenklatur'naya).
- 19 Pavel Minakir (Director, Economic Research Institute of the Far Eastern Division of the Russian Academy of Sciences): interview with author 15.6.1994 (henceforward Minakir/Interview).
- 20 Steven Rosefielde: "Hyper-Depression: The Political Economy of Russia's Elusive Transition", unpublished manuscript made available to the author in August 1994, p. 3.
- 21 Stephen Fortescue: "Privatisation of Large-Scale Russian Industry", paper presented to the Russia in search of its future conference, ANU Canberra 2-3.12.1993 (henceforward Fortescue/Privatisation) p. 11.
- 22 Filatotchev/Buy outs p. 271. On the Hungarian case see S. David Young: "Going to Market: Economic Organization and transformation in a Hungarian Firm" *World Development* XXI (6) 1983 pp. 883-899 (henceforward Young/Going to Market) at p. 883.
- 23 Burtin/Nomenklatur'naya p. 7.
- 24 Clarke/Workers p. 236.
- 25 Sutela/Insider p. 428.
- 26 Minakir/Interview
- 27 Young/Going to Market pp. 892-898.
- 28 Fortescue/Privatisation p. 7, 8; *Business Central Europe* July/August 1993 p. 56; Sutela/Insider p. 426; *The Economist* 3.7.1993 p. 59. This goes some way to explaining "the [then] incredibly low unemployment rates in Russia" (Linz/Privatization p. 35). See also the World Bank: *The Behaviour of Russian Firms in 1992* (New York 1993) - "...employment adjustments were limited...the core of the Russian industrial firm - the so-called production worker - remains untouched..." (pp. 41-42).
- 29 Sutela/Insider p. 424.
- 30 "This is the soft budget restraint." (*The Economist* 24.4.1993 p. 55).
- 31 Leonid Radzukhovsky: "Amnesty for a Thief? The nomenklatura: power and ownership" *Moscow News* No. 34 1990 p. 10 (henceforward Radzukhovsky/Amnesty). See also Rosefielde/Hyper Depression p. 4.
- 32 Burbulis in *Izvestia* 7.4.1993; Michael Burawoy & P. Krotov: "The Economic Basis of Russia's Political Crisis" *New Left Review* No. 198 March/April 1993 pp. 49-69 (henceforward Burawoy & Krotov/Economic Basis) at p. 54; Kirkow & Hanson/Potential p. 85; Sutela/Insider p. 425. See also *Moscow Times* 7.10.1992 on the Ukrainian coal company Donetskugol, the managers of which wanted to be left alone by Kiev: "At the same time, Donetskugol hopes for continued fat subsidies from the government." (p. 5)
- 33 Quoted in Clarke/Capitalism p. 19. See also Burawoy & Krotov/Economic Basis p. 53; Clarke/Workers pp. 214-215.
- 34 Sutela/Insider p. 419.
- 35 Rosefielde/Interview.
- 36 Clarke/Workers p. 202.
- 37 Rosefielde/Hyper Depression pp. 3-4. See also Steven Rosefielde: "No Exit: The Political Implications of Yeltsin's Socioeconomic Revolution", paper for the Chuba Industrial Advancement Centre, June 1994 p. 4; Seppo/Control p. 17.
- 38 *The Economist* 19.3.1994 p. 72; Rosefielde/Interview. See also Filatotchev/Buy outs p. 281; Donald Filtzer: "The Contradictions of the Marketless Market" *Soviet Studies* XLIII (6) 1991 pp. 989-1009 (henceforward Filtzer/Marketless Market) at p. 999, 1002; Burtin/Nomenklatur'naya p. 7. For Marx, we should remember, the "private consumption [of the capitalist] is a robbery perpetrated on accumulation..." (Marx/Capital p. 555).
- 39 Rosefielde/Interview.
- 40 Clarke/Workers p. 214.
- 41 Rosefielde/Interview.
- 42 Remnick/Nomenklatura.
- 43 Naishul/Kto p. 2.
- 44 Peter Rutland quoted in Wyn Grant: "Business Associations in Eastern Europe and Russia" *Journal of Communist Studies* IX (2) June 1993 (henceforward Grant/Associations) p. 98.
- 45 Burawoy & Krotov/Economic Basis p. 54, 64-65. And before them, Lenin had warned that, while merchant capital was important for the eventual development of industrial capital: "...the degree of development of merchant's capital is inversely proportional to the degree of development of industrial capital." (V.I. Lenin: *The Development of Capitalism in Russia* Progress Press Moscow 1964 p.440.)
- 46 Radzukhovsky/Amnesty p. 10; John Williamson (Institute of International Economics) in *Financial Times* 25.8.1992; *The Economist* 16.1.1993 p. 44; Rakitskaia/Property p. 14.
- 47 *The Economist* 16.1.1993 p. 44; *Business Week* 3.5.1993 p. 24; Peter Biziukov & Simon Clarke:

"Privatization in Russia - the Road to a People's Capitalism?" *Monthly Review* XLIV (6) November 1992 pp. 38-45 at p. 40; Simon Clarke, Peter Fairbrother, Vadim Borisov & Petr Bizyukov: "The Privatisation of Industrial Enterprises in Russia; Four Case Studies" *Europe-Asia Studies* XLVI (2) 1994 pp. 179-214 at p. 211.

48 See Kevin R. McDonald: "Why Privatization Is Not Enough" *Harvard Business Review* January-February 1993 pp. 44-54 (henceforward McDonald/Not Enough) at p. 46.

49 Some, even in the more viable sectors, did not try. According to Bizyukov & Clarke, after the privatisation of the Vakhrusheva mine (Kuzbass), which produced high quality coal, good for exports: "Far from developing in a capitalist direction, the mine has responded to the collapse of the wider society by internalizing more and more functions, expanding its provision of housing, food, medical care [etc]...and investing not for profit, but to secure the employment prospects of its workers." (Petr Bizyukov & Simon Clarke: *Privatization in Russia - The Road to a People's Capitalism?* *Monthly Review* XLIV (6) November 1992 pp. 38-45 at p. 44). Which goes to show that even here, managers did not necessarily make good capitalists.

50 Paul Lawrence & Caralambos Vlachoutsichos: "Joint Ventures in Russia: Put the Locals in Charge" *Harvard Business Review* January-February 1993 pp. 44-54 at p. 46.

51 Reported by the survey director, Igor Bunin in: "Russian bear's new clothes" *Financial Times* 27.9.1994.

52 N. Amodio: "From Ministries to Corporations" *Journal of Communist Studies* IX (1) pp. 227-239 (henceforward Amodio/Corporations) at p. 238; McDonald/Not Enough; Anthony Lavitas & Piotr Strzalkowski: "What Does 'uwłaszczenie nomenklatury' ('Propertisation' of the nomenklatura) Really Mean?" *Communist Economies* II (3) 1990 pp. 413-416 at p. 414; Winiecki/Resistance; Hertzfield/Joint Ventures p. 82, 84. See also Radzikhovskiy/Amnesty p. 10; *The Economist* 22.12.1990 p. 22.

53 Amelin/Smogut p. 31.

54 McDonald/Not Enough p. 56. See also V. Chichkanov: "Vsya Vlast'...Rukovoditelyam" *Izvestia* No. 94 3.4.1990 p.2; Sutela/Insider p. 424; *Delovie Lyudi* No. 22 April 1992 p. 84.

55 Vladislav Ratnikov: "A Mine of Discontent" *Delovie Lyudi* N0. 25 July-August 1992 pp. 17-19 at p. 18.

56 William Taylor: "Change Comes to Poland - The Case of ABB Zamech" *Harvard Business Review* March-April 1991 pp. 102-103 at p. 102.

57 V.S. Pavlov: "Budem realistami" *Trud* No. 33 12.2.1991 p. 2.

58 V.A. Tikhonov: *Co-Operatives as a Form of Free Enterprise in the USSR* Centre for Soviet and East European Studies, Melbourne 1990 (henceforward Tikhonov/Co-Operatives) p. 7. See also Anders Aslund: *Gorbachev's Struggle for Economic Reform* Pinter, London 1989 (henceforward Aslund/Gorbachev's Struggle) pp. 159-167.

59 See Tikhonov/Co-Operatives, Table 1 p. 17.

60 David Seppo: "The hard road ahead" *International Viewpoint* No. 214 14.10.1991 pp. 5-8 (henceforward Seppo/Hard Road) p. 8.

61 As Tikhonov himself, despite his general optimism about the co-operatives, admits - see Tikhonov/Co-Operatives p. 15, 16. See also A. Craig Copetas: *Bear Hunting with the Politburo* Simon & Schuster New York 1991 pp. 32-33.

62 Burawoy/*Sovietology* p. 782.

63 Minakir/Interview.

64 Esther Dyson: "Micro Capitalism: Eastern Europe's Computer Future" *Harvard Business Review* January/February 1991 pp. 26-37 (henceforward Dyson/Micro Capitalism) at pp. 28-32.

65 Quoted in Peter Galuszka, Patricia Kranz and Stanley Reed: "Russia's New Capitalism" *Business Week* 10.10.1994 pp. 36-40 (henceforward Galuszka/New Capitalism) at p. 40.

66 Bunin in *The Economist* 8.10.1994 p. 23. References to the entrepreneurs' youth also in Galuszka/New Capitalism pp. 36-39.

67 Clarke/Workers p. 216; M. Burawoy & K. Hendley: "Between Perestroika and Privatisation: Divided Strategies and Political Crisis in a Soviet Enterprise" *Soviet Studies* XXIV (3) 1992 pp. 371-402 (henceforward Burawoy & Hendley/Between Perestroika) at pp. 389-390; Galuszka/New Capitalism p. 37; Mike Haynes: "Class Recomposition, Class Power and the Transition in Eastern Europe", unpublished paper, Wolverhampton, July 1992 (henceforward Haynes/Recomposition) p. 11, (and on the Hungarian case) p. 16.

68 Burawoy & Hendley/Between Perestroika p. 380, 382.

69 In the Far East, "The directors of many [private] enterprises are former deputy directors of state run organisations..." (SUPAR, No. 9 July 1990 p. 114); "...in Primorskiy Kray, the previous second echelon of the former nomenklatura is in the politically most influential positions of power..." (Kirkow & Hanson/Potential p. 83). Yuri N. Bertash (a

director) stated that the majority of the directors of the Vladivostok joint-stock company ACFES were from the middle level managerial and Party positions (interview with author, 4.7.1994). See also Business in the USSR December 1991 p. 17.

70 Burawoy & Hendley p. 389.

71 *ibid* p. 390.

72 Remnick/Nomenklatura.

73 Quoted in Galuszka/New Capitalism p. 40. See also Nikolai Travkin in Izvestia 16.12.1989 p. 6; John Lloyd in Moscow Times 5.10.1992 p. 8.

74 See Dyson/Micro Capitalism: "The success stories will not be the vast government organizations..." (p. 26); Hertzfield/Joint Ventures p. 81.

75 According to the general director of BMW in Moscow: "...when you look at them, there's really nothing much to them. They want to make money very easy and very fast." (Business Week 2.8.1993 p. 20)

76 See Elizabeth Teague: "Splits in the Ranks of Russia's 'Red Directors'" RFE/RL Research Report I (35) 4.9.1992 pp. 6-10; Grant/Associations pp. 86-100; Lohr/Volsky; Stephen Fortescue: "Industrialists, Business People and Politics in the New Russia", paper presented to the Australasian Association for the Study of Socialist Countries Conference, Macquarie University 25.9.1993.

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