Globalisation and the uneven subsumption of labour under capital in Russia

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Abstract

The ‘transition to a market economy’ in the former state-socialist countries is not an indigenous process, but represents the integration of the former centrally planned economies into global capitalism on the basis of their subordination to world market prices. In the case of Russia, the social and technological conditions of production inherited from the Soviet past were ill-adapted to the production and appropriation of surplus value, but the collapse of domestic industry and agriculture in the face of world-market competition proceeded alongside the integration of the Russian economy into global capitalism as a supplier of semi-processed raw materials, primarily fuels and metals, and the corresponding formation of global corporations, which prosper by the appropriation of rents, and associated providers of business services. Since the 1998 financial crisis these global corporations have developed as vertically integrated industrial structures that have sought to transform the conditions of production by subsuming labour under capital. However, this process has proceeded very unevenly, the capitalist transformation being largely confined to those branches of the economy which are able to compete on the world or domestic markets. The capitalist transformation of the leading extractive and processing sectors has therefore been accompanied by the preservation of traditional production relations in the remaining stagnant and declining sectors, whose prospects of capitalist regeneration are very limited.

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There has been a great deal of largely inconclusive discussion over the past twenty years around the appropriate theoretical framework within which to conceptualise the transformation of the former state socialist economies.[1] The commonly used notion of 'transition' has often been questioned as doubly problematic. On the one hand, it is a teleological notion in implying that the process is determined by its end point, whereas critics have emphasised the dependence of the process on the initial conditions, summed up in the notion of 'path dependence'.[2] For this reason some commentators prefer to use the term 'transformation' rather than 'transition'.[3] On the other hand, it begs the question of the characterisation of the end point of transition. The transition is most commonly characterised as the 'transition to a market economy', which is usually a euphemism for the transition to capitalism, but this leaves open the question of what kind of capitalism is developing in Russia. Is the capitalism that is emerging in Russia modelled on one of the existing 'varieties of capitalism'?[4] Or does Russian capitalism have its own original character, based on the incorporation of capitalist practices into soviet/Russian traditions, values and institutions? If this is the case, how does Russian capitalism measure up to its competitor varieties of capitalism when it confronts them on the world market?

Michael Burawoy rightly pointed to the dominance of a 'politicised' view of the transition from socialism to capitalism, which focuses on political programmes while neglecting their real consequences.[5] Most commentary on the transition in Russia has been based on a dualistic interpretation of the transition in terms of the interaction of liberalising reforms and state socialist legacies, the latter being seen as barriers to and distortions of the former. Recognition that the path of liberal reform is not necessarily strewn with roses has been accommodated within a vulgarised notion of 'path dependence', according to which the path is littered with obstacles inherited from the past which have to be assimilated or removed, but the past plays a purely negative role in such an analysis. This analysis underpins a voluntaristic interpretation of transition as the outcome of political conflicts between reformers and conservatives. In the first half of the 1990s discussion focused on the role of the 'young reformers', who assumed a pivotal position in successive Moscow governments under Yeltsin, and their western allies, who set the agenda for the involvement of the international financial institutions which provided and financed the blueprint for reform. Assessments of the Putin regime have been much more ambivalent, ranging from those who give Putin credit for institutionalising the achievements of liberal reform in a law-governed state, to those who see him as embedding the corruption of the Yeltsin years in the authoritarian apparatuses of a kleptocratic state. However, a voluntaristic and dualistic approach, which analyses the emerging forms of capitalism as a synthesis of an ideal model and an alien legacy, fails to identify the indigenous roots and real foundation of the dynamic of the transition from a state socialist to a capitalist economy and so fails to grasp the process of transformation as a historically developing social reality.

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1 This paper draws heavily on the introductory chapter of my book *The Development of Capitalism in Russia*, London: Routledge, 2006.

2 David Stark, 'Path dependence and privatization strategies in East Central Europe', *East European Politics and Societies* 6(1), 1992: 17–54.

3 Michael Burawoy, 'Transition without transformation: Russia's involutionary road to capitalism', *East European Politics and Societies* 15(2), 1999: 269–90.

4 Peter A. Hall and David Soskice (eds), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford: Oxford University Press, 2001.

5 Michael Burawoy and Pavel Krotov, 'The soviet transition from socialism to capitalism: worker control and economic bargaining in the wood industry', *American Sociological Review* 57, February 1992: 17.

The theoretical basis of this kind of dualistic analysis has been provided by the classical liberal analysis of the development of capitalism out of feudalism provided by Adam Smith. Many commentators have compared the soviet system to that of feudalism in being based on the appropriation of a surplus by the exercise of political power. For Adam Smith and Friedrich Hayek the central feature of feudalism was the distortion of the natural order of the market economy by the superimposition of political rule, and the transition from feudalism to capitalism depended on sweeping away the political institutions of the old regime in order to establish the freedom and security of property – what Smith referred to as 'order and good government' – which would allow the market economy to flourish as the expression of unfettered individual reason. This was the ideology that informed the neo-liberal project of the transition to a capitalist market economy in the former state socialist economies.

Smith, in *The Wealth of Nations*, had provided a blueprint for a liberal reform programme, but had been very pessimistic about the possibility of such a programme ever being adopted against the resistance of popular prejudice and vested interest:

> *To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain is as absurd as to expect that an Oceania or Utopia should ever be established in it. Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it. . . . master manufacturers set themselves against any law that is likely to increase the number of their rivals in the home market . . . [and] enflame their workmen to attack with violence and outrage the proposers of any such regulation . . . they have become formidable to the government, and upon many occasions intimidate the legislature.*[6]

Despite Smith's pessimism, within a generation of the publication of *The Wealth of Nations* the mercantile system had collapsed and the system of regulation had been dismantled by the state itself, not on the basis of the triumph of an enlightened individualism but on the basis of a social transformation which had radically altered the balance of class forces and undermined the old regime.[7] In the same way, the liberal theorists of totalitarianism were taken completely by surprise when the apparently all-powerful soviet state disintegrated, not as a result of any liberal critique but under the weight of its own contradictions.[8]

The promotion of 'shock therapy' by the young reformers was motivated by a similar fear to that of Adam Smith of the power of the old regime to block reform, the idea being that a radical programme of liberalisation and privatisation would completely destroy the old system and all possibilities of resistance, in the expectation that a new system would arise, phoenix-like, from its ashes. In reality the battle promoted by the young reformers between the 'new Russians' and the 'red directors' turned out not to be a battle between the new and the old orders, but a struggle over the appropriation of public assets in the disorder of transition. The old system was certainly destroyed but it was replaced not by 'freedom of trade' and 'order and good government' but by a corrupt kleptocracy in which great fortunes were made by the theft of public property and the diversion of public revenues.

In retrospect even the most ardent liberal reformers in the Former Soviet Union came to recognise that they had put too much emphasis on destroying the old regime and too little on establishing 'order and good government'. However, the failure of the liberal reformers does not lie merely in their political misjudgement, but is rooted in the dualistic model of the transition derived from Adam Smith's ideal liberal model of a capitalist economy. According to this model, the freedom of the market and the security of private property and the person are

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6 Adam Smith, *The Wealth of Nations*, vol. I, London: Dent, 1910, pp. 414–15.

7 Simon Clarke, *Keynesianism, Monetarism and the Crisis of the State*, London and Brookfield: Edward Elgar, 1988.

8 Simon Clarke, 'Crisis of socialism or crisis of the state', *Capital and Class* 42, Winter 1990: 19–29.

sufficient conditions for a dynamic capitalism to develop on the basis of the universal pursuit of individual self-interest. For this model the previous system had no dynamic of its own. It is defined purely negatively as a barrier to change which must be destroyed, so that a new system can be created out of the fragments set free by its destruction. This model does not recognise that the individuals who are creating the new system are characterised by values, motivations and perceptions that are marked by their own past and that they act within the framework of institutions and on the basis of a disposition of resources inherited from the past. The past is not merely a barrier to the achievement of the glorious future (a depiction shared by the Communist Party of the Soviet Union and the 'market bolshevik'[9] neo-liberal reformers), the future is simply another stage in the development of the past. What is at issue is not the transition or transformation of one system into another, but the historical development of the existing system. The driving force of this development is not the spontaneous expression of individual self-interest, but the incorporation of the Former Soviet Union into the global capitalist system through the progressive integration of the soviet system into the structures of the world market. It is not to Adam Smith or Friedrich Hayek that we should look to understand the development of capitalism, but to Smith's most cogent critic, Karl Marx.

Contrary to the expectations of the neo-liberal theorists of 'shock therapy', the collapse of the soviet system did not lead to the rapid and spontaneous development of the institutions and practices typical of a capitalist market economy. This has led some critics to doubt whether Russia was in transition to industrial capitalism at all. Michael Burawoy, for example, argued that the collapse of the soviet system had led to the transformation of the 'relations of production through which goods and services are appropriated and distributed', but had reinforced the traditional soviet 'relations in production that describe the production of those goods and services'.[10] What was emerging was 'merchant capitalism' which, far from being a stage in the development of bourgeois industrial capitalism, tends, quoting Marx, 'to preserve and retain [the old mode of production] as its precondition'.[11] This led Burawoy to characterise the developmental trajectory of the Russian economy as one of 'involution', akin to Weber's 'booty capitalism', in which profits are extracted by banks and trading monopolies while nothing is reinvested in production, which continues to be conducted in traditional soviet ways.[12] Richard Ericson has similarly characterised the emerging system as an 'industrial feudalism'.[13] Clifford Gaddy and Barry Ickes argued in an influential, if overblown, article that 'Most of the Russian economy has not been making progress toward the market. . . . It is actively moving in the other direction'. Industrial enterprises have adapted 'to protect themselves against the market rather than join it', characterising demonetisation as a way of sustaining the derelict soviet economy although, as David Woodruff has argued, this was a perfectly rational response to neo-liberal policies.[14]

These arguments are reminiscent of those invoked in the debate among Marxist historians around 'the transition from feudalism to capitalism', where the point at issue was whether or not the development of a market economy necessarily precipitated the collapse of feudalism and the transition to capitalism in early modern Europe. The debate was first engaged between Maurice

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9 Peter Reddaway and Dmitri Glinsky, *Tragedy of Russia's Reforms: Market Bolshevism Against Democracy*, Washington, DC: U.S. Institute of Peace Press, 2001.

10 Burawoy and Krotov, 'The soviet transition from socialism to capitalism', p. 18.

11 Ibid., p. 35.

12 Michael Burawoy, 'The state and economic involution: Russia through a Chinese lens', *World Development* 24, 1996: 1105–17.

13 Richard Ericson, *The Post-Soviet Russian Economic System: An Industrial Feudalism?,* Helsinki: Bank of Finland, BOFIT Online 8/2000.

14 Clifford C. Gaddy and Barry W. Ickes, 'Russia's virtual economy', *Foreign Affairs* 77(5), September–October 1998: 53–67; David M. Woodruff 'It's value that's virtual: bartles, rubles, and the place of Gazprom in the Russian economy', *Post-Soviet Affairs* 15(2), April–June 1999: 130–48.

Dobb and Paul Sweezy,[15] and was then resumed by Bob Brenner, with Dobb and Brenner arguing, against Sweezy's 'neo-Smithian' approach, that merchant capital made its profits by buying cheap and selling dear, and was not interested in how its commodities were produced.[16] While merchant capital eventually penetrated into production in Western Europe, increasing world trade led to the reinforcement of pre-capitalist modes of production in the rest of the world: slavery in the Americas; feudalism, with the 'second serfdom' in Eastern Europe and debt peonage in Latin America; and household peasant agriculture and landlordism in the 'underdeveloped' world. According to Burawoy, in a repetition of the 'second serfdom', the incorporation of the soviet system of production into the world capitalist market led not to the dissolution but to the reinforcement of soviet relations in production.

While Burawoy's analysis is certainly supported by the experience of the 1990s, it is doubtful that the analysis can be applied to the former state socialist industrial countries over an extended period of time. The fundamental difference is that the slave plantation, feudal estate and peasant household were largely self-sufficient and so were able, within limits, to secure their continued reproduction and to continue to produce a surplus, to be appropriated in the form of commodities for sale by merchant capitalists. State socialist industrial enterprises, on the other hand, depended on the state socialist system of distribution for their inputs of parts and raw materials, for the payment of wages and provision of means of subsistence for their workers and, most importantly in the longer term, for investment to sustain or expand their productive capacity. The collapse of the state socialist system, therefore, implied the collapse of the conditions for the reproduction of the industrial enterprise and so for the reproduction of Burawoy's system of merchant capitalism or Ericson's industrial feudalism.

Burawoy is quite right to insist that the collapse of the soviet system led to a transformation of what he calls the 'relations of production', without leading to any fundamental change of the 'relations in production'. He is quite right to argue that the rise of capitalist intermediaries initially reproduced and even reinforced the 'soviet' character of the 'relations in production', and he is largely right that institutions and households resorted to 'involution' and increasing self-sufficiency in their struggles to survive,[17] although they survived primarily by cutting consumption and expenditure, rather than by finding new productive resources.[18] However, the system of merchant capitalism that he describes is not sustainable. If profits are extracted by banks and trading monopolies and are not reinvested in production, the production process will gradually grind to a halt as plant and equipment wear out and are not replaced. This was indeed the tendency in Russian industry through the 1990s, and the prospect was one of continuous economic decline, potentially reducing the Russian population to a nation of 'urban peasants', with low or no wages, at best surviving on the produce of their vegetable plots, reducing Russia to an 'Upper Volta with missiles'. The only alternatives were the transition to an industrial capitalist system through the penetration of capital into production or the reconstitution of a centrally planned economy. Until 1998 these alternatives were no more than programmatic dreams of the political extremes. However, since the 1998 financial crisis, there has been a marked penetration of capital into Russian industry and an upturn of industrial investment, as an increasing number of industrial enterprises have been taken over by Russian holding companies, which purport to be the standard-bearers of capitalist management structures and practices in

[15] Rodney Hilton (ed.), *The Transition from Feudalism to Capitalism,* London: NLB, 1976; Maurice Dobb, *Studies in the Development of Capitalism,* London: Routledge & Kegan Paul, 1946.

[16] Trevor H. Aston and Charles H. E. Philpin (eds), *The Brenner Debate: Agrarian Class Structure and Economic Development in Pre-Industrial Europe,* Cambridge: CUP, 1985.

[17] Michael Burawoy, Pavel Krotov and Tatyana Lytkina, 'Involution and destitution in capitalist Russia', *Ethnography* 1(1), 2000: 43–65.

[18] Simon Clarke, *Making Ends Meet in Contemporary Russia: Secondary Employment, Subsidiary Agriculture and Social Networks,* Cheltenham: Edward Elgar, 2002.

Russia, and even by foreign investors, though largely producing for domestic rather than world markets.

The appropriate model for the theorisation of the transformation of state socialism is not merchant capitalism or industrial feudalism, but Marx's account of the development of capitalism in Western Europe. The development of capitalism, for Marx, was not Smith's realisation of individual reason but an expression of the development of commodity production within the feudal order, which was hugely accelerated by the dispossession of the mass of the rural population, who became the wage labourers for capital and the consumers of the products of capitalist industry and agriculture.[19] The dispossession of the rural population by force and by the commercialisation of agriculture provided an ample reserve of cheap wage labour which could be profitably employed by the capitals accumulated at the expense of the landed class through trade and plunder. At this first stage of capitalist development, however, capitalists did not change the handicraft methods of production which they had inherited, so the subsumption of labour under capital was purely formal. Competition between capitalist producers forced them to cut their costs, but they did so not by transforming methods of production but by forcing down wages and extending the working day. Capital only penetrated the sphere of production when competition between producers induced and compelled them to revolutionise the methods of production in order to earn an additional profit, or resist the competition of those who had already done so. It was only with the 'real subsumption' of labour under capital that the characteristic dynamic of the capitalist mode of production got under way. Nevertheless, in the peripheral regions of the emerging global capitalist economy, alongside the destruction of much traditional handicraft and subsistence agriculture, the subsumption of production under capital remained purely formal, based on the intensified exploitation of pre-capitalist modes of production.

The process described by Marx as that of 'primitive accumulation' was interrupted in Russia by the October Revolution, but it was completed in the soviet period when the peasants were dispossessed and transformed into wage labourers, not for capital but for the state, which launched a programme of industrialisation based on the introduction of the most advanced capitalist technology. This has led some to characterise the soviet system as 'state capitalist',[20] which leads to a view of the transition as involving merely a transition from state to private monopoly capitalism through the transfer of juridical ownership of property in the privatisation programme. However, the social form of the production and appropriation of a surplus in the soviet system was quite different from that characteristic of the capitalist mode of production, and the dynamics of the system were correspondingly different.

The contradictions of the soviet system

The soviet system had many features in common with the capitalist system of production. It was based on advanced technology and a high degree of socialisation of production, which was the social and material basis of the separation of the direct producers from the ownership and control of the means of production. As in the capitalist system, labour was employed by enterprises and organisations in the form of wage labour and the production of goods and services for individual and social need was subordinated to the production and appropriation of a surplus. However, the two systems differed fundamentally in the form of the surplus and correspondingly in the social organisation of the production and appropriation of that surplus.[21]

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[19] Karl Marx, *Capital*, vol. I, part VIII.

[20] Tony Cliff, *Russia: A Marxist Analysis*, London: Pluto Press, 1970.

[21] This section draws heavily on the analysis I developed in Simon Clarke, Peter Fairbrother, Michael Burawoy and Pavel Krotov, *What about the Workers? Workers and the Transition to Capitalism in Russia*, London: Verso, 1993 and Simon Clarke, *The Russian Enterprise in Transition: Case Studies*, Cheltenham: Edward Elgar, 1996.

The soviet system was not based on the maximisation of profit, nor was it based on planned provision for social need. It was a system of surplus appropriation and redistribution subordinated to the material needs of the state and, above all in its years of maturity, of its military apparatus. This subordination of the entire socio-economic system to the demands of the military for men, materials and machines dictated that it was essentially a non-monetary system. The development of the system was not subordinated to the expansion of the gross or net product in the abstract, an abstraction which can only be expressed in a monetary form, but to expanding the production of specific materials and equipment – tanks, guns, aircraft, explosives, missiles – and to supporting the huge military machine. The strategic isolation of the Soviet Union meant that no amount of money could buy these military commodities, so the soviet state had to ensure that they were produced in appropriate numbers and appropriate proportions, and correspondingly that all the means of production required to produce them were available at the right time and in the right place.

The system of 'central planning' was developed in Stalin's industrialisation drive of the 1930s in a framework of generalised shortage, including an acute shortage of experienced (and politically reliable) managers and administrators. The system was driven by the demands of the state for a growing physical surplus with scant regard for the material constraints of skills, resources and capacities on production. The strategic demands of the five-year plan would be determined by the priorities of the regime, initially the demand for the means of industrial investment and ultimately by the demands of the military apparatus, which would then be converted into requirements for all the various branches of production. These requirements came to be determined in a process of negotiation between the central planning authorities, ministries and industrial enterprises.

The bureaucratisation of the planning system from the 1950s represented a significant and progressive shift in the balance of power from the centre to the periphery as the negotiated element in plan determination increased, at the expense of its exhortatory promulgation and repressive reinforcement. Alongside this, the single-minded orientation of production to building industrial capacity and meeting insatiable military needs was tempered by a growing concern for the material needs of the mass of the population: the expansion of housing and social consumption from the 1950s and of individual consumption from the 1960s, which was linked to the increasing role of material incentives in stimulating the energy and initiative of the direct producers and securing the reproduction of the labour force.

Soviet social relations of production were supposed to overcome the contradictions inherent in the capitalist mode of production in being based on the centralised control of the planned distribution and redistribution of productive resources. However, the soviet system was marked by its own system of surplus appropriation and associated contradictions. Enterprises and organisations negotiated the allocation of means of production and subsistence with the centre in exchange for the delivery of defined production targets, the surplus taking the form of the net product appropriated by the military-Party-state to secure its own expanded reproduction.

The fundamental contradiction of the soviet system lay in the separation of production and distribution which led to a contradiction between the production and appropriation of the surplus. The development of the forces of production was constrained by the exploitative social relations of production, and it was this specific contradiction that underpinned the collapse of the 'administrative-command' system. The central planning agencies sought to maximise the surplus in their negotiations with ministries and departments, enterprises and organisations over the allocation of resources and determination of production plans. However, the enterprises and organisations which were the units of production had an interest in minimising the surplus by inflating the resources allocated to them and reducing their planned output targets. The softer the plan that they could negotiate, the easier it was for the enterprise directors and their line managers to induce or compel the labour force to meet the plan targets. Since neither the worker, nor the enterprise, nor even the ministry, had any rights to the surplus produced, they could only reliably expand the resources at their disposal by inflating their demand for productive resources, and could only protect themselves from the exactions of the ruling stratum by concealing their productive potential. Resistance to the demands of the military-Party-state apparatus for an expanding surplus product rested ultimately on the active and passive resistance of workers to their intensified exploitation, but it ran through the system from bottom to top and was impervious to all attempts at bureaucratic reform. The resulting rigidities of the system determined its extensive form of development, the expansion of the surplus depending on the mobilisation of additional resources. When the reserves, particularly of labour, had been exhausted the rate of growth of production and of surplus appropriation slowed down.

The fundamental contradiction of the soviet system was between the system of production and the system of surplus appropriation. The centralised control and allocation of the surplus product in the hands of an unproductive ruling stratum meant that the producers had an interest not in maximising but in minimising the surplus that they produced. The contradiction between the forces and relations of production was also expressed in chronic shortages. Enterprises were oriented purely to meeting their formal plan targets, not to meeting the needs of their customers. Thus, while the centre could allocate rights to supplies, it could not ensure that those supplies were delivered to the place, at the time, in the quantity and of the quality desired. The endemic problems of shortages and of poor quality of supplies were an inherent feature not of a system of economic planning, but of a system based on the centralised allocation of supplies as the means of securing the centralised appropriation of a surplus.

Like capitalism, but in a quite different way, state socialism was a system within which the practice of individual rationality led to socially irrational outcomes. These irrational outcomes were not defects that could be remedied by introducing reforms into the system, for they were inherent in the system itself.

The transition to a market economy

As in the case of feudalism, the contradictions inherent in the soviet system meant that money, the market and quasi-market relations developed spontaneously out of attempts to overcome the contradictions of the system and were tolerated, however reluctantly, by the authorities.

First, even if the supplies allocated to an enterprise by the plan were adequate, securing these supplies was a major problem, for the resolution of which enterprises used informal personal connections with their suppliers, often backed up by local Party *apparatchiki*, and came increasingly to draw on the services of unofficial intermediaries, the so-called *tolkachi* (pushers), who were the pioneers of market relations within the soviet economy. The central directives which nominally regulated inter-enterprise transactions within the soviet system were therefore only realised in practice through exchanges within networks of personal, political and commercial connections.

Second, Trotsky's early attempts at the 'militarisation of labour' were unsuccessful and, although wages were regulated centrally, workers were always in practice free to change jobs in search of higher wages. Labour shortages put increasing pressure on the centralised regulation of wages as employers sought to attract the scarcest categories of labour, so that wage-setting had to take account of labour market conditions, with 'coefficients' providing higher wages in priority branches of production and in the more remote regions.[22]

Third, although social reproduction was as far as possible subordinated to the imperatives of production, with housing, items of collective consumption, a wide range of social and welfare benefits and the right to buy goods and services which were not on free sale being provided through the workplace, labour power was partially commodified and workers were paid a money

[22] Simon Clarke, *The Formation of a Labour Market in Russia*, Cheltenham: Edward Elgar, 1999, Chapter One.

wage with which they bought their heavily subsidised means of subsistence and which they saved in the hope of acquiring the right to buy consumer durables, to take a holiday or to provide for retirement. Money in the hands of workers lubricated the black market for consumer goods and for the private production of agricultural produce for the market which was tolerated and even encouraged, with rural producers being allowed to sell their own products on the *kolkhoz* markets, which provided a basis for more extensive market transactions.

Fourth, the need to acquire advanced means of production from the west meant that the Soviet Union had to export its natural resources in order to finance its essential imports of machinery. Although the state retained a monopoly of foreign trade, this made the soviet system very vulnerable to fluctuations in world market prices and so to the instability of global capitalism. The 1930s industrialisation drive was made possible by the massive export of grain forcibly expropriated from the peasantry, which led to the devastating famines of the 1930s. By the Brezhnev period the Soviet Union had become dependent on its exports of oil and gas to finance its imports of machinery and even of food. In 1985 fuel accounted for more than half the Soviet Union's exports, with another quarter being accounted for by raw and semi-processed raw materials, while machinery accounted for a third of imports and food for one-fifth. The share of world trade in the net material product of the Soviet Union increased from 3.7 per cent in 1970 to almost 10 per cent in 1980 and a high of 11 per cent in 1985, while oil and gas production doubled between 1970 and 1980. At the same time, the Soviet Union saw a sharp improvement in its terms of trade, the net barter terms of trade improving by an average of 5 per cent per annum over the period 1976–80 and 3 per cent per annum between 1980 and 1985, helping to offset the decline in productivity growth and allowing the Soviet Union to increase its import volume by one-third, while export volume increased by only 10 per cent.[23] The improved terms of trade also made a substantial contribution to the buoyancy of government revenues through the price equalisation system. This opening of the soviet economy to the world market, and the corresponding political processes of détente, were by no means a sign of fundamental change in the soviet system, but were rather the means by which change was constantly postponed as the soviet system was sustained by the vagaries of world capitalism.[24] However, such favourable circumstances could not last: production of gas and oil peaked in 1980, so that the Soviet Union was increasingly dependent on improvement in the terms of trade to sustain its economy. When the terms of trade turned sharply against the Soviet Union from 1985, the system moved into a deepening crisis.

Proposals for reform of the soviet system were always based on providing direct producers with material incentives to increase production and to make suppliers more responsive to the needs of consumers. Such reforms necessarily implied giving more independence to enterprises and allowing them to retain a portion of the revenue received from the sale of their output, which necessarily implied in turn an increasing role for money and market relations, since producers had to have the freedom to dispose of the incentive funds put at their disposal.

The dilemma that all such reforms soon presented to the centre was that they necessarily eroded centralised control, so even if they were successful at encouraging the development of the forces of production, this was at the expense of the erosion of the system of surplus appropriation. Moreover, once reform was set under way it tended to acquire a dynamic of its own, as enterprises which had received a taste of independence demanded more. For these reasons, every reform initiative prior to Gorbachev had been reversed in order to preserve the system. In the same way, Gorbachev also came under pressure to reverse his reforms, but Gorbachev's reforms soon acquired an unstoppable momentum, particularly as the erosion of the administrative-

[23] IMF/World Bank/OECD, *A Study of the Soviet Economy*, three volumes, Washington, DC, Paris: IMF, World Bank, OECD, 1991, volume I, pp. 86, 105.

[24] Marie Lavigne, *The Economics of Transition*, second edition, Houndmills: Macmillan, 1999, p. 55.

command system of economic management undermined the authoritarian political system with which it was enmeshed.

The ‘transition to a market economy’ was not an alien project imposed on the soviet system by liberal economists, but was an expression of the fundamental contradiction of the soviet system. Gorbachev never had a coherent reform programme. Perestroika was reactive, pragmatic and fragmented, each reform responding to pressures created by the previous stage of reform. The first stage of market reforms sought to improve the balance of external trade by ending the state monopoly of foreign trade, licensing enterprises and organisations to engage in export operations and to retain a portion of the hard currency earned. The idea was that this would give industrial enterprises an incentive to compete in world markets and to use the foreign exchange earned to acquire modern equipment. In practice it provided a windfall for exporting enterprises, at the expense of the state, and opportunities for those with the right connections to make huge profits by acting as intermediaries.

Once the precedent had been set, other enterprises sought the right to sell above-plan output on export or domestic markets, and to retain a growing proportion of the proceeds. This aspiration was met with the proposed replacement of plan deliveries by state orders at fixed state prices, with the control of prices replacing the control of quantities. But the emergence of new structures of distribution further undermined the centralised control of the system. Allowing enterprises to sell on the market provided an alternative source of supply to the centralised allocations which the state could not guarantee, and if the state could not guarantee supplies, why should enterprises continue to deliver their state orders when they could sell more profitably at market prices? Thus the development of market relations undermined the control of the centre, created a space for the development of capitalist commercial and financial enterprise and precipitated the collapse of the administrative-command system. Rather than resolving the contradictions inherent in the soviet system, the ‘transition to a market economy’ brought those contradictions to a head. While market reforms might provide an incentive for enterprises to develop the forces of production, the loss of centralised control undermined the system of surplus appropriation by removing the state control of supply which was the basis on which the state extracted the surplus. The surplus which had been appropriated by the state was now retained by enterprises and/or appropriated by the new financial and commercial intermediaries that arose to handle the emerging market relations.

The collapse of the administrative-command system of economic management under the pressure of growing demands for economic independence also undermined the centralised political system of which it was an integral part as national and regional authorities asserted their independence of the centre. Yeltsin ruthlessly exploited these tendencies in his struggle with Gorbachev, but once he had seized power in Russia his priority was to strengthen rather than to undermine a centralised Russian state. If the Russian Federation was to survive, it was essential to detach the state from its responsibility for the economy, which meant that it had to give free rein to the market relations and market actors which had emerged. Yeltsin’s decision to free wages and most prices from state control at the end of 1991 was no more than a recognition that the state had already lost control of wages and prices, since by the end of 1991 nothing was available to buy at such prices.

Corporatisation and privatisation of state enterprises were equally inevitable consequences of the disintegration of the administrative-command system, merely a juridical recognition of what had already become a fact: these enterprises had already detached themselves from the administrative-command system of management which no longer had any levers of control over them. Privatisation did not give enterprises any more rights than they had already appropriated for themselves, while it allowed the state to abdicate all the responsibilities to them which it no longer had the means to fulfil. Thus, the ideology of neo-liberalism and radical reform was little more than a rhetoric to cover what was essentially a bowing to the inevitable.

Integration into global capitalism

It is tempting to see the rapid collapse of the soviet system and the equally rapid emergence of market relations as a cataclysmic event marking a radical break between the past and the future. However, although very few people had expected any such dramatic developments, in retrospect we can see that the pattern of collapse and emergence was prefigured in the developmental tendencies of the soviet system which expressed its fundamental contradictions. The Stalinist system had been created on the basis of exhortation and repression, backed up by dramatic political penalties and rewards to encourage workers and managers to superhuman effort, but even under Stalin it had proved necessary to allow a role for material incentives and horizontal quasi-market relations in an attempt to compensate for the deficiencies of a repressive authoritarian system. With the bureaucratisation of the system from the 1950s repression was increasingly tempered by negotiation, through which the Party-state was compelled to accommodate to the material and social barriers to intensified exploitation, while attempts to overcome the deficiencies of the system by providing material incentives to workers and managers necessarily implied the expansion of market relations and the further weakening of centralised control. This was the stumbling block of reform throughout the Brezhnev period, during which the failures of the system to provide the material elements of its own reproduction were compensated by an increasing reliance on the world market for supplies of food and machinery. As export growth slowed and the terms of trade turned against the Soviet Union in the 1980s the new wave of reform was unleashed, the dynamic of which rapidly eroded the entire economic and political system. The course of reform, from ending the state monopoly of foreign trade to abandoning state control of prices and wages, was not simply the transition from an administrative-command system to a market economy in Russia, but was more specifically a process of integration of the soviet economy into the global capitalist economy through its subordination to the world market.

The collapse of the soviet system transformed the environment within which enterprises and organisations had to operate. Enterprises and organisations were now subject to the constraints of the market: in order to reproduce themselves they had to secure sufficient revenues to cover the costs of wages and the purchase of means of production and raw materials and, to the extent that they did not receive subsidies and subventions from government, this could only be achieved by selling their products as commodities on the market at a price sufficient to cover their costs. To this extent, enterprises and organisations were subordinated to capital through their subordination to the rule of money, but this did not have any immediate impact on their internal practices and procedures, which did not immediately adjust to the capitalist demands of profit maximisation. In the first instance, the immediate priority of the workers and managers of enterprises and organisations, who in the majority of cases were soon to be recognised as their owners, was to secure their own reproduction. The watchword of the 1990s was ‘survival’.

The integration of the soviet economy into the global capitalist economy provided opportunities for some and presented barriers to others. The opportunities were primarily seized by commercial intermediaries, who were able to make enormous profits through arbitrage as a result of the disparity between domestic and world market prices, reflecting differences between domestic and global production conditions. This was the basis of the ‘primitive accumulation of capital’ during the late 1980s and early 1990s, which led to the rapid growth of new capitalist companies in trade and finance. The emergence of private commercial and financial capitalist enterprises represented a change in the form of surplus appropriation, or at least a change in the identity of those appropriating the surplus, since the appropriation of the surplus was still based on the exercise of monopoly power and divorced from the production of the surplus. The new capitals were formed by the commercial and financial intermediaries which had their roots in the interstices of the soviet system and had been given free rein by perestroika. They appropriated their profits by establishing the monopoly control of supplies which had formerly been the prerogative of the state. They acquired this control on the basis of rights assigned to them by state bodies and they maintained their control by the corruption of state officials and enterprise directors, backed up by the threat and use of force. This was not a matter of the corruption of an ideal capitalist system, it was a normal adaptation of capitalism to the conditions it confronted. However, the change in the form of surplus appropriation was not matched by any change in the social relations of production.

The surplus was not appropriated on the basis of the transformation of the social organisation of production or the investment of capital in production. It was appropriated on the basis of trading monopolies, above all in the export of fuels and raw and processed raw materials (which by 1998 made up 80 per cent of Russian exports) though also in domestic trade. It was appropriated through the banking system, which made huge profits through commercial intermediation and speculation in currency and government debt. Meanwhile, the bulk of enterprise profits were annihilated by taxation, leaving little or nothing to pay out as dividends to shareholders. The windfall profits which enterprises could make in the late 1980s when they could buy at state prices and sell at market prices were annihilated by the liberalisation of prices at the end of 1991. With the collapse of the soviet system, enterprises inherited the land and premises, their capital stock and their stocks of parts and raw materials, which substantially reduced their costs and enabled many to remain in profit by trading on their inherited assets. But even so, by 1996 the majority of enterprises were loss-making.

This is the phenomenon that Burawoy characterises as ‘merchant capitalism’, in which capitalists make their profits through intermediation, exploiting the divergence between Russian and world market prices, without making any investment in production. But the merchant capitalists were not the driving force of the development of the Russian economy and society through the 1990s, they were merely the intermediaries with global capital. The experience of the 1990s was the experience of integration into the capitalist world market, into a system dominated by the dynamics of capital accumulation on a world scale. The first stage of Russia’s incorporation into global capitalism from the late 1980s was as a source of fuel and raw materials, extracted and processed by traditional soviet enterprises on the basis of existing production facilities, with virtually no productive investment in the expansion or even the renewal of production capacity, but the dynamics of the Russian economy through the 1990s showed that this phase of pure exploitation could not be sustained. Continuing economic and social collapse was quite possible: Russia would not be the first country to suffer from ‘the development of underdevelopment’.[25] But the default and devaluation of the 1998 crisis transformed the terms of Russia’s integration into the global economy, reduced the opportunities for rentier capitalism, and provided more favourable conditions for economic growth and social stabilisation based on the penetration of capital into production. While the first stage of the incorporation of Russia into global capitalism was associated with the purely formal subsumption of production units under capital, the penetration of capital into production opens up the possibilities of their real subsumption and the systematic subordination of the production process to the logic of capital.

Following the Smithian logic, the neo-liberal literature places most emphasis on ‘order and good government’, in the form of corporate governance structures, transparency and the rule of law, as the conditions for the renewal of economic growth in Russia, but it is notable that the recovery since 1998 has not been based on or associated with marked improvements in corporate governance, accountancy and legal practices. These institutional arrangements are undoubtedly important for outside investors, who need to be able to evaluate investment opportunities and have some guarantees of being able to exercise ownership rights, and so the large Russian companies which want to get access to international capital markets have, at least formally, adopted international practices. But just as important for the direct investors who play the predominant role in productive investment in Russia is the development of appropriate

[25] André Gunder Frank, *The Development of Underdevelopment*, New York: Monthly Review Press, 1966.

management structures and practices which permit the subordination of the production of use values to the production and appropriation of surplus value.

What management structures and practices are appropriate for Russia? Recent discussion of the 'varieties of capitalism' has shown that capitalism can adapt to a wide range of institutional and cultural contexts. In different countries and at different times, and even within the same country at the same time, capitalism has shown itself to be compatible with different systems of financing (stock markets, retained profits or bank-lending), different forms of regulation of labour relations (individualistic, collectivist), different payment systems (money, in-kind; individual, collective; piece-rate, time-based), different forms of social and welfare provision (employer-based, state-based, insurance-based). But to compete, capital has to subordinate the production of use-values to the production of surplus value. This means that it has to install systematic management structures and practices through which it can obtain relevant information and take and implement appropriate decisions. These are not purely formal bureaucratic structures, they are social structures through which the divergent interests of different managers and workers have to be subordinated to the accumulation of capital. To what extent has capital penetrated production in Russia and what are the barriers to this penetration?

The ultimate barrier to the production and appropriation of a surplus is the resistance of the direct producers to their exploitation, but this resistance does not necessarily appear immediately as such, and class antagonism certainly does not necessarily result in class polarisation and class confrontation. We have seen that the soviet system of production was oriented primarily to the fulfilment of the production plan, with little regard for cost or quality. To achieve the plan formal management structures were systematically subverted by informal negotiations and the formal centralisation of power was undermined by the practical devolution of responsibility. Shop-floor workers were responsible for overcoming all the obstacles to making the production plan, in exchange for which management guaranteed to pay wages and provide social benefits and was tolerant of disciplinary infractions. The resistance of the direct producers to their exploitation was expressed primarily in recalcitrance rather than overt resistance, in absenteeism, quitting and disciplinary violations rather than in collective mobilisation, although workers could show their strength by tacitly colluding in order to fail to make the plan.[26] In this framework managers faced the resistance of workers as an objective constraint on their ability to realise their primary task of delivering the plan, which they represented as such in their negotiations with higher levels of management. Capitalist production, on the other hand, has quite different priorities, it has to meet targets for cost and quality, not just for gross output, and competition means that capitalist producers cannot treat the resistance of workers to the intensification of their exploitation as an objective constraint, but have to find means of overcoming that resistance through appropriate systems of personnel and production management. This requires a fundamental change in the balance of power on the shopfloor, but this in turn requires a fundamental change in management structures and practices at all levels.

Recent research, based on case-studies of more than fifty advanced enterprises of all forms of ownership in seven regions across Russia, has shown that the development of capitalist management structures and practices has rarely penetrated beyond the level of senior management, even in foreign-owned companies.[27] Production and personnel management continues to assume traditional soviet forms, based on informal relationships and informal negotiation between workers and line managers, reinforced by the persistence of the problems of unreliable equipment and uneven supplies that plagued the soviet system. The collapse of wages and employment through the 1990s has substantially changed the balance of power on the shop-floor, so that where soviet managers had to make concessions to hold on to scarce workers, the

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[26] Marina Kiblitskaya, 'We Didn't Make the Plan' in Simon Clarke (ed.) *Management and Industry in Russia: Formal and Informal Relations in the Period of Transition*. London and Brookfield: Edward Elgar, 1995: 198–223.

[27] The principal findings of the research are reported in Simon Clarke, *The Development of Capitalism in Russia*, op. cit.

watchword of today's managers is 'if you don't like it, you can go'. But at the same time, the collapse of industrial training has meant that employers still face shortages of the skilled and experienced workers who are the key to the production process, though today they seek to retain such workers by paying them higher wages rather than by showering them with honours.

The increasing insecurity of employment and differentiation of wages facilitate the exercise of managerial authority on the shop-floor in the more successful enterprises, enabling them to meet tightened quality standards and diffuse worker resistance on the basis of soviet management methods, but at the same time the failure to transform the structure and practices of management is a barrier to the introduction of new production systems. This sets up a vicious circle as new owners are reluctant to make the substantial investments that are required to achieve world standards of productivity while they have not achieved full control of the labour process, but in the absence of such comprehensive re-equipment workers and line-managers have to be allowed the discretion that alone makes it possible to work in soviet conditions of production. Investment in the vast majority of Russian enterprises therefore continues to be piecemeal, make-do and mend, investment in the replacement of worn-out equipment and the mechanisation or automation of individual production processes.

Continuously rising energy and metal prices, driven by the growth of the Chinese economy, have created favourable conditions for the continuing profitability of the extractive sector, even if productivity in that sector does not match world standards, but the failure to secure the real subsumption of labour under capital has meant that profitability and investment prospects in the rest of the economy have remained unfavourable, sustained only by the protection of the domestic market by tariff and transport barriers. This protection is the condition not only for the sustainability of domestic production, but also for the continued reproduction of soviet social relations in the sphere of immediate production and hence for the appearance of social stability that is based on those social relations. Solidarity of workers in the workplace is undermined by high levels of wage differentiation and by the complex status hierarchies based on skill, occupation, position, age, tenure and gender which are the basis of the relationships through which the production process is managed, while direct expressions of worker resistance are constrained by the fear of losing a job. Thus there is as yet little tendency to the transformation of class relations or the emergence of new forms of class struggle more typical of a developed capitalist economy.

The relative absence of overt class conflict, despite the catastrophic decline in living and working conditions and deterioration of public services, has been one of the most striking features of Russian capitalism since the collapse of the soviet system. The traditional trade unions have lost half their members, and the new (and more militant) alternative trade unions have made very little headway. After the wave of strikes and protests of public sector workers over the non-payment of wages in the middle of the 1990s, the reported level of strikes has declined year by year. Some put the relative quiescence of Russian workers down to a fatalism that supposedly lies at the heart of Russian culture, but the analysis presented above suggests that this apparent quiescence is a reflection of the limited extent of the subsumption of labour under capital in Russia.

The incomplete subsumption of labour under capital means that class conflicts are still diffused through the structure of management, appearing primarily in divisions within the management apparatus rather than in a direct confrontation between capital and labour. The completion of the subsumption of labour under capital is only really possible where there is substantial new investment, which makes it possible on the one hand to reduce reliance on the commitment of skilled and experienced workers by introducing more reliable modern production technologies and, on the other hand, to pay relatively good wages to provide workers with positive work incentives and line managers with effective levers of management. Although foreign direct investment in the productive sphere of the Russian economy, outside the extractive sectors, has been directed almost entirely at supplying the domestic market and the 'near abroad' of the CIS countries, the sustained growth of the domestic market since the 1998 crash has created the basis for new import-substituting investment by western multinational companies, building new modern plants on Greenfield sites or adjacent to the plants of Russian partners. These new plants are radically different from the earlier brownfield investments based on foreign acquisition of Russian companies in that they are based from the start on imported production technologies and imported management practices, including in the spheres of production and personnel management.

The modernisation of production facilities and management methods does not result in the elimination of class conflict, but facilitates the assimilation of line managers to the hierarchical management structure so that patterns of class conflict take on a more familiar form, as conflicts between labour and management rooted in the conflict over the terms and conditions of employment. We can see an example of such a development at the new Ford assembly plant at Vsevolozhsk, near Saint Petersburg. Soon after the Ford plant went into production, the leader of the traditional trade union was replaced by a young worker, Alexei Etmanov, who had been sponsored by Transnational Information Exchange (TIE) to participate in a meeting in Brazil of trade union activists from Ford plants in North and South America. Etmanov was astonished to find in Brazil something very different from the Marxism of the Soviet Union and the trade union practices of post-Soviet Russia. As he explained on his return:

> *They speak about Marxism, about the struggle of the working class against capital. But, well, that is how it really is. They drag as much out of us as they can. Their aim is to pay us as little as possible, and ours is the opposite, to get as much as possible. It really is a struggle…. I listened and gradually I began to understand that there really is strength in unity, that people achieve things themselves. ... It has become Russia's shame. We are people, not some kind of monkeys! Brazilians are the same as Russians. They like a drink just the same. Absolutely similar people, although more impulsive. I saw. I was ashamed. I was inspired.*[28]

Etmanov and his young colleagues were elected to the trade union committee and immediately launched a recruiting campaign to secure the membership of half the labour force required to guarantee negotiating rights, which they achieved within a month, increasing membership from 112 to 800. They then began aggressively pursuing demands for higher wages and improved conditions, with a series of extremely well organised strikes and work-to-rules, in which they appealed successfully for international solidarity when the management threatened to break the most recent strike by importing cars from Germany. The struggle of the Ford workers soon attracted the attention of workers in neighbouring foreign-owned greenfield plants, leading to the establishment of a local 'association of trade unions in multinational companies', and in other Russian plants set up by foreign auto manufacturers, with the formation of new trade union organisations at GM Avtovaz in Togliatti and Avtoframos (Renault-owned) in Moscow and an interregional autoworkers' union within the All-Russian Confederation of Labour (VKT), an ITUC-affiliated alternative trade union federation, with the expectation that new unions would be established at the new Toyota and Nissan plants outside St Petersburg and at VW in Kaluga as soon as they go into production. It would be foolish to exaggerate the significance of these developments, let alone to imagine that history is repeating itself, but it is indicative of the fact that capitalism in Russia is not in the end so different from capitalism everywhere else and that Russian workers are ready to take their place in the global struggle of workers to resist the tyranny of capital.

[28] Vladimir Ilyin, interview with Alexei Etmanov, February 2006 (http://www.warwick.ac.uk/russia/Intas/FORD.doc)