

# THE GROWTH OF AN IMPOSSIBLE CAPITALISM

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## INTRODUCTION

The underlying argument of this article is that the countries of the former USSR are moving into a pseudo-system which is neither Stalinist nor capitalist. The efforts to move into capitalism are inevitably doomed. As I have argued earlier the effect of the opposition to such a movement has been to prevent the former USSR becoming a Latin America<sup>1</sup>. On the other hand, both the return to Stalinism and the movement to socialism are not immediately on the cards. This article is concerned with the forms by which the elite has attempted to get to capitalism and the elite's justifications for its actions. Both forms and justifications give an insight into the real process at work in the former USSR. The article itself is partly based on discussions, observation and research done in Russia over two visits in 1992.

## JUSTIFICATIONS FOR CAPITALISM

Historically the shift towards the full market in the USSR was gradual. First Gorbachev adopted his policy of increasing investment in producer goods and when that failed he went for the development of so-called market socialism, with the Law on the State Enterprise of 1987. When that failed the elite decided that a capital market and labour market was essential, which necessarily meant full blooded capitalism. The first year of attempts to go to capitalism have led to a major disaster. The government is now in full retreat, under the banner of going forward to capitalism. Where it is going, whether forward to capitalism or backwards from capitalism no-one is clear. All the justifications for market socialism now look very dated but the justifications for a capitalism with a capital market and labour market, looks even more dated.

Many market economists see the reforms as having made significant gains.<sup>2</sup> In fact the only gain has been the removal of price controls and the subsequent introduction of a massive inflation. The price of the removal of

price controls has been enormous. The manner of its introduction, following on the Yeltsin countercoup gave the government a period of time during which the population was quiescent and hence some economists can talk of success. Shmelev stands opposed to Yavlinsky and others in seeing the reforms in a positive light. Sober Western economists like Peter Oppenheimer,<sup>3</sup> seem to go along with Shmelev. Whether this is out of ignorance or blindness it is not possible to say. It is, however, difficult to understand. The standard of living has dropped to a figure between one fifth and one half of what it was, and grandmothers beg in the street. The initial rise in prices in January 1992 was from 10 to 20 times the previous figures. Thereafter the inflation was gradual but speeded up considerably as the months went by to the point where it was approaching between 1,000 to 2,000 per cent by November 1992. The effect was different depending on the social group. Members of the elite who remained in their jobs or went into business were better off. Pensioners and members of the intelligentsia were worse off. Those who remained in the government sector, such as doctors, teachers, academics and research workers are considerably worse off. Workers real incomes differed according to their situation but by and large most people have found that they have to spend up to 80 per cent of their income on food instead of 30 per cent before. If this is a success, then we can only hope that there are no more successes in Russia.

### THE ENMITY BETWEEN THE TWO GROUPS

The first and most important justification has nothing to do with capitalism or socialism but with the enmity between the two major groups in the elite. Today they may be called patriots or social patriots and liberals. Some people have tried to connect these differences with Slavophiles and Westernizers and there can be no doubt of the similarity. On the one side are people like Rasputin, the writer, and *Literaturnaya Rossiya* with their emphasis on Russia's culture and history while on the other are the liberals around the Gaidar who was in Prime Ministerial office in 1992 who stand for massive foreign investment and the possible elimination of Russian indigenous industry. The cultural clash is patent. Yet this similarity, while much commented on inside Russia explains little of the social basis of the differences or their real late twentieth century programmes. If anything, the very attempt to use this comparison avoids a real discussion of events. It is a reflection of the false consciousness of the Soviet elite itself.

The Soviet elite has shifted from one policy to another, providing various justifications for so doing but it has not got any underlying understanding of what it is doing. It has an excellent understanding of its own interests and the way in which it must rule. Hence it knew that it had to reform in order to stay in power but it does not understand the world around it. It is lost in the wider world. It genuinely believes that it can introduce capitalism and that capitalism will provide them with the stability that they crave. It knows that the West might not assist them and that Western capitalism is in a depression at the present time but they still think that they can find their own way to capitalism. The different sections of the elite have different paths to capitalism but none of them have any real understanding of its real meaning. They are aware of the internal opposition to it but they regard that as temporary. Yeltsin's promises to provide stable prices and a rising standard of living first in 6 months and then in another six months are genuine. He has no understanding of the market at all.

Gaidar and his ministers have read von Hayek and Milton Friedman and think that gives them an understanding of capitalism. This is an interesting case where commodity fetishism has fetishized the ruling group but not the workers. The result, of course, is chaos simply because the government does not understand what it is doing. It understands the immediate political problems but it really believes that it can introduce money and capital by freeing prices. They actually think that they have succeeded. However, their success is not to be judged by economic criteria. Their accomplishments rest on whether they have made a return to the old economy impossible. It is a political judgment.

The two sections in the elite have been locked in a bitter fight for many years. The two sides are now transformed into patriots and liberals and the latter are determined to destroy the power of the former. To a considerable degree the failure of the economic reforms has put this project in jeopardy. Hence the liberals want to continue in the government to the bitter end. To the degree to which they have destroyed the old economy, they feel that they have succeeded irrespective of the enormous cost in human misery.

In what way have they succeeded? In their view, the destruction of the old economy will be a success when the patriots cannot return to power. The social patriots are in the process of losing their old social and economic base. Thus the elimination of industry and the destruction of the open

provision of education and health services is regarded as a necessary price to pay for the victory over the old elite.

The crass stupidity of such a viewpoint is a reflection of the total failure of the Gaidar government to understand the modern world. Ministers like Peter Aven, who was particularly criticised by Yeltsin for his mistakes, regard Pinochet as a model to be emulated. He takes the view that Friederich von Hayek disproved the viability of socialism. With views of this kind, a collision course with the industrialists was inevitable. A scorched earth policy against the other side risked eliminating a large part of the elite itself. In fact the bulk of the elite is concentrated among the so-called industrialists or factory directors, now largely under the aegis of Arkadii Volskii and his union of industrialists and entrepreneurs, which has spawned the Civic Union political movement. Inevitably they rebelled and the failure of the reforms has allowed the factory directors to assert themselves. In turn, the social patriots can resurrect their own political platform, since the old system has not yet been destroyed. The formation of the National Salvation Front of old line Stalinists and new line Tsarists and proto-Fascists only surprises those who do not understand Stalinism. This discredited political formation can now acquire credibility through Yeltsin's banning it in circumstances when his government is itself discredited. Thus the Gaidar government has failed in its own terms.

Which social group the liberals represent, is not clear. The IMF, which is obviously not a social group, appears to be the dominant influence on the Yeltsin government. The emerging finance capitalists certainly approve of and support the government. The Gaidar government is also in the interests of the emerging criminal entrepreneurs. The government also appears to believe that the longer it can stay in power the more of a social base it will develop. It does not appear to realise two things. The first is that the social base it is forming is a tiny and despised percentage of the population. The social base for capitalism in the West, rests on a substantial number of small to medium size firms which are largely based on industry, construction, transport or trade, while in the former Soviet Union the social base is largely financiers and get rich quick merchants. The second point that they do not appear to understand is that the capitalist class in the West has to have the direct or tacit support of a substantial section of the rest of the population. The so-called middle class, composed of professionals and skilled white collar workers engaged in occupations largely absent in the former USSR cannot suddenly be called into being. Advertising, insurance, private health

schemes, the legal profession take many years to develop. Instead, the Soviet intelligentsia has watched its standard of living plummet. Many of them have lost their jobs. The Gaidar government and with it the IMF are following a policy which has little or no internal support today, tomorrow and the day after tomorrow.

### **THE VICIOUS CIRCLE OF THE REFORMS**

Rutskoi, the vice-president of Russia argued that privatisation had to precede the price rises. In that way, it could be argued, monopoly would give way to competition. The problem, however, would not go away through simple privatisation of agriculture and industry. The very large firms and collective farms would have to be broken up to avoid private monopoly succeeding public monopoly but such a step would necessarily lead to a decline in production in the initial stages of such a reform. There is also no reason to assume that private owners would want to buy Soviet type firms. Indeed it could be argued that the forms of privatisation which came into existence were simply more devolved forms of social or public ownership. The problem of monopoly was not just a question arising out of the nature of the Soviet Union. It was and is a problem arising out of the nature of modern capitalism, which has itself only limited forms of competition.

Under modern capitalism the leading sectors such as cars and computers are dominated by a few large firms such as General Motors, Ford, IBM etc. This is not accidental nor something perpetrated by evil men. It is in the nature of a highly developed division of labour. In spite of all the cartel busting operations of the various capitalist states these firms have developed various forms of collusion. Whether they are tacit or explicit is of no importance.

1. Nonetheless, limited competition continues to exist among these firms precisely because money exists and there is a limited market. The problem for the former USSR is that the relationship is circular. In order to introduce money, competition between the producers is needed but without money competition cannot come into existence.
2. In fact this is a particular example of the overall problem of introducing the market. The market cannot be introduced piece by piece because it is a system which can only function as a totality. But the market cannot

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be introduced all at once without causing both a social explosion as well as the probable total destruction of industry.

3. To introduce privatisation there has to be the prior existence of private owners of capital but there can only be capitalists, when there is privatisation. Indeed the privatisation process of 1992 is instructive.

By August 1992 Yeltsin had backtracked by effectively excluding energy from privatisation as well as the wholesale supply organisations. The latter was turned into a joint-stock company with the state holding the shares.<sup>4</sup> The obvious problem of handing over control of strategic sectors like the above under existing circumstances clearly prevented moves to privatisation. The reason lies in the nature of the emerging capitalist class. As it is predatory and parasitic it would tend to make the maximum profits under conditions where it held a monopoly, so holding the economy to an enormous ransom. Such monopolies in the West are limited in the size of their exactions by prospects of taxation, nationalisation or other long term responses. In the current situation in the former USSR there is no long term horizon. It is not just a question of perspective. The future is definitely an unknown quantity.

The voucher scheme is hardly worth discussing as the amount involved, 10,000 rubles is both trivial and becoming more trivial by the day. The effect of the privatisation laws can only mean that such enterprises as are nominally privatised will be largely controlled by their workers and managers. Given the right of workers to receive or buy shares in their own enterprises and the favourable position of managers, it is inevitable that the privatisation will only shift the nominal ownership from the state to the enterprise itself. Even in those cases where there might be a non-enterprise controller of the enterprise, little will change unless the real relations of production are changed.

In the old USSR the workers had considerable control over their labour process. With the disintegration of the USSR work discipline has also disintegrated. Capitalism cannot function without control over labour power residing in the capitalist. That, in turn, is only possible where there is both money and unemployment. Neither exist in Russia. In other words, privatisation is in fact conditional on the existence of money but money we are told is conditional on the existence of privatisation. It is interesting that

in the Ukraine, they have accepted this situation and so conceded to the workers. Work collectives have a priority right to lease the enterprise.<sup>5</sup>

### **THE FURTHER EXAMPLE OF THE REFORMS OF 1992 AND THEIR FAILURE**

The failure of the Yeltsin regime then appears inevitable, even though the stupidity of the leaders made it quicker than it needed to be. The freeing of prices simply led to ever higher prices because the monopoly suppliers raised their prices. The problem was not the high prices but the very high level of the ceiling for those prices. Given the high levels of rubles held by individuals prices were bound to jump. As there was generalised scarcity, the suppliers could raise their prices to very high levels. At those levels most workers could not buy the products. But then it did not pay the firm or Sovkhoz/Kolkhoz, to supply the products at lower prices as their input prices were already very high. The effect was to choke off supply. If the firms were competing on the basis of profits it would have been a different matter because then some firms would have cut their prices while other firms would have gone bankrupt and released their stock. But the regime could not introduce competition from above nor could it face the consequences of mass unemployment following on bankruptcies. Hence it had to stand by while firms lent money to each other and then itself lent money to the firms, when ultimately asked to do so.

The main consequences of the reforms were the complete removal of the ruble overhang by the rapid inflation and hence the destruction of the social position of a section of the intelligentsia and elite, as well as the impoverishment of pensioners. Unemployment has remained very low and wages have risen in a very uneven manner but sufficiently to avoid a social explosion. Technically, there is a measure of indexation of wages and now they are introducing indexation of savings.

Unlike Shmelev and others it seems to me that money was not introduced. Shmelev argues in favour of the reforms claiming that "at last money had started to function, even if it functioned poorly".<sup>6</sup> The whole point is how poorly it is functioning. Previously, the ruble could be used to a limited degree as a means of saving and as means of exchange. It was not a measure of value or a store of value. Today it is neither a store of value nor a means of saving. It is not a measure of value. It is functioning to a limited degree as a means of exchange in a different way from the way it did previously.

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Rubles cannot buy a whole series of goods which must be purchased using dollars, particularly in the dollar shops. Many firms will not use rubles at all preferring direct barter. In what sense then has money been introduced? In only one sense, not all goods immediately sell out when placed on the shelves. As many goods do sell out, as there is not much in the shops in the first place, and as queues remain, Shmelev can only be called an optimist. Russia still does not have money but it no longer has the old form of rationing. More people cannot buy the necessities of life and more are impoverished than before. In that sense there is no longer the same excess demand as previously. Shmelev goes on to argue that the real confiscation of savings was the most important technological success of the Gaidar team. He does not like the human and moral consequences but he considers it a massive positive achievement.<sup>7</sup> The cost, however, has been an increasingly rapid inflation. The discontent of the population shown through the large number of strikes and demonstrations over the country compelled the government to raise wages. What brought down the standard of living was the refusal and inability of firms to maintain their levels of production, under conditions where the ruble was worth even less than before. So far from introducing money, the changed form of the ruble caused a decline in production which then reacted back on the nature of the ruble, making it even less of a monetary medium than it had been. It is totally absurd to argue that money has been introduced because those who have millions of rubles can buy what they want, whereas the majority cannot.

In theoretical terms, to introduce money there must be value in the first place. That in turn requires that there be abstract labour. In non-Marxist terms this implies that there be a standard basis for costs. Since this does not exist across the economy, there is no basis for equal exchange. The only kind of exchange that becomes possible is one based on uncertainty and a recognition of the difficulty of exchange. Thus for example, it is hard to exchange shoes and shirts when the costing has no common basis between the firms and across time. Struggle as they might, the regime cannot introduce capitalism as opposed to forms of trading until the workers are disciplined and hence the whole social relation is changed. The regime knows this but cannot find a frontal way to attack the working class. It is therefore proceeding through various indirect measures hoping that it might wear down the working class to the point where it will be able to bring in the totality of measures required for capitalism.

## WHY ARE THE REFORMS SO DIFFICULT?

The reforms then are all subject to the impossible condition that they must be introduced in totality or not at all. If they are introduced in totality then the conditions for their introduction are absent, so they cannot be introduced. When they are introduced partially, the fundamental reason for this circularity becomes clear. The social relations existing in the territories of the former USSR are totally different from those of capitalism and require the conditions of capitalism for them to exist. These conditions are not just a question of technique and technology but also one of social relations.

The social relations acceptable to the population, however, exclude the real relations of capitalism. In this respect the attitudes of the population of Eastern Europe are probably no different from the views of most people in the West or underdeveloped countries. They see no justification for the existence of privilege or undemocratic forms of control. The difference is that the workers of the West are accustomed to the forms of capitalism which can only be overthrown with enormous upheaval, whereas the workers of the East do not have capitalism and cannot see any reason why they should suffer under it.

Egalitarianism may therefore be a natural human instinct which, however, finds its fullest expression in times of transition to a new social order. Various different views have been expressed on this issue, though most observers agree that the population is egalitarian. One popular view put forward by the intelligentsia of Eastern Europe is that Stalinism has made them egalitarian. This is an odd viewpoint as Stalin himself declared that it was a petite bourgeois deviation and his successors down to Gorbachev maintained the same view, even if they did not use the same words. Since the Stalinist regime was anything but egalitarian in reality, it is not a sustainable explanation. Another argument also starts from the effects of Stalinism but argues that it was the resistance to Stalinist privilege and exclusivity that made the population egalitarian. The transparent nature of the Stalinist regime made such a reaction easy to understand.

Whatever the reason for the egalitarianism, it is the basis of the impossibility of immediate change though it is not the only reason. The other cause lies in the declining nature of capitalism itself. Even though the Soviet elite and intelligentsia might embrace capitalism wholeheartedly, modern capitalism

does not have the institutions or the necessary surplus value to transfer. Today very special conditions are necessary for the industrialisation of a backward country. In fact, such industrialisation has only occurred in South East Asia, under the aegis of the United States or Great Britain. The countries are relatively small, sometimes very small, and they have had a very special combination of an occupying force or power ensuring political-economic stability and an indigenous ruling class. Without the transfer of capital from the United States, these countries would not have developed at all. That they made use of it, was a consequence of their particular history and geography.

### WESTERN INVESTMENT

The crucial reason for the untransferability of capitalism, however, is that finance capitalism remains dominant within the West. Britain and the United States can hardly transfer their own form of capitalism to any other country, when it entails crippling industry and developing powerful financial intermediaries, based on world-wide investment. Foreign investment in the USSR would require either quick returns or cast-iron security that above average profits would be made in due course. Under modern conditions, there is only one finance capitalist power, with other countries playing a lesser or more usually a dependent role. Hence the former USSR would have to be content with the destruction of most of its industry and its reduction to the role of a semi-colonial partner as before 1917.

As Germany and Japan are heavily dependent on the American market it is not very clear whether their form of capitalism would work either. The Japanese form of industrial relations requires a massive defeat of the workers, which occurred with the failure of the strikes in the 1950s, combined with an occupying power to ensure stability. The German form followed defeat in a world war combined with a massive influx of labour. Today Germany is in a crisis which is partly a result of the indigestibility of East Germany and partly a result of the same internal forces leading to the depression elsewhere in the world.

The belief, widely held in Russia, that Russia will attract Western capital, is therefore without foundation. The attitudes to foreign investment itself are different. Some Russian economists would like to see the country divided up among the Great Powers and regard this event as both necessary

and advantageous. Others do not worry about Russia being reduced to a colony because they consider that any inward investment would quickly establish local roots and Russify. It is remarkable that Russian economists should view foreign investment with such equanimity, when the effects of foreign investment in other parts of the world are widely regarded as having negative as well as positive consequences. It is, therefore, all the more disappointing to this section of the elite and intelligentsia that Western investment is not forthcoming.

### THE NATURE OF THE SOCIAL FORCES IN CONTENTION

The question is not whether the reforms have succeeded because they cannot succeed but what kind of social relations can arise under these circumstances? The present policy can be judged in socio-political terms. As we pointed out above, the first aim of the present regime is to destroy the other side, now called the patriots or red browns. The red browns have more of a social basis than the Gaidar government, but it is a discredited and decaying group. The old form of Stalinist control was disintegrating and is continuing to do so. The shift in the economy and the banning of the communist party has largely removed their basis of control. As many members of the apparatus have found themselves alternative sources of income and power, the social basis of the patriots has been shrinking. This had already begun to happen before the Gaidar government. It might, therefore, have been said that the Gaidar regime had driven a nail into their coffin but the failure of the economic reforms has provided them with a platform and support, which had not existed previously.

It remains possible for the social patriots to use their support in the secret police and army to take power, under a nationalist banner. They can then use anti-semitism and chauvinism as a means of whipping up support. In that sense, they have not yet been defeated. Furthermore, the failure of the economic measures has been such that the population may well welcome a regime which raises the standard of living by controlling prices. In this sense, the present government has not only failed to secure itself politically but has dug its own grave.

The present government has not been able to develop a social group to support its socio-economic measures. At the moment only the small group of financiers, traders and speculators give it support. It will not have the time to actually form a substantial social group in its support. It has already

been made to retreat and embrace the so-called industrialists and the political centre. Indeed the Russian elite is largely composed of elements who are involved with the direction of enterprises and it was inevitable that they would call a halt to the reforms when they found themselves threatened.

### THE WORKING CLASS

The most important question that remains is the basis for the relative *inaction* of the workers in the former USSR. Different reasons can be advanced. The usual ones advanced by "Soviet" visitors can be dismissed. They speak of the soul of Russia being used to suffering. The same argument has to be advanced for the other republics of the old Soviet Union. Others speak of the workers being taken by surprise. Still others explain the lack of political activity in terms of support for Yeltsin and trust that he will deliver the goods within the stipulated period of first 6 months and then a year. These explanations are either partial or downright idiotic.

Since the workers were unable to act before Yeltsin came to power, we have to ask if the previous reasons for their inaction still hold? Are the workers still atomised? Are the bureaucratic and secret police controls still in place? The answer in all cases is in the affirmative. Passports, labour books, personal files and the secret police remain in place. Although the regime was talking of abolishing the internal controls over residence, it has not done so. It is true that workers are no longer as afraid as they used to be. It is also clear that discipline is more lax than before. On the other hand, unemployment is rising and even if few workers have lost their jobs, there is a general threat that many will lose their livelihoods. The most important objective factor remains the persistence of the secret police. It is not clear how they are functioning though it would appear that they are operating in a more subtle way than previously and almost certainly in a more effective manner than before.

The second reason for the inaction lies in the lack of an alternative. No different course to the present regime seems possible. Socialism has been either discredited or made to appear utopian. The alternative appears to be Yeltsin. Yeltsin declared himself against privilege and the old bureaucrats and the workers rallied to his banner as a result. He is now largely discredited except as a bulwark against the old regime. The workers demanded immediate control over their product and Yeltsin and the

liberals agreed to the demand by incorporating it into their own market programme. While the present government opposes workers' control, privatisation could lead to a large measure of control falling into the hands of workers if workers demand it. It is interesting that the privatisation programme is effectively ambivalent on this question. Inevitably it is an arena of struggle.

In fact, workers have struck over the length and breadth of the old USSR but the strikes have not been co-ordinated. Workers today are engaged in a struggle to establish their control over production itself in order to avoid bankruptcy and unemployment. On the one hand, the elite want privatisation to take the form of individual owners who will take the responsibility of making firms profitable by firing workers on a large scale. On the other hand, the workers, often assisted by managers, who are fearful of losing their own positions, want and need to establish their own control over production in order to maintain their own situation.

Workers are struggling today in defence of their jobs, conditions of work and pay. The overall strategy is not clear and there is no left party, other than the Party of Labour, which has a Parliamentary and market orientation. There is no credible theory on the nature of the old Soviet Union or the way forward. Under these conditions, it is impossible for workers to act nationally, and politically. The disintegration of the old system and elite pressure is compelling them to defend themselves and it is only a matter of time before they do begin to act. First, however, they must overcome their own atomisation. Secondly, they must have a theory of change and of the new society, and thirdly they must have a party. Their objective circumstance remain extremely propitious for mass working class action. The elite wants to break up the huge concentrations of the working class in its privatisation programme. Nonetheless, it is extremely unlikely that they will succeed. It can only be a matter of an historically short time before the conditions for workers action establish themselves.

## FOOTNOTES

1. See my article in *Studies in Comparative Communism*, September 1992, pp 242-246.

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2. The prize for the best and most unbelievable attempt to justify the reforms must go to the authors of the Supplement on Russia in the *Economist* of 4th December 1992.
3. Peter Oppenheimer: 'Economic Reform In Russia', *National Institute Economic Review*, 3/92, August 1992. pp 48-61.
4. *Moscow News* 41,1992, p.9 'The State keeps the big hunks in the privatisation game'
5. *Moscow News* 41, 1992, p.10 'Ukraine's counterpart of the voucher will not be for sale'
6. 'The Current Situation in Russia', Nikolai Shmelev, *Moscow News*, no 27, 1992, p.10.
7. *ibid.*