

**SOCIOECONOMIC SYSTEMS OF RUSSIA
SINCE THE 1850s**

by Ernest Raiklin, Ph.D.

It ain't the roads we take; it's what's inside of us that
makes us turn out the way we do.

O. Henry, *The Roads We Take*

Socioeconomic Systems of Russia since the 1850s

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Preface

Within a broad historical framework of the last 150 years, in its socioeconomic development Russia went through five major stages.

The first was a pre-Soviet stage of the 1850s-1917 Imperial Russia and, after that, of the Republican Russia of the February 1917 Revolution. This was characterized by a tendency of the transformation from late *mixed feudalism* into *democratic mixed capitalism*.¹

The second was the 1918-1921 period of Soviet Russia after the October 1917 Revolution. At that time, the “*war-communism*” Soviet Russia of predominantly *state feudalism* was pregnant with *authoritarian mixed capitalism*.

The third was a time of the *new economic policy*. During 1921-1928, Soviet *authoritarian mixed capitalism* had been evolving into *totalitarian state capitalism*.

The fourth was the 1929-1991 Soviet period. This was a time of the *Stalinist model of totalitarian state capitalism* whose very development was laying down conditions for its own destruction and creation of *authoritarian state capitalism*.

Finally, from 1991 there has been a post-Soviet movement of Russia from *authoritarian state capitalism* to *authoritarian mixed capitalism*. Thus, the socioeconomic change which began in the nineteenth-century Russia continues in the twenty-first century.

Obviously, a concrete and detailed analysis of these socioeconomic forms requires a multi-volume work in the field of economic history. However, it is not the task of this book to write new pages in the branch of social sciences. Our aim is not an economic history but an economic theory as a socioeconomic model.

Specifically, our first goal is to reinterpret theoretically the most general trends in the socioeconomic development of Russia of the last 150 years when the country embarked on the road to capitalism. Without such an endeavor, it would be impossible to achieve our second purpose: understanding the socioeconomic path Russia is now taking and attempting to predict the most immediate outcome of such an advancement.

To achieve these two objectives, the book is divided into nine parts: Part I introduces the reader to theoretical instruments and methods of the analysis; Parts II, III, IV, V, VI, VII, and VIII, deal with each of the five stages of the socioeconomic development of Russia; and, finally, Part IX, given the logic of the socioeconomic development of Russia for the last 150 years, attempts to foresee its next stage.

The book is uneven in its coverage. The major portion of the book is assigned to Parts V, VI, VII, and VIII.

The book partially incorporates various articles and manuscripts which, at different times, have been written in English and Russian by the author. These, in turn, have as their foundation works of very many great scholars on the subject of socioeconomic development in general and that of Russia in particular. The reader will be familiarized with their names and their contribution to the field of knowledge in the process of reading the book.

This book would have never been started without the moral encouragement by the ACTR (American Council of Teachers of Russian Language and Literature) and, especially, by one of its directors, Prof. Timothy E. O'Connor. And this book would have never been finished without the psychological and family support of my wife, Augusta.

Notes to Preface

1 As they immerse themselves in reading the book, our readers will discover the meaning of the “isms” as applied to the various stages of Russian development.

PART I
THE BASIC ANALYTICAL CONCEPTS, METHODS,
AND PHILOSOPHICAL REASONING

Chapter 1

The Basic Analytical Concepts: A Preliminary Observation¹

We all operate with many concepts as if they were axioms. We do not want to take the trouble to check whether our interlocutor is of one mind with us on the content of the notion used in communication. It is because the meaning of the term is presumed to be understood by others in the same way as by us.

The lack of the need for a clarification very often results in misunderstanding, confusion, aggravations, name-calling, and other misdeeds of mis-communication. This is especially true for the notions dealing with the social sciences of which economics is a very important branch.

The task of this chapter is to *preliminarily* clarify the meaning of those very general economic concepts which will serve as analytical instruments and which will be analyzed in a greater detail in the book. Among them are the notions of “property,” “actual property,” “legal property,” “private property,” “public property,” “possession,” “market,” “planning,” “capitalism,” “socialism,” and “communism.”

Property

Property is, first of all, a thing. This might be the railroad the nation operates, the park the state maintains, the hospital the county supervises, the school the city controls, the factory the corporation manages, the house or apartment the household lives in, the land the farmer cultivates, the book the student reads, and the meal the individual eats.

But “property” is not just a thing. From the above examples you can see that to serve as a property, the thing presupposes the existence of people with their claims to the thing. Where there are no people, there are no claims, hence, there is no property.

Assume a desert island not yet discovered by people. The island and its resources are then just “things,” not a property. However, as soon as they are located and laid claim to, they become a property.

Thus, “property” is an economic relationship between people with regard to the thing. As such, the economic relationship is called either *ownership* or *possession*.

Ownership

As ownership, the concept of “property” (or “property relations”) implies that the thing is appropriated according to the claims to it and might be disposed of according to the decisions made by the appropriator. The latter is called the *proprietor*, or the owner, of the thing.

Actual versus formal property (ownership). However, there exists a substantial difference between actual ownership and formal ownership.

In the first case, the appropriator of the thing is its real proprietor, the owner in substance, whether the ownership is accepted by the law or not. In such a case, the notion of property (ownership) can be explained “only by the critical analysis of *political economy* which includes

... the *relations of property* [ownership] not in their *legal* expression as the *relations of right*, but in their real form, that is, as the *relations of production*.”²

In the second case, the owner of the thing is its titleholder not in reality but only legally as proclaimed by the law. Here property (ownership) is defined as “a concept of intangible and incorporeal property [ownership] arising solely out of rules of law controlling transactions.”³

Table 1.1 makes the difference between the two more comprehensible.

Table 1.1
Actual Versus Formal Property (Ownership)

Examples	Owned:		
	By whom?	Actually?	Legally?
A book you bought in the bookstore	You	Yes	Yes
A book you checked out from the library with no intention to return	You	Yes	No
A book on the shelf of the library of the collective agricultural farm in Russia of the Soviet period	Members of the farm	No	Yes

The first two cases are self-explanatory. The third needs an explanation.

Collective agricultural farming in Russia of the Soviet period was one of the types of farming in the country. According to the Soviet law, that is, formally, the collective agricultural farm was a

mutual property of its members. In reality, it was owned by the Soviet state.

Social scientists cannot deal with concepts as they should be in legality. If they (social scientists) do, they might find themselves studying a “situation [where] a man may have a legal title to a thing without really having the thing.”⁴

Social scientists must deal with concepts as they are in actuality. Therefore, social science ought to treat the notion of “property” as the actual, real ownership, regardless of its approval by the law (and that is how the concept will be treated throughout the book).

Private versus public property. The next question which must be tackled here is as follows: Who might play the role of the appropriator? This question leads to the notions of *private* and *public property (ownership)*.

This matter is not as simple as it sounds. You, of course, would have no problem in defining the relationship between the two types of property. You would say that “private” is not “public” in the sense that the former is much narrower than the latter.

But then go further and ask yourself: What is “private property”? What is “public property”? You would be surprised to realize that you do not have immediate answers to these questions; and when you have one, you would not be very sure of your answer.

So what would your answer be? In all probability, it would be like this: Private property is individual property. That is, it is the case when things are owned by individuals.

You would not be alone in such an assessment. Thus, according to the mainstream economist, private property is *individual* property as well:

A property right for me means some protection against other people's choosing against my will one of the uses of resources, said to be “mine”... the idea of scope of private property rights is expressed as an assignment of exclusive authority to some individual to choose any use of the goods deemed to be his private property.⁵

Let us see to what extent you are correct in your definition of private property. Take your own family. Property is held in common by each of its members. To the members of your family, it is their *public* property. However, to the members of other families it is your family's *private* property, since other families are excluded from your family's ownership.

Or, say, you are a Navajo Indian. Collectively all members of the Navajo nation, including yourself, are owners of that piece of land in Arizona on which the Navajo nation is located. Thus, this land is a tribal property from the point of view of Navajo Indians. For them, therefore, it is their *public* property. But for the Indians of

the Hopi nation, which is a close neighbor of the Navajo nation, the property of the latter is the other tribe's *private* property.

We can extend this analysis to various countries, regions, etc. As it can be seen, "private property" and "public property" are not absolute concepts. They are relative in the sense that they depend on the position of their observer. What is considered "private" from one angle, is regarded as "public" from the other standpoint. In particular, all depends on the extent of the term "public."

Since the same property is simultaneously private and public (with the exception of the case when the owner of a thing is one individual), each may take on a variety of forms. Thus, from the point of view of all those who are excluded from the ownership of a particular thing, its private property might take on the following forms.

It is an individual, family, corporate, regional or a governmental form of private property if an individual, family, corporation, region or government is its owner while other individuals, corporations, regions or governments are excluded. And, finally, it is a people's, or national form of private property if it is owned by a particular nation while other nations are excluded.⁶

At the same time, from the point of view of those who are included in the ownership of a particular thing, its public property can be of a variety of forms. It is a family form of public property for the members of a family ("public") which owns the thing. In the eyes of the stockholders of a business corporation ("public") as the owner of the thing, it is a corporate form of public property. For the residents ("public") of a locality, state or a country as a whole, their ownership of the thing is a local, state or a national form of public property.

Assume that you have come to agree with the notion that private ownership cannot be reduced to individual property, that private property has a multiform expression. Suppose, however, that you disagree with the *relativity* of the meaning of private and public property (ownership). You insist on your previous *absolute* distinction between public property as embracing a concept which is broader than that of private property.

But in this case be ready to answer the following question: How much broader? If private property is understood as individual property, then would any type of ownership, which is broader than individual property (the narrowest one), be considered public? If private property takes a wider form of the ownership by a social group, can we say that public property is the ownership by any part of society broader than a social group? And what is this portion of society which is broader than a social group?

Say, you identify the society's part which is larger than a group as society in whole. Then you can state that "the private nature of property does not prejudice its *individual* or *collective* character. A

property can remain private when it is owned by a group as long as that group does not compose the whole society.”⁷

Then another question arises: What do you mean by “the whole society?” We would not be far from the mark in guessing that for you, “the whole society” is equated with government so that you would define public property as government (or state) property.⁸

But is this so? If the relative nature of private and public property (ownership) is recognized, then from this follows that government (federal, state or local) ownership is not necessarily just *public* property (for those who are included in this country, state or locality); it is *private* property as well (for those who are excluded from this country, state or locality).

That the existence of government property does not automatically imply the presence of public (in the sense of national) ownership is especially pronounced for the countries with the Soviet-type economic systems (frequently called “socialist” or communist”). Such systems are characterized by the federal government ownership of all the major productive resources of a country, one-party rule and mandatory central planning. Here the unrestrained and unchecked federal government (state) of a “socialist” country, not its people, holds in its hands and disposes of the property of the nation. To the managers of state enterprises, industries and economic regions, who supervise, control and manage the nation’s economic resources and who in this capacity are called the government bureaucracy, this property is *their* public property. To the rest of the population, this property is private property belonging to the bureaucracy from which the non-bureaucratic people are excluded.

Therefore, as private property cannot be reduced to individual property, public property cannot be reduced to state property. It needs to be pointed out again that the problem can be solved only if “private” and “public” are looked upon not as absolute but as relative (inclusion/exclusion) concepts.⁹

Possession

It was emphasized earlier that the concept of property as an economic relationship in the book will be equated with the concept of actual (real) ownership. But recall that actual property relationships might also be expressed in the form of *possession*.

To understand the meaning of this term, imagine that your unmarried and childless uncle dies and bequeaths to you a factory producing clothing. As the sole and actual owner of the factory, you now confront a problem which you probably had never confronted before: how to run your firm.

In all likelihood, you now sense the difference between property (ownership) and possession. Your factory will be a dead physical unit unless its machinery, equipment, tools, materials and

labor are put into operation. Hence, ownership is the possibility to put things in action.

But as soon as all these factors are united in the process of production of clothing, your factory becomes animated and alive. Putting things together in order for the system to function is called *possession* (use).

Hence, possession is the realization of the possibility offered by ownership. Hence, while ownership is a passive property, possession is a functional, active property.

Assume for simplicity that you have two choices: to run the factory either by yourself or by a hired manager (or a management team). Thus, in the first case ownership and possession coincide, since both are personified and performed by you as the owner. In this case, the owner-manager is at the same time the possessor.

In the second case, however, ownership and possession split into two different economic relations. In this case, on the side of ownership there is you, the owner-non-manager, and on the side of possession there is a non-owner-manager. Here, we have the owner-non-possessor confronting the non-owner-possessor.

Like property ownership, property possession can be expressed in different forms. For instance, there might be an individual, family, corporate or government (bureaucratic) possession when things are run by an individual, a family, managers of a corporation or by different levels of the government bureaucracy.

The market

Economic theory teaches that a market must consist of two sides: demand and supply. It further explains that this principle is not universal. It only applies to the specific circumstances of *perfect competition* under which profit-maximizing price-quantity equilibrium is achieved at a point where $P=MC$.

Since “the real world does (not) fulfill the assumptions of perfect competition,”¹⁰ the theory turns its attention to what it calls *imperfect competition*. Under the conditions of imperfect competition firms attain profit-maximizing price-quantity equilibrium if they operate at a point where $MR < P$ and $MR=MC$.

Here, there is still the demand curve. But the theory implicitly admits that markets are imperfect because they lack clearly defined supply curves. However, the theory does not suggest that, as a result, there are no markets at all. Thus, markets, perfect or imperfect, continue to exist as long as the economy is based on social division of labor and consists of private producers whose motive is profit maximization.

The term “freedom” is often used “in the sense of freedom from social control.” Thus, free enterprise, whose “essential part ... is the attempt of every businessman to build up his own monopoly,

extending it wherever possible and defending it against the attempts of others to extend theirs,"¹¹ lies at the heart of the market system in general.

In essence, this view holds that the theory of markets is a theory of *free* markets, of the interchange between *free* economic individuals, *regardless* of the degree of market imperfection. Hence, according to the theory, markets without such an individual economic freedom cease to be markets at all.

Arguments about the market nature of Soviet commodity production

This type of reasoning denies the existence of markets, for instance, in Soviet-type societies. The argument concentrates on the apparent dichotomy between central planning as a necessary element of the former Soviet socioeconomic system and the market as an essential part of that type of the socioeconomic structure to which industrial countries, like Japan, France, Sweden, the United States and others, belong.

This attitude to the former Soviet socioeconomic structure as predominantly non-market in nature can be explained by the following three factors.

First, the reduction of private property to individual property. In the previous section on property as ownership and possession, it was shown that the rejection of the notion that private ownership might take many different forms, including state property, is false.

Second, the equation of a specific framework of each market's operation, or relatively unrestrained markets, with the concept of the market in general. It is argued that "[a] socialist market [was] a government-regulated market,"¹² and, therefore, not a free market. But this, however, did not make it no market at all, in the same way as man as a slave does not cease to be a human being.

Finally, the failure to recognize the fact that the same economic institution (phenomenon) might have more than one name: "market," in one case, "commodity production," in the other, depending upon what particular school of economics utilizes it.

The non-Marxist economist (be he of a neoclassical, Keynesian, institutional or monetarist creed) calls this institution a "market." Jevons, a great neoclassical economist, for instance, writes: "... by a *market* I shall mean much what commercial men use it to express ... so as to mean any body of persons who are in intimate business relations and carry on extensive transactions in any commodity."¹³

For the Marxist, on the other hand, the institutional arrangement is "commodity production." Thus, according to Lenin¹⁴ who, when he was young, was in the mold of the traditional Marxism,

By commodity production is meant an organization of social economy in which goods are produced by separate, isolated producers, each specializing in the making of some one product, so that to satisfy the needs of society it is necessary to buy and sell products (which, therefore, become commodities) .

It is impossible to detect any difference in the essential message brought by the two expressions. However, it can be argued that Lenin wrote this before he came to power, before the advent of “socialism” in Russia. But let us listen to what on the subject says a Soviet economist of the late Soviet Union:¹⁵

Commodity production and market relations have been characteristic also of socialism. These relations are by no means inherent only in a capitalist economy. Commodity production and market relations have come about over centuries, commencing long before the rise of capitalism in the period of the breakdown of early communal systems... .

Without doubt the full development of market relations occurred under capitalism, when these became universal... .

The rule of commodities under capitalism, however, cannot negate the indisputable fact that commodity production and money existed before capitalism and exist under socialism as well. Commodity production and market relations arise when producers are individualized and there is a division of labor. In such conditions goods are exchanged to meet social needs. Under socialism the division of labor is well developed and deepens and widens further according to the degree of development of the productive forces.

Thus, the Soviet economist accepts the commodity-producing, or market, nature of the Soviet economy.¹⁶ The book also subscribes to the notion than an economy where goods and services are produced for exchange and whose participants recognize its commodity-producing nature cannot be anything but a market economy.

Arguments about the character of the Soviet market

One may wonder, did not the Soviet market, or commodity production, differ from its, say, French, Japanese or American counterpart? Is it not true that, while the Soviet economy (and, hence, one of its essential institutions, the market) was *governed* by *mandatory* central planning, the French and Japanese economies (and, hence, their markets) are *regulated* (the French, to a greater extent) by a milder and more flexible form of *indicative* central planning,¹⁷ and the American economy (and, hence, its market) is influenced by even weaker and more complaisant fiscal and monetary policies of the federal government? Does this not mean that the principal language by which buyers and sellers communicate in the market, the price of the product, is negotiated

more or less freely in the American, Japanese and French markets, whereas the major voice which was heard in the Soviet Union was the voice of the state, the owner of the means of production (capital goods) and the supplier of the products, which, therefore, decided upon the price of the products offered to buyers?

Of course, in all these respects the Soviet market differed from the American, Japanese and French markets.

At the same time, it is an undisputable fact that, even within the free market system, there is a continuous need for and exercise of *microeconomic* planning on the part of individuals, firms and economic sectors and *macroeconomic* planning on the part of governments. And, while the major difference between the functioning of the Soviet market and its American, Japanese and French peers at the macroeconomic level lied in the *character* of planning, at the microeconomic level where markets actually operate there was no difference: in a very Soviet" fashion, the planning decisions made by managers of the Soviet, American, Japanese and French firms were mandatory for all participants in microeconomic markets.

So markets are a reality of all modern economies, whether these economies are labeled "capitalist," "socialist," or "communist." Hearing this, you are very surprised: you have been taught that markets can exist only under capitalism. Therefore, let us continue our very preliminary arguments.

Soviet labor and consumer goods markets. Let us look at the blue-collar or the white-collar worker in "socialist" Russia of the Soviet period. He is employed by the state (government) enterprise and paid wages. Although the amount of his money wage is dismally small as compared to what the worker of his qualification and experience might get in the United States, the difference between the two is in quantity, not in quality. For in essence, both are in the labor market where they sell services of their labor in exchange for money wages and both are wage earners.

But when the Russian worker earns his money income, what does he do with it? He finds himself in the consumer goods and services market in the same way as his American counterpart does. Both are now consumers who purchase goods and services needed by them and their families. Given his much smaller earnings and the meager variety of consumer products (goods and services) offered in the retail enterprises, the Russian worker will have a tiny fraction of the purchasing power of the comparable American worker. But again the difference is *quantitative* only. *Qualitatively*, both are consumers who, by and large, can obtain the necessities of life by buying them in the consumer goods market.

The Russian state managers, or the bureaucrats, of the Soviet period also work for incomes, as corporate managers in the United

States do. These bureaucrats also need to purchase goods and services, just as their counterparts in the United States do.

Thus, in “socialist” Russia of the Soviet period as well as in the “capitalist” United States there existed markets where people sold services of their labor bought by businesses (state and non-state) for money wages, salaries, and some perks. In addition to labor markets, the population in both countries spent at least a portion of its income to purchase goods and services from businesses (state and non-state) in the consumer (finished) goods market.

Capital goods markets

It is also true that labor and finished (consumer) goods markets were supplemented in both countries by intermediate, or capital goods, markets, that is, by institutional arrangements between buyers and sellers of business buildings, machinery, equipment, tools, materials, etc.

People usually have no problem in accepting this statement with regard, for instance, to the United States. They know that in that country individuals can freely trade capital goods for money. Not only the government bureaucracy but any person in the United States can own a truck, a tractor, a factory, a restaurant, a store building, an assembly line, and many other capital goods.

But people have a great deal of trouble swallowing the assertion that things went exactly the same way in Russia of the Soviet period. In their skepticism people are correct: things were not exactly the same. Nevertheless, although special and limited, capital goods markets could be found in Soviet Russia as well.

As one group of the productive resources, capital goods in Soviet Russia were owned, with rare exceptions, by the government bureaucracy. But recall that in Soviet Russia there existed two phenomena: the social division of labor and the functional division of property, or possession.

The fragmentation of labor within the Russian state bureaucracy of the Soviet period. Labor specialization in Soviet Russia affected all aspects of the country’s economic life. This was also true for the fragmentation of labor within the Russian state bureaucracy of the Soviet period.

The Soviet bureaucracy was built like a *pyramid*. Therefore, in its function of running the country, the Soviet bureaucracy was differentiated *vertically* as well as *horizontally* in the following manner.

Roughly, the *vertical* stratification of labor of the Soviet bureaucracy reflected the *scales of the economic activity* of its various factions. Thus, at the bottom of the pyramid there were the managers (directors) of the state enterprises. They ran state factories, mills, mines, agricultural farms, retail and wholesale

outlets, and other enterprises where goods and services were produced and distributed.

In the middle of the pyramid one would have found the managers of the economic associations. Since these managers appointed the managers of those enterprises which produced similar products within the similar branches of the national economy, the managers of the economic associations supervised their enterprises.

At the top of the pyramid there was the management of the ministries. It was responsible for the appointment of the managers of the state economic associations. It ran the entire branch of the national economy. For example, the agricultural ministry directed the development of Russian agriculture; the ministry of light industry controlled and managed the production of such items, as clothing, shoes, furniture, etc.

The *horizontal* differentiation of labor of the Soviet bureaucracy reflected the *character of the economic activities* of the latter's various parts. For instance, the agricultural, trade, and industrial managers interacted with one another.

The fragmentation of possession within the state property. The existence of the vertical and horizontal differentiation within the Russian bureaucracy of the Soviet period had brought about the vertical and horizontal stratification within the bureaucratic possession as well. This means that, given the social division of labor and the functional division of state (bureaucratic) property, or possession, the economic system of Soviet Russia could have operated only when pieces of the national wealth were possessed (used) by various vertical and horizontal layers of the state bureaucracy.

This analysis provides us with the tools necessary to answer the question of the capital goods markets in the country.

Assume a factory producing tractors for Russian agriculture of the Soviet period. The relationship between the manager of the state tractor factory and the manager of the state agricultural farm is obviously the relationship within one and the same state (government) ownership. But each manager is the possessor of a part of the state property. Thus, from the point of view of each manager, he confronts his counterpart as an independent owner. Hence, in his eyes, the tractor is not simply transferred from the tractor factory to the agricultural farm. The tractor has a price tag on it. Within the system of social division of labor and functional division of property, the tractor is traded by the tractor factory for the agricultural physical product by the use of money.¹⁸

Of course, no individual *outside* the state can perform such an operation. Non-state entities are allowed neither to produce nor to sell nor to purchase tractors. This manifests the peculiarity of the economy of the former Soviet Union.

Such a distinction is further magnified by the fact that the relationship between the two state enterprises takes place under the order and supervision of the higher economic bodies to which enterprises belong. Yet within the general state ownership the actual transaction between independent from each other enterprises takes place in the manner not different from that of firms in the United States.

Land markets

A factory can be built, demolished or transferred from one place to another. Machinery, equipment or a tool might be produced, disassembled or moved from one location to another. Thus, either a prospective owner (possessor) might be brought to a capital good, or the capital good might be brought to its prospective owner (possessor).

Unlike capital goods, plots of land are neither reproducible nor transferable. That is, while prospective owners (possessors) can come to a plot of land to own or possess it, the plot of land, as a rule, cannot be created and physically transferred from one owner (possessor) to another.

In the “capitalist” United States, land, with some exceptions, might be owned or possessed by different types of prospective owners or possessors, including various levels of governmental (federal, state and local) and non-governmental entities. Here, where land is bought or sold by changing titles to it, the fact that plots of land cannot be reproduced or cannot be transferred from one location to another, has no bearing on the existence of land markets.

In “socialist” Soviet Russia all land, without any exception, belonged to the state, that is, to the bureaucracy. Together with the two factors just emphasized (cannot be reproduced and cannot be transferred), this created an appearance that in “socialist” Russia there was no place for land markets.

Such a conclusion would be correct if not for the presence of vertical and horizontal varieties in the bureaucratic possession of land. These variations could have not but caused a specific relationship to land ownership in Soviet Russia. The existence of such complicated economic connections between ownership and possession brought about a potential possibility for the Russian “socialist” land market.

In other words, we might make the following preliminary statement: land market potentiality existed in Soviet Russia. This was caused by the fact that the state as the owner of land represented by the highest central bureaucracy collected land rent in the form of *turnover taxes* from agricultural and extracting industries’ managers.¹⁹

But land rent is the price of land. If there is the price of land, the latter can be traded in the market. However, under the real Russian “socialist” conditions land could not be bought neither could it be sold.

So the question of land markets in Soviet Russia is an extremely complex one. We cannot provide an unambiguous (obviously, “potential land markets” is an ambiguous term) answer to this question now. A solution to the problem has to wait till that time when we come back to the question in a chapter about land rent in Soviet Russia.

Planning vs. market

You have already been aware of the fact that, together with state property of the means of production and land, another major element of “socialism” in Soviet Russia was central planning. Also, you have been taught that, in the economy based on the system of central planning, the problem of what, how much, how and for whom to produce is predominantly resolved by the decisions made by the planners, not by the market.

In this, as you have been told, lay the difference between the economy of Soviet Russia and the economy, say, of the United States, where the major portion of production of goods and services is determined by the market forces. Supposedly, as it was pointed out earlier, the dichotomy between planning and the market then serves as the strongest argument against the market nature of the “socialist” economy of the former Soviet Union.

The implicit assumption made in such a contention is that, since planning and market belong to the same organizational level, they are *comparable*. But they are *not*, and let us see why.

Planning is an intention, a determination, a desire to act with a clear future purpose in mind. Planning, therefore, is a preparation for and a possibility of action.

The market is an institution where the action takes place. The market, therefore, is the framework within which the intention is realized.

My contemplation to buy a bicycle at a certain price does not automatically imply that I will actually purchase it. My intention can be realized only if I find someone who is willing to sell the bicycle at the price I decide to pay for it. This can be done only in the market.

When the central Russian bureaucracy decides to build a factory, it is planning. The factory will be actually built when the central bureaucracy procures material, equipment, tools, and labor, paying for them with money. This takes place in the market.

Since, as it was pointed out earlier, all modern economic systems operate within the market structure, in reality, what is contrasted here are not planning and the market. Rather, what is

compared here are the character and the scope of planning in the “socialist” (“communist”) economy, on the one hand, and in the “capitalist” economy, on the other.

The difference between the two might be stated as follows: The state ownership in “socialist” Russia of the Soviet period resulted in the existence of the strictly regulated markets. Here, therefore, mandatory and direct macroeconomic planning of the economy as a whole by the central government bureaucracies took precedence over microeconomic planning of the parts of the economy by the lower bureaucratic levels.

The variety of ownership forms in the “capitalist” United States presupposes the existence of the markets that are much less regulated and much freer from the government bureaucracy. Under the circumstances, microeconomic planning of the parts of the economy by the managers of firms plays a more important role than mild and direct macroeconomic planning by the monetary and fiscal authorities of the country.

Capitalism

When asked to describe the concept of capitalism, economics textbooks produce the following explanations. We will list and discuss them in order of the importance attached to them by these textbooks.

Private property

First, they equate capitalism with private property. Since by private property the economics textbooks understand individual ownership, it appears, therefore, that for them capitalism is reduced to the activities of individuals who are the owners of productive resources and, first of all, of the means of production. That such a definition of capitalism is very insufficient can be seen from two examples.

Let us take a historical example. For centuries, before capitalism had evolved, mankind experienced slavery and feudalism. In addition to the state and the church, economies of these pre-capitalist systems to a large degree were based on individual private property (ownership). Slaves were the major productive resource owned by individuals in slaveholding societies. Under feudalism, this was land. Despite the existence of private property in its individual forms, neither slavery nor feudalism can be equated with capitalism.

Let us now look at the modern world. From the section on property we know that private property (ownership) and public property (ownership) are relative concepts so that private property (ownership) might take a variety of forms of which the individual is just one form. In addition, the experience of Soviet-type societies

where the predominant type of private ownership is the state ownership shows that it is inadequate to reduce private property to individual property.

The framework of markets

The second characteristic of capitalism offered by the economics textbooks is that of the system of private property (ownership) operating in the framework of markets. Again, markets are not a peculiar feature of capitalism.

In slaveholding societies, slaves were traded in slave markets. In feudal societies, the feudal lords traded surpluses of their agricultural products in exchange for luxuries, and the free craftsmen traded their products for that of the peasants in product markets.

The range of the markets' functioning

The economics textbooks provide the third feature of capitalism. It is claimed that markets in modern capitalism are not what they were under the conditions of slavery or feudalism. It is said that in the countries where capitalism exists, markets are widespread, penetrating into very many aspects of the economy.

It is, of course, true that markets have an immeasurably greater application in modern capitalism than in the antiquity with its prevalence of slavery or the Middle Ages with their predominance of feudalism. The economies of these pre-capitalist societies were by and large self-sufficient. That is, what was produced was mostly destined for the consumption of the producer himself or of his master. In the latter case, when the producer had to produce for his master as the slave did for his slaveholder or the peasant did for his feudal lord, the portion of the producer's product was appropriated by the master not through exchange but by the means of a brutal force.

But production in the countries of the modern world to a very great extent takes place not for the consumption of the producer but for others by the means of exchange. All modern non-traditional societies, whether they are called "capitalist," "socialist" or "communist," use markets to a considerable degree.

The character of markets

The fourth element of capitalism as presented by the economics textbooks is that capitalist markets, to a large extent, are economically free. As it was emphasized in the previous sections of this chapter, the textbooks understand the economic freedom of capitalist markets in terms of their negative relation to the government (state). That is, it is stressed that the market players of

capitalism are predominantly non-governmental entities. The latter, as we recall, are equated with private entities. These, in turn, are equalized with the individual form of private property.

Hence, according to the textbooks, markets are “free” under capitalism because capitalist buyers and sellers are primarily private individuals. The automatic inference from such a conclusion is that markets were “unfree” under “socialism” (“communism”), for here the dominant figure of the buyer or the seller was a governmental agency.

Where, as the textbooks insist, there are no independent individual buyers and sellers, free markets do not exist. Hence, where there are no free markets, there must be no markets at all. The latter, according to the textbooks, is the case of “socialist” (“communist”) societies.

Such a statement is misleading. The mistake obviously originates from the confusion of private property (ownership) with individual property (ownership) and, thus, from the inability to recognize that individual property is simply one of the forms of private property. Governmental property (ownership) under “socialism” (“communism”) was another form of private property (from the point of view of those who were excluded from it).

But recall that under “socialism,” just like under “capitalism,” individual buyers were the dominant players in consumer goods markets, and individual sellers were the exclusive players in labor markets. For them, these markets were relatively free. Hence, the primary emphasis on the absence of private buyers and sellers in “socialist” (“communist”) societies points in the direction of capital (means of production) and land markets.

We remember that in these societies private individuals outside the state (bureaucratic) sector of the economy were not allowed to trade capital goods. In this sense, that is, from the point of view of those *outside* the state sector of the economy, capital goods markets under “socialism” (“communism”) were not free.

But we also recall that in these societies private individuals, although under the watchful eyes of the central authorities, traded capital goods within the state sector of the economy. They did that in their capacity as managers-possessors of various parts of the total pool of capital goods collectively owned by the bureaucracy as a whole. In this sense, that is, from the point of view of those *inside* the state (bureaucratic) sector of the economy, “socialist” (“communist”) markets were free markets.

The matter becomes more intricate, as it has been pointed out earlier, when we turn to the question of “freedom” of land markets in “socialist” (“communist”) societies. It is only here where no actual trade of land took place, although such a possibility was created by the presence of the land rent. So it is only in this case we can talk about the absence of free land markets for the simple

reason that in Russia of the Soviet period no *actual* land markets existed.

In any event, the fact that under “socialism” (“communism”) the state (the bureaucracy) played a role of the most important seller of consumer goods and services, the most important buyer of the services of labor and as the sole distributor of capital goods and land cannot serve as an argument against the market essence of economies of this type.

As we know from economics, market structures might be looked upon from different angles, including that from the point of view the number of sellers and buyers in the market. In this respect, at least theoretically “capitalism” can be assumed operating in the markets where there is only one seller or just one buyer or both at once, regardless of who this seller or buyer is. From such a view, the overwhelming role which the state might play in consumer goods markets as the seller of goods and services, in the market of labor as the purchaser of labor services, in land and capital goods markets as the seller and /or as the buyer, although makes these markets governmental (state) in their character, that is, “unfree” to the outsiders, does not prove the absence of “socialist” (“capitalist”) markets in general.

Political democracy

Sometimes the economics textbooks attach a fifth character to modern capitalism. They define it as a free market economy based on private property (ownership) and operating within the confines of political democracy.

According to this view, the political freedom which people in capitalist countries enjoy in addition to their economic freedom, constitutes a necessary element of capitalism. Thus, again, mild and humane “capitalism” of the Western industrial world is contrasted with dictatorial and cruel “socialism” (“communism”) of the countries with the Soviet-type systems.

But if we turn to history, we will discover that capitalism does not have to wear the democratic garment. Mussolini’s Italy, Hitler’s Germany, Franco’s Spain, Taiwan, Singapore and South Korea until recently, Pinochet’s Chile, and many other countries serve as good examples that capitalism might function without the political freedom.

So what is the essence of capitalism?

The social division of labor, the social division of property (that is, private ownership in a variety of forms), exchange and the widely spread and developed markets (whether economically free or unfree in their relation to the government) create the conditions

necessary for capitalism. But even the combination of these aspects is insufficient for the actual existence of capitalism.

Let us see why this is so. When a craftsman, by the use of his own labor, tools and materials, produces and then sells his products (shoes, dresses, hats, and so on) for exchange with others, he operates within a market economy. However, it is not a capitalist market economy but what Marx called a *simple commodity production*, or a *simple market economy*.

The sufficient condition for the existence of a capitalist market economy, or capitalism, is provided by *wage labor*. It can be said that the substance of capitalism is wage labor. Without the people selling services of their labor for wages there is no capitalism.²⁰

At the same time, it is also true that wage labor itself can become a common and regular economic phenomenon if the four necessary conditions listed above are in order: the social division of labor and property, exchange, and the penetration of markets into all fields of the economic life of society, either actually or potentially.

On the significance of wage labor for capitalism the economic textbooks are rather mute. Their stress on private property understood as individual property, on markets understood as non-governmental institutional arrangements between individual buyers and sellers leading to economic freedom, and on the institutional framework of political democracy resulting in political freedom,—this emphasis provides a distorted picture of the modern economic reality. The distortion brings about the artificial division of modern non-traditional societies into “capitalist” and “socialist” (“communist”) societies.

To prove that such differentiation is artificial, let us now turn our attention to the concepts of “socialism” and “communism.”

Socialism (communism)

In general, the economics textbooks apply these concepts to countries with the Soviet-type system. The concepts are used interchangeably and usually imply a Marxist connotation. Marx is said to be the author of the theories of socialism and communism. The economic reality of the former Soviet Union, China, Cuba, and the countries of Eastern Europe (before the end of the 1980s) is assumed to be a practical application of Marx’s ideas of socialism and communism.

Socialism (communism) as Marx’s theory

Not going into details, let us emphasize first, that for Marx the two terms were not synonymous. For him, socialism was a form of

society superseding capitalism and communism was a socioeconomic structure following socialism.

Thus, as capitalism was regarded by Marx to be of the lower rank as compared to socialism, communism was to be at the higher stage of development with respect to socialism. But, despite the differences in ranking of the two societies, both socialism and communism were treated by Marx as two forms of the *same* socioeconomic structure.

Second, Marx was a critical examiner of capitalism, and especially of its nineteenth-century British variant. He did not leave a positive blueprint for the new societies which he envisioned as following capitalism. Wherever he wrote about socialism or communism, he defined them in their negative relation to capitalism: what they would not have that capitalism had.

According to Marx, communism would develop from socialism and thus would not carry the birthmarks of capitalism as socialism would. Marx saw the following major elements of capitalism which would not be found in communism (we will concentrate on communism as the more developed form than socialism).

Absent from future communist society would be any division of labor. People would not be slaves of any particular profession. They would be able to change freely and have very many activities during their lifetime.

Since there would be no specialization of labor, there would be no social classes or groups engaged in specialized types of activities, such as economic, political, social, ideological, military, and others. Hence, the political and economic managerial class, the professional armies, the police, the political parties, the judicial system and other attributes of the old system of division and command would disappear. The future classless society would be self-governed.

With classes and political groups having passed away, productive resources would become the property of a classless society in total, that is, not of the citizens of one country or a group of countries but of the entire human race. In this respect, for mankind as a whole private property would be abolished (no human being would be excluded) and public property would take its place (each human being would be included). (But be aware that for the beings from outer space if they exist and if mankind ever encounters them, property on earth would remain private property.)

With the absence of the differentiation of society into various classes and with the existence of social property for humanity as a whole, labor would be transferred into a necessity of life. Within the framework of classless society, this would bring such a development of the productive forces that humanity would be able to overcome the scarcity of productive resources. As a result, there would be an

abundance of goods and services available to any member of communist society. People would receive what they want not according to their ability to pay but according to their needs.²¹

“Socialism” (“communism”) as reality of the Soviet-type societies

Soviet-type societies which the economics textbooks classify as “socialist” (“communist”) did not eliminate any of these major aspects of capitalism. Thus, the social division of labor existed in “socialist” (“communist”) Russia in the same way as it exists under “capitalism.”

Similarly, property of the productive resources in the former Soviet Union did not lose its private (from the point of view of those who were excluded from it) character because of their nationalization. They were owned by the state bureaucracy in totality as the bureaucratic public property. They were possessed by different bureaucrats as their private property. In this, the rest of the population was excluded.

Wage labor was still the way of earning incomes for the majority of the population of the former “socialist” (“communist”) Soviet Union. Workers worked for the state (governmental) bureaucracy. They received their major portion of the national pie according to their ability to pay, not according to their needs. Hence, all the attributes necessary for and resulting from the exchange of goods and services in highly specialized societies, such as markets, prices, wages, and profits were still in place.

How then would we define these Soviet-type systems which are called “socialism,” or “communism”? Since, as we recall, the essence of capitalism is wage labor and since wage labor was a predominant economic phenomenon of “socialist” (“communist”) countries, the only conclusion that can be made is that these countries represent a *form of capitalism* different from its traditional form.

Forms of capitalism

What is characterized as capitalism, that is, capitalism of Western industrial democracies and Japan, represents only one form of capitalism. The economic textbooks treat this form as a norm, as a standard of capitalism in general.

Such an approach is incorrect and far from reality. The essence of any thing or phenomenon in the world where we live is always revealed in more than one form.

Keeping in mind that the essence of capitalism is wage labor, let us, therefore, classify capitalism into the following four major forms, or *capitalisms*. Each capitalism will differ in terms of the form private property (in the eyes of those who are excluded) takes; in regard to the political framework within which the economic system

operates; and with respect to the role macroeconomic (that is, national) planning plays.

The first form of capitalism might be called *democratic mixed capitalism*. Its “democratic” feature comes from the fact that it functions within the confines of political democracy. Its “mixed” aspect reflects the fact that it includes all the forms of private property, with non-state individual or corporate forms dominating the others. Together with vigorous microeconomic planning within separate firms, it also exercises some type of indicative (that is, non-mandatory) macroeconomic central planning. Among the countries which conform to the definition are the “classical” capitalist countries the textbooks tell us about, such as the industrial democracies of the United States, Canada, Western Europe, and Japan.

The second form of capitalism can be referred to as *authoritarian mixed capitalism*. While having the same economic structure of property as the first form, authoritarian mixed capitalism differs from democratic mixed capitalism in two respects.

The first difference is in the type of the political framework for its operation. That is, authoritarian mixed capitalism is characterized by the absence of political democracy.

The second difference lies in the kind of central macroeconomic planning operating in such capitalism. While predominantly non-mandatory, it nevertheless has some degree of mandatory elements. As examples, we can point out Singapore and very recently Taiwan, South Korea and Chile.

The third form which capitalism takes in the modern world might be labeled as *authoritarian state capitalism*. Like the second model of capitalism, this form lacks political democracy and includes some mandatory aspects in its otherwise non-mandatory central macroeconomic planning. Its specific feature is the predominance of state ownership of the non-labor productive resources. Present-day Russia, China and many republics of the former Soviet Union suit this model.

Finally, the former Soviet Union, China and the countries of Eastern Europe before the end of the 1980s might be considered as belonging to *totalitarian state capitalism*. The absence of political democracy, the preponderance of state ownership of non-labor productive resources and mandatory central (macroeconomic) planning are its main features.

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Notes to Chapter 1: The Basic Analytical Concepts

- 1 Based on E. Raiklin, "Remarks on What Seems to Be Obvious," *International Journal of Social Economics*, Volume 22, Number 1, 1995, pp. 41-55; E. Raiklin, "On Three Non-Ideological Consequences of Specialization Among Economists," *International Journal of Social Economics*, Volume 16, Number 5, 1989, pp. 32-45; E. Raiklin and M. Yousefi, "Some Misconceptions about Market and Non-market Economies," *International Journal of Social Economics*, Volume 20, Number 11, 1993, pp. 57-61; E. Raiklin, *After Gorbachev? A Mechanism for the Transformation of Totalitarian State Capitalism Into Authoritarian Mixed Capitalism*, Monograph Number Twenty. Washington, D.C.: Journal of Social, Political and Economic Studies, 1989; and also E. Raiklin, *Osnovy ekonomicheskoi teorii. Mikroekonomicheskaya teoriya rynkov produktsii* [Principles of the Economic Theory. A Microeconomic Theory of the Output Markets]. Moscow: "Nauka," 1995, pp. 3-32.
- 2 K. Marx and F. Engels, *Sochineniya* [Collected Works], 2nd ed., Vol. 16: O Prudone (Pis'mo Schweitzeru) [On Proudhon (A Letter to Schweitzer)], by K. Marx. Moscow: Gosudarstvennoye Izdatel'stvo Politicheskoy Literatury, 1960, p. 26.
- 3 J. Commons, *Legal Foundations of Capitalism*. Madison, Wisconsin, 1968, p. 7.
- 4 K. Marx and F. Engels, *The German Ideology*, ed. by C. Arthur, New York: International Publishers, 1978, p. 81.
 For example, when the Yugoslav law proclaimed, before the bloody dissolution of Yugoslavia, that "all factories, mines, and other enterprises that [had been] under state ownership ... [were] turned over to the workers of these enterprises to manage ... [that] the ownership [had] passed from the state to society in general ... [that] enterprises [were] defined not as state property, but as social property" (M. Schnitzer, *Comparative Economic Systems*, 6th ed. Cincinnati, Ohio: South-West Publishing Co., 1994, p. 363), it gave a legal appearance to something which did not exist in reality.
- 5 A. Alchian, *Economic Forces at Work*. Indianapolis: Liberty Press, 1977, p. 130.
- 6 This widened concept of private property, although with regard to a narrower set of goods, to capital goods (the means of production), is described by Bettelheim, who is a Marxist (C. Bettelheim, *Economic Calculation and Forms of Property. An Essay on the Transition between Capitalism and Socialism*, trans. by J. Taylor. New York: Monthly Review Press, 1975, p. 60), as follows:
"Private property, in the sense of a relation of production (or an economic relation) corresponds to the power of a category of agents to allocate particular means of production for a given use, and to dispose of the products obtained from this utilization. If the power of property owners over the means of production takes the form of separation between a multiplicity of individual property owners of separate means of production, property is said to be 'individual'; if this power takes the form of the unity of plurality of property owners (separated from non-property owners), property is called 'collective'; if the unity extends to the entire property-owning class in a social formation, property is said to be 'social'."

- 7 J. Baechler, "Liberty, Property and Equality," trans. by J. Chapman, in *Property*, ed. by J. Pennock and J. Chapman. New York: New York University Press, 1980, p. 273.
- 8 In this, you will get a helpful hand from two Canadian economists who, discussing the problems of ownership and the price of land in Canada, also believe that "public" means "government," or "state." They argue that
"in order to appreciate the nature of the public ownership debate, it is desirable to agree on some definitions. In the first instance, public landownership appears to be simple and straightforward—the ownership of all lands by the public. More careful examination begins to reveal some practical problems with this simplistic definition. Initially, one must agree on the meaning of 'public.' In Canada, three levels of government, each with diverse attitudes and powers, may lay claim as the appropriate 'public' authority" (S. Hamilton and D. Baxter, "Government Ownership and the Price of Land," in *Public Property? The Habitat Debate Continued. Essays on the Price, Ownership and Government of Land*. Vancouver, Canada: The Fraser Institute, 1977, p. 88).
The Soviet economist would have subscribed to this determination of public property as long as the state (government) is the Soviet state (government). Thus, Lazutkin defines "public property [as] owned by the socialist [Soviet] state" (Y. Lazutkin, *Socialism and Wealth*, trans. by Y. Sviridov. Moscow: Progress Publishers, 1974, p. 34).
- 9 The relative nature of the terms "private" and public" is not confined to a particular country with its public property (ownership) equated with government property (ownership). Public property of the nation preserves its private content in the relationship of this nation to other nations. Neither is it confined to humanity as a whole. Universality of public property on earth would imply its private character should human beings encounter intelligent creatures from outer space.
- 10 J. Robinson, *The Economics of Imperfect Competition*. London: MacMillan and Company Limited, 1959, p. 4.
- 11 E. Chamberlin, *The Theory of Monopolistic Competition. A Re-orientation of the Theory of Value*, 5th. ed. Cambridge, Mass.: Harvard University Press, 1947, pp. 213, 224).
- 12 A. Aganbegyan, *The Economic Challenge of Perestroika*, ed. by M. Brown, trans. by P. Tiffen. Bloomington, Indiana: Indiana University Press, 1988, p. 127.
- 13 W. Jevons, *The Theory of Political Economy*, ed. by C. Black. Middlesex: Penguin, 1970, p. 132.
- 14 V. Lenin, *Collected Works*, 4th ed., trans., Vol.1: *On the So-called Market Question*. Moscow: Progress Publishers, 1972, p. 93.
- 15 A. Aganbegyan, *The Economic Challenge of Perestroika*, pp. 125, 126.
- 16 But, as you remember, the task of this book is to analyze things not as they should be but as they are. This means that we need to penetrate the preliminary concepts not according to their subjective evaluation but in accordance with their objective nature. This will come as we progress in the examination of the stages of the Russian socioeconomic development.
- 17 Later, we will come back to the two forms of central planning.
- 18 Later, we will do the same with respect to money.
- 19 See footnotes ## 17 and 18 but with respect to the land rent.

- 20 "... capital presupposes wage labor; wage labor presupposes capital. They reciprocally condition the existence of each other; they reciprocally bring forth each other" (K. Marx, *Wage Labor and Capital*. Peking: Foreign Languages Press, 1978, p.33). Later we will return to the question of "capital" in the Soviet Union.
- 21 See K. Marx and F. Engels, *The German Ideology*, p. 53; and also K. Marx, "The Poverty of Philosophy," in R. Freedman, ed., *Marx on Economics*. New York: Harcourt, Brace and World, 1961, p. 271.

PART I
THE BASIC ANALYTICAL CONCEPTS, METHODS,
AND PHILOSOPHICAL REASONING

Chapter 2

**The Basic Analytical Methods and
 Their Philosophical Reasoning¹**

As it was pointed out earlier, the purpose of this book is to analyze those five socioeconomic structures which characterized Russia in its development within the last 150 years, that is, from the 1850s till our days. Obviously, in addition to very general concepts which as analytical instruments will be utilized in our investigation and which rather briefly and preliminary we have examined in the previous chapter, we will also need certain methods of the inquiry. In other words, what will be required is not only instruments of analysis but also how to apply these instruments to the phenomena under investigation.

The basic analytical methods

The very fact that the socioeconomic development of Russia has gone through various stages reveals a transient character of the alterations which Russian society has undertaken within a relatively short historical period of time. That is, it shows not only *quantitative* changes within the same system but *qualitative* changes as well, expressed in the transformation of one socioeconomic system into another.

From this follows a need to employ two approaches. The first is the Marxist/institutional method whose major analytical object is *qualitative changes* expressed in the substitution of one developmental stage by another. The use of this method is justified by the fact that, since everything born is destined to die, it is a scholarly task to observe the transformation in such a way as to be able to recognize as widely and as deeply as possible the forces which bring about the systemic change.

The second is the neoclassical/Keynesian-type approach with its concentration on the *quantitative changes* within each of the stage. Because it is also true that between birth and death there is a period called life. Hence, a necessity to examine all those quantitative alterations which take place within the stage and which eventually lead to its breakup and its replacement by the new one.

But whether either of the approaches is utilized, we want the reader to forewarn about three things.

First: The object of our examination will be not the stages of Russian development as they should have been according to or despite of a certain ideology or a doctrine but as they have been and are in reality. In some sense, the distinction must be familiar to us from our study of positive (as it is) and normative (as it should be) economics.

Second: In our analysis, we will not seek answers to the logic of Russian development in the behavior of the so-called great historical personalities. We will not use such a method which can be reduced to the examination of mental, psychological, moral, and professional traits of people who, at this or that period of the country's development, headed it.

Of course, the employment of such an analytical approach to the phenomenon under consideration is simple and straightforward. In accordance with it, important events take place because of the will and whim of those who occupy the top of the social pyramid. Such a view leads us to believe that a country and its people prosper if they have a "good," that is, "smart," "competent," "just," "honest" leader who is able to make a "correct" "choice"; otherwise, the country and its people live badly.

A characteristic feature of such a method is that it ignores the social, economic, political and cultural environment within which a great historical personality operates. The usage of this approach does not require a study of a country's history, its socioeconomic, cultural, and political reality. For in this approach, the great personality performs as wishes as if the acts were carried out in the vacuum. If, however, one asks why the great personality behaves the way it does, there is no answer to this question or the answer is: It is a God's will or it is a simple occurrence.

Thus, the reason why this personalized approach will not be utilized is simple: it is not scientific.

Third: We will not conduct our investigation with the help of the conspiratorial theories. The view that a country (in our case, Russia) has always had its haters (domestic and foreign) who, from time immemorial, have been continuously attempting to find a way to hurt the country; the view that, as a result, is totally disinterested in concrete conditions of the country "attacked" by its internal and external enemies, is unscientific as well.

In contrast to these *psychological-conspiratorial* approaches to the explanation of social phenomena, we will utilize a *sociological* approach. With its help, the five stages of the Russian development will be evaluated on the basis of its socioeconomic, political, cultural and other conditions, regardless of what personality was at the head of the country and what forces wanted to bring harm to the country.

Obviously, such an analytical method is a complicated and a roundabout one. But it is this approach which will enable us to plunge into the depth of the events we will be examining, instead of

crawling on their personalized or conspiratorial surface. As far as great personalities and conspirators are concerned, we will be interested in them, if at all, first, for polemical purposes and, second, in order to clarify their role in accelerating or decelerating the naturally flowing events.

The philosophical reasoning

What justification do we have to insist that only the so-called sociological analytical approach is scientific, and, hence, should be employed, while the other two approaches (personalized and conspiratorial) are not scientific, and, therefore, should not be utilized?

Our justification comes from our philosophical outlook. Thus, before embarking on a long journey of studying the Russian reality for the last 150 years, it is necessary to provide the reader with our philosophical point of view and certain philosophical concepts following from it. Without such an elaboration, the reader will not be able to follow the logic of the book.

A preliminary observation

Philosophy is seemingly devoid of the vagaries of real life, which is political, social and economic. As is often said, what can be more abstract and useless than the search for absolute truth, for the ultimate meaning of human existence, for the relationship between necessity and chance, between necessity and freedom, and for the effects this relationship has on man's ability and will to act in the world? And, as is often asserted, what is a point of such a grandiose, spaceless and timeless theorizing, which is idle and speculative in its nature, since it is completely impractical and, hence, is unable to help feed the hungry, to give drink to the thirsty, to dress the unclothed, to shelter the homeless, to cure the sick, to uplift the morale of the desperate, to prevent people from hurting other people and nature—which, in a nutshell, can in no way solve or even alleviate the problems of our everyday life?

A person who prides himself on being pragmatic and down the earth always displays such a skeptical and even negative attitude towards philosophy. Men on the street are not the only ones who approach the problems confronting them from a point of view based on common sense. Natural and social scientists also use this method in their inquiry about facts of natural and social life.²

While one cannot expect otherwise from a mind set up in the tradition of common sense, it must be admitted nevertheless that the common-sense approach is, of course, practical and justifiable as long as it deals with isolated, finite, stable and static phenomena, be they events or individuals.³ But the method becomes narrow, one-sided and, hence, impractical and unjustifiable as soon as

there is a need to connect what seems to be unconnectable, to expand what seems to be limited, and, therefore, to make changeable and dynamic what seems to be unchangeable and stationary.⁴

To discover the link to the apparently non-linkable and the life in the apparently dead are the tasks of philosophy. In this, philosophical thinking is both pragmatic and useful. However, it is insightful and practical only under one condition: under the condition of balanced moderation, according to which the philosopher augments his general view of the world by the narrow view of the non-philosopher and, thus, recognizes the necessity of their synthesis.

To achieve this is, of course, not an easy task. As a result, there is philosophy *and* philosophy.

There is a philosophy whose numerous practitioners are heavily influenced by and very close to the method of analysis utilized by amateur and professional non-philosophers. These philosophers join their non-philosophical despisers in the realm of the *metaphysical* mode of thought, based on *formal logic*. This is because

To the metaphysician, things and their mental images, ideas, are isolated, to be considered one after the other apart from each other, rigid, fixed objects of investigation given once and for all. He thinks in absolutely discontinuous antithesis. His communication is: "Yea, yea, Nay, nay, for whatsoever is more than these cometh of evil." For him a thing either exist, or it does not exist; it is equally impossible for a thing to be itself and at the same time something else. Positive and negative absolutely exclude one another; cause and effect stand in an equally rigid antithesis one to the other.⁵

There also exists a philosophy with fewer followers but which, nevertheless, might be considered as a true philosophy, for it is able to synthesize and cancel the one-sidedness of the non-philosophical approach, rooted in the narrowness of the finite concrete, with the less unsymmetrical philosophical way of thinking, whose source is the infinite abstract. This is a *dialectical* method of thought based on *dialectical logic*.

In his obscure but beautiful style of expression, the great German philosopher, Hegel, explains the difference between formal and dialectical logic and, thus, conveys to the reader the core of dialectics:

Everything is *different*; there are no two things in reality that are exactly alike... . The many are the many of a One; the One is the One of its many members. For many to be simply many would be meaningless, analytical tautology, saying the same thing twice. In formal logic the principle of difference contradicts the principle of identity. For dialectics one principle is just as essential as the

other. Or again, mathematical quantitative thought compares the many in their external difference. Many magnitudes are compared as being equal or unequal. But equation does not eliminate the essential difference of universals. For dialectics *internal difference* [“the many in One,” “the One of its many”] is as important as *external difference* [“many ... (are) simply many”]; both are essential universals.⁶

Engels brings Hegelian dialectics down to earth when he reminds the reader that

... [f]or everyday purposes we know, for example, and can say with certainty whether an animal is alive or not; but when we look more closely we find that this is often an extremely complex question, as jurists know very well. They have cudged their brains in vain to discover some rational limit beyond which the killing of a child in its mother's womb is murder; and it is equally impossible to determine the moment of death, as physiology has established that death is not a sudden, instantaneous event, but a very protracted process. In the same way every organic being is at each moment the same and not the same; at each moment it is assimilating matter drawn from without, and excreting other matter; at each moment the cells of its body are dying and new ones are being formed; in fact, within a longer or shorter period the matter of its body is completely renewed and is replaced by other atoms of matter, so that every organic being is at all times itself and yet something other than itself. Closer investigation also shows us that the two poles of an antithesis, like positive and negative, are just as inseparable from each other as they are opposed, and despite all their opposition they mutually penetrate each other. It is just the same with cause and effect; these are conceptions which only have validity in their application to a particular case as such, but when we consider the particular case in its general connection with the world as a whole they merge and dissolve in the conception of universal action and interaction, in which causes and effects are constantly changing places, and what is now or here an effect becomes there and then a cause, and *vice versa*.⁷

It is from the Hegelian-Marxist dialectics as our philosophical outlook that the personalized and conspiratorial theories of the Russian socioeconomic development are discarded. It is from the Hegelian-Marxist dialectics as our philosophical view that the social approach to the analysis of the stages of the Russian socioeconomic development is utilized.

This philosophical outlook enables us to use very powerful philosophical concepts (tools) in the examination. These are *the individual*, *the particular* and *the universal (general)*, and *chance*, *necessity* and *freedom*. Our understanding of the concepts is of an utmost importance.

The individual, the particular and the universal (general). According to dialectics, the individual, the particular and the universal (general) together “form a living whole of opposites.”⁸ The individual is not the same as the particular; the particular is not identical to the universal (general); and the universal (general) cannot be reduced to either the individual or the particular. And yet one does not exist without the other, for one exists *through* the other. Here the role of the “other” is played by the individual which thus serves, expresses and reveals the “one.”

It is the individual event or phenomenon or thing or subject which is given in this world. Hence, the individual as an expression of the particular and of the universal (general) is rich, alive, animated and, in this sense, concrete, real and active; while the particular and the universal (general), which have to be expressed, are poor, not yet to be born, lifeless and, in this respect, abstract, possible and passive.

Thus, when Mr. X is pronounced a great leader, the universal (the “leader”) takes a form of the particular (“great”), so that both the universal (general) and the particular reveal themselves in Mr. X, who is the individual. In order to disclose its greatness (that is, particularity), the universal (that is, the leader) needs a Mr. X (that is, an individual).

However, the universal (general), just because it is one in many, has no special interest in that living, real and active but yet small one, whose name is Mr. X. Otherwise, if the universal (general) had a preference for one individual against another, the universal (general) would cease to be what it is: One which is indifferent in many.

The absolute universal (general) could be conceived either as God or as Nature or as a mixture of the two. God, who is, in view of the Bible, the limitless love, cannot be presumed to have any preference for any of His subjects. Nature, which is spiritless, must also be completely indifferent to everything and everyone.

Necessity and chance. From the concepts of the individual, the particular and the universal (general) come the notions of *necessity* and *chance*, for

*Here already we have the elements, the germs, the concepts of necessity, of objective connection in nature, etc. Here already we have the contingent and the necessary, the phenomenon and the essence; for when we say: John is a man, Fido is a dog, this is a leaf of a tree, etc., we disregard a number of attributes as contingent; we separate the essence from the appearance, and counterpose the one to the other.*⁹

John, Fido and the leaf are all accidental. Mr. X in our example is incidental as well. It is by a simple chance that John is a

manifestation of a man, Fido stands for a dog, the leaf represents a leaf of a tree, and Mr. X personifies a great leader.

A man does not have to be John. With about six billion inhabitants on our planet, he could be either Peter or Kenneth or some other man. Or he could be a woman.

A dog does not have to be Fido because, first, he could be a she and, second, he/she could be either Fluffy or Princess or any other dog.

What all this means is that, while a certain individual appearance of the substance (that is, of the particular or the universal) is absolutely accidental, nevertheless the only way for the substance (that is, again for the particular or the universal) to appear, to be on the surface, to be revealed, to be dealt with, to jump from being a mere possibility into a fulfilled reality is to dress itself into an accidentally specific form of individuality. This is not to say that the occurrence of the accidental (of chance) is not caused by some factors under certain conditions. It is; but the cause of the accident has no relation to the cause of the substance (the particular or the universal).¹⁰

To reconcile the two seemingly irreconcilable concepts,

... Hegel came forward with the hitherto quite unheard of propositions that the accidental has a cause because it is accidental, and just as much also has no cause because it is accidental; that the accidental is necessary, that necessity determines itself as chance, and, on the other hand, this chance is rather absolute necessity ...¹¹

In other words, while chance (the individual, the accident) is an absolutely necessary form of expression and revelation of necessity (of the substance, of the particular, of the universal), the fact that a certain individual (event, phenomenon, personality, thing) serves the role of the delineator is absolutely unnecessary. An event, a phenomenon, a personality or a thing, therefore, is at once accidental *and* necessary, irrational *and* rational.¹²

Freedom and necessity. Freedom is usually understood in a *negative* sense, as freedom from external *undesirable* constraints such as, for instance, slavery, exploitation, hunger, cold, sickness, as well as others, which could be eliminated or avoided. The definition of freedom in its external meaning obviously makes sense and is, of course, correct.

But the negative conception of freedom reveals only one side of it. There is another side of the notion of freedom, and this is its *positive* side.

According to Hegel, "[m]an cannot choose not to choose, or will not to will."¹³ That is, as long as man exists here, in the real world, man is compelled to have desires and, hence, to make choices. Man's will then is predetermined by the necessity or obligation to will in order to choose.

Man, however, chooses from the menu of options presented by nature in the form of natural laws, which are given and which he cannot change.¹⁴ And if man knows his limitations, understands his place in this world and is aware of the range of available options the world presents to him, then he is free to choose. Man's awareness of the laws enables him to function in accordance with them, and hence makes him the master of his own fate: a free man.

Thus, the positive definition of freedom is a dialectical one: it *internally* connects freedom with necessity. For the dialectical method of analysis, freedom in its internal and positive meaning is inseparable from necessity. One can say that without necessity there is no freedom.¹⁵

Thus, from the positive point of view, "freedom is the appreciation of necessity."¹⁶ The more man is cognizant of necessity, the freer he is. To paraphrase Hegel, as man actively appropriates the substance of the world, man's freedom increases.¹⁷

Here is how Engels summarizes this Hegelian positive and internal meaning of freedom as necessity recognized by man:

Freedom does not consist in the dream of independence of natural laws, but in the knowledge of these laws, and in the possibility this gives of systematically making them work towards definite ends. This holds good in relation both to the laws of external nature and to those which govern the bodily and mental existence of men themselves... . Freedom of the will therefore means nothing but the capacity to make decisions with real knowledge of the subject. Therefore, the *freer* a man's judgment is in relation to a definite question, with so much the greater *necessity* is the content of this judgement determined; while the uncertainty, founded on ignorance, which seems to make an arbitrary choice among many different and conflicting possible decisions, shows by this precisely that it is not free, that it is controlled by the very object it should itself control.¹⁸

The role of the individual in the dialectical framework set up earlier

Equipped with the dialectical concepts of the universal (general), the particular, the individual, chance, necessity and freedom, we have now come to the main point of our philosophical exercise: how can the dialectical outlook of life be applied to the problem of the role individuals play in history?

As has been pointed out, the dialectical notion of freedom as recognized necessity is tantamount to an ability of an individual to make a decision within a range of options presenting themselves to him. The degree of freedom is measured by the level of capacity to decide within the given range.

In society, the range faced by the individual who must make a social, economic or political decision is a scope of social, economic and political choices. But human society, simply for the reason of being human, is always a totality of individuals. Hence,

social, economic and political choices are choices which confront not abstract societies but concrete individuals within them, thus making societal problems real and concrete as well.

Hence, human history is a history of individuals facing problems and solving them within the scope of the options available. From this perspective, the more individuals recognize the social, economic and political necessity, the more command they will have in shaping and molding their own destiny.

It is true, therefore, that “[m]en make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under given circumstances directly encountered and inherited from the past.”¹⁹

Then two basic questions interest us here:

(1) Why is that this individual has been elevated to power but not somebody else?

(2) What is the role of that so-called great personality in the societal and world affairs?

Why is it this individual? In the framework of the previous discussion, the answer must lie in the combination of the general, particular and individual causes which make a historical room only for this personality. The development of productive forces (labor, capital, land and technology) which originate the general (universal) trend in mankind’s progressive movement from one form of society to another (from primitive commune to slaveholding to feudal to capitalist social structures)²⁰ serves as the *general* (universal) cause for the appearance of the great individual.

Somebody is required to head either the preservation or the destruction of the old regime or the construction of the new social order. This necessity of the emergence of the position of the great personality is dictated not only by the general rationale but also by a particular motive. The latter is “*the historical situation* in which the development of the productive forces of a given nation proceeds and which, in the last analysis, is itself created by the development of these forces among other nations, i.e. the same general [universal] cause.”²¹

In other words, to fill the vacancy of the great personality specific historical conditions are needed which call for individuals to develop the country in accordance with the general (universal) trend. A particular country at a particular stage of its advancement in history and at a particular period of time brings about a demand for a certain type of leader who will be able to meet its expectations in solving its contemporary problems. Then, the general (universal) and particular social demand for a specific kind of great personality creates, in the Keynesian manner, its own basket of supply: a number of concrete individuals competing with each other for their place in history.

But these actual individuals are brought to the historical scene, which is ready for *one* of them, by their own individual causes. Their life, although one of the infinitely tiny brooks comprising the great societal river, is at the same time completely accidental to the general (universal) and particular direction in which the river flows. As a result of the dialectical interconnection between the general (universal), the particular and the individual who is accidental, the possibility of an actual man to ascend to power becomes a reality when the individual is able to meet the following conditions of his general (universal) and particular “employers.”

First, he must be fanatical and merciless in his desire to take power. Taking Napoleon as an example of a historical personality who is obsessed with power, the first Russian Marxist, Plekhanov, writes:

It goes without saying that the man whom events had elevated to the position of dictator must have been tirelessly aspiring to power himself, energetically pushing aside and ruthlessly crushing all who stood in his way. Bonaparte was a man of iron energy and was remorseless in the pursuit of his goal.”²²

Second, he must possess specific and extraordinary qualifications to fill the job of historical personality, so that his “talent must make him more comfortable to the social needs of the given epoch than [almost] anyone else.”²³

Since, however, there are usually “not a few energetic, talented and ambitious egoists,”²⁴ who aspire to the same dream, a third condition is required: “the existing social order must not bar the road to the person possessing the talent which is needed and useful precisely at the given time.”²⁵ Otherwise, for the person of unique ambitions and talents, the line dividing the possibility of becoming a great personality and the reality of such an occurrence would never be crossed.

Continuing to use the Great French Revolution as a case-study for his interpretation of the role of historical individuals and looking at the biographies of Napoleon’s military leaders, Plekhanov writes:²⁶

This very *Napoleon* would have died as the barely known General, or Colonel, *Bonaparte* had the old order in France existed another seventy-five years. In 1789, Davout, Desaix, Marmont and MacDonald were subalterns; Bernadotte was a sergeant-major; Hoche, Marceau, Lefebvre, Pichegru, Ney, Massena, Murat and Soult were non-commissioned officers; Augereau was a fencing master; Lannes was a dyer; Couvion Saint-Cyr was an actor; Jourdan was a peddler; Bessieres was a barber; Brune was a compositor; Joubert and Junot were law students; Kleber was an architect; Martier did not see any military service until the revolution. Had the old order continued to exist up to

our days it would never have occurred to any of us that in France, at the end of the ... [eighteenth] century, certain actors, compositors, barbers, dyers, lawyers, peddlers and fencing masters had been potential military geniuses."

Still, all this would not be sufficient if not for the last condition. That is, the would-be successful contender for power must be in a right place and at a right time when the call for a historical personality is actually made.

It is quite obvious that, as soon as the social demand for an individual of a certain talent and ambition has been met, then one of the conditions necessary for any other personality to emerge as a lucky obtainer of the job immediately disappears. Since the position has been filled, the social order will now stand on the way of transforming the possibility into a reality for other contenders of more or less equal capacities and ambitions. For these unlucky ones, the road to power has been closed.

Thus, let us repeat again that the existence of any particular ambitious and capable individual hungry for power is accidental to the general (universal) and particular trend. Such a personality supplies his talents for his own reasons. But since the general (universal) and particular trends remain a mere possibility unless they are personified in a certain individual, when this happens the possibility of the event becomes a reality, and the event itself assumes the peculiar features of the individual, and not of somebody else.

But the successful barring by one individual of all others, who had more or less the same potentials to acquire the power, creates a certain optical illusion. In the minds of people, the order of causation which brought to power that specific individual is reversed.

So retrospectively, a sincere but erroneous belief takes place. According to the myth, it is not the social necessity which created the general (universal) and particular conditions which finalized and expressed the general (universal) and particular trend in the entirely accidental individual. On the contrary, it is this individual who generated the general (universal) and particular social movement.

Plekhanov demonstrates this problem in the case of Napoleon:²⁷

Napoleon's personal power presents itself to us in an extremely magnified form, for we place to his account the social power which had brought him to the front and supported him. Napoleon's power appears to us to be something quite exceptional because the other powers similar to it did not pass from the potential to the real. And when we are asked, "What would have happened if there had been no Napoleon?" our *imagination* becomes confused and it seems to us that without him the social movement upon

which his power and influence were based could not have taken place.

The dialectical approach to the problem of certain individuals coming to power will be followed in the book. Thus, when the time comes to attempt to comprehend why, during certain historical stages of the Russian development, the country's highest scene was occupied by, say, Lenin, Stalin, and others, the reader, in order to follow the author's line of argument, is strongly urged to remember this basic premise.

What is this individual's role? So a particular society during a specific period of time hires a certain individual whose job is, within the general (universal) trend of the development to solve the problems of this particular society. How free is he in what he ought to do? What can he do? How much actual power does he have?

It is true that the historical individual owes his position to the historical need of society where he lives, but as soon as he ascends to power the latter not only becomes associated with his name but he himself gives a special flavor to it and to the subsequent events. The accidental individual features through which the historical personality colors the necessary trend, express themselves in incidental quantitative differences in the actual movement as compared to what could have happened had not this but another individual come to power. And since "quantitative differences ultimately pass into qualitative differences,"²⁸ should not the continuing accumulation of the historically "accidental" have, as a result, a certain qualitative influence on the general (universal) and particular trends of the social development?

The answer is both negative and positive. It is *negative*, because one ought not to forget that, despite its accidental relation to the social necessity, the individual is simply an outcome of the general (universal) and particular trend of the historical development. Hence, for the trend to be realized it would make absolutely no difference whether this or some other personality takes the historical role.

But at the same time the answer must also be *affirmative*. As long as this individual, and not that one, holds the power, the peculiarities of his personal background, his mind, his character, his habits, his health or some other personal features might nevertheless (1) *speed up* or *delay* the realization of the general (universal) or particular tendency which always expresses itself under the particular conditions and (2) enormously (sometimes irreversibly) *influence the lives of many people*. Hence, what seems of no importance to the general (universal) and particular *direction* a country takes, makes a profound difference for the *time* it will be accomplished and for the *people* it will affect.

We are now in a position to assess the role the historical individual might play in terms of the time necessary to realize the

general (universal) trend of the development of a particular country and in terms of the fate of other individuals. For this, three cases must be clearly separated.

One is the case where the individual operates within the established social order of things which he inherits from his predecessors. Another is the situation under which the individual participates in and heads a movement whose purpose is to destroy the existing social order. Finally, the third is a circumstance under which the individual plays his role in the creation of a new social order.

While it is obvious that in many instances a person might be involved in some combination of three situations, for the clarity of the analysis it would be helpful to separate the three cases into the following two cases: (1) the role the great individual plays within the existing social system and (2) the role he plays in the destruction of the old and the creation of the new social organization.

The role of the individual within the existing social structure. A modern organization, be this a business firm, a region of a country or a country as a whole, in order to function properly and effectively demands the presence of all the necessary layers within its pyramidal construction. These indispensable vertical and horizontal segments of the structure are, of course, people and certain relations they enter into with each other. Without people there would be no relating agents and, therefore, the whole social structure would not exist.

Any hierarchical structure as a set of the established social, political, economic, moral and cultural relations is a given societal necessity. As the particular of the general (universal), however, it can express itself only through chance as an individuality. Thus, while it is evident that organization without people ceases to be an organization, yet concrete, real individuals occupying particular positions within its structure are absolutely coincidental and not necessary.

Under the so-called normal and quiet circumstances when the old order of things should not and cannot be changed, neither great passions nor great talents are required. He who is elevated to power must be moderate and cautiously prudent, for he must swim in quiet waters. Since the necessity offers a very trivial and rather superficial menu of available options for him to follow, he is required to make very small and rather cosmetic changes while generally staying on the course.

During such an ordinary, calm and passive period, the great individual might obey the socioeconomic and political necessity blindly, without knowledge of the small options the necessity offers to him. In this case, necessity dominates him as a blind force which makes him unfree.

Or the individual can be fully aware of the little changes he can imprint on society. In this case, he is the master of the necessity, and, therefore, he is free.

But in any event, the “great” personality of such a period is transformed into a mediocre individual because the rule of the mediocrity becomes the order of the day. The influence that this person can exercise on the time and on the individual features of the necessity’s realization into actual events, and on people’s fate and on the number of people he can affect, is reduced to a minimum.

The role of the individual in the destruction of the old and the creation of the new social order. Times are not always serene. In the usual dialectical manner, small quantitative alterations in productive forces eventually result in profound qualitative changes in relations of production and in the whole social and political system:

In the social production of their existence, men inevitably enter into definite relations, which are independent of their will, namely relations of production appropriate to a given stage in the development of their material forces of production [productive forces]. The totality of these relations of production constitutes the economic structure of society, the real foundation, on which arises a legal and political superstructure and to which correspond definite forms of social consciousness. The mode of production of material life conditions the general process of social, political and intellectual life... . At a certain stage of development, the material productive forces of society come into conflict with the existing relations of production... . From forms of development of the productive forces these relations turn into their fetters... . The changes in the economic foundation lead sooner or later to the transformation of the whole immense superstructure.²⁹

These changes, however, do not come automatically. The people whose vested interests lie with the old regime and who, for this reason, want to preserve it by any means, meet the people whose interests are in the destruction of the old social order, in the formation of a new social structure and who, therefore, are determined to crush the status quo. In this clash of old and new interests, the last word belongs to force that serves as “the midwife of every old society which is pregnant with a new one.”³⁰

The extremely stormy waters of the historical river of change need a new type of men to swim and overcome them, men of great energy, great talents, extremely strong will and confidence that they can achieve whatever they want to be achieved. The demand for greatness creates a supply of great men who feel that they are on a mission, that they are messengers of some power which they cannot control but which totally controls them and which we call necessity (but which could also be called God or something else).

These men who lead the movement of bringing down the old social structure are possessed with an incredible, intolerable and urgent need to act. They are completely unfree to pursue other activities. But it means that they are now absolutely free to devote their whole life to the mission they feel they were chosen to accomplish:

When the consciousness of my lack of free will presents itself to me only in the form of the complete subjective and objective impossibility of acting differently from the way I am acting, and when, at the same time, my actions are to me the most desirable of all other possible actions, then, in my mind, necessity becomes identified with freedom and freedom with necessity; and then, I am unfree only in the sense that I cannot disturb this identity between freedom and necessity, I cannot oppose one to the other, I cannot feel the restraint of necessity. But such a lack of freedom is at the same time its fullest manifestation.³¹

A man who, in his mind, equates freedom and necessity is a fanatic, and as such he is unstoppable. One must be very careful, however, to distinguish two types of activities pursued by the great man equalizing freedom and necessity.

The first type is one whose direction is *negative*. In action of this kind, the great man looks backward. He is immersed in the struggle against the old social order. He has this gut feeling that history is on his side. And it is, for the old order has to die. Hence, in such a negative pursuit the equation of freedom and necessity takes place not only in the mind of the great individual but also in his deeds. He is free in both the spiritual and material worlds.

There is also a second side of the great man's activities, which is the *positive* motive of the great man's actions. The old order whose destruction is sought with such a determination by the movement led by the great man is not simply condemned to die. It must give way to a new socioeconomic and political system. And here is the paradox.

Without fanaticism, the great individual is unable to direct his movement to the defeat of the past at the present. Hence, a successful struggle requires more fanaticism on the part of its participants engaged in the overthrow of the old regime.

But fanaticism is uncritical, non-skeptical of and accommodating to the great man's views regarding the future. So with more fanaticism, his ability to foresee the future at the present is hampered further.

The irony of the situation is that fanaticism, which makes the great man invincible in his actions, at the same time blinds him and limits his horizons. He is free in his negative activities, but he is unfree in his positive endeavor. The great man, the master-crasher of the old, becomes a slave of his own illusions about the kind of society which will be built to replace the old social organization. He

is fervently convinced that he knows what he is doing but, with the passage of time, he realizes that he had no idea of what was going to happen.³²

And it cannot be otherwise. This is because even for a highly critical, skeptical, open and unbiased mind it is extremely hard to discern the features of the future in the present. In the case of an uncritical, prejudiced and fanatical mind, the task becomes almost impossible. But only such a mind can succeed in the destructive activities of a revolution. Hence, the illusions and the blindness are necessary, for they bring about “a superior force of will”³³ to the great man and his movement, and without such superiority there is no revolution.

Let us now summarize the role the great individual plays during a period of revolution. Let us first look at the negative role which is manifested in fighting the old regime.

“No social order is ever destroyed before all the productive forces for which it is sufficient have been developed.”³⁴ Therefore, with or without a particular great personality, the revolution must take place whenever the social necessity is ready to give room to a new social system. However, other things being equal, the more passionate, energetic, determined, fanatical and talented a leader of the revolution, the greater is his impact on the timing of the revolution and on its participants who are hypnotized by his charisma. Hence, the more *negative* is the character of his activities, the more contributive and important his role in the revolution. Here, the great individual serves as a *self-conscious* tool of social necessity.

But since “new superior relations of production never replace older ones before the material conditions for their existence have matured within the framework of the old society”³⁵ and because the great man of zealous convictions is blinded by his fanaticism of destruction, he becomes an unconscious tool of the social necessity in his positive goals and aspirations. He leads the events whose *outcomes* he, by and large, cannot predict and over which he has no control.

Hence, the more *positive* is the nature of the great man’s actions, the less conscious contribution he is able to make to the creation of the new social order. Under the circumstances, while the results of his *negative* activities are usually in accordance with his will, the results of his *positive* activities are usually against his will.

In the first case, he is free in a positive sense, because he obeys the internal social necessity. In the second case, he has no free will, because he is unaware of the needs of the internal social necessity and, hence, as a rule, works against it.

We are now ready to use the dialectical method of analysis by applying it to some particular and individual historical realities of pre-Soviet, Soviet and post-Soviet life.

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- 1 Based on E. Raiklin, "On the Causality of Great Personalities and Great Events Exemplified by Lenin and the October Revolution," *International Journal of Social Economics*, Volume 18, Numbers 5/6/7, 1991, pp. 98-132.
- 2 See F. Hegel, *Encyclopedia of Philosophy*, trans. and annotated by Gustav Emil Mueller. New York: Philosophical Library, 1959, p. 67.
- 3 On the historical significance (the positive side) of the common-sense approach which natural sciences, for instance, have long employed in order to examine Nature, see F. Engels, *Herr Eugen Duhring's Revolution in Science (Anti-Duhring)*, trans. By Emilie Burns, ed. by C.P. Dutt. New York: International Publishers, 1976, p. 27.
- 4 On the negative side of the common-sense approach to the study of natural life, see *ibid.*, pp. 27-28.
- 5 *Ibid.*
- 6 F. Hegel, *Encyclopedia of Philosophy*, p. 119.
- 7 F. Engels, *Herr Eugen Duhring's Revolution in Science (Anti-Duhring)*, pp. 28-29.
- 8 F. Hegel, *Encyclopedia of Philosophy*, p. 136.

- 9 V. Lenin, *Collected Works*, 4th ed., Volume 38: *Philosophical Notebooks*. Moscow: Foreign Languages Publishing House, 1961, p.361.
- 10 On this Aristotle comments that “[t]he accidental, therefore, is what occurs, but not always ... of necessity ...” (*Aristotle’s Metaphysics*, trans. by Richard Hope. New York: Columbia University Press, 1952, p. 236).
- 11 F. Engels, *Dialectics of Nature*, trans. and ed. by Clemens Dutt. New York: International Publishers, 1979, p. 233.
- 12 Here are Hegel’s own words (F. Hegel, *Encyclopedia of Philosophy*, p. 166):
“In its immediacy, nature is therefore is a realm of an all-pervasive relativity, a blind irrational flux. Everything that happens might just as well not happen, or happen differently. This is the contingency ... of all things natural ... [In other words,] [t]he necessity of natural laws does not eliminate the immediate irrationality and singularity of all events through which they are actualized.”
- 13 F. Hegel, *Encyclopedia of Philosophy*, p. 232.
- 14 Another matter is, of course, *why* the laws of nature are what they are and not something else. This question cannot be answered by science: the latter strives to find out only *how* the given natural laws operate.
- 15 The opposite is not true: Nature and its laws existed long before man, exist now without man’s full comprehension of them and will, in all probability, exist in the future when man no longer be around.
One additional remark is in order. The reader is reminded that there is a great deal of difference between freedom and necessity as *external* relations, on the one hand, and freedom and necessity as *internal* relations, on the other. If the relations are mixed up, then there will be a danger that in crafty hands dialectics can become a justification for any and all criminal activities. The world will become an Orwellian world where “war is peace ... freedom is slavery ... ignorance is strength” (G. Orwell, *Nineteen Eighty-Four*. New York: Harcourt, Brace and Company, New York: 1949, p. 5).
- 16 F. Engels, *Herr Eugen Duhring’s Revolution in Science (Anti-Duhring)*, p. 125.
- 17 F. Hegel, *Encyclopedia of Philosophy*, p. 133.
- 18 F. Engels, *Herr Eugen Duhring’s Revolution in Science (Anti-Duhring)*, p. 125.
- 19 K. Marx, *The Eighteenth Brumaire of Louis Bonaparte*. Peking: Foreign Languages Press, 1978, p. 9.
- 20 “At the present time we must regard the development of productive forces as the final and the most general cause of the historical progress of mankind, and it is these productive forces that determine the consecutive changes in the social relations of men.” (G. Plekhanov, *The Role of the Individual in History*. London: Lawrence & Wishart, 1976, pp. 54-55).
- 21 Ibid., p. 55.
- 22 Ibid., p. 44.
- 23 Ibid., p. 47.
- 24 Ibid., p. 44.
- 25 Ibid., p. 47.
- 26 Ibid., pp. 47-48.
- 27 Ibid., p. 46.
- 28 Ibid., p. 50.

- 29 K. Marx, *A Contribution to the Critique of Political Economy*, trans. by S.W. Ryazanskaya, ed. by Maurice Dobb. New York: International Publishers, 1981, pp. 21-22.
- 30 K. Marx, *Capital. A Critique of Political Economy*, Volume 1, trans. by Ben Howkes. New York: Vintage Books, a Division of Random House, 1977, p. 916.
- 31 G. Plekhanov, *The Role of the Individual in History*, p. 12.
- 32 Engels (K. Marx and F. Engels, *Selected Correspondence*. Moscow: Foreign Languages Publishing House, 1953, p. 460) comments on this irony which history bestows on successful revolutionaries:
“People who boast that they *made* a revolution always see the day after that they had no idea what they were doing, that the revolution *made* does not in the least resemble the one they would have liked to make.”
- 33 Ibid.
- 34 K. Marx, *A Contribution to the Critique of Political Economy*, p. 21.

PART II
THE PRE-SOVIET SOCIOECONOMIC SYSTEM:
THE 1850'S - NOVEMBER 1917¹

Our analysis of the pre-Soviet socioeconomic structure will cover the second half of the nineteenth -the beginning of the twentieth centuries. This will include a period of the Russian empire (the 1850s - March 1917) and that of the Russian parliamentary republic (March - November 1917).

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Notes to PART II: THE PRE-SOVIET SOCIOECONOMIC SYSTEM: THE 1850'S - NOVEMBER 1917

- 1 This part is a revised English version of my work in Russian, E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Ekonomicheskii Rost i Razvitie* [Principles of the Economic Theory. Economic Growth and Development]. Moscow: "Nauka," 2001, pp. 75 - 104. The part also includes E. Raiklin and C. Gillette, *Socioeconomic Issues of Today's Soviet Union*. Bradford, West Yorkshire, England: MCB University Press, Volume 15, Numbers 5/6, 1988.

PART II
THE PRE-SOVIET SOCIOECONOMIC SYSTEM:
THE 1850'S - NOVEMBER 1917¹

Chapter 1

**The Distinctive Socioeconomic Features of the Russian Empire:
the 1850s - March 1917**

First of all, we need to turn our attention to the following fact. Sufficiently reliable statistical data on the socioeconomic development of the Russian empire prior to 1880 does not exist. Therefore, with the exception of some indices, we will have a rather limited possibility to illustrate the development of Russian society of the time with the help of numbers which we would find satisfactory.

Before the abolition of serfdom: the 1850s - 1860

Before the abolition of serfdom, the socioeconomic relations which dominated the Russian empire in the middle of the nineteenth century were that of *feudalism*. Russia was the only major European power where such a system existed.

This socioeconomic structure was *feudalism* because the principal means of production of the period (land) were owned not by those who tilled it (the peasantry) but by those who enjoyed the fruits of the peasants' labor (the feudal class) thanks to an economy based on serfdom.¹

The serf system meant that the Russian peasant was attached to the land of his feudal owner. The Russian serf, for the right to work a piece of land "given" to him by his land owner and which the peasant needed to procure the means of his own subsistence from, had to spend a certain period of time producing a surplus product for his land master. Depending on the country's region, there were two ways the surplus product was produced.

One way was called *barshchina* (the *corvee* system). It was common in areas where the land was more fertile and where therefore the peasant worked, without pay, several days a week on a plot that remained in the hands of the land owner.

The other way was called *obrok* (the *quitrent* system). This method was used in regions where the land was less fertile. Under this system, the surplus product took either a natural (physical) form of *metayage* (the peasant produced agricultural products for his landowner, free of charge) or the surplus product took a monetary form (*quitrent per se*) where the serf periodically gave his landowner a

certain amount of money. The serf procured the money for the feudal master either by selling a portion of the agricultural product produced by the serf or by the serf being employed somewhere during the off-season period.

Russian feudalism was *mixed* feudalism, for it was a combination of individual, corporate (the Russian orthodox church), and state forms of landownership based on the labor of serfs. If we disregard free peasants in the Baltic region, Finland, Poland, and Siberia, then it can be said that by 1850 around half of Russia's serfs had belonged to individual feudal families (*pomeshchiki*, the gentry). Among them, the Czarist family was a major individual feudal holder of land and peasants. The second half of the Russian unfree peasantry was owned by the Russian state (in a sense a corporation of the Russian bureaucracy) and the Russian orthodox church (in a sense a corporation of the orthodox church bureaucracy).

The peasant village commune, or mir

A characteristic feature of the period was the existence of the *mir* (the peasant village commune).² Its role in the life of Russian peasants can hardly be exaggerated for two reasons.

First, those pieces of land that feudal lords of various forms (individual, corporate, and state) assigned to the peasants for cultivation were in the actual possession of the village commune, not the individual peasant families. Second, the internal and external affairs of the *mir* were the domain of the village elders who periodically redistributed parcels among members of the village commune (individual peasant families).

From this, the following can be inferred. First, the *mir*, in the person of its elders, played the role of a village self-government. Second, the *mir* performed the function of an intermediary between the landowners and individual peasant families. As a result, the village commune was one of the basic pillars of feudalism in Russian society.

Non-agrarian merchant and manufacturing feudalism

Besides agricultural feudalism as a principal socioeconomic relation, before 1861 in Russia there were also elements of non-agrarian merchant and manufacturing feudalism. Although commerce and manufacturing were the basic realms of their activities, they, nevertheless, might be characterized as feudalism because they were based on an exploitation not of free hired labor but that of Russian serfs.

At the same time, one should not overlook some contours of the emerging free urban population: artisans, small traders, usurers, etc. But the significance of rising lower middle classes at

this particular period of Russia's development should not be exaggerated: in the middle of the nineteenth century, of 36 million people residing in the Russian empire only about 5 million people were free city dwellers. This constituted around 14 percent of the entire population of the country.³

The peculiarity of the period

It is important to emphasize the dependence of everybody and everything on the state bureaucracy during this time. The will of the bureaucracy, beginning with the bureaucrat of highest rank, the Russian Czar, was applied to the serf peasantry which supplied the Russian military with soldiers, to the feudal lord (*pomeshchik*) who out of fear that his land and his peasants be taken away by the Russian government was obliged to a certain compulsory service for the state and the Czar, to the artisan and merchant who paid taxes to the state treasury and to the church which from the time of Peter the Great had been an integral part of the government mechanism, and so on.

Some statistical data on the economic position of Russia in 1860

In terms of industrial production, in 1860, among the eleven major economic powers, the Russian economy occupied ninth - tenth place which Russia shared with Italy. Below Russia was Japan (at eleventh place) and above were Spain (eighth place), Sweden (seventh place), Germany (sixth place), France (fifth place), Switzerland (fourth place), the USA and Belgium (second - third place), and finally Great Britain (first place).⁴

The abolition of serfdom: 1861

Such was the socioeconomic structure of Russia before the Crimean war of 1854 - 1856. The war, which Russia waged against Great Britain, France, and the Ottoman empire and which Russia lost, revealed a complete bankruptcy of this feudal system of serf labor, on the one hand, and a complete supremacy of British and French capitalism based on free labor, on the other.

Causes for the abolition of serfdom

The military defeat forced the Russian ruling feudal-bureaucratic class to admit the necessity of deep socioeconomic and political reforms. The result was a promulgation of Czarist edicts, the most significant of which was that of 1861, which led to the abolition of serfdom. This was due to the fact that the serf labor system had become ineffective in maintaining the old feudal order as well as in preserving Russia's very empire.

There were several reasons for this. First, obliged to periodically redistribute their plots within the village commune, the peasants had no incentive to maintain the land's fertility, to say nothing of its improvement. Second, the system of *barshchina*, according to which the serf had to produce free of charge the surplus product for his feudal lord on the latter's land, provided no stimulus for productive labor. Third, labor inefficiency caused a grievous state for many peasant families who channeled their anger into uprisings that were becoming more and more frequent. Fourth, the low efficiency of serf labor, insufficient capital to modernize agricultural production, and competition from less expensive American grain exports in European markets—all of which were undermining the material well-being of many members of the landowning class. As a consequence, the economic conditions of the gentry were becoming more and more dependent on incomes its members were receiving serving the state as military officers and government bureaucrats. Fifth and finally were the illiteracy and poor health of the children of serfs who were drafted as soldiers into the Russian military for a period of 25 years and the extreme backwardness of the Russian military industry based on serf labor—these factors were increasingly weakening the military might of the country and threatening the very foundation of the Russian empire.⁵

Major consequences of the abolition of serfdom

Since the peasantry comprised the vast majority of the Russian population, the abolition of serfdom was equivalent to freeing the entire population of the empire. The emergence of free labor as one of the most important factors of production opened the way to transforming Russian feudalism into capitalism.

But the road was very bumpy. The same circumstances that caused the abolition of serfdom, created obstacles to the movement along the road from feudalism to capitalism.

The most significant hindrance was the preservation of a feudal-serf institution like the village commune. Thanks to its continuing existence, the feudal-bureaucratic state, as before, was able to hold under its control the peasant population.

For, in the end, the main task of the Czarist regime in repealing serfdom was not the country's economic development (though such an outcome was dictated by the realities of the second half of the twentieth century). The principal goal was to save Czarism itself from peasant uprisings threatening the very existence of the Russian monarchy.

Moreover, the problem of peasants's labor inefficiency did not go away despite formal freedom granted peasants by the government. This problem was conditioned by several peculiarities of land distribution among peasant families.

First, former serfs received only half of feudal land and this was not of a very good quality. Such a quantitative and qualitative land starvation brought about discontent among peasants. Their dissatisfaction was directed against individual, Czarist, church, and state ownership of land.

Second, the Russian peasant was given parcels of land of individual landowners not for free but by means of land redemption. The latter was tantamount to an additional tax on a peasant household.

The mechanism for redemption consisted in the following measures. The government bought the gentry's land and gave it to the peasants. The latter had 49 years to repay the amount the government paid the gentry. The size of redemption which an individual peasant household had to pay depended on the number of people in the household. The amount which was more or less acceptable to the gentry class was utterly unacceptable to the peasant class. Furthermore, the peasantry vigorously objected to the very idea of land redemption believing that land was given by God to those who till it.

Third, in many cases it was the village commune, and not an individual peasant family, which received land. And it was the *mir* which was responsible for paying the amount of redemption of individual peasant households. If poorer peasant households were unable to pay their debts, it was the responsibility of more prosperous peasants to fill the gap. It is obvious that in such cases the peasants' disincentive to accumulate capital had to significantly increase.

Fourth, the per capita character of redemption payments did not allow formally free individual peasant families to leave the village commune and work in the cities. Otherwise, the diminishing numbers within the peasant family had to pay the redemption fees.

Fifth, no peasant household was allowed to privatize its plot and leave the *mir* until all the redemption payments had been made by the household.

Sixth, as in the pre-reform period, plots were allotted to individual peasant families only for a certain time. This was because village land had to be periodically divided among individual households of the *mir*. Thus, as earlier, the incentive to invest capital to uphold or improve land quality suffered.⁶

However, despite the many negative features of the liberation of peasants, there were positive aspects. In the final analysis, the abolition of serfdom led to the start of the disintegration of the archaic peasant commune, the pillar of the feudal-serf system, and to a further undermining of feudalism whose backward forced methods of economic management could not satisfy the country's needs in grain, material and labor resources. Hence, despite all these obstacles, Russia opened the path to capitalism.⁷

After the abolition of serfdom: 1861 - 1917

Obviously the Czarist regime had no desire to commit suicide by completely loosening the feudal-bureaucratic system. On the contrary, it was in the interests of a significant part of the Russian nobility to strengthen the system.⁸

Nevertheless, the nobility's class interests demanded a consolidation of the economic foundation of the existing socioeconomic structure. Under the conditions of the second half of the nineteenth century, of rapid development of world capitalism and especially after the abolition of serfdom (despite its admittedly limited and partial character), Russian economic growth and development could be achieved only by applying capitalist methods in administering the economy with the purpose of restructuring a predominantly agricultural country into a predominantly industrial one.

The railroad construction

In the second half of the nineteenth century, one such method towards this was the construction of railroads. For many countries of the world, railroad building became a catalyst which, through the multiplier process, favored the emergence of new industrial sectors.

Russia was no exception. Already in 1851 a railroad line connecting the two capitals, Moscow and St. Petersburg, was built. However, in 1861, the length of Russian railroads in comparison to its population and its territory was the smallest among the major economic powers of that time, except Japan.⁹

But with the help of the Russian government (which provided private railroad construction companies with subsidies, low-interest credits, and inexpensive state insurance), the length of Russian railroad lines in 1861 - 1913 grew at a rate exceeding that of all other major industrial countries of the world, except Norway. Moreover, in 1913, the length of Russian railroads was the largest in the world, except the USA.¹⁰

Some data on the industrial production

Railroad construction stimulated the production of cast iron, crude steel, coal, raw cotton, etc. As a result, for more than fifty years, Russia had achieved considerable progress in the production of principal items typical for the period of industrial revolution. Due to the very high rates of production of these items in comparison with other major industrial countries, in 1913 Russia was able to significantly reduce the gap between itself and the latter. Russia was even in a position to exceed the level of production in some of these items compared with some developed nations.¹¹

Overall indices of the economic development

But Russian agriculture was growing at a much lower rate than its industry (though at a higher rate than the agricultural sectors of many developed countries of that time).¹² This, of course, was reducing the rate of growth of the Russian economy as a whole.

Nevertheless, since the overall rate of economic growth in Russia was greater than in many other major industrial countries, in 1913 as compared to 1861, Russia not only achieved great economic success¹³ but also in terms of some overall economic indices had to be recognized as one of the world's major economic players. Thus, in 1913, Russia's national income was only behind that of the United States, Germany, and Great Britain.¹⁴ In 1913, Russia became the world's fourth largest economic power.

But if one measures a country's economic might not in total but in per capita terms, then in this respect in 1913, just prior to World War I, Russia remained a backward country with a predominantly agricultural population unable to realize the vast possibilities of its enormous resources, territory, and population¹⁵. In 1913, despite its rapid economic growth, in terms of per capita national income Russia was behind every major economic power of that period due to an even more rapid increase in its population. To illustrate, Russian per capita income was lower than that of: Austro-Hungary by 1.6 times, Spain by 1.7 times, Italy by 2.2 times, France by 2.5 times, Sweden by 2.9 times, Germany and Netherlands by 3.1 times, Great Britain by 4.9 times, Norway by 5.5 times, and, finally, the USA by 8.7 times.¹⁶

In 1913, the correlation of the main indices of the development of the Russian economy in comparison to that of the developed capitalist countries of the period was as shown in Table 1.1:

Table 1.1
Production of Principal Industrial Products per Capita in Russia as
Percentage of Production per Capita in the USA, Great Britain, France and
Germany in 1913¹⁷

Indices	Russia as a Percentage of			
	USA	Great Britain	France	Germany
Cast Iron	8	12	12	8
Steel	8	16	16	9
Iron Ore	9	16	6	37
Coal	3	3	16	5
Oil	18	-	-	-
Gas	0.05	0.1	-	-
Electricity	5	13	26	-
Cement	7	17	23	-
Cotton Cloth	21	7	-	-

Accordingly, Russia lagged behind the USA in per capita output in 1913: in iron ore, 53 years; in pig-iron, 48; in steel ingots, 30; in rolled steel, 24; and so on.¹⁸

Agricultural reforms

One of the major reasons for this lag, as was mentioned earlier, was the state of Russian agriculture. It remained backward, patriarchal, and communal. It was unable to keep pace with industrial development and satisfy industry's need for labor, raw materials, and foodstuffs. Furthermore, Russian peasants who were dissatisfied with the conditions of their liberation from serfdom very often revolted against their former landowners. This further aggravated the agricultural sector's lagging behind industrial production and created additional problems for the latter's development.

As a result, these realities of the twentieth century urged on a part of the feudal-bureaucratic leadership to embark on new reforms in agriculture to demolish the old patriarchal, communal and landlord structure and increase the number of individual farmers in Russian villages. The goal was to create a class of farmers who could further peasant support for Czarism.

These necessary reforms began in earnest in 1903 when the village commune's responsibility for paying redemption fees owed by each peasant household to the government was abolished.¹⁹ Such a measure allowed some peasant households to pay off their share of redemption fees and after that freely, without paying attention to the attitude of other members of the village commune, decide for themselves whether they wanted to remain in the *mir* or not.

In 1906 - 1907, the Russian government wrote off the entire peasants' debt.²⁰ Peasant households which were able now to use the released monetary funds as they wished, could improve their economic conditions which, in turn, reduced the level of their protests against the gentry regime.

Finally, Stolypin's reforms²¹ permitted some peasants (usually more prosperous ones) to leave the *mir* with that plot which peasants tilled while they remained in the village commune. When World War I began, about two million peasant families left village communes in order to become Western-type individual farmers.²²

Political reforms

These socioeconomic reforms were accompanied by political reforms: the Russian political system, not always consistently and not without temporary steps backwards, was gradually being transformed from an authoritarian Czarist regime toward a constitutional monarchy. For, the abolition of serfdom demanded new organs of power which could substitute for those administrative

and juridical functions which had been a prerogative of the local gentry.

Under these circumstances, in 1864 there emerged the *zemstvo* (an elective district council) as a local self-government institution. Despite the fact that the mechanism of election to this institution was arranged in such a way that it patronized the gentry first and foremost, that the *zemstvo* was greatly curtailed in its right to collect taxes and that its activities were under the constant control of the police and government bureaucrats, this institution represented a great step forward in the political life of the country. Guaranteeing financial support for the construction of schools and hospitals in rural areas, the *zemstvo* was laying the groundwork for local initiative and thus for the formation of civil society in the country.

The emerging bourgeoisie class was becoming economically significant to such a degree that it began insisting on a certain redistribution of political power in its own favor. At the same time, the working class, coming into being with the class of bourgeoisie, began its struggle for political safeguards for such socioeconomic conditions of existence as the eight-hour working day, paid vacations and overtime, the right to strike, and so on.

Czarism, weakened morally and militarily in 1904 - 1905 by its unsuccessful war against Japan and then by the 1905 revolution which followed the war, finally had to make one more political concession, but this time in the direction of some decentralization of its political power over Russian society. In 1905, Russia, for the first time in its imperial history, was given a constitution, thus in some ways limiting government power that was hitherto unrestricted. The constitution provided the legal right to organize political parties. In 1906, the *Duma* (state assembly) was convened and began to germinate parliamentary power.²³

Thus, under the conditions of the abolishment of serfdom, the beginning of industrialization and the emergence of the bourgeoisie and the working class, a slow and gradual transformation of the Russian political system into a constitutional monarchy was charting a course for the conversion of the Russian socioeconomic system into *democratic mixed capitalism*.

Two major obstacles to the road of democratic mixed capitalism

But the transformation to a new society was complicated by two serious factors as compared to more developed countries: first, too much involvement by the Russian state in economic affairs which bred corruption among both the Czarist bureaucracy and the fledgling urban and rural bourgeoisie and second, considerable control by foreigners over the Russian economy. These two points need to be further elaborated.

The government and the emerging bourgeoisie. Let us start with corruption. The railroad construction and the sectors of industrial production needed for its development brought to life a class of Russian entrepreneurs “recruited” from the bureaucracy, the gentry, and religious minorities, such as Jews²⁴ and Old Believers²⁵.

These private business undertakings by individuals not associated with physical labor but instead directed towards arbitrating the unbalances in deficits and surpluses periodically appearing in the economy, caused hostility and irritation in a predominantly peasant society, i.e., in a country where the vast majority of people belonged to the Russian orthodox church and were engaged in hard physical labor. Many from this large majority of ordinary people looked at the activities of those whom they considered outsiders as being speculative and parasitical in nature. The same attitude to the emerging class of bourgeoisie was displayed by that part of the gentry which was unable or did not want to adopt capitalist methods of economic administering.

This situation of hostility to free entrepreneurship could not but affect the position of the bureaucratic-feudal rulers. They too were annoyed that in a country where traditionally a great many activities had to be approved by the authorities, there appeared people, mostly either non-Russians or religious apostates, who wanted to take initiative in their own hands.

From all of this follows that the emerging Russian bourgeoisie was dependent on government bureaucrats for its well-being. The very opening of private business required permission from the government hierarchy: from the Czar himself if it was a corporation and in other cases, from a bureaucrat of either regional or local level.

It is natural that under these conditions an ancient Russian practice continued to hold prevalence: who was given permission to conduct what kind of business and when one could expect to receive a subsidy, low-interest credit or state supported and/or guaranteed insurance, all of these depended on the proximity of the potential investor to a bureaucrat responsible for the decisions and the amount of graft provided to the latter.

But the traditional necessity to bribe government officials did not deter people who wanted to open their own business. For, in a country, fantastically rich in its potential but relatively backward in its actuality, there existed enormous possibilities for receiving unbelievably high profits (as compared to the world’s more developed countries). In other words, potential capitalists were able to afford bribes as part of their business expenditures because a young and growing Russian market was providing great opportunities for abnormally high rates of return on their investment.

But by corrupting both government officials and the bourgeois and thus, in the final analysis creating a monopoly position for

some economic agents who were lucky to be close enough to the “right” person, bribes prevented “honest” competition. This resulted in high monopoly prices, low monopoly production and high monopoly profits.

The foreign influence. Let us conclude now with the foreign influence. By pursuing its objectives of preferential credit and insurance policies for railroad construction and for the creation and extension of the country’s industrial base, the Czarist government desperately needed financial resources.

The most important source of such necessary resources was high taxes applied to the Russian peasantry. By reducing peasants’ consumption of agricultural products, the measure allowed the government to sell this “saved” part of agricultural produce to foreign consumers for foreign currency.

But despite very heavy taxation of peasants, this type of government revenue was not sufficient due to the backwardness of Russian agriculture. Therefore, a second source of revenue to government coffers was found: foreign loans and investment.

According to some estimates,²⁶ private (non-government) foreign capital (namely, British, French, German, and Belgian) invested in the Russian economy in 1913 accounted for around 33 percent of the entire amount of private capital in the country. These firms, the owners of which were foreigners, were functioning in various branches of the Russian economy.²⁷

Among these branches, the banking industry occupied a very important position.²⁸ Here foreign ownership was predominant.²⁹

What was attracting the Western corporations to the Russian market which was characterized by high protective tariffs? These were a *quantitative* element (expressed in the degree of the capitalist development of Russia) and a *qualitative* element (expressed in the form of the capitalist development).

The relative *quantitative backwardness*, statistical data on which has already been presented, was giving the Western firms great opportunities to participate in rapid economic growth of Russia. The relative *qualitative backwardness* manifested itself in the fact that at the end of the nineteenth-the beginning of the twentieth century Russia was behind the advanced capitalist countries by a whole epoch.

Tugan-Baranovsky shows the implications of this relative qualitative backwardness on the inflow of foreign capital comparing the development of Russian and British capitalism at the end of the nineteenth century. He writes:³⁰

... let us compare, for example, the effects of a new railway line constructed in Russia and in England. In Russia, a new railway opens a new market for capitalist industry. Previously the peasants living in the given region perhaps did not purchase any factory-made products. Now, they can obtain these products in exchange

for their own. That market which England seeks in the distant lands of Africa and Asia, thousands of miles away, for the Russian manufacturer is opened up in his immediate vicinity thanks to the construction of a new railway. In England, on the contrary, a new railway does not open up any new market because the population of the corresponding region had already been participating in commodity exchange.

Capitalist industry in old capitalist countries can grow, so to speak, only at its own expense, whereas young capitalism grows also at the expense of other economic forms which it displaces.

Precisely in this difference lies the key to understanding the migration of capital from the old countries to the new, which is such a powerful factor in expanding the capitalist method of production throughout the entire globe... . There is not the slightest doubt that in no European country are market conditions developing so favorably for the growth of capitalist industry as in Russia. And a proof of this is that no European country is such an attractive place for the investment of foreign capital in Russia. The high rate of profit in Russia unquestionably testifies to the capaciousness of the Russian market.

This high rate of profit always attends the first steps of capitalist production and stresses, in the main, the fact that until capitalist production becomes the dominant form of industry the profit of a capitalist producer includes a share of the value extracted not only from the production process (as in a developed capitalist economy), but also from the selling process... . It is this possibility of, so to speak, shearing the sheep twice, of burning the candle at both ends that holds the secret of Russia's attraction to foreign capitalists. In Russia the capitalist seller is in a privileged, monopolistic position; he cannot but lose with the further growth of capitalist production.

The market for capitalist industry is most favorable in such countries as Russia, where there is an abundance of natural wealth, and where a vast population still has not broken away from the old, archaic economic forms.

We have intentionally presented a long exposition here in order to show the *qualitative* difference between the development of Russian and British capitalism at the end of the nineteenth century. Britain had already passed the phase of highly developed individual, pre-corporate capitalism, and there was an absence of self-sufficient economy of any significant importance. In Britain, which by that time had done away with feudalism and serfdom, the further development of capitalism meant the transformation from a private individual capitalist form of commodity production into a corporate one. The "old" country, Britain, was thus getting away from the stage of the development of commodity production which the "new" country, Russia, was aspiring to. Pre-corporate, individual capitalist commodity production was becoming increasingly obsolete in Britain, but Russia was being transformed from feudal production based on self-sufficiency into simple commodity production and individual, pre-corporate commodity production.

This is not to say that at that time there was no process of the creation of corporate capitalism in Russia. There was, and it accompanied both simple and individual capitalist commodity production. In Russia, as in the West, the same process of the emergence and development of corporations was taking place during the period: from 1889 to 1898, the number of stock companies had increased almost six times (29 in 1889 and 153 in 1898).³¹ However, the formation of corporations in Russia was taking place in those sectors of the economy where foreign capital dominated.³²

It can be said, therefore, that, penetrating into the Russian economy in order to extract very high profits, Western capital, objectively (that is, not intentionally), was helping the conservation of the Russian dual socioeconomic system (the system of the coexistence between capitalism of individual, pre-corporate and corporate forms, on the one hand, and the remnants of feudalism, on the other). In such, Western capital was promoting the development of capitalism only in particular branches of Russian industry and in such a fashion as to slow down the development of capitalism in the country as a whole and in the form which was becoming dominant in the period: the corporate one.

The growing financial-economic dependence of Russia on the world's more advanced countries of the time was threatening to develop into her political dependence. The threat was materialized during World War I.³³

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Notes to Chapter 1: The Distinctive Socioeconomic Features of the Russian Empire: the 1850s - March 1917

- 1 There were exceptions. There were regions with no serfdom: the Baltic region (present-day Latvia, Lithuania, and Estonia), Finland, and Poland where serfdom was abolished in the beginning of the nineteenth century. Also, Siberia knew no serfdom: the region was too remote from the European part of Russia and was very sparsely populated. In particular, serfdom was not on the agenda of the Russian government in the area in order to encourage its settlement by Russian peasants.
- 2 On *mir* and its role in the life of Russian peasants scattered along the vast territory of Russia, see, for instance, M. Lewin, *Russia/USSR/Russia. The Drive and Drift of Superstate*. New York: The New Press, 1995, ch. 2.
- 3 H.M. Heyman, *Russian History*, New York: McGraw-Hill, Inc., 1993, p. 187.
- 4 A. Nove, *An Economic History of the U.S.S.R.*, New York: Penguin Books, 1982, p. 15.
- 5 The war served as a catalyst for the abandonment of the feudal system in Russia. As Hutchings observes, in the war the Russians, "[a]lthough they had a large numerical superiority, and were fighting to defend their homeland ... failed to defeat the British and French. Apparently there was something seriously amiss in Russia, and the obvious culprit was serfdom. [As a result,] [t]he new Tsar, Alexander II, had decided on reform" R. Hutchings, *Soviet Economic Development*, 2nd ed. New York: New York University Press, 1982, p. 18).

- 6 The conditions of land redemption were more favorable for Czarist and state peasants.

On the detailed provisions of the decree of emancipation (1861), see, for instance, N. Druzhinin, "The Emancipation Legislation," in T. Emmons, ed., *Emancipation of the Russian Serfs*. New York: Holt, Rinehart & Winston, 1970, pp. 19-254; and on the motives of the reform, see T. Emmons, *ibid.*, pp. 57-88.

- 7 Gerschenkron notes that "the abolition of serfdom ... is said to mark the dividing line between two periods in Russian economic history, sometimes ... referred to as feudalism and capitalism" (A. Gerschenkron, *Continuity in History and Other Essays*. Cambridge, Mass.: The Belknap Press of Harvard University Press, 1968, p. 140).

- 8 We say "a significant part," because another part of the gentry which managed its economic affairs in a capitalist manner had outgrown feudal ways of management.

- 9 A. Nove, *An Economic History of the U.S.S.R.*, p. 15.

- 10 See P.R. Gregory and R. C. Stuart, *Soviet and Post-Soviet Economic Structure and Performance*, fifth ed., New York: Harper Collins College Publ., Inc., 1994, pp. 18-19.

For instance, the total extent of newly opened railways for the period from 1891 to 1899 was increased from 118 *verst* (one *verst*=3,500 feet) to 4,692 *verst*, or almost 40 times. In no other country, in its period of most active railway building, did so much construction progress so vigorously (see M. Tugan-Baranovsky, *The Russian Factory in the XIX Century*, trans. from the 3rd Russian ed., published for the American Economic Association. Homewood, Illinois: Richard D. Irwin, 1970, p. 294).

- 11 The growth was even higher than that of the United States of that period. Nutter estimates that "Russian industry grew slightly faster than American industry over the period 1870-1913, the respective average annual rates being 5.3, 5.1 percent" (G. Nutter, *Growth in Industrial Production in the Soviet Union*. Princeton, N.J.: Princeton University Press, 1962, p. 226).

- 12 Gregory and Stuart, *Soviet and Post-Soviet Economic Structure and Performance*, 1994, pp. 18-19.

- 13 Lenin (V. Lenin, *Collected Works*, 4th ed., Vol. 3: *The Development of Capitalism in Russia*. Moscow: Progress Publishers, 1972, pp. 596-597) comments on this period:

"The post-Reform epoch differs radically ... from previous epochs in Russian history. The Russia of the wooden plough and the flail, of the watermill and the handloom, began rapidly to be transformed into the Russia of the iron plough and the threshing machine, of the steam-mill and power-loom ..."

- 14 Gregory and Stuart, *Soviet and Post-Soviet Economic Structure and Performance*, 1994, pp. 18-19.

- 15 Fr.-Chirovsky (N. Fr.-Chirovsky, *The Economic Factors in the Growth of Russia. An Economic-Historical Analysis*. New York: Philosophical Library, 1957, pp. 29-30) confirms that:

"Any remarkable industrial development in Russia was consummated only after 1890, but on the eve of the First World War the results achieved were still rather moderate, and below the potential capacity of the Empire, enormously rich in natural resources... Russian heavy industry, chemical and pharmaceutical industry, and machine

- construction were almost negligible. Only one-third of the total Russian consumption of industrial produce and appliances was covered by Russia's own industrial manufacturing, while two-thirds were imported."
- 16 Gregory and Stuart, *Soviet and Post-Soviet Economic Structure and Performance*, 1994, pp. 18-19.
- 17 See TsSU SSSR, *Narodnoie Khoziaistvo SSSR v 1959 g.* [The National Economy of the USSR in 1959]. Moscow: "Statistika," 1960.
- 18 W. Rostow, *The Stages of Economic Growth. A NonCommunist Manifesto*, 2nd ed. Cambridge: Cambridge University Press, 1971, p. 97.
- 19 Gregory and Stuart, *Soviet and Post-Soviet Economic Structure and Performance*, 1994, p. 21.
- 20 Ibid.
- 21 Peter Stolypin who became Russian prime-minister in 1906 introduced these reforms. Convoy (M. Convoy, *Peter Arkad'evich Stolypin. Practical Politics in Late Tsarist Russia*. Boulder, Colorado: Westview Press, 1976, p. 45) writes on the significance of the Stolypin agrarian reforms for the capitalist transformation of Russian society and its subsequent political stability:
- "The agrarian reforms were among the few improvements contemplated just before and during the early stages of Stolypin's administration which actually saw the light of day. Undoubtedly they were key measures, for the principles they embodied might have revolutionized peasant agriculture and they implied also great social and political transformation—which, to be sure, would be realized only gradually".
- 22 A. Nove, *Stalinism and After: The Road to Gorbachev*, third ed., Boston: Unwin Hyman, 1989, p. 16.
- 23 Here is how Berdyaev (N. Berdyaev, *The Origin of Russian Communism*. New York: Charles Scribner's Sons, 1937, pp. 133, 124) describes the times of political changes which were taking place prior to the fatal year of 1914:
- "This was the period of the Imperial Duma and the beginnings of the Russian parliament, which was still rather limited in its rights; the period of the formation for the first time of a great liberal party known as the Kadets... . In the upper levels of Russian life, it appeared as if liberalism was beginning to play a fairly important part, and with it even the Government had to be reckon."
- 24 In contrast to Soviet and post-Soviet practice, in Czarist Russia people were considered Jewish not according to their "blood," but in accordance with their religion of Judaism.
- On the problems of defining Jewishness, see, for instance, E. Raiklin, "On Inconsistencies in the Modern Definition of Jewishness," *International Journal of Sociology and Social Policy*, Vol. 13, No. 1, 1993, pp. 18-63.
- 25 Old Believers were either of a merchant or peasant origin.
- 26 A. Nove, *An Economic History of the U.S.S.R.*, pp. 18-19.
- 27 Here is an observation of this phenomenon detailing Nove's account:
- "Foreign capital had long participated in Russian economic activity. Even in 1890 between one-quarter and one-third of all investment in Russian joint-stock companies was held abroad. But it was in the decade of the 1890s that the flow of capital rose substantially... . foreigners had invested some 214.7 million roubles in Russian enterprises by 1890. In 1895, the total stood at 280.1 million roubles, and thereafter came a

huge increase. By 1900, the total had reached 911 million roubles, representing roughly one-half of joint-stock company investment in Russia. At this stage there were 269 foreign companies operating in Russia, all but twelve having been founded since 1888. Foreign capital continued to flow into Russia after a lull following the 1900-06 crisis. Between 1906 and 1914 the volume of foreign investment doubled, and by the outbreak of the First World War some 2,000 million roubles of foreign capital had been invested in Russia.

Foreign investment was important not simply for its volume. A large share of investment was concentrated in those industries which provided the spearhead of Russia's industrialization. Heavy industries in particular attracted a large proportion of foreign capital. Roughly half of the total foreign investment in Russian enterprises during the 1890s went into southern mining and metallurgical industries, and foreign capital may have accounted for nearly 90 per cent of total capital investment in this sector in 1900. Foreign concerns also dominated the oil industry in Caucasus, and foreign capital provided roughly one-half of investment in machine production in 1900" (M. Falcus, *The Industrialization of Russia, 1700-1914*. London and Basingstoke: Macmillan, 1972, pp. 70-71).

Tugan-Baranovsky mentions in this connection that in Southern Russia "of the existing enterprises ... only two can be called purely Russian... . The others belonged either to foreigners or to foreigners and Russians jointly" (Tugan-Baranovsky, *The Russian Factory in the XIX Century*," p. 270).

28 "Foreign interests also predominated in many of the major banking concerns. Since the banks in turn played a significant role in the finance of industry and transport, especially after 1907, the vital part played by foreign capital in Russia's industrial expansion cannot be doubted" (M. Falcus, *The Industrialization of Russia, 1700-1914*. pp. 70-71).

29 Olga Crisp (O. Crisp, "French Investment in Russian Industry, 1894-1914," *Business History*, Vol. 11, June 1960, p. 89) notes that

"... by 1916 the French had invested in the 12 main Russian joint-stock banks an estimated 100 million roubles which represented 22 per cent of the total capital of the banks, and 50.5 per cent of total foreign investment in Russian banks. The Germans held 16 per cent, and the British 5 per cent of the total share of Russian banks.

The Russian banks fell into two distinct groups as regards to foreign capital participation: four banks were of a pronounced French orientation and five of German orientation; in two other banks both French and German capital were represented in more or less equal proportions. French banks also played an important part as suppliers of short-term credits to Russian banks. It has been estimated that the French accounted for about one-half of the short-term credits to 17 Russian joint-stock banks during 1909-11."

30 Tugan-Baranovsky, *The Russian Factory in the XIX Century*," pp. 294-295.

31 V. Lenin, *The Development of Capitalism in Russia*, p. 515.

32 See notes ##26, 27, and 28.

33 Events leading to the war which had such a profound effect on Russian socioeconomic development are discussed, for instance, in W.B. Lincoln, *Passage Through Armageddon. The Russians in War and Revolution. 1914-1918*. New York: Simon and Schuster, 1986, pp. 34-40.

PART II
THE PRE-SOVIET SOCIOECONOMIC SYSTEM:
THE 1850'S - NOVEMBER 1917¹

Chapter 2

**The Distinctive Socioeconomic Features of the Russian
Parliamentary Republic: March - November 1917¹**

Be that as it may, in the beginning of the twentieth century, Russia, as it was pointed out earlier, was moving in the same direction as many advanced countries of the world: to *capitalism*. The latter's development, since the nineteenth century, has been accelerating, deepening and widening, thus irresistibly reaching, seizing and carrying away more and more countries of the world.²

But capitalism, which was triumphantly marching across the globe as a *general* socioeconomic phenomenon, was increasingly dressing itself in the *particular* clothes of a mixed economy and liberal democracy. That is, capitalism as it emerged in Western Europe after the final defeat of feudalism and in the United States after the civil war was becoming *democratic mixed capitalism*.

As it was discussed earlier, although experiencing it late as compared to the nations of Western Europe and North America,³ the Russian empire of the last decade of the nineteenth and early twentieth centuries was one of those countries being rapidly approached, penetrated and transformed by the capitalist hurricane. On this road, beginning with the emancipation of the serfs in 1861, by the means of socioeconomic reforms initiated by Stolypin and through political reforms, the empire was heading towards a *democratic mixed capitalism* of a political type of *constitutional monarchy*.

This was a direction taken by the Russian empire prior to that fateful year in its history, 1914. The word "taken" should not be understood as a deliberately voluntary act *chosen* by the Russian ruling circles. Quite the contrary. Since the Crimean War of 1854-1856, the Russian nobility and the Russian Czars had been *forced* to follow the mixed capitalist path which was becoming more and more democratic in its political outlook.

With sufficient time, the movement would have become irreversible, and the *democratic mixed capitalist* system which was becoming prevalent in the Western world would have ejected the socioeconomic and political remnants of feudalism and would have been organically entrenched into the Russian body. With sufficient time ...⁴

The role of World War I (WWI)

This precious time was not given to the country. The First World War⁵ delivered a mortal blow to the growing but still extremely young and immature plant of *democratic mixed capitalism* developing within the Russian feudal organism.⁶

That the war resulted in military defeats and economic and political collapse can be partly explained by the unfortunate combination of such accidental circumstances as the weakness of the Russian Czar (emperor) Nicholas II, the ambitious, vindictive and mystical nature of his wife, the Czarina (empress) Alexandra Fedorovna, and the ill-fated influence of the "holy elder," G. Rasputin.⁷

But it must be stressed that the individual features of the great historical drama did not cause the breakdown of the czarist regime. They simply speeded up the process of its disintegration:

[i]t would ... be a mistake to overemphasize the inadequacy of the emperor, the ill-advised interference of the empress, and the shame of influences such as that of Rasputin. Even had the core of the autocratic regime been sounder, it is difficult to see how the progressive degeneration of a country too weak to support the frightful stresses of the war could have been checked. It should not be forgotten that all the other major belligerents, though economically, socially, and politically far healthier and stronger than Russia was, suffered frightfully from internal exhaustion... . The early defeats and the inability of the Russian commanders to repair the damage had been prepared by conditions that have little to do with the personalities in the capital.⁸

The dual power as a consequence of the breakdown of czarism

Thus, the war first greatly weakened the monarchy and finally, washed it away from the Russian scene.⁹ The political vacuum created by the fall of the monarchy was quickly filled by the Provisional Government, which for a short historical moment (February - October 1917) was brought to the surface by the flood of these events.

The February Revolution was not a product of any deliberate actions. It actually took everybody by surprise. "Rarely has history witnessed such a sudden and total collapse of power as occurred in those March [the new style] days of 1917."¹⁰

Although within the Provisional Government there was a gradual shift from the right to the center to the left,¹¹ its major goals remained intact. These were the continuation of the war to the victorious end¹² and on the path of mixed capitalism, first, in a form of constitutional monarchy advocated by the Lvov government, and, finally, in a form of parliamentary democracy put forward by the Kerensky government.¹³

But together with the Provisional Government there emerged in the former Russian empire a parallel political body, the *soviets*, with a power which in some cases matched and surpassed that of the Provisional Government. The duality stemmed from the economic and political weakness, inexperience and naivety of all the classes and political parties of the new Russian society.

These included the bourgeoisie which had been protected by the monarchy prior to the latter's destruction; which dreamed of a harmonized and civilized democratic capitalist social structure; and whose interests were represented by the Provisional Government. Among them there was also the majority of the working class of the recent peasant background with its peasant mentality and illusions about equality; which demonstrated these ideas in the utopian strife for "socialization" of means of production; and whose fancied desires were expressed by the *soviets*.

Then there was the majority of the peasantry whose experience was predominantly in the peasant commune with its periodic and equal redistribution of land; which, in the old Russian tradition, was waiting for a "good" and "just" ruler to "give" them the land; and whose interests were also represented by the *soviets*.¹⁴

The end of the Russian parliamentary republic of March-November 1917

The causes of the end

Since "[t]he basic question of every revolution is that of state power,"¹⁵ the *duality of power* paralyzed the February Revolution. The duality clearly showed that the people of a new Russia were not ready for political democracy, because the latter presupposes a strong appreciation for economic institutions of non-government private property. But to be appreciated something must first exist.

In 1917, the vast majority of Russian society consisted of peasants, and non-capitalist subsistence agriculture within the agricultural commune (*mir*) was the predominant form of economic activity. The prevalent tradition of economic ownership of Russian society had been domestic state and non-state feudal property, domestic and foreign state capitalist property, and non-state foreign capitalist property, with Russian indigenous non-state capitalism playing a subordinate role.¹⁶

In a class society, where there is no respect for the property of others, there could be no respect for others who personify the property, and, therefore, there could be no basis for political democracy. For political democracy is a never-ending result of a long and painful process of economic pluralism, that is, of mixed capitalism. The latter, as the background of developed industrial countries of Western Europe and North America reveals, must already be in place, thus serving as a basis for the former.

Moreover, political democracy is a very fragile phenomenon, as the experiences of Germany with Hitler, of Italy with Mussolini and of Spain with Franco clearly demonstrate. It is an extremely delicate and vulnerable flower which, for its growth, needs exceptionally favorable conditions of external peace, relative internal social and national tranquility, and material sufficiency. It cannot grow in the environment of war, of social and political unrest, of material starvation, and of national uprisings.¹⁷

But could the Provisional Government have done it differently? Could it have pursued political reforms other than those designed for democracy? Could it have given land to peasants and thus pacify the countryside? Could it have achieved peace and, thus, please its soldiers? Could it have brought law and order and, therefore, restore economic and social normality? Could it have answered the demands of various national minorities and, therefore, made them support the government? In other words, could it have not committed suicide, thus preventing its own disintegration and disappearance from the historical scene?

Given the level of the social, economic, political and national development of the country; given the sudden and unexpected collapse of its well-entrenched political institution of monarchy; given the world nature of the war in which it was engaged,—no, it could not have. The Provisional Government was forced to do what it did.

It had to legalize all political parties formally, because their actual existence within the vacuum of political power brought about by the destruction of monarchy and expressed in the *duality of power* left the government no other avenue. It had to abrogate all restrictions based on social and class status, because the old feudal order was compromised by the deeds of the monarchy during the war and by the hostility of peasants towards the landed nobility. It had to abolish all limitations of a national nature, because of “the complete breakdown of all forms of organized life throughout Russia”¹⁸ and the resulting intensified national movement towards national equality and self-determination left it no other choice but to attempt to appease national minorities.

It had to continue the war, because it was “a real gold-mine for industrialists and financiers”¹⁹ protected by the government machinery; because of “the dependence of the Russian war economy in entirety on foreign capital and on government bodies of the allied countries”;²⁰ because of the general mood in the country not against peace but against a *separate* peace with Germany and Austria; and, finally, because the Provisional Government, had it decided to conclude a separate peace, would not have been able to accomplish this since the *duality of power* did not allow it to speak for Russia in one voice.²¹

And so long as it was forced to continue the war, the Provisional Government could not have solved the ancient Russian

problem of land. Since "Russia's was a peasant army,"²² to introduce an agrarian reform intended to redistribute the gentry's land to peasants was tantamount to dissolving the army. This is because no force in the world would have been able to prevent the peasant-soldiers from deserting the army and heading home to get their piece of land.

By doing what it had to do and by not doing what it could not do, the Provisional Government in the short run was able to preserve its authority but in the longer run it was creating conditions for the destruction of its power. For, the socio-political measures taken by the government were leading to its increasing inability to hold out on the surface of the furious and stormy waters and ultimately to anarchy. This was hardly a surprising outcome for a predominantly peasant and illiterate country not ready for political democracy with its requirements of strong and orderly discipline and of the assurance in the morrow.

Under the circumstances, the Provisional Government was doomed. The internal logic of events with iron necessity was leaving the door open for a new political force to enter the center of the Russian historical scene.

It was, of course, a simple accident of history that a person, whose name was Alexander Kerensky, was elevated to the driver's seat of Russia during her agony. The end result of the regime established by the Provisional Government would not have been different if, instead of Kerensky, some other political figure had been in his place. It was, however, no accident that a particular type of personality, incidentally manifested in Kerensky, was elevated to the power of highest authority during that turbulent time of Russian history.²³

Why is the Bolshevik Party?

It has been said that the death sentence to the Provisional Government had been spelled out by the internal logic of the course of events. But the question remains: why is it that the political force which replaced the regime of the Provisional Government belonged to the Bolshevik Party? Within the framework of the *duality of power*, why was it not some other Soviet political party, such as, say, the left wing of the Social Revolutionary Party, which was very close in its platform to the Bolshevik Party, or the Menshevik faction of the Social-Democratic Party, to which the Bolsheviks also belonged?²⁴ And why not the third party expressed in the figure of General Kornilov?

Why not the left wing of the Social Revolutionary Party? The Left Social Revolutionaries were a more radical faction of the Social Revolutionary Party. Their entire interest was in the peasantry of the country which was changing its social structure toward capitalism

with its worker-capitalist relations. The Left Social revolutionaries, from whom the Bolsheviks took the agrarian program of land nationalization, were, thus, the party of the Russian peasantry, the party of the Russian past, not of its future. Besides, they were never formalized as a separate party, and, remaining within the Social Revolutionary Party, they were engaged in the fierce inter-party battle, weakening themselves in the process.²⁵

Why not the Mensheviks? The Mensheviks, the other Soviet party, were also not suited to take power in the vacuum created by the collapse of the Provisional Government. They were consuming their energy in factional fighting, and their organizational structure was very loose as well.²⁶

But the most important factor which paralyzed the Mensheviks and made them impotent in the power struggle was their program which was based on

the Marxist concept that proletarian-socialist revolution must be preceded by bourgeoisie-democratic revolution. [They believed, therefore, that] [u]ntil the victory of the liberal bourgeoisie over aristocracy was complete, it was the duty of socialists to abstain from taking power.²⁷

This was a program for the future, not for the present; the program of a passive waiting for conditions necessary for the takeover of the power to come, not of an active participation in the creation of these conditions. The Mensheviks were, therefore, the party of the cultured, educated, developed, self-conscious and breaking-with-his-peasant-background worker of a distant future which had yet to arrive. This was a party of a classical Marxism during a period of a heretical, non-classical transformation of Russia.²⁸

Why not General Kornilov? General Kornilov, who attempted to overthrow the Provisional Government in August 1917, represented the old regime of feudal class distinctions and landed gentry, hated by soldiers, peasants and workers.

His quest for power was designed to reestablish law and order and to harness discipline within Russia for the purpose of fighting the war with which the country was fed up. Whether his intention was to restore the monarchy or to strengthen the republican regime, one can only guess.²⁹ But in essence he was following in the footsteps of Kerensky by fighting for a lost cause of democratic mixed capitalism.

The Kornilov insurrection and its subsequent suppression greatly speeded up the process of the disintegration of the system established by the Provisional Government. The question, of course, remains to what would have happened had there been no Kornilov Putsch.

We believe that under the new circumstances the process of the decomposition of the Provisional Government would have been delayed and the Bolshevik revolution would have taken place later. But in no way would the nonoccurrence of the military coup have changed the course of events. Under the war conditions, the old Russian society was pregnant with a new social order and the latter had to be delivered, sooner or later.³⁰

Why not the Constitutional Democratic Party? Representing the interests of the weak manufacturing class of Russia, this party (called the *Kadets* in Russian) which “followed the western liberal tradition³¹ in its democratic mixed capitalist direction was a slow-moving copy of the condemned political forces referred to previously.

So why the Bolsheviks? In any case, the political vacuum which was created by the overthrow of the monarchy reappeared.

With the vast majority of the political forces of the soviets unable and/or unwilling to take power, the door was open to the only remaining political force which was not only capable but also desperately willing to do just that: the Bolshevik Party. “The Bolsheviks,” wrote Lenin in September 1917, “having obtained a majority in the Soviets of Workers’ and Soldiers’ Deputies of both capitals, can and *must* take state power into their own hands.”³²

The Bolsheviks in October 1917 were a party perfectly suited for taking over and leading the backward, uncultured, uneducated, underdeveloped and semi-feudal peasant country with its semi-peasant working class. When the Bolsheviks claimed that the majority of the people were on their side and that the Party, therefore, was the only true representative of the two major Russian classes (peasants and workers), this was not an exaggeration.

For man cannot live without hope. And the hopes of the Russian people, deadly tired of the war and of the anarchic *duality of power*, were peace and the disciplined unity of authorities; of the Russian peasants, with their ancient hunger for land, was the agrarian reform intended to redistribute the land; and of the Russian workers, suffering from unemployment and food shortages, was a control over production.³³

With all other contenders for power in disarray, the exhausted, disoriented and frustrated population either passively (by abstaining from the struggle for political power and by not expressing its own preferences) or actively (by direct participation in the Bolshevik uprising) gave the Bolshevik Party a mandate to take over and to rule the country.

And yet one must be very careful when attempting to analyze the nature of the mandate given to the Bolshevik Party. For, while it has been pointed out that its claim to represent the will of the broad masses was not inflated, it must also be clear that “the will” of

the masses is not a homogeneous phenomenon. The desire itself is a determination of mind which is not only fixed, being a permanent flux reflecting a continuous change in the status and, hence, in the interests of those who have the wish. At any given moment of time the will of a class is an amalgam of conflicting desires which in themselves simultaneously express the past, the present and the expected future experience of the class.

In the Russian transitional society of 1917 where capitalism was yet underdeveloped and feudalism was still alive, the underdeveloped position of both the working class and the peasantry were translated in the prevailing mood of prejudice and Utopia. Prejudice about capitalism and democracy because the only type of capitalism briefly experienced by the population was democratic mixed capitalism of the Provisional Government; capitalism whose deformed and unstable nature, caused by the war, was associated in the minds of the Russian people with capitalism in general. Utopia, since the way out of the chaos created by the war and revolution was seen by the illiterate peasants in the equal distribution of land in the manner of the old peasant commune (*mir*), and by the semi-peasant workers in the control and eventual possession of the means of production belonging to the propertied class. Utopia, in other words, because the peasants, looking backward, were searching for a "good" (equally divided communal land and the absence of social differentiation among the peasants) in feudalism without its "bad" (the landed nobility); while the workers were striving to jump over capitalist relations (characterized by the capitalist private property, wage labor and, hence, exploitation) and to arrive immediately to the kingdom of God on earth (that is, to socialism and communism characterized by the absence of capitalist private property, wage labor and, thus, exploitation).

The Bolsheviks, as can be seen, were the representatives of what was regressive, and not progressive; Utopian, and not scientific; emotional, and not reasonable; illusionary, and not real, in the interests and aspirations of the peasants and workers. Expressing the fantastic wishes of the major productive classes of Russian society, the Bolsheviks dressed these desires in the Marxist clothes applicable to a highly developed industrial capitalist society.³⁴

Therefore, we would argue that since the generally held prejudices and illusions of the peasants and workers *had* to be addressed, a political organization was needed which could give vent to these emotional feelings of the uneducated Russian masses. And it would be no exaggeration to add that, given the socioeconomic and political conditions of the time, the political organization which was more adequately able to express the predominant mood of the Russian population *had* to win political power.³⁵

The urgent longing on the part of the vast majority of the Russian population to be expressed created the possibility and the necessity of the appearance of such a party. But the possibility could have become a reality, so that the party had the ability to perform its historic mission, only under the condition of the arrival on the historical scene of a certain type of individual who would have shared with the masses their illusions and who would have been able to channel the illusions by creating such a party.³⁶

The history of Bolshevism clearly shows us that there was no lack of people ready to be organized into the party designed by the conditions of Russian development to take over the country which, in turn, was ready to be taken over.³⁷ But it was Lenin who, by a pure accident of history, was set a task to start the creation of such a party and to lead it to victory.

Lenin's role in the October Revolution: the negative task

We said "by a pure accident of history," for as long as the analysis remains in the realm of the general (capitalism), the particular (a form of capitalism) and individual (a certain country), it leaves little space for the actual, concrete personality whose name was Lenin and who is known to us from the great body of literature describing his life and struggle, which for him, were one and the same.³⁸

Russian society in the midst of the war was pregnant with a certain type of revolution. Hence, while *a* Lenin was necessary to build a political party to conquer the power when the power was ripe for conquering, the *particular* Vladimir Ulyanov who later changed his name to Vladimir Lenin was not necessary.

The fact that the political machine created by Lenin in 1903 was based on iron discipline and a hierarchical structure was not coincidental either. The organization was a carbon copy, in the hardened form, of the social regime of the old autocratic imperial Russia which the Party intended to overthrow.³⁹

There was no other way. The people who were most determined to crash the old bureaucratic hierarchy of czarism could do it only by modeling and perfecting their organization after the old social structure. In the Bolshevik practice of building the Party, the homoeopathic dictum which states that a similar might be cured only by the similar, that one extreme can be overpowered by the other found its full expression.

It is also not by accident that the political machine of Bolshevism was created in the image of the old conspiratorial revolutionary party of *People's Will*.⁴⁰ What other example of a centralized, powerful and secret organization did the Bolsheviks have?

One would argue that the specifics of Lenin's character made a great imprint on the Party, on its structure and, hence, on the

chain of events leading to the October Revolution. And this is, of course, true.

But one must not forget that the basic features of Lenin's character were themselves a product of his time. Lenin was an imperialist and not an anarchist; his whole thought was imperialist, despotic. Hence his straightforwardness, his narrowness of outlook, his concentration upon one thing, the poverty and asceticism of his thought, the elementary nature of his slogans addressed to the will.⁴¹

As a result, his "baby," the Bolshevik Party, was organized in a despotic manner, with the sole purpose of taking power in Russia and, then, by expanding it outside Russia, to reorganize the world.

But one should not ignore the fact that Lenin's imperialism and despotism were a product of the long and well-established traditions of the imperialist and despotic Russia. One should be aware of the fact that his ruthlessness and cynicism go back to Pestel, Nechaev, Tkatchov and Chernyshevsky⁴² and is greatly enhanced by the

... brutalization and dehumanization of man ... [as the consequence of] the crisis in the civilization of Europe during which the ancient continent stumbled, all unconsciously, into the age of total wars ... For the first total war that opened our age's Time of Troubles, neither Lenin nor his disciples and imitators can be blamed.⁴³

One ought to remember that Lenin's extremely powerful belief in himself, in his great destiny had its origin in the extremes of Russian life with the absolute weakness of its middle class and, hence, of the moderate and reasonable pragmatism, with the consequent tradition of nihilism and of the compassionate will for power for the sake of the oppressed. One must also not forget that the new world which Lenin wanted to create was a world of dreams and illusions of illiterate and backward Russian masses.

On the role played by Lenin in the formation of the Party, one is compelled to conclude that, while the necessity of the Party appearance was predetermined by the course of events in the Russian history of the early twentieth century, the fact that it was created by the particular Lenin had, nevertheless, a great significance for the timing of Party events, for the manner in which the events were conducted, and for the actual participation of these or those particular individuals in the Party events:

(1) The Party takes its name, the Bolshevik, from Lenin's struggle in 1902-1903. Had it not been for Lenin, the name of the Party probably would have been different.

(2) The consequent events of the Party's history, such as the dates and places of its congresses, the composition and the subordination within its leading members, the emphasis on these or those specific items of its agenda, and its specific catchwords,

would have no doubt been different had not Lenin, but somebody else, built and led the Party.

The February Revolution, as has been stressed (Trotsky's views notwithstanding), was a spontaneous action which nobody predicted and no party directed. The vast majority of the leading Bolsheviks, even if they had wanted to participate in and lead the Revolution, were not in Russia. Lenin himself was no exception, for he lived in exile in Switzerland.

Lenin, like his Party, did not take part in the February Revolution. Two months before the Revolution, he gave up any hope that the revolution would take place during his lifetime.⁴⁴

After the February Revolution had become an accomplished fact, Lenin arrived in Petrograd on Monday, 16 April 1917.⁴⁵ But from July to October 1917, that is, just prior to the October Revolution, Lenin had been in hiding from the Provisional Government which accused him of treason and of the July 1917 uprising against the Provisional Government.⁴⁶

As a result, the October Revolution, while made by the Party built by Lenin, was conducted by Lenin only in theory, in inspiration, but not in practice. The practical work of the October insurrection was performed under the leadership of other actual Bolshevik leaders, such as Trotsky, Antonov and Podvoisky.

Lenin's role in the October Revolution as the destroyer of the emerging system of democratic mixed capitalism was, nevertheless, extremely important in the following respects:

(1) It was Lenin who urgently pleaded, argued, threatened the Bolsheviks to take power in October,⁴⁷ while the Bolshevik Central Committee was hesitant to do just that.⁴⁸ Thus, if it was not for Lenin, the revolution could have happened several months earlier (but not before the Kornilov insurrection in August) or several months later (but not after March 1918, the month the Constituent Assembly had to take place).

(2) Hence, if it was not for Lenin, the revolution known to us as the October Revolution would be now called by some other name, and the events which followed the revolution (the Civil War, War Communism, etc.) would have occurred at a different time, with different participants and under different titles.⁴⁹

While Lenin individualized the October Revolution by making it what it is, it would be no exaggeration to say that the October Revolution "made" Lenin. Had it not been for the revolution whose emergence was prepared by the whole chain of events set up by the war, Lenin would have remained an unknown political emigrant from Russia leading a small, radical and obscure party.

Lenin's role in the October Revolution: the positive task

So far we have talked about the negative side of Lenin's activity. Lenin's self-assured fanaticism, intent on destruction of the old social order and operating within the framework of the need for such destruction, made his will enormously powerful. For him, the necessity of the demolition was equated with his freedom to do just that. Retrospectively, therefore, the figure of Lenin stands in front of us as that of a mighty giant who irreversibly changed the world.⁵⁰

This optical illusion about the negative role of Lenin has some justification in the sense that the old social structure which all his life he strove to tear down had indeed been demolished. In the framework of the philosophical method we employ, this would have been done with or without Lenin. But the fact remains that the destruction took place under his organizational and inspirational (though, at least at the last minute, not practical) guidance and leadership and that it has been associated with his name ever since.

But on the positive side of Lenin's actions (as we shall see later) the picture is different. In his actions designed to create a new world he was completely blind, simply because he was a fanatic. The irony of life is such that it moderates one's stature by giving something with one hand and taking something else away with the other. Lenin's success in the overthrow of the old social organization is balanced by his absolute failure in the construction of the new social structure, as he envisioned it.

For the *general* trend of capitalist development could not be stopped by the advent of the war and of the two revolutions. But the trend had to acquire a new *particular* form. In place of the old particular form of classical democratic mixed capitalism, the war and the resulting October Revolution eventually gave birth to a new particular form of capitalism: *totalitarian state capitalism*.

This is not what Lenin wanted to build. He thought he was destroying capitalism and constructing a new social order of socialism, a classless society, with no state and political power, with no division of labor, with no private property of any kind.⁵¹ Instead, he blindly laid the foundation for a new, hitherto unseen totalitarian state form of capitalism whose whole structure was finally built by Stalin and which later appeared on its own in another country of semi-feudalism combined with extremely underdeveloped mixed capitalism, the mainland China.⁵²

Bibliography to Chapter 2: The Distinctive Socioeconomic Features of the Russian Parliamentary Republic: March - November 1917

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Notes to Chapter 2: The Distinctive Socioeconomic Features of the Russian Parliamentary Republic: March - November 1917

- 1 Based on E. Raiklin, "On the Causality of Great Personalities and Great Events Exemplified by Lenin and the October Revolution," *International Journal of Social Economics*, Vol. 18, Nos. 5/6/7, 1991.
- 2 "Our epoch [proclaimed Marx in the middle of the nineteenth century]... [is] the epoch of bourgeoisie ..." (R. Freedman, ed., *Marx on Economics*. New York: Harcourt, Brace & World, 1961, p.13). This does not mean that capitalism came out in the nineteenth century. The date of its emergence goes back to "the end of the fifteenth century [when] most of the phenomena we are in the habit of associating with ... [the] word Capitalism had put in their appearance ..." (J. Schumpeter, *History of Economic Analysis*, ed. by E. Schumpeter. New York: Oxford University Press, 1974, p. 78). However, the nineteenth century might be considered as a period in history when capitalism, at a rapid speed, acquired its modern form of industrial capitalism.
- 3 On the development of capitalism from Western Europe where it was originated to North America and then to the rest of the world, see, for example, S. Amin, *Unequal Development. An Essay on the Social Formations of Peripheral Capitalism*, trans. by B. Pearce. New York: Monthly Review Press, 1976.
- 4 Ten years after the collapse of the monarchy and his Provisional Government, Kerensky (A. Kerensky, *The Catastrophe. Kerensky's Own Story of the Russian Revolution*. New York: D. Appleton and Company, 1927, p. ix), the latter's last head, writes nostalgically:
 "... beginning with the period of the Russo-Japanese War and the liberation movement of 1905, after the establishment of a representative legislative assembly [Duma], Russia appeared to be maturing also politically. Before the World War [I] there was no longer any doubt that the transition of Russia from a semi-constitutional absolutism to a parliamentary democracy was only a question of a few years. The War interrupted the sound political evolution of Russia."
- 5 There are some people who insist that the war itself was accidental; and had the war not taken place, there would have been no revolution in Russia. These people believe that great statesmen could have saved the world from the war. On the Russian side, the argument goes, had Stolypin not been assassinated by Bogrov and lived longer, the war

would not have occurred, and the fate of Russia and of the world would have been different (see, for instance, A. Zenkovsky, Stolypin: *Russia's Last Great Reformer*, trans. by M. Patoski. Princeton, NJ: Thetson Press, 1986, p. 106).

We will not delve into the merits and demerits of such claims. The reader will be able to make his own judgment on the subject of the war's chance or inevitability after he has finished reading this section of the book. But a short observation must be made. It is true that wars are decided by people, and, first of all, by those who are in a position of power. However, it is also true that the number of leaders who have to make decisions regarding wars which could involve many participants must be large. Thus, if one or two or even more rulers might be wise and exercise caution when the air is hot with war, it would be naive to imagine that all the leaders could do the same and follow their wiser counterparts.

- 6 The extremely uneven distribution of land in the country where in 1913 70 percent of people were peasants was the major element of the feudal structure which was still present in Russian society (see TsSU SSSR, *Narodnoye Khoziastvo SSSR v 1963 g.* Moscow: "Statistika," 1965, p. 28).

Ross observes that "the average holding per family, which was 13 acres in 1860 [that is, before the emancipation], fell to 9_ acres by 1880, and to 7 acres in 1900" (E. Ross, *The Russian Bolshevik Revolution*. New York: The Century Co., 1921, p. 14).

The peasants' plight can be partly explained by the rapid population growth and by the differentiation which was taking place within the peasant economy. But one of the major reasons for the shortage of land owned by peasants was the preservation of huge estates which belonged to former feudal landowners who themselves did not work it. Ross writes (*ibid.*, p. 18):

"Scattered among ... [peasants'] village common lands are state lands, crown lands, church lands, monastery lands, the estates of 110,000 nobles, in all about 165,000,000 acres of arable land—enough, were it evenly distributed, to provide perhaps an additional ten acres for the average farm family."

- 7 See J. Clarkson, *A History of Russia*, 2nd ed. New York: Random House, 1969, p. 422.

Actually, the role which Rasputin played in the downfall of the old political structure was much more complicated. On the one hand, it was evil, for, due to his influence over the empress, he was engaged in the political game of the constant replacement of one corrupt and greedy high government official by the others, thus intensifying the resentment and unrest among all the strata of Russian society (see M. Rodzianko, *The Reign of Rasputin: An Empire's Collapse*, trans. by C. Zvegintzoff. London: Academic International Press, 1973, pp. 238-240; and also B. Pares, "Rasputin and the Empress Alexandra," in A. Adams, ed., *The Russian Revolution and Bolshevik Victory. Causes and Processes*, 2nd ed. Lexington, Massachusetts: D.C. Heath and Company, 1972, pp.19-30).

But, on the other hand, if the rumors were true, Rasputin was wisely advising the emperor to stop the war on the Russian front by concluding a separate peace with Germany. "Wisely," because he saw it as the only way to preserve the monarchy (Rodzianko, *The Reign of Rasputin: An Empire's Collapse*, p. 239). Since, however, in these efforts he was

considered as a traitor by the vast majority of the Russian population and because of the great financial obligations of Russia to its allies (which insisted on the continuation of the war), there could be no doubt that in this endeavor Rasputin had to fail and the war had to continue (on the life of Rasputin, see also A. Jonge, *The Life and Times of Grigorii Rasputin*. New York: Coward, McCann and Geoghegan, 1982).

- 8 Ibid, pp. 422, 423. On the conditions of life of the peasants and workers who fed, dressed, sheltered and provided weapons to the army, of the soldiers who fought the war and of the unpreparedness of the Russian ruling political, economic and military "elites" to the war, see, for instance, Ross, *The Russian Bolshevik Revolution*, pp. 10-38.
- 9 The chronicle of events which led to the abolition of the Russian monarchy can be found, for example, in J. Bergamini, *The Tragic Dynasty. A History of Romanovs*. New York: G.P. Putnam's Sons, 1969, pp. 431-450.
- 10 Clarkson, *A History of Russia*, p. 437. Clarkson then continues (ibid., pp. 433, 436):

"Revolution was indeed close at hand, but it was to come not through the conscious planning of any individuals or groups but by spontaneous action and reaction... Even to the Duma intellectuals, the immensity of what was happening was not too clear. The Progressive Block had since 1915 been pressing hard for concessions that would, it thought, save the regime by taking the Duma into real partnership with the ruler. It had never willed overthrow of the monarchy."

That the February (the old style) Revolution was not a conscious act on the part of its participants is confirmed by Shulgin who was a member of the Russian Duma from 1906 to 1917. In his address to the deputies of the last Duma he said the following (V. Shulgin, *The Years. Memoirs of a Member of the Russian Duma, 1906-1917*, trans. by T. Davis. New York: Hippocrene Books, 1984, p. 291):

"I would not say that the Duma as a whole desired revolution. That would not be true. But even though we did not wish it, we created a revolution. We cannot renounce the revolution. We are connected to it ...".

He should have added, of course, that "we" had also to include the hungry women of Petrograd [the capital] for whom there was no bread; soldiers who were hesitant in firing at angry and hungry crowds; striking workers who were locked out by employers; peasants whose overwhelming passion was land; the court and its ministers who did not know how to resolve the immense problems of the war period; etc. It is this combination of all the factors which brought about the downfall of the old regime and the emergence of the new one.

On the spontaneity of the February Revolution, see also G. Katkov, *Russia 1917. The February Revolution*. New York: Harper & Row, 1967, especially pp. 418-419.

Trotsky, on the other hand, makes an attempt to prove that the February Revolution was not spontaneous but was led by the "[c]onscious and tempered workers educated for the most part by the party of Lenin" (L. Trotsky, *The Young Lenin*, trans. by M. Eastman, ed., and annotated by M. Friedberg. Garden City, New York: Doubleday & Company, 1972, p. 68). Trotsky, of course, makes this unsubstantiated statement in order to justify the subsequent advent of the October Revolution (of 1917).

- 11 On the evolution of power of various political parties and blocks within the Provisional Government, see Clarkson, *A History of Russia*, pp. 436-471.
- 12 Here is an example of the numerous statements on the goals of the war in which the Provisional Government reaffirms its determination to continue the war in accordance with Russia's duties to its allies:
"... the Russian people will not allow its homeland to emerge from the great struggle humbled and with its vital energies sapped. These principles will underlie the foreign policy of the Provisional Government, unswervingly guiding the people's will and guarding the rights of our fatherland, while obligations undertaken towards our Allies will be fully observed" (N. Sukhanov, *The Russian Revolution. 1917*, ed., abridged and trans. by J. Carmichael. London: Oxford University Press, 1955, p. 249).
- 13 See footnote #10. See also R. Browder and A. Kerensky, eds., *The Russian Provisional Government. 1917. Documents*, 3 Vols. Stanford, California: Stanford University Press, 1961, who in three volumes published in English give a very documented account of the February revolution and of the attempts by the Provisional Government, under the unbearable constraints imposed by the war and by the social strife, to promote the principles of democratic mixed capitalism.
- 14 The description of the *dual power* brought about by the February Revolution might be found, for instance, in V. Lenin, *Collected Works*, 4th ed., Volume 24: *The Dual Power*. Moscow: Progress Publishers, 1964. Lenin, despite his usual demagoguery about the difference between the bourgeois-democratic and soviet type of government, nevertheless openly admits the unexpected character of the phenomenon of the dual power.
- 15 *Ibid.*, p. 38.
- 16 E. Raiklin and C. Gillette, *Socioeconomic Issues of Today's Soviet Union*. Bradford, West Yorkshire, England: MCB. University Press Limited, Vol. 15, Nos. 5/6, 1988, pp. 114-119.
- 17 We subscribe to the view that the national disturbances of 1917 were just a logical outcome of the socioeconomic and political turmoil bestowed on Russia by the war:
"The growth of the national movements in Russia during 1917, and especially the unexpectedly rapid development of political aspirations on the part of minorities, were caused to a large extent by the same factors which in Russia proper made possible the triumph of Bolshevism: popular restlessness, the demand for land and peace, and the inability of the democratic government to provide firm authority" (R. Pipes, "National Minorities Sought Autonomy and Independence," in Adams, ed., *The Russian Revolution and Bolshevik Victory. Causes and Processes*, p.120).
- 18 *Ibid.*, p. 119.
- 19 *History of the USSR*, trans. by G. Hanna, *Part I: From the Earliest Times to the Great October Revolution*. Moscow: Progress Publishers, 1977, p. 346.
- 20 *Ibid.*, p. 347.
- 21 The question of the inability of the Provisional Government to make a separate peace is discussed by A. Ulam, "Democracy Failed to Solve Russia's Problems," in Adams, ed., *The Russian Revolution and Bolshevik Victory. Causes and Processes*, p. 74. On this, he defends the Provisional Government from those who criticize it for not making peace and,

therefore, eliminating one of the strongest and most demagogic items of the Bolshevik propaganda. He writes that

“... to argue this is to misunderstand the situation of Russia right after the February Revolution. As was natural in a country that had suffered so many casualties, Russia longed for peace. To an overwhelming majority of politicians and ... to the masses of population and soldiers as well, the only way to a speedy peace was defeat of Germany. From the perspective of two world wars such resolution looks foolish and suicidal. But to the average Russian of 1917 a separate peace with Germany and Austria meant only one thing: a victory of the Central Powers and Europe's domination by Imperial Germany... . [It was perceived that] ... in a German-dominated Europe ... Russia [would not] ... be allowed to preserve her territorial integrity ...

But the criticism overlooks an even more basic fact. Had it believed it necessary and beneficial, the Provisional Government and the General Staff still could not have concluded a separate peace. Its severest critics, the “internationalist Mensheviks” and the Bolsheviks, all pleaded for peace, but one to be concluded with the “German workers and soldiers” after they had overthrown their emperor and generals. Had the Provisional Government at any point shown the slightest inclination to do what the Bolsheviks subsequently did at Brest Litovsk, it immediately would have been denounced for selling to the Kaiser [the German emperor], for betraying the revolution and the international proletariat.”

22 Ibid., p. 75.

23 Fifteen years after the October Revolution Trotsky addresses this problem of the eventual collapse of the Provisional Government and of the role played in it by Kerensky (L. Trotsky, *The History of the Russian Revolution*, trans. by M. Eastman, Volume 2: *The Attempted Counter Revolution*. New York: Simon and Schuster, 1932, pp. 136, 137). Here is his account of the relationship:

“A good deal has been written to the effect that subsequent misfortunes, including the advent of the Bolsheviks, might have been avoided, if instead of Kerensky a man of clear head and strong character had stood at the helm of the government. It is indubitable that Kerensky possessed neither of these attributes. But the question is, why did certain well-defined social classes find themselves obliged to lift up just this man, Kerensky, upon their shoulders? ... [any] revolution, washing away the customary political boundary lines, surrounds everybody and everything during its first days with a rosy mist. At this stage even its enemies try to tint themselves with its color. This mimicry expresses a semi-instinctive desire of the conservative classes to accommodate themselves to the changes impending, so as to suffer from them as little as possible. This solidarity of the nation, founded upon loose phrases, makes of compromise an indispensable political function. Petty bourgeoisie idealists, overlooking class distinctions, thinking in stereotyped phrases, not knowing what they want, and wishing well to everybody, are at this stage the sole conceivable leaders of the majority. If Kerensky had possessed clear thoughts and strong will, he would have been completely unfit for his historic role... . But the period of universal and indiscriminate embraces does not last long. The class struggle dies down at the beginning of a revolution only to come to life

afterward in the form of civil war. In the fairy-like rise of compromise is contained the seed of its inevitable fall."

For Trotsky, the jubilant mood and the subsequent hangover can take place only in a process of a revolution which changes a form of class domination but not its content. Since, as Trotsky believed, the October Revolution was socialist in nature and, thus, its main task was the creation of a classless society, such a psychological process of transformation had no place in it: from its beginning, according to Trotsky, it openly proclaimed its proletarian class character. We will come back later to the question of the nature of the October Revolution.

24 The meanings: the "Bolsheviks" are "those who belong to the majority" of the party, the "Mensheviks" are "those who belong to the minority" of the party.

25 Trotsky comments that, as the February revolution progressed, the Social Revolutionary Party started losing its influence and even its constituency. As a result, the party split into three groups (left, intermediate and right), each spending a lot of its energies in internal struggle (Trotsky, *The History of the Russian Revolution*, Volume 2, p. 289).

26 See Clarkson, *A History of Russia*, p. 458). See also J. Basil, *The Mensheviks in the Revolution of 1917*. Columbus, Ohio: Slavika Publishers, 1984, pp. 19-25.

27 Clarkson, *A History of Russia*, p. 442.

28 This statement will be elaborated in due time.

29 Trotsky writes sarcastically about the "republicanism" of Kornilov. Trotsky, who never doubted anything, is absolutely sure that Kornilov's intentions were the restoration of the monarchy (Trotsky, *The History of the Russian Revolution*, Volume 2, p. 226).

30 So many accidents had taken place prior to the October Revolution (the assassination of Stolypin, the war, the character of the emperor and the empress, the fatal disease of the heir to the Russian throne, the Rasputin affair, the character of Kerensky, the sickness of Kornilov which was one of the causes of his unsuccessful insurrection, and so on) that they could be interpreted as a grandiose design by some omnipotent power to destroy the old regime and to bring the new, Bolshevik, regime to power. Indeed, what Trotsky says about the Kornilov failure, could be applied to the entire course of events leading to the Bolshevik Revolution.

Trotsky comments that "[t]here were too many of these unfortunate accidents: it's always so when a thing is condemned to failure in advance (Trotsky, *The History of the Russian Revolution*, Volume 2, p. 226). Trotsky's remark is tantamount to a paraphrased Murphy's law which states that, if anything can go wrong, it will go wrong.

31 R. Payne, *The Life and Death of Lenin*. New York: Simon and Schuster, 1964, p. 195.

32 V. Lenin, *Collected Works*, 4th ed., Volume 26: *To the Citizens of Russia!* Moscow: Progress Publishers, 1972, p.19. But some Western scholars of the Revolution doubt that prior to the seizure of power in October 1917 the Bolsheviks had the majority in the second congress of the soviets (Clarkson, *A History of Russia*, p. 471).

33 That these were immediately proclaimed goals of the Bolshevik Party in its quest for power can be seen from the appeal to the citizens of

Russia issued by the Bolsheviks on the next day of the October Revolution (Lenin, *Collected Works*, 4th ed., Volume 26, p. 236):

“The cause for which the people have fought, namely, the immediate offer of a democratic peace, the abolition of landed proprietorship, workers’ control over production, and the establishment of Soviet power—this cause has been secured.”

Whether the Bolsheviks were able to deliver their promises or not is another story. The people had to believe somebody and, as we will see, the Bolsheviks were expressing the people’s desperate need to put their trust into somebody’s hands.

- 34 If one accepts the notion that the Bolsheviks were Marxists, then one must also add that they represented the impatient, the emotional and the intolerant side of Marxism at the expense of its balanced, reasonable and scientific side. Since extremes always coincide, such a treatment of Marxism made Marxist Bolsheviks non-Marxists, because their “exegesis literally turned Marx on his head” (B. Wolfe, *Three Who Made a Revolution. A Biographical History*. New York: The Dial Press, 1964, p. 297).

- 35 Asking for forgiveness from the reader, we cannot resist the temptation to provide a long quotation by the brilliant Russian philosopher, N. Berdyaev. Discussing the ascent to power of the Bolsheviks, he writes about the type of men of whom the Bolshevik Party was formed (N. Berdyaev, *The Origin of Russian Communism*. New York: Charles Scribner’s Sons, 1937, p. 166):

“A new type appeared, that of the militarized youth; in contrast with the old members of the intelligentsia he is clean shaven, alert, with a firm vigorous gait; he looks like a conqueror; he makes no bones about the methods he uses; he is always ready for violence; he is possessed by the will-to-power; he forces his way to the front; he wants to be not only destructive but also constructive and an organizer. It was only with the help of such young men drawn from the peasants, the workmen and the semi-intelligentsia, that the communist revolution could be brought about; it could not be done with the dreamy compassionate person who belonged to the old intelligentsia, and was always ready to suffer.”

Berdyaev, then (*ibid.*, pp. 166, 167, 168, 169), lists the conditions which brought these men to power:

“But it is very important to remember that the Russian communist revolution came to birth in misery and from misery, the misery of a disintegrating war; it was not born of a creative abundance of strength. Revolution, as a matter of fact, always presupposes misery, always presupposes an intensifying of the darkness of the past. There is nothing more appalling than a disintegrating war, a disintegrating army, and a colossal army numbered by the million at that. The disintegration of a war and of armies created chaos and anarchy. Russia was faced by such chaos and anarchy. The old government had lost all moral authority; people had no faith in it; and during the War its authority sank still lower... .

The new liberal democratic government which came on the scene after the February revolution proclaimed abstract human principles; abstract principles of law and order in which there was no organizing force of any sort, no energy with which to inspire the masses... . The position of the Provisional Government was so difficult and hopeless that it is hardly possible to judge it severely and condemn it... .

Moderate people of liberal and humanist principles can never flourish in the elemental sweep of revolution and especially of a revolution brought about by war. The principles of democracy are suitable to times of peace, and not always then, but never to a revolutionary epoch. In the time of revolution men of extreme principles, men who are disposed to dictatorship and capable of exercising it, are those who will triumph. Only dictatorship could put an end to the process of final dissolution and the triumph of chaos and anarchy. What was needed was to provide the insurgent masses with slogans in the strength of which those masses would consent to be organized and disciplined. Inspiring watchwords were needed. At that moment bolshevism, which had long been prepared by Lenin, showed itself to be the one power which on the one hand could put an end to the dissolution of the old and on the other hand could organize the new; only bolshevism could control the situation. It only corresponded to the instincts of the masses and their real attitude to things, and in it, like a true demagogue, turned everything to its own use...

It made use of the weakness of the liberal democratic government, of the unsuitability of its watchwords to weld the insurgent masses together. It made use of the objective impossibility of carrying on the War any longer when the spirit of it was hopelessly lost by the unwillingness of soldiers to go on fighting, and it proclaimed peace. It made use of the disorganization and discontent of the peasantry and divided all the land among the peasants, destroying what was left of feudalism and the dominance of the nobility. It made use of the Russian traditions of government by imposition, and instead of unfamiliar democracy of which they had no experience it proclaimed a dictatorship which was more like the old rule of the Tsar. It made use of the characteristics of the Russian spirit in all its incompatibility with a secularized bourgeois society. It made use of its religious instinct, its dogmatism and maximalism, its search after social justice and the kingdom of God upon earth, its capacity for sacrifice and the patient bearing of suffering, and also of its manifestations of coarseness and cruelty. It made use of Russian Messianism, which still remained, though in an unconscious form, and of the Russian faith in Russia's own path of development. It made use of the historic cleavage between the masses and the cultured classes, of the popular mistrust of intelligentsia... It fitted in with the absence among the Russian people of the Roman view of property and the bourgeois virtues; it fitted in with Russian collectivism ..."

- 36 It is, of course, a great puzzle why some individuals possess certain personal traits of fanaticism, one-sidedness, intolerance and dictatorship which at any moment of history make them a perfect absorber of people's illusory interests and a perfect weapon of destruction. It is no less amazing why some other individuals possess such inner features as reasonableness, unbiasedness, tolerance and liberalism which at any historical moment turn them into a model embodiment of people's real aspirations and into an ideal tool of moderate changes. Sociology alone cannot explain these differences, for the two types of personalities may be found across class lines. It is the task of social psychology and social psychiatry to find a sound explanation to the variations in people's characters.

- 37 According to Soviet official estimates, at the beginning of 1917 there were 23,600 Party members; in April 1917, between 46,000 and 79,000; and in October 1917, just before the seizure of power, between 115,000 and 400,000 members. The social composition of the Party in January 1917 was as follows: blue-collar workers, 60 per cent; the peasantry, 8 per cent; and white-collar workers, 32 per cent. It must be emphasized that by January 1918 the proportion of peasants had increased sharply to 15 per cent (T. Rigby, *Communist Party Membership in the USSR 1917-1967*. Princeton, NY: Princeton University Press, 1968, pp. 59, 61, 62, 65, 66).
- 38 To mention a few: S. Possony, *Lenin: The Compulsive Revolutionary*. Chicago: Henry Regnery Company, 1964; J. Reed, *Ten Days That Shook the World*, ed. by B. Wolfe. New York: Random House, 1960; Trotsky, *The History of the Russian Revolution*, Volume 2; L. Trotsky, "Vladimir Ilyich Lenin," in *Portraits. Political and Personal*, ed. by G. Breitman and G. Saunders. New York: Pathfinder Press, 1977, pp. 48-54; L. Trotsky, *Lenin*. New York: Minton, Balch & Company, 1925; N. Valentinov, (N. Volsky), *Encounters with Lenin*, trans. by P. Rosta and B. Pearce. London: Oxford University Press, 1968; N. Valentinov, (N. Volsky), *The Early Years of Lenin*, trans. and ed. by R. Theen. Ann Arbor: The University of Michigan Press, 1969; N. Valentinov, *Maloznakomiy Lenin*. Paris: Librairie des Cinq Continents, 1972; Wolfe, *Three Who Made a Revolution*.
- 39 On the interpretation of Lenin's doctrine of the party and the circumstances of its creation, see A. Avtorkhanov, *The Communist Party Apparatus*. Chicago: Henry Regnery Company, 1966, pp. 1-18. Lenin's original ideas on the formation of the party might be found in his *Collected Works*, 4th ed. Volume 5: *What Is to Be Done? Burning Questions of Our Movement*, trans. by J. Fineberg and G. Hanna, ed. by V. Jerome. Moscow: Progress Publishers, 1975.
- 40 Kennan, "The Autocracy's Many Shortcomings Brought Its Collapse," p. 32.
- 41 These are Berdyaev's words in L. Gerson, ed., *Lenin and the Twentieth Century. A Bertram D. Wolfe Retrospective*. CA: Hoover Institution Press, Stanford University Press, 1984, p. 139.
- 42 On these Russian revolutionaries, precursors of Lenin, see, for instance: Wolfe, *Three Who Made a Revolution*, pp. 25-26 (on Pestel); Possony, *Lenin: The Compulsive Revolutionary*, p. 54 (on Nechaev and Tkachev); N. Berdyaev, *The Russian Revolution*. Ann Arbor: The University of Michigan Press, 1961, pp. 15-16 (on Chernyshevsky); Valentinov, *The Early Years of Lenin*, pp. 11-38, 216-265 (on Chernyshevsky).
- 43 Berdyaev, *The Origin of Russian Communism*, p. 189.
- 44 Lenin, *Collected Works*, Volume 26, p. 252.
- 45 Possony, *Lenin: The Compulsive Revolutionary*, p. 215.
- 46 Ibid., 226-241.
- 47 See V. Lenin, *Collected Works*, 4th ed., trans. by Y. Sdobnikov and G. Hanna, ed. by G. Hanna, Volume 26: *The Bolsheviks Must Assume Power*. Moscow: Progress Publishers, 1972; V. Lenin, *Collected Works*, 4th ed., trans. by Y. Sdobnikov and G. Hanna, ed. by G. Hanna, Volume 26: *Marxism and Insurrection*. Moscow: Progress Publishers, 1972; V. Lenin, *Collected Works*, 4th ed., trans. by Y. Sdobnikov and G. Hanna, ed. by G. Hanna, Volume 26: *Can the Bolsheviks Retain State Power?* Moscow: Progress Publishers, 1972; V. Lenin, *Collected Works*, 4th ed., trans. by Y. Sdobnikov and G. Hanna, ed. by G. Hanna, Volume 26: *Advice of an Outlooker*. Moscow: Progress

- Publishers, 1972; V. Lenin, *Collected Works*, 4th ed., trans. by Y. Sdobnikov and G. Hanna, ed. by G. Hanna, Volume 26: *Letter to the Bolshevik Comrades Attending the Congress of Soviets of the Northern Region*. Moscow: Progress Publishers, 1972; V. Lenin, *Collected Works*, 4th ed., trans. by Y. Sdobnikov and G. Hanna, ed. by G. Hanna, Volume 26: *Letter to Comrades*. Moscow: Progress Publishers, 1972; V. Lenin, *Collected Works*, 4th ed., trans. by Y. Sdobnikov and G. Hanna, ed. by G. Hanna, Volume 26: *Letter to Bolshevik Party Members*. Moscow: Progress Publishers, 1972.
- 48 L. Trotsky, *The History of the Russian Revolution*, Volume 3: *The Triumph of the Soviets*, trans. by M. Eastman. New York: Simon and Schuster, 1932, pp. 353-377.
- 49 R. Medvedev, a former Soviet dissident, attempts to solve the problem of the role played by Lenin in the October Revolution in a compromising way. That is, according to Medvedev, the revolution took place because of both objective factors (socioeconomic conditions of Russia) and subjective factors (Lenin's participation). Medvedev asserts, therefore, that without either of these circumstances there would have been no revolution at all (R. Medvedev, *The October Revolution*, trans. by G. Saunders. New York: Columbia University Press, 1979, pp. 4-15).
- 50 Ask yourself: Would have there been the American Revolution without G. Washington? If yes, would have its course been the same as is known in real history or different? How different? If no, would it mean that there will be no United States at present? What do you think? And then turn back the same question with regard to Lenin and the October Revolution.
- 51 See, for instance, his vision of socialism before coming to power in his: V. Lenin, *The State and Revolution. The Marxist Teaching on the State and the Tasks of the Proletariat in the Revolution*, 2nd ed. Peking: Foreign Languages Press, 1976.
- 52 Thus, history vindicated the Mensheviks who argued that the revolution in Russia, given Russian semi-feudal conditions, could only be of a bourgeois nature. The October Revolution in its result was, indeed, a capitalist revolution (as we will find it out later).

History, however, disproved the Mensheviks' claim that capitalism, the consequence of the revolution, would have to be of a *democratic mixed form*. Capitalism born of the October Revolution took a form of *totalitarian state capitalism*.

History exonerated the Bolsheviks whose major, although formally non-Bolshevik spokesman, Trotsky, insisted that Russian underdeveloped and backward capitalism with its late arrival on the historical scene could not advance on a classical path of *democratic mixed capitalism* (see L. Trotsky, *The Revolution Betrayed. What Is the Soviet Union and Where Is It Going?* trans. by M. Eastman. Garden City, New York: Doubleday, Doran & Company, 1937, p. 5). The subsequent Soviet experience showed that this was the case.

History, however, rejected the Bolsheviks' claim that the revolution would be of a proletarian character, thus leading to socialism. The new society delivered by the October Revolution was capitalism, not socialism.

PART III
THE FIRST STAGE IN THE DEVELOPMENT OF THE
SOVIET SOCIOECONOMIC SYSTEM:
WAR COMMUNISM (1918 - 1921)

Prelude: Between October 1917 and July 1918

Between October 1917 and July 1918, the Bolsheviks who took political power in the country were forced to accommodate themselves to the socioeconomic conditions of the war period rather than change these conditions in accordance with the Bolshevik program of building socialism.

In agriculture, they nationalized land and permitted its distribution and redistribution among the peasants. This Bolshevik act was none other than a legalization of the process of land seizure by the peasants under the conditions of first, dual power and second, the transfer of power to the Bolsheviks.

During this period, the actual institution which, without preliminary permission, was taking away land from the landed gentry and distributing and redistributing it among the peasants was the village commune (already familiar to us). As in the past, when the *mir* was standing between the feudal lord and the government, on the one hand, and the peasant, on the other, now the village commune was mediating affairs between a new Soviet government and peasant households.

Since Russia was still engaged in WWI, the Bolsheviks nationalized the most important (from a military point of view) industrial enterprises and also banking, grain purchases and storage, transportation, and oil production. In order to preclude the reduction of production necessary for war supplies and population provision, enterprises from the rest of the economy either retained their private (non-government) ownership or were administered jointly by their owners and management appointed by Soviet power, or, lastly, they fell under the control of rapidly organized trade unions.

This socioeconomic structure can be defined as predominantly *authoritarian* (one-party political system) *mixed* (various forms of state and not-state property of the means of production) *capitalism* (the system of wage labor in industry and trade) in cities and as predominantly *simple* (the absence of wage labor, self-employment by peasants with the help of their own means of production) *commodity production* (that is, production for the market) in villages.

Thus, the Bolshevik authorities made the first, although not deliberate step in the direction of the Stalinist system of *totalitarian*

(from a democratic to an authoritarian form in the political sphere) *state* (by means of increasing the share of state property in mixed economy) *capitalism* (wage labor remained the basic relation in industry and trade).

PART III
THE FIRST STAGE IN THE DEVELOPMENT OF THE
SOVIET SOCIOECONOMIC SYSTEM:
WAR COMMUNISM (1918 - 1921)

Chapter 1

The Essence of War Communism

In the middle of 1918, the situation in the country was aggravated by the civil war between the Bolshevik *Red Army* and the anti-Bolshevik *White Army*. The chaos and lawlessness created by the civil war greatly undermined market relations between the industrial city and the agricultural village. Moreover, the breakup of commercial ties between the city and the village was further exacerbated by the unchecked printing of money by the Bolshevik regime, still very weak at the time but in desperate need of financial resources for waging war against its foreign (the German army) and domestic (the White Army) enemies.

A famine was about to take place in cities and towns. This was due to a growing *inability* by the peasants to supply agricultural products due to the civil war and their *unwillingness* to supply agricultural products for rapidly depreciating rubles (peasants' purchasing power to buy industrial products was rapidly declining). Thus, the growing possibility of starvation began threatening the very existence of the Soviet regime.

Policies of War Communism

That is why the Soviet regime was compelled to introduce War Communism. In essence, its policies were as follows.

The system of requisitioning, or prodrazverstka

First, expropriation of a part (surplus) of agricultural produce. The bearers of the system of requisitioning, or *prodrazverstka* (as this policy came to be known), were representatives of two major classes in the country. These were the working detachments that Bolshevik authorities sent from cities to villages in order to requisition foodstuffs for starving industrial workers and soldiers. Also, these were poor peasants hateful and envious of their more prosperous and successful neighbors. Correspondingly, that part of industrial goods which was intended for peasants, depended on the volume of agricultural production supplied not by each

individual peasant household but by the village commune as a whole.

Thus, the first feature of War Communism was the function of forced requisitioning, distribution and redistribution of agricultural products which took upon itself the new young Bolshevik government. Considering that during the period the burden of requisitions was falling on the peasantry, a significant part of which lived and worked within the framework of the old agricultural village commune (*mir*), one cannot but infer the *state-feudal* character of the relations between the emerging and gathering strength state-feudal landowner, on the one hand, and the Russian peasant, subjected to the non-economic coercion with regard to the agricultural surplus, on the other.¹

Nationalization of nonagricultural enterprises

The second aspect of War Communism was nationalization of the nonagricultural economy. For instance, by the Fall of 1920, thirty seven thousand enterprises (half of them very small and with no machine equipment) had been nationalized.² There were two basic groups of reasons why the government wanted to nationalize the private sector.

The first group of causes had a practical character. It reflected a situation of a stage of siege in which the Bolsheviks found themselves as a result of WWI and the Civil War. For this reason, the following enterprises were nationalized: (1) those whose owners joined the White Army to fight against the Bolsheviks; (2) those which belonged to the Germans; (3) and those whose workers were taking vengeance on their former owners for past wrongs by seizing enterprises; and so on.

It can be concluded that this purely practical necessity for nationalization had nothing to do with building "socialism" in the country (a professed goal of the Bolsheviks). Here there was no ideological reason for Bolshevik actions.

But the second group of causes for industry nationalization was purely ideological in nature. The ideological factor determined the *degree* of nationalization, as for instance when the government was taking in its hands enterprises even with only one employee.

The prohibition of domestic non-state private trade

The third element which characterized War Communism was the government's prohibition of domestic (non-state) private trade. Although the Bolsheviks proclaimed this measure as a first step toward the elimination of commodity (market relations) production and the construction of socialism, nevertheless the measure was also a forced reaction to the realities of the day, such as hyperinflation (due to continuous money printing). For example if

on November 1, 1917 there were 20 bln. rubles in circulation, by July 1, 1921 money in circulation had grown to 2.5 trln. rubles. Moreover, by the Spring of 1919, the printing press was not keeping pace with printing the necessary quantity of money.³ As a result, the government had become the only *official* distributor of food as well as non-food items to the population.⁴

The semi-military methods of mobilization of the work force

The fourth characteristic of War Communism was its semi-military methods of mobilization of the work force. Work became a universal duty. Each worker found himself attached to a particular enterprise. Here the worker received a food ration. In addition, the worker was not allowed on his own to switch from that enterprise to another. A worker could change the place of his employment only under the orders of a corresponding Bolshevik power body and only subject to mobilization needs.

Defining War Communism

It can be concluded that the socioeconomic relations of War Communism in both legal sectors of the economy (urban and rural) were that of *state feudalism*. It must be pointed out that War Communism, denying the model of *democratic mixed capitalism* and thus actually confirming a state role in the Czarist model of *mixed feudalism*, nevertheless represented a second step in the movement toward the Stalinist model of *totalitarian* (an attempt by the government to control all aspects of the activities of Soviet society) *state capitalism*.

It needs to point out, as it was emphasized earlier, that the policies of War Communism were not an ideological choice of the Bolshevik government. They were imposed on the Soviet government by the circumstances of the Civil War. In this, we adhere to the official view held in the Soviet Union,⁵ and oppose to that held by some outside the country.⁶ But we must stress again that the *degree* of their implementation was purely ideological.⁷

But before stepping on the path of *totalitarian state capitalism*, Soviet Russia had to pass along the road of *authoritarian mixed capitalism*, or *New Economic Policy (NEP)*. The passage of this stage in the development of the Soviet socioeconomic system was necessitated by the requirements of the *illegal* part of the Soviet economy, in whose midst the seeds of *authoritarian mixed capitalism (NEP)* were growing.

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Notes to Chapter 1: The Essence of War Communism

- 1 One should not overstate the ability of the Bolshevik regime, becoming stronger but still relatively weak, to enforce policies of War Communism. For, it should be noticed that, side by side with a legal economy more or less following the principles of *prodrazverstka*, there also existed an illegal economy independent from the Bolshevik rule.
- 2 A. Nove, *An Economic History of the U.S.S.R.* New York: Penguin Books, 1982, pp. 69 - 70.
- 3 P. Gregory and R. Stuart, *Soviet and Post-Soviet Economic Structure and Performance*, fifth ed., New York: Harper Collins College Publ., Inc., 1994, p. 47.
- 4 But again, the extent of state control should not be exaggerated: together with legal government distribution of production there was also an illegal black market where a significant portion of agricultural products from peasants was exchanged for a significant part of industrial products from urban dwellers (see, for instance, A. Nove, *An Economic History of the U.S.S.R.* New York: Penguin Books, 1969, p. 62).
- 5 See, for instance, V. Vinogradov, et. al., *Istoriya sotsialisticheskoy ekonomiki SSSR* [A History of the Socialist Economy of the USSR]. Volume 1. Moscow: "Nauka," 1976, pp. 251-252.
- 6 See, for instance, L. Szamuely, *First Models of Socialist Economic Systems*. Budapest: Akademiai Kiado, 1974, pp. 7-62. However, it must be noted that not all outside the Soviet Union shared this view (see, for instance, M. Lewin, *Russia/USSR/Russia. The Drive and Drift of a Superstate*. New York: The New press, 1995, pp.42-43).
- 7 This view is upheld by Nove (Nove, *An Economic History of the U.S.S.R.*, 1969, pp. 46-48).

PART III
THE FIRST STAGE IN THE DEVELOPMENT OF THE
SOVIET SOCIOECONOMIC SYSTEM:
WAR COMMUNISM (1918 - 1921)

Chapter 2

Some Statistics on War Communism

WWI came to an end in 1918. Germany and its allies were defeated by Great Britain, France and Russia (together with the late-comer, the United States). The Civil War in Russia ended at the end of 1920, with the Bolshevik regime defeating the White Army.

Some statistical data below shows the socioeconomic cost Russia had to pay for this dual victory. For the period from 1914 to 1920, the population of Russia decreased by 1.655 mln., or 1.8 percent. The structure of the population had changed: the urban population fell by 3.0 percent while the rural population increased by the same percentage:¹

Table 2.1
The Russian Population from 1914 to 1920

The year beginning	Total population, thousands	Urban population		Rural population	
		Thousands	Percent	Thousands	Percent
1914	89,902	15,667	17.4	74,235	82.6
1920	88,247	12,553	14.2	75,694	85.8
1920 to 1914, in percent	98.2	80.1	-3.2	102.0	+3.2

These statistics illustrate that by the end of War Communism, Russia had become more rural than before its entrance into WWI due to a migration of starving urban dwellers to rural areas.

The Russian economy had been devastated as well. By the end of the period of War Communism production of some important industrial items had dropped significantly:²

Table 2.2
Production Indices of Some Industrial Items
(1913=1)

Indices	1913	1920	Indices	1913	1920
Production of electricity	100.0	25.0 (1921)	Iron ore	100.0	1.7
Oil	100.0	37.9	Pig iron	100.0	2.9
Coal	100.0	29.8	Steel	100.0	4.4
Peat	100.0	82.4	Paper	100.0	11.1

In 1921, Russia's total industrial production, including that of the consumer goods, was at 1/3, and agricultural production at 3/5 of its 1913, or pre-war level.³ Exports at 1.3 percent and imports at 15.1 percent, for all practical terms, ceased to exist: the country had nothing to offer and had no currency to purchase on world markets.⁴

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- , *Narodnoye Khoziaistvo SSSR v 1963 g.* [The National Economy of the USSR in 1963] Moscow: "Statistika," 1965.

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- 2 Calculated from TsSU SSSR, *Narodnoye Khoziaistvo SSSR za 60 let* [The National Economy of the USSR for 60 years]. Moscow: "Statistika," 1977, p. 11.
- 3 TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1963 g.* [The National Economy of the USSR in 1963]. Moscow: "Statistika," 1965, pp. 110, 227.
- 4 Calculated from A. Nove, *An Economic History of the U.S.S.R.* London: Allen Lane The Penguin Press, 1969, p. 68.

PART IV
THE SECOND STAGE IN THE DEVELOPMENT OF THE
SOVIET SOCIOECONOMIC SYSTEM:
NEW ECONOMIC POLICY (NEP)
(1921 - 1928)

Chapter 1

From War Communism to NEP

There were three major reasons the Bolshevik regime could withstand and win the civil war. First, the support it received from the great bulk of the Russian peasantry. The peasants feared that with the return of the old regime they would lose their land. It goes without saying that the Russian peasant did not like the policy of *prodrazverstka*. But during War Communism he reconciled himself to this policy of requisitions as something temporary, as necessary in order to not allow any restoration of the gentry's landownership.¹

Second, the support of a significant part of the urban working class. The Russian worker was afraid that if the Bolsheviks lost their power and former enterprise owners returned, then workers' control over enterprises would be annulled and the owners would engage in policies of lockouts to suppress worker demands.

Obviously, workers opposed Bolshevik policies of semi-military mobilization. But, like peasants with regard to *prodrazverstka*, workers tolerated this policy as a temporary measure caused by WWI and the Civil War.

Third, the support the Bolsheviks received from a certain part of residents in non-Russian regions of the country. The Bolsheviks promised to non-Russians (Ukrainians, Georgians, Armenians, etc.) the right of self-determination, right up to separation from Russia and the formation of their own independent states. This portion of the non-Russian population was inclined to side with the Red Army for a simple reason: although the White Army had within its ranks many adherents with very often diametrically opposite views regarding the national question, nevertheless the most prevailing view was that of the inadmissibility of the national disintegration of Russia.

But now, with WWI ended and the White Army crushed, when there was no longer any internal threat to restore the old regime, – under these circumstances Russian peasants and workers wanted to change their relationship with the Bolshevik authorities. The peasants desired to enjoy the fruits of their own labor on a piece of land which was actually theirs, to be in charge of their produce and not be subject to forced requisitions of agricultural “surpluses”.

The peasants backed their demands by uprisings against the existing power.²

The workers no longer were content with semi-military discipline in the enterprise, with beggarly, ration-type payments in kind. Believing that Soviet power was their power, Russian workers demanded to be represented in the factory administration where they expected they would defend their own interests and not that of the Bolshevik authorities.

Resentment by many Russians to the continuation of the policies of War Communism found its highest expression in an armed revolt at the military-naval base in Kronstadt, near St. Petersburg. These were military seamen who up to that time had been a major bulwark for the Bolsheviks and who now rose in rebellion against the existing powers. Many of the sailors who took part in the rebellion were former peasants. They just had come from furloughs which they spent in their villages and where they saw firsthand the devastation which the policies of War Communism had brought to peasant life.³

Thus, the Bolshevik regime now had to confront its own, mostly hostile, peasant, illiterate, and naive people, with their peasant conceptions of justice, equality, and brotherhood.

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- 1 See A. Nove, *An Economic History of the U.S.S.R.* London: Allen Lane The Penguin Press, 1969, p. 61.
- 2 See H.M. Heyman, *Russian History*, New York: McGraw-Hill, Inc., 1993, p. 315; and also M. Lewin, *Russia/USSR/Russia. The Drive and Drift of a Superstate*. New York: The New Press, 1995, pp. 55, 65.
- 3 H.M. Heyman, *Russian History*, 315.

PART IV
THE SECOND STAGE IN THE DEVELOPMENT OF THE
SOVIET SOCIOECONOMIC SYSTEM:
NEW ECONOMIC POLICY (NEP)
(1921 - 1928)

Chapter 2

The Characteristics of NEP

No power falls until it is pushed to fall. And any power will do all it can in order to remain in power. This truism is fully applicable to the behavior of the Bolshevik regime, despite its “socialist-communist” rhetoric. Similar to the time of War Communism, the Bolsheviks had to retreat, at least temporarily, before the “petty-bourgeois” (as the regime defined it) feelings of a sizable portion of the peasantry. Under these circumstances, in March 1921, the Bolsheviks proclaimed the *New Economic Policy (NEP)* to replace War Communism.

The new economic policy in agriculture

In terms of agriculture, the most significant aspect of NEP was the replacement of *prodrazverstka* by the *prodnalog* system which took its place in 1921. In 1921-1924, peasants paid this *tax in kind* (for instance, in grain). Beginning with 1924, when the purchasing power of the Soviet ruble was stabilized, *prodnalog* took a *monetary* form.¹

Prodnalog was a *single* tax on the peasant household. In monetary terms, it was calculated as *a fixed portion of the net product* produced by the peasant household. The peasant household was entitled to the rest of the net product and was allowed to use it as he pleases.

The proportion of the net product paid by the peasant household as *prodnalog* directly related to the following two factors: the level of income which, in turn, was dependent on the size of the peasant’s plot and the number of livestock; and also on the size of the peasant household.

As it was desired by peasants, the tax was predetermined, and not arbitrarily set, and was much smaller than *prodrazverstka*.

Table 2.1
*The Burden of Prodnalog Versus of That of Prodravverstka*²
 (1 pood=35,290 lbs)

Items	<i>Prodravverstka</i> , mln. poods	<i>Prodnalog</i> (in kind)	Prodnalog/ <i>Prodrav</i> verstka (percent)
Grain	423	240	56.7
Potatoes	110	60	54.5
Meat	25.4	6.5	25.6

The new economic policy in trade

As for domestic trade, in order for the peasants to be able to trade their agricultural surpluses left over after paying *prodnalog* and after meeting their own production and consumption needs, it was necessary for Bolshevik authorities to permit *legal* free trade (an illegal form of domestic trade existed, despite threats of confiscation and execution). Therefore, the second major feature of NEP was legal commodity (market) relations between the city and village, which the Bolsheviks were forced to restore.

The new economic policy in industry

Regarding industrial production, the restoration of legal free trade of agricultural products was not only quieting the peasants, but was also solving the problem of a deficit in foodstuffs in the country. This, however, could not solve the problem of a deficit in consumer non-food products needed by both peasants and the rest of the population. For, state enterprises, which were producing and selling non-food products, were monopolists and hence, very ineffective in this respect.

Again, the Bolsheviks solved the deficit problem not the way they wanted to but, as before, as was dictated by the real circumstances which faced the country. The problem was solved by three measures.

With regards to *state* non-agricultural (industrial) enterprises, the government went in two directions. The first was to preserve the *centralization* of the so-called *commanding heights of the economy*: banking, the most important branches of heavy and military production, transportation and foreign trade,—in other words, those branches of the Soviet economy which the government considered vital to its own survival. The finances of enterprises in such branches of the economy remained part of the state budget and decisions to supply these enterprises with economic resources and to sell their produce had to be made by central authorities. After *prodnalog* and legal free trade, this was the third major element of NEP.

The *decentralization* of state industrial enterprises for the rest of industry was the second way of solving the problem. These enterprises were granted the right to be financially independent from the state budget, find for themselves their own suppliers of factors of production and customers for their finished products, strive to maximize profits and retain part of them for their own needs, and organize trusts or associations of enterprises within the same branch of industry but still with some controls by government officials. This was the fourth basic characteristic of NEP.

Its fifth feature consisted in the third measure, *denationalization*, with respect to small-size state industrial enterprises of up to 20 employees.

As a result, the sixth aspect of NEP lies in the fact that decentralized and denationalized non-agricultural enterprises were allowed to conduct consumer free trade: both retail and wholesale. Thus, by linking town and country, the problem of supplying peasants with non-food products was resolved.

But once begun, non-state private retail trade between town and country soon spread to other sectors of the economy and at the wholesale level as well. It can be concluded, therefore, that free trade and free money circulation within the country as a whole and between all the sectors of the economy marked the seventh significant feature of NEP.³

As a result, a new class of non-state private traders appeared in the country. The private trader was named *Nepman*. He served as a retail and wholesale middleman, although much less as a wholesaler since, by and large, it was the Soviet state which was dominant in the wholesale trade.

The extent of these “entrepreneurs and merchants employing hired labor”⁴ should not be exaggerated. “[T]hey constituted only 75,600 people (284,000 together with their families) ...”⁵

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- 3 See P.R. Gregory and R. C. Stuart, *Soviet and Post-Soviet Economic Structure and Performance*, fifth ed., New York: Harper Collins College Publ., Inc., 1994, pp. 56-57.
- 4 M. Lewin, *The Making of the Soviet System. Essays in the Social History of Interwar Russia*. New York: Pantheon Books, 1985, p. 214.
- 5 Ibid.

PART IV
THE SECOND STAGE IN THE DEVELOPMENT OF THE
SOVIET SOCIOECONOMIC SYSTEM:
NEW ECONOMIC POLICY (NEP)
(1921 - 1928)

Chapter 3

The Essence of NEP

From the beginning, NEP was labeled as *authoritarian mixed capitalism*. Having presented the basic elements of the new economic policy, we are now in a position to elaborate on this definition.

The mixed character of the economy of NEP

Why do we consider the period of 1921 - 1928 as a period of *mixed* economy? There are three major reasons for this. First, the predominant forms of economic activity in *agriculture* were *non-state* individual activities.¹ And during NEP agriculture remained the most important branch of the national economy.²

Second, in 1926 - 1927, the non-state private sector produced 77.5 percent of the entire production of industrial enterprises in the small-scale and handicraft industries.³

Third, in 1924 - 1925, 98.2 percent of large-scale industrial enterprises were state-owned.⁴

The capitalist direction of the mixed economy of NEP

From a historical point of view, the new economic policy existed for a very short time. Nevertheless, it is possible to draw certain conclusions about the *capitalist* direction of its development.⁵

In terms of *agriculture*, here the direction was expressed as a *tendency*. In the *non-state* sector of the economy, this was manifested as some growth in the *kulaks*, i.e. of the class of well-to-do peasant households which were using hired labor and/or leased their land.⁶ In the *state* sector of the economy this was expressed in the appearance and growth of state agricultural farms (*sovkhozy*), the fundamental features of which was the exploitation of hired labor, and cooperative agricultural farms (*kolkhozy*), whose nature was that of *state feudalism*.⁷ With time, in particular during the last years of NEP, *state capitalism* (state agricultural farms) and *state feudalism*

(cooperative agricultural farms) were replacing *non-state capitalism* (*kulak* farms).

In terms of industry and commerce, cottage-handicraft production chiefly remained non-capitalist, since, as a rule, it did not use wage labor. But industry and commerce were dominated by *non-state* and *state capitalist* enterprises employing wage labor.

It must be emphasized that over time, like in the case of agriculture, the *state capitalist* way of development was becoming prevalent not only in industry but in trade as well. Thus, in 1928, the share of state production in industry was 82.4 percent and in retail trade 76.4 percent.⁸

The authoritarian character of mixed capitalism of NEP

Under the conditions of NEP, there was no mandatory centralized state planning for several reasons. First, agriculture as a principal form of economic activity and domestic retail trade were to a large degree in the hands of non-state, private, decentralized individual economic agents.⁹ Second, the central government authorities had very little time to learn how to conduct comprehensive centralized planning, although in 1921, the government did create *Gosplan* (State Planning Committee).

As a result, the state was sending out plan targets to industrial trusts for some kinds of production in the form of control figures. That is, planning was not mandatory but rather indicative in its nature.

Hence, politically, NEP was an *authoritarian* socioeconomic system because the state was ruled by only one party, the Bolshevik party. All other non-Bolshevik parties and political movements were outlawed.

Thus, it can be summarized that NEP represented a multi-structural socioeconomic system that comprised within itself elements of a patriarchal natural (self-sufficient) economy, small commodity (and, first of all, peasant) production, and non-state, state industrial and trade capitalism within a strict political framework of authoritarian rule by the Bolshevik party.

Economic achievements of NEP

It is impossible to know what results could have been achieved, had there existed, instead of NEP, some other socioeconomic system during the period. However, the following figures indicate that NEP was a success. In 1928, the last year of the new economic policy, as compared to 1913, the last pre-war year, industrial production grew by 32 percent and agricultural production by 24 percent.¹⁰ Also, on average, more was produced in terms of grain, meat, and milk in 1924 - 1928 than in 1909 - 1913.¹¹

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- 2 For statistics, see, for example, P.R. Gregory and R. C. Stuart, *Soviet and Post-Soviet Economic Structure and Performance*, fifth ed. New York: Harper Collins College Publ., Inc., 1994, p. 88, table 4.1.
- 3 Nove, *An Economic History of the U.S.S.R.*, 1982, p. 104.
- 4 Ibid.
- 5 Recall that by "capitalism" we understand a socioeconomic system of wage labor..
- 6 The Bolshevik regime classified peasant households as poor, middle and well-to-do (*kulak*). On the classification, see, for example, Nove, *An Economic History of the U.S.S.R.*, 1982, pp. 107-108.
- 7 Collective farms as a form of *state feudalism* eventually became the agricultural basis for industrial *state capitalism*. About this, in the subsequent corresponding parts of the book.
- 8 Goskomstat, *Narodnoye Khoziaistvo SSSR, 1922 - 1972* [The National Economy of the USSR, 1922-1972]. Moscow: Statistika, 1972, p.59.
- 9 See TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1963g.* [The National Economy of the USSR in 1963]. Moscow: "Statistika," 1965, p. 28.
- 10 Goskomstat, *Narodnoye Khoziaistvo SSSR, 1922 - 1972*, p.59.
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Chapter 4

Causes for the Elimination of NEP

But despite the achievements of NEP as an *authoritarian form of mixed capitalism*, at the end of the 1920s there was a growing tendency for its transformation to a *totalitarian-state form of capitalism*. There were objective and subjective reasons for this movement. Let us examine them.

Objective factors

The objective factors which, against the will and consciousness of the leaders of the Bolshevik regime, caused the transformation from *authoritarian mixed* to *totalitarian state capitalism* in the Soviet Union can be divided into two groups. The first group includes international factors, or external reasons; the second, internal or domestic factors.

International factors

First, let us examine the external factors. Thanks to the abolition of serfdom, railroad construction and the development of some industries, Russia, as we remember, by 1913 had achieved a certain success in reducing its economic gap with the most developed countries in terms of some economic indices. But, as we also remember, with respect to per capita economic indices, Russia had remained a relatively backward country.

But the end of the XIXth - the beginning of the XXth centuries witnessed a situation where a handful of industrial European countries and the USA, one way or another, subdued many of the countries of Asia, Africa, and Latin America, that is, countries that did not participate in the industrial revolution. Thus, relatively backward countries like pre-Soviet Russia, in order not to be subjugated by more advanced industrial countries had only one option: to catch up with these Western powers by means of industrialization.¹

The Soviet Union inherited from its predecessor its relative economic backwardness, which threatened the country with

economic, political, and military subjugation. Therefore, the Soviet Union, like its predecessor, had to continue to industrialize itself but, unlike its predecessor, at high speed.²

Domestic factors

Thus, under the conditions of the first third of the XXth century industrialization for the USSR meant first of all developing heavy industry, which would maintain production of armaments. Hence, investments had to be directed primarily into the production of cast iron, steel, machinery, equipment, industrial structures, coal, oil, etc. In other words, the country had to “choose” as its priority the allocation of economic resources towards producing means of production for the means of production (that is, the production of machinery for the sake of machinery) rather than for articles of consumption (that is, the production of machinery capable of producing consumer goods for the population).³

Keeping this in mind, let us return to NEP. As was pointed out, the main sector of the economy of the period was agriculture. The vast majority of economic agents in agriculture were independent (from the state) private individual peasant households. That part of the peasantry which was engaged in market activities was selling its surpluses on the market in order to purchase small agricultural implements (shovels, pitchforks, sickles, shafts, sledges, harnesses, etc.) and manufactured consumer goods (matches, salt, sugar, textiles, kerosine, and so on).

But if producing means of production for the sake of producing means of production had to become the country's priority, then peasants working for the market had to reduce their interest in selling their agricultural surpluses. The result would be a *self-sufficient agricultural economy* expanding at the expense of market production. This, instead of widening, could threaten to narrow sources of food and raw materials for the growth of the urban industrial proletariat and the development of industry.

Thus, the internal objective factors for eliminating NEP consisted in the socioeconomic features inherent in this system which impeded the rapid development of heavy industry as a basis for the country's economic, political, and military independence. Among these features one can discern the following.

First, there was a prevalence of natural and small commodity agricultural production. Second, as a result, the necessity for authorities to reckon with the interests of independent, scattered producers who basically needed products of light industry and who, because of their small size of production, could not buy and use agricultural machinery (tractors, combines, mowing machines, etc.), that is, capital goods (the means of production) for the production of consumer goods. Third, (which follows from the

second) a certain subordination of the state to the peasant price policy with regard to agricultural products and, firstly, to grain, the most important (together with potatoes) nutritional product of both urban and rural populations at the time. Finally, as a consequence, there existed an impossibility of wide-scale investment in heavy industry.

Subjective factors

Subjective factors which brought about the demise of NEP were in essence of an internal or domestic nature. But, in the final analysis, they (though in a roundabout way) were a result of objective internal socioeconomic and political developments in the country during the first eleven years of Bolshevik rule. Let us test this assertion by examining the relations of the major classes to NEP.

The bureaucracy and NEP

First, let us look at the bureaucracy and NEP. The very fact that the state held in its hands the commanding heights of the economy created a powerful bureaucratic class.⁴ In a peasant country where even urban workers were also tightly connected to the country-side, the bureaucratic ranks could not but be replenished primarily by individuals from either a peasant or working man (semi-peasant) background.

There is no direct statistical data to prove this point. But indirectly the peasant-worker origin of a significant part of the Soviet bureaucracy from the last years of NEP can be demonstrated by the following data.

Calculations made by American sociologists show that, for example, among the 1,011 top bureaucrats of the Soviet Union and 184 key regional bureaucrats of the RSFSR⁵ (all born between 1900 and 1909) following WWII more than 80 percent were peasants and workers by birth.⁶ That is, more than 30 years after the Bolsheviks came to power, the overwhelming majority of their leadership was of peasant and worker descent.

But we need to keep in mind that here we are dealing with the top central regional leadership. We also need to remember that at the end of the 1940s - the beginning of the 1950s, as compared to 1926, the share of the agricultural population decreased from 82 to 61 percent and correspondingly the share of the urban population went up from 18 to 39 percent.⁷

It can be expected, therefore, that at the end of the 1920s, the share of children born to peasants and workers among the Bolshevik bureaucracy had to be higher than at the end of the 1940s - the beginning of the 1950s. But from this fact must follow certain subjective, that is, behavioral, moral, ethical, and ideological

consequences of such a social composition of the dominant class of the country during the last years of NEP.

It is obvious that in belonging, in one way or another, to the village commune by birth, having its equalizing mentality, and being backed by state power for political and socioeconomic privileges, members of the growing bureaucratic class could not but be hostile, angry, hateful and envious of the *kulak-Nepman* nouveaux-riches as a class backed by the non-state power of money. It probably could not have been otherwise, for the bureaucracy (the state as a corporation of bureaucrats) replaced the village commune as a corporation of countrymen and agricultural producers. Therefore, the bureaucracy had to consider any relatively independent owner of non-state industrial, agricultural and trade enterprises in the same way an owner would have been looked upon by the village commune: as an alien, as a blood-sucker, and as somebody who should disappear once and for all.

From this follows a specific attitude of the emerging and growing privileged state class with its tendency toward developing along the totalitarian-state capitalist path against a relatively independent money class which represented a tendency of movement toward an *authoritarian-mixed capitalist road*, that is, on the road of the continuation of NEP. From the point of view of the bureaucracy, NEP, since it created non-state competitors for state economic agents, was becoming an obstacle and, hence, had to be eliminated.

But it needs to be pointed out that as the *mir* of the 1920s was not a homogeneous and monolithic community (it included as its members well-to-do peasants, or *kulaks*), the bureaucracy was also not of one mind in its position toward independent non-state enterprises, and, thus, to NEP. There were certain layers within the bureaucracy, first of all, those connected to commerce and the issuing of licenses to independent non-state entrepreneurs that benefitted. These bureaucratic layers gained from the continuation of NEP thanks, in part, to the kickbacks, graft, etc. they received from the *Nepmen*. But as there were few *kulaks* among the overall peasantry,⁸ so too there were not too many beneficiaries of and, hence, adherents to NEP among the bureaucracy as well.

Besides, by the end of the 1920s the bureaucracy had not yet developed into a full-grown class. Therefore, it was a bearer not so much of its own interests but rather of those lower classes of Soviet society (peasants and workers) from whose ranks individual bureaucrats were rising. The time for the bureaucracy to realize its own interests had not yet come. Several decades had to pass for this to occur.

Non-kulak peasants and NEP

Let us speak of non-*kulak* peasants and NEP. What of those masses of peasants who were less enterprising, less fortunate than their more enterprising and more fortunate former fellow-members of the village commune, those peasants who were destined to remain in the *mir*? What did this class think of NEP and how did it relate to it?

In the same way that members of the old pre-Soviet village commune and their new Soviet bureaucratic “brothers” related to its prosperous and successful members, on the one hand, and to the Bolshevik authorities, on the other, so did the non-*kulak* peasants react to NEP, namely, feelings of enmity to those who became economically relatively independent *without* the state (*Nepmen*, *kulaks*, and other non-state private entrepreneurs) and servile submission to those who became socioeconomically and politically significant *within* the state (the bureaucracy).

For the Soviet peasant of the 1920s as for the pre-Soviet peasant, “power was given by God.” Therefore, like the pre-Soviet Russian peasant who saw in the lordly system “God’s will” (although he not always reconciled himself with his concrete landowner), so too the Soviet peasant of the 1920s also looked at the Bolshevik bureaucracy as his master (although he sometimes resented the fact that among its concrete individual bureaucrats he was able to find former fellow-villagers and their children).

All in all, it can be said that the predominant non-*kulak* masses of Soviet peasants, because they rejected NEP-type authoritarian mixed capitalist development in their country, objectively sided with totalitarian state capitalist development. Thus, in this period, their interests coincided with the interests of the emerging bureaucracy.

Workers and NEP

With regards to workers and NEP, since, as it has been pointed out that the Soviet worker was either peasant by birth or was tied to the village commune by a web of blood relations, to a considerable extent his attitude toward NEP resembled that of the peasant.⁹

Bibliography to Chapter 4: Causes for the Elimination of NEP

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Notes to Chapter 4: Causes for the Elimination of NEP

- 1 See, for instance, M. Ellman, *Socialist Planning*. Cambridge: Cambridge University Press, 1982, pp. 10 - 11.
- 2 Ibid., p. 13.
- 3 We will come back to the question in a more detail later.
- 4 On the growth of the bureaucracy, which the Bolsheviks, like almost everything else, did not anticipate, and the Bolshevik leadership's unsuccessful struggle against it, see, for instance, M. Lewin, *Lenin's Last Struggle*, trans. from the French by a. Sheridan Smith. New York: Pantheon Books, a Division of Random House, 1968.
- 5 The Russian Soviet Federative Socialist Republic as one of the fifteen union republics of the Soviet Union. We will elaborate and discuss the territorial-administrative structure of the USSR in a corresponding part of the book.
- 6 J. Hough, *Soviet Leadership in Transition*. Washington, D.C.: The Brookings Institute, 1980, pp. 50, 58.
- 7 Goskomstat, *Naselenie SSSR 1987* [The Population of the USSR in 1987]. Moscow: Finansi i Statistika, 1988, p. 8.
- 8 At the end of NEP *kulaks* (together with other non-state private groups) were among only 4.6 percent of the population of the country (TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1963 g.* Moscow: "Statistika," 1965, p. 28).
- 9 Obviously, there were no public opinion polls in the USSR at that time. So how do we know what these social classes were thinking during the period? We base our intuitive psychological analysis on the Marxist method presented to you in the first part of the book, a method according to which one's being determines one's consciousness.

PART V

**THE LAST STAGE IN THE DEVELOPMENT OF THE SOVIET
SOCIOECONOMIC SYSTEM: THE STALINIST MODEL IN
MAKING (1928-Late 1930s)**

Chapter 1

**The Theoretical Making of the Stalinist Model:
The Industrialization Debate**

NEP though was not liquidated without debates within the Party leadership. For, in an *authoritarian* state, it is the party of power and, first of all, its leaders who have the right to express their opinions and not to agree with each other. Those who are not party members or its leaders do not have such a right.¹

Three sides participated in these debates: “the left” (L. Trotsky, G. Zinoviev, L. Kamenev, E. Preobrazhensky, etc.), “the right” (N. Bukharin, M. Tomsy, A. Rykov, etc.), and “the center” (J. Stalin, among others).²

However, there was no *strategic* disagreements among the participants. They all had one strategic goal in the growth and development of the country: ‘socialism’. They all believed that industrialization within a one-party political system and the preservation of the commanding heights would be a strategic means to achieve their goal.

They did disagree, however, *tactically*. They differed in the following: their relationship to NEP; sources of capital accumulation for industrialization; the relative roles of agriculture and light and heavy industries in the economy; the speed of economic development; the economic equilibrium; the character of central state planning; and the possibilities of building ‘socialism in one country,’ etc.

For the reader to understand the arguments of each side, the table below presents the positions on major issues taken by the participants in what is now known as the “industrialization debate”:

Table 1.1
The industrialization debate regarding
the methods and pace of industrialization

Points of disagreement	“The left”	“The right”	“The center”
Priorities of the state policy of industrialization	Imbalanced growth and development:	Balanced growth and development:	Imbalanced growth and development: 1. Heavy industry

zation	1.Heavy industry focus at the expense of light industry, agriculture, and consumer services 2.Producer focus at the expense of consumer	1.In the short run, of all the branches of the economy 2.In the long run, an accelerated development of heavy industry 3.Both, producer and consumer focus	focus at the expense of light industry, agriculture, and consumer services 2.Producer focus at the expense of consumer
Rates of industrialization	Rapid	Moderate	Rapid
Sources of investment for industrialization	First of all, agriculture	All sectors of the economy, including agriculture	First of all, agriculture
Investors in industrial production	First of all, independent peasant households, and also collective and state agricultural farms	First of all, independent peasant households, and also collective and state agricultural farms	Collective and state agricultural farms that through collectivization would re-place independent peasant households
Methods of investing in industrial production	Coerced non-market with regard to the peasantry: 1.Unequal exchange of agricultural and industrial products by means of: -low procurement prices of agricultural products sold by peasants to the state -high procurement prices of industrial products sold by the state to	Non-coerced market with regard to the peasantry: 1.Equal exchange of agricultural and industrial products by means of: -high procurement prices of agricultural products sold by peasants to the state -low procurement prices of industrial products sold by the state to	Coerced non-market with regard to the peasantry: 1.Unequal exchange of agricultural and industrial products by means of: -low procurement prices of agricultural products sold by collective and state agricultural farms to the state -high procurement prices of industrial products sold by the state to collective and state agricultural farms 2.High taxes on collective and state agricultural farms

	peasants 2.High taxes on all types of peasant households but, first of all, on the <i>kulaks</i>	peasants 2.Moderate taxes on all types of peasant households	
Methods of allo-cation of resources to attain the goal of in- dustrialization	Mandatory central planning, when central authorities impose their will on the economy in terms of the latter's structure and rates of growth and development	Indicative planning, when consumer markets "indicate" to the planners the di-rection the economy might take	Mandatory central planning, when central authorities impose their will on the economy in terms of the latter's structure and rates of growth and development
Relationship to NEP	Eliminate	Continue	Eliminate
Weaknesses in argumentation	1.The impossibility under the conditions of a market economy to force independent peasant households to sell their products at relatively low prices and purchase industrial products at relatively high prices. Therefore, an uncertainty about the possibility of success in using this source of industrializatio n 2.Rejection of the possibility of build-ing	1.Slow pace of industrializatio n, thus, slow movement to 'socialism' 2.The very possibility of enrichment by <i>Nepmen</i> and <i>kulaks</i> unacceptable to the bureaucracy and the vast majority of the population	No weaknesses

	“socialism in one country” without “a world proletarian socialist revolution.” Hence, dampening the country’s confidence in its own ability to build “socialism”		
The outcome of the debates	Lost out due to weaknesses	Lost out due to weaknesses	Won due to lack of weaknesses

These debates about the methods and rates of industrializing a relatively backward agrarian country had a great significance not only for Russia of the 1920s. The debates for the first time outlined theoretically those problems of economic growth and development which many developing countries of the world encountered after WWII.

Why did the Stalinist faction win?

The reader though should not mistakenly think that the Stalinist faction had won because its subjective logics turned out to be stronger than that of either “the left” or “the right.” To think this way would be, in our opinion, very simplistic.

The matter is much more complicated, for the subjective reasoning of the Stalinist side was founded on a logic of the objective needs for the economic development of the Soviet Union in the 1920s. The very realities of life forced the Stalinist faction of the party and then the entire party to arrive at the only possible conclusion of the day: accelerated industrialization was only possible if, on the basis of doing away with NEP, independent farming was abolished through its nationalization, or *collectivization*.

In the victory of Stalinist reasoning, the dependent, slavish, communal mentality of the non-*kulak* peasantry, which constituted the vast majority of the country’s population, prevailed over the independent, free enterprise spirit of the *kulak-Nepman* of Russia, which constituted a very small proportion of the population.. The Stalinist faction of the Bolshevik party had won because at this historical moment it was the most consistent mouthpiece for the anti-independent, anti-free, anti-enterprising, communal interests of a significant part of the Soviet people.

But *collectivization*, or an apparent return to pre-1861 serfdom,³ did not mean a simple relapse to the feudal *mir*. No, simultaneously this was a movement forward, since this new peasant commune in

the form of collective and state farms was destined to serve a process of *industrialization* in the country as a basis not for its 'socialist' (as was perceived by the Bolsheviks), but its *totalitarian-state capitalist* (as it turned out) future.⁴

Bibliography to Chapter 1: The Theoretical Making of the Stalinist Model: The Industrialization Debate

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Notes to Chapter 1: The Theoretical Making of the Stalinist Model: The Industrialization Debate

- 1 We stress the word "authoritarian," for it is necessary to point out that with the advent of the *totalitarian* state any discussion in the country had ended even among the members of the ruling party.
- 2 See, for instance: A. Erlich, *The Soviet Industrialization Debate, 1924 - 1928*, Cambridge, Mass.: Harvard University Press, 1960; M. Lewin, *Russian Peasants and Soviet Power*. London: Allen & Unwin, 1968; A. Nove, "A Note on Trotsky and the 'Left Opposition,' 1929-1931." *Soviet Studies*, Volume 29, Number 4, October 1977, pp. 576-589.
- 3 See, for example, M. Lewin, *Making of the Soviet Union. Essays in the Social History of Interwar Russia*. New York: Pantheon Books, 1985, p. 183.
- 4 It is necessary to emphasize, in the light of the material presented in Chapter 1 of Part I, that our terminology in employing "isms" differs from that of the Soviet and most non-Soviet sources. You need to be aware of this when and if you use these sources.

PART V

THE LAST STAGE IN THE DEVELOPMENT OF THE SOVIET SOCIOECONOMIC SYSTEM: THE STALINIST MODEL IN MAKING (1928-Late 1930s)

Chapter 2

The Practical Making of the Stalinist Model: Collectivization

The basic elements of the practical making of the *Stalinist model* of economic growth and development were *collectivization* in agriculture, *industrialization* in industry, *mandatory central planning* of all the aspects of social, political and economic life in the country, and the *cultural revolution*. To each of these elements we will devote a separate chapter.

Collectivization meant a transformation of the Russian peasant as an independent agricultural producer into a farm-hand totally dependent on the emerging bureaucracy of collective (*kolkhozy*) and/or state (*sovkhozy*) agricultural farms. The major purpose of such a transformation was rapid industrialization of a relatively underdeveloped agricultural country whose very existence was threatened by the situation of colonialism of the world of the 1920s.

The social composition of peasant households before collectivization

Let us first, examine some statistical data before collectivization. The social structure of peasant households before collectivization (1927 - 1928) was as follows.

There were 25 mln. small individual peasant holdings. Of these, 35 percent were made up of poor peasants, 60 percent of middle peasants, and 4-5 percent of well-to-do peasants (the *kulaks*).¹

While all peasant households based their agricultural production on a very primitive technical foundation and used predominantly manual labor, they differed in terms of the size of land cultivated, the availability of horses and cattle, the size of employment of hired labor, the extent of working for market, and their money lending ability. The *quantitative* criteria used by the authorities in classifying peasant households was rather arbitrary and included the following:²

Table 2.1
The classification of poor, middle, and well-to-do peasant households

Characteristics	Poor households	Low middle households	Higher middle households	Well-to-do households
The size of land	Insufficient to feed their families	Barely sufficient to feed their families	Sufficient to feed their families	More than sufficient to feed their families
The availability of horses and/ cattle	None	Mostly none	At least, one horse	At least, two horses and two cows
Employment of hired labor	Working part-time for a better-off peasant household	Hiring part-time labor	Hiring part-time labor	Hiring full- and part-time labor
Working for market	None	None	None	Selling a part of the produce
Money lending ability	Borrowing money	Borrowing money	Borrowing money	Giving usury credits

The attitude of peasants toward collectivization

This social structure of peasant households prior to collectivization allows us to understand, first, its motivational forces and, second, its nature (voluntary or involuntary).³

It can be *presumed* that poor peasants were among those who most of all applauded the collectivization drive. First, they had very little to lose from collectivization, that is, actual nationalization of their property which they had so little of as compared to other groups of peasant households. Second, they expected that the conditions of their life would improve when the middle and *kulak* households brought their property into collective and state farms. Third, they could not but be moved by feelings of envy towards the more prosperous members of the village commune and, hence, desired the redistribution of the latter's property forcefully if needed.

By necessity, middle peasants were of two minds in their attitude toward collectivization. It might be *assumed* that they, like their poor brethren, welcomed with great pleasure Bolshevik slogans of a struggle against the *kulaks* up to and including its annihilation as a class. The middle peasant saw this as a fight against the *other*, a people better off than him and whose position he

envied. But, on the other hand, those among the middle peasants whose material position was closer to that of the *kulaks* and who, therefore, hoped one day to move up and achieve the *kulak's* status, saw in the struggle against the *kulaks* a threat to *their own* aspirations.

It can be *supposed*, therefore, that collectivization had to be forced only upon the *kulaks* and the more prosperous middle peasants. As far as the poor and the less prosperous middle peasants (that is, the vast majority of the peasantry) were concerned, this process was in many ways voluntary. There can be no doubt that the authorities found among these latter groups of the population the most willing and the most active participants in the drive towards collectivization.

Changes in the social composition of peasant households after collectivization

Let us now look at the dynamics of change within the social structure of agriculture as collectivization progressed. Collectivization began in 1928 and by that year, 1.7 percent of peasant homesteads had been collectivized. By 1930, the share had grown to 23.6 percent, by 1931, to 52.7 percent, and so on. Finally, by 1939, almost all peasant homesteads (99.1 percent) had been collectivized.⁴

Thanks to collectivization, the Bolshevik regime was able to achieve its most important goal: reducing the number of peasant households it had to control. Instead of 24.8 mln.(including 1.1 mln. of *kulak* households), in 1939 there were only 0.9 mln. independent peasant holdings (with no more *kulak* holdings), 235.3 thousand collective farms and 4 thousand state farms.⁵

The reduction in the number of peasant households through collectivization led to the enlargement of agricultural production in the country. As a result, the average size of collective and state farms increased:⁶

Table 2.2
The dynamics of changes in the average size of collective and state farms

Indices	1928		1932		1940	
	<i>kolkhoz</i>	<i>sovkhoz</i>	<i>kolkhoz</i>	<i>sovkhoz</i>	<i>kolkhoz</i>	<i>sovkhoz</i>
Per one:						
Area under crops, thousand hectares (259 hectares=1 square mile)	0.04	0.8	0.4	2.4	0.5	2.8
Cattle, including	5	97	42	648	85	592

cows						
Hogs	2	31	15	344	35	459
Sheep and goat	7	403	54	1,305	177	1,420
Tractors, physical units	0.3	5	0.4	19	2	18

Before 1932, the major source of the enlargement of collective and state farms was expropriation of the formerly independent individual peasant household. As table 2.2 shows, this process was proceeding much more intensely in *kolhozy* than in *sovkhozy*. After 1932, mechanization of labor of the peasant became the main source of the increase.

Evaluation of collectivization

It must be emphasized that the reduction in the number of peasant households and their enlargement were not ends in and of themselves. Collective holdings were easy targets for grain requisitioning with the government having two purposes in mind.

First, it served to satisfy the immediate need for foodstuffs by the working class emerging in the cities as a consequence of industrialization. Second, the government wanted to export grain in order to purchase machinery, equipment, and technology required for industrialization.

Thus, the major purpose of collectivization was to increase the market volume of agricultural produce and, first of all, grain, by means of obligatory deliveries to the state. But it is obvious that under such conditions, of an emerging *totalitarian state capitalist* system, the state's growing need for a marketable part of gross agricultural product could be attained in only one of three ways (all things being equal): first, when gross agricultural product increases; second, when gross agricultural product remains unchanged; third, when gross agricultural product declines over time.

For instance, during the process of collectivization there was no real growth of gross grain yield. Thus, while in 1928 the latter was equal to 73.3 mln. tons of grain, in 1933 it achieved only 74.0 mln. tons.⁷

But its marketable part had grown dramatically from 14.7 percent of gross grain yield in 1928 to 30.5 percent in 1933, that is more than twofold.⁸ Given that gross grain yield showed no real increase, the rise in its marketability could mean only one thing: starvation for millions of peasants in many parts of the country.⁹

We can conclude that the voluntary (the vast majority of the peasantry) and involuntary (a small proportion of the peasantry) serfdom of the Soviet peasantry was a very important step in building totalitarian state capitalism in the USSR. The completion of collectivization implied a return to the policies of War

Communism but now based on the enslavement of peasants in the *kolkhoz-sovkhoz* system. The majority of peasants who found themselves in collective farms actually reverted to the times of state feudalism. The minority of peasants who became employees of state farms passed on to the stage of *state capitalism*.

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- 1 Goskomstat, *Narodnoye Khosiaistvo SSSR za 70 let* [The National Economy of the USSR for 70 years]. Moscow: "Finansi i Statistika," 1987, p.35.
- 2 A. Nove, *An Economic History of the U.S.S.R.* New York: Penguin Books, 1982, pp. 107 - 108.
- 3 Again, we need to remind you what was said on p. 142, in note #9, Chapter 4, Part IV: Of course, at the time there were no public opinion polls taken in the USSR, so there was no one to ask the Soviet people (all the more so since the peasantry was overwhelmingly illiterate) about their attitudes toward collectivization. So, again, our *assumptions* are based on the dictum "social being determines one's consciousness."
- 4 Goskomstat, *Narodnoye Khosiaistvo SSSR za 70 let*, p.35.
- 5 Ibid. Note that after the completion of collectivization the number of collective agricultural farms (*kolkhozy*) was much greater (almost 59 times) than the number of state agricultural farms (*sovkhozy*). Keep this in mind: it is *kolkhozy* as state feudal enterprises that were destined to become the most important source of financing state capitalist industrialization in the country.
- 6 Ibid., p. 36.
- 7 P.R. Gregory and R. C. Stuart, *Russian and Soviet Economic Performance and Structure*, sixth ed., Reading, Mass.: Addison-Wesley Education Publishing, Inc., 1998, p. 80, table 5.3; and A. Nove, *An Economic History of the U.S.S.R.*, 1982, p. 180.
- 8 Ibid.
- 9 See D. Volkogonov, *Stalin*, in two books. Moscow: "Novosti," 1999, p. 301.

PART V

THE LAST STAGE IN THE DEVELOPMENT OF THE SOVIET SOCIOECONOMIC SYSTEM: THE STALINIST MODEL IN MAKING (1928-Late 1930s)

Chapter 3

The Practical Making of the Stalinist Model: Industrialization

Collectivization became the foundation for industrialization. Collectivized agriculture provided raw materials necessary to run mills and factories, foodstuffs for industrial workers, and, through exports of grain, imports of machinery, equipment, and new technologies for emerging new sectors of industry. The process of industrialization was carried out within the framework of three five-year plans, that is, between 1929 and June 1941.¹

Industrialization and the growth of the number of large-scale state industrial enterprises

Table 3.1 provides data on the number of constructed, restored and put into operation large-scale state industrial enterprises during the 1929-June 1941 period.²

Table 3.1
Soviet Industrial Growth in 1929-June 1941

Indices	The number of industrial enterprises	
	For the whole period	Annual average
1918 - 1928, or eleven years ³	2,200	200
The first five-year plan (1929 - 1932), or four years	1,500	375
The second five-year plan (1933 - 1937), or five years	4,500	900
The third five-year plan (1938 - June 1941), or 3.5 years	3,000	857

During War Communism and NEP, that is, before the process of industrialization the Soviet Union was constructing, restoring and putting into operation on average 200 industrial enterprises a year.

The beginning of the policy of industrialization of the country, when NEP of *authoritarian state capitalism* was eliminated and the first elements of the *Stalinist model of totalitarian state capitalism* found their expression, the index reached 375 industrial enterprises, or went up by 87.5 percent. With industrialization in full swing and with the growth of a full-fledged new socioeconomic system, the figure increased to 900 industrial units, or by 4.5 time. And so on.

Industrialization and the direction of industrial investment

Following the results of the industrialization debate, the growing share of capital investment of the country was directed into industrial development and, first of all, into heavy industry:

Table 3.2
The share of industrial investment in total national investment
(in percentage)⁴

Indices	1918 - 1928 (without the IV quarter of 1928) ⁵	Three and a half years of the third five-year plan (1938 - June 1941)
Industry, total	18.1	34.4
Including:		
Production of the means of production, or capital goods (group "A")	12.5	28.6
Production of the articles of consumption, or consumer goods (group "B")	5.6	5.8

If during War Communism and NEP industrial investment was less than 1/5, during the first three years of the third five-year plan it was equal to 1/3 of the total investment into the Soviet economy. Also, the structure of industrial investment underwent a major change in favor of investment into capital goods (from 1/8 to almost 1/3). And while at the end of the 1930s - the beginning of the 1940s the portion of total country's investment into the production of consumer goods actually remained the same, its share in industrial investment shrank from less than 1/3 to more than 1/6.⁶

Pre-war Soviet industrialization results as compared to that of 1913

In table 3.3 we find data on changes in the industrial capacities of producing some most important items⁷ for the period of 1929 - June 1941 (that is, of all the pre-war five-year plans) as compared to that capacity in 1913:⁸

Table 3.3
Changes in the industrial capacities in the pre-war Soviet period
in comparison to 1913⁹

Indices	Actual industrial capacities in 1913	New industrial capacities (1929-June 1941)	Changes, times ¹⁰
Electric power stations, mln. kw	1.1	9.2	8.4
Including hydroelectric power stations	0.02	1.4	70
Coal, mln. t.	29	189	6.5
Iron ore, mln. t.	9	29.4	3.3
Pig iron, mln. t.	4.2	14.6	3.5
Steel, mln. t.	4.3	13.9	3.2
Finished rolled ferrous metals, mln. t.	3.4	11.8	3.5
Sulphuric acid, th. t.	145	1450	10
Calcium soda, th. t.	160	328	2.1
Automobiles (trucks and cars), th. units	0.1	217	2170
Tractors, th. units	-	119	
Combines harvesters, th. units	-	45	
Cement, mln. t.	1.8	4.0	2.2
Paper, th. t.	269	636	2.4
Cellulose, th. t.	258	600	2.3

This table illustrates the industrial progress achieved by the USSR within a short span of less than 12 years in comparison to that gained by pre-Soviet Russia in her long history. As an outcome of policies of industrialization, not only was the country able to greatly increase those industrial capacities that already existed in 1913 but it also succeeded in creating new industrial sectors of its economy. All this amounted to a real *industrial revolution* in the country.

Industrialization and rates of industrial growth

Table 3.3 revealed an impressive picture of the Soviet industrial growth. But more impressive were changes in those branches of Soviet industry which were producing means of production. During the prewar period production of the means of production (group "A") advanced by 13 times while production of the articles of consumption, by only 4.6 times.¹¹

Within the group "A" a preferential treatment was given to machine-building, chemical, petrochemical and electrical power engineering industries which at that time were pivotal players in industrializing the country and strengthening its military potentials.

Table 3.4 demonstrates that the Soviet industrialization success had been achieved due to high rates of growth in certain key branches of industry and in industry as a whole in 1932, 1937 and 1940 as compared to 1928:

Table 3.4
Rates of industrial growth from 1928 to 1940
(1928=100)¹²

Branches of industry	1932	1937	1940
Industry as a whole	202	446	650
Electrical power engineering	375	1,049	1,444
Fuel industry	211	357	457
Ferrous metallurgy	184	528	617
Chemical and petrochemical industry	319	992	1,511
Machine-building and metal-working	399	1,128	1,985
Light industry	161	260	348
Food industry	157	302	411

In 1940, while the volume of total industrial production rose by 6.5 times, that of key industries, such as electrical power engineering, chemical and petrochemical industry, machine-building and metal-working, the increase was 14.4, 15.1 and 19.9, respectively.

At the same time, indices of those branches of industry which were to play an auxiliary role in the process of industrialization, were much more moderate. Thus, the rates of growth in light and food industries were not only the lowest ones but also were lower the average rate of growth for industry as a whole.

Other results of industrialization

As a result of industrialization, by 1940 - 1941 as compared to 1928: (1) industrial fixed capital had grown by seven times;¹³ (2) the structure of production in NNP had shifted in favor of industry (rising from 28 to 45 percent) at the expense of agriculture (falling from 49 to 29 percent);¹⁴ the structure of industrial production tilted heavily towards the production of means of production (rising from 39.5 to 61 percent) at the expense of production of articles of consumption (falling from 60.5 to 39 percent);¹⁵ the labor force structure also changed in favor of industry (increasing from 18 to 29 percent) and services (rising from 12 to 20 percent) reducing the share of labor in agriculture (decreasing from 71 to 51 percent).¹⁶

Thus, by 1940, one year before the Soviet Union's entry into WWII, thanks to industrialization (with agriculture serving as a milking cow for its rapid development), the Soviet Union had created a solid foundation upon which it became an industrial power. At this time, the USSR ceased to be an agricultural country from the point of view of the composition of its production even

though it still remained an agricultural country in terms of the structure of its labor force.¹⁷

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Notes to Chapter 3: The Practical Making of the Stalinist Model: Industrialization

- 1 On June 22, 1941 Germany began its war against the Soviet Union. The five-year plans had to be put aside.
- 2 Goskomstat, *Narodnoye Khosiaistvo SSSR za 70 let* [The National Economy of the USSR for 70 years]. Moscow: "Finansi i Statistika," 1987, p.33. On the definition of large-scale industrial units between 1928 and 1933, see, for instance, G. Nutter, assisted by I. Borenstein and A. Kaufman, *Growth of Industrial Production in the Soviet Union*. Princeton, New Jersey: Princeton University Press, 1962, p. 188.
- 3 The data for 1918 - 1928 is provided here for the purpose of comparison.
- 4 Goskomstat, *Narodnoye Khosiaistvo SSSR za 70 let*, p.33.
- 5 The data for 1918 - 1928 is provided here for the purpose of comparison.
- 6 Calculated as $[(5.6/18.1) \times 100]$ and $[(5.8/34.4) \times 100]$ respectively.
- 7 The "most important" from the point of view of the industrial development of the USSR.
- 8 Goskomstat, *Narodnoye Khosiaistvo SSSR za 70 let*, p. 34.
- 9 But can we trust the Soviet statistics? As Nutter (G. Nutter, *Growth of Industrial Production in the Soviet Union*, pp. 16-17) observes, "[k]nowing the ideological views of Soviet leaders, one finds it hard to picture them dispensing facts in a passive and detached manner." In fact, a considerable portion of the book by Nutter is devoted to this question and to finding answers to it. But the reason we still rely on the Soviet statistics finds its justification in the same (very reliable) source which, after pointing out many other shortcomings of the Soviet statistics, nevertheless emphasizes that (*ibid.*, p. 18):

“Counteracting these detrimental features has been the urgent internal need for reliable statistics to run the economy. In the Soviet economic system, statistics form the basis for making plans, checking on their fulfillment, allocating resources, making technical managerial decisions, assessing performance, and dispensing rewards and punishments—in short, for performing virtually every economic function. The pressure for trustworthy statistics comes, so to speak, from the top downward: every agency in the political and administrative hierarchy strives to get truthful reports from subordinate units.”

Still, for those of you who would like to go to non-Soviet sources for some Soviet indices of growth and development we can offer, for example: A. Bergson, *Real Soviet National Income and Product Since 1928*. Cambridge, Mass.: Harvard University Press, 1961; S. Kuznets, “A Comparative Appraisal,” in A. Bergson and S. Kuznets, eds., *Economic Trends in the Soviet Union*. Cambridge, Mass.: Harvard University Press, 1963, pp. 342-360; and G. Nutter, *Growth of Industrial Production in the Soviet Union*.

10 Calculated by the author.

11 Goskomstat, *Narodnoye Khosiaistvo SSSR za 70 let*, p. 34.

12 Ibid.

13 Ibid., p. 33.

14 P. Gregory and R. Stuart, *Russian and Soviet Economic Performance and Structure*, sixth ed. Reading, Mass.: Addison-Wesley Education Publishing, Inc., 1998, p. 87, table 5.6.

15 *Narodnoye Khosiaistvo SSSR za 70 let*, p.35.

16 P. Gregory and R. Stuart, *Russian and Soviet Economic Performance and Structure*, sixth ed., 1998, p. 87, table 5.6.

17 The role of agriculture in the Soviet industrialization drive will be elaborated in a section on *turnover taxes*.

PART V

THE LAST STAGE IN THE DEVELOPMENT OF THE SOVIET SOCIOECONOMIC SYSTEM: THE STALINIST MODEL IN MAKING (1928-Late 1930s)

Chapter 4

The Theoretical Making of the Stalinist Model: The Planning Debate

Previously, it was emphasized that the Stalinist faction of the Bolshevik Party, the winner of the industrialization debate, put forward *mandatory central (centralized) planning* as a method of allocating resources for industrialization. In the end, mandatory central planning became the third element of the *Stalinist model* of economic growth and development, or *totalitarian state capitalism* (together with collectivization and industrialization as its first two elements).

But it must be emphasized that this only happened “in the end” (over time). For, before mandatory central planning could become an integral aspect of totalitarian state capitalism, mandatory central planning, like collectivization and industrialization, had to withstand a series of great debates.¹

Any type of economic planning (centralized or decentralized, macroeconomic or microeconomic, mandatory or indicative) can be understood as a conscious decision-making process with regards to the allocation of productive resources.² Thus, in essence, Soviet arguments of the 1920s were concerned with the role planning would be required to play in the overall process of industrialization. In general, two positions were expressed: that is of the “*geneticists*” and that is of the “*teleologists*.”³ Their views were based on two diametrically opposed philosophical approaches. Their philosophical approaches, in turn, were determined by the attitude toward the fate of NEP.

Philosophically, the “*geneticists*” adhered to the position of following the events, of changing them by accommodating to them according to their nature. For, “*geneticists*” were supporters of the continuation of NEP thus *objectively* defending the further development of the elements of *authoritarian mixed capitalism* in the country. Therefore the “*geneticists*” thought that economic planning had to be *indicative*, subordinated to the market forces, following the market forces, only partially correcting the latter.

From the point of view of the “*geneticists*,” the policy of the continuation of NEP was a *tactical* policy of a *short period* for the

achievement of the *long-term strategic* goal of “socialism” and “communism.” It is natural, therefore, that politically the “*geneticists*” supported the right wing of the Bolshevik Party.

A philosophical credo of the “*teleologists*” was the imposing their will to events thus building the future and forcing the circumstances to work for them. This is because the “*teleologists*” were for the abolition of NEP thus *objectively* creating the conditions for the realization of the tendency of the development of *totalitarian state capitalism* in the country.

As a result, the “*teleologists*” believed that economic planning must be mandatory in its nature, bending to its will the market forces and leading them. From the point of view of the “*teleologists*,” the policy of the abolition of NEP was a more *direct tactical* way for the attainment of the *strategic* goal of the *long-term* period: “socialism” and “communism.” Hence, *politically* the “*teleologists*” supported the centrist and left wing factions of the Bolshevik Party.

The “*teleologists*” had won, because they were expressing, first of all, the views of the triumphant “center.” But, in the final analysis, both the victors (“*teleologists*”) and the losers (“*geneticists*”) had to follow events, because they were building a new society not from material that they would have liked to have had (an urban, industrial country of literate and organized working classes) but from material which they actually had (an agrarian, village-commune oriented country based on an illiterate and ignorant peasantry). However, while the “*geneticists*” were trying to use the *authoritarian-mixed-capitalist* qualities of this actual material, the “*teleologists*” were attempting to realize a *totalitarian-state-capitalist* tendency in the development of that actual material.

The table below summarizes in a concise way the arguments of the two sides in the debates:

Table 4.1
The planning debate

Points at issue	“ <i>Geneticists</i> ”	“ <i>Teleologists</i> ”
Character of planning	Indicative: plan-forecast, plan-suggestion	Mandatory: plan-directive, plan-order, plan-coercion
Correlation between economic planning and the market	Planning follows the market, is led by the latter	The market follows planning, is led by the latter
Goals of economic planning	General economic equilibrium: a balanced growth in all sectors of the economy	No need for general economic equilibrium: imbalanced growth with priority in allocating resources given to heavy industry (group “A”)
Participants in the	Supported NEP and	Against NEP and its

debate and their relationship to NEP	its continuation, but only as a tactical retreat from the long-term 'socialist' goal	continuation
Participants in the debate and their attitude toward party factions	Supported "the right"	Supported "the left" and "the center"
The outcome of the debates	Lost	Won

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Notes to Chapter 4: The Theoretical Making of the Stalinist Model: The Planning Debate

- 1 The discussion below is based on V. Bazarov, "Printsipy postroeniia perspektivnogo plana," [Principles of the Preparing of the Prospective Plan], in *Planovoye khoziaistvo*, no.2, 1928; M. Dobb, *Soviet Economic Development Since 1917*. London: Routledge & Kegan Paul, 1960; A. Nove, *An Economic History of the USSR*. London: Allen Lane The Penguin Press, 1969.
- 2 There is also a difference between "planning," on the one hand, "designing," "projecting" and "forecasting," on the other. For this, see, for instance, L. Johansen, *Ocherki makroekonomicheskogo planirovania* [Essays on Macroeconomic Planning], two volumes. Moscow: "Progress," 1982.
- 3 To the best of our knowledge, the terms "*geneticist*" and "*teleologist*" as applied to the planning debate first appeared in Bazarov's "Printsipy postroeniia perspektivnogo plana"[Principles of the Preparing of the Prospective Plan].

PART V

THE LAST STAGE IN THE DEVELOPMENT OF THE SOVIET SOCIOECONOMIC SYSTEM: THE STALINIST MODEL IN MAKING (1928-Late 1930s)

Chapter 5

The Practical Making of the Stalinist Model: Mandatory Central Planning

The creation of mandatory central planning as an integral part of the Stalinist model of economic growth and development was completed in the beginning of the 1930s.¹

Differentiation of Soviet mandatory central planning

The functional differentiation

The structure of Soviet economic planning was differentiated in the following way. First, with regard to the *functional* purposes. In this respect, there were *physical* plans, that is, plans of the natural (physical) volume of production and distribution of real (tangible) goods and investment. In addition, there were *financial* plans and plans on *labor* and *wages*, which served as derivatives from physical plans of the real production.

The time differentiation

Second, with regard to *time limitations*. In this respect, plans were divided into the *long-term* plans, that is, those calculated for 15 - 20 years; *middle-term* plans, that is, covering the period of 5 - 7 years; and *short-term* plans, or *operational* plans, that is, those that *had* to be fulfilled either annually or quarterly or monthly.

The principles of Soviet mandatory central planning

Mandatory central planning was based on the following major principles.

The first principle

Material production is a starting point of planning. This principle is grounded in the opinion that it is production of material (real, tangible) goods (but not services) which is the condition of society's

existence. The view, in turn, resulted from the needs of industrial development which found their expression in the necessity of growth of a physical, natural, material volume of production in the country.

The second principle

This principle originates from the first principle. *The sole source of the national income as a new value is labor in the branches of material production.* The reference to labor, although masking the distinction between “labor” of the bureaucracy and labor of a non-bureaucratic part of the Soviet population, both engaged in material branches of economy, nevertheless stood on a certain objective ground. For, the bureaucracy as a whole in its relation to the non-bureaucratic portion of the Soviet population was the only owner of the major means of production and goods created by them. But each individual lower-level bureaucrat, being employed by the higher-level bureaucrat, with the relation to the latter performed a function of wage-labor.

The third principle

Plans are a concrete expression of the will of the Party, that is, in reality of its leadership. The policy of the highest organs of the Party at each stage of the development of the Soviet system was concretized through the plans’ realization.

The fourth principle

This principle comes from the third principle. *Plans are binding orders given by the higher-level bureaucrats to the lower-level bureaucrats and from them to the working population.* That is, plans had a mandatory character. They had to be fulfilled by all economic agents to whom they were directed.

The fifth principle

This principle is a consequence of the fourth principle. *Plans are address in their nature.* This means that specific binding orders were given to specific enterprises or organizations so that the latter were responsible for the fulfillment of plans.

The sixth principle

This principle is an outcome of the first and the fifth principles. *At any given period of time, plans give priority to those sectors of the economy which are considered to be the leading connecting links in the development of the country as a whole.*

The seventh principle

This principle has as its origin all the previous principles. *A particular manager of a particular enterprise or organization bears the responsibility for the fulfillment of plan targets within a specified period of time.*

The eighth principle

This principle proceeds from the seventh principle. *Each enterprise or organization given a plan target at the end of the plan period must be profitable.*

The ninth principle

The method of planning is the system of balances. The latter represent a bookkeeping entry in which there were indicated the use of economic resources (demand) and the source of economic resources (supply).

The agencies of mandatory central planning

For our purposes it is not necessary to provide you with the technical-organizational *details* of Soviet planning. The latter interests us here only as a significant element in the building of the *Stalinist socioeconomic model*. Therefore, we will simply outline the planning organizational structure.

The organizational structure of Soviet economic planning reflected the hierarchical-bureaucratic-pyramidal essence of the *Stalinist model* of socioeconomic development, or *totalitarian state capitalism*. In this structure, the highest party (the Politburo and the Secretariat of the Communist Party of the Soviet Union) and economic (the Soviet of Ministers of the USSR) bureaucracy were delineating the *general direction* of the country's movement, at each stage underlining a primary importance of the development of this or that branch of the national economy.

Gosplan SSSR (the State Planning Commission of the USSR) was the supreme planning agency of the country. *Gosplan* was responsible for "translating" the general wish of the bureaucratic leadership into concrete, having a special purpose orders.

Gosplan was organized at the beginning of 1922. By the end of the 1920s, it had become a mighty bureaucratic hierarchy whose responsibilities included: working out all-union (that is, for the country as a whole) plans of all kinds (material, financial, labor, etc.); placing these plans for consideration by the Soviet of Ministers of the USSR; control over the fulfillment of the plans by

various ministries, departments, other central administrative boards, etc.

Structurally, *Gosplan* was divided into various economic sections. Each of these sections was engaged in drawing up plan targets for a certain branch of the national economy.²

It should not be forgotten that careers and sometimes (in Stalin's time) even freedom and life of those to whom plan targets were addressed (directors of enterprises and organizations, chiefs of central administrative boards, departments, and ministries) depended on the plan fulfillment. That is why *Gosplan* as an organization whose primary task was to serve the interests of the entire bureaucratic class by the means first, of concretizing the latter's goals and tasks and second, of controlling the fulfillment of the plans for the country as a whole, occupied a very important and "honorable" place in preserving and developing the system of totalitarian state capitalism in the Soviet Union.

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Notes to Chapter 5: The Practical Making of the Stalinist Model: Mandatory Central Planning

- 1 There exists a vast literature on the practicality of Soviet planning. Here we mention a few: Z. Kenessey, *The Process of Economic Planning*. New York: Columbia University Press, 1978; A. Nove, *The Soviet Economic System*. London: Allen & Unwin, 1977; G. Sirkin, *The Visible Hand: The Fundamentals of Economic Planning*. New York: McGraw-Hill, 1968.
- 2 The structure of *Gosplan* of the USSR was replicated at the levels of each of the fifteen union republics comprising the Soviet Union.

PART V

**THE LAST STAGE IN THE DEVELOPMENT OF THE SOVIET
SOCIOECONOMIC SYSTEM: THE STALINIST MODEL IN
MAKING (1928-Late 1930s)**

Chapter 6

**The Practical Making of the Stalinist Model:
The Cultural Revolution in Its Social and Educational Aspects**

The cultural revolution which was carried out prior to the Soviet Union's entry into WWII (that is, before June 1941) became the fourth important element in building a system of *totalitarian state capitalism* in the USSR. The revolution had a multi-dimensional character.¹

First, it had a *social* content, because in its scale and speed of fulfilment it brought about a breakup of the old social structure and a social mobility among the population leading to the creation of a new social structure, which was simply unprecedented in Russian history.

Second, it was *educational* in its essence, for in the framework of the new social structure it provided great opportunities and turned into reality the liquidation of illiteracy of broad masses of the population, on the one hand, and the achievement of the highest educational level for the millions among the lowest strata of the people, on the other.

Third, it made a good start the *ideological indoctrination* of the Soviet people. Immediately after the October Revolution and until the last days of the Stalinist model the populace of the country was constantly and uninterruptedly subjected to the intense propaganda and agitation for the Soviet way of life in order for a new, "Soviet" man to emerge.

The social content of the cultural revolution

Table 6.1 illustrates a comparative characteristics of the social structure of the population of the country in the pre-Soviet period of 1913, in the period of NEP of 1924 and 1928, and, finally, in the end of the road of building the Stalinist model of 1939:

Table 6.1
The social composition of the population of the country
in 1913, 1924, 1928 and 1939⁸
(in percentage)

Social groups	1913	1924	1928	1939
Population as a whole	100	100	100	100
Including blue-collar and white-collar workers	17.0	14.8	17.6	50.2
Including:				
Blue-collar	14.6	10.4	12.4	33.7
White-collar	2.4	4.4	5.2	16.5
Peasants in collective farms and cooperated handicraftsmen	-	1.3	2.9	47.2
Independent peasants and non-cooperated handicraftsmen	66.7	75.4	74.9	2.6
Bourgeoisie, gentry, merchants, etc.	16.3	8.5	4.6	-

Analyzing table 6.1, we arrive to the following conclusions.

First, during the Soviet time (1924 - 1929) as compared to the pre-Soviet period (1913) the social structure of the population underwent significant changes. The gentry, the bourgeoisie and the merchants completely disappeared from the historical scene. The class of independent peasants and non-cooperated handicraftsmen was practically reduced to insignificance having being converted into the collective and state peasantry and blue-collar and white-collar workers, whose ranks thus grew dramatically.

As a result, a predominantly peasant country, where before the revolution the share of blue-collar and white-collar workers (17 percent) was approximately equal to the share of the dominant classes of society (16.3 percent), by the end of 1930s had been transformed into a country, where blue-collar and white-collar workers of the state sector of the economy became the predominant class in terms of their size (50.2 percent) and together with the collective peasants and handicraftsmen (47.2 percent),—actually the entire population of the country (97.4 percent).

Second, the table shows that the *speed* of such historic structural changes directly related to the form of the Soviet model of economic development. During NEP (1924 - 1928) important alterations were taking place only within the former dominant classes of Soviet society (the bourgeoisie, the gentry, the merchants, etc.).

As far as the other strata of society are concerned, here the changes were not very significant. Moreover, they were occurring as if against the general trend in the social transformation of the population. Thus, in 1928 as compared to 1913, there was some

reduction of the portion of blue-collar workers (from 14.6 to 12.4 percent) and simultaneously some increase in the share of the peasantry (from 66.7 to 74.9 percent). But already during the period of building the Stalinist model of economic growth and development (1928 - 1939) the rates of changes in the social structure became significant. In 1939 as compared to 1928, the portion of the population belonging to blue-collar and white-collar workers grew threefold, and to the collective peasantry and handicraftsmen, by 16 times. At the same time, the portion of independent peasants and handicraftsmen fell by almost 29 times.

Third, in 1939 as compared to 1913, there takes place a sharp alteration of the structure within the category of blue-collar and white-collar workers. While the proportion of blue-collar workers per se grows more than two times, the share of white-collar workers increases by almost seven times.

There could be no doubt that one of the major reasons for such a phenomenal (for 26 years) growth of the proportion of white-collar workers was a necessity to satisfy the growing "appetite" of the country for scientific, technical-engineering, economic, bookkeeping, medical, teaching, cultural, ideological and other non-bureaucratic employees whose task was to serve the needs of industrialization, of collectivization, of increasing the educational level of the population and of its ideological indoctrination.

But at the same time there could be no doubt that the rise in the share of white-collar workers reflected the appearance and growth of the new, Soviet bureaucracy (the class of managers from top to bottom).

In this respect, it is obvious that the Soviet source masks the truth about the social structure of Soviet society of the 1920s-1930s, because there is no data in it on the bureaucracy (managers). This category is hidden in the category "white-collar workers."

Nevertheless, it is this latter category that will enable us to find a key to finding out the proportion of the bureaucracy in the structure of Soviet society before World War II. Pay attention to the fact that the share of the Soviet white-collar workers in 1939 (16.5 percent) just a little bit less than that of the combined proportion (18.7 percent) of the dominant classes (16.3 percent) and white-collar workers (2.4 percent) in pre-Soviet Russia in 1913.

To a certain degree this means that in 1939 the pre-Soviet bourgeoisie was replaced by the Soviet directors of state industrial enterprises; the pre-Soviet merchants, by the Soviet directors of the state retail and whole enterprises and public catering; the pre-Soviet gentry, by the managers of collective and Soviet (state) farms. In other words, in 1939 as compared to 1913, Soviet Russia witnessed a final transformation of its ruling classes.

Our simplified calculation shows that by 1940 the bureaucracy of all levels as a new dominant class of the Soviet Union had

comprised around five million people in the population of 194 mln. people.³

The educational content of the cultural revolution

The profound social changes that occurred in the social structure of the country before the Soviet Union's entry into WWII, laid the groundwork for the liquidation of illiteracy, for the development of the educational system.

According to the population census of 1897, even in the European part of Russia more than 64 percent of men and around 88 percent of women were illiterate.⁴ This amounted to more than 72 percent of the population.

In 1913, the proportion of illiterate among the population decreased to 60 percent. But for comparison, in 1900, the same index was equal to 11 percent in the United States.⁵

In 1897, those who achieved an educational level above the elementary comprised 1.4 mln. people (among total population of around 125 mln. people).

In 1913, only 200 th. people had a complete and incomplete university and secondary education. These were primarily the representatives of the privileged classes: the bourgeoisie, the gentry, the bureaucracy, the ministers of religion and members of their families. Practically, there were no people with secondary and higher education among the many minorities in provinces of Russia.⁶

The cultural revolution had significantly reduced the illiteracy level in the country. If in 1897 78 percent of the population at age 15 and older were illiterate, in 1939 this index fell to 20 percent,⁷ so that "[i]n 1939 the overwhelming majority of the workers and peasants had ... an elementary education (four years of primary school)."⁸

The number of specialists at the end of 1940 as compared to 1913 (that is in 27 years) increased more than 12 times, including those with university diplomas, by 6.7 times.⁹ In 1940, every fourth Soviet citizen was engaged in various forms of the educational process.¹⁰

It must be emphasized that the Soviet Union had achieved such an educational progress for less than 30 years which included World War I and two revolutions.

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Notes to Chapter 6: The Practical Making of the Stalinist Model: The Cultural Revolution in Its Social and Educational Aspects

- 1 On the cultural revolution in the USSR, see, for example, S. Fitzpatrick, ed., *Cultural Revolution in Russia, 1928-1931*. Bloomington: Indiana University Press, 1984.
- 2 Goskomstat, *Naselenie SSSR 1987* [The Population in the USSR, 1987]. Moscow: "Finansi i Statistika," 1988, p. 107.
- 3 We have arrived to the number by making some comparative calculations in the table below:

Table
An estimate of the size of the Soviet bureaucracy in 1940

Indices	1980	1940	1940 to 1980, percent
Population, th. people	264,486	194,077	73.38
Produced national income, indices	75	5.3	7.07
Productivity of social labor, indices	53	4.9	9.25
National income produced by labor alone, indices			76.43
Managers, th. people	8,840	4,949	55.98
Share of managers in population, percent	3.34	2.55	76.35

Sources and comments:

- (a) Population: Goskomstat, *Naselenie SSSR 1987*, p. 8;
- (b) Produced national income and productivity of social labor: Goskomstat, *Narodnoye Khosiaistvo SSSR za 70 let* [The National Economy of the USSR for 70 Years]. Moscow: "Finansi i Statistika," 1987, p. 7;
- (c) National income produced by labor alone: $[(7.07/9.25) \times 100]$. Indicates to what degree (given a constant productivity of social labor) the volume of production of national income in 1940 was less than that

in 1980 due to the lower number of employees in 1940 as compared to 1980;

(d) Managers: The data for 1980, *ibid.*, p. 421. The year 1980 is provided as a yardstick for comparison arbitrarily;

(e) The proportion of managers in the population in 1980 is calculated as $[(8,840/264,486) \times 100]$;

(f) The proportion of managers in the population in 1980 is calculated as $[(3.34 \times 76.43)/100]$;

(g) The number of managers in 1940: $[(194,077) \times 2.55]/100$.

4 See A. Nove, *An Economic History of the U.S.S.R.* N.Y.: Penguin Books, 1982, p. 26.

5 P. Gregory and R. Stuart, *Russian and Soviet Economic Performance and Structure*, 6th ed. Reading, Mass.: Addison-Wesley Education Publishing, Inc., 1998, p. 33, table 2.5.

6 Goskomstat, *Naselenie SSSR 1987*, p. 38.

7 *Ibid.*, p. 153.

8 See M. Lewin, *The Gorbachev Phenomenon. A Historical Interpretation*. Berkeley, Los Angeles: University of California Press, 1988, p. 47. Lewin makes comparisons between educational achievements in 1984 and 1939. The former's level was much higher than the latter's. It is no surprise, therefore, that Lewin accentuates that in 1939 most peasants and workers "had *only* an elementary education ... (italics mine.-E.R.)." We are comparing 1939-1940 with 1913. That is why we omitted the word "only."

9 Goskomstat, *Narodnoe Khoziaistvo SSSR za 70 let*, p.39.

10 See Goskomstat, *Naselenie SSSR 1987*, p.8; and also Goskomstat, *Narodnoe Obrazovanie i Kul'tura v SSSR* [Public Education and Culture in the USSR]. Moscow: Finans i Statistika, 1989, p. 7.

PART V

**THE LAST STAGE IN THE DEVELOPMENT OF THE SOVIET
SOCIOECONOMIC SYSTEM: THE STALINIST MODEL IN
MAKING (1928-Late 1930s)**

Chapter 7

**The Practical Making of the Stalinist Model:
The Cultural Revolution in Its Ideological Aspect**

The *educational* revolution which the Bolshevik regime conducted, first of all, to satisfy the needs of the *industrial* revolution, had also as its aim the ideological indoctrination of the population. For what purpose? For the purpose of the transformation of the people into a new type, the *Soviet* people as builders of “socialism” and “communism.” Because of the profound effect the ideological side of the cultural revolution had on the Soviet ethics and behavior, we need to take a closer look at it.¹

Preliminary observations*The State, the Church, and the Bolshevik Party*

Christianity was introduced into Russia in 988 when Prince Vladimir of Kiev ordered a mass baptism of the Russian people.² From its birth, the Russian Orthodox Church entered into a peculiar relationship with the Russian State. “... from Byzantium the young Russian Church borrowed her leaning towards caesaropapism, a form of State-Church relationship which all but unites the two powers under the actual supremacy of the secular.”³ In this marriage, the state was the groom who brought his bride (the church) from abroad, and subjugated her to his absolute will. For almost 930 years, Russia remained a country where the Greek Orthodox branch of Christianity was recognized as the official religion of the nation.⁴

The marriage broke up in October 1917.⁵ The Bolshevik Party forced the State to divorce the Church and to marry itself instead. As the new wife, the Party became the dominant partner of the new couple. The Party did not allow her husband, the State, to grant any real authority to his former wife, the Church, over their children, the people. So powerful was the desire of the new wife to denigrate the former wife and so strong was the influence of the Party over the State that the Party was able to “persuade” the State to strip his former wife, the Church, of all property rights.⁶

The new marriage brought a new era to the country, symbolized by the change in name from Russia to the Soviet Union. Greek Orthodox Christianity ceased to be its official religion,⁷ and a new belief took its place. Like the Russian Church, which had been a repository of Orthodox Christianity, the Party became a receptacle and interpreter of a new doctrine, Marxism. Marxism thereby acquired the status of the official faith of the nation, and the secular State fell under the influence and guidance of the ideological Party.

The Soviet brand of Marxism: A new religion?

We must begin by defining what we mean by the “Soviet brand of Marxism” and by “religion.” Without such an elucidation, the analysis will become ambiguous and inconsistent.

Let us begin with “Marxism.” Strangely enough, this supposedly holistic concept is actually impossible to characterize.⁸

As it has been pointed out in desperation, “[t]he term “Marxism” is much overused today: the category is deemed applicable by all sides of political divides unable to agree on anything else. No taxonomic sense, however, can be given to the conceptual chaos behind the wide variety of identifications.”⁹

What can be done, therefore, is to attempt to define Marxism not as a whole but rather as the sum of its parts. That is precisely what Lenin did when he defined Marxism as a “successor ... to ...German philosophy, English political economy and French socialism ... these three sources of Marxism ... are also its component parts ...”¹⁰

But Marxism is more than a body of teachings. It “is chiefly *praxis* and is only a theory when it is used as a method of analysis in the service of and in contact with this *praxis*.”¹¹ As Marx perceived it, the advent of communism will be marked by the final unification of theory and practice.¹²

Until this time comes (if ever), the split between Marxism as a method of analysis and Marxism as a concrete movement towards communism will remain. This brings us to the *Soviet* brand of Marxism, which is Leninism, or Bolshevism.

By emphasizing the *practical* aspect of the original doctrine, Leninism took it upon itself to be the only “true” messenger and executor of Marxist thought. But in fact, the impatience of Bolshevism carried the *applied* side of Marxism to the extreme, at the expense of its analytical and critical side, and thus turned Marxism upside down: Leninism created not a Marxist society of “a dictatorship of the proletariat, but a dictatorship *over* the proletariat.”¹³

By substituting “nationalization” for Marx’s “socialization” of the means of production, Leninism replaced Marxian socialism as the development, first and foremost, of the initiative of the masses,

and consequently [of] the withering away of the state [and politics]¹⁴ with a Soviet-type of “socialism” whose aim was the strengthening of the State and the Party.¹⁵ In addition, by stressing the possibility and necessity of constructing “socialism in one country”, and only then of spreading “socialism” over the rest of the world, Soviet Marxism nullified Marx’s notion that “the class struggle [was] international by its very nature; [therefore] it would be meaningless to talk about a ‘shift’ to the international arena.”¹⁶

Thus, applied to the Soviet Union, theoretical Marxism became merely a justification of Soviet practice. To put it another way, the unity of Marxism as a theory, on the one hand, and Leninism as its practical utilization designed to overcome the conditions of relative social and economic backwardness, on the other, was incarnated as “real socialism” of the Soviet type: i.e. in the Stalinist model. In this unity, the ideal world of what ought to be dominated the real world of what is. Present reality simply served as a never-ending transitional stage supposedly leading towards a future ideal in the manner of movement in the direction of the horizon.

Does this imply that theoretical Marxism functioned in the Soviet Union not just as an official belief but as an official *religious* faith which had replaced Orthodox Christianity as the country’s official religion?

Before we attempt to answer this question we need to define what is meant by “religion.” In making such an effort, we encounter the same problem as when we tried to spell out the meaning of the concept of “Marxism,” for “it is [im]possible to construct a definition of religion that would seem valid for all people ...”¹⁷

Recognizing the difficulties involved in finding a definition that everyone would agree with, we will follow Ballou and define religion as the human struggle to find answers “to questions concerning ultimate truth and the destiny of man.”¹⁸

Attempts to solve the fundamental problem of our existence and thus to discover the true meaning of our lives are equivalent to the Hindu quest for *moksha* or the Christian search for “salvation.”¹⁹ But the concept of salvation includes not only the eventual purpose of our presence but also the means of its fulfilment.²⁰

In this respect, Marxism does not differ from religious teachings in general, and from the Christian creed in particular;²¹ and Leninism, even though it is the illegitimate offspring of primary Marxism and socioeconomic backwardness, is identical with the doctrine of that branch of Christianity which is called the Russian Orthodox Church.²²

Extremes always coincide. This implies a positive answer to the question posed in the heading of this section: *the Soviet brand of Marxism was a new official religion of that country.* Soviet atheism was nothing but a religious belief, for Soviet atheists “[saw] the Kingdom of God upon earth, but without God and against Him ...

[Soviet] atheism, in its most profound forms, may be expressed in the following paradox: God must be denied, in order that the Kingdom of God may come on earth."²³

The October Revolution of 1917 did not eliminate the official religion of the country but simply changed its form. The October Revolution of 1917 and more than 70 years of the new Soviet system did not break the 930-year old Russian religious tradition; they just changed its nature.

The ideological indoctrination of the population: three periods

Communism as a state of perfection, as "humanity's leap from the realm of necessity into the realm of freedom"²⁴ was held out as a paradise on earth which was to come. It was a land which had been promised to the Soviet people by the new high priests, i.e. the leaders of the Communist Party of the Soviet Union (CPSU).

To attain any ultimate goal of this type, be it the Christian kingdom of God or the Soviet heaven on earth, required a code of ethics, or a standard of moral behavior, where the word "moral" meant "what [was] right and wrong", how to live ... in a providentially ordered world ..."²⁵ In the Christian case, "providence" is the *external* power of God; in the Soviet case, "providence" was the *internal* dialectical forces of nature (dialectical materialism) and of society (historical materialism).

Against the old teachings of the ministers of Christianity, the party churchmen had been instructing their Soviet flock that individual prayer and individual effort to live according to the ten commandments were fruitless and dangerous, because this led men

... to endure poverty and oppression in this world in order to be rewarded in the hereafter ... [because] this promise of happiness in heaven [was] a delusion, [for] such beliefs [were] merely a reflection of an evil social system and [were] deliberately inculcated by privileged classes in order to keep the masses from rebellion ...²⁶

Thus, heaven on earth could be achieved not through *my* personal endeavors but through *collective* actions, that is, not through *my* relation to God, who does not exist and thus will not be able to hear *me* anyway, but through *my* relations to *other* men. However, not only was God now excluded from the circle of "my" relations, but the meaning of "me" underwent drastic modifications. The nature of these changes depended on the particular time period in question.

We will distinguish three such periods: the period of the destruction of the old societal structure and of the construction of the road leading towards the earthly paradise; the period of the march along this road in the direction of the kingdom of heaven on earth; and, finally, the period when the road was lost.

Three general points need to be made before we discuss the three periods in detail. First (and this was true for all three periods), “I” as a Soviet citizen was no longer just a human being. “I” belonged to a certain group of people which is called a class. “I” was therefore expected to behave as a member of my social class.

Second (and this applied to the first period only), the party priests made it perfectly clear that “I” would never reach the promised land if “I” was a member of a class not designated by the party’s clerics as being among the chosen. The party churchmen divided the people of the country, among whom “I” lived, into two principal groups: the “clean,” those who would see the light of the new world, and the “unclean,” those who would not. The clean, who were the poor of the Christian world, and the unclean, who were rich of the Christian world, were now the oppressed and the oppressors, respectively, during the first stage of the journey towards heaven on earth.

Third (and this related to all three periods), even if “I” belonged to the chosen ones, “my” relationship to the “others” within the chosen social group had not to be spontaneous but had to be organized and directed by the party priests. As in the old Christian world where “my” link to the other people was mediated by “my” connection to God, “my” intercourse with the “others” within and without “my” social group was ultimately arranged by God’s substitute on earth, the highest priest, i.e. the current Party leader.

Period one: The ideological indoctrination of the builders of the road to an earthy heaven

We will define this period of early practical Bolshevism as covering the years from 1917, when the October Revolution took place, to the late 1930s, when the old social classes and their property had been finally destroyed and the new social classes with their property had been established.

The cult of the abstract oppressed poor. During that period the oppressed poor became the sole object of adoration, and the oppressing rich the sole object of abhorrence of the Party and of its state. The whole world, within the Soviet Union and outside it, consisted of the two polar groups of people.

During those years the Party would have wholeheartedly subscribed to a position taken by early Christianity, and thus would have proclaimed: “And again I say unto you, it is easier for a camel to go through the eye of a needle, than for a rich man to enter into the kingdom of God.”²⁷ But unlike the Christian Church which simply condemned the rich and stated its love for the poor, the Party, through its state, was inciting the poor against the rich, thus

making sure that it would not just be difficult, but completely impossible, for the rich to reach the promised land on earth.

However, the Party was not concerned with any actual, concrete individual, flesh and blood proletarian or poor man. Like the nineteenth-century Russian literary critic Belinsky before them, the Bolsheviks

... rejected the abstract notions of idealism, but ... settled on living concrete human personality only for a brief moment, and set out at once to subject it to a new set of abstract ideas ... the ideal of social justice and welfare of mankind ... [they were] ready to cut off the heads of a large section of mankind in order to make the rest happy ...²⁸

The Bolsheviks extended the Christian notion of brotherhood by reducing individuality to nothingness and promoting absolute collectivity. This was a logical consequence of their love for the exploited part of humanity.

From their perspective, the Bolsheviks had a vision: they believed that they possessed the ultimate truth. Although they had always insisted on the relative nature of the truth, they also insisted on a monopoly on its interpretation, because in their eyes they were always correct. Hence, all the illiterate and oppressed masses had to do was simply follow the new apostles who knew the way. "Be led and obey without any doubt," was the actual attitude of the Bolsheviks towards the masses.²⁸⁹ In such a scheme, there was no place for a concrete individual with any personal concerns, opinions and feelings.³⁰

The vision that the Bolsheviks were conveying to the masses was that the road to communism lay in industrialization, based on collectivization of the peasantry as the prime source of industrialization and modernization. "*Communism*," taught Lenin to the nation in 1920, "is Soviet power plus the electrification of the whole country."³¹

Installing a new morality. To build the road, the Party was preaching, promulgating and instilling into people's minds a new morality: a sense of extraordinarily high expectations, tempered by a requirement for a boundless willingness to sacrifice the present for the sake of the future, of replacing individual interests with common interests, of enduring the extremely harsh and unbearable living conditions in today's kingdom of necessity for the sake of happiness in tomorrow's kingdom of freedom, and of a fanatic faith in the Party which, "in its mystical essence, embodies the historic and predetermined destiny of mankind."³²

The Bolsheviks called this new code of ethics "communist" morality as opposed to the old morality of exploitation. The ingenious religious fervor of the new ethics had to replace,

according to the Party priests, the pious zealotry of the old morality of bourgeois society.

The Bolsheviks rejected the absolute character of ethics and instead proclaimed its relative, utilitarian nature. In their interpretation, morality became a simple servant of politics, a means to achieve the ends pursued by the high party clerics.³³

From then on, every type of behavior was to be considered "good," "moral," and "just," only as long as it promoted the construction of the road to industrialization and collectivization, i.e. the road leading to a perfect society on earth. Those whose moral conduct posed a challenge to the officially accepted ethical way of life, and even those who simply acted differently, were perceived as enemies of mankind, as saboteurs of humanity's march towards the earthly kingdom of God.. The prevailing mood which has emerged swept away any desire to oppose the victorious advance to the future of righteousness, for any resistance was now treated as treason against humanity.³⁴

An unexpected outcome: the bureaucracy and two morals. At the top of this triumphant movement a new phenomenon rapidly appeared, namely, a narrowing of the circle of party priests who were allowed to interpret and initiate party policies. Trotsky's famous prophecies made at the beginning of the twentieth century were being realized: "The organization of the Party takes the place of the Party itself; the Central Committee takes the place of the organization; and finally the dictator takes place of the Central Committee ..."³⁵

This change was a surface reflection of a process which had been taking place deep within Soviet society: a stratification into a bureaucracy with different social wings organized in a pyramidal, hierarchical fashion.³⁶ This came about because the building and preservation of modern, large-scale industrial enterprises and agriculture requires centralized and authoritarian management even in a highly developed industrial country. In a backward country, with a predominantly illiterate and undisciplined peasant population, the division of labor between those who were to lead and those who were to be led had to take an infinitely harsher form.

As a result, the Stalinist "revolution from above" occurred. *The extremes had met again.* The passionate activity of the Bolshevik builders, who were originally willing to serve as simple means for the noble end of creating a society of complete happiness for *others*, that is, for the exploited masses, had brought about a social system where the means and the goal had changed places.

The enrichment of the newly created Soviet bureaucracy at the expense of the rest of the society had become the sole, though not proclaimed, goal of the new masters. The promised millennium became a way to drug and blind the Soviet people. Leninism, as the new social religion of the new country (the Soviet Union), had been transformed from the great revolutionary force fanatically devoted

to the well-being of the toiling masses into a mighty conservative ideology intended to keep the former “benefactors” of mankind, the Bolsheviks, in power by any means.

Since that time, Leninism has become a religion of the status quo, exercising its influence on the Soviet people in the manner of all non-social religions: as “the opium of the people.”³⁷

Christianity, which in its early period was “the religion of the slaves and the oppressed,”³⁸ later became an institutionalized ideology and a partner of the oppressing state and classes. Likewise, Bolshevism-Leninism had been transformed from a faith and movement intended to defend the interests of “the insulted and injured” into a doctrine and crusade aimed at strengthening and preserving the interests of the newly established Party and its state.³⁹

Thus, at the ends of the roads to industrialization and collectivization (which were being finished in the late 1930s), the builders were amazed to find, instead of the gates to a communal utopia, Stalin’s repressive system of totalitarian state capitalism.⁴⁰

As a result, two types of the new “socialist” man emerged, each having his own moral principles and conduct of behavior. Instead of the pre-Stalinist world with sacrificial, ascetic and self-demanding leaders (virtues also shared by part of the population), and a weary, undecided majority of the population, there emerged in the Stalinist world two sets of ethics: one for the power-hungry, merciless, cynical, corrupt, hypocritical, looking-after-its-own-self-interest and thus double-talking bureaucracy, and another for the dunderheaded, powerless and tired non-bureaucratic portion of the Soviet population, many of whom naively believed the preaching of the party priests.

Soviet society had clearly become a new class society. For those who were not in power, to be “saved” meant to be honest and sincere, to obey, to applaud, to approve unanimously, never to complain and to work hard for the welfare of the State and of the Party. But for those who happened to be at the helm of society, to be “saved” meant to cheat, to steal, to betray, to command, to give orders and to be questioned by nobody but their superiors.

Although the phraseology of the early period remained and although the rules of conduct were written for every “socialist” man, they were now applicable only to the lower classes of society. The higher social groups felt themselves above these moral principles.

However, in one respect the “socialist” goal of equality had been achieved. As the deceased Lenin replaced God and as Stalin became his messiah on earth as both king and highest priest, each member of the theocratic Soviet society, from top to bottom, was now equally nobody in relation to almighty Stalin. But Stalin’s messianic tie to “his” people was a tip-of-the-iceberg reflection of the structure of the new “socialist” society in which each *nachal’nik* (superior) was regarded omnipotent within his sphere of supervision. This was because his power was delegated to him by

“his” superior and eventually (through the chain of command) by the ultimate Boss himself.

During the pre-Stalin period, the objective was to subordinate individuality to collectivity. However, during the Stalinist era, collectivity became the means by which individuality was chained to the new infallible masters.

The Leader became a living embodiment of the Party, of the state, and of the whole country. But he was more than that. He extended beyond national borders. He was perceived as incarnating the thoughts, inspirations and hopes of hundreds of millions of people outside the Soviet Union who were living in misery and alienation, and were passionately waiting for the Soviet messiah to come and save them. Through its national savior, the new Russia was proclaiming its messianic destiny to become the third Rome, which was foreordained by “the Russian monks in the dark night of the Tartar oppression ... [and consequently possessed] the world-wide message of salvation for all those who suffer social injustice.”⁴¹

The split within the party: the factional struggle. The ranks of the Party priests and the state bureaucracy were being filled with new generations of Khrushchevs, Brezhnevs, Andropovs, and Chernenkos;⁴² practical, down-to-earth people from peasant and working-class backgrounds. Their major concern was the betterment of their own conditions by abandoning their parents’ classes and by climbing the social ladder.

At the same time, a larger and larger number of those within the Party and state bureaucracies (who initially came into the Bolshevik movement because of a feeling of compassion for the exploited masses and because of a hatred for the old repressive regime) were deserting their noble ideas in order to survive and to accommodate themselves to the requirements of Stalinist society.

There was an almost schizophrenic dichotomy between the world of the new cynical pragmatists and the illusory world of the remaining faithful and idealistic dogmatists. This dichotomy created an atmosphere of unbearable tension and extreme anxiety.

The conflict between the two factions within the Party and state bureaucracies began in the mid-1920s and ended in the late 1930s. It is largely known as a fight against both Trotskyism and the right opposition. To the unbiased eye, however, the political struggle showed the true nature of institutionalized Bolshevism, especially its desire to preserve the power of the new class of bureaucrats, camouflaged by the use of revolutionary rhetoric. Both the pragmatists, represented by Stalin’s faction, and the idealists of both Trotskyist and right-wing persuasions, were guilty of this hypocrisy.⁴³ The false rhetoric served as tear gas which made it impossible for the people to really understand the true situation.

In the eyes of the rest of the Party and of the state, as well as in the eyes of the vast majority of the Soviet population, Trotsky’s fight

against Stalin was tantamount to blasphemy. This was because Trotsky was struggling against Lenin's messiah on earth. Moreover, the charges made by the Trotskyists against the established Soviet order ("bureaucracy," "the degeneration of the workers' state," "betrayal of the revolution," etc.) were extremely dangerous to the new Stalinist system of "socialism" because they were revealing some of the darkest sides of the new regime which the latter desperately wanted to hide.

Thus, the Trotskyists and their followers were presented as heretics, as pagans who rejected the Bolshevik religion, because they doubted and argued against the infallibility of its only living symbol on earth, Joseph Stalin. And unfortunately for the infidels, the highest priests of the new church (the Bolshevik Party) had the state's power behind them, while the Trotskyists did not.

For the Stalinist faction, as an institutionalized and powerful church, the battle against the Trotskyists and their followers meant a fight for the preservation of power in the name of the interests of the toiling Soviet masses. For the oppositionists, as dethroned, uprooted and power-hungry heretics, the struggle against the Stalinists represented a war for a return to power in the name of the same working masses. Each side was appealing to the Soviet population, arguing that its message was meeting the needs of the people whereas the message of the other was in conflict with the popular will.

The purges as a form of the factional struggle. The form that this struggle had to take, as well as its outcome, was in a sense preordained. When the vested interests of one group are challenged by another group, when the clash is colored by extremely bright religious overtones of intolerance and zealotry, and when a mechanism for a peaceful resolution to the conflict does not exist, the more powerful side will eventually resort to the physical suppression of its opponent.

The purges which began at the end of the 1920s and which reached a climax at the end of the 1930s thus served as orgasms intended to relax the unendurable tension. They were intended to eliminate any internal opposition to the rule of the Bolshevik church and its messiah and, consequently, to legitimize the power of the Party and state bureaucracies.

The Moscow trials brought a needed unity to the Party, to the state and to the vast majority of the population. They demonstrated the awesome strength of the new religion and of its church: miraculously, the purgers and the purged (with few exceptions) found themselves in complete agreement about the infallibility of the messiah and his road towards the communist utopia.⁴⁴

This cannot be explained by the use of brute force or by terror alone.⁴⁵ Of course, terror without fanatical terrorizers would not work for very long. Furthermore, fanaticism requires a deep

faith in the cause of one's actions. And it is also true that a profound belief on the part of the terrorizer in the righteousness of his behavior sooner or later may have an impact on the will of the terrorized to resist. However, the depth of this effect would depend on the moral principles of the terrorized.

Man is profoundly alone both at birth and at death. But as long as he lives, he needs others for social intercourse.⁴⁶

Under normal circumstances, man's social requirements are usually met by his family, his schoolmates, his colleagues at work, or the people of his neighborhood. But some people do not find their regular surroundings satisfactory. Due to reasons as yet largely unknown,

... some people may be unable to fix their identification, may fail to absorb it in the home ... Having passed the usual age of maturity, they still lack norms they can accept as regulators of their actions. With dissatisfaction and indecision in their hearts, they search for a person, ideology, or other object of identification.⁴⁷

It seems that both the Bolsheviks of the Old Guard, the purged, and the Bolsheviks of the New Guard, the purgers, belonged to this last breed of men. Both found the practical expression of their ego in membership in the Party, and both discovered the meaning of their life in working for the cause of the Party, which, as Trotsky once said, "is always right." As a devoted Christian is terrified of even the thought of being rejected by his church, both were trembling of the very idea of not belonging to the Party, for being left alone meant to lose any purpose in life.

The trials as a form of "salvation" for the accused. The *new* believers were quick to realize that to serve the Party (the new church) meant that they had to worship and to be led by its General (First) Secretary (Lenin's messiah). However, the *old* believers, at first, did not accept this reality. The Moscow trials "helped" them find out how wrong they were. After having discovered this "truth," the purged began making their confessions in a manner which the world had not seen since the medieval inquisitions.

The accused knew that their physical fate was sealed. These hard-core "atheists" were, thus, trying to save *not* their *lives* but their *souls*, which they had forever given to the Party. The Party was now turning its back on them because they themselves rejected the Party's highest priest. The purged were thus faced with the logic that to restore their spiritual link to the Party, they had to kneel to its messiah and his boundless wisdom.⁴⁸

On the one hand, the Party needed the heretics to lay down their lives so that the Party and its state would be strengthened and the road to paradise would be purified. For the heretics, on the other hand, to confess, to pronounce their love for Stalin, to be

condemned and to vanish physically became a matter of personal sacrifice for the “greatest” cause of the “greatest” revolution, a way to reestablish their sacred bond with *their* Party. In this, the needs of the Party, of the messiah and of the temporary apostates had finally been reconciled.

Why was the opposition crushed? After the opposition was crushed, the Stalinist model of “socialism in one country” became the only blueprint for the road to communist utopia. Thus, Soviet egotistical nationalism replaced the sacrificial internationalism of early Bolshevism. From then on, whatever served the interests of the Soviet Union (which meant the interests of the Party and of the state bureaucracy), was proclaimed to be in the interest not only of the Soviet people but also of the people of the whole world.

Where were the simple Soviet working people during the struggle within the Party and state bureaucracies? They were on the sidelines watching the fight, applauding (the vast majority willingly, the rest unwillingly) the victorious Stalinist side and cursing the defeated Trotskyists and right-wingers. They were welcoming the new masters of the country.

There is a long history in Russia of the people taking the side of their oppressors. When Napoleon invaded Russia in 1812 and threatened its feudal order, the Russian peasant-serfs became the most ardent defenders of the existing social system. It was they, the peasants, who, either as soldiers of the regular Russian army or as members of gorilla detachments, defeated Napoleon and saved the feudal structure of their country, thus preserving their own serfdom.

This behavior was something more than a simple manifestation of nationalism. By fighting the foreigners, the Russian peasant-serf was, unconsciously, telling his own Russian landowner-master that “I will sacrifice for you now in order to be rewarded by you later.”

The same psychological atmosphere prevailed at the end of the 1930s. The Bolsheviks, who had beaten the White Armies, driven out the foreign interventionists and restored law and order in what recently seemed to be an unrulable country, were seen by the exhausted Soviet people as the only alternative to anarchy and a continuation of *meaningless* suffering.

The new rulers of the new Russia had broken almost all of the promises that they had made to the people: the peasants had lost their land and had again become serfs (though now of the state on collectivized farms); the workers had lost all control over factories and found themselves in the post-emancipation, pre-union, pre-organized situation of the last quarter of the nineteenth century; the population as a whole (including its intellectuals) had been denied any political rights, save the right to eulogize the wisdom of the Party and of Lenin’s messiah.

Yet despite all of this (or, probably, because of this), the Bolsheviks, as holders of the reigns of power, were perceived, in the old Russian tradition, as possessing a mystical knowledge of a heavenly future which could be realized only through *meaningful* and *purposeful* sufferings.⁴⁹

The outcome of the first stage: two types of Soviet men. Thus, when the construction of the first stage ("socialism") was accomplished, when unity within the Party and the state, between the Party and the state, and among the Party, state and people was established, the *official* Soviet "socialist" man was split into two *actual* types of Soviet men: members of the bureaucracy, whose morality was based on their present good life and on the firm belief that things would become even better in the future; and the rest of the population, whose ethics were rooted in the need to sacrifice now in order to achieve a better future which was near at hand.

As an ideal, the second type of "socialist" man "increasingly was defined as the zealous Stakhanovite technician⁵⁰ to whom "the party ... assigned ... the tasks of fulfilling Bolshevik policy, not of formulating it."⁵¹ The first type of "socialist" man was characterized as an *apparatchik*, as a practical and down-to-earth organizer of the first. For, with the elimination of any forces opposing the Stalinist bureaucracy and Stalin himself, "the time was past when careers could be made simply by cheering Stalin. The need now was for practical Stalinists, who could act and carry out the will of their supreme leader."⁵²

Bibliography to Chapter 7: The Practical Making of the Stalinist Model: The Cultural Revolution in Its Ideological Aspect

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Notes to Chapter 7: The Practical Making of the Stalinist Model: The Cultural Revolution in Its Ideological Aspect

- 1 The discussion below is rooted in E. Raiklin and K. McCormick, "Soviet Men on the Road to Utopia: A Moral-psychological Sketch." *International Journal of Social Economics*, Volume 15, Number 10, 1988, pp. 3-62.
- 2 See, for instance, J. Hecker, *Religion and Communism. A Study of Religion and Atheism in Soviet Russia*. Westport, Connecticut: Hyperion Press, 1973, p. 13.
- 3 N. Timasheff, *Religion in Soviet Russia. 1917-1942*. New York: Sheed and Ward, 1942, p. 2.
- 4 One must not conclude, however, that the Orthodoxy was the only Christian sect and that Christianity was the sole religion in pre-Soviet Russia. For instance, in 1900, of the country's total population, 83.6 percent professed Christianity, 11.2 percent were Muslims, 4.2 percent considered themselves Jews, 0.5 percent were Shamanists, and 0.3 percent were classified as Buddhists. In addition, 0.2 percent declared themselves as being non-religious (D. Barrett, ed., *World Christian Encyclopedia. A Comparative Study of Churches and Religions in the Modern World AD 1900-2000*. Oxford: Oxford University Press, 1982, p. 689).

Among those who professed Christianity, 86.8 percent belonged to the Russian Orthodox Church, and the rest were Protestants (2.2 percent) or Roman Catholics (11 percent) (ibid.). Thus, Russian Orthodox believers, though a majority, constituted around 76.8 percent of the population of the Russian empire (0.836x0.868).

- 5 The breakup actually began with the advent of the February revolution and the establishment of the Provisional Government which "favored a gradual process of separation of State and Church, but left the issue to be decided by the Constitutional Assembly" (Hecker, *Religion and Communism. A Study of Religion and Atheism in Soviet Russia*, p. 199).

- 6 Conquest (R. Conquest, ed., *Religion in the USSR*. New York: Frederick A. Praeger, 1968, pp. 13, 14) gives the following account of how the Bolshevik Party "solved" the problem of State-Church relations:

"On December 4, 1917, all land was nationalized, including that of the churches and monasteries. On January 23, 1918, Church and State were separated by a sweeping decree which ordered the nationalization without compensation of all Church-owned property ... the Church's influence on society, particularly in education, was destroyed ... a decree of June 13, 1921 ... prohibited the religious instruction anywhere of groups of persons below the age of 18.

The social influence of religion was further undermined by a decree of December 18, 1917, incorporated into the ... [country's] Family Code of October 22, 1918, refusing legal recognition to church marriages and divorces, performed after the date of the decree."

- 7 From then on in its relations with its former adversary (the Russian Orthodox Church), the Party "had two clear objectives: in the short run to tame and control the Orthodox churches and exploit them for [the Party's] own purposes, and in the long run to destroy them altogether" (P. Ramet, "The Interplay of Religious Policy and Nationalities Policy in the Soviet Union and Eastern Europe," in P. Ramet, ed. *Religion and Nationalism in Soviet and East European Politics*. Durham, N.C.: Duke Press Policy Studies, 1984, p. 14).

- 8 There are two basic views on why this is so. According to one of them, one of the major reasons for the impossibility of explaining the nature of Marxist thought is due to its "theoretical incompleteness ... [for] the bulk of Marx's writing is mostly unfinished ... No theorist of comparable stature has left so many loose ends, so many unfinished themes. It is not merely that the writings are unfinished; the theory is incomplete" (S. Wolin, "On Reading Marx Politically," in J. Pennock and J. Chapman, eds. *Marxism*. New York: New York University Press, 1983, p. 84).

The second view holds that the problem of depicting Marxism lies not in Marx himself but in the way his teachings were treated by his disciples:

"From the beginning, the work of Marx's followers has been characterized by bitter divisions and conflicting interpretations of Marx's work. But in recent years the divisions have become so pronounced and the interpretations so diverse that it is genuinely difficult to find the elements that unify the whole" (R. Heilbroner, *Marxism: For and Against*. New York: W.W. Norton, 1980, p. 23).

- 9 A. Arato, "Marxism," in J. Eatwell, M. Milgate and P. Newman, eds., *The New Palgrave. A Dictionary of Economics*, Volume 3. London: Macmillan, 1987, p. 387.

- 10 V. Lenin, *Collected Works*, 4th ed., trans. by G. Hanna, ed. by R. Daglish, Volume 19: *The Three Sources and Three Component Parts of Marxism*. Moscow: Foreign Languages Publishing House, 1963, pp.23-24.

Following this line of reasoning, Lenin then proceeded to outline each of the three elements of Marxism (ibid., pp. 24, 25, 26, 27):

"The philosophy of Marxism is *materialism*. [As dialectical materialism, it is] ... the doctrine of the relativity of the human knowledge that provides us with a reflection of eternally developing matter. [As historical materialism, it] ... extend[s] the cognition of nature to include the cognition of *human society*. [As such, it is an attempt to replace] ... the chaos and arbitrariness ... in views on history and politics ... by a ... theory, which shows how, in consequence of the growth of productive forces, out of one system of social life another and higher system develops ...

[As political economy], ... having recognized that the economic system is the foundation on which the political superstructure [institutions] is erected, ... [it] is devoted to a study of the economic system of modern ... capitalist ... society ... [As scientific socialism, it endeavors to show that although] capitalism has triumphed all over the world, thus triumph is only the prelude to the triumph of labor over capital, [of socialism and communism over capitalism]."

- 11 J. O'Brien, "Marxism and the Instauration of Man: A Second Glance," in W. Englehardt and T. Thiemeyer, eds, *Gesellschaft, Wirtschaft, Wohnungswirtschaft*. Berlin: Duncker and Humblot, 1987, p. 55.
 - 12 This is because communism is supposed to bring about a new state of society where there would be no need for societal transformation through class struggle and where, therefore, Marx's famous dictum, "the philosophers have only *interpreted* the world, in various ways; the point is to *change* it" (K. Marx and F. Engels, *The German Ideology*, ed. by C. Arthur. New York: International Publishers, 1978, p. 123) would no longer be applicable.
 - 13 H. Parkes, *Marxism: An Autopsy*. Cambridge, Massachusetts: The Riverside Press, 1939, p. 18.
- The point is also emphasized by Draper (H. Draper, *Karl Marx's Theory of Revolution*, Volume 2: *The Politics of Social Classes*. New York: Monthly Review Press, 1978, p. 164):
- "... [as] the theory and practice of the self-emancipation of the working class ... [Marxism] is double-edged, pointed against both the established powers and classes and against the proponents of socialism from above. Only a movement looking to class struggle from below could be a genuinely proletarian revolutionary movement."
- 14 C. Bettelheim, *Class Struggles in the USSR. Second Period: 1923-1930*, trans. by B.Pearse. New York: Monthly Review Press, 1978, p. 523.
 - 15 Lewin (M. Lewin, "The Social Background of Stalinism," in R. Tucker, ed., *Stalinism. Essays in Historical Interpretation*. New York: W.W. Norton & Company, Inc., 1977, pp. 111-114) attempts to explain why this happened:

"Russia, by general consent, was a backward country. If before the revolution the quick development of industry encouraged some impatient socialists to exaggerate the growing readiness of Russia for a socialist takeover, there could be no illusions about any such 'readiness' by the end of the Civil War. The country was devastated, its not too numerous higher and middle classes destroyed or dispersed, its working

class depleted or *declassé*, and its peasantry seething with unrest. At this moment there were no social forces, no discernible trends in Russian reality which could clearly be counted upon to generate an internal dynamic in the socialist direction—except the pure political will of the leadership. The state machinery, as far as the basic mass of its *chinovniki* (top officials, or rather ‘bureaucrats’) was concerned, seemed unreliable; the quickly changing party membership was often raw, soon to some extent purely adaptive in its motivations to join rather than ideologically motivated, and was not fully reliable either; it had to be re-educated and indoctrinated first, as the original ideals of the Bolsheviks were not originally and naturally shared by the newcomers who became soon the overwhelming majority.

The post-Civil War Marxist found himself thus on the entirely unfamiliar ground where there was no visible backing ‘of a process’ for the party’s long-term ideological aims. On the contrary, the party found itself in a rarefied atmosphere of unpredictability and contingency, generated by chaotic, socially hostile petty bourgeois tides... .

[The Bolsheviks felt isolated] in the country they had conquered... .

This self-perception among the leaders of ‘isolation,’ of the lack of an appropriate social basis, was crucial... . They had always known that they might be in power one day—but they had not anticipated that this would occur in social isolation.

The elements of a solution were suggested by circumstances rather than by theoretical anticipation... . [I]t was not a social class any more—not the proletariat—that served as the epitome and bearer of socialism through the state, but—imperceptibly, for some ideologists—the state itself was now replacing the class and becoming the epitome and carrier of the higher principle with, or without, the help of the proletariat... .

Although the desirable social backing might be missing, especially because of the whittling away of the working class, the party did not and could not operate in void: having begun to rely ever more on the state, ever less on the unreliable masses, the state apparatus, whatever the social composition of its officialdom, was gradually taking over the function of principal lever for the achievement of the desired aims.

In such a way, Bolshevism acquired a social basis it did not want and did not immediately recognize: the bureaucracy. This was becoming, quite early in the process, a key factor in shaping the whole system, but it needed some evolution and dramatic internal fighting for this fact to sink in, to become fully acceptable and later extolled. The whole turn of events was, in any case, misunderstood by the Bolsheviks, who were not adequately prepared to comprehend the state they themselves were building. The available theory was very inadequate on this score. It was becoming important to study not only the social potential of the proletariat, or the peasantry, but the potential, interests, and aspirations of the growing and changing Soviet state machinery.”

16 H. Marcuse, *Soviet Marxism. A Critical Analysis*. New York: Columbia University Press, 1969, p. 96.

17 R. Ballou, *The Nature of Religion*. New York: Basic Books, 1968, p. 208.

One might describe religion as a set of beliefs by which we attempt to live our lives. However, each of us has some set of principles according to which we arrange our lives; thus this definition causes the border between religion and non-religion to dissolve so that *all* beliefs become religious.

Another approach would be to characterize religion as a faith in supernatural powers. The problem with this definition is that of the *relative* nature of the supernatural, for the latter does not exist without the natural. As science advances, what was yesterday perceived as a supernatural power today becomes natural. Therefore, in this approach, religion is reduced to simple ignorance.

A third point of view would define religion as a relationship between "me" and "God," "the Being perfect in power, wisdom and goodness ... creator and ruler of the universe ..." (*Webster's New Collegiate Dictionary*. Springfield, Mass: G. & C. Merriam, 1979, p. 488).

However, as Ballou points out, "this ... assumes a definite monotheistic concept of God, the Judeo-Christian concept ... which would rule out some [other] religions" (Ballou, *The Nature of Religion*, p. 210).

18 Ibid., p. 218.

19 V. Turner, "Metaphors of Anti-Structure in Religious Culture," in A. Eister, ed., *Changing Perspectives in the Scientific Study of Religion*. New York: John Wiley and Sons, 1974, p. 66.

20 See, for instance, W. Goodenough, "Toward an Anthropologically Useful Definition of Religion," in Eister, ed., *Changing Perspectives in the Scientific Study of Religion*, p. 168.

21 Such a position is upheld by a growing number of researchers. Thus, Luke (T. Luke, *Ideology and Soviet Industrialization*. Westport, Connecticut: Greenwood Press, 1985, pp. 74, 76, 77) defines the Marxism of Marx and Engels

"... as a civil religion ... [which] possesses both a content and a structure with characteristics similar to generic Christian doctrine and practice ... Its scope is holistic, integrating all aspects of human reality into a single system ... The holistic intent of Marxist thinking also reaches into many of its particular facets. Its theory of history, however, perhaps demonstrates this tendency best. Like the Christian theory of history, it can be seen as presenting an essentially continuous ... progression of events with a distinct origin, process and conclusion. Moreover, like Christianity, the ... continuity of Marx's historical cycle is predicated upon and guaranteed by belief in the ultimate conclusion. The final outcome in Marxism is both a kind of last judgement closing the historical cycle and an immanent process building up through inner necessity in the origin and course of the entire cycle ... While Marx's continual criticism of Christian religion makes it difficult for many to accept this conclusion [about the religious, Christian character of Marxism], this theoretical structure is there ..."

Schumpeter (J. Schumpeter, *Ten Great Economists. From Marx to Keynes*. New York: Oxford University Press, 1977, p. 5) shares this view:

"In one important sense, Marxism is a religion. To the believer it presents, first, a system of ultimate ends that embody the meaning of life and are absolute standards by which to judge events and actions; and, secondly, a guide to those ends which implies a plan of salvation and the indication of the evil from which mankind, or a chosen section of mankind, is to be saved."

22 But the Bolsheviks themselves were simply the upholders of a long tradition of a peculiar attitude of the Russian intelligentsia towards Marxism. Wolfe (B. Wolfe, *An Ideology in Power. Reflections on the Russian*

Revolution. New York: Stein and Day, 1969, pp. 50-51) makes the point in the following passage:

"Marxism was held by Russian Marxists in ways which astonished Marx himself. Thus N. I. Sazonov, landowner from the Russian steppe, who became one of the world's and Russia's first Marxists in the 1840s, said to Marx: 'I, a barbarian ... love you more than any of your fellow countrymen do.'" Marx was astonished, even embarrassed that his first disciple should be Russian and use the un-Marxian language of love. [In] ... Russia ... Marxism was nationalized, the Marxism of the West rejected as heretical and revisionist, and Marxism made into a Russian Church. It became not merely a theory of economics and history and sociology, but the basis for total rejection of all existing institutions ... It was held totally and exclusively ... In power it became a totalitarian system of thought and life, embracing absolutely everything, and employing total force and total control of the means of communication to prevent any other ism from succeeding it ... It was Russian religiousness turned inside out and intended to end the long pursuit of a faith which had occupied Russia's intellectuals for a century. As a Dostoevsky could proclaim that the Russians knew and loved Christ more than the Christians of any other land, indeed, were the only ones truly to know and love Him, and therefore must teach the true faith to the world, so a Lenin could persuade himself that all Marxists were lukewarm or apostates, save only those who hearkened to him."

23 N. Berdyaev, *The Russian Revolution*. Ann Arbor, Michigan: The University of Michigan Press, 1961, p. 26.

24 F. Engels, *Anti-Duhring*, trans. by E. Burns, ed. by C. Dutt. New York: International Publishers, 1976, p. 310.

25 B. Inwood, *Ethics and Human Action in Early Stoicism*. Oxford: Clarendon Press, 1985, p. 105.

26 Parkes, *Marxism: An Autopsy*, p. 195.

27 *Matthew* 19:24.

28 N. Berdyaev, *The Russian Revolution*, p. 10.

29 Lenin (V. Lenin, *Collected Works*, 4th ed., trans. and ed. by J. Katzer, Volume 31: *The Second Congress of the Communist International. Speech on the Role of the Communist Party, July 23*. Moscow: Progress Publishers, 1974, p. 235) justifies this by stressing that

... in the era of capitalism, when the masses of the workers are subjugated to constant exploitation and cannot develop their human capacities, the most characteristic feature of working class political parties is that they can involve only a minority of their class. A political party can comprise only a minority of a class, in the same way as the really class-conscious workers in any capitalist society constitute only a minority of all workers. We are therefore obliged to recognize that it is only this class-conscious minority that can direct and lead the broad masses of workers ... [In this respect, Lenin agrees with those who maintain] that by the dictatorship of the proletariat we actually mean the dictatorship of the organized and class-conscious minority of the proletariat.

30 Here is a very insightful comment (E. Hoffer, *The Ordeal of Change*. New York: Harper and Row, 1967, pp. 74, 75):

It is easier to love humanity as a whole than to love one's neighbor. There may even be a certain antagonism between love of humanity and love of neighbor; low capacity for getting along with those near us often

goes hand in hand with a high receptivity to the idea of the brotherhood of men. About a hundred years ago a Russian landowner ... recorded a remarkable conclusion: "Finding nothing worthy of my attachment either among women or among men, I have vowed myself to the service of mankind." The capacity of getting along with our neighbor depends to a large extent on the capacity of getting along with ourselves. The self-respecting individual will try to be as tolerant of his neighbor's shortcomings as he is of his own. Self-righteousness is a manifestation of self-contempt. When we are conscious of our worthlessness, we naturally expect others to be finer and better than we are. We demand more of them than we do of ourselves, and it is as if we wished to be disappointed in them. Rudeness luxuriates in the absence of self-respect.

- 31 V. Lenin, *Collected Works*, 4th ed., trans. and ed. by J. Katzer, Volume 31: *The Tasks of the Youth Leagues. Speech Delivered at the Third All-Russia congress of the Russian Young Communist League. October 2, 1920*. Moscow: Progress Publishers, 1974, p. 516.

- 32 Parkes, *Marxism: An Autopsy*, p. 28.

- 33 Lenin (Lenin, *Collected Works*, Volume 31: *The Tasks of the Youth Leagues. Speech Delivered at the Third All-Russia congress of the Russian Young Communist League. October 2, 1920*, pp. 291, 293, 299) addressed the issue of the morality of the builders of Communist society in a speech he made to the representatives of the Soviet youth leagues:

"... is there such a thing as communist ethics? Is there such a thing as communist morality? Of course, there is. It is often suggested that we have no ethics of our own; very often the bourgeoisie accuse us Communists of rejecting all morality. This is a method of confusing the issue, of throwing dust in the eyes of the workers and peasants.

In what sense do we reject ethics, reject morality? In the sense given to it by the bourgeoisie, who based ethics on God's commandments. On this point we, of course, say that we do not believe in God, and that we know perfectly well that the clergy, the landowners and the bourgeoisie invoked the name of God so as to further their interests as exploiters. Or, instead of basing ethics on the commandments of morality, on the commandments of God, they based it on idealist and semi-idealist phrases, which always amounted to something very similar to God's commandments.

We reject any morality based extra-human and extra-class concepts. We say that this is deception, dupery, stultification of the workers and peasants in the interests of the landowners and capitalists.

We say that our morality is entirely subordinated to the interests of the proletariat's class struggle ... Our communist morality is ... what serves to destroy the old exploiting society and to unite all the working people around the proletariat, which is building up a new, communist society.

The generation of people who are now at the age of 50 cannot expect to see a communist society. This generation will be gone before then. But the generation of those who are now 15 will see a communist society, and will itself build this society. This generation should know that the entire purpose of their lives is to build a communist society."

There is no place here to make a detailed comparison between the Leninist and the Marxist attitudes towards ethics. But one point needs to be mentioned.

Leninism-Bolshevism as the illegitimate offspring of Marxism and relative socioeconomic backwardness inherited from each of these poorly matched parents two apparently incompatible traits:

As a child of father Marxism, Bolshevism treats ethics pragmatically as

“... the most practical branch of philosophy ... [which] is immediately concerned with men’s actions, and since men’s actions are largely directed toward securing a livelihood and providing for the continuance of human life, ethics is closely associated with the economic basis of society ... [Thus, like] Marxism [Bolshevism] has no faith in the efficacy of preaching brotherly love in material circumstances which militate against it. Instead, [like] Marxism [it] considers how those circumstances themselves can be changed by studying the means whereby the foundations for a classless social order can be established ... [Hence] what [Bolshevism following] Marxism really says in normative terms is simply this: if you are serious about wanting a world in which ... all men ... can work together in harmony, helping one another to realize the full human potential in each, then there is a certain kind of social organization you must struggle to achieve (W. Ash, *Marxism and Moral Concepts*. New York: Monthly Review Press, 1964, pp. 5, 83).

But, being an heir to Russian relative backwardness, Leninism attempts to build such a society under socioeconomic circumstances which are not suitable for that task to be fulfilled. In this, Leninism is opposed to Marxism which states unequivocally that the “moral challenge to transform society only sounds when the practical means of its realization are at hand” (ibid., p.83).

34 Here is how the extremely electrified atmosphere of that period is described:

“The rapid-fire industrialization and the sweeping collectivization were not merely devices of economic policy, by means of extending the direct control of the totalitarian state over the largest possible number within the shortest time. Yet the way in which this extension was brought about had, from the point of view of ‘controllers,’ a high value of its own. The lightning speed of the drive pulverized the will to resist. It whipped into enthusiastic action millions of young people yearning for heroic adventure. Last but not the least, it succeeded in producing among many former stalwarts of the various inter-party oppositions the feelings that what had occurred was too far reaching to be reversed without wrecking the whole social set-up born of the revolution and the thing to do under the circumstances was not to ‘rock the boat’ but to close ranks in order to minimize the risks involved in the adopted policies” (A. Erlich, *The Soviet Industrialization Debate, 1924-1928*. Cambridge, Mass.: Harvard University Press, 1960, p. 180).

35 L. Trotsky, “Report on the Siberian Delegation and Our Political Tasks,” cited in B. Wolfe, *Three Who Made a Revolution. A Biographical History*. New York: Dell Publishing, 1964, p. 253.

36 “... bolshevism acquired a social basis it did not want and did not immediately recognize: the bureaucracy. This was becoming, quite early in the process, a key factor in shaping the whole system ... The whole turn of events was ... misunderstood by the Bolsheviks, who were not adequately prepared to comprehend the state they themselves were building” (M. Lewin, *The Making of the Soviet System. Essays in the Social History of Inter-war Russia*. New York: Pantheon Books, 1985, p. 261).

- 37 K. Marx, *Critique of Hegel's Philosophy of Right*, trans. by A. Tolin and J. O'Malley, ed. by J. O'Malley. New York: Cambridge University Press, 1970, p. 131.
- 38 Engels, *Anti-Duhring*, p. 114.
- 39 "Indeed, the rapid transformation of the Bolshevik faction from a radical movement to a party organization and, then, into a state regime necessarily ... entailed the equally rapid substitution of rational calculation for moral faith in the functioning of the Soviet administration. As many Bolsheviks assumed bureaucratic and administrative posts, the real constraints of their personal career and official group interests increasingly grounded their policy pronouncements and decisions in the efficient-ends-means terms of bureaucratic calculation. Their original faith in the transcendent moral project of building socialism was displayed by the stultifying impact of an increasingly complex bureaucracy, rational administrative procedures and industrial planning. Still, as the original moral project of building socialism underwent this general disenchantment, the infrastructure of a modern industrial society effectively was created" (Luke, *Ideology and Soviet Industrialization*, p. 33).
- 40 Berdyaev's comments (N. Berdyaev, *The Origin of Russian Communism*, New York: Charles Scribner's Sons, 1937, pp. 176, 177) made during that period when the dust from the construction work had not yet settled strike us as very insightful:
- "... the Five Year Plan is not realizing socialism; it is realizing state capitalism; it is not the interests of the workers, not the value of a man and of the worth of human labor, which are recognized as the supreme value, but the state itself and its economic power. Communism in the period of Stalin may be taken as a continuation of Peter the Great's work. The Soviet government is not only the government of the communist party which professes to realize social justice; it is also a state and has the objective nature of every state; it is interested in the preservation of the state and in its power, in its economic development without which the government may fall. Inherent in every government is the instinct of self-preservation, which [is] ... its principal aim. Stalinism, that is to say communism of the constructive period, ... [combines] a totalitarian state, state capitalism, nationalism, "leaderism," and a militarized youth."
- 41 N. Zernov, *Moscow the Third Rome*, 2nd ed. New York: Ams Press, 1938, pp. 92, 81.
- 42 These were Stalin's successors in the leadership of the Party.
- 43 Thus, the Trotskyist faction of the bureaucracy accused the Stalinist faction of betraying the October Revolution on two major issues: first, on the issue of permanent revolution, that is, on the question of carrying the Revolution *outside* the Soviet Union not simply in words but actually, in deeds; and second, on the problem of the new inequality created by the Revolution *within* the country. Listening to the Trotskyists, one could have got the impression that they were genuinely concerned about the plight of the own population and that of the people around the world. Here is how Trotsky (L. Trotsky, *Stalin. An Appraisal of the Man and His Influence*, ed. and trans. by C. Malamuth. New York: Stein and Day, 1967, p. 396) himself characterized the war between the two factions:

“... the struggle was launched against the theory of permanent revolution [which was upheld by the Trotskyist faction]. The political content of this struggle was reduced to the thesis that we are not interested in international revolution but in our own safety, in order to develop our economy. The [Stalinist] bureaucracy feared more and more that it was jeopardizing its position by the risk of involvement implicit in an international revolutionary policy. Out of this struggle emerged the theory of socialism in a separate country ... [another Stalinist] campaign against Trotskyism had to do with the struggle against leveling, against equality. In Marx's letter concerning the Gotha program of the German Social Democracy, Stalin found a phrase to the effect that during the first period of socialism inequality will still be preserved ... This quotation was incorrectly interpreted as a declaration of rights and privileges of the bureaucrats and their satellites ... The bureaucracy was provided with a theoretical justification for special privileges and powers over the masses of the toilers inside the Soviet Union. It thus looked as if the Revolution had been fought and won expressly for the bureaucracy, which waged a furious and rabid struggle against leveling, which jeopardized its privileges, and against permanent revolution which jeopardized its very existence.”

But Trotsky's side of the story is a smokescreen intended to cover the real issue of the struggle for power within the new Soviet bureaucratic class. This is because for Trotsky in his fight against Stalin

“... the issue was not the liberation of the regime, nor the legitimacy of the one-party system, nor even the scope of the authority of the one party, and it is not in the name of a new political structure that Trotsky spoke. On the contrary, he wanted above all a return to the kind of regime created by Lenin; and though for him that regime was far more enlightened, it could hardly be described as democratic. Moreover, he was no less interested in party unity and discipline than his opponents, and no less intolerant than they of party factions and groupings. Both the dictatorship of the party in general, and the principle of ‘centralism,’ remained for him inviolable foundations of Soviet society and government. Not the dictatorship of the party, but dictatorship within the party was his concern. The issue, therefore, was the internal character of the party, and the distribution of power in it ...” (B. Knei-Paz, *The Social and Political Thought of Leon Trotsky*. Oxford: Clarendon Press, 1978, pp. 371-372).

- 44 In making his last plea before the court at the end of his trial, N. Bukharin, one of the most famous leaders of the so-called “bloc of the right-wingers and Trotskyists,” proclaimed that “... in reality the whole country stands behind Stalin; he is the hope of the world; he is a creator ... Lenin's cause ... is being carried on with such tremendous success by Stalin” (R. Tucker and S. Cohen, eds., *The Great Purge Trial*, 1st ed. New York: Grosset and Dunlap, 1965, p. 667).

- 45 Trotsky (L. Trotsky, “Why They Confessed Crimes They Had Not Committed,” in *Writings of Leon Trotsky [1936-1937]*. New York: Pathfinder Press, 1978, p. 63) thought that

“... there [was] nothing complicated in this mechanism [where the accused not only ‘gladly confessed’ of their ‘crimes’ but were also ‘ready to glorify’ their accusers]. It needs only a totalitarian regime: that is, the suppression of all freedom to criticize; the subjection of the accused to the military; examining magistrates, a prosecutor and judge

in one; a monolithic press whose howlings terrorize the accused and hypnotize public opinion.”

Deutscher (I. Deutscher, *Stalin. A Political Biography*, 2nd ed. New York, Oxford University Press, 1967, pp. 374-375), in his attempt to explain the phenomenon in a more detailed way than Trotsky did, wrote about the behavior of defendants:

“... it cannot be doubted that they were subjected to physical and moral torture ... In addition, the political police ... had been given the right to take the defendants’s relatives as hostages ... Even the most indomitable, those most ready to sacrifice their own persons for their cause, cannot feel that they have the right to sacrifice their parents or children in the same way. The defendants certainly hoped that their confessions would save their families; and they may also have had a glimmer of hope to save themselves.”

Deutscher went even further and suggested that the accused admitted their “guilt” because “throughout they had been oppressed by the insoluble conflict between their horror of Stalin’s methods of government and their basic solidarity with the social regime which had become identified with Stalin’s rule” (ibid., p. 373). However, he did not develop this view.

- 46 Kosa (J. Kosa, *Two Generations of Soviet man. A Study in the Psychology of Communism*. Durham, North Carolina: The University of North Carolina Press, 1962, p. 142) calls this desire of man to project his ego into a social grouping “a collective superego.” For,

“...the individual is not sufficient; he requires a creed that he can share with his fellow beings and that serves as the framework of social interactions. The collective superego contains the goals and values common in a group and, through them, regulates cooperation and competition.”

- 47 Ibid., p. 143.

- 48 Let us listen to Bukharin (Tucker and Cohen, *The Great Purge Trial*, pp. 666, 667, 668) again:

“I shall now speak of myself, of the reasons for my repentance. Of course, it must be admitted that incriminating evidence plays a very important part. For three months I refused to say anything. Then I began to testify. Why? Because while in prison I made a revaluation of my entire past. For when you ask yourself: ‘If you must die, what are you dying for?’—an absolutely black vacuity suddenly rises before you with startling vividness. There was nothing to die for, if one wanted to die unrepented. And, on the contrary, everything positive that glistens in the Soviet Union acquires new dimensions in a man’s mind. This in the end disarmed me completely and led me to bend my knees before the Party and the country ... And at such moments ... everything personal, all the personal incrustation, all the rancor, pride, and a number of other things, fall away, disappear ...

Everybody perceives the wise leadership of the country that is ensured by Stalin.”

- 49 Of course, not everybody thought that way; there had to be many who never accepted Bolshevism in any of its forms. These people were probably rejoicing at the sight of at least one faction of the Party, of the losing faction, bleeding to death.

- 50 Luke, *Ideology and Soviet Industrialization*, p. 246.

- 51 F. Kaplan, *Bolshevik Ideology and the Ethics of Soviet Labor. 1917-1920: The Formative Years*. New York: Philosophical Library, 1968, p.382.
- 52 A. Avtorkhanov, *Stalin and the Soviet Communist Party. A Study in the Technology of Power*. New York: A. Praeger, 1959, p. 205.

PART VI

THE THEORETICAL FRAMEWORK OF THE STALINIST MODEL REVISITED

In the previous part (Part V) of the book, the making of the Stalinist model of socioeconomic growth and development was described. It was emphasized that this last stage in the development of the Soviet socioeconomic system had been built upon the following three foundations: collectivization of agriculture, industrialization, and the cultural revolution. By the end of the 1930s the construction work had been completed so that the new socioeconomic structure had begun its functioning.

This socioeconomic structure has been customarily defined as “socialism,” or “communism.” We, on the other hand, have continuously rejected this definition on the ground of the *totalitarian-state-capitalist* nature of the system created in the Soviet Union by the end of the 1930s.

In Chapter 1 of Part I of the book we presented *preliminary* arguments in favor of this view. In that chapter, we also promised to give a more *detailed* reasoning for this position. The time has come to begin fulfilling this promise.

So before we start the analysis of how the last stage of the Soviet socioeconomic system had operated, we will first, resume our attempt to prove its *totalitarian-state-capitalist* label and, thus, to convince the reader who, we feel, due to the preliminary character of our arguments, has been left unconvinced. This endeavor needs to be done, for without comprehending the character of the Stalinist socioeconomic system it would be impossible, in our opinion, to understand the nature of the current socioeconomic Russia.

Recall from Chapter 1 of Part I that commodity production is a synonym of the market relations. If we are able to prove (1) that the Stalinist model was based on commodity production, hence, on market relations; (2) that these relations also included capital, land and labor markets,—then we will be in a position to substantiate the *totalitarian-state-capitalist* nature of the last stage of the Soviet socioeconomic development.

We will proceed in the following manner. First, we will present major views on the problem of Soviet commodity production. Second, we will examine in detail some of these views. Third, we will again put forward our understanding of the nature of Soviet commodity production.

But we must forewarn our reader: the Soviet socioeconomic language, which will be used below, in many respects differed from that of the Western socioeconomic language. The major reason for

the difference was in the Soviet socioeconomic slang mixed with the Marxist vocabulary the Soviet economists used.

This does not mean that Soviet *practical* “socialism” (we will write this word in its Soviet connotation in quotation marks, except for the citations) had anything to do with Marxist *theoretical* socialism (as we will attempt to show). This simply implies that for a long time in the Soviet Union there had been a widespread *belief* in the Marxist nature of Soviet society.

The duality between the Soviet socioeconomic reality and the way it was expressed in the gibberish Marxist language with a heavy Soviet *accent* will undoubtedly present a formidable problem in following the material below. So the only way to comprehend this “schizophrenic” part of the book is by its diligent and careful reading. To this, we call our reader.

PART VI
THE THEORETICAL FRAMEWORK
OF THE STALINIST MODEL REVISITED

Chapter 1

Major Views of the Problem of Soviet Commodity Production¹

From Chapter 1 of Part I we know that commodity production can take two forms. It is *simple commodity production*, when the ownership of the means of production (capital goods) is divided among owner-producers; that is, when goods and services are produced by individual producers from their own materials by means of their own tools and with their own labor; that is, when all forms of income (profit, interest, rent, and wages) are accrued to one person.

It is *capitalist commodity production*, when the owner of the means of production (capital goods) is separated from the owner of labor power; that is, when the provider of services of capital (irrespective of the position of the provider of services of land) is not the same as the provider of services of labor; that is, when, *in a pure form*, profits and interest are gained by the provider of services of capital, while wages, by the provider of services of labor.

Based on these assumptions, there were three major schools of thought on the problem of commodity production in the Soviet Union. One school emphasized the “socialist” character of the Soviet economic system and, since under socialism, according to Marx, commodity production should not exist, endeavored to explain either its nonexistence or its existence. Another school considered the problem in the framework of a capitalist restoration. Finally, according to the third view, the problem was resolved by emphasizing the bureaucratic-exploitive nature of the Soviet centralized structure of “state ownership.”

The “socialist” views

These views on the problem of commodity-production relations in the Soviet Union, based on the labor theory of value,² might be characterized as follows. In accordance to one of them, commodity production in the USSR did not exist. While this approach was not widely held, nevertheless, it should be recognized and examined.

The second “socialist” view held that such relations do exist and offered several explanations for the causes of their existence: (1) the coexistence of two forms of socialist property (ownership);

(2) the relative economic isolation of single (or individual) enterprises; (3) the heterogeneity of labor; (4) the inadequate level of the development of productive forces in the Soviet economy; (5) the international division of labor; and (6) the contradiction between public ownership of the means of production and the workers' ownership of labor power.

A "nonexistence" approach

One group of economists for whom the Soviet Union was unquestionably a "socialist" country, did not recognize at all the presence of commodity production in the Soviet economy.³ Since, they argued, the private ownership of the means of production is absent in the USSR, the product of labor in a society which owns its capital goods is a social product.

To be sure, these economists were not blind as not to see the preservation of one of the conditions necessary for the existence of commodity production: the social division of labor. They pointed out, however, that the presence of only one condition was not enough for commodity production to exist.

These economists asserted the essentiality of the second condition: the social division of property, or the presence of private property in the means of production. The economists claimed that such a condition did not exist in the Soviet Union.

While recognizing that there were two forms of socialist property (collective and state), the economists insisted that the predominance of "socialist" property relations, regardless of the form they had, meant that the Soviet worker, in both the state and collective sectors of the economy, was the producer and the owner at the same time. That is why, these economists told us, there was no need for commodity production and exchange: one does not trade goods and services with himself.

Those who denied the existence of Soviet commodity production pointed out that the very presence of "socialist" property relations not only made possible, but necessitated the emergence of national economic planning of production and distribution, thus making commodity production (that is, market relations) unnecessary.

Advocates of these views believed that goods and/or services produced for exchange were commodities simply in their *external* form. The commodity and money were particular *technical means of calculation* at the same time as the process of circulation of commodities (the exchange of goods and services for money) did not exist.

Thus, according to the view, prices performed only a function of calculation. That is, the accommodation of production (supply) to social needs (demand) could occur without trade.

The "existence" views

It was hard to find any prominent Soviet economist who would have held or defended the "nonexistence" approach to the problem of Soviet commodity production. It was very difficult to deny that what was obvious for every person on the street who had to confront the Soviet market every day by buying goods and services for money and by selling labor services for wages with the purpose of getting money.

Hence, the vast majority of Soviet economists did not deny the fact of the existence of commodity production in the country. For them, the problem was: if it does exist, then how to explain it?

A "two-forms-of-'socialist'-property (ownership)" explanation. The adherents of this view, which stressed the coexistence and simultaneity of two forms of "socialist" property (ownership) as the main cause of Soviet commodity production, argued that, insofar as there were social divisions of labor and ownership (the latter in two forms, state and collective), the only normal form of the economic relation between "public" (state) property, on the one hand, and collective property, on the other, was commodity-production relations. These, through equal exchange, would guarantee the interests of collectives and the entire population of the country as well.⁴ Thus, in this approach, commodity production was an integral part of "socialist" relations.⁵ Since "socialism" is the first stage in the development of "communism" and since commodity production will not exist under "communism" (which presupposes only one form of property), the holders of the "two-forms-of-socialist-property" view logically assumed that commodity production would disappear when the Soviet Union becomes a "communist" country.⁶

A "relative-economic-isolation-of-the-single (individual)-state-enterprises" approach. For the group of economists who argued that two forms of "socialist" property (ownership), on the basis of the social division of labor, were the major cause for the existence of Soviet commodity production, however, only *between* the two sectors but not *within* each of them.⁷

Yet it was no secret that such categories of commodity production as value, price, money, profit, cost, wages and so on existed and were widely used in relations not only *between* but also *within* the two "socialist" sectors. Hence, a theory to explain such a phenomenon was needed.

The group of Soviet economists who found the argument of the proponents of the two forms of "socialist" property (ownership) unsatisfactory tied the necessity of Soviet commodity production with the isolation of individual enterprises under "socialism." These

economists characterized the isolation as a specific form of the presence of the state “socialist” property (ownership).

In their opinion, the existing stage in the development of “socialist” property (ownership) resulted in a situation in which individual enterprises possessed a portion of “public” property as a property of some given collective unit (the enterprise).⁸ These economists argued that although enterprises and their products belonged to one owner, the state, due to their relative economic isolation, each enterprise had to operate on the basis of a relative economic independence.⁹

What these economists disputed, therefore, was that, despite the absence of the social division of property (ownership) within the state sector of the economy, the presence of the social division of labor, caused by the separation and isolation of individual enterprises (“the social cooperation of labor,” as some of them put it), was a sufficient reason for the existence of commodity production within the state sector.

A *“heterogeneity-of-labor” view*. Supporters of this view suggested that the relative isolation of state enterprises could not serve as the only explanation for Soviet commodity production.¹⁰

They argued that “socialism” as the first stage of “communism” had to accommodate itself to such a phenomenon as the socioeconomic heterogeneity of labor. The essential differences between mental and manual, skilled and unskilled, industrial and agricultural labor necessitate a reduction of all different kinds of labor to their common denominator, abstract labor,¹¹ by estimating the results of labor in a monetary form.

Followers of this view asserted that the existence of two forms of “socialist” property (ownership) might be just an additional reason for Soviet commodity production.¹² They insisted that the exchange of goods and services in the USSR took a form of commodity (market) exchange because only the commodity form of exchange was able to provide conditions under which “the socially heterogeneous, unequal labor of varying utility to society [was] reducible to the socially equalized, average social labor.”¹³

An *“inadequate-level-of-the-productive-forces” theory*. Adherents of this view argued that, since “socialism” grew out of capitalism, “socialist” property (ownership) was based on that level of development of the productive forces which was unable to satisfy all the needs and wants of the population.¹⁴

And thus, according to the view, a non-antagonistic contradiction¹⁵ of the “socialist” property (ownership) arose. All members of Soviet “socialist” society were the joint owners of the social wealth, but the productive forces were not developed enough to provide a full satisfaction of their needs. For that reason, labor had not yet become a first vital necessity, a normal means of

creative fulfillment of one's being, but instead demanded some material stimulation for its performance, on the one hand, and a strict calculation, on the other.

Hence, commodity production was required to serve as a necessary link between socially necessary labor and the needs of society.¹⁶

An *"international-division-of-labor" approach*. It would be unfair to assert that the advocates of this view regarded the international division of labor as the only or the major cause for the preservation of commodity production in "socialist" Soviet Union. But they saw it as *one* of the most important *external* factors contributing to the existence of Soviet commodity production, in addition to all the above mentioned *internal* factors.

Economists of this approach distinguished two types of the external circumstances. One type was among the "socialist" countries, and the other type was among the "socialist" and capitalist nations. The economists stressed that in both these external cases all the necessary conditions were at hand: the social division of labor and property (ownership) and exchange.

Each "socialist" country, the economists told us, was a separate and independent owner, however, of a special type. This meant that, in relations to each other, through the process of exchange, different "socialist" countries operated as commodity producers subordinated to the national system of mandatory central planning.

The further development of the international division of labor widened this conscious commodity exchange. The economists of such an approach thus believed that the international trade, based on the division of labor and property (ownership), between "socialist" nations played a very significant role in preserving commodity production in the USSR.

As far as the relations between the Soviet Union and non-"socialist" countries are concerned, commodity production, in the view of the economists, achieved its purest form. This is because such relations involved proprietors who differed from one another not only territorially (as separate and independent countries) but also socially (as different socioeconomic systems).¹⁷

A *"public-ownership-of-the-means-of-production-versus-worker's-ownership-of-labor-power" position*. Besides the recognition of the "socialist" character of the contemporary Soviet Union, there was one striking similarity in all of the schools which have been presented. The individual worker as a producer *within* the state or cooperative sectors of the economy was not considered in either of them.

To be sure, the role of individual workers in commodity production was not forgotten. But their role was examined only *outside* the state and cooperative sectors of the economy. The role

was discussed only in terms of relations of one worker to another. It was not discussed in the framework of relations of the worker to state or collective property in the process of production.¹⁸

In the 1970s, there appeared an approach which had taken into account the individual worker as a producer within the state and cooperative sectors of the economy.¹⁹ While not abandoning the principal assumption about the “socialist” nature of Soviet society (an assumption which implied that the means of production were “public,” that is, people’s property), the economists holding this view introduced a new element into the picture: the individual Soviet worker as an actor not only at the periphery of the system of production but within it as well.

According to this view, the main cause for the existence of Soviet commodity production was the relation between two forms of property (ownership): “public” property (ownership) of the means of production, on the one hand, and workers’ property (ownership) of labor power, on the other. As these economists saw it, the latter property, being individual, did not belong to society as a whole. Because of this, production and reproduction of labor power (workers’ ability to produce goods and services) was left to workers as their own business.

But when workers entered the process of production of goods and services, they (the workers) did this as members of a production unit (the enterprise). In such a capacity, the workers transferred to the collective of the enterprise the right to be in charge of the labor. In turn, workers received a certain share of the product which was needed for production and reproduction of their labor power.

But, as a result of the social division of labor, each production unit could produce one or, at most, several kinds of output. Yet, workers as producers needed some of the means of production and workers as consumers needed a variety of the articles of consumption which, due to the social division of labor, the enterprise employing them was unable to place at their disposal (because of production of what was not consumed by the producer, and consumption of what was not produced by the consumer). Hence, in addition to the social division of labor and property (ownership), what was required was exchange.

However, within the system of the social division of labor the function of exchange could not be undertaken by workers themselves (that is, for instance, to trade a portion of product A produced at factory X for a portion of product B produced at factory Y). Their working day did not leave workers time for the engagement in the process of the circulation of products.

Therefore, the function of exchange had to be undertaken by the enterprise in which the worker was employed. And due to the presence of the three conditions necessary for the existence of

commodity production, the product produced by the worker in the enterprise becomes a commodity.

The non-Soviet Marxist views

We have now examined the Soviet (in addition to one Hungarian) views on commodity production in the USSR. We now turn to some important non-Soviet Marxists and their analysis of the Soviet mode of production.²⁰

The “capitalist-restoration” view. The best-known spokesman for this theory was C. Bettelheim. He called Soviet society a “contemporary transitional social formation.” He belonged to the school which accepted and recognized the existence of Soviet commodity production and, like his colleagues of the “socialist-existence” approach, he attempted to discover reasons for this phenomenon.

As a Marx’s follower, Bettelheim rejected any explanation for this socioeconomic factor but the objective one.²¹ According to him, there were several conditions which caused the continuation of the existence of commodity production in the USSR.

First, the presence of several different forms of property (ownership): state, collective, and individual. Thus, the holder of the “capitalist-restoration” view agreed with the “two-forms-of-socialist-property” concept. Second, the international division of labor. The “capitalist-restoration” approach shared the “international-division-of-labor” position, which, however, was found “obviously not false, but ... *inadequate*.”²²

Also, according to the “capitalist-restoration” point of view, the “international-division-of-labor” concept leaves unanswered some very important questions. It refers to the problem of the means of production. That is, given the international division of labor and property, the means of production *intended for export* are exchanged as commodities between the two socioeconomic systems and within each of them as well. Why, then, do the means of production “that are *not intended for export* retain the outward appearance of commodities?”²³ Having posed this question, Bettelheim attempted to solve the problem of commodity production within the state sector. This led him to the analysis of the character of state ownership so that he concluded that Soviet-type societies “are still not fully developed socialist formations.”²⁴

But for the “capitalist-restoration” view this economic explanation was not sufficient. It emphasized that the main factor determining Soviet commodity production within the state sector was political:²⁵ in the Soviet Union, “the proletariat ... ha[d] lost its power to a new bourgeoisie ...”²⁶

This happened, according to the approach, due to the specific historical conditions in Russia where the preservation of

the old social division of labor prevented the disappearance of commodity production. The social division of labor, in turn, reflected a duality, or a “double relation”: a relation of independence between different kinds of labor outside the process of production and a relation of dependence between various types of labor within the process of production.²⁷

But this double relation, as the “capitalist-restoration” school saw it, being inherent to any commodity producing society, was modified in the Soviet transition system by the state ownership of the means of production. Hence, although the Soviet proletariat had lost its power, the Soviet state, nevertheless, according to this Trotskyist view, still had a proletarian nature.²⁸

The arguments then went as follows. Because the Soviet proletariat was the general owner of state property, the latter, therefore, was “socialist” property. Thus, at the level of the state in general, there were “socialist” relations of production. But under the conditions of the social division of labor inherited from the old capitalist society, the Soviet working class exercised its property rights not in general but in particular, not directly but through individual separate enterprises.

And at the level of the enterprise there existed capitalist commodity-production relations. For, while the Soviet proletariat through its state was the owner of the means of production, the Soviet enterprise was their possessor.²⁹

This possession which the “capitalist-restoration” approach saw as caused by the social division of labor, was “one of the objective bases for commodity exchanges between units of production [enterprises].”³⁰ But since commodity production and exchange do not exist in general but always take some specific form, Soviet social relations were still “socialist,” but not fully developed relations. That is why this school of thought might be called a “transition-to-socialism” school.

However, at the enterprise level the social relations of production took the form of capitalist commodity-production relations. That is why this school was called a “capitalist-restoration” school.

The proof that the Soviet enterprise had the capitalist character lay in the fact of a “double separation.”³¹ In other words, to the “capitalist-restoration” approach, there were two major causes for Soviet commodity production.

The first was the social division of labor which manifested itself in the *functional* division of property, that is, in the distinction between property ownership relations and relations of possession, and which found their expression in the relations *between* separate, individual state enterprises within the state sector of the economy. The second was the *social* division of property (ownership) *within* the enterprise as a place where, in the process of production, two

owners met each other, the manager³² and the worker of the enterprise.

But it is explained that while

... the *transition* between capitalism and socialism is *characterized* precisely by the presence of such capitalist relations ... the domination of socialist relations over capitalist relations precludes the exploitation of the workers (the surplus-value³³ produced by workers in enterprises becomes the property of the workers' state which appropriates it and redistributes it in accordance with the requirements for the construction of socialism).³⁴

The "*bureaucratic-exploitive*" stand. This school treated the Soviet Union as a new socioeconomic formation which was neither "socialist" nor capitalist.³⁵

Like the "capitalist-restoration" school, the "bureaucratic-exploitive" approach suggested that Soviet society was indeed a society in transition. The transition was not exclusively towards one direction ("socialism"), but might be in any one of those directions: to "socialism," back to capitalism, or to a further development of the new social formation which was neither "socialism" nor capitalism.³⁶

Following the line of the "capitalist-restoration" argument, the adherents of the "bureaucratic-exploitive" view asserted that one of the reasons the successful October Revolution, proletarian in its character, had produced a society neither "socialist" nor capitalist, could be found in the specific Russian conditions which had precluded the abolition of the social division of labor as one of the most important factors of the existence of commodity production.³⁷

This new social division of labor was, according to the view, between the bureaucracy as a new ruling class and the proletariat as a new Soviet working class. And in this phenomenon lay the key to understanding the causes for the existence of Soviet commodity production.

But this school considered such a new division of labor not sufficient to have commodity production in the Soviet Union. Thus, the following second explanation was put forward.

Having been created by the civil war and foreign intervention, the bureaucracy then consolidated its power, first, as a ruling stratum and then as a ruling class. With the de-politicizing of the people and with the evaporation of their revolutionary enthusiasm, the bureaucracy, through the state apparatus of centralized planning, governed the economy. Planning "bec[ame] increasingly authoritarian and rigid with a resulting multiplication of economic difficulties and failures."³⁸

These new demands of the Soviet economy were met, the argument went, by the further social division of labor. That is, the division of labor within society as a whole was supplemented by the division of labor within the bureaucracy as a whole. Side by side,

with the old bureaucracy, there appeared a new bureaucracy.³⁹ This served as a second cause for the development of commodity production in the USSR.

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Notes to Chapter 1: Major Views on the Problem of Soviet Commodity Production

- 1 This chapter is based on E. Raiklin and C. Gillette, "The Nature of Contemporary Soviet Commodity Production," in *Socioeconomic Issues of Today's Soviet Union*. Bradford, West Yorkshire, England: MCB University Press Limited, Volume 15, Numbers 5/6, 1988, pp. 69-81, 123-124.
- 2 For those who are interested in the labor theory of value, we can recommend, for instance, K. Marx, *Capital*, Volume I, trans. by B. Fowkes. New York, New York: Vintage Books, 1977; D. Ricardo, *The Principles of Political Economy and Taxation*. Dutton, New York: Everyman's Library, 1911; A. Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*. New York: The Modern Library, 1937; and P. Sweezy, *The Theory of Capitalist Development: Principles of Marxian Political Economy*. New York, New York: Monthly Review Press, 1970.
- 3 In general, see, for example, I. Malyshev, *Obshchestvennyy Uchet Truda I Tsena pri Sotsializme* [The Social Calculation of Labor and the Price Under Socialism]. Moscow: Sotsekgiv, 1960; and also V. Sobol', *Ocherki po Voprosam Balansa Narodnogo Khoziaistva* [Essays on the Problem of the Balance of the National Economy]. Moscow: Gosstatizdat, 1960. In particular, on the "non-existence" views, see, for instance, P. Erdesz, "Commodity Production and Value Categories in a Socialist Economy" (Hungarian People's Republic), in *Problems of Economics*, Volume 2, September 1959, p.58.
- 4 Stalin (J. Stalin, *Economic Problems of Socialism in the USSR*, trans. Peking: Foreign Language Press, 1972, p. 15), for example, who held this view on the subject, argued that
 "... today there are two basic forms of socialist production in our country: state, or public-owned production, and collective-farm production, which cannot be said to be publicly owned. In the state enterprises, the means of production and the product of production are national property. In the collective farm, although the means of production (land, machines) do belong to the state, the product of production is the property of the different collective farms, since the labor, as well as the seed, is their own, while the land, which has been turned over to the collective farms in perpetual tenure, is used by them virtually as their own property, in spite of the fact that they cannot sell, buy, lease or mortgage it.
 The effect of this is that the state disposes only of the product of the state enterprises, while the product of the collective farms, being their property, is disposed of only by them. But the collective farms are unwilling to alienate their products except in the form of commodities, in exchange for which they desire to receive the commodity they need. At present the collective farms will not recognize any other economic

relation with the town except the commodity relation—exchange through purchase and sale. Because of this, commodity production and trade are ... a necessity ...”

- 5 One of these proponents repeated Stalin’s arguments by flatly stating:
 “... the presence of two forms of socialist property (which means that there are different owners and possessors of the means of production and their labor when accompanied by the social division of labor, embraces the general condition for the preservation of commodity production under socialism” (P. Zaoostrovsev, “Socialist Property and Commodity Production Under Socialism,” in *Problems of Economics*, Volume 2, July 1959, p. 57).
- 6 “Of course, when instead of the two basic production sectors, the state sector and the collective-farm sector, there will be only one all-embracing production sector, with the right to dispose of all the consumer goods produced in the country, commodity circulation, with its ‘money economy,’ will disappear, as being an unnecessary element of the national economy” (Stalin, *Economic Problems of Socialism in the USSR*, pp. 15-16).
- 7 That is what these economists were saying:
 “... our commodity production is not of the ordinary type, but is a special kind of commodity production ... which is concerned mainly with goods of the associated socialist producers (the state, the collective farms, the cooperatives), the sphere of action of which is confined to items of personal consumption ...” (ibid.).
 “... the means of production produced and circulating within the state socialist sector have special characteristics. Here, no exchange of property takes place and this contradicts the usual concept of the commodity” (Erdesz, “Commodity Production and Value Categories in a Socialist Economy,” p. 57).
 “... if one considers only two forms of socialist property as the sole cause of the preservation of commodity production, then the limits of commodity production and circulation must be restricted to *kolkhoz* (collective) farms production and to the relations between the two sectors of socialist production... . [then] the products within the state sector are not commodities ...” (Moskovskiy Finansovyi Institut. Kafedra Politicheskoi Ekonomii, *Politicheskaya Ekonomia Sotsializma. Uchebnik* [The Political Economy of Socialism. A Textbook]. Moscow: Gosudarstvennoie Izdatel’stvo “Vysshaya Shkola,” 1962, p. 261).
- 8 “The relative independence of individual socialist enterprises to a certain degree determines the special interests of the collectives of the enterprises as production units; the income of the collective and its members depends on their activity... . This ... constitutes the cause for the commodity character of products under socialism ...” (Erdesz, “Commodity Production and Value Categories in a Socialist Economy”, pp. 58, 59).
- 9 “At the present stage of the development of socialism, the enterprise performs as a basic cell of the socialist property.

Under the conditions of developed socialism, any state enterprises are public property, nonetheless in their relations to each other, they act as economically isolated, independent links of the public economy. Each enterprise is isolated territorially, productively, technically and socioeconomically ... the state productive enterprises are isolated within the limits of the indivisible public property, and their economic

isolation is not caused by the isolation of the ownership of the means of production and products.

The relative economic isolation of the state enterprises characterizes relations within the public [state] sector of production. It does not mean a splitting up of the public property between the collectives. The enterprises are isolated not as owners but as social producers which reflects a certain stage in the development of the social cooperation of labor" (Redaktsionno-Izdatel'skiy Sovyet Kazanskogo Universiteta, *Sotsialisticheskaya Sobstvennost' I Sovershenstvovanie Form Obshchestvennoy Organizatsii Proizvodstva* [Socialist Property and the Perfection of Forms of the Public Organization of Production]. Kazan': Izdatel'stvo Kazanskogo Universiteta, 1974, pp. 174, 175).

- 10 "The isolation of the enterprise itself, regardless of property relations, does not give rise to the need for commodity relationships. Within each modern large-scale enterprise, there is a substantial degree of independence of various departments, but this does not lead to commodity relations between them. Nor will there be commodity production under full communism, although then, too, a certain degree of the isolation of enterprises, based on the social division of labor, will exist" (Zaostrovtssev, "Socialist Property and Commodity Production Under Socialism," p. 58).
- 11 *Abstract labor* is one of very important concepts in the labor theory of value. It is an expenditure of human labor power in general, that is, regardless of its concrete form (carpentering, teaching, managing, barbering, etc.), in producing the value of the commodity.
- 12 "... *kolkhoz*-cooperative ownership is no more than an additional reason for the presence of commodity production, along with the main, compelling reason, which is common to all socialist countries and which consists in the peculiar characteristics of national socialist ownership" (Y. Kronrod, *Voprosy Ekonomiki* [Problems of Economics], Volume 10, 1958, p. 106).
- 13 Ibid.
- 14 These economists cited Lenin (V. Lenin, *Polnoye Sobraniye Sochineniy* [Complete Works], 5th ed., Volume 33: *Gosudarstvo I Revoliutsia* [The State and Revolution]. Moscow: Gosudarstvennoye Izdatel'stvo Politicheskoi Literatury, 1962, p. 93) who stressed that, at its first stage, "communism" is not:
"... totally free from the traditions and signs of capitalism. [It] *has* to destroy, at first, *only* such 'injustice' that the means of production are grabbed by individuals ... [But it] *is not in a position* at once to do away with another unfairness which is the production of the articles of consumption according to 'labor' (but not according to the 'needs')."
- 15 According to the Soviet terminology, "antagonistic contradictions" are inherent to capitalism, "non-antagonistic," to "socialism.
- 16 This view might be summarized in the following passage:
"Commodity relations, just like other production relations, are determined by the level and the condition of the productive forces. The level of the development of the productive forces under socialism is lower than that at the higher stage of communism. At the socialist stage, the productive forces cannot insure the fullest abundance of goods. They are even insufficient for labor to become an absolute, vital necessity for all the members of society. Many characteristics of the

socialist stage of the development of society are explained by the absence of the goods' abundance, by the socialist character of labor and of the cultural level, particularly by the need for the socialist distribution of products according to work, for the material stimulation of workers and for the strictest accounting and control by society" (Erdesz, "Commodity Production and Value Categories in a Socialist Economy," p. 58).

17 Thus, it was maintained that

"... the economic ties between the socialist countries and with capitalist countries are an important factor for the retention and development of commodity-money relations under socialism. The unity of the socialist world system requires that the economic interrelations of individual countries, based on the international socialist division of labor, be mediated by commodity-money relations. The consolidation and development of these ties determine the expansion of commodity-money relations not only between various countries of the socialist camp but also within each of these countries" (G. Dikhtyar, "The Need for Commodity Production Under Socialism," in *Problems of Economics*, Volume 2, July 1959, p. 64).

18 "The exchange relations, which take place between individual workers, are one of the conditions for the presence of commodity production under socialism. These relations are based on the fact that *kolkhozniks* [collective farmers] and individual blue- and white-collar workers have their own individual pieces of land, and also that collective farmers receive part of their *trudoden* [a workday unit] pay in produce. Product surpluses obtained from these subsidiary farms and in remuneration of *trudodens* [labor days] worked, are realized in the collective farms market" (Ibid.).

19 See, for instance, G. Plavotorov, *Stoimostnye Kategorii i Sposob Proizvodstva* [Value Categories and the Mode of Production]. Moscow: 1974.

20 Why not also non-Marxists? Because, as it was pointed out in Chapter 1 of Part I, for them the term "commodity production" exists only in the meaning of the "input-output" model.

21 Thus, he writes (C. Bettelheim, *Economic Calculation and Forms of Property. An Essay on the Transition between Capitalism and Socialism*. New York: Monthly Review Press, 1975, p. 28):

"...this 'presence' cannot be explained either in voluntarist terms or on the basis of mistaken predictions.

The first 'explanation' would consist in saying that value continues to be 'attributed' to different products because of 'government decision'.

The second 'explanation' would involve saying that Marx and Engels were 'mistaken' when they 'forecasted' that the value-form must disappear in socialist society.

The first 'explanation' does not explain anything, since the value-form has an objective existence. It manifests itself when the conditions for its appearance are given.

... talk of 'mistaken predictions' is beside the point since neither Marx nor Engels indulged in prediction. On the one hand, they *analyzed* the social conditions under which the value-form appears; on the other, they characterized socialist societ[ies] as being social formations in which definite relations of production are established such that the *conditions for the appearance* of the value-form are not given."

22 Ibid., p. 44. Bettelheim (ibid., p. 45) then continues:

"The existence of different forms of property ownership of the means of production does, indeed, explain the maintenance of the commodity relations between 'different proprietors': between the state and the collective farms, the state and consumers, the consumers and collective farms, and between the collective farms themselves. However, the existence of these forms does not explain the maintenance of commodity categories, and, therefore, of buying and selling *within the state sector itself*."

23 Ibid., p. 48.

24 Ibid., p. 28.

25 "In my opinion, the decisive factor—i.e. the dominant factor—is not economic but political.

What characterizes socialism as opposed to capitalism is not ... the existence or nonexistence of market relationships [that is, commodity production], money and prices, but the existence of the domination of the proletariat, of the dictatorship of the proletariat. It is through the exercise of this dictatorship in all areas—economic, political, ideological—that market relations can be progressively eliminated" (P. Sweezy and C. Bettelheim, *On the Transition to Socialism*, 2nd ed. New York: Monthly Review Press, 1972, pp. 16, 19).

26 Ibid., p. 16.

27 Bettelheim, *Economic Calculation and Forms of Property. An Essay on the Transition between Capitalism and Socialism*, p. 51.

28 "... the proletariat is still the ruling class. This follows in syllogistic fashion from the nature of the property system. Historically, ruling classes have been property-owning classes. But given the fact of state ownership of the means of production, there are no property-owning classes in the USSR. The means of production are owned by the whole society through the state, and the overwhelming majority of the society are workers. Therefore the workers are the ruling class" (P. Sweezy, *Post-Revolutionary Society. Essays*. New York: Monthly Review Press, 1980, p. 126).

29 "... possession of the means of production reverts to the 'enterprises' ... When the possession is consolidated by corresponding legal relations, the enterprise is established as a 'legal subject': it disposes of fixed [machinery, equipment] and circulating [materials and labor] capital, it buys and sells products, borrows from the banking system, disposes of liquid capital, etc. Consequently, this possession tends to assume the legal aspects of property" (Bettelheim, *Economic Calculation and Forms of Property. An Essay on the Transition between Capitalism and Socialism*, p. 73).

30 Ibid., p. 74.

31 "The capitalist character of the 'enterprise' ... is due to the fact that its structure assumes the form of a *double separation*: the separation of workers from their means of production (which has, as its counterpart, the possession of these means by the enterprises, that is, in fact, by their managers), and the *separation of the enterprises from each other*" (ibid., p. 77).

32 See ibid., p. 73.

33 In accordance with the Marxist labor theory of value, surplus value is a specifically capitalist form of the surplus product, or of a net output of society, produced by labor.

34 Bettelheim, *Economic Calculation and Forms of Property. An Essay on the Transition between Capitalism and Socialism*, pp. 86, 88-89.

- 35 "... post revolutionary society, exemplified mainly by the Soviet Union ... is neither capitalism nor socialism as these social formations have been traditionally understood by Marxists, nor is it, as Trotskyists maintain, a transitional society between the two which has been temporarily stalled by a bureaucratic deformation. It is ... a society with enough basic differences from both capitalism and socialism to be considered and studied as a new social formation in its own right" (Sweezy, *Post-Revolutionary Society. Essays*, p. 139).
- 36 According to P. Sweezy (ibid., p. 137), the best known spokesman of the "bureaucratic-exploitive" school:
- "... we do not need to rule out the *possibility* of a post-revolutionary society's being socialist in the Marxian sense. That would be foolish and self-defeating. But we do need to recognize that a proletarian revolution can give rise to a non-socialist society."
- 37 "... the Russian proletariat could have established itself as the ruling class, governing through its vanguard party (or possibly parties) and initiating the transition to socialism ... Given its minority status, the Russian proletariat certainly would not have had an easy task, and it has to be admitted that it might have failed. But at least it would have had a chance.

What spoiled this chance was the years of civil war and foreign invasion which followed the October Revolution. At the end of these terrible and bloody struggles ... the Russian proletariat was largely destroyed and dispersed. Under the circumstances it is hardly surprising that the necessary preconditions for a transition to socialism did not exist. The Party established a dictatorship which accomplished epic feats of industrialization ... but the price was the proliferation of political and economic bureaucracies which repressed rather than represented the new Soviet working class" (Sweezy and Bettelheim, *On the Transition to Socialism*, pp. 51-52).

38 Ibid., p. 29.

39 This process is described as follows:

"In an attempt to solve these increasingly serious problems, the rulers turn to capitalist techniques, vesting increasing power in the economic enterprises in managements and relying for their guidance and control less and less on centralized planning and more and more on the interpersonal pressures of the market. Under these circumstances the juridical form of state property becomes increasingly empty and real power over the means of production, which is the essence of the ownership concept, gravitates into the hands of the managerial elite. It is this group 'owning' the means of production which tends to develop into a new type of bourgeoisie, which naturally favors the further and faster extension of market relations. This process implies an erosion of the power and the privileges of the 'old' bureaucra[cy] ..." (ibid.).

PART VI
THE THEORETICAL FRAMEWORK
OF THE STALINIST MODEL REVISITED

Chapter 2
A Critical Analysis of the Major Views of Soviet Commodity
Production¹

The prevailing views of the problem of Soviet commodity production have been described as “socialist,” “capitalist-restoration,” and “bureaucratic-exploitive.”² Their arguments in defense for the presence of Soviet commodity production might be summarized as follows.

The “socialist” view: (1) the coexistence of two forms of “socialist” property; (2) the relative economic isolation of individual state enterprises; (3) the heterogeneity of labor; (4) an inadequate level of the development of productive forces; (5) the international division of labor; (6) the public ownership of the means of production versus the worker’s ownership of labor power.

The “capitalist-restoration” view: (1) the coexistence of two forms of “socialist” property; (2) the relative economic isolation of individual state enterprises; (3) the international division of labor; (4) the public ownership of the means of production versus the worker’s ownership of labor power.

The “bureaucratic-exploitive” view: the rise of a new social division of labor between (1) the Soviet bureaucracy and the Soviet proletariat within society as a whole and (2) the old (plan-oriented) and the new (market-oriented) layers of the bureaucracy within the bureaucracy.

Keeping in mind that the three theories had some common points, the following method of the analysis will be chosen. While the common points will be criticized regardless of the theory they are part of, the distinguishing points will be investigated in relation to a particular view of which they were a part.

A critique of the “two-forms-of-‘socialist’ property” explanation

In the Soviet Union, besides the state sector of the economy, there also existed a cooperative sector. Until 1960, the latter had been divided into the following categories: non-agricultural cooperative enterprises and agricultural collective farms (*kolkhozy*). In 1960, however, the non-agricultural sector was wholly nationalized and since that time, had no longer existed.³ For this reason, the term “cooperative” is applied here only to agricultural collective farms, or *kolkhozy*.⁴

The collective farm is described as “nominally a form of the cooperative. The peasants of a given village or a group of villages join together to cultivate land in common, under an elected management committee headed by an elected chairman.”⁵

This concept of *kolkhoz* property takes into account an outward, legal expression of the specific form of the relations of production, not their content. It is possible to argue that, as the state property does not belong to the public in general, the collective-farm property does not belong to a particular collective of peasants (*kolkhoznik*) either.

Regardless of the juridical position of the collective farm, in reality it performed as a part of the state system for two reasons. First, the main means of production in agriculture, the land, were *kolkhoz*'s possession but not its property.⁶ Second, other means of production formally were owned by the collective farms but in actuality they were also only possessed by the latter.⁷

But if the collective farm (*kolkhoz*) was a surrogate form of the state enterprise, then the relations between the state and the collective farm could not be that of commodity production.

The essence of the collective-farm ownership

Why was then this *legal, juridical* distinction between the state and collective agricultural property (ownership)? Did it reflect some substance which distinguished the collective farm from its counterpart, the state enterprise, not only legally but actually as well?

If the real, concrete difference could not be found in the relationship between the state and collective-farm property, then the dissimilarity might lie in some other relations of the collective farm. These were relations between the collective agricultural farm as a *concrete*, functioning state enterprise, performing its activities as part of agriculture,⁸ and the collective farmer (*kolkhoznik*) in the process of agricultural production. We will define the relations between the state (through the collective farm) and the collective farmer as *feudal* in nature and *state* in their form for the following reasons:

First, the state (that is, bureaucratic) ownership of land as the principal means of production in agriculture. However, this condition was not sufficient for feudalism in a society where: (a) agriculture was not a predominant form of economic activities but was subordinated to the interests of the industrial development; (b) the agricultural worker in the Soviet farm (that is, legally state farm) was also deprived of land; (c) both the Soviet (state) and collective agricultural farms were only possessors of the means of production, including land; (d) both the state farm worker (*sovkhovnik*) and the collective farm worker (*kolkhoznik*) were deprived not only of landed *ownership* but also of land *possession* in their positions as members of the *sovkhov* and *kolkhoz*, respectively.

Second, the real content of feudal relations of any form consists in the fact that direct producers, in order to secure the necessary product, must perform special duties for the landowner (the state, in the Soviet case) in a particular productive unit (the collective farm, in the Soviet case). This necessity for the *kolkhoznik* to work for the state (the owner of land) on the collective farm (the possessor of the means of production, including land) constituted the second condition for the existence of the feudal mode of production in a part of Soviet agriculture. Yet this condition was not enough either, for the *sovkhoznik* as a member of the Soviet (state) agricultural enterprise had to do the same for the same reason.

Third, while being the property of the non-producer (the state), land was functionally divided into one part used by the *kolkhoz*, where collective-farms workers worked for the state, and another part used by the *kolkhozniki* for themselves, though not as members of the collective farm but as private individual producers. Here the third condition for the presence of feudal relations in a part of Soviet agriculture was at hand: individual plots were cultivated individually by the peasants who possessed the parcels of land which, however, belonged to the state. But this condition, again, was not sufficient, because not only the *kolkhoznik* but the state employee in agriculture (*sovkhoznik*) and in non-agricultural sectors of the economy as well were engaged in individual activities on individual plots of land owned by the state.

Fourth, individual production of the *kolkhoznik* on his plot was his primary source of subsistence.⁹ This fourth factor of the existence of the state feudal mode of production, though very important, nevertheless, lost its importance in the Soviet Union for two reasons.

In the first place, some workers of the non-agricultural sector and many workers of the agricultural sector of the economy were also engaged in this type of the individual agricultural activity and derived a significant portion of their income from this source. Secondly, in the last decades of life of the Stalinist model the situation had been changing rapidly: the income derived by the *kolkhozniki* from their individual plots had been falling from 48.3 percent in 1940 to 36.5 percent in 1965 to 31.9 percent in 1970 and, finally, to 24.1 percent in 1985.¹⁰

Fifth, alongside the state property of land and other means of production, there existed the individual property owned by the collective farmer and consisting of small agricultural instruments, draught and productive livestock, poultry, productive reserves of seeds and feeds, dwelling houses, and so on. However, many *sovkhozniki* were also owners of the same kind of material means of production.

Sixth, what made the relations between the state and the collective farmer specifically feudal in their character was the personal dependence of the *kolkhoznik* on the *kolkhoz* as a particular,

concrete manifestation of the state, functioning in a part of agriculture. The collective farmer was denied a right to leave the collective farm where he worked and the village where he lived and move to other places in the country without a special permit from the management of the farm.

It needs to be emphasized that the lack of freedom was a “guaranteed right” of every producer in the Soviet Union, not only of the *kolkhoznik*. But while the state worker in all sectors of the Soviet economy was tied to the state in general (and not to any of its particular enterprises), the collective-farm worker was appropriated to the collective farm, that is, to a particular, concrete manifestation of the state.

Thus, while the relations between the state and the worker within the state enterprise determined the *capitalist* nature of the Soviet state as far as workers were concerned, the relations between the state and the collective-farm worker within the collective farm specified the *feudal* nature of the same Soviet state with regard to the collectivized peasants.

The peculiarities of the collective-farm ownership

This appearance of the state as the feudal lord left its specific mark on the Soviet version of the feudal mode of production in agriculture.

First, the possessor of land was not the direct producer (the *kolkhoznik*); the *kolkhoz* was. Second the major part of the collective-farm land was cultivated by the direct producer (the *kolkhoznik*) as a *kolkhoz* land, and only a tiny portion of land was tilled by the *kolkhoznik* not as a member of the collective farm but as an individual independent peasant.¹¹

Third, while the pre-Soviet type feudal economy was characterized by self-sufficiency (the “predominance of the natural economy,” the relatively low level of the development of the social division of labor, the dominant role played by agriculture and the very purpose of production in which the feudal lord and his retainers were the aim of production), this was not the case of Soviet feudalism. Here was an economy where agriculture was subjugated to industry so that the feudal mode of production in agriculture served capitalistically developing industry. In other words, Soviet society was dominated by capitalist commodity production, which was an antipode of the natural economy and whose main features were: a relatively high level of the development of the social division of labor in both industry and agriculture, the dominant role played by industry, and the accumulation of capital¹² as the goal of production.

Fourth, in pre-Soviet feudalism the feudal landowner did not appropriate and did not return the necessary product produced by the peasant to the latter. The necessary product simply remained in

the hands of the direct producer who, having his private individual plot of land, could himself produce and reproduce his labor power.

In Soviet state feudalism, however, a portion of the necessary product¹³ was appropriated by the state (the feudal lord) and was then returned to the *kolkhoznik* in the form of *trudoden* (work day, or labor unit). It was then distributed to the collective farmer mostly in kind but sometimes in cash.

Also, the product produced by the *kolkhoznik* (both necessary and surplus) belonged to the state. The latter did not *pay* the collective farmer for work performed since the *kolkhoznik*'s labor, being tied to the collective farm, was not free.

This implied that relations between the state-feudal lord and the collective farmer were not commodity-production relations in a specific form of wages. That is, the reproduction of labor power in the *kolkhoz* took place without the sale and purchase of labor power.¹⁴

A summary

In summary, two forms of "socialist" property could not be a reason for the existence of Soviet commodity production because:

First, the so-called "socialist" property was in reality either state capitalist or state feudalist. Second, Soviet capitalism and feudalism were two faces of the same state, the owner of the means of production, which was dealing with two different objects, the collective farm and state workers. Third, there was no *social* division of property (ownership) in relations between the state and so-called collectivized sectors of the economy. Fourth, there was only the *functional* division of property in the relations between the state and *kolkhoz* sectors of the economy, thus, only *partial* commodity production, "partial," since the means of production physically could not be sold outside the state. But the *partial* commodity-production relations between *enterprises* could not be the cause for the *complete* commodity production relations between the state (the owner of the means of production and the articles of consumption) and the individual consumer (the owner of money in the process of the distribution of the articles of consumption).

Let us, however, look at the presence of Soviet commodity production from a different angle. For this, let us accept the main premise of the view that state and *kolkhoz* are two forms of "socialist" property and that any difference between the two could be attributed to the degree of their development.

Given these assumptions, it could be concluded that if the state property belonged to *all* the Soviet people, then it had to belong to collective farmers as well. But this would have meant that in the aggregate the *kolkhozniki* turned out to be richer than the aggregate of state workers: while the latter owned only the state

property, the former, in addition to the state property, owned also the *kolkhoz* property.

From this follows that the *kolkhoznik* as the aggregate *kolkhoz* owner entered into exchange relations with himself and the worker as the co-owners of the state property. Hence, if the major arguments of the “two-forms-of-socialist-property” view are taken seriously so that logical deductions were made from them, the result of the exercise would be inconsistent with the premises.

Two conclusions are possible. Either the aggregate *kolkhoznik* did not belong to those who owned the state property; then the state property ceased to be the “socialist,” public, for-all-people property. Or the aggregate *kolkhoznik* co-owned the state property together with the aggregate worker; then the collective farmer’s production had to be not for exchange but for own consumption, that is, non-commodity production of self-sufficient economy.

A critique of the “relative-economic-isolation-of-single-enterprises” approach

“Socialist” proponents of this view based their argument on the presence of the social division of labor. But this condition, though necessary, is not sufficient for commodity production to exist. That is, the social division of labor must be reciprocal to exchange, which implies the social division of property (ownership).

Moreover, from a purely philosophical point of view, the term “isolation” means a “particular” with respect to the “general” and a “singular” with respect to a “particular.” We saw in the first part of the book that these categories were interconnected, could not exist without each other.

Society must engage in economic activities. But, no matter what social form these activities take, whether there is the social division of labor or not, productive activities cannot be carried out in general but only in particular and singular, in a relative isolation in time and space. Therefore, one should not use the category “isolation” in general terms for the explanation of such a singular social phenomenon as Soviet commodity production. One must show a particular form of the isolation.

This is what proponents of the “capitalist-restoration” approach attempted to do in their search for a bridge between separation-possession and union-ownership. The proponents shared the “socialist” outlook on the two forms of “socialist” property as a reason for the existence of Soviet commodity production.

They were troubled, however, by “the commodity ‘form’ that appear[ed] within the state sector,”¹⁵ that is, by the relations between the state enterprises. This worry forced them to change their emphasis from the cause of commodity production *within society* (two forms of “socialist” property) to the cause of commodity

production *within a part of society* (a relative economic isolation of enterprises).

The adherents' answer to the problem lay in the double separation under the dominating role of the political factor. The double separation, according to their view, made the Soviet enterprise capitalist in its nature, because workers were separated from the means of production possessed by managers of the enterprises and the enterprises themselves were separated from each other.

In our opinion, by recognizing the separation of Soviet workers from the means of production, the proponents of the view took a very important step in the right direction. They revealed a capitalist form of Soviet commodity production within the production process itself, i.e., within the relations of production between labor of management and supervision, on the one hand, and labor of subordination, on the other.

Thus, it was correctly asserted that, under certain circumstances, the managers' possession "tends to assume the legal aspect of property,"¹⁶ directed toward the workers in the process of production. In other words, under the Soviet conditions, possession of the means of production in its relationship to the ownership of labor power became not merely formal but actual ownership of the means of production.

But, according to the view, this relationship was not a capitalist *mode* of production, it was a capitalist social *relation* of production combined with other, non-capitalist relations of production. It was, therefore, the adherents of the view insisted, not a capitalist society but a society in transition.¹⁷

By pointing out a particular form of separation (the isolation of the state enterprises from each other, the "capitalist-restoration" school took another step in the right direction. It was correctly concluded that relations *between* enterprises as separate productive units were capitalist commodity-production relations because relations *within* enterprises were of a capitalist nature. But it was emphasized that capitalist commodity-production relations existed only at the level of the enterprise but not at the level of society, which was represented, according to the view, by the Soviet state. This is because, as the proponents of the view stressed, a socioeconomic system is mainly determined by political factors.

But what was this political factor which, as the "capitalist-restoration" school saw it, prevented Soviet capitalist commodity production to spread from the enterprise to society as a whole? The adherents of the school believed that the factor lay in the nature of the Soviet state in which the working class was the ruling class.

But was it not paradoxical that the Soviet working class, which was an object of exploitation within the enterprise, ruled and dominated at the level of society? For the proponents of the view there was nothing paradoxical in it: the Soviet proletariat making up

the majority of the population owned the means of production, though not directly but through the state.

Now we have the last link in the chain. The Soviet proletariat which was the owner of the means of production at the level of society was not their owner at the level of the enterprise. For this reason, according to the view, there were two sets of social relations of production in Soviet society: capitalist commodity production within and between state enterprises, on the one hand, and “socialist” relations of production between the state and its workers, on the other.

The problem with this view is that it is absolutely unclear what these “socialist” relations of *production* were. If a mode of production is a dialectical unity of the forces of production (capital, labor, land) and relations of production (the goal of production), then the question is: where did the “socialist” process of *production* take place? The obvious answer is: nowhere, because the only place in which production could occur was the enterprise. But the latter, as the upholders of the view admitted, had a capitalist character.

To overcome this contradiction, the proponents declared that workers, while being exploited within the enterprise, were masters within Soviet society, since “the surplus-value produced by workers in enterprises became the property of the workers’ state which appropriate[d] it and redistribute[d] it in accordance with the requirements for the construction of socialism.”¹⁸ But this view was merely asserted without any proof.

What, however, was meant in this statement by the “socialist” mode of *production* was in reality the “socialist” mode of *distribution*. In such a case the link between production and distribution was broken so that the latter dominated the former.

This mistake was made because a formal-normative approach in defining the capitalist mode of production was used. That is, a particular western-style form of capitalism was mixed up with the essence of capitalism. And being unable to find this type of capitalism at the level of Soviet society (because it was accepted that all the means of production belonged to the state and thus indirectly to the Soviet workers), the school proclaimed the Soviet Union a “socialist” country (though not fully developed because of the capitalist commodity-production relations which existed at the level of the enterprise).

Nevertheless, despite the half-way conclusion, the approach made a great contribution to the solution of the problem of the causes for the presence of Soviet commodity production. It existed because of the capitalist nature of relations *within* the enterprise, relations which found their expression as capitalist commodity-production relations *between* enterprises.

A critique of the “heterogeneity-of-labor” view

What did the supporters of this view mean by the “heterogeneity,” “non-homogeneity,” or “considerable differences” in labor?¹⁹

Labor, according to the Marxist labor theory of value, has two “sides”: as a *form*, it is *concrete* (that is, as carpentering, shoe-making, teaching, farming, etc. producing use-values, or real things); as its *content*, it is *abstract* (simply an expenditure of human labor power in general in producing value). Therefore, all the differences in labor must come from one of these “sides.”

Let us take a look, first, at the heterogeneity of concrete labor. It may have the following meanings.

First, as private labor of any form (individual, corporate, state) it implies the social division of labor based on private property of any form (individual, corporate, state). These are two necessary conditions for the existence of commodity production. It is under these conditions, reciprocal to exchange, that social labor is expressed in a roundabout way, indirectly, through value, as a commodity.

The adherents of the view under consideration did not mean, however, this form of concrete labor. For them, since state property was public property, then all labor had a social character. That is, for them concrete labor was *not* private labor.²⁰

Second, concrete labor can be understood as a particular form of social activities, regardless of the form of ownership. In this case, concrete labor is manifested in two ways:

(1) Simply, as different types of occupations, or as the social division of labor. Of course, class society of any type is based on the social division of labor. But, to repeat, to become a commodity-producing class society, what is also needed includes the social division of property (ownership) and exchange.²¹

(2) As a freelance activity of the majority of the population within society, which implies the absence of the social division of labor. This, for sure, cannot lead to commodity production.

To conclude, the heterogeneity of *concrete* labor as it was understood by the supporters of the view (that is, as non-private labor) could not be a cause for the existence of Soviet commodity production. Let us, therefore, take another look at the heterogeneity of labor: at *abstract* labor. The latter might reveal itself as follows:

(1) A complex versus simple labor, with the possibility of the reduction of the former to the latter. However, this can be done either through commodity production or without it.²²

(2) Socially-necessary (labor of average abilities and the average time of production) versus individual labor (labor of actual abilities and the average time of production), which entails the inequality of labor due to the differences in people’s capacity to

participate in the process of production. But this difference is natural and might be smoothed out either through commodity production (through the value-price system, or indirectly) or without commodity production directly (through labor time).

Those who upheld the heterogeneity-of-labor view emphasized, however, that, besides differences in the ability to participate in the production process, the discrepancy between socially-necessary and individual labor meant that “though it ... [was] directly social labor it ... [was] not socially equalized collective labor.”²³

It was argued that this was due to the fact that, under the Soviet conditions, although there was no private property, still social labor could not be fully direct, thus requiring a roundabout way of its recognition through commodity production. It was not fully direct because of the insufficient level of the development of socialized labor.²⁴ It was insufficient to the development of productive forces, which, in turn, were inadequately developed (could not satisfy all the wants of people under “socialism”).

In the final analysis, in the heterogeneity-of-labor view we are dealing with the following reasoning:²⁵ Soviet commodity production was caused by the heterogeneity of labor, which was a result of the existence of two forms of socialist property (not wholly socialized labor in the *kolkhoz* sector of the economy), which in turn, was ultimately brought about by the inadequate development of productive forces. Let us, therefore, turn to this ultimate reason.

A critique of the “inadequate-level-of-the-development-of-productive-forces” theory

This theory put forward the following argument: “Commodity[production] relations, just as other production relations, are determined by the level [of the development] of the productive forces... . under socialism [it] is lower than that at the higher stage of communism.”²⁶

So here the inadequacy of the level of the development of the productive forces was reduced to the comparison of their present level to their future level. If this was a measure of the inadequacy, then commodity production had to be everlasting. It had to appear in the primitive commune, because, by and large, its productive forces were less developed than that of a slave-holding society. It had to be an organic part of the latter since its level of the development of the productive forces was lower than under feudalism, and so on.

The theory further argued that the lower development of the productive forces under “socialism” had resulted in the absence of abundance of goods and services, which led to commodity production in the USSR.²⁷

But the absence of abundance might be of two types. First, an *absolute* scarcity of goods exists in society which reproduces, year

after year, only the necessary product and sporadically and accidentally an excess product. This was characteristic of the primitive commune where the means of production were public property of the members of the commune who were immediate producers of the communal "income."

This level of the development of the productive forces could not satisfy the wants of the communal members for a simple reason that the bare subsistence very often meant hunger and cold. However, this dissatisfaction did not give rise to commodity production within the commune, because its free members were not divided as labor and property owners: there was no social division of labor and property (ownership).

Second, a *relative* scarcity of goods exists when an excess product is produced but, combined with the necessary product, it is still insufficient to satisfy all the material wants. This was the Soviet case, argued the proponents of the view. Under these circumstances, they taught us, where there was inadequacy in the production of use-values (goods and services), what was required was commodity production which served as a link between production characterized by the relative scarcity and unsatisfied wants.

But this goal to satisfy the wants might be answered by several types of society. First, if the society is based on public property of the means of production and the absence of the social division of labor, then this is a communal kind of society answering the wants of its members directly, without commodity production.

Second, if it is based on private property of the means of production and the presence of the social division of labor, this class society can satisfy the wants of the dominating class by exploiting the subordinated classes either directly, without the use of commodity production (slave-holding and feudal societies), or indirectly in a roundabout way, through capitalist commodity production.

Thus, as with the previously discussed approaches, the view under consideration does not withstand scrutiny. Scarcity, relative or absolute, might lead to any outcome and, in order to become a cause for commodity production, scarcity must exist under certain socioeconomic conditions of private property (the very presence of which the adherents of the view deny) in addition to the social division of labor and exchange.

A critique of the “international-division-of-labor” idea

International, or foreign, trade is merely an extension of the internal, domestic commodity production to the international level. For this reason, foreign trade must have all three conditions (the social division of labor, the social division of property, and exchange) which are necessary and sufficient for the existence of commodity production. In this respect, how did international commodity production influence Soviet domestic commodity production?

First, the former might have influenced the latter by being imposed from without. In such a case, external forces rendered internal centralized mandatory planning impossible: Soviet state decisions concerning internal production would have to reflect and follow uncontrolled and unpredictable “decisions” of the external markets. This would have been the case because at the international level the Soviet state acted as one of the numerous commodity producers. As a result, the principle of planning would have to be sacrificed to internal commodity production forced upon Soviet society from without.

Then planning would have been diminished to a secondary, subordinated decision-making role. Then the regulation of the Soviet internal production would have come from outside. Then the Soviet Union would have ceased to be a “socialist” country, since, according to the apologist view, “socialist,” or “public,” property implied planning.

If commodity production had been imposed on the USSR from without and if the major assumption of the “public” character of state property remained untouched, then the commodity form of goods produced in the country would have been permanent only in the relations of this country with the outside world, and would have been occasional, sporadic, casual and unintentional within the country. In the first place, there would have been production intended for exchange with the outside world, or commodity-production relations. In the second place, there would have been production not destined for exchange, since the very goal of Soviet production, as the apologists of “socialism” were trying to persuade us, was the satisfaction of the society’s wants. And only in the second place, that is, in the case of the absence of commodity-production relations, would the “socialist,” “public” character of the Soviet economy have been preserved.

Second, the international division of labor based on private (country versus country) property and reciprocal to exchange might have influenced internal, domestic commodity production in such a way as to consolidate and develop the latter by the former.²⁸ Yet this variant of the “international-division-of-labor” argument, while emphasizing the consolidating and developing role of international

trade on the domestic commodity-production relations, does not explain at all the cause of its existence *within* Soviet society.

We have to conclude that the “international-division-of-labor” view was not only insufficient for the explanation of domestic commodity production. When applied vigorously and consistently, it either damaged the very foundation of “socialism” in the USSR or led to the disappearance of domestic commodity-production relations, the very existence of which this approach had to explain.

A critique of the “public-property-of-the-means-of-production-versus-worker’s-property-of-labor-power” position

Recall that this variant of the “socialist” view on the causes of Soviet commodity production regarded laborers not merely as consumers or individual producers on parcels of land outside the state system of production but also as producers within it. Not denying other reasons for the existence of Soviet commodity production, such as the two forms of “socialist” property and the inadequate level of the development of the productive forces, this approach considered the presence of public ownership of the means of production in its two forms (state and cooperative), on the one hand, and the individual worker’s ownership of his labor power, on the other, as the major causes for Soviet commodity production. But as long as the basic assumption of the “socialist” and “transitional” views on the character of the ownership of the means of production in the USSR was left untouched, the supporters of the view found themselves in the following contradiction.

It is known that, regardless of the social form of production, two factors (in addition to land) must be on hand for the production process to take place: labor and the means of production. The special character and method according to which the two factors are united in the process of production distinguish different societal forms.

In this respect, if Soviet society did not relate to labor power as to its own, as the proponents of the concept insisted, if, in other words, labor power was not a property of Soviet society, then it was a property of the individual worker. At the same time, we were told, the individual owner of labor power performed as a collective, associated owner of the means of production. As such, he related to the means of production as to his own, as their co-owner. If this was true, then it is impossible that the same worker who was the owner of labor power was able to enter into commodity-production relations with himself as one of the co-owners of the means of production within the process of production.

On the other hand, if it is imagined that labor power became social, that is, if each worker transferred his property of labor power to society as a whole, then the only outcome would have been a

slave-holding society with the state performing functions of the slave-owner over the immediate producers as slaves.²⁹ Obviously, the slave-holding society, though not of a commodity-producing type, was not a goal of Soviet “socialist” society.

Assume that the individual form of the ownership of labor power, under the premise of “public,” “socialist” property, was the major cause for Soviet commodity production. Assume, moreover, that, in addition to the social division of labor, there existed in the Soviet Union “socialist” wage-labor relations in which associated producers rewarded themselves as individual producers with wages.

Under capitalism, according to the Marxist labor theory of value, this would be enough for labor power to become a commodity, with the consequences of having value and exchange-value forms, creating surplus value, profits, exploitation, etc. Not under “socialism,” we were told by the proponents of the “public - property - of - the - means - of - production - versus - worker’s - property - of - labor-power” view: under “socialism,” “public” property of the means of production prevented labor power to become a commodity.

But if labor power under “socialism” was not a commodity, it could not have value and exchange-value forms. What was then the essence, the content of workers’ wages in the USSR?

The adherents of the view asserted that this was a share of “the national income which [was] earned by the employees of state enterprises in proportion to the quantity and quality of labor performed.”³⁰ But since Soviet economists usually stopped their analysis here, the problem has remained unresolved: Why did the part of the national product take the form of wages, i.e., special prices, in a society where workers were supposed to be the owners of the means of production?

One can see that the view under consideration took a dangerous path, which forced the “socialist” opponents of the view to warn with a great uneasiness that “the opposition of the means of production, which are property of society, to the worker as the owner of only his labor power is artificial and reminds very much the conditions of capitalist production.”³¹

Final critical remarks

One of the widespread arguments put forward against a capitalist definition of Soviet commodity production and in defense of its “socialist” nature was that, since the total social capital (all the country’s capitals) can exist only as *separate independent* units and since this condition was absent in Soviet society, the latter could not be of a capitalist type. Thus, according to the argument, “separation of the total social capital into many competing or potentially competing units”³² is a precondition for the very existence of capital and, hence, of capitalism. This perspective is so

much taken for granted that it became an implicit assumption. But the relation is not so obvious and simple as it is looked from the formal-normative point of view (which recognizes only one form of capitalist commodity production, non-state, individual, and which makes the individual form of capitalism a yardstick, a norm, a standard for capitalism in general). The relation deserves to be examined on its own.

What is meant by "separation?" In what sense does social capital manifest itself through separate units?

The very definition of capital as a special, historically conditioned relation of production implies a separation of the ownership of the means of production from the ownership of labor power. Hence, to say that capital, in order to exist, must express itself through its separation into independent units is the same as to assert that separation does not exist without separation. It is a tautology, since capital is a social separation and does not need any additional confirmation of its intraseparation.

Such a separation took place in the Soviet Union: between the state as the owner of the means of production and the worker as the owner of labor. The separation found its expression in wage-labor relations. In this type of separation, both the state (the bureaucracy) and the subordinated labor acted as independent and separate units of commodity production.

It is obvious, however, that the ownership of the means of production and of labor power remains abstract and general until it is specified and individualized. With regard to the subordinated labor, this can be done if this kind of labor is considered at the individual level, that is, as social labor of the individual worker. With regard to the means of production, this can be achieved if they are looked upon at a particular, concrete place of production, which was, under the Soviet conditions, the enterprise.

Labor power exists only as an individual labor power, that is, as a living unit of social labor. And each unit of social labor, being discrete, is not only separated from but also independent of the others in the sense of property and possession: each unit of labor, or the worker, is a full owner and possessor of his or her labor power.³³

So what form, under the particular Soviet conditions, did social *labor power* take? It took a form of the commodity sold to the state by numerous Soviet workers.

Against this approach, the following objection was advanced. It is true that Soviet labor was divided into numerous independent and separate units. However, according to the argument, it was bought by only one owner of the means of production, the state. For this reason, *capital* invested in purchasing labor services was not separated into independent units, enterprises, as it should be under capitalism.

This argument is very serious and would be unchallenged if the Soviet state operated directly, as one indivisible, non-separate unit. But this was not the case. Although the state was the sole owner of the major part of the country's means of production, the latter were not located as one huge machine, processing raw materials in one massive building. Under the actual Soviet conditions, machinery and raw materials were scattered and combined among numerous industrial and commercial enterprises.

But the state enterprise was not simply a technical device for the operational convenience of the functioning state. It was a socioeconomic organism of its own. It was at one and the same time the state, for it belonged to the state as one of its parts, and not the state, for, within the framework of the state ownership, it performed functions of its own possessor and in such a capacity displayed its own logic of actions and movement independent of the state.

Recall that possession is a specific, functional ownership. But in the Soviet social framework it was more than that. Given that the relations between the ownership of the means of production and the ownership of labor power were of the capitalist character and these relations took place at the level of the enterprise, ownership related to possession as *capital-property* (the state) to *capital-function* (the enterprise).

In its relation to ownership, which was, within the given socioeconomic system of the separation between the two, timeless and placeless, possession was a relation of a definite time and space. Possession itself, by animating the timeless, abstract, general ownership, became ownership.

In this respect, the enterprise was not only a property of the state. In addition, while relating to the state (capital-property) as a mere possessor of the means of production belonging to the state, the enterprise (capital-function) in its relation to labor of subordination (the owner of labor power) became, within the process of production, a capitalist proprietor itself. Thus, the enterprise forced labor to channel its social uniformity and generality into separateness and concrete independence at the enterprise level.

While possession of the means of production by the state enterprise (capital-function) in its relation to the ownership of labor power by the worker displayed itself as ownership (capital-property), the same was true with regard to relations *between the possessors*, that is, between the state enterprises. Here we had numerous units in which one partial owner was confronted by another partial owner. "Partial," since the enterprise functioned on behalf of the state which was the ultimate and sole owner of the major part of the means of production in its relations to the enterprise. "Owner,"

since enterprises met each other as sole proprietors themselves and of the means of production within each enterprise.

No doubt, this is not precisely what the opponents of the capitalist nature of Soviet commodity production wanted to hear, for this second external separation between the means of production did not fill exactly the traditional model of capitalism, due to the presence of the state as an economic organism, as the sole owner of the major part of the country's means of production. Because of this presence, state enterprises, being *fully* independent from each other, were only *relatively* independent from their grand master, the state.

Again: What made these separate units (enterprises) capitalist? Was it their relation to each other (which was something *external* to their existence) or was it relations between the means of production and labor within the units (which was something *internal* to their existence)?

They were capitalist units not because they had been separated from each other. Their separation had nothing to do with their capitalist character. No matter how many separate units there were, no matter in what manner the units were separated from each other (dependent or independent), they did not become capitalist until the internal separation appeared within the units themselves. In other words, to become separate units of capital, the units (enterprises) had first of all to be capital and separate from workers, and only then to relate to each other as separate units of capital.

But is it necessary to have more than one unit of production when the latter becomes capital? Is it true that capitalism as the essence of particular social relations of production can express itself only through multi-units of capital? That the separation within the units of capital must be supplemented by the separation among the units of capital?

Theoretically, it is not difficult to assume that there was no separation in Soviet society between the ownership and possession of the means of production, that the Soviet state acted as the only enterprise in the process of production. Despite this loss of the relation of separation, the imaginary state-enterprise would have not lost its capitalist character had the intraseparation between the means of production and labor of subordination in the form of wage-labor relations remained.

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Notes to Chapter 2: A Critical Analysis of the Major Views of Soviet Commodity Production

- 1 This chapter is based on E. Raiklin and C. Gillette, "The Nature of Contemporary Soviet Commodity Production," in *Socioeconomic Issues of Today's Soviet Union*. Bradford, West Yorkshire, England: MCB University Press Limited, Volume 15, Numbers 5/6, 1988, pp. 82-102, 124-128.
- 2 We will disregard the view that contended that commodity production, that is, market relations, did not exist at all in the Soviet Union. This approach bore no relationship to the reality of Soviet life.
- 3 See *Pravda*, 26 January 1961.
- 4 "... the necessity of the emergence and development of ... the *kolkhoz* property was caused by the lower level of the development and actual socialization of agricultural production ... unlike the public [state] property which is production at the expense of society as a whole, cooperation [*kolkhoz* production] means production at the expense, first of all, of separate collective farms [*kolkhozy*]." That is how the presence of *kolkhozy* is explained by a Soviet source (L. Nikiforov, "Problemy Razvitiya, Sblizheniya i Sozdaniya Usloviy dlia Sliyaniya Dvukh Form Sotsialisticheskoy Sobstvennosti" [The Problems of the Development, Convergence and Creation of the Conditions for the Merging of Two Forms of Socialist Property], in *Sotsialisticheskaya Sobstvennost' i Sovershenstvovanie Form Obshchestvennoy Organizatsii Proizvodstva* [Socialist Property and the Perfection of Forms of the Social Organization of Production]. Kazan', Izdatel'stvo Kazanskogo Universiteta, 1974, pp. 88-89).
- 5 A. Nove, *The Soviet Economy. An Introduction*. New York: Frederick A. Praeger, 1961, p. 45.
- 6 "*Kolkhozy* manage their collective economy on land which is ... the state property. The land is allotted to the *kolkhozy* forever and is transferred to their possession without charge. *Kolkhozy* as collective land-tenures use the national wealth such as land ..." (M. Atlas, L. Zlobina *et al*, eds., *Politicheskaya Ekonomia Sotsializma. Uchebnik* [Political Economy of Socialism. A Textbook]. Moscow: Gosudarstvennoye Izdatel'stvo "Vysshaya Shkola," 1962, p. 123).
- 7 See, for instance, I. Titova, "Plata za Fondy—Odnazh iz Form Realizatsii Gosudarstvennoi Sobstvennosti" [Payments for Funds, One of the Forms of the Realization of State Property], in *Sotsialisticheskaya Sobstvennost' i*

Sovershenstvovanie Form Obshchestvennoi Organizatsii Proizvodstva [Socialist Property and the Perfection of the Forms of the Social Organization of Production], p. 225; V. Djukov, "Kolkhozno-Kooperativnaya Sobstvennost' i Gosudarstvennoye Planirovanie" [*Kolkhoz-Cooperative Property and State Planning*], in *ibid.*, pp. 254, 255, 256.

See also Nove (Nove, *The Soviet Economy. An Introduction*, p. 47) who has this to say on the matter:

"The influence of the state and party ... is to be felt throughout the collective-farm sphere of operations. The "election" of the chairman [is] in reality in the hands of the party secretary of the *oblast'* [province] and *raion* [district], and they [can] and [do] repeatedly reprimand and dismiss him. The output plan, sowing plan, livestock plan, even the dates of sowing and harvesting [are] decided by state or party authority ... The basic duty of the collective farm [is] to meet the state's compulsory delivery quota."

- 8 We say "a part," since the other part of agriculture was occupied by Soviet farms (*sovkhozy*), which were not only actually but also legally treated as state enterprises.
- 9 Nove (Nove, *The Soviet Economy. An Introduction*, p. 58) notes that "[t]he peasants can sell their surpluses in the free market. This they do on a large scale; for many years, they derived more income from this source than from any other. They also feed their families ... largely from their private [that is, individual] production ..."
- 10 See TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1985 g. Statisticheskii Ezhegodnik* [The National Economy of the USSR v 1985 g. A Statistical Annual]. Moscow: "Statistika," 1986, p. 419. These, however, were official figures and though they probably correctly reflected a trend, they had to underestimate the level of incomes: the Soviet citizenry, including the *kolkhozniki*, usually hid (very successfully) from the state their actual incomes.
- 11 In this respect it is necessary to remember that the Russian pre-Revolutionary commune (*mir*, *obshchina*) differed from the collective farm. While a former was a union of *individual* small peasant households, by and large, independently from each other producing the necessary product (being dependent on the feudal lord), the latter was a union of the *collectivized* member-peasants tied to the state as the feudal lord in general and to the state as the feudal possessor in particular (the collective farm).
- 12 *Capital accumulation* is an increase in capital through savings out of profit.
- 13 "A portion," since another part of the necessary product came from plots of land possessed and cultivated by the collective farmers individually.
- 14 "The amount distributed [is] not wage, it is a residual. It is true that it [is] within the competence of the farm to vary some items of expenditure to some extent; for instance, it could decide to buy less fertilizer, or feed fewer potatoes to pigs, in order to make money and potatoes available ... for *trudodni* [labor units]. However, this only partially modif[ies] the 'residual' essence of peasant rewards for their work. Wage payments are among the first calls on the revenue of any state enterprise in the USSR, or any enterprise in the west. But in collective farms the peasant share is what remains when other requirements have been met ..." (Nove, *The Soviet Economy. An*

Introduction, p. 52). So as long as the distribution of the residual was very irregular and the amount distributed was very low, it was necessary to permit the peasants to use a plot of land and some livestock (*ibid.*).

- 15 C. Bettelheim, *Economic Calculation and Forms of Property. An Essay on the Transition between Capitalism and Socialism*, trans. by J. Taylor. New York: Monthly Review Press, 1975, p. 49.

16 *Ibid.*, p. 73.

- 17 "... *the process of production* continues to have the form of a *process* in which value undergoes a self-increment, since *labor-power* enters into this process as value having the capacity to produce value greater than its own. Consequently, the enterprise is the place where *capitalist social relations of production* are reproduced. [So far so good.] [But, the author continues] the existence of these relations must obviously be radically distinguished from the existence of the *capitalist mode of production*, since this mode (like every mode of production) only exists if an ensemble of *corresponding* social relations exists *simultaneously*. If this is not the case, that is, if the social relations of production characteristic of a given mode of production only *combine with the social relations relating to other modes of production*, then we do not have *a mode of production* but *a form of transition*. [But why? What is a mode of production if not the social relations of production? What is the 'given mode of production' characterized by the capitalist social relations of production? Is it a capitalist mode of production? And is it not true that when there are two modes of production, the nature of society is defined by the dominating mode, that is, by the dominating social relations of *production*?] In the case that we are investigating [finishes the author], if capitalist social relations of production (which are reproduced at the level of the enterprise) combine with *socialist relations of production* (constituted by planned relations that have specific characteristics), then the existence of capitalist social relations of production is not identified with the capitalist mode of production since these relations only constitute elements peculiar to the capitalist socioeconomic system, which are still present in a transitional social formation. When these elements are *dominated* by socialist social relations of production [what is meant here is not *production* but *distribution*], we can say that the *economic base* of socialism exists" (*ibid.*, p. 86).

18 *Ibid.*, pp. 88-89.

- 19 "... a major reason for the existence of the commodity-money relations ... [lies in] the considerable differences in labor ... [so that] an hour of labor of one worker is not yet equal to an hour of labor of another worker. Exactly this fundamental factor is the basis ... for the commodity-money relations under socialism" (I. Kuz'minov, *Ocherki Politicheskoi Ekonomii Sotsializma. Ot Sotsializma k Kommunizmu* [Essays on Political Economy of Socialism. From Socialism to Communism]. Moscow: Izdatel'stvo "Mysl'," 1980, p. 246.

- 20 "... public socialist property [that is, state property] in the framework of the national economy as a whole by no means separates producers but rather, on the contrary, it unites them. National property plays a determining role in the economy. It includes the means of production, a key for the entire social process of reproduction. It is for this reason that both labor of blue- and white-collar workers in the state sector of the economy and labor of peasants in the collective-farms sector function as direct social labor of united producers. Labor under

socialism is no longer private.. This means that there are no contradictions between private and social labor which, under a private property system, leads to commodity production ..." (Y. Kronrod, *Voprosy Ekonomiki* [Problems of Economics], vol. 1, February 1959, p. 56).

- 21 This was well understood by those Soviet commentators (P. Zaoztrovstev, "Socialist Property and Commodity Production under Socialism," *Problems of Economics*, vol. 2, July 1959, p. 57) who pointed out that
 "[t]he difference and even the contradiction between mental and manual labor, ... between a skilled and unskilled, between a difficult and easy work ha[s] never given a rise to commodity production. The ... difference ... existed, for example, in the landlord economy under feudalism, and in slave society but th[is] did not do away with the fact that these were natural [not commodity-producing] economies."
- 22 "In a society of private producers, private individuals or their families pay the costs of training the skilled worker; hence the higher price paid for trained labor power also comes first of all to private individuals; the clever slave is sold for a higher price, and the clever wage earner is paid higher wages. In a socialistically organized society, these costs are borne by society, and to it therefore belong all the fruits ... produced by skilled labor. The laborer himself has no claim to extra payment" (F. Engels, *Anti-Duhring. Herr Eugen Duhring's Revolution in Science*, trans. by E. Burns and C. Dutt. New York: International Publishers, 1976, p. 222). Thus, Engels emphasizes here that in a society where the means of production belong to immediate producers, goods produced also belong to them as members of the collective owner, regardless of the character of labor they used in the process of production. This implies a classless, non-commodity-producing society.
- 23 Y. Kronrod, *Problems of Economics*, vol. 1, February 1959, p. 57.
- 24 "In our opinion, correct are those researchers who conclude that the major reason for the commodity-money relations at the socialist stage lies in the inadequate level of the development of socialized labor. The level of the development of the productive forces and correspondingly the level of the socialization of production under the conditions of socialism are such that direct social labor (which is direct ... because of the existence of public property of the means of production) is not fully direct" (V. Vygodsky, *Ekonomicheskoye Obosnovanie Teorri Nauchnogo Kommunizma* [The Economic Basis of the Theory of Scientific Communism]. Moscow: Izdatel'stvo Politicheskoy Literatury, 1975, p. 283).
- 25 "Under the conditions of socialism, there is no total identity between individual and social labor. [But could this total identity exist in any society? If the identity was understood as socialization of the means of production, then there should have been no problem with it in the Soviet Union: it existed, as the proponents of the view insisted, and hence there was no cause for commodity production. If the identity was understood as the sameness of the individual, particular and general, then it was hopeless to wait for such an identity, and, hence, commodity production is destined to exist forever.] Individual labor must prove its social character [that is, to be demanded by society], prove it by the realization [selling] of the product, by transforming commodities into money. [But why was there a need for the product under "socialism" to be exchanged for money? Was it not true that labor spent on its

production was direct social labor, given the public character of ownership in the USSR, as the proponents of the view claimed?] Under the conditions of socialism, though on the absolutely different base than under capitalism [any proof?], there is, on the basis of public property, a dual character of labor [concrete and abstract] and its product [use-value and value], and there also exists a non-antagonistic contradiction between concrete and abstract labor, between use-value and value. There exists a need to reduce concrete labor to abstract labor, then use-value to value, and so on. But all this means that the whole material content of the Marxist theory of value is completely applicable to the processes which take place in a socialist economy" (ibid.).

- 26 P. Erdesz, "Commodity Production and Value Categories in a Socialist Economy" (Hungarian People's Republic), in *Problems of Economics*, vol. 2, September 1959, p. 58.
- 27 "At the socialist stage, the productive forces cannot ensure the fullest abundance of goods; they are insufficient for labor to become an absolute, vital necessity for all members of society. Many characteristics of the socialist stage of the development of society (including commodity production) are explained by the absence of the goods' abundance ... under socialism. While the goods' abundance does not exist yet, i.e., while there is a disparity between the level of production and needs, there must inevitably exist a non-antagonistic contradiction between society as a whole (or the collective) and its individual members. This is expressed by the fact that public interests can not fully and in all things correspond to private, individual interests ... This contradiction is manifested in production relations. [On the one hand,] [c]onsciously unified producers, with the aid of the socialized means of production, create the total national income. At the same time, the toilers as members of society produce ... a private income [so that] their personal work brings [them] a means of receiving a definite part of the social product created" (ibid.).
- 28 "... the economic ties between socialist countries and with capitalist countries constitute an important factor in the retention and development of commodity-money relations under socialism. The unity of the socialist world requires that the economic interrelations of individual countries based on the international social division of labor be mediated by commodity-money relations. [That is, what had to be proved was simply stated.] The consolidation and development of these ties determine the expansion of commodity-money relations not only between the various countries of the socialist camp, but also within each of these countries" (G. Dikhtyar, "The Need for Commodity Production under Socialism," in *Problems of Economics*, vol. 2, July 1959, p. 64).
- 29 That such an outcome, under the assumption, was not impossible was recognized, for instance, by one of the Soviet writers (A. Pokrytan, *Istoricheskoye i Logicheskoye v Ekonomicheskoy Teorii Sotsializma* [Historicity and Logicality in the Economic Theory of Socialism], cited in O. Ozhereliev, *Mekhanizm Deistviya Osnovnogo Ekonomicheskogo Zakona Sotsializma* [The Mechanism of the Functioning of the Basic Economic Law of Socialism]. Leningrad: Izdatel'stvo Leningradskogo Universiteta, 1979, p. 82):

"Assume ... that the owner of labor power under socialism is society ... in this case it would turn out that communist society is not an association of free individuals but an organ standing above it and

disposing of individual capabilities of members of society independently of their personal will.”

- 30 M. Atlas, I. Zlobina, et al, eds., *Politicheskaya Ekonomiya Sotsializma. Uchebnik* [Political Economy of Socialism. A Textbook], 1962, p. 247.
- 31 I. Kuz'minov, *Ocherki Politicheskoi Ekonomii Sotsializma. Voprosy Metodologii* [Essays on Political Economy of Socialism. The Problems of Methodology]. Moscow: Izdatel'stvo "Mysl'," 1971, p. 341.
- 32 P. Sweezy, *Post-Revolutionary Society*. New York: Monthly Review Press, 1980, pp. 139, 140.
- 33 The reader understands, of course, that labor power we are talking about here belonged only to the worker in the formal state sector of the Soviet economy where the worker was relatively free to dispose of his labor power. This cannot be said about the *kolkhoz* sector and of the *gulag* labor (in labor camps).

PART VI

THE THEORETICAL FRAMEWORK OF THE STALINIST MODEL REVISITED

Chapter 3

Our View of the Nature of Soviet Commodity Production¹

Three major actors performed on the scene of Soviet society: the state, the enterprise and the worker.² To understand them and their relations to each other is to solve the problem of the character and form of Soviet commodity production.

The Soviet State as an Economic Organism

The Soviet state represented a unity of two particular states: the *political* state and the *economic* state. The analysis will concentrate on the latter.

The peculiarity and uniqueness of the Soviet economic state lay in the fact that it not only belonged to and acted within society in a broader sense as a socioeconomic formation³ but more relevantly within society in a narrow sense as a mode of production. This active, independent and organic involvement in the economic affairs of Soviet society, that is, as a mode of production, was manifested in the following way.

From the point of view of the social division of *labor*, the Soviet economic state was the organizer, supervisor and controller of the process of production and distribution of goods and services.⁴ From the point of view of the social division of *property (ownership)*, the Soviet economic state was the proprietor of the majority of the means of production and the goods and services produced.⁵

The relationship between the social division of labor and the social division of property (ownership) was not simple, immediate and direct. It was very complex, since the necessity of these divisions within *society* dictated the need for their division within the *state* as well. In other words, the *social* division of labor and ownership remained abstract and general unless it was concretized at the level of the *functional* division (possession).

We already know from Chapter 1 of Part I that there were several levels of the functional division of labor and of the functional division of property within the Soviet economic state. We believe that, for our purposes, it would be helpful to elaborate on this theme one more time.

First, the *horizontal* differentiation, or functional differentiation across the board. This included: (a) a territorial differentiation (urban and rural, along the economic-territorial line, and along the

national-territorial line); (b) an economic differentiation (economic-sectorial: industrial, agricultural, transportation and communications, construction, wholesale and retail trade, procurement, the material and technical supply, etc.; intra-economic (branches): departmental within industrial production (production of the means of production and production of the articles of consumption), intra-industrial, intra-agricultural, and so on.

Second, the *vertical* (pyramidal, from top to bottom) differentiation: (a) the administrative-territorial subordination (all-union, federal republic, regional, provincial, municipal, at the level of districts and settlements); (b) the administrative-economic subordination (ministerial, departmental and at the level of enterprises).⁶

Particular functions of the economic state at the level of horizontal economic activities are studied by particular branches of economics: industrial, agricultural, commercial, health, education, etc. The goal of this book, however, is the examination of commodity production as it existed and operated not in any particular branch of the Soviet economy but in general, as a whole.

In our opinion, such an analysis can be made if we look at the Soviet economic state from the point of view of its vertical differentiation. Such an approach would provide us with a general picture of Soviet commodity production without obliging to dig into details. But in what direction should we go? For clarity of the analysis, we will proceed from the bottom where the most direct relations of commodity production in Soviet society could be found: from the relations at the enterprise level.

The enterprise as an elementary-concrete form of the functioning Soviet economic state

The enterprise⁷ was a basic and elementary form of the functioning Soviet economic state in two senses.

First, as a *unit of production*. In such a capacity, it served as a concrete territorial place where the means of production were united with labor, where the actual process of production took place. A characteristic feature of the enterprise as a unit of production was its spatial, territorial isolation or separation within the Soviet economic state as a part of the productive forces.

Second, as a *unit of social relations*. Here the relations of production which prevailed within the existing mode of production were actualized and concretized. Here (a) from the point of view of the *functional* division of *property*, the Soviet economic state as the abstract, general owner of the means of production displayed its concrete, particular, spatial character; (b) from the point of view of the *functional* division of *labor*, the Soviet economic state as an abstract, general functionary of the process of production and

distribution performed its particular, concrete role of the organizer, supervisor, and controller.⁸

The enterprise as a unit of productive forces (labor, capital, land, technology), on the one hand, and of the relations of production (who owns what in the process of production) could actually function only if it was given for its use (possession) a portion of society's means of production. This portion then was put in motion by labor. Under these conditions, the separation and isolation of the enterprise manifested itself as its independence in such a way that the state-general owner was converted into the state-particular possessors, or into the enterprises.⁹

Labor power within Soviet production

Soviet production process involved a combined, cooperative and aggregate labor of those producers dependent on the state who gathered together in each machinery-operating unit (factory, enterprise). The latter could not function without some authority, that is, without a special kind of labor: the labor of management and supervision.¹⁰

Under the specific Soviet conditions, the enterprise as a managerial and supervisory body was, of course, the authority, yet an authority of a special type. The social division of labor between the labor of management and supervision, on the one hand, and the labor of subordination, on the other, was framed within the social division of property (ownership) in a roundabout way by the use of which the Soviet economic state exercised its property rights not directly but through the enterprise which was the functional owner, or the possessor.

On the face of it, it seems that the ownership relations and the relations of production were separated from each other in a sense that property relations took place at the level of the state while relations of production occurred within the enterprise. But this was not the case.

The relations of ownership *and* possession of the means of production were relations between the state and the enterprise only. They did not involve the labor of subordination. The latter played its role only when it confronted the labor of management and supervision within the enterprise. And the enterprise, remaining a *possessor* of the means of production with regard to the state, performed as an *owner* of the means of production with regard to the labor of subordination.

From this follows that the ownership relations and production relations were not separated from each other at the level of the enterprise where they confronted the labor of subordination. They, however, were separated from each other when the enterprise "stood against" the state.

For this reason, *from the point of view of the labor of subordination*, the state and the enterprise were one and the same, so that the duality between the ownership and possession did not exist. Thus, assuming that the state revealed itself not through numerous enterprises but through just only one enterprise, let us investigate the relations between the state-enterprise and labor.

Full commodity-production relations: the state and labor

Certain motives compelled the state and labor to enter into relations with each other. Soviet society, defined from a narrow economic point of view, that is, as a mode of production, in its mature period was based on the large-scale industry, the very foundation of which was production of a part of the means of production, machinery, by the means of machinery. Thus, the Soviet Union was an industrial country¹¹ which put a special emphasis on heavy industry, that is, on production of the means of production.¹²

To continue this process of accumulation, the state needed a favorable and stable social environment: the accumulation of the means of production had to be framed within the system in which the relations between the state as the owner of the means of production and the supervisor and manager of the production process, on the one hand, and the worker as the owner of labor power providing his services of the labor of subordination, on the other, could be reproduced. This is because as the state needed the labor of subordination, the latter needed the first as well.¹³

However, the peculiarities of the Soviet mode of production were such that there was no place in it for a significant individual private property (ownership) of the means of production. Because of this, everyone was compelled to work: those who performed the functions of laborers and those who controlled the process of production as managers. But the social division of property manifested itself in such a way that the two types of labor occupied different positions within production. The relations between the two were mediated by the state's ownership of the major means of production.

So "if under these conditions the relationship between labor power and means of production is expressed through a *wage relationship*, this means that the relations of production are capitalist relations ..."¹⁴

Hence, the relations between the Soviet economic state and the labor of subordination within the process of production were as follows. First, they were *full commodity-production relations* since all the conditions necessary and sufficient for commodity production were satisfied: the social division of labor, the social division of property (ownership) and exchange (between the worker as the owner of labor power and the manager as a functional owner of the means of

production). Second, they were *capitalist commodity-production relations* because the accumulation process was conditioned by the wage-labor relations. But these were capitalist commodity-production relations of a special type: they were *state capitalist commodity-production relations*.

Partial commodity-production relations: between the state enterprises

To analyze Soviet production from a more realistic point of view, let us return to a world where the Soviet economic state revealed itself through more than one enterprise. *Strictly speaking*, while the relations between the state-single enterprise and the labor of subordination *within the state enterprise* were relations of *production*, the relations *between the state enterprises* were relations of *exchange*. Nevertheless, since the interconnections between the separate enterprises occurred within the *economic* state as an aggregate of *productive* units, the interrelations between the individual enterprises took place completely in the *sphere* of production:

... it is clear, firstly, that the exchange of activities and abilities which takes place within production itself belongs directly to production and essentially constitutes it. The same holds, secondly, for the exchange of products, in so far as that exchange is the means of finishing the product and making it fit for direct consumption. To that extent, exchange is an act comprised within production itself.¹⁵

But what are these products which, in order to be made ready for direct consumption, must be finished within the production process? These are intermediary goods, one of the major components of which are the means of production. We know that, under the Soviet conditions, within the state sector of the economy, the intermediate goods, including the means of production, were owned by the state, not by its individual enterprise. Thus the question is: what form did the means of production (and only they interest us here) take, when they were transferred from one enterprise to another?

To answer this question, we need to recall again the separation between the state as the owner and enterprise as the possessor of the means of production. But, since possession is functional ownership, the relations between the state enterprises had to be *partial* commodity-production relations. In justification of this statement, the following might be pointed out.

First, the social division of property (ownership) was absent. Second, this implies that the means of production in their *value* form were produced and exchanged as commodities. However, in their *physical* form (as *use-values*) they remained within the property domain of one and the same owner, the state.¹⁶

Third, these partial commodity-production relations were *subjugated* to the principal relations between the state-owner of the means of production and the labor of subordination-owner of labor power. The relations between individual state enterprises were *secondary* in the sense that they provided a necessary framework for the actual, primary, full, total and general commodity-production relations between the state and the labor of subordination. They were, in this respect, *preparatory*, *possible* commodity-production relations giving way to the *actual*, *full-scale* commodity-production relations in which (a) the state-proprietor of the means of production confronted the worker-proprietor of labor power in the process of production, and (b) the state-owner of the articles of consumption sold them to the Soviet population, which included both the labor of subordination and the labor of management and supervision in their roles of individual consumers.

An additional elaboration on the ongoing elaboration

Let us elaborate again. Under the specific Soviet conditions between production and final consumption there stood the state ownership of the means of production and the articles of consumption. The aim of production of the *articles of consumption*, under these circumstances, was their exchange for the monetary means of the population. To be exchanged, these consumer goods first, had to be produced, that is, nature had to be transformed by the instruments of labor (an active portion of the means of production, such as machinery and equipment). However, the latter, together with the objects of labor (raw materials, or a passive portion of the means of production), were neither sold nor bought, since they were owned by one proprietor, the state, and possessed by the enterprise, one of the possessors.

But what was important in Soviet production whose connection with final consumption was mediated by exchange, was not the product *per se*, in general but a *particular* product. The *immediate* purpose of the Soviet economic state as the owner of the product was the enlargement of the physical, natural amount of the *means of production*, of their *machinery-equipment* part through a continuous, non-stopping process of production and circulation of the *surplus product*. This could be guaranteed only if there were enough consumer goods for both the labor of subordination and the labor of management and supervision. The only way to “provide” *individual consumption* lay in the exchange of the articles of consumption as commodities. But this means that, *while Soviet society as a whole produced in order to consume, the Soviet economic state provided individual commodity consumption in order to produce and reproduce*,¹⁷ and, first of all, the means of production.

If this feature of Soviet commodity production of state capitalism, which it shares with classical commodity production of

mixed capitalism and for which the realization of the surplus product served as a means, as a moment in its extended reproduction,¹⁸ is understood, then the following becomes clear from the *use-value* point of view. First, the *instruments of labor* and *objects of labor* intended for production of the *means of production* were not commodities, since they remained the state property despite their circulation between different state enterprises. Second, for the same reason, the *instruments of labor* aimed at production of the *articles of consumption* were not commodities. Third, with regard to the *objects of labor* which were used for production of the *articles of consumption*, they might be considered as *indirect* commodities, in so far as they transformed their natural, physical appearance, thus becoming consumer goods for exchange by the economic state.¹⁹

It can be concluded that the Soviet means of production were *classical* commodities in their relations as *values* (or as exchange-values). But they were *not* commodities in their relations to each other as *use-values*.

And that is the way it should have been. When there is only one owner of the means of production (the state), and preserving and increasing the amount of the means of production is the immediate motive of state activities, such activities serve, nevertheless, merely as the means for the expansion of the system of the state property as a whole. For, the more the means of production are available in the system, the stronger and bigger the system becomes.

The personified state: the Soviet bureaucracy

So far we have examined the three participants as the *objective* players of the Soviet drama by asking “*what* the participants were.” The time has now come to ask the next question (which was, incidentally, has already been asked and briefly answered in chapter 1 of Part I): “*Who* were the participants of the Soviet commodity-production relations?”

It was understood from the beginning that the personified labor of subordination was nothing else but the classical blue- and white-collar worker. Let us now elaborate on the personal character of the enterprise and the economic state.

The enterprise, we recall, was a concretized and functioning state. Hence, at the *subjective* level, the enterprise, which was the *actual* supervisor and manager of the accumulation process, can be understood by investigating the *subjective, animated* economic state, which was the *general* owner and functionary of the process.

By changing the stress from the question “*What* was the Soviet economic state?” to the question “*Who* was the Soviet economic state?”, we are able to transform the state deprived of a personal character into the personalized economic state.

But in converting the objective state into a subjective one, we are confronted with the following problem: Is it true that who says "state" says "bureaucracy"? This is not an unnecessary question. On the contrary, the question is very important, since its resolution may lead us to solving the second problem: If the Soviet Union was a state capitalist country, who was the capitalist?

The Soviet economic state can be looked upon from two different angles: (1) as an *instrument*, or *tool* of economic activities within the mode of production, and (2) as a dominating and ruling *activist* within the mode of production. Because "the state as a thing ... is a passive tool in the hands of a class or fraction; ... the state as a subject ... as something absolute ... is related ... to its own will ..."²⁰

For this reason, the *personalized* Soviet economic state had a dual character. On the one hand, it was an *apparatus*, or a strictly technical, non-administrative personnel serving as an instrument, a mechanism for the labor of management and supervision in its relation to the labor of subordination within the mode of production in order to preserve and enhance the latter.²¹

Thus, the apparatuses occupied an intermediate position between the labor of management and supervision and the labor of subordination: (1) in its relation to the labor of subordination, the labor of the economic apparatuses performed as the labor of management and supervision; (2) in its relation to the labor of management and supervision, the labor of the economic apparatuses played a role of the labor of subordination.

On the other hand, the personalized economic state may be conceived as the *bureaucracy*, or a collective of administrative officials having power of their own and using this power through the economic apparatuses. The bureaucracy, in other words, stands for an *aggregate subjective labor of management and supervision dominating* within the mode of production.²²

However, the subjective Soviet economic state could not be simply reduced to the bureaucracy in a regular sense of the word. The Soviet bureaucracy, unlike its mixed-capitalist counterpart, was more than that. Unlike its mixed-capitalist counterpart, the Soviet bureaucracy, as we already know: (1) within the social division of property, in its totality, as an aggregate, owned the means of production; (2) within the social division of labor, managed, supervised and controlled the process of production and circulation of commodities; (3) entered into wage-labor relations with workers who performed a direct function of production of commodities. Thus, the Soviet bureaucracy became a *capitalist class*.²³

As in other owning classes, the proof that it [was] a special class lies in its ownership and its special relations to other classes. As defined by Roman law, property constitutes the use, enjoyment, and disposition of material goods. The ... bureaucracy use[d],

enjoy[ed], and dispose[d] of nationalized, that is, bureaucratized property.²⁴

From chapter 1 Part I we know that the Soviet bureaucracy, while constituting a Soviet type of the capitalist class, was far from being monolithic. It was, as we remember, differentiated horizontally (due to the social division of labor) and vertically (due to the functional division of property into ownership and possession).

Thus, whereas the bureaucracy *in general* dominated and ruled at the same time, the functions of domination and rule were the business of different factions of the bureaucracy *in particular*. First, the *petty bureaucracy* (the management of small and middle-sized enterprises of a local significance) and a portion of the *middle bureaucracy* (the management of the large-scale enterprises of a republic or all-union significance and of the middle branches of the Soviet economy) dominated the mode of production: by ruling *directly*, they executed the direct organization of the extraction of the circulating surplus product for the maintenance of the class of the bureaucracy as a whole within the process of capitalist accumulation. Second, the other layers of the bureaucracy [a part of the middle bureaucracy, the *big bureaucracy* (the management of the branches of the economy at the level of the federal republics) and *oligarchic bureaucracy* (the management of the top central branches of the Soviet economy)] ruled, or *indirectly* dominated the mode of production by participating in the process of capitalist accumulation through the lower layers of the bureaucracy.

But how did the matter stand with a bureaucrat, or the living unit of the bureaucracy, that is, with the *individual personification* of the administrative part of the state? Was the single bureaucrat personally a capitalist-owner? Is it not true that, while the bureaucracy as a whole was the owner of the means of production, the individual bureaucrat was not? Does that not mean that the Soviet Union represented a case of capitalism without capitalists?

A solution to the problem lies in the special relations within the bureaucracy as a class. There: (1) *fractions* of the bureaucracy related to the *bureaucracy in general* as possessors to the owner; (2) *fractions* of the bureaucracy related to *each other* as possessors to possessors within the same state ownership; (3) the *individual* bureaucrat related to a *fraction of the bureaucracy* as a single possessor to a collective, aggregate possessor; (4) *individual* bureaucrats related to *each other* as single, separate possessors.

In other words, while the bureaucracy as a *whole* was a personification of *capital-property*; as a *fraction*, it was a personification of collective, aggregate *capital-function*; the *individual* bureaucrat was a specific Soviet type of the individual capitalist. He possessed a portion of the means of production. He dominated and ruled the process of accumulation. But he neither owned the means of production nor did he have the inheritance

rights on the wealth produced under his control and management. These rights were enjoyed by the bureaucracy in general.

Individual bureaucrats performed not only in the sphere of production and circulation of commodities as functioning and possessing capitalists. They, as the rest of the population, were also individual consumers of the articles of consumption. In this capacity, they appeared as *mere consumers*.²⁵

Marx's comment on this function of individual capitalists remains valid with respect to Soviet individual bureaucrats:

The capitalist himself only holds power as the *personification of capital*. (In Italian bookkeeping this role of his as a *capitalist*, or personified capital, is even always contrasted with him as a mere person, in which capacity he appears only as a personal consumer and debtor of ... capital).²⁶

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Notes to Chapter 3: Our View of the Nature of Soviet Commodity Production

- 1 This chapter is based on E. Raiklin and C. Gillette, "The Nature of Contemporary Soviet Commodity Production," in *Socioeconomic Issues of Today's Soviet Union*. Bradford, West Yorkshire, England: MCB University Press Limited, Volume 15, Numbers 5/6, 1988, pp. 102-114, 128-130.
- 2 Since the task of this chapter is to present our position on the problem of Soviet commodity production in its state capitalist form, we will disregard the collective agricultural farmer (*kolkhoznik*) as a subordinated economic agent in Soviet feudal agricultural relations.
- 3 That is, the Soviet state served simultaneously as the *superstructure* (the political state) and as the *basis* (the economic state) of the Stalinist socioeconomic model.
- 4 Here is a comment made by a Soviet political economist (V. Chertkovts, ed., *Problemy Razvitiya Sotsializma v Politicheskoy Ekonomii* [The Problems of Developed Socialism in Political Economy]. Moscow: Izdatel'stvo "Nauka," 1977, p. 136):

"The fact that the state undertakes the function of management (planning) of production on the national level is essentially an execution by the socialist state of the functions of the public economic authorities the very necessity of which arises without the state and independently of it. But by undertaking these functions, the socialist state objectively finds itself 'to be involved' in the system of ... relations of production, becomes an economic 'agent'. Remaining a political institution, it [the state], at the same time, acquires the features of a direct economic institution, as though it intersperses with ... relations of production. The socialist state carries out not only the administrative-legal managerial functions [in its political capacities] but also participates in the technical and operative control of production by performing as the aggregate manager, as the immediate organizer of the technological and labor processes. This role is performed by the state through Gosplan [the State Planning Committee] ... economic ministries, the management of enterprises ... and other organizations."

- 5 "In the Soviet Union ... about 90 percent of the principal productive funds [fixed physical capital (such as, for instance, factories and mills, etc.) used to produce material goods] and the most part of the unproductive funds [fixed physical capital (such as, for instance, the housing and communal services, banks, etc.) not used to produce material goods] are state property. The state owns factories and mills, banks, all types of the transportation system (railroads, water and air transport, the most part of auto transport), the means of communication, the most part of commercial enterprises, of the housing and communal services, the main part of the institutions of culture and arts. Land and its entrails, the woods and waters are nationalized in the USSR" (G. Kozlov, ed., *Politicheskaya Ekonomiya. Sotsializm–Pervaya Faza Kommunisticheskogo Sposoba Proizvodstva* [Political Economy. Socialism, the First Phase of the Communist Mode of Production]. Moscow: Izdatel'stvo "Mysl'," 1974, p. 46).
- 6 For example, on January 1, 1986 state property was dispersed among 6,131 cities and urban establishments, on the one hand, and 42,312 village soviets, on the other. On this date, the state property, for the purpose of the actual functioning, was subdivided within 129 territories and 3,224 districts, including 662 city districts. There were 15 federal republics, 20 autonomous republics and 18 autonomous regions where the state property was concentrated on January 1, 1986 (TsSu SSSR, *Narodnoye Khoziaistvo SSSR v 1985 g. Statisticheskiiy Ezhegodnik* [The National Economy of the USSR in 1985. A Statistical Annual]. Moscow: "Finansy i Statistika," 1986, p. 11).
- 7 "The concept of 'enterprise' characterizes the form of relations that are established between producers and the means of production within a particular form of the unit of production" (C. Bettelheim, *Economic Calculation and Forms of Property. An Essay on the Transition between Capitalism and Socialism*. New York: Monthly Review Press, 1975, p. 87).
- 8 "The enterprise is a component part of the relations of production in their connection with the productive forces . . . which is a result of the social division of labor. At the same time ... the enterprise emerges from the dialectical relation of a part and the total, the general and an individual. This means that the enterprise is a part of the social process of reproduction with all the features of the whole" (S. Gerich, *Upravleniye Sel'skokhoziaistvennymi Predpriyatiyami I Uchetno-Ekonomicheskaya Informatsiya* [The Management of the Agricultural Enterprises and the Accounting-Economic Information]. Moscow: "Kolos," 1975, p.5).
- 9 "Every unit of production forms a *center* for the appropriation of nature. Within such a center, different labor processes are closely articulated; thus, every unit of production actually has the capacity to utilize its means of production, which it consequently *possesses*.

A unit of production only exists (i.e. can only function) if it *actually disposes of* its means of production and can thus determine the *internal conditions* under which they will be used" (Bettelheim, *Economic Calculation and Forms of Property. An Essay on the Transition between Capitalism and Socialism*, p. 111).

But it must be stressed that the enterprise's independence from the state was of a relative character:

"A state enterprise belongs to the state. From this apparently tautological statement of the obvious flow a number of consequences which are perhaps less obvious. In essence and in law, the enterprise is a

convenient unit for the administration of state property. It is a juridical person, it can sue and be sued, but it *owns* none of its assets. The director and his senior colleagues ... are appointed by state organs to manage the state's assets for purposes determined by the state. This is why there is no charge made for the use of the enterprise's capital, since it belongs to the state anyhow. This is also why the state is entitled to transfer the enterprise's profits to the state budget, save for that portion which the state's regulations or *ad hoc* decisions permit the enterprise to retain. That is why it is within the power of state organs to take away any of the enterprise's assets, if they think fit, without financial compensation" (A. Nove, *The Soviet Economy. An Introduction*. New York: Frederick A. Praeger, 1961, pp. 30-31).

- 10 "The labor of supervision and management is naturally required wherever the direct process of production assumes the form of a combined social process, and not of the isolated labor of independent producers.
... all labor in which many individuals cooperate necessarily requires a commanding will to coordinate and unite the process, and functions which apply not to partial operations but to the total activity of the workshop ... This ... job ... must be performed in every combined mode of production" (K. Marx, *Capital*, Volume 3: *The Process of Capitalist Production as a Whole*, ed. by F. Engels. New York: International Publishers, 1977, p. 383).
- 11 Let us take the year of 1985 before M. Gorbachev came to power, that is, before the Soviet reforms began. In 1985, the share of the industrial product alone in GNP was about 61.1 percent (compiled from TcSU SSSR, *Narodnoye Khoziaistvo SSSR v 1985 g. Statisticheskyy Ezhegodnik* [The National Economy of the USSR in 1985. A Statistical Annual]. Moscow: "Statistika," 1986, p. 45). The corresponding share would have been almost 75.7 percent had construction, transportation and communications been included in industrial production (*ibid.*).
- 12 In 1985, production of the means of production, or the so-called group "A" comprised 74.8 percent of the whole industrial production, as compared to 25.2 percent of the production of the articles of consumption, or the so-called group "B" (*ibid.*, p. 96). Moreover, in 1978, for example, as compared to 1913, while all the industrial production rose by 152 times, production of machinery, including the metal-working production, grew by 1,882 times (TcSU SSSR, *Narodnoye Khoziaistvo SSSR v 1978 g. Statisticheskyy Ezhegodnik* [The National Economy of the USSR in 1978. A Statistical Annual]. Moscow: "Statistika," 1979, p. 119).
- 13 As far as the worker is concerned, he "enters into the employment agreement because social conditions leave him no other way to gain a livelihood" (H. Braverman, *Labor and Monopoly Capital. The Degradation of Work in the Twentieth Century*. New York: Monthly Review Press, 1974, p. 53).
- 14 P. Sweezy and C. Bettelheim, *On the Transition to Socialism*, 2nd ed. New York: Monthly Review Press, 1972, p. 59.
- 15 K. Marx, *Grundrisse. Foundations of the Critique of Political Economy*, trans. by M. Nicolaus. New York: Vintage Books, 1973, p. 99.
- 16 It must be clarified here that the *double* role played by the means of production when they were a subject of relations between the state enterprises applied only to that portion of the means of production

which constituted *fixed* capital (machinery, buildings and equipment serving more than one year). The material part of *circulating* capital (raw materials) was excluded.

- 17 On the *Ricardian*-type of capitalism *exercised* by the Soviet Union, see, for instance, E. Raiklin, "From a Ricardian to a Marxian Ranking of Economic Goals and Means (a Case of the Soviet Union)," *International Journal of Social Economics*, Volume 19, Numbers 7/8/9, 1992, pp. 90 - 107.
- 18 In the Marxian scheme, "extended reproduction" is a dynamic model of the economic growth and development, while "simple reproduction" is its static model (see K. Marx, *Capital*, Volume 2: *The Process of Circulation of Capital*, ed. by F. Engels. New York: International Publishers, 1977, pp. 392-523).
- 19 We foresee that the reader may lose his temper by asking himself: Why does the author always talk only about *individual* consumption? Is it not widely known that, besides individual consumption, there existed a vast "field" of *social* consumption in the Soviet Union and is it not true that this last phenomenon was what distinguished the Soviet "socialist" country from the capitalist world?

On this, the following can be said. First, the goal of this Part is to discover commodity production, its nature and form in Soviet society. This rather narrow aim may be achieved if we concentrate only on such aspects and economic relations of the Soviet life which directly lead to the fulfillment of the purpose. Second, according to the Soviet official statistics, the share of public consumption, which included pensions, stipends, benefits, medicine, and other expenses not paid individually, for instance, in 1978 comprised only 22.7 percent of the whole income of Soviet industrial workers while about 77.3 percent of the workers' total income was earned as wages and payments for different services (see TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1978 g. Statisti-chesky Ezhegodnik* [The National Economy of the USSR in 1978. A Statistical Annual], p. 391). Third, the source of Soviet public consumption lay in the distribution and redistribution of the national income, i.e., in the secondary factor as compared to the state-capitalist relations within which individual consumption was of a primary nature.

- 20 N. Poulantzas, *Classes in Contemporary Capitalism*. London: Verso, 1979, p. 161.
- 21 "The principal role of the state apparatuses is to maintain the unity and cohesion of a social formation by concentrating and sanctioning class domination, and in this way reproducing social relations, i.e., class relations ... the economic apparatus ... as the centre of the appropriation of nature, materializes and embodies the economic relations ... State apparatuses do not possess a 'power' of their own ..." (N. Poulantzas, *Classes in Contemporary Capitalism*, pp. 24-25, 26).
- 22 The reader senses here that we are modifying our stand on the concept of the personified state from that we held in chapter 1 of Part I of the book. Over there the animated Soviet state was looked upon only from the point of view of its administrative functions, that is, only as the bureaucracy, period.
- 23 "Classes are large groups of people differing from each other by the place they occupy in a historically determined system of social production, by their relation ... to the means of production, by their role in the social organization of labor, and, consequently, by the

dimensions of the share of social wealth of which they dispose of and the mode of acquiring it" (V. Lenin, *Collected Works*, trans by G. Hanna, 4th ed., Volume 29: *A Great Beginning*, Moscow: Progress Publishers, 1974, p. 421).

- 24 M. Djilas, *The New Class. An Analysis of the Communist System*. New York: Praeger, 1967, p. 44.

- 25 Yet the mere belonging to the capitalist class brought to individual bureaucrats many advantages over blue- and white-collar workers, or, in a broader sense, over the non-bureaucratic part of the Soviet population. In this respect A. Sakharov (A. Sakharov, *My Country and the World*, trans. by G. Daniels. New York: Alfred A. Knopf, 1976, pp. 14, 25, 26) wrote in the 1970s:

"... contemporary Soviet society ... [which] can be concisely characterized as a society based on state capitalism; that is, a system differing from contemporary capitalism of the Western type by virtue of complete nationalization, a Party-State monopoly of economic affairs ... lacks social justice. Although the appropriate sociological studies either have not been carried out in our country, or have been classified as secret, it may be affirmed that as early as the 1920s and 30s—and definitely in the postwar years—a special Party-bureaucratic stratum was formed and could be discerned. This is the *nomenklatura*, as its members call themselves ... This elite has its own life style, its own clearly defined social status—"bosses" and "chiefs"—and its own way of talking and thinking. The *nomenklatura* has in fact an inalienable status, and has recently become hereditary. [Note: it is not the means of production which became hereditary but the position within the bureaucracy.]

Thanks to a complex system of covert and overt official privileges, along with contacts, acquaintanceships, and mutual favors—and also thanks to their high salaries—these people are able to live in much better housing, and to feed and clothe themselves better (often for less money in special 'closed' stores or for currency certificates, or by means of trips abroad—which, under Soviet conditions, constitute the highest award for loyalty).

Pursuant to a special government decree, all 'ordinary' citizens have been resettled from midtown Moscow. They have been relocated in new suburban areas with standard apartment buildings and provided with individual flats for each family (which are cramped by Western standards but much better than the Moscow communal apartments), and they are very glad about it. Meanwhile, the old private houses and other monuments of old Moscow are being ruthlessly torn down to make way for the construction of luxury buildings to be occupied by a carefully selected elite. All utilities and services for these buildings must meet the highest standards. Not only that, but a special canal is being constructed to supply particularly pure water. (It is said that this canal is very undesirable from an economic point of view.) Around Moscow there is a ring of special luxury dachas, each surrounded by high, impassable fences. This is the chief bastion of the triumphant *nomenklatura*—the symbol of power and prosperity."

- 26 K. Marx, *Theories of Surplus Value*, Part I, ed. by S. Ryazanskaya, trans. by E. Burns. Moscow: Progress Publishers, 1969, p. 389.

PART VII
THE LAST STAGE IN THE DEVELOPMENT OF THE SOVIET
SOCIOECONOMIC SYSTEM: THE STALINIST MODEL IN
OPERATION
(1940-1991)

In Part VI we built the theoretical foundation of the Stalinist model as the last stage in the development of the Soviet socioeconomic system. An attempt was made to show that the fundamental feature of the model was its state-capitalist commodity-production (*market*) relations.

Based on such a foundation, in this Part we will take another step. We will move from a *pure* theoretical analysis of the *model* to the evaluation of the major components which comprised it. We stress “model,” for, although the object of our investigation will no longer be an *abstract* structure, neither will it be a narrative of *concrete* ministries, enterprises, their organizational structure, and their performance. It will be a *mixture* of both, the abstract and the concrete.

The major elements of activities of any modern capitalist system are levels of its *production*, *consumption* and *other socioeconomic* indicators (housing, medical and educational services, etc.), the *distribution of income and wealth*, the *market structure*, *investment* (and, therefore, *profits* and *rates of interest*), *unemployment*, *inflation*, *money*, *finances*, *budgets*, *international economic relations*, etc. Using concrete statistical data, we will attempt to evaluate accomplishments of these segments of the model (although not necessarily in the same order).

For this purpose, we need to utilize Soviet statistics (together with foreign data when possible) where problems of reliability, accessibility, and interpretation are well known.¹ Being aware of these problems² but not entering into any polemics with the official Soviet statistics, let us, nevertheless, go forward.

But first, a clarification. When a comparison is needed, the following reference-points will be taken. First, various periods in the country’s development: 1913, the last pre-war (pre-WWI) year, which was the year of the peak of the socioeconomic development of Czarist Russia; 1928, the year of the beginning of building of the Stalinist model of the economic development; 1940 (sometimes), the last pre-war (pre-WWII) year, which was the year of the completion of building of the model of real “socialism”; and, finally, years after 1953, the year of the functioning and evolution of the Stalinist model but now without Stalin.

Second, corresponding achievements of various countries of the world. But the main among them will be the United States. This

was the country, with which the Soviet Union, during all the post-WWII years, had been in a state of “cold war,” that is, in a state of the ideological opposition, supported by the arms race and the economic competition.

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Notes to Part VII: THE LAST STAGE IN THE DEVELOPMENT OF THE SOVIET SOCIOECONOMIC SYSTEM: THE STALINIST MODEL IN OPERATION (1940-1991)

- 1 These issues are discussed in A. Nove, *The Soviet Economy: An Introduction*. New York: Frederick A., Praeger, Publishers, 1961, pp. 308, 310; and in A. Bergson, *The Economics of Soviet Planning*. New Haven, London: Yale University Press, 1964, pp. 207 - 208.
- 2 We have already touched on this problem in footnote #9 of Chapter 3 of Part V of the book.

PART VII
THE LAST STAGE IN THE DEVELOPMENT OF THE SOVIET
SOCIOECONOMIC SYSTEM: THE STALINIST MODEL IN
OPERATION
(1940-1991)

Chapter 1
Soviet Production¹

Total production

Production of some major industrial and agricultural items

Table 1.1 presents comparative data illustrating the place in the world and in Europe in terms of industrial and agricultural production of some major items that Czarist Russia occupied in 1913 and the Soviet Union in 1986:

Table 1.1
Czarist Russia of 1913 and the Soviet Union of 1986 in the World and
Europe: Economic Comparisons²

Indices	1913		1986	
	In the world	In Europe	In the world	In Europe
Industrial production	5	4	2	1
Electric power	8	6	2	1
Oil (including gas condenser)	2	1	1	1
Gas	negligible amount		1	1
Coal (commodity)	6	5	3	1
Cast iron	5	4	1	1
Steel	5	4	1	1
Iron ore	5	4	1	1
Coke	4	3	1	1
Output of chemical industry	2 ³	1
Mineral fertilizer	1	1
Sulphuric acid	2	1
Output of machine-building	4	3	2	1
Tractors (in total engine capacity)	no production		1	1
Prefabricated ferro-concrete structures, parts and other items	no production		1	1
Cement	5	4	2	1

Timber removal	2	1	2 ³	1
Saw-timber	2	1	1	1
Woollen cloth	1	1
Footwear	1	1
Grain crops and leguminous plants	3	1	3	1
Cotton-wool	5	1	2	1
Sugar beet (factory-made)	1	1	1	1
Sunflower	1	1	1	1
Potatoes	1	1	1	1
Milk	1	1
Eggs (weight)	1	1
Granulated sugar (from domestic raw materials)	4	2	1	1

Here the achievements of the Soviet Union were very impressive. By 1986, a relatively backward country in former times became a mighty world industrial and to a certain degree agricultural power. In all production indicators, important in terms of industrialization,⁴ it stood in first place in Europe, and in 60 percent of all production indicators, in the world. In terms of these indicators, whenever the USSR occupied second place it was by and large lagging behind the United States.

Taking into account that these were very important indices of the industrial and agricultural development, it can be summed up that by the end of the 1980s as a result of industrialization and collectivization the Soviet Union had been able to leave behind the most developed capitalist countries of the world, with the exception of the United States.

Output of the main kinds of industrial and agricultural production by ten major countries-producers

These indices are shown in Table 1.2:

Table 1.2
Some Indices of Industrial and Agricultural Production by Ten Major
Countries-Producers,
1960 and 1986⁵

1960			1986		
Place	Country	Output	Place	Country	Output
Electric power, bln. kilowatt-hour					
1	USA	892	1	USA	2,700
2	USSR	292	2	USSR	1,599
3	Great Britain	137	3	Japan	680
Oil (including gas condenser), mln. tons					
1	USA	348	1	USSR	615
2	Venezuela	149	2	USA	440
3	USSR	148	3	Saudi Arabia	248
Coal (as conventional fuel), mln. tons					
1	USA	400	1	USA	760
2	USSR	373	2	China	638
3	China	283	3	USSR	455
Steel, mln. tons					
1	USA	92,1	1	USSR	161
2	USSR	65,3	2	Japan	98
3	FRG	34,1	3	USA	75
Iron ore, mln. tons					
1	USSR	106	1	USSR	250
2	USA	89	2	China	151
3	France	66.9	5	USA	91 ^b
Mineral fertilizer, mln. tons					
1	USA	7.6	1	USSR	34.7
2	FRG	3.7	2	USA	21.5
3	USSR	3.3	3	China	14.0
Sulphuric acid, mln. tons					
1	USA	16.2	1	USA	35.9 ^b
2	USSR	5.4	2	USSR	27.8
3	Japan	4.5	3	China	7.6
Chemical fibres and threads, th. tons					
1	USA	774	1	USA	3,820
2	Japan	551	2	Japan	1,796 ^b
5	USSR	211	3	USSR	1,480

1960			1986		
Place	Country	Output	Place	Country	Output
Synthetic resins and plastic masses (without resins and semi-products for synthetic fibres), mln. tons					
1	USA	2.9	1	USA	21.5 ^b
2	FRG	1.0	2	Japan	8.8 ^b
7	USSR	0.29	4	USSR	4.4
Paper and cardboard, mln. tons					
1	USA	29.6	1	USA	63.2
2	Canada	7.9	2	Japan	20.9
6	USSR	3.2	4	USSR	10.4
Cement, mln. tons					
1	USA	56.1	1	China	166
2	USSR	45.5	2	USSR	135
3	FRG	24.9	3	USA	80.5
Cotton fabric, bln. square meters					
1	USA	8.5	1	China	16.3
2	China	5.1	2	USSR	7.8
3	USSR	4.8	3	India	4.0
Woollen cloth, mln. square meters					
1	USSR	439	1	USSR	670
2	USA	404	2	Italy	540
3	Great Britain	333	3	China	353
Silk cloth, mln. square meters					
1	USA	2,460	1	USA	9,000
2	Japan	2,224	2	Japan	3,400
3	USSR	675	3	USSR	1,957
Radio-receiving sets (including motor-car and radio-gramophones), mln. units					
1	USA	16.4	1	Hong Kong	48.0 ^b
2	Japan	13.3	2	Japan	18.6
3	FRG	4.3	5	USA	9.8 ⁷
4	USSR	4.2	6	USSR	8.9
TV sets, mln. units					
1	USA	5.8	1	USA	23.0
2	Japan	3.6	2	China	14.6
5	USSR	1.7	4	USSR	9.4
Automobiles, th. units					
1	USA	6,675	1	Japan	7,810
2	FRG	1,674	2	USA	7,600
9	USSR	139	6	USSR	1,326
Production of grain-crops and leguminous plants, mln. tons					
1	USA	182.0	1	China	354
2	USSR	125.5	2	USA	317
3	China	114.0	3	USSR	210
Wheat, mln. tons					
1	USSR	64.3	1	USSR	92.3
2	USA	36.9	2	China	90.3
3	China	22.2	3	USA	56.8

Raw cotton (calculated as fibre), mln. tons					
1	USA	3.1	1	China	3.5
2	USSR	1.5	2	USSR	2.6
3	China	1.1	3	USA	2.3
Sugar-beet (factory-made), mln. tons					
1	USSR	57.7	1	USSR	79.3
2	France	19.0	2	France	24.7
3	USA	14.9	3	USA	22.9
Potatoes, mln. tons					
1	USSR	84.4	1	USSR	87.2
2	Poland	37.9	2	China	45.0
7	USA	11.7	4	USA	16.1
Meat production (intended for slaughter), mln. tons					
1	USA	18.6	1	USA	28.0
2	USSR	8.7	2	China	19.2 ⁸
3	France	3.6	3	USSR	18.0
Granulated sugar (from domestic raw material, calculated as white), mln. tons					
1	Cuba	5.7	1	USSR	8.0
2	USSR	5.3	2	Brazil	7.9
3	USA	3.5	5	USA	5.3
Cooking oil, ⁹ mln. tons					
1	USA	3.4	1	USA	6.3
2	USSR	1.6	2	China	4.0 ⁶
3	Italy	0.5	4	USSR	2.9
Catch of fish and other sea products, mln. tons					
1	Japan	7.0	1	Japan	12.0 ⁷
3	USSR	3.5	2	USSR	11.4
5	USA	2.8	4	USA	4.8 ⁷
Total number of live-stock (cattle), mln.					
1	India	176 ¹⁰	1	India	185
2	USA	97.7	3	USSR	122
3	USSR	75.8	4	USA	105 ⁶

Table 1.2 allows us to make the following conclusions. First, in 1960 and 1986 among ten major countries-producers of 26 main types of goods (including wheat) the USSR occupied a place below the third only eleven times (four times, the fourth place; twice, the fifth place; three times, the sixth place; one time, the seventh place; and one time, the ninth place), that is, 21 percent.¹¹ In more than 75 percent of cases the USSR was either the first, or the second, or the third in this respect.

Second, in 1986 as compared to 1960 the Soviet economy made a great leap forward by increasing the outputs of goods under consideration. This greatly improved the position of the country among the major countries-producers of the world. Thus, in 1960 the Soviet production of some of these items occupied places below the third six times¹² (one time, the fourth place; twice, the fifth; one time, the sixth, the seventh, and the ninth places, correspondingly).

But already in 1986 there were only six times of these places (four times, the fourth place; and two times, the sixth place).

Third, in 1986 the USSR as compared to the USA “looked” the following way: the first place: the USSR, nine times, while the USA, ten times; second place: the USSR, six times, while the USA, three times; third place: the USSR, 6 times, while the USA, 5 times. Thus, in the mid-1980s the Soviet production level of many major items was approaching that of the United States.

The correlation of the major indices of the Soviet and American economic development

How did some general indices of the economy of after-Stalin mature totalitarian state capitalism in the USSR correlate to that of mature democratic mixed capitalism in the USA? Table 1.3 answers this question with regard to 1960, 1970, 1975, 1985, and 1986:

Table 1.3
The Correlation of the Major Indices of the Soviet and American
*Economic Development*¹³
(1960, 1970, 1975, 1980, 1985, 1986)

Indices	USSR to USA, %	Indices	USSR to USA, %
National income		Rail freight turnover	
1960	58	1960	175
1970	more than 65	1970	218
1980	67	1980	246
1986	66	1986	273
Industrial production		Industrial labor productivity	
1960	55	1960	44
1970	more than 75	1970	53
1980	more than 80	1980	more than 55
1986	more than 80	1986	more than 55
Agricultural production (annual average)		Agricultural labor productivity (annual average)	
1950 - 1960	more than 70	1966 - 1970	20 - 25
1971 - 1975	85	1971 - 1975	around 20
1976 - 1980	85	1976 - 1980	around 20
1981 - 1985	85	1981 - 1985	less than 20
Capital investment			
1985	90		
Freight turnover			
1960	68		
1970	102		
1980	130		
1986	139		

Table 1.3 demonstrates a clear positive tendency of the USSR closing the gap between itself and the United States under the official Soviet banner "Catch up with and Leave Behind the USA!" The gap was closing in regard to almost all indices listed in the table, except for the productivity of agricultural labor.

Moreover, as far as the freight turnover, including the rail freight turnover, is concerned, the USSR left the USA behind already in 1970 and 1960, accordingly.

Average annual rates of growth of major economic indices in the USSR and the USA

What allowed the Soviet Union to narrow the gap and in some cases overcome the economic superiority of the United States, was higher rates of economic growth. This dynamics is demonstrated in Table 1.4:

Table 1.4
Average Annual Growth Rates of Major Economic Indices of the Soviet and American Development,¹⁴ in Percent
(1961 - 1986)

Indices	1961 - 1986	
	USSR	USA
National income	5.5	3.1
Industrial production	6.5	3.7
Agricultural production	2.2	1.5
Freight turnover	5.1	2.2
Rail freight turnover	3.7	1.8
Capital investment	5.6	3.7
Productivity of social labor	4.7	1.8
Productivity of industrial labor	4.5	2.7

The same tendency is illustrated by Table 1.5. Here are presented rates of growth of some important industrial branches in the USSR and the USA in 1986 as compared to 1960:

Table 1.5
Rates of Industrial Growth in the USSR and the USA
In 1986 as Compared to 1960¹⁵
(1960=1; in times)

Indices	USSR	USA
Total industry	5.1	2.6
Electric power	5.5	3.0
Fuel industry	3.1	1.5
Ferrous metallurgy	3.1	0.8
Chemical and petrochemical industry	10.0	4.8
Machine-building and metal-working industries	12.0	3.0

Timber, woodworking, and pulp and paper industries	2.9	2.5
Industry of building materials, glass, and porcelain industries	4.6	2.0
Light industry	2.8	1.6
Food and flour-grinding industries	3.2	2.2

More detailed comparative indices of average annual rates of growth of the most important items of industrial production in the USSR and the USA for 1961 - 1986 are presented in Table 1.6:

Table 1.6
*USSR-USA Comparative Average Rates of Growth in the USSR and the USA, 1961 - 1986, in Percentage*¹⁶

Indices	USSR	USA
Electrical power	6.8	4.4
Oil (including gas condenser)	5.6	0.9
Natural gas	11.0	1.2
Coal (commodity)	1.2	2.8
Cast iron	3.5	-1.6
Steel	3.5	-0.8
Finished rolled ferrous metals	3.8	-0.2 ¹⁷
Steel pipes	4.8	-2.5 ¹⁷
Mineral fertilizer	9.5	4.1
Sulphuric acid	6.5	3.2 ¹⁷
Calcinated soda	4.1	1.9 ¹⁷
Caustic soda	6.0	3.2 ¹⁷
Chemical fibres and threads	7.8	6.3
Synthetic resins and plastic masses (without resins and semi-products for synthetic fibres)	11.0	8.4 ¹⁷
Tires for automobiles, buses, agricultural machinery, motorcycles, and motor scooters	5.3	1.9 ¹⁷
Tractors (without movers of low capacity)	3.6	-2.1 ¹⁸
Combine-harvesters	2.5	-4.7 ¹⁷
Timber removal	0.1	1.1 ¹⁹
Saw-timber (including sleepers)	-0.15	0.2
Paper	3.8	2.8
Cement	4.3	1.4
Pre-fabricated ferro-concrete structures and parts	6.1	0.9
Cotton fabric	1.8	-3.5
Woollen cloth	1.6	-4.3
Silk cloth	4.2	5.1
Knitted wear	4.4	3.0 ¹⁹
Footwear	2.5	-2.8
Radio-receiving sets	3.0	-2.1 ¹⁸
TV sets	6.8	5.4
Refrigerators and deep-freezers	9.8	2.0
Washing machines	7.1	1.8

Automobiles	9.1	0.5
Granulated sugar (from domestic raw materials)	1.6	1.6
Butter	2.7	-0.5

Data in tables (1.4, 1.5, and 1.6) shows that for the 1960s - 1980s rates of growth of some most important sectors of the Soviet economy were higher than that of the USA, thus securing for the USSR the reduction of the economic gap between itself and the most advanced country of the world.

But what was the cause for these higher rates of growth in the USSR in comparison to the USA? This was, first, the higher rates of growth in its labor force and capital drawn in the process of Soviet production (the extensive method of growth), and, second, the productivity of Soviet labor (the intensive method of production).²⁰

Per capita production

So far we have spoken about *total* production. Let us now speak of *per capita* production. For this, we will use Table 1.7:

Table 1.7
*Per Capita Production of Some Very Important Industrial and Agricultural Items in the USSR and Some Most Developed Countries of the World, 1986*²¹

Indices	USSR	Great Britain	Italy	USA	FRG	France	Japan
Electric power, kw.t.h.	5706	5375	3322	11176	6760	6693	5597
Oil (including gas condenser), kg	2194	2173	44	1821	70	56	5
Natural gas, cubic meters	2282	881	253	1987	338	90	20
Coal (commodity), kg	2400	1395	34	3332	3549	309	141
Steel, kg	573	259	406	310	642	326	809
Iron ore, kg	892	5	0.0	205	18	268	2.8
Mineral fertilizer, kg	124	37	32	89	70	85	15
Sulphuric acid, kg	99	44	44	151	71	79	54
Caustic soda, kg	12	16	18	42	58	26	25
Chemical fibres and threads, kg	5.3	7	12	16	16	4	15
Synthetic resins and plastic masses (without resins and semi-products for synthetic fibres), kg	16	35	46	90	128	61	73
Tractors (without movers of low capacity; per 1,000 people), units	2.1	1.2	1.7	0.5	1.3	0.4	1.7
Combine-harvesters (per 1,000 people), units	0.4	0.02	0.04	0.04	0.2	0.02	0.8
Paper, kg	22	57	68	129	129	90	99
Cement, kg	482	231	629	333	441	385	584
Fabric							
Cotton, square meters	28	5	21	14	14	14	16
Woollen, square meters	2.4	1.9	9.4	0.5	1.4	2.4	2.7
Silk, square meters	7.0	4.1	4.2	37	6.8	9.0	28

Footwear, pairs	2.9	2.1	7.5	1.2	1.4	3.4	0.8
Grain and leguminous plants, kg	750	439	329	1313	437	926	132
Cotton (calculated as fibre), kg	9.4	—	0.0	9.5	—	—	—
Sugar beet (factory-made), kg	283	141	271	95	342	446	33
Potatoes, kg	311	122	44	67	147	118	31
Meat (intended for slaughter), kg	64	64	63	116	93	108	31
Milk, kg	365	282	200	272	445	637	62
Granulated sugar (from domestic raw materials), kg	28	22	30	22	53	61	7
Butter (including production by households), kg	6.1	3.7	1.4	2.4	9.6	11	0.8
Catch of fish and other sea products, kg	41	15	9	20	6	14	100

In 1986, the USSR stood as a leader in the per capita production of raw materials, such as oil, natural gas, and iron ore. It was third only to the Federal Republic of Germany and the USA in the per capita production of coal. The USSR was also first in the per capita production of such items as tractors, combine-harvesters, cotton fabrics, etc.

Other Soviet per capita indices of production were not as good as its total production indicators. That is, although the USSR occupied the second place in the world and the first in Europe in many important *total* indices of production, it lagged behind the most advanced and large democratic mixed capitalist countries of the world in terms of *per capita* production.²²

But it is obvious that no country can rank first or even second in everything it produces. Even the United States, the very embodiment of economic, political and military might in the XXth century, could not boast to be number one in all per capita economic indicators of production. For example, in 1997 the USA occupied only tenth place in per capita GDP.²³

Remarks on the concept of total Soviet output

This brings us to the concept of *total output*. In all probability, the reader has been surprised, in this chapter not finding a word about familiar terms, like total and per capita GDP and GNP, the very indicators of economic growth.

But the omission is not accidental. There is a reason for it. For, there was no such a measure in the USSR, like GNP and GDP.

Until 1988, instead of GDP and GNP, Soviet statistics had employed the concept of *Gross Social Product (GSP)*. It measured a total value of *material goods* produced by the country during a certain period of time. In other words, this was a *Net Product of Material Production (NPMP)* in money terms.

In their concise methodological elucidations, statistical annuals, such as *Narodnoye Khoziaistvo SSSR* [The National Economy of the USSR], published in the Soviet Union till 1991, defined GSP as a sum (in the monetary form) of the gross output of branches of *material* production.²⁴ The latter, considered as a *productive* sphere of the Soviet economy, included industry, agriculture, forestry, construction, cargo transportation, communications (in particular, serving material production), trade, public catering, material and technical supplies, state procurement of agricultural products, etc.

GSP excluded a sum (in the monetary form) of the gross output of *non-material* branches of the Soviet economy. As a result, among the latter, regarded to be a *non-productive* sphere of the Soviet economy, there were government administration, defense, education, science, culture, medicine and consumer service of the population. Thus, the concept of GSP totally excluded the value of produced *services*.²⁵

Beginning with 1989, the Soviets started using the concept of GNP.²⁶ The indicator was recounted for a series of years prior to 1989. Hence, for the purpose of our analysis, we will use this opportunity to show indices of GNP for the USSR and some countries of the world for the period of 1985-1990.

Table 1.8
Indices of Gross National Product of Some Countries of the World
*(Percentage)*²⁷

Countries	1980=100					
	1985	1986	1987	1988	1989	1990
USSR	120	124	127	134	138	135
Great Britain	109	113	118	123	125	126
Spain	107	111	117	123	129	134
Italy	108	111	114	119	123	126
China	162	175	195	216	224	234
USA	114	117	121	126	130	131
France	108	110	113	117	122	125
FRG	106	109	110	114	119	124
Japan	121	124	129	137	144	152

In the period under consideration, in terms of the annual GNP growth among the countries shown in the table, the USSR was behind only China and Japan. So, with the exception of Japan, the tendency which we observed in analyzing the Soviet performance in this chapter was the same: the economic gap between the USSR and major countries of the world was slowly but surely narrowing.

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- , *Narodnoye Khoziaistvo SSSR za 70 let: Yubileinyi Statisticheskii Sbornik* [The National Economy of the USSR for 70 Years: Anniversary Statistical Collection]. Moscow: "Finansy i Statistika," 1987.

Footnotes to Chapter 1: Soviet Production

- 1 Based on E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Ekonomicheskii Rost I Razvitiye* [Principles of the Economic Theory. Economic Growth and Development]. Moscow: "Nauka," 2001, pp. 162 - 172.
- 2 TsSu SSSR, *Narodnoye Khoziaistvo SSSR za 70 let: Yubileinyi Statisticheskii Sbornik* [The National Economy of the USSR for 70 Years: Anniversary Statistical Collection]. Moscow: "Finansy i Statistika," 1987, p. 12.
- 3 1982.
- 4 Exceptions are coal production, where the USSR occupied third place behind the USA and China, and grain production (third place behind China and the USA) (TsSu SSSR, *Narodnoye Khoziaistvo SSSR za 70 let: Yubileinyi Statisticheskii Sbornik* [The National Economy of the USSR for 70 Years: Anniversary Statistical Collection], pp.661 - 669).
- 5 Ibid., pp. 661- 669.
- 6 1985.
- 7 1984.
- 8 Poultry is not included.
- 9 There is no data for 1960 for China and India.
- 10 1961.
- 11 $(11/26/2) \times 100 = 21$ percent.
- 12 $(6/26) \times 100 = 23$ percent.
- 13 TsSu SSSR, *Narodnoye Khoziaistvo SSSR za 70 let: Yubileinyi Statisticheskii Sbornik* [The National Economy of the USSR for 70 Years: Anniversary Statistical Collection], p. 13.
- 14 Ibid., p. 654.
- 15 Ibid.
- 16 Ibid., 680 - 681.
- 17 For 1961 - 1985.
- 18 For 1961 - 1984.
- 19 For 1961 - 1982.
- 20 P. Gregory and R. Stuart, *Soviet and Post-Soviet Economic Structure and Performance*, fifth ed. New York: Harper Collins College Publ., Inc., 1994, pp. 238 - 239.
- 21 TsSu SSSR, *Narodnoye Khoziaistvo SSSR za 70 let: Yubileinyi Statisticheskii Sbornik* [The National Economy of the USSR for 70 Years: Anniversary Statistical Collection], pp. 674 - 675.

- 22 Here we are dealing not simply with the *most developed* but also with the *largest* (in terms of their population) countries of *democratic mixed capitalism*. Hence, for instance, a very advanced democratically mixed capitalist Canada is not included because of *the small number of its population* (less than 26 mln. people in 1986; *ibid.*, p. 706).

Also, our list includes neither a very large democratic mixed capitalist India, nor does it include a very large totalitarian-authoritarian state capitalist China, for a *relatively undeveloped state of their economies*.

At the end of the 1980s only among countries of democratic mixed capitalism there could be found candidates for the rank of the most advanced *and at the same time* the biggest country in the world.

- 23 U.S. Census Bureau, *Statistical Abstract of the United States. The National Data Book*, 119th ed. Washington, D.C.: U.S. Census Bureau, 1999, p. 841, table 1362.
- 24 See, for instance, TsSu SSSR, *Narodnoye Khoziaistvo SSSR v 1963 g.* [The National Economy of the USSR in 1963]. Moscow: "Finansy i Statistika," 1965, pp. 684 - 685.
- 25 We have already briefly discussed this issue in chapter 5 of Part V of the book. There we pointed out that "[t]he view ... resulted from the needs of industrial development which found their expression in the necessity of growth of a physical, natural, material volume of production in the country."
- 26 As far as the concept of GDP is concerned, it first appeared in *Russian* statistical annuals in 1993, that is, after the disintegration of the USSR and the emergence of the *Russian Federation* as an independent country. But *new* Russian statisticians as an experiment began *recounting* GDP of some earlier years. For some reason, the year 1989 had been chosen as a yardstick for comparisons of further changes in Soviet GDP.
- 27 Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990]. Moscow: "Finansy i Statistika," 1991, p. 668.

In using Soviet statistics, we emphasized again that we have no desire in engaging in arguments about measurements. These technicalities are not objects of the book. The book is mainly concerned with *socioeconomic* changes, not with how to measure them. To avoid any controversies, the book takes the *how* of the primary source of information as given.

PART VII
THE LAST STAGE IN THE DEVELOPMENT OF THE SOVIET
SOCIOECONOMIC SYSTEM: THE STALINIST MODEL IN
OPERATION
(1940-1991)

Chapter 2
Soviet Consumption and Other Socioeconomic Indicators¹

Consumption

The Stalinist model was oriented toward heavy industry at the expense of light industry, toward industry at the expense of agriculture and services, that is, toward investment at the expense of consumption. Consumption was not on the priority list of the Soviet system.

Keeping this in mind, let us compare the structure of GNP of the Soviet Union with that of some most developed countries of the world. Here is the data for 1989:

Table 2.1
The Structure of GNP in Its Final Use in Some Countries, 1989
(Percentage)²

Country	GNP, total	Including		
		Expenditures on personal consumption of households	Expenditures on final consumption of government agencies serving households and satisfying collective wants, etc.	Gross investment
USSR	100	48	20	32
Great Britain	100	64	19	17
Italy	100	62	17	21
USA	100	66	20	14
France	100	60	18	22
FRG	100	54	19	27
Japan	100	57	9	34

As can be expected, the share of personal consumption in Soviet GNP even in 1989³ was lower than that of major advanced democratic mixed capitalist countries of the world, and especially as compared to the main Soviet rival, the United States. As the table

demonstrates and *as one could also anticipate*, the major reason for this was a greater proportion of GNP spent by the Soviets on gross investment. (Japan was an exception in this respect as well as in its share spent on corresponding government agencies). There is no wonder, therefore, that the speed with which the USSR was trying to catch up with the USA was slower in per capita consumption than in per capita production. Thus, in 1986, while Soviet per capita GNP constituted 61 percent of the American level, Soviet per capita consumer expenditures amounted to 41 percent of the corresponding American level.⁴

Still, despite the fact that, from the point of view of Soviet consumers, less attention was paid to consumption, it should not be concluded that there was no progress in this Soviet indicator. Recall that in 1913 "Russian per capita income was lower than that of ... the USA by 8.7 times."⁵ Thus, *indirectly* we can see a great progress in changes even in such a neglected Soviet indicator as consumption.⁶

Other socioeconomic indicators

Let us now continue with some other comparative economic indicators.

Residential construction, university education, and health care

We will start with residential construction construction (Table 2.2), university education (Table 2.3), and health care (Table 2.4).

Table 2.2
Comparative Residential Construction,
1960, 1980, 1986⁷

Country	Thousand apartments			Per 10,000 population		
	1960	1980	1986	1960	1980	1986
USSR	2591	2004	2100	121	75	75
Great Britain	307	252	189 ⁸	58	45	33
Italy	291	122	117 ⁹	58	21	20
USA	1296	1502	1703 ⁸	72	66	71 ⁸
FRG	528	382	304 ⁸	99	64	51
France	317	378	372 ¹⁰	69	70	68
Japan	424	1269	1236 ⁸	45	108	102

Speaking of residential construction, in 1986, the Soviet Union knew no equals among the major developed countries in the total number of apartments built. As far as this index per 10,000 population is concerned, the Soviet Union was only behind Japan.

Let us turn briefly to the indicators of education and health care:

Table 2.3
*Comparative University Education*¹¹

Country	Academic year	Thousand of students	Per 10,000 population
USSR	1986/87	5088	181
Great Britain	1979/80	585	105
Italy	1984/85	743	131
USA	1983/84	6169	263
FRG	1985/86	816	138
France	1984/85	867	158
Japan	1985/86	1718	142

Table 2.3 shows that in terms of the total number of students enrolled in higher education as well as per 10,000 population, the USSR was second only to the USA in the 1980s.

Tables 2.4 and 2.5 illustrate that in terms of health care in the 1980s, the USSR knew no equals in the total number and per 10,000 population of medical doctors of all specialties and beds in medical hospitals:

Table 2.4
*Comparative Number of Medical Doctors of All Specialties*¹²

Country	Year	Thousand people	Per 10,000 population
USSR	1986	1202	42.7
Great Britain	1977	102	18.3
Italy	1979	165	28.9
USA	1983	604	25.7
FRG	1985	178	30.1
France	1984	125	22.9
Japan	1984	238	19.8

Table 2.5
*Comparative Number of Beds in Medical Hospitals*¹³

Country	Year	Thousand beds	Per 10,000 population
USSR	1986	3660	1307
Great Britain	1984	431	76.3
Italy	1983	469	82.6
USA	1983	1302	55.5
FRG	1985	645	109
France	1983	558	102
Japan	1984	1467	122

Some indices of the quality of life

In order to make a comparative analysis of the quality of life, it is necessary to know the size and the density of the population per one square kilometer for each of the six countries compared earlier (such as, we remind the reader, the USA, Great Britain, Italy, the Federal Republic of Germany, France, and Japan):

Table 2.6
Comparative Demographics, 1985, 1986, 1987¹⁴

Country	Area, square km.	Population		
		Year	Total, th. people	Per 1 square km., people ¹⁷
USSR	22403	1987 ¹⁶	281689	12.57
Great Britain	244	1985	56618	232.04
Italy	301	1096	57202	190.04
USA	9373	1986	241596	25.78
FRG ¹⁵	356.8	–	77648	218.11
France	544	1986	55282	101.62
Japan	372	1986	121485	326.57

Among the six most developed large countries of democratic mixed capitalism, in 1987, the Soviet Union of totalitarian state capitalism had no equals in terms of the size of its population and of its land territory. But the density of its population was lower than that of: the USA, by twice; France, by 8 times; Italy, by more than 15 times; the Federal Republic of Germany, by more than 17 times; Great Britain, by more than 18 times; and Japan, by around 26 times.

In other words, the Soviet Union was a relatively sparsely populated country. For example, in order to achieve at least the density of its ideological and political rival, the United States, the USSR would have had to increase its population more than twofold to approximately 578 mln. people.

The rates of the natural increase in population. Taking into consideration this factor, we will look first, at the general rates of birth, death, and natural increase in the population of the USSR as compared to these other six countries:

Table 2.7
Comparative General Rates of Birth, Death, and Natural Increase
in the Population (per 1,000 population), 1980, 1990¹⁸

Country	Birth rate		Death rate		Natural rate of population growth	
	1980	1990	1980	1990	1980	1990
USSR	18.3	16.8	10.3	10.3	8.0	6.5
Great Britain	13.5	13.6	11.8	11.5	1.7	2.1
Italy	11.2	9.7	9.7	9.1	1.5	0.6
USA	15.9	15.9	8.7	8.8	7.2	7.1
FRG	10.1	11.1	11.6	11.4	-1.5	-0.3
France	14.9	13.6	10.2	9.0	4.7	4.6
Japan	13.7	10.1	6.2	6.4	7.5	3.7

In the years under consideration, the USSR occupied first place in terms of its birth rate per 1,000 population. This, of course, was a positive factor for a relatively sparsely populated country.

But at the same time, the Soviet index of the death rate per 1,000 population was not good: it was higher of that of four countries (Italy, the USA, France, and Japan), although smaller than in Great Britain and the Federal Republic of Germany.

As far as the resulting natural rate of population growth per 1,000 people is concerned, here the Soviet Union ranked at the top in 1980 and was second only to the United States in 1990.

The rates of infant mortality. This data is presented in Table 2.8:

Table 2.8
Comparative Rates of Infant Mortality
(Number of Deaths of Infants Before the Age of One,
Per 1,000 Infants Born) in 1980, 1985, and 1990¹⁹

Country	1980		1985		1990 ²⁰	
	Number	USSR to other countries, times	Number	USSR to other countries, times	Number	USSR to other countries, times
USSR	27.3		26		21.8	
Great Britain	12	2.28	9	2.89	9	2.42
Italy	14	1.95	10	2.60	9	2.42
USA	13	2.10	11	2.36	10	2.18
FRG	13	2.10	9	2.89	8	2.73
France	10	2.73	8	3.25	7	3.11
Japan	7	3.90	6	4.33	4	5.45

On the positive side, during the ten-year period, in the USSR as well as in the six countries the rate of infant mortality per 1,000 population declined. But, on the negative side, in all these years the

rate of infant mortality in the Soviet Union was the highest among the six countries. There were several reasons for this negative factor: (1) despite a high quantitative level of Soviet health care, low-quality medical services, (2) poor housing conditions, (3) rampant alcoholism among parents, etc.

Life expectancy at birth. The data is demonstrated by Table 2.9:

Table 2.9
Comparative Life Expectancy at Birth,
(number of years)²¹

Country	Period	Population, total	Men	Women
USSR	1896 - 1897 ²²	32	31	33
	1990	69.3	64.3	73.9
	1990 as compared to 1896 - 1897	+37.3	+33.3	+40.9
Great Britain	1901 - 1910 ²³	50	49	52
	1985 - 1987 ²³	75	72	78
	1985 - 1987 as compared to 1901- 1910	+25	+23	+26
Italy	1987	76	73	79
USA	1900 - 1902 ²⁴	49	48	51
	1988	75	71	78
	1988 as compared to 1900 - 1902	+26	+23	+27
FRG	1985 - 1987	75	72	78
France	1988	76	72	81
Japan	1989	79	76	82

On the one hand, in the Soviet Union, there was a significant increase in life expectancy at birth for both men and women in 1990 as compared to the end of the XIXth century. The growth far exceeded that of such countries, as Great Britain and the USA. As a result, the lag between the USSR and these countries became much smaller.

On the other hand, in 1990, life expectancy at birth for both Soviet men and women was still less than that in other countries: in Britain, the United States and the Federal Republic of Germany, by 5.7 years, and Japan, by 9.7 years. Among the causes for such a negative phenomenon were: bad habits (alcoholism and smoking, especially among the male population), work injuries due to an outdated and formal system of industrial safety, and again poor medical facilities and services.²⁵

The structure of the Soviet population

Let us now look at the structure of the Soviet population in terms of the share of city dwellers and men (Table 2.10) and age groups (Table 2.11) in total population:

Table 2.10
A Comparative Structure of the Population:
Urban Versus Rural; Men Versus Women
*(percentage of total)*²⁶

Country	Year	Urban population	Men
USSR, estimated on January 1	1987	66	47
Great Britain	1973	76	49
Italy	1971	52	49
USA	1980	74	49
FRG	1986	94	48
France	1982	73	49
Japan	1985	77	49

By the end of the 1980s, the Soviet Union had become an urbanized country: the majority of its population were city dwellers. But it must be admitted that the country had remained more rural than other countries listed in the table above (the Great Britain and Italy should be discarded since data on them refers to the 1970s).

As far as the share of men in total population is concerned, the USSR was slightly behind other countries in the list for the reasons mentioned earlier.

Table 2.11
The Comparative Age Structure, 1960, 1985
*(percentage)*²⁷

Country	1960			1985		
	0 -14	15 - 59	60 and older	0 - 14	15 - 59	60 and older
USSR	30.5	60.5	9.0	25.2	61.7	13.1
Great Britain	23.3	59.9	16.9	19.5	59.8	20.7
Italy	24.9	61.4	13.7	19.4	62.0	18.6
USA	31.0	55.8	13.2	21.7	61.8	16.5
FRG	21.3	62.3	16.4	15.4	64.6	20.0
France	26.4	56.8	16.8	21.3	61.0	17.7
Japan	30.2	60.9	8.9	21.8	63.8	14.5

It can be seen that during a quarter of the last century (1960 - 1985) the dynamics of the Soviet age structure almost exactly replicated that of the other six countries. As in all six countries, the Soviet population had been aging because of: the lowering of the proportion of the youngest part of the population at the age of 0 -

14 (we have talked about this earlier); the simultaneous increase in the share of people of more mature age of 15 - 59 and especially those of 60 years of age and older (primarily because of the growth of life span of women).

With regard to the *statics* of the Soviet age structure, here the outcome was mixed.

On the one hand, the Soviet population in 1960 as well as in 1985 remained much younger than the population of the six other countries. This speaks of a great human potential of the USSR.

On the other hand, there were relatively less older people in the USSR than in the six countries. This gives evidence to a relatively worse perspective for the younger generation of the Soviet people to live till the old age.

Income and wealth distribution

Speaking of income distribution, since physical capital, land and its entrails in the Soviet Union were the corporate property of the bureaucracy, then interest, profit and rent as non-wage forms of income were accumulated and held in common by the entire bureaucratic class (this will be talked about later, at a proper time). Only then these types of income were becoming subject to a rather informal redistribution in favor of this or that its groups and individual members. As a result, in the Soviet Union, the basic source of all legal personal income consisted of wages and salaries.

Keeping that in mind, let us compare the distribution of income in the USSR with that of some Western countries, such as Australia, Norway, Great Britain, France, Canada, the USA, and Sweden, in the years 1960 - 1970. For this purpose, let us utilize data for the 10 and 20 percent of households with the lowest and highest incomes (after taxes) per household.

The inquiry reveals that the distribution of Soviet legal personal income after taxes among urban households was close to that of Norway, Sweden, and Australia. Similar to the Western countries, there was an unequal distribution of income in the Soviet Union. Thus, while a fifth of Soviet households with the highest incomes was earning more than a third of the country's income, another fifth with the lowest incomes had less than one tenth of total Soviet income, or almost 4.5 times less than the first group.²⁸

In terms of wealth, in the USSR, under the conditions of practically a total absence of atomized ownership of the means of production and land, physical forms of legal individual wealth could be represented only by such items as personal individual houses, cars, furniture, etc. Financial forms of wealth (or financial wealth) included such items as state bonds and personal savings deposited among savings institutions within the country (again, we will return to this subject at a proper time).

Lastly, wealth in the Soviet Union was distributed quite unevenly. The top 25 percent of Soviet households owned 70 percent of all households' wealth and 70 percent of the latter's financial assets. This situation was similar to that of the major developed countries of democratic mixed capitalism.²⁹

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Notes to Chapter 2: Soviet Consumption and Other Socioeconomic Indicators

- 1 Based on E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Ekonomicheskii Rost i Razvitiye* [Principles of the Economic Theory. Economic Growth and Development]. Moscow: "Nauka," 2001, pp. 172 - 180.
- 2 Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990]. Moscow: "Finansy i Statistika," 1991, p. 668.
- 3 When the Soviet economic restructuring with more consumer-oriented face (*perestroika*) was in full swing. In a proper time, we will cover the period of *perestroika*.
- 4 See E. Raiklin, "On People's Welfare in Aganbegyan's 'The Economic Challenge of Perestroika'." *International Journal of Social Economics*, Volume 16, Number 7, 1989, p. 28.
- 5 See a segment *Overall indices of the economic development* of chapter 1 of Part II of the book.
- 6 It is not to say that there were no problems with Soviet consumption. There were many of them, quantitative as well as qualitative. We will revisit this issue in a due time when discussing Gorbachev's *perestroika*.

- 7 TsSu SSSR, *Narodnoye Khoziaistvo SSSR za 70 let: Yubileinyi Statisticheskii Sbornik* [The National Economy of the USSR for 70 Years: Anniversary Statistical Collection]. Moscow: "Finansy i Statistika," 1987, p. 695.
- 8 1985.
- 9 1981.
- 10 1983.
- 11 TsSu SSSR, *Narodnoye Khoziaistvo SSSR za 70 let: Yubileinyi Statisticheskii Sbornik* [The National Economy of the USSR for 70 Years: Anniversary Statistical Collection], p. 697.
- 12 Ibid.
- 13 Ibid., p. 698.
- 14 Ibid., pp. 699 - 701, 703, 707.
- 15 FRG (the Federal Republic of Germany, 1985), including GDR (the German Democratic Republic, 1986) and West Berlin (1985). Both parts of Germany, FRG and GDR, became reunited as FRG in 1990.
- 16 On January 1.
- 17 Numbers for this column have been calculated by the author.
- 18 Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990], p. 665. For Great Britain, Italy, France and Japan, the data is for 1989; for the USA, for 1988; and for FRG (reunited), as of after October 3, 1990.
- 19 Ibid., p. 666.
- 20 As far as all countries are concerned, except the USSR, the USA and FRG, the data is given for 1989; for the USA and FRG, for 1988.
- 21 Goskomstat SSSR, *Naselenie SSSR v 1987 g.: Statisticheskii Sbornik* [Population of the USSR in 1987: Statistical Annual]. Moscow: "Finansy i Statistika," 1988, p. 426: USSR (1896 - 1897), Great Britain (1901 - 1910), USA (1900 - 1902); Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990], p. 667: USSR (1990), Great Britain (1985 - 1987), Italy (1987), USA (1908), FRG (1985 - 1987), France (1988), Japan (1989).
- 22 For 50 provinces of the European part of Russia.
- 23 Without Scotland and Northern Ireland.
- 24 For 10 states of the USA where deaths were registered in 1900.
- 25 M. Goldman, *USSR in Crisis: the Failure of an Economic System*. New York: W.W. Norton & Co., 1983, p. 101.
- 26 Goskomstat SSSR, *Naselenie SSSR v 1987 g.: Statisticheskii Sbornik* [Population of the USSR in 1987: Statistical Annual], p. 416.
- 27 Ibid., p. 420.
- 28 A. Bergson, "Income Inequality Under Soviet Socialism," *Journal of Economic Literature*, Volume 22, Number 3, September 1984, pp. 1070, 1072.
- 29 A. Vinokur and G. Offer, *Inequality of Earnings, Household Income and Wealth in the Soviet Union in the 1970's*. University of Illinois: Soviet Interview Project, 1987, p. 43.

PART VII
THE LAST STAGE IN THE DEVELOPMENT OF THE SOVIET
SOCIOECONOMIC SYSTEM: THE STALINIST MODEL IN
OPERATION
(1940-1991)

Chapter 3
Soviet Market Structures¹

Soviet *capitalism* as a *market* (commodity-producing) system had to produce, consume and generate other socioeconomic conditions of life within certain *market structures*. Since this was *totalitarian state capitalism*, its markets by definition could not be of a perfectly competitive character. Overwhelmingly,² they were not. The Soviet market structure was that of *imperfect competition*, such as *state monopoly*, *state oligopoly* and *state monopolistic competition*.

Soviet state monopolies

The concept of “monopoly” is employed here in two meanings. First, as a *social* term, it defines the exclusive ownership and possession of the majority of productive resources and final goods and services by the bureaucracy as a class.

Second, as an *economic* concept, it refers to the enormous degree of concentration of production and distribution in the Soviet economy. From this perspective, it is worth pointing out that

... the Soviet economy has been built around the notion that big is good.³ Soviet planners have considered it wasteful to have two plants producing the same product when one big plant could do the job. The result: 30 to 40 percent of the nation’s industrial output comes from single-factory monopolies.⁴

Some statistics

The extent of the bigness of the Soviet economy may be sensed from the data about Soviet industrial enterprises. Table 3.1 shows the percentage distribution of Soviet industrial enterprises according to the total volume of production in 1987:

Table 3.1
Percentage Distribution of Enterprises According to Total Volume of
Production, 1987⁵

Total volume of production	Average annual number					
	Number of enterprises	Volume of production	Industrial production personnel	Workers	Average annual value of industrial fixed funds	Consumption of electric power
Enterprises on independent balances (without electric power stations, electricity supply networks and heating systems)	100	100	100	100	100	100
Including those with volume of production in th. rubles of:						
up to 1,000	24.4	0.5	2.2	2.2	1.	0.4
1,001 - 5,000	34.9	5.1	10.1	10.5	5.4	2.3
5,001 - 10,000	14.1	5.7	8.9	9.0	5.3	2.7
10,001 - 50,000	19.2	23.8	27.9	28.3	19.3	14.1
50,001 - 100,000	3.9	15.1	14.9	14.8	13.0	12.0
100,001 - 200,000	2.1	16.2	15.1	14.8	17.1	18.0
200,001 and more	1.4	33.6	20.9	20.6	38.9	50.5

As the table reveals, in 1987, 7.4 percent of the largest industrial enterprises, with ruble volume of production from 50,001 and higher, produced 64.9 percent of the total industrial output by employing more than a half of the industrial labor force and by using 69 percent of the country's industrial capacity and 80.5 percent of the country's energy consumption.

Furthermore, it must be remembered that far more than three-quarters of the volume of Soviet industry was produced as the means of production.⁶ This makes the degree to which economic resources were monopolistically allocated even more pronounced.⁷

Non-discriminating Soviet state monopoly

Recall that in the system of totalitarian state capitalism the management of an individual enterprise (regardless of the market structure) in the process of its activities entered into five basic relations.

First, and the most important, was the management's interrelations with *hired laborers*. It was this relationship taking a form of *wage labor* that made the Soviet socioeconomic structure *capitalist* in its character.

Second, the enterprise was owned by the state *in general*. That is why Soviet capitalism had a form of *state* capitalism.

Third, enterprises of Soviet state capitalism were located at the bottom of the vertical structure of a certain ministry. The management of the ministry and the management of its enterprise related to each other through *mandatory planning*. The latter was *centralized (central)* in the sense that orders to allocate economic resources (including the most important among them, the labor resource) for output production were coming from top to bottom of the hierarchical pyramid, that is, from the ministry to its enterprise. This made Soviet state capitalism *totalitarian* state capitalism.

Taking into account this special form of capitalism of the Soviet type, what had to be a character of demand for the product of the enterprise-possessor as a *non-discriminating* monopolist? An answer to this question can be found in *horizontal* relations of the monopoly.

Here two types of connections can be found. One as the fourth relationship, was a horizontal relation between the enterprise-monopolist producing consumer goods and services (for instance, a city's one and only meat processing and packing factory), on the one hand, and the Soviet population purchasing these articles of consumption, on the other. To the fifth connection we will come a bit later.

Behavior of non-discriminating monopoly of totalitarian state capitalism, producing articles of consumption for the population. Obviously, there was nothing mysterious in Soviet demand for consumer goods and services produced by enterprises of totalitarian state capitalism. Here two owners independent from each other met: on the one hand, the state-proprietor of the articles of consumption, represented by the enterprise-possessor of the consumer goods and services; on the other hand, the Soviet population-proprietor of a certain amount of money.

Other things being equal, demand for the majority of consumer commodities (normal goods) had to be a *regular* inverse relationship between the price (P) and the quantity (Q) the Soviet population was willing and able to buy. Graphically, this demand revealed itself as a *regular* downward to the right sloping curve. One can expect that, given the heavy industrial orientation of totalitarian state capitalism, the only difference between its consumer demand curve and that of democratic or authoritarian mixed capitalism was the higher elasticity of demand for the second form of capitalism as compared to the first.

But for simplicity of our analysis let us assume that the consumer demand of both forms of capitalism was identical. Moreover, we will also suppose that all those curves which, together with the consumer demand, characterize non-discriminating

monopoly (average cost, marginal cost, and marginal revenue) were the same for both capitalist forms.

Then, taking into consideration the specific nature of totalitarian state capitalism, it can be concluded that there had to be one of two major goals of Soviet state non-discriminating monopoly: either maximization of its profit (minimization of its loss in the short run), or maximization of its total revenue. In the first case of profit maximization (loss minimization), the behavior of monopoly of totalitarian state capitalism would not be different from the behavior of its mixed capitalist "colleague."

The second case deserves some special attention. For, the achievement of maximum total revenue was the basic task of monopoly of totalitarian state capitalism in the short as well as in the long run.

This means that, given the same consumer demand and cost, Soviet *ideal, pure* non-discriminating monopoly (following the $MR=0$ rule), producing consumer commodities, behaved towards its consumers more "humane" than its mixed capitalist *ideal, pure* counterpart (following the $MR=MC$ rule): a lower price and a higher output in the Soviet case as compared to a higher price and a lower output in the mixed capitalist case.

Probably, this conclusion would come as a surprise to those who got used to the notions of Soviet consumer deficits and Western consumer abundance. But here we stress "pure," "ideal" conditions of production and distribution of consumer goods and services. For, in real life nothing could have prevented Soviet planners whose priority was heavy industrial production not to follow the ideal situation. Instead, with the rule $MR=0$ intact and with the physical output as the major target, the following scenarios were possible.⁸

First, Soviet planners, *in order to restrain consumption* of a certain consumer good or service, could allocate resources for the production of the commodity in such a way that at a given price (where $MR=0$) *less* was produced than showed by the consumer demand at this price. This, of course, had to lead to a *shortage*, or *deficit* of the article of consumption. And, since for the *actual* quantity of that article consumers were willing and able to pay higher price (by moving along the demand curve upward and to the left), the situation could create possibilities for backdoor dealings between the non-discriminating monopolist and the can-pay consumer.

Second, resources for the production of the consumer good could be allocated in such a way as to, at a given price (where $MR=0$), *encourage more actual output* than consumers were willing and able to purchase at this price. Here, the result would be a *surplus*. Of course, for this higher quantity of the product consumers could offer a lower price. But the non-discriminating monopolist was not allowed by the planner to take that price which was *fixed* and was not

willing to charge it (for, the difference, in the best scenario,⁹ had to be compensated from the monopolist's management own pocket). Thus, the commodity, being *overstocked*, could not be sold at that particular price and at that particular time.

Obviously, the Soviet consumer in the figure of the non-discriminating monopoly faced a *seller's market*. But the latter could not be omnipotent. This is because in the *final analysis*, if either output or price of the commodity did not correspond to the consumer demand, it was the Soviet *consumer* who was holding the destiny of the eager-to-be-sold product in his hands.

Behavior of non-discriminating monopoly of totalitarian state capitalism, producing the means of production. Here we have a fifth relation faced by the enterprise non-discriminating monopolist of totalitarian state capitalism. This is the second *horizontal* connection but now either between state enterprises within the same ministry (the same branch of production), or between state enterprises of different ministries (different branches of production).

We remember that in both cases these were relations between various possessors of state property of the means of production (physical capital). We also remember that the enterprises performed as possessors only *vertically*, in their relation to the state in *general* and to its higher authorities that represented the state in *particular*. But in their relations to each other, that is, *horizontally* the enterprises operated as completely independent owners of pieces of state property which the state entrusted to them.

This double (vertical-horizontal) relationship of non-discriminating monopoly could not but affect, in a certain way, the demand of other enterprises for the means of production produced by the monopolist.

On the one hand, all the major indicators of the monopolist's activities, including the price charged and the amount of the means of production which other enterprises needed to buy from the monopolist for their functioning, were sent out to the management of non-discriminating monopoly from above (vertically). Thus, for example, a machine-building factory is sent out from its central administrative board or ministry an order (*fund*) to receive from a non-discriminating monopoly, steel factory, at a *certain* time a *certain* amount of steel at a *certain* price in order to produce at a *certain* time a *certain* machine in a *certain* amount and at a *certain* price. In other words, the higher authorities *guarantee* that the steel factory will supply steel to the machine-building factory.

This creates an outward appearance of absence of any demand for steel by the machine-building factory, if, of course, demand is understood as a certain inverse causal relationship between price and quantity, other things being equal. The illusion is added by the passive role of money in its role as *bank deposits* (*beznaichnyi raschyet*)¹⁰ as if both enterprises, the steel and the

machine-building factories, are indifferent possessors of pieces of state property.

But, on the other hand, the management of enterprises, which were to receive the means of production from non-discriminating monopoly, was obliged, under the threat of punishment, to fulfill its output plan sent out to this monopolist by the higher authorities. Moreover, the enterprise management would aspire to overfulfill its output plan in order to be rewarded by the higher organization with special bonuses and benefits.

That is why the management of the enterprise-receiver, in order to produce and realize the larger amount of its product, with the necessity had to strive to acquire as much as possible of the amount of the output (the enterprise-receiver's input) produced by non-discriminating monopoly. But, under the conditions of the overall relative scarcity of the economic resources, this could mean just one thing: the management of the enterprise-receiver would do everything in its power to secure the product of non-discriminating state monopoly by exchanging for it the lowest equivalent amount of its own product.

Such an aspiration was none other than a *peculiar demand* for the means of production within the system of totalitarian state capitalism. This demand for the product of non-discriminating monopoly (for instance, of the steel factory), producing and supplying the means of production (for instance, steel), was peculiar because the own price (for steel, in our case) of the monopolist-supplier (the steel factory, in our case) was expressed not directly but by the means of a certain amount of the product (machines, in our case) of the enterprise-purchaser (for instance, the machine-building factory).

If we take into consideration this indirect and specific relationship between the price of the commodity (steel, for instance) and the quantity demanded of it, then it might be said that, under the conditions of totalitarian state capitalism, in everything else the demand curve for monopolistically produced means of production, in essence, did not differ from the demand curve for monopolistically produced articles of consumption. The curve would be downward to the right sloping.

If the price of the monopolistically produced commodity (steel) is expressed *directly* in rubles, without the intermediate amount of other commodity (machinery), then the behavior of the non-discriminating monopolist, producing the means of production within a framework of totalitarian state capitalism, could be easily predicted.

As it has been constantly pointed out, *subjectively* the state, represented by the bureaucracy as a whole, aspired to the augmentation of its power through the maximization of production of the means of production. Therefore, in the vertical hierarchy, the ministerial management, at least in the short run, dictated to

the enterprises' management such a line of conduct which compelled each of them in their horizontal relation to other enterprises to attain as their most important goal to maximize either their physical output or their total income.

The first occurred when a certain kind of the means of production was homogeneous in its character and thus its amount could be simply calculated in its natural form. Thus, it was easy to measure the production, for instance, of steel in tons and the production of tractors, in horse power.

The maximization of the production of the physical output was constrained by the productive capacity of the enterprise producing this commodity. This factor, and also the specific demand curve, defined the price-quantity combination of the production of the homogeneous means of production by non-discriminating monopoly.

In the second case, when the means of production were heterogeneous in their character, it was practically impossible to calculate the quantitative amount of this or that means of production. In such a case, it was necessary to deal with the value measurement (for example, in a case of various spare parts to a certain machine). Then the *pure, ideal* procedure of achieving the maximum total income by non-discriminating monopoly of totalitarian state capitalism, producing the means of production, was identical to that of the same type of monopoly, producing the articles of consumption.

Soviet state oligopolies

The oligopolistic market of totalitarian state capitalism had a specific feature which distinguished it from the oligopolistic market of mixed capitalism (democratic or authoritarian). In the Soviet oligopolistic market, despite the existence of a few big producers-sellers, each oligopoly functioned horizontally not only independently but also, what was more important, *isolated* from the others. This is because the centralized planned-ministerial system of totalitarian state capitalism saved a separate enterprise from the need to find consumers for its products and to establish prices for them as well.

The very expression of such a separation was demonstrated by the obvious indifference which each separate enterprise-oligopoly felt about the behavior of other oligopolies with respect to the market price and realization of its products. In *this* respect, the presence of other oligopolies in the oligopolistic market of totalitarian state capitalism was simply not noticed, and any fear of competition was absent.

But it is obvious that such a behavior of Soviet enterprises in the market of a few producers-sellers contradicts all we know about oligopolies. For, the essence of oligopoly as a market in mixed

capitalism (democratic or authoritarian) is the recognition by each oligopoly of their interdependence.

Does it, therefore, not mean that the Soviet market of several giants can not be considered an oligopolistic one? In our opinion, no, it does not. For, it is this centralized planned-ministerial Soviet system gave rise to another type of interest, another type of curiosity of enterprise in the behavior of others in the market.

Inside a certain ministry, inside a certain central administrative board, inside a certain trust, Soviet oligopolies competed with one another in terms of fulfilment and over-fulfilment of their plan targets. It is in this kind of "socialist" emulation was interested the management of the oligopolist.

For, under the conditions of the pyramidal, hierarchical structure of totalitarian state capitalism, to become a winner in "socialist" competition was one of the most important means of bettering the material and social standing of the oligopolistic management. The enterprise's success in fulfilling and over-fulfilling its plan targets allowed the oligopolistic management to "earn" bonuses in this particular enterprise. For the management, such successes served as important steps in making career with resulting higher power and more perks and privileges. Here, in this competitive struggle, only that manager could be noticed and noted by the higher authorities who, other things being equal,¹¹ while fulfilling and over-fulfilling his enterprise's plan targets, at the same time paid careful attention to the performance of other oligopolies in his market.

Thus, the following conclusion can be made. Soviet oligopolies, in their desire to perform better than others in the market were compelled to pay heed to each other.

But this watchfulness in relations between oligopolies of the same market could not express itself in the interconnection of the traditional mixed-capitalist character. In the latter case, oligopoly aims at profit maximization (loss minimization in the short run) in a *roundabout* way, by attracting a greater number of consumers (buyers), by conquering a greater share of the market and also by charging (when is possible) a higher price for its product.

Within the framework of totalitarian state capitalism, this watchful relation with regard to other oligopolies was realized as a relationship of a specific character. Each oligopoly attempted to meet its plan targets, ordered by the higher authorities, *directly*, carefully keeping an eye on the performance of other oligopolies in solving the same problems, while paying no attention to (1) the needs either of its own consumers or that of other oligopolies and (2) to market prices.

As it can be seen, in totalitarian state capitalism, the competitive struggle between oligopolies did not disappear; it just took a *different form*. And in *this* respect, in the struggle for the first place in the "socialist" emulation, the presence of other oligopolies

in the market was very much noticed, and the fear to lose was very much present.

This created a rather interesting situation. In the *conventional, mixed-capitalist* meaning of the word, the Soviet market of a few giants could not be considered as oligopolistic and its enterprises as oligopolies. Therefore, since no Soviet oligopoly was interested in the *price* activities of other oligopolies in the market, can it be concluded that from the *conventional, mixed-capitalist* point of view the oligopolistic market of totalitarian state capitalism was simply a *quasi-competitive* market model?

An answer to this question could be positive only if demand for the oligopolistic product was perfectly elastic, that is, if its demand graphically was a straight horizontal line. But this answer would be based on the assumption that in the *conventional, mixed-capitalist* meaning a single Soviet oligopoly, on the one hand, felt itself as a small and powerless enterprise in a way the perfectly competitive firm feels; where, on the other hand, consumers have an almost limitless power to choose.

However, the Soviet reality was quite different. Even in the *conventional, mixed-capitalist* meaning of the word, here we rather encounter a market of non-discriminating monopoly where each of the few big Soviet enterprises behave as if it was the only one in *that part of the market which was allotted to it* and where consumers were constrained by the fact of the size and the number of the enterprises in the market.

From this follows that oligopolistic demand could not be perfectly elastic. From this further follows that oligopolistic demand was a downward to the right sloping line.

But talking about the monopoly essence of the oligopolistic market of totalitarian state capitalism, it is necessary to make the following three corrections.

First, here, in the oligopolistic market, prices were established, purchasers were allotted not by the bureaucracy of the oligopolist but by the bureaucracy of higher authorities. Therefore, in the *unconventional, totalitarian-state-capitalist* meaning of the word, the Soviet market of a few big enterprises-possessors, independent from each other, represented not simply the state oligopolistic model. It might be said that, to a certain degree, this was a full *sub-market* non-discriminating state monopoly.

Second, unlike the case of mixed capitalism where the existence of the oligopolistic model of full monopoly presupposes a homogeneous character of products in the market, in totalitarian state capitalism the oligopolistic model of a full *sub-market* non-discriminating state monopoly did not require such a constraint. Here, it made no difference whether Soviet oligopoly offered a homogeneous or heterogeneous product, whether Soviet oligopoly was standardized or differentiated. This "indifference" of Soviet oligopoly to the character of its produce, caused by the very sub-

market monopoly nature of the model, gave rise to its third feature: the absence of any need to advertise its products.

In summary, what was the behavior of Soviet oligopoly? Evidently, in the short and in the long run, Soviet oligopoly pursued the same goals as Soviet non-discriminating monopoly. The difference between the two was as follows: Soviet oligopoly, in contrast to Soviet monopoly, operated not in the whole market but only in its designated sub-market part.

Soviet state monopolistic competition

How did the Soviet state enterprise behave in the market of monopolistic competition? In what respect, from the point of view of its clients, was it different from its mixed-capitalist "colleague"? For, obviously, there was a certain dissimilarity between the two markets and, hence, between its enterprises.

First, there were less enterprises and they were of a larger size in the market of monopolistic competition of totalitarian state capitalism than in the similar market of mixed capitalism. For example, Soviet retail trade (in 1987) comprised 728 th. enterprises, while there were more than twice (in 1982) USA retail outlets (1,573 th. firms).¹²

The gap becomes even more pronounced when a comparison is made in terms of the territory and population the enterprises (firms) served in the corresponding countries. Thus, during the same years, on average the Soviet enterprise served six times larger area and 2.5 times larger population than the American firm.¹³

We are already familiar with reasons for this phenomenon: (1) economic considerations: gigantomania of totalitarian state capitalism caused by the belated industrial revolution in the country under the conditions of industrially developed mixed capitalism already established in the West, which necessitated the first and foremost development of branches of heavy industry, which, in turn, spread the mentality of bigness to all branches of Soviet economy; (2) political considerations: a better and easier control of fewer enterprises.

Second, products in the market of monopolistic competition of totalitarian state capitalism were less differentiated than in the market of monopolistic competition of mixed capitalism. The major reason was simple: the state as the only one owner of the means of production in the Soviet case; as a result, the absence of a strong pressure on the owner to produce commodities of a richer variety.

Third, conditions for the entrance into and exit from the market of monopolistic competition in totalitarian state capitalism were more difficult than that of mixed capitalism. Reasons: weak labor and capital mobility in the USSR related to the vertical ministerial differentiation of possession of the means of

production; following from this complexities of the transition of the Soviet enterprise from one ministry into another (that is, from and into the market of monopolistic competition), and the actual absence of bankruptcies.

As a result, the power over market price by the Soviet enterprise in the market of monopolistic competition was stronger than by the corresponding mixed-capitalist firm. The stronger control over price by the Soviet enterprise in the monopolistically competitive market followed from the following two factors.

First, the three factors just pointed out. Second, the difficulties with the management of and the control over enterprises which encountered the higher authorities and which were exploited by the enterprises.

As a result, the bureaucracy of monopolistically competitive enterprises of totalitarian state capitalism was given a *certain* opportunity in taking independent decisions with respect to the price of the commodity produced. We say a "certain," because there was a certain gap between the official price and the actual price charged by the monopolistically competitive enterprise of totalitarian state capitalism to its clients. The latter was, as a rule, higher than the former.

Let us take, for instance, a hairdressing salon. The price-list of services offered by it was compiled by the management of the trust (the higher authority of the salon), or maybe even by the higher authorities. This was the official price.

But on top of this official price there were *illegal* tips which were received by the hairdresser and which she shared with the director of the salon. In addition, there were, as a rule, other extortions from the salon's clients: paying for the cologne, perfume or ointment of the quality lower than that shown in the price-list; a rude treatment of clients; etc. Thus, the official price plus all these illegal, money and psychological extortions, was the actual price paid by the Soviet client.

It made no difference how close the client took to his heart the "machinations" of the Soviet hairdressing salon. Even if she suffered from this, nevertheless the relative scarcity of the salons in the area where she lived gave her little opportunity to "drop" the salon and go somewhere else.

In this relative powerlessness of the Soviet client of monopolistically competitive enterprise as compared to that of the client of the monopolistically competitive firm in mixed capitalism, the more significant power over the market price of the hairdressing salon was revealed.

In summary, the following conclusion can be made with regard to the market structure of totalitarian state capitalism. Markets of totalitarian state capitalism were more imperfect, further from the ideal of pure capitalism of perfect competition than markets of mixed capitalism.

Thus, from the point of view of the consumer: Soviet monopoly had more market power, was more “monopolistic” than monopoly of mixed capitalism; in its character, Soviet oligopoly was closer to monopoly than oligopoly of mixed capitalism; finally, in its major features, Soviet monopolistically competitive enterprise was closer to oligopoly than monopolistically competitive firm of mixed capitalism.

Thus, in the *long* run, the behavior of the Soviet monopolistically competitive firm resembled that of oligopoly of the same period. That is, unlike the monopolistically competitive firm of mixed capitalism but like oligopoly, Soviet monopolistically competitive firm in the long run was able to attain not only zero profit (when $P=AC$) but also a positive profit (when $P>AC$) if the task was maximization not of total revenue but of profits.

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Notes to Chapter 3: Soviet Market Structures

- 1 Based on E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Mikroekonomicheskaya Teoria Rynkov Produktii* [Principles of the Economic Theory. A Microeconomic Theory of Output Markets]. Moscow: "Nauka," 1995, pp. 279 - 285, 322 - 324, 335 - 337; and also E. Raiklin, "The Disintegration of the Soviet Union." *International Journal of Social Economics*, Volume 20, Numbers 3/4, 1993, pp. 13 - 15.
- 2 We need to remind the reader that throughout the book we examine the Stalinist system as a *model*, that is, as an *approximation* of the Soviet reality. We, therefore, concentrate on its *core* relations and disregard what we consider its *secondary* relations. Among such relations there were collective-farm (*kolkhoz*) markets. These were markets, by and large, set up in urban areas. In this markets, state- and collective-farm peasants could sell their own products, which they produced outside the *sovkhoz* and *kolkhoz* agricultural system on small parcels of land the state allowed them to use, at prices determined by relatively *free* (from the state) market forces of supply and demand. Although their produce of certain food items was significant (as we shall see later), it is not this almost perfectly competitive kind of agricultural production that characterized the *essence* of the Soviet socioeconomic model.
- 3 Obviously, from the *economic* point of view, the predominance of state ownership and possession gave a fertile ground for Soviet planners to think and operate in terms of the *economies of scale*. Also, from the *political* point of view, the fewness of enterprises allowed the Soviet planners to have a better control over the socioeconomic life in the country.
- 4 G. Seib and A. Murray, "Herculian Task. IMF Effort to Reform Soviet Economy Runs Many Daunting Risks." *Wall Street Journal*, October 15, 1991; and also see S. Dentzer, "Economy in Crisis." *US News & World Report*, September 9, 1991, p. 37.
- 5 *Promyshlennost' SSSR. Statisticheskii Sbornik* [Industry of the USSR. A Statistical Collection]. Moscow: "Finansy i Statistika," 1988, p. 14.
- 6 *Ibid.*, p. 8.
- 7 Here are some accounts of monopolization of Soviet economy by Soviet writers:

"In 1986 our country had 46,000 industrial enterprises, 50,000 collective and state farms, 32,000 construction associations, and several hundred thousand other enterprises, associations and organizations that are legal entities and have their own independent system of assets and liabilities accounting. A total of 514,000 such enterprises have the theoretical right to dispose of their revenues as they choose... .

Soviet enterprises are the largest in the world. The average industrial enterprise has about 1,000 workers, and an average collective or state farm employs about 600 people. This very high concentration is achieved primarily by horizontal integration of production; we have very few large-scale vertically integrated, diversified associations... .

Nearly all the largest international companies are now highly diversified, and not one confines itself to just one field. On the contrary, in the U.S.S.R. there are almost no multisectoral enterprises or associations. Although there are associations that unite many tens of thousands of people, all their activities are concentrated primarily in one field... .

One and only one ministry is responsible for the output of each major type of product (in an administered economy you have to know who is accountable). Actually a monopoly, this ministry jealously guards against competition from other ministries. Since there are relatively few competitors, they divide up “spheres of influence” so that no ministry interferes in the business of another or produces on a large scale goods that are not in its main line. These arrangements are reinforced administratively” (N. Shmelev & V. Popov, *The Turning Point. Revitalizing the Soviet Economy*, trans. by M. Berdy. New York: Doubleday, 1989, pp. 114-115).

“The extremely high level of monopolization of the Soviet economy ... is a result of the long-term policy of concentration and narrow item specialization of production, of the formation of the hierarchical structures ...

According to Gosstab [the State Supply Committee] of the USSR, almost 2,000 products ... are produced by a single enterprise; and the share of monopoly production in the machine-building complex comprises 80 percent of the total volume of production. According to Goskomstat [the State Committee on Statistics] of the USSR, in machine-building ... there are 166 enterprises-monopolists and 180 monopolistic productions; for 209 out of 344 consolidated commodity groups of industrial production, the share of a single largest enterprise-producer exceeded 50 percent of the total volume of production of such a produce, while for 109 enterprises this share reached 90 percent. If concrete types of production are examined, then the level of monopolization will even be higher. For example, 96 percent of the production of main diesel locomotives is now concentrated in the association ‘Voroshilovgradteplovoz’; 100 percent [of the production] of domestic air-conditioners, in the association ‘Bakkonditsioner’; 100 percent [of the production] of deep pumps, at the Bakinskiy plant, etc. (*Perekhod k Rynku. Kontsepsiya I Programma* [A Transition to the Market. The Concept and the Program], by the working group organized by the mutual decision of M. Gorbachev and B. Yeltsin. Moscow: The Ministry of Press and Mass Information of the RSFSR, 1990, pp. 77 - 78).

8 To simplify our argument, we imagine that the monopolist-producer is also a seller of its product.

9 In the worst scenario, the manager could be shot or imprisoned (Stalin’s times).

10 We will discuss the Soviet money in a separate chapter.

11 Of course, to meet plan targets was not a simple task for the Soviet manager. He had to be not only a good *economic* executive but, in a sense, also a skillful *politician*:

“The career-oriented Soviet manager needs to cultivate and maintain extensive political contacts to survive ... Rather than perfecting their managerial skills, directors [of big enterprises] spend much of their time in Moscow hobnobbing with the power brokers in the central ministries. The reasons are threefold. First, because managers hold very visible positions, they often become targets of envious colleagues bent on their destruction. No laws protect them from anyone who decides to falsely accuse them of a crime against the state. Soviet law places the burden of proof on the defendant. Therefore, the factory director has a pressing need for prominent protectors in the Communist Party.

Second, good political relations are crucial to overcoming the insurmountable obstacles posed by the official *system* in meeting factory goals. The factory's success hinges on the director's informal network of relationships. Directors who are successful in building political alliances will be able to negotiate more reasonable plans for their factories, plans that are well within a factory's productive capacity. They will also find it easier to get supplies for their firms.

Third, Soviet managers who ingratiate themselves into a circle of powerful cadres will miraculously improve their personal access to the best foodstuffs, imported goods, and most important, good housing.

These three benefits are costly, however. Factory directors must place themselves at the whim of their superiors and influential party members, thereby putting the firm's resources at the disposal of those officials" (P. Roberts and K. LaFollette, *Meltdown. Inside the Soviet Economy*. Washington, D.C.: Cato Institute, 1990, pp. 27-28).

- 12 See E. Raiklin, "After Gorbachev? A Mechanism for the Transformation of Totalitarian State Capitalism Into Authoritarian Mixed Capitalism." *Journal of Social, Political and Economic Studies*, Monograph Number Twenty, 1989, p. 49, Table 6.
- 13 Ibid., Table 7.

PART VII
THE LAST STAGE IN THE DEVELOPMENT OF THE SOVIET
SOCIOECONOMIC SYSTEM: THE STALINIST MODEL IN
OPERATION
(1940-1991)

Chapter 4
Soviet Unemployment and Inflation¹

Mixed capitalism (democratic or authoritarian)² presupposes the existence of unemployment and inflation as its integral parts. The purpose of this chapter is to investigate whether or not these phenomena were inherent in the Soviet system of totalitarian state capitalism.

Soviet unemployment

According to the official Soviet statistics, unemployment was “liquidated” in the Soviet Union in December 1930.³ Thus, beginning with that time, the “capitalist” phenomenon of unemployment in the USSR had been officially absent.

Could this be true? For, as it is known, unemployment does not exist in a cyclical form only. There are also two more types of unemployment: frictional and structural. These two types of unemployment tell us that under *mixed* capitalism of any form zero unemployment is impossible. Did the dictum apply to such a totally controlled and managed system as the Soviet *totalitarian state* capitalist structure?

Researches made by Western economists in the 1970s - 1980s demonstrated that in the 1960s - 1970s, the actual rate of unemployment in the Soviet Union was between 1 - 2 percent.⁴ It is necessary to note that, with the exception of Japan, this actual Soviet unemployment rate was much lower than that of developed countries of mixed capitalism.⁵

It is, of course, impossible to verify the *quantitative* correctness of the Western calculations of Soviet unemployment. Only further research will be able to confirm, correct or reject these Western computations.

Here we would like to express our view of the *qualitative* side of each of the types of unemployment which together constituted the total actual rate of unemployment during the Soviet period.

Observations with regard to frictional unemployment in totalitarian state capitalism

Merely intuitively it is hard not to come to conclusion about the *lower rate* of frictional unemployment in the Soviet Union as compared to countries of mixed capitalism. This intuitive feeling can be confirmed by the following facts of the Soviet internal life.

First, the existence of the system of internal passports, the police registration of a passport, work (service record) books, and the official state policy expressed in the slogan "Those who do not work, do not eat", supported by strict administrative measures of punishment of the so-called "spongers" and "fliers" (those who frequently changed their jobs). Second, the chronic housing shortage, a relatively undeveloped infrastructure of transportation and communications, and also a specific national-territorial administrative division of the country, which very often required knowledge of a second (not native) language to live and work in one or another region or locality.

All these factors, to a considerable degree, were discouraging Soviet blue- and white-collar workers from changing jobs: searching for a better job, looking for a new line of employment or a new place to live and work in. As a result, the rate of frictional unemployment in the USSR was lower than it could have been had these factors not influenced lives of Soviet people.

But such an appraisal of the rate of Soviet frictional unemployment would be incomplete if we disregard the temporal factor. For, it is obvious that the *development* of Soviet capitalism from the Draconian Stalinist time of "builders of socialism" through the Khrushchev's "thaw," the Brezhnev's "stagnation" to Gorbachev's "perestroika" had to have an effect on the rate of Soviet frictional unemployment. The gradual maturing and, as a consequence, the enfeeblement of the Soviet system, its more and more visible stratification into social groups and classes opposing each other, the loss of its revolutionary "innocence" and direction (of which we will speak later), on the one hand; the significant growth of the old and new branches of economy creating more and new jobs, a certain improvement of the housing problem and the problems of transportation and communications, the triumphant spreading of the Russian language over the immense country, on the other,—all of this could not but provide a growing freedom to chose jobs. Therefore, they could not but *increase* the rate of *frictional* unemployment.

Observations with regard to structural unemployment in totalitarian state capitalism

Thus, in our opinion, the rate of *frictional* unemployment in the USSR in the process of maturing and, therefore, growing

decrepit of the elements of totalitarian state capitalism had to demonstrate a tendency to *grow*. Now, what about the second inevitable type of unemployment under capitalism, structural unemployment?

We believe that here the situation was totally opposite. The industrial revolution, the technical progress and collectivization, like hurricane spreading across the country at the end of the 1920s - 1930s, urbanizing the peasant country, promoting the rapid emergence of new branches of the economy, gave rise to an enormous need in a significant restructuring of the composition of jobs and professions. The cultural revolution created the preconditions for creating the skilled personnel. But because all this took time, it could not but affect the structural type of Soviet unemployment during the early period of totalitarian state capitalism in the Soviet Union.

Subsequently, as the tasks of the industrial revolution had been fulfilled, production had been bureaucratized and monopolized and, as a result, the rates of the technological progress and the structural changes had significantly slowed down,—the need for structural changes in the composition of labor force was diminishing. This was a powerful factor in *diminishing* the rate of *structural* unemployment.

In the 1980s - 1990s, during the last years of the Soviet system, in connection with the actual technological stagnation of the system of totalitarian state capitalism the necessity in structural labor changes was falling. As a consequence, it can be assumed that the rate of *structural* unemployment in the country had achieved the *lowest* point.

Hence, from our point of view, in the process of the economic development of Soviet capitalism, there had to be observed, on the one hand, the increase in the rate of the frictional component of the natural rate of unemployment and, on the other, the decline of the structural element of unemployment. We hope that future investigations of this phenomenon will tell us what, in the final analysis, was the general trend in changes of the natural rate of unemployment in the USSR.

Observations with regard to cyclical unemployment in totalitarian state capitalism

In accordance with Okun's law,⁶ the rate of cyclical unemployment (U_c) relates inversely to the coefficient of production $[(Y/Y_f)]$, where Y is *actual* real GDP and Y_f is full-employment real GDP) given a constant slope of the coefficient (g). Thus, $U_c = -g[100(Y/Y_f)-100]$.

If, by following Okun's law, it could be proven that, during the Soviet period, the coefficient of production, first, at least in some years was not equal one (so that U , or the actual unemployment

rate, was not equal U_F , or the full-employment unemployment rate, or the natural rate of unemployment) and, second, had a tendency to changes, then it ought to admit the existence of cyclical unemployment in the system of totalitarian state capitalism.

Since, as it was emphasized earlier, Soviet official statistics denied any presence of unemployment in the country, while Western statistics measured the actual Soviet unemployment rate only as a whole, not differentiating between either frictional, or structural, or cyclical components, at present time it is impossible to judge whether there was cyclical unemployment in the USSR and what its rate was.

But, in any event, one condition necessary for the existence of cyclical unemployment in the Soviet Union was absent. What is meant here is annual cyclical changes in real Soviet GNP. From 1929 till 1990, with the exception of 1932, 1945, 1946, 1979 and 1990, *actual* real Soviet GNP demonstrated a very high positive increase.⁷

We, however, do not know the rate of growth of *potential* real Soviet GNP of this period. But one thing is clear: the rate could not be constant if one takes into consideration those great potentials that the Soviet industrial revolution had provided with the economy of the country.

In this long-term “race” between the *actual* and *potential* real Soviet GNP (depending on the slope of the coefficient of production) all scenarios, with respect to cyclical unemployment, were possible: positive, negative or zero cyclical unemployment, with the first two either declining, or increasing, or remaining constant.

In conclusion, the following needs to be emphasized. The Soviet socioeconomic structure was oriented toward maximization of either total revenue or total physical product. This was a system of *extensive* economic growth in which the difference between the marginal revenue product and the marginal revenue cost of a variable resource was a negative number.⁸

Thus, in comparison to mixed capitalism whose major goal is to maximize profits (or minimize losses in the short run), Soviet totalitarian state capitalism was notable for an exceptionally high level of waste in using its resources, including its labor force.⁹ Therefore, in our opinion, it would be no surprise if future estimates show that the *cyclical* component of Soviet unemployment (if such a component indeed existed) was much less than that of *mixed* capitalism.

Soviet inflation

In our view, it is impossible to size up Soviet inflation without realizing that inflation reveals itself in different ways depending on forms of capitalism. Thus, mixed capitalism, as a rule, is characterized by the *overtly gradual* type of inflation. At the same

time, on the whole, there inherent in totalitarian state capitalism a combination of *covert* (*hidden*) and *overtly spasmodic* inflation.

Covert inflation domineered in the Soviet Union. Its essence was in following.

In the centralized bureaucratically planned Soviet economy, the *majority* of individual prices, and, therefore, their aggregate level, were determined and altered administratively by various governmental agencies either at the all-union (federal) or at the republican or, finally, at the regional and local levels. Government bodies, by administrative measures, very often were *suppressing* (*repressing*) movements of individual relative prices and their absolute aggregate levels either up or down even in those circumstances where changing demand and/or supply conditions required such price movements.

Hence, the name of this type of inflation: *covert* inflation. It was “hidden,” because the state as the owner of the major means of production and the significant portion of goods and services produced in the country had administrative power not to allow it (inflation) to “come” in open.

Covert inflation as a *suppressed* inflation existed as a potential disease driven into the Soviet economic body. It was ready to come to light “waiting” for the forces which were restraining it to become weak.¹⁰

The Soviet period witnessed *overt* (*open*) inflation as well. But its overtness had a specific character. In contrast to *overtly gradual* inflation of mixed capitalism as an intra-market, spontaneous, continuous process, Soviet overt inflation was *uneven*. This means that changes in individual relative prices and, hence, in their absolute aggregate level were *administratively sporadic*. As a result of such changes in prices, government bodies sometimes let the steam out, thus by administrative order allowing covert, suppressed inflation just for a certain period of time to turn into a situation of overt inflation.

What is known about Soviet inflation? Let us divide our answers to this question into two parts.

In the first, we will attempt to see what was told about inflation by Soviet statistics. In the second part, we will attempt to use direct and roundabout statistical data to make our own conclusion about Soviet inflation.

Soviet inflation in Soviet statistics

We remember that before 1988, official Soviet statistics did not know such a concept as GDP. As an aggregate macroeconomic indicator of production, Soviet statistics used GSP which was a notion narrower than GDP.

Obviously, since there was no GDP, there was no its price aggregate: the GDP deflator. As a consequence, until 1991, there

were no statistical materials demonstrating general price indices in the Soviet economy. From this follows, that statistical data revealing movements of aggregate price levels, or inflation, was absent as well.

As a result, Soviet statistics was informing the public about inflation using the “language” of the following price indices: of wholesale prices, of state retail prices and prices for agricultural products sold in *kolkhoz* (collective farm) markets in urban areas. In order to ascertain to what degree the “language” of Soviet inflation was comprehensive, let us briefly look at each price index.

Wholesale price indices. According to statistical annuals,¹¹ these indices were calculated for some commodities of some representative branches of industry. In other words, wholesale price indices were *industrial prices indices*. As such, they were estimated as general price indicators for the *entire* industry and for its *separate* branches as well.

Depending on whether they were determined for the whole industry or for its separate branches, wholesale price indices were of two *kinds*. The first were *factory wholesale prices* at which Soviet industrial enterprises sold their commodities to state wholesale enterprises and whose calculation did not include the turnover tax.¹² The second were *industry wholesale prices* which state wholesale enterprises charged to purchasers of their products and whose determination did include the turnover tax.

In Table 4.1, these two kinds of industrial wholesale prices are shown for the period of 1940 - 1990:

Table 4.1
*Soviet Industrial Wholesale Prices, 1940 -1990*¹³

Year	Industrial wholesale prices				Year	Industrial wholesale prices			
	Factory wholesale prices, in percentage to:		Industry wholesale prices, in percentage to:			Factory wholesale prices, in percentage to:		Industry wholesale prices, in percentage to:	
	1949	1985	1949	1940		1949	1985	1949	1940
1940				100	1973	76		63	132
1948				181	1974	75		63	132
1949	100		100	212	1975	75		63	132
1950	83		80	170	1976	74		62	
1955	68		61	128	1977	74		62	
1958	67		60		1978	74		63	
1960	69		61	129	1979	73		62	
1962	71		61		1980				
1963	71		61		1981				
1964	71		61		1982				
1965	70		60	127	1983				
1966	71		59	126	1984				
1967	77		63	135	1985		100		
1968	77		64	135					
1969	77		64	135	1987		101.5		
1970	77		65	136	1988		102.4		
1971	76		63	134	1989		104.1		
1972	76		63	133	1990		107.2		

There are so many blank spaces in the table. This is because sometimes the Soviet statistical agency simply did not publish the data on wholesale prices.

There are other very interesting phenomena. Take, for example, the base periods. To calculate factory and industry wholesale prices from 1949 till 1979, the year of 1949 served as the base period. In order to determine industry wholesale prices for 1948 - 1975, the base period was 1940. After the period of 1980 - 1984 when no data on wholesale prices was published, 1985 was chosen as the year of comparison between factory wholesale prices of the subsequent years. As far as industry wholesale prices are concerned, in 1980 - 1984 they were simply stopped to be published.

The years of comparison could be explained as follows. 1940 was the last pre-war year; 1949 was the year when wholesale prices for the means of production were sharply increased ; and 1985 was the year when Gorbachev came to power. Still, one is left with impression that there was no system in choosing base periods by the Soviet statistical authorities.

Where did this negligence, this almost indifference to wholesale price indices from the Soviet statistical authorities come from? The answer to this question may be found in the very essence of the Soviet socioeconomic structure of totalitarian state capitalism.

Thus, from the point of view of managers of enterprises, the relations between the latter were commodity-monetary and, therefore, at least relative individual prices of their products were important. But from the point of view of the management of the economy as a whole, these relations were nothing more but a simple transfer of the means of production from one state producing unit to another.¹⁴

Hence, in so far as in the eyes of the highest Soviet bureaucracy buying and selling the means of production took place within the state between the state enterprises-possessors of the means of production, the state-owner of the means of production attached little importance to such an average, aggregate measure as industrial wholesale prices. On the inattention of the highest Soviet bureaucracy to these indices also tells the fact that the level of both factory and industry wholesale prices had changed little during a quarter of the last century (1955 - 1979).

Consumer (retail) price indices. In accordance with the official Soviet methodological explanation, "*indices of state retail prices* of the entire commodity turnover for each year are determined by the means of the evaluation of the whole mass of commodities sold to the population in the year under consideration through retail outlets as well as through public catering in constant and current

prices. The index reflects all the changes in prices carried out by the legislative procedure.”¹⁵

Let us see the movement of this index in the period of 1940 - 1990:

Table 4.2
*Soviet Consumer Price Indices (1940 - 1990)*¹⁶

Year	1940: 100%	1950: 100%	1965: 100%	1970: 100%	1980: 100%	1985: 100%
1	2	3	4	5	6	7
1940	100					
1950	186	100				
1952	161	87				
1958	141	76				
1960	139					
1963	141	76				
1964	141	76				
1965	140	75	100			
1966	139	74				
1967	139	74				
1968	139	74				
1969	139	75				
1970	139	75	99.7	100		
1971	139	75	99.6			
1972	139	75	99.4			
1973	139	75	99.4			
1974	139	75	99.3			
1975	139	75	99.3	99.7		
1976	139			99.7		
1977	139			100		
1978	140			100.7		
1979	142			102		
1980	143			103	100	
1981	145			104	101	
1982	150			108	105	
1983	151			108	105	
1984	149			107	104	
1985	150			108	105	100
1986					107	102
1987					108	103
1988					109	104
1989						106
1990						111

It can be seen that during the period of 1950 - 1990 state consumer (retail) price indices were published more regularly than wholesale price indices. This, probably, could be explained by the fact that retail prices were that mechanism with whose help a vast amount of consumer commodities was being transformed from

their original owner-producer, that is, from the state, to their final owner-consumer, that is, to households.¹⁷

It can also be seen that in its *character* the aggregate movement of state consumer prices was not uniform. From 1940 till 1960 and from 1981 till 1990 Soviet retail inflation was *overtly-spasmodic*. In 1965 - 1980, in its major aspect it was *covert (repressed)*.¹⁸

But what was the relationship between the aggregate movement of Soviet wholesale and retail prices? To answer this question, let us turn to Table 4.3:

Table 4.3
The Interrelation Between Soviet Wholesale and Retail Prices
*(for the Available Years)*¹⁹

Year	To 1940		To 1985	
	Indices of industry wholesale prices, in percentage	Indices of state retail prices, in percentage	Indices of industry wholesale prices, in percentage	Indices of state retail prices, in percentage
1	2	3	4	5
1940	100	100		
1950	170	186		
1960	129	139		
1965	127	140		
1966	126	139		
1967	135	139		
1968	135	139		
1969	135	139		
1970	136	139		
1971	134	139		
1972	133	139		
1973	132	139		
1974	132	139		
1975	132	139		
1985			100	100
1987			101.5	103
1988			102.4	104
1989			104.1	106
1990			107.2	111

If the year 1940 is taken as the base year, then, with the exception of 1940 - 1960, there had been no interrelationship between the two indices in the period from 1965 to 1975. On the other hand, if 1985 is assumed as the base period, then during the last years of the existence of the Soviet socioeconomic system there had appeared a direct and a clear-cut connection of the two indices.

However, even in those years when the two indices demonstrated their interdependence, given the mandatory

character of the determination of Soviet prices at both wholesale and state retail levels, it is difficult to establish the sequence of prices changes: whether wholesale price changes influenced that of retail price changes or vice versa. Also, it is impossible to discover any temporal interval in relations between the two indices (as it is required by the economic theory), since Soviet prices were not simply decreed but administered *spasmodically*, in contrast to their *spontaneous* and *gradual* adjustments in mixed capitalism.

In general, it can be concluded that, given the importance of retail prices to the population and the ambivalent attitude of the Soviet authorities to wholesale prices, in most of the period under consideration the former were more stable than the latter.

Retail price indices at kolkhoz markets outside villages. Soviet statistics included into market transactions at collective farm (*kolkhoz*) markets outside villages (in urban areas)

... sales of agricultural products by the collective farms (*kolkhozy*), by the members of the collective farms (*kolkhozniki*) and by other groups of the population, who had subsidiary plots of land, to blue- and white-collar employees and organizations at prices established by [free market forces] ... [At the same time,] sales of their products by *kolkhozy* and *kolkhozniki* to each other constitutes the *intra-village market turnover* which is not included in the turnover at kolkhoz markets outside villages.²⁰

Obviously, this was a market where prices were determined by the spontaneous forces of supply and demand.²¹ Since these prices were not established by the higher Soviet authorities, it can be concluded that in its character inflation caused by the movement of such prices had to be *overtly-gradual*.

Inflation tied to the indices of prices of agricultural products at urban (not in villages) collective farm markets was calculated by the Soviet statisticians on the *selective* basis:

Table 4.4
(in percentage)²²

Year	To 1940	To 1950	To 1970	To 1980	To 1985
1	2	3	4	5	6
1958		109			
1960		108			
1963		131			
1964		138			
1965		131			
1966		131			
1967		131			
1986	225.1		186.8	113.8	99.9
1987				119.3	104.7
1988				111.9	101.5
1989				122.5	111.1
1990				148.5	134.6

As it can be observed, Soviet statistics was very stingy as far as its publications of price indices of collective farm markets in urban (non-village) areas were concerned. Thus, there had been no such indices from 1968 to 1985.

In our opinion, this “negligence” might be explained in the following way. We believe that here a great role played a “diffident shyness” of the Soviet authorities with respect to such a “sensitive” element of Soviet life as the availability of consumer goods to the population. Had the government published systematically, along with indices of state retail prices, indices of prices of collective farm markets, then, by comparing the movements of the two sets of prices, it would have not been difficult for a thoughtful reader to come to a conclusion about the degree of saturation of the Soviet retail trade system with articles of consumption.

In the subsequent part of the chapter, we will conduct such a comparison directly, where it is possible, and indirectly, where the necessary data is absent.

Our view of Soviet inflation with the help of the circumstantial evidence

Certainly, the fact that Soviet statistics was not calculating the GDP deflator does not mean that it could not be calculated; the fact that at certain years Soviet statistics did not publish wholesale and retail price indices does not mean that they could not be published; finally, the fact that during those years, when Soviet statistics was publishing the corresponding prices, the latter were held in a “frozen” state, does not necessarily imply that these price would have not crept up had the authorities unleashed them.

Future statisticians would determine the Soviet GDP and its price index. Future economists-historians would be in a position to find in Soviet archives unpublished data about price indices.

Here we will endeavor to adduce some proofs of the statement we made earlier: that during a significant period of the existence of the Stalinist socioeconomic model its wholesale and retail inflation had had a repressed character.

A circumstantial evidence #1: the growing (over the years) discrepancy between people's incomes and the volume of articles of consumption sold to the population at official retail prices. As it is known, that part of income which is spent on articles of consumption constitutes a portion of aggregate demand. Also, it is not difficult to assume that behind the fixed level of state retail prices there was aggregate supply of consumer goods and services by the state, the original owner of produced articles of consumption.

Thus, if we are able to demonstrate the excess of the aggregate quantity demanded for consumer goods and services over their aggregate quantity supplied (given, the state retail price index), then

it could be proved the existence of unsatisfied demand, or of the shortage economy, with the resulting consequences of the *suppressed inflation of demand*. To achieve this goal, we will use the following circumstantial statistical data.

First, we will compare the movement of personal nominal incomes of the population with the movement of the official level of retail prices. Second, we will compare the official level of state retail prices with that of the collective farm markets. Finally, we will examine the growth of personal savings deposits of the population with respect to the growth of the volume of retail trade.²³

The comparison of the movement of personal nominal incomes of the population with the movement of the official level of retail prices. As personal nominal incomes, we will use nominal monthly wages of blue- and white-collar workers plus various cash and non-cash benefits received from the public (social) funds:

Table 4.5
Personal Nominal Income Levels Vs. Official Levels of Retail Prices
*(in percentage)*²⁴

Year	To 1940			To 1985		
	Income level	Official retail price level	Column 2 to column 3	Income level	Official retail price level	Column 5 to column 6
1	2	3	4	5	6	7
1940	100	100	100			
1950	202.5	186	108.9			
1958	255.8	141	181.4			
1960	264.6	139	190.4			
1963	289.9	141	205.6			
1964	297.3	141	210.9			
1965	318.2	140	227.3			
1966	330.5	139	237.8			
1967	345.3	139	248.4			
1968	374.3	139	268.6			
1969	388.2	139	279.2			
1970	405.2	139	291.5			
1971	418.2	139	300.9			
1972	433	139	311.5			
1973	449.8	139	323.6			
1974	470.2	139	338.3			
1975	488.2	139	351.2			
1976	509.1	139	366.3			
1977	522.2	139	375.7			
1978	539.7	140	385.5			
1979	551.7	142	388.5			
1980	573.2	143	400.8			
1981	588.2	145	405.7			

1982	607.9	150	405.3			
1983	625.6	151	414.3			
1984	642.9	149	431.5			
1985	660.1	150	440.1	100	100	100
1986	681.9	153	445.7	103.3	102	101.3
1987	708.9	154.5	458.8	107.4	103	104.3
1988	770.3	156	493.8	116.7	104	112.2
1989	839	159	527.7	127.1	106	119.9

The data in Table 4.5 demonstrates a growing gap between personal nominal incomes of the population and the official retail price level. Thus, if 1940 is assumed to be the base year, then in 1989 the gap reached 5.3 times as shown by the fourth column of the table.

Nominal incomes had been growing faster than retail prices. This means that people, year after year, had been able to buy more of what was offered by state retail enterprises.

The comparison of the official level of state retail prices with that of the collective farm markets. Table 4.6 shows a gap between average agricultural prices at collective farm markets and average official retail prices in state (including formally cooperative) retail enterprises. The gap is calculated by comparing the proportion of the *kolkhoz* sales of the comparative groups of food products within the total retail trade (state, *kolkhoz* and formally cooperative) at actual prices in each form of retail trade with that at state retail prices for all these forms:

Table 4.6
State Retail Vs. Collective-Farm-Market Prices
(in percentage)²⁵

Year	Share of collective-farm trade in total volume of state (including formally cooperative) and collective-farm trade according to comparable groups of food items		Gap between average agricultural prices at collective farm markets and average official retail prices in state (including formally cooperative) retail enterprises	Year	Share of collective-farm trade in total volume of state (including formally cooperative) and collective-farm trade according to comparable groups of food items		Gap between average agricultural prices at collective farm markets and average official retail prices in state (including formally cooperative) retail enterprises
	In actual prices of each form of retail trade	In identical state retail prices for each form of retail trade			In actual prices of each form of retail trade	In identical state retail prices for each form of retail trade	
1	2	3	4	1	2	3	4
1950	28.7	27.6	104	1975	8.1	4.6	176.1
1958	17.3	11.7	147.9	1976	8.8	4.8	183.3
1960	13.9	9.5	146.3	1977	8.5	4.5	188.9
1962	12.7	8.1	156.8	1978	8.8	4.4	200
1963	11.2	7.3	153.4	1979	9.4	4.7	200
1964	11.7	7	167.1	1980	9.8	4.7	208.5
1965	10.3	7.3	141.1	1981	11	5.1	215.7
1966	9.6	7	137.1	1982	10.8	4.9	220.4
1967	9.3	6.8	136.7	1983	10.4	4.8	216.7
1968	8.6	6.2	138.7	1984	9.9	4.5	220
1969	8.7	5.8	150	1985	9.8	4.4	222.7
1970	8.5	5.5	154.5	1986	9.5	4.3	220.9
1971	7.9	5.1	174.5	1987	9.3	4.3	216.3
1972	7.7	4.8	160.4	1988	9	4.1	219.5
1973	7.9	4.8	164.6	1989	9.3	3.9	238.5
1974	7.4	4.5	164.4				

It can be seen that in 1950, there was a certain equality between the level of the official state retail prices and those established at the collective farm markets. However, with years, there had been a tendency for the latter prices to exceed the former ones. As a result in 1989, during the period of the disintegration of the Soviet socioeconomic system, the collective-farm-market prices had overran the official retail price level by almost 2.4 times.

Thus, the following can be assumed. The Soviet population (especially its well-to-do part) was purchasing its food items at collective farm markets because the state and formally cooperative retail outlets were unable, at existing prices, to satisfy the people's wants in food products either *quantitatively*, or *qualitatively*, or *both*. Their unsatisfied demand for food items at lower prices in state and formally cooperative retail enterprises the population was willing to

compensate, at least partially, by agreeing to pay higher prices for the same products at the collective farm market.

The examination of the growth of personal savings deposits of the population with respect to the growth of the volume of retail trade. It has been presumed that a certain portion of the Soviet population was buying at the *kolkhoz* market those food items that it was unable or did not want to buy in state and formally cooperative retail outlets.

However, even these additional expenses on foodstuffs at higher prices could not satisfy the people's demand. Still some part of the population was forced to keep portions of its money incomes not spending the latter on food and non-food consumption for a simple reason that there was nothing to buy. For, in the Soviet conditions to "buy" meant to spend on consumption: at least *legally*, other, non-consumption expenditures were prohibited.

So it was forbidden to open a non-state business and use it for profit. It was forbidden to buy land and expect rent on it. It was impossible to invest in securities (which, with the exception of low-interest state bonds and personal insurance policy, simply did not exist) in order to earn dividends or interest. It was prohibited (with the exception of a limited construction of residential cooperatives) to purchase an apartment, that is, to invest in the economic sense of the word. With the exception of a very small circle of Soviet "privileged" people, there was no possibility to travel abroad. And so on.

What remained to do under the condition of the unsatisfied demand? Only one thing: to save by depositing the unused part of personal money income into savings accounts thus earning a very low (for the circumstances of the time) 3-percent annual interest.

Of course, a portion of savings was intended to cover such future expenses, as sickness, vacations, retirement, funeral, etc. But the growing amount of personal deposits relative to the volume of all forms of retail sales (see Table 4.7) suggests that a significant portion of these savings deposits owed its existence to the impossibility to purchase what people wanted to purchase:

Table 4.7
*Changes in Personal Savings Deposits Vs. Changes in Retail Trade*²⁶

Year	Personal savings deposits, bln. rubles	Volume of retail sales of goods and services, bln. rubles	Column two to column three, in percentage	Year	Personal savings deposits, bln. rubles	Volume of retail sales of goods and services, bln. rubles	Column two to column three, in percentage
1	2	3	4	1	2	3	4
1940	0.7	17.5	4	1975	91	215.4	42.2
1950	1.9	36	5.3	1976	103	225.9	45.6
1958	8.7	67.7	12.9	1977	116.7	236.4	49.4
1960	10.9	78.6	13.9	1978	131.1	247.8	52.9
1962	12.7	87.3	14.5	1979	146.2	260.9	56
1963	14	91.7	15.3	1980	156.6	278	56.3
1964	15.7	100.3	15.8	1981	165.7	294.5	56.3
1965	18.7	108.5	17.2	1982	174.3	304.3	57.3
1966	22.9	116.7	19.6	1983	186.9	314.1	59.5
1967	26.9	127.5	21.1	1984	202.1	324.8	62.2
1968	32.4	138	23.6	1985	220.8	332.8	66.3
1969	38.4	148.5	25.9	1986	242.8	341.2	71.2
1970	46.6	159.4	29.2	1987	266.9	350.8	76.1
1971	53.2	169.7	31.3	1988	296.7	375.7	79
1972	60.7	180.7	33.6	1989	337.8	416.4	81.5
1973	68.7	190.3	36.1	1990	381.4	4817	79.2
1974	78.9	201.4	39.2				

Table 4.7 reveals that during the Soviet period the amount of personal savings deposits relative to retail sales had been growing annually. While in 1940 the ratio was only 4 percent, by 1990 the indicator had reached more than 79 percent, that is, had increased by almost 20 times.

It could be argued that, personal savings deposits could have not but to have grown with the increase of personal nominal incomes. This is, of course, true. But calculations made on the basis of the data in the second column of Table 4.5 (the growth of nominal incomes) and the data in the second column of Table 4.7 (personal savings deposits) show a significant and constantly rising gap between the two indicators:

Table 4.8
Changes in Personal Savings Deposits Vs. Changes in Personal Nominal
Incomes (in times to 1940)

Year	Growth of personal savings deposits	Growth of personal nominal incomes	Column two to column three	Year	Growth of personal savings deposits	Growth of personal nominal incomes	Column two to column three
1	2	3	4	1	2	3	4
1940	1	1	1	1975	130	4.88	26.6
1950	2.71	2.03	1.3	1976	147.14	5.09	28.9
1958	12.43	2.56	4.9	1977	166.71	5.22	31.9
1960	15.57	2.65	5.9	1978	187.29	5.4	34.7
1963	20	2.9	6.9	1979	208.86	5.51	37.9
1964	22.43	2.97	5.6	1980	223.57	5.73	39
1965	26.71	3.18	8.4	1981	236.71	5.88	40.2
1966	32.71	3.31	9.9	1982	249	6.08	41
1967	38.43	3.45	11.2	1983	267	6.26	42.7
1968	46.28	3.73	12.4	1984	288.71	6.43	44.9
1969	54.86	3.88	14.1	1985	315.43	6.6	47.8
1970	66.57	4.05	16.4	1986	346.86	6.82	50.9
1971	76	4.18	18.2	1987	381.29	7.09	53.8
1972	86.71	4.33	20	1988	423.86	7.7	55
1973	98.14	4.5	21.8	1989	482.57	8.39	57.5
1974	112.71	4.7	24				

As follows from Table 4.8, as time progressed, the Soviet people had been saving a larger and larger portion of their incomes depositing it into savings accounts. Only a further research will tell us what share of personal deposits was voluntary (for a rainy day) and what was involuntary (representing unsatisfied demand due to a suppressed inflation of demand).

A circumstantial evidence #2: covert price increases. So far we have been trying to present some *quantitative* proof of the existence of hidden inflation of demand in the USSR. Here we will put forward additional, *non-quantitative* arguments based on *anecdotal* evidence in support of the view.

Among the additional factors contributed to hidden, repressed inflation, *given relatively constant prices*, can be cited the following: worsening of the quality of sold commodities; the disappearance from shelves of less expensive products replaced by more expensive products of the same variety; sales of the same produce under a new marking and, hence, at higher prices; enormous lines for consumer goods and services leading to lengthening of time necessary to purchase commodities and, thus, to the growing consumer opportunity costs; bribery of those who controlled the distribution of the articles of consumption, that caused the actual increase of the formally constant prices of the

consumer goods; stock-jobbing demand originated in the permanent shortage of these or those commodities, contributing to the accumulation of consumer goods by consumers and, as a result, making the situation of the chronic deficit of consumer goods and of hidden inflation even worse; etc.

Concluding remarks on Soviet inflation

These remarks are on the *type* and *character* of Soviet inflation.

Types of Soviet inflation. From the above, it follows that Soviet inflation was *demand inflation*.

Was there in the Soviet Union *cost inflation*? A careful reading of the previous parts of the chapter on inflation provides us with a positive answer to the question.

For, costs of production might increase thanks to such components of expenditures, as, for instant, nominal wages. And, while in the earlier parts of the chapter we talked about the growth of wages as a source of the growth in demand, rising wages could be a source of rising costs as well.

As a circumstantial proof of the existence of cost inflation in the Soviet Union, we can refer to N. Ryzhkov, the last Soviet prime minister, according to whom in 1991, the following measures were put forward by the Soviet government with regard to wholesale and retail prices.²⁷

First, because of rising costs to increase wholesale prices on the average by about 46 percent. Second, due to the constant increase in prices of material factors of production used by agriculture and to the growth of interest rates on credits to agriculture, to raise the purchase prices of agricultural raw materials sold to the state by 55 percent. Finally, as a result of the deformation of prices in the retail trade, caused by rising costs in the retail prices, gradually to lift up the latter as well.

The character of Soviet inflation. In its character, Soviet inflation of demand as well as of cost, of retail as well as wholesale prices was not homogeneous. As a rule, Soviet inflation of wholesale and retail prices of the state and formally cooperative trade was *hidden (covert)* and *repressed (suppressed)*. During some years it was taking on the *overtly spasmodic* character. However, it had never become *overtly gradual*. The only inflation which was of the latter character was that of free prices at collective farm markets.

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- , *Narodnoye Khoziaistvo SSSR v 1983 g.* [The National Economy of the USSR in 1983]. Moscow: Finansy i Statistika, 1984.
- , *Narodnoye Khoziaistvo SSSR v 1985 g.* [The National Economy of the USSR in 1985]. Moscow: Finansy i Statistika, 1986.
- , *Narodnoye Khoziaistvo SSSR v 1987 g.* [The National Economy of the USSR in 1987]. Moscow: Finansy i Statistika, 1988.
- , *Narodnoye Khoziaistvo SSSR v 1988 g.* [The National Economy of the USSR in 1988]. Moscow: Finansy i Statistika, 1989.
- , *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989]. Moscow: "Finansy i Statistika," 1990.
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Notes to Chapter 4: Soviet Unemployment and Inflation

- 1 Based on E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Bezrabotitsa i Inflatsia* [Principles of the Economic Theory. Unemployment and Inflation]. Moscow: "Nauka," 1998, pp. 35 - 38, 113 - 134.
- 2 The phenomena of unemployment and inflation in authoritarian state capitalism will be analyzed in one of the chapters of Part VIII of the book.
- 3 See, for instance, L. Danilov and I. Matrosova, "Trudovye Resursy i Ikh Ispol'zovaniye" [Labor Resources and Their Utilization], in *Trud i Zarabotnaya Plata v SSSR* [Labor and Wages in the USSR], ed. by A. Volkova, et al. Moscow: "Finansy i Statistika," 1968, pp. 245 - 248.
- 4 See, for example, P. Gregory and J. Collier, "Unemployment in the Soviet Union: Evidence from the Soviet Interview Project." *American Economic Review*, 1988, Volume 78, Number 4; and also R. Wiles, "A Note on Soviet Unemployment in U.S. Definitions." *Soviet Studies*, 1972, Volume 23, Number 2.
- 5 See, for instance, J. Angresano, *Comparative Economics*. Englewood Cliffs, N.J.: Prentice Hall, 1992, p. 216.
- 6 A. Okun, *The Political Economy of Prosperity*. Washington, D.C.: Brookings Institute, 1970.
- 7 *Voprosy Ekonomiki* [The Problems of Economics], Number 10, 1995, pp. 104 - 106.
- 8 On this problem, see, for example, E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Mikroekonomicheskaya Teoriya Rynkov Vvodimyykh Resursov* [Principles of the Economic Theory. Microeconomic Theory of Input Markets]. Moscow: "Nauka," 1996, pp. 161 - 164.
- 9 Ibid.
- 10 This happened in January 1992 when the now-Russian, post-Soviet authorities were forced to release many relative prices from the government control and determination, as we will see this in a subsequent chapter.

- 11 See, for instance, TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1963 g.* [The National Economy of the USSR in 1963]. Moscow: "Statistika," 1965, p. 689.
- 12 On turnover taxes, in a corresponding chapter of the book.
- 13 Statistical sources:
 - A. In percentage to 1949:
 - (1) 1949 - 1963: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1963 g.* [The National Economy of the USSR in 1963], pp. 136, 137; (2) 1964: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1964 g.* [The National Economy of the USSR in 1964]. Moscow: "Statistika," 1965, pp. 154, 155; (3) 1965: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1965 g.* [The National Economy of the USSR in 1965]. Moscow: "Statistika," 1966, pp. 166, 167; (4) 1966 - 1967: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1967 g.* [The National Economy of the USSR in 1967]. Moscow: "Statistika," 1968, pp. 226 - 228; (5) 1968: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1969 g.* [The National Economy of the USSR in 1969]. Moscow: "Statistika," 1969, p.188; (6) 1969 - 1970: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1970 g.* [The National Economy of the USSR in 1970]. Moscow: "Statistika," 1971, pp. 175, 177; (7) 1971 - 1972: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1972 g.* [The National Economy of the USSR in 1972]. Moscow: "Statistika," 1973, pp. 197, 199; (8) 1973: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1973 g.* [The National Economy of the USSR in 1973]. Moscow: "Statistika," 1974, pp. 250, 252; (9) 1974: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1974 g.* [The National Economy of the USSR in 1974]. Moscow: "Statistika," 1975, pp. 211, 213; (10) 1975: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1975 g.* [The National Economy of the USSR in 1975]. Moscow: "Statistika," 1976, pp. 231, 233; (11) 1976 - 1977: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1977 g.* [The National Economy of the USSR in 1977]. Moscow: "Statistika," 1978, pp. 142, 143; (12) 1978: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1978 g.* [The National Economy of the USSR in 1978]. Moscow: "Statistika," 1979, pp. 138, 139; (13) 1979: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1979 g.* [The National Economy of the USSR in 1979]. Moscow: "Statistika," 1980, pp. 164, 165.
 - B. In percentage to 1940:
 - (1) 1966 - 1967: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1967 g.* [The National Economy of the USSR in 1967], p. 227; (2) 1968: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1969 g.* [The National Economy of the USSR in 1969], p.189; (3) 1969 - 1970: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1970 g.* [The National Economy of the USSR in 1970], p.176; (4) 1971 - 1972: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1972 g.* [The National Economy of the USSR in 1972], p. 198; (5) 1973: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1973 g.* [The National Economy of the USSR in 1973], p. 251; (6) 1974: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1974 g.* [The National Economy of the USSR in 1974], p. 212; (7) 1975: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1975 g.* [The National Economy of the USSR in 1975], p. 232.
 - C. In percentage to 1985:
 - (1) 1985, 1987 - 1990: Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990]. Moscow: *Finansy i Statistika*, 1991, p. 159.

- 14 See, for instance, E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Mikroekonomicheskaya Teoria Rynkov Vvodimyykh Resursov* [Principles of the Economic Theory. Microeconomic Theory of Input Markets], pp. 9 - 11.
- 15 See Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR za 70 Let* [The National Economy of the USSR for 70 Years]. Moscow: "Finansy i Statistika," 1987, pp.726 - 727.
- 16 Statistical sources:
 A. In percentage to 1940:
 (1) 1940, 1952, 1963: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1963 g.* [The National Economy of the USSR in 1963], p. 539; (2) 1950: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1963 g.* [The National Economy of the USSR in 1963], p. 540; (3) 1960: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1985 g.* [The National Economy of the USSR in 1985]. Moscow: "Finansy i Statistika," 1986, p. 478; (4) 1964: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1964 g.* [The National Economy of the USSR in 1964], p. 646; (5) 1958, 1965: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1965 g.* [The National Economy of the USSR in 1965], p. 652; (6) 1966 - 1967: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1967 g.* [The National Economy of the USSR in 1967], p. 739; (7) 1968 - 1969: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1969 g.* [The National Economy of the USSR in 1969], p.626; (8) 1970: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1970 g.* [The National Economy of the USSR in 1970], p. 601; (9) 1971 - 1972: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1972 g.* [The National Economy of the USSR in 1972], p.603; (10) 1973: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1973 g.* [The National Economy of the USSR in 1973], p. 677; (11) 1974: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1974 g.* [The National Economy of the USSR in 1974], p. 652; (12) 1975: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1975 g.* [The National Economy of the USSR in 1975], p. 643; (13) 1976 - 1977: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1977 g.* [The National Economy of the USSR in 1977], p. 469; (14) 1978: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1978 g.* [The National Economy of the USSR in 1978], p. 447; (15) 1979: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1979 g.* [The National Economy of the USSR in 1979], p. 467; (16) 1980: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1980 g.* [The National Economy of the USSR in 1980]. Moscow: Finansy i Statistika," 1981, p. 437; (17) 1981 - 1982: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1982 g.* [The National Economy of the USSR in 1982]. Moscow: Finansy i Statistika," 1983, p. 441; (18) 1983: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1983 g.* [The National Economy of the USSR in 1983]. Moscow: Finansy i Statistika," 1984, p. 471; (19) 1984: *ibid.*, p. 492; (20) 1985: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1985 g.* [The National Economy of the USSR in 1985]. Moscow: Finansy i Statistika," 1986, p. 478.
 (B) In percentage to 1950:
 (1) 1950 - 1952, 1963: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1963 g.* [The National Economy of the USSR in 1963], p. 539; (2) 1964: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1964 g.* [The National Economy of the USSR in 1964], p. 646; (3) 1958, 1965: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1965 g.* [The National Economy of the USSR in 1965], p. 652; (4) 1966 - 1967: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1967 g.* [The National Economy of the USSR in 1967], p. 739; (5) 1968: approximately; (6) 1969: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1969 g.* [The National Economy of the USSR in 1969], p.625; (7) 1970: TsSU

SSSR, *Narodnoye Khoziaistvo SSSR v 1970 g.* [The National Economy of the USSR in 1970], p. 601; (8) 1971: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1973 g.* [The National Economy of the USSR in 1973], p. 677; (9) 1972: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1972 g.* [The National Economy of the USSR in 1972], p. 603; (10) 1973: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1973 g.* [The National Economy of the USSR in 1973], p. 677; (11) 1974: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1974 g.* [The National Economy of the USSR in 1974], p. 652; (12) 1975: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1975 g.* [The National Economy of the USSR in 1975], p. 643.

(C) In percentage to 1965:

(1) 1965, 1970 - 1973: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1973 g.* [The National Economy of the USSR in 1973], p. 677; (2) 1974: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1974 g.* [The National Economy of the USSR in 1974], p. 652; (3) 1975: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1975 g.* [The National Economy of the USSR in 1975], p. 643.

(D) In percentage to 1970:

(1) 1970, 1975 - 1977: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1977 g.* [The National Economy of the USSR in 1977], p. 469; (2) 1978: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1978 g.* [The National Economy of the USSR in 1978], p. 447; (3) 1979: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1979 g.* [The National Economy of the USSR in 1979], p. 467; (4) 1980: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1980 g.* [The National Economy of the USSR in 1980], p. 437; (5) 1981 - 1982: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1982 g.* [The National Economy of the USSR in 1982], p. 441; (6) 1983: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1983 g.* [The National Economy of the USSR in 1983], p. 471; (7) 1984: *ibid.*, p. 492; (8) 1985: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1985 g.* [The National Economy of the USSR in 1985], p. 478.

(E) In percentage to 1980:

(1) 1980 - 1982: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1982 g.* [The National Economy of the USSR in 1982], p. 441; (2) 1983: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1983 g.* [The National Economy of the USSR in 1983], p. 471; (3) 1984: *ibid.*, p. 492; (4) 1985: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1985 g.* [The National Economy of the USSR in 1985], p. 478; (5) 1986 - 1987: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1987 g.* [The National Economy of the USSR in 1987]. Moscow: Finansy i Statistika, 1988, p. 433; (6) 1988: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1988 g.* [The National Economy of the USSR in 1988]. Moscow: Finansy i Statistika, 1989, p. 125.

(F) In percentage to 1985:

(1) 1986 - 1987: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1987 g.* [The National Economy of the USSR in 1987], p. 433; (2) 1988: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1988 g.* [The National Economy of the USSR in 1988], p. 125; (3) 1989: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989]. Moscow: "Finansy i Statistika," 1990, p. 128; (4) 1990: Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990], p. 166.

- 17 See E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Mikroekonomicheskaya Teoria Rynkov Vvodimyykh Resursov* [Principles of the Economic Theory. Microeconomic Theory of Input Markets], pp. 8 - 9, 28 - 30.

18 In this part of the chapter, such a statement is made without any reasoning. In subsequent parts of the chapter we will make an attempt to collect indirect evidence confirming the statement.

19 Calculated as follows:

The second column: from the fifth column of Table 4.1; the fourth column: from the third column of Table 4.1; the third column: from the first column of Table 4.2; the fifth column: from the seventh column of Table 4.2.

20 TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1963 g.* [The National Economy of the USSR in 1963], p. 771; TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], p. 704.

21 It goes without saying that in the totalitarian state system, those market forces were limited in their spontaneity. Among these limitations the following can be mentioned.

First, the presence at these collective farm markets of *kolkhozy* as actual state enterprises. Through them, the state was able to have a certain deterrent influence on the movement of prices at these markets.

Second, the existence of the state retail trade served as another deterrent factor which forced the collective farm market participants to pay attention to state retail prices. For, it was impossible for the collective farm market participants to know beforehand when and under what conditions the capricious totalitarian state would consider the relatively free prices at the *kolkhoz* markets too high or too low with respect to state retail prices.

22 Statistical sources:

(A) In percentage to 1950:

(1) 1950, 1958, 1960, 1963, 1964: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1964 g.* [The National Economy of the USSR in 1964], p. 659; (2) 1965: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1965 g.* [The National Economy of the USSR in 1965], p. 667; (3) 1966 - 1967: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1967 g.* [The National Economy of the USSR in 1967], p. 763.

(B) In percentage to 1940:

(1) 1986: Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR za 70 Let* [The National Economy of the USSR for 70 Years], p. 485.

(C) In percentage to 1970:

(1) Ibid., p. 485.

(D) In percentage to 1980:

(1) Ibid.; (2) 1987: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1987 g.* [The National Economy of the USSR in 1987], p. 438; (3) 1988: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1988 g.* [The National Economy of the USSR in 1988], p. 133; (4) 1989: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], p. 138; (5) 1990: Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990], p. 174.

(E) In percentage to 1985:

(1) 1986: Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR za 70 Let* [The National Economy of the USSR for 70 Years], p. 485; (2) 1987: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1987 g.* [The National Economy of the USSR in 1987], p. 438; (3) 1988: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1988 g.* [The National Economy of the USSR in

1988], p. 133; (4) 1989: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], p.138; (5) 1990: Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990], p. 174.

23 Needless to say that each of the evidence is far from perfect.

24 Statistical sources:

(A) To 1940:

(1) Second column:

(a) 1950, 1958 - 1964: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1964 g.* [The National Economy of the USSR in 1964], p. 555; (b) 1965 - 1967: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1967 g.* [The National Economy of the USSR in 1967], p. 657; (c) 1968 - 1972: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1972 g.* [The National Economy of the USSR in 1972], p. 516; (d) 1973 - 1975: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1975 g.* [The National Economy of the USSR in 1975], p. 546; (e) 1976 - 1977: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1977 g.* [The National Economy of the USSR in 1977], p. 385; (f) 1978 - 1979: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1979 g.* [The National Economy of the USSR in 1979], p. 394; (g) 1980 - 1983: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1983 g.* [The National Economy of the USSR in 1983], p. 393; (h) 1984 - 1985: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1985 g.* [The National Economy of the USSR in 1985], p. 397; (i) 1986 - 1989: the data for the second column for 1985 multiplied by the data for the fifth column for 1986 - 1989.

(2) Third column:

(a) To 1985 inclusive: the data is from the second column of Table 4.2; (b) 1986 - 1989: the data for the third column for 1985 multiplied by the data for the sixth column for 1986 - 1989.

(3) Fourth column: by dividing the data of the second column into the data of the third column.

(B) To 1985:

(1) Fifth column:

(a) 1986 - 1987: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1987 g.* [The National Economy of the USSR in 1987], p. 394; (b) 1988 - 1989: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], p. 83.

(2) Sixth column: the data is from the seventh column of Table 4.2.

(3) Seventh column: by dividing the data of the fifth column into the data of the sixth column.

25 Statistical sources:

(A) Second and third columns:

(1) 1950, 1958, 1960, 1962- 1963: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1963 g.* [The National Economy of the USSR in 1963], p. 529; (2) 1964- 1965: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1965 g.* [The National Economy of the USSR in 1965], p. 631; (3) 1966 - 1967: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1967 g.* [The National Economy of the USSR in 1967], p. 715; (4) 1968 - 1969: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1969 g.* [The National Economy of the USSR in 1969], p. 601; (5) 1970 - 1972: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1972 g.* [The National Economy of the USSR in 1972], p. 577; (6) 1973: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1973 g.* [The National Economy of the USSR in 1973], p. 652; (7) 1974: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1974 g.* [The National Economy of the USSR in

1974], p. 626; (8) 1975 - 1978: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1978 g.* [The National Economy of the USSR in 1978], p. 433; (9) 1975 - 1978: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1979 g.* [The National Economy of the USSR in 1979], p. 453; (10) 1980: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1980 g.* [The National Economy of the USSR in 1980], p. 425; (11) 1981 - 1984: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1984 g.* [The National Economy of the USSR in 1984]. Moscow: "Finansy i Statistika," 1985, p. 477; (12) 1985 - 1988: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1988 g.* [The National Economy of the USSR in 1988], p. 102; (13) 1989: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], p. 99.

(B) Fourth column: by dividing the data of the second column into the data of the third column.

26 Statistical sources:

(A) Personal savings deposits:

(1) 1950, 1958, 1960, 1962- 1963: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1963 g.* [The National Economy of the USSR in 1963], p. 509; (2) 1964- 1965: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1965 g.* [The National Economy of the USSR in 1965], p. 600; (3) 1966 - 1967: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1967 g.* [The National Economy of the USSR in 1967], p. 699; (4) 1968 - 1969: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1969 g.* [The National Economy of the USSR in 1969], p. 585; (5) 1970 - 1972: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1972 g.* [The National Economy of the USSR in 1972], p. 559; (6) 1973 - 1975: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1975 g.* [The National Economy of the USSR in 1975], p. 597; (7) 1976 - 1979: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1979 g.* [The National Economy of the USSR in 1979], p. 435; (8) 1980 - 1983: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1983 g.* [The National Economy of the USSR in 1983], p. 444; (9) 1984 - 1985: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1985 g.* [The National Economy of the USSR in 1985], p. 448; (10) 1986 - 1987: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1987 g.* [The National Economy of the USSR in 1987], p. 406; (11) 1988: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1988 g.* [The National Economy of the USSR in 1988], p. 96; (12) 1989 - 1990: Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990], p. 48.

(B) Retail sales:

(1) 1950, 1958, 1960, 1962- 1963: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1963 g.* [The National Economy of the USSR in 1963], p. 525; (2) 1964- 1965: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1965 g.* [The National Economy of the USSR in 1965], p. 627; (3) 1966 - 1967: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1967 g.* [The National Economy of the USSR in 1967], p. 711; (4) 1968 - 1969: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1969 g.* [The National Economy of the USSR in 1969], p. 597; (5) 1970 - 1972: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1972 g.* [The National Economy of the USSR in 1972], p. 573; (6) 1973 - 1975: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1975 g.* [The National Economy of the USSR in 1975], p. 611; (7) 1976 - 1979: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1979 g.* [The National Economy of the USSR in 1979], p. 449; (8) 1980 - 1983: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1983 g.* [The National Economy of the USSR in

- 1983], p. 454; (9) 1984 - 1985: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1985 g.* [The National Economy of the USSR in 1985], p. 458; (10) 1986 - 1988: TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1988 g.* [The National Economy of the USSR in 1988], p. 98; (11) 1989 - 1990: Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990], p. 116.
- 27 N. Ryzhkov, *Perestroika: Istoriya Predatel'stv* [The Restructuring: A History of Betrayals]. Moscow: "Novosti," 1992, pp. 313 - 314.

PART VII
THE LAST STAGE IN THE DEVELOPMENT OF THE SOVIET
SOCIOECONOMIC SYSTEM: THE STALINIST MODEL IN
OPERATION
(1940-1991)

Chapter 5
The Soviet Monetary-Financial System¹

Before we begin our journey into the functioning of monetary and financial institutions in the mature Stalinist model of totalitarian state capitalism, it is necessary, first of all, to discuss the role money played in the Soviet Union.

The Soviet money

Let us recall that the Soviet socioeconomic structure was characterized by the primarily *natural, physical* form of its capital investment, capital accumulation. In this system, the means of production (physical capital), which, in their *natural* form, *did not leave* the domain of the bureaucratic ownership, were given a priority over the articles of consumption, which, in their *natural* form, *had been constantly leaving* the bounds of the bureaucratic property.

Hence, there were two peculiarities associated with the Soviet money. We will address them separately.

Two forms of the Soviet money

The first specificity of the Soviet money was that, while as a unit of account it was represented by only one national unit, the *ruble*, it (the money) performed its functions in *two* forms: *cash money*, or *currency*, and *bank deposits*, or *noncash money*.

Cash money, or *currency*. The Soviet money as currency did not differ from that of mixed capitalism. The Soviet cash money included paper money in *rubles* and coins in *copecks*.

Soviet currency was a form of either payments for consumer goods and services or personal savings made by the population (its non-bureaucratic and bureaucratic parts) out of *personal disposable incomes*. As such, Soviet cash money played the same three roles as are played by currency in mixed capitalism: a unit of account, a store of value, and a medium of exchange. So from *this* point of view, Soviet cash money was not different from that of countries of mixed capitalism.

But only from “this” point of view. For, first, buying and selling transactions with the help of cash money as a medium of exchange were confined, as a rule, to *retail state and collective farm trade, public catering and services requiring payment*. The currency turnover in the sphere of *wholesale trade*, that is, where state (and formally cooperative) enterprises interacted with each other, was forbidden, unlike mixed capitalism where cash money might find its application in *any* branch of the economy, including the wholesale trade. Thus, Soviet currency was *household money*.

Second, and this follows from the first restriction, Soviet currency was good only for transactions involving consumer goods and consumer services. Land and the means of production were excluded from the currency transaction. Again, this was unlike mixed capitalism where anything can be bought and sold for currency, including land and the means of production.

In this respect, Soviet cash money could be characterized as *limited currency*, that is, limited, first, in its application to the Soviet economy as a whole and, second, as compared to the much broader role currency plays in the system of mixed capitalism.

Bank deposits, or noncash money. In their turn, Soviet bank deposits were a form of incomes of enterprises using which the enterprises were buying from and selling to each other goods and services and then transferring the noncash money to their higher authorities. Thus, these were *enterprise money*.

Soviet bank deposits had no visible physical form. They were simple bookkeeping entries which the Soviet banking system was making in its account books. That is, when enterprise A dispatched its produce to enterprise B, the B’s bank on its own, not asking for any permission from B, debited (reduced) the amount of bank deposits in B’s account in the bank, and, correspondingly, the A’s bank, also on its own, without asking any permission from A, credited (increased) the amount of bank deposits in A’s account in the bank.

With the exception of wages and of some special cases (such as, for instance, petty once-only expenses), enterprises in their relations to each other and with the higher authorities had no right to convert bank deposits (noncash money) into currency (cash money). That part of Soviet noncash money which was allowed to be transformed into cash money to meet the payroll and the need for petty one-time expenses, potentially, through currency, could perform all three functions of cash money. In our opinion, this part of bank deposits might be considered as *limited “almost” (near) currency*.

Another portion of Soviet bank deposits which was forbidden to be converted into cash money nevertheless served as a medium of exchange, a unit of account and a store of value in all transactions between enterprises, that is, in wholesale trade. This

part of noncash money could be characterized as *limited bank deposits*.

To summarize, let us present a description of the two forms of Soviet money given by a non-Soviet monetary specialist:²

In the Soviet Union, household money (currency) is differentiated from enterprise money (bank deposits), and household banking from enterprise banking. All payments are separated into these two different circuits, which correspond to the separate markets for consumer goods and producer goods ... The difference between the two kinds of money is both physical and functional. For the population at large, currency alone serves as medium of payment, except for a relatively small amount of payments via savings accounts. By contrast, all payments among enterprises, economic and civic organizations, and government agencies (except for petty cash disbursements) involve deposit transfers on the books of the banking system. Currency and deposit money are not interchangeable. Deposits are exchanged for currency almost exclusively through payroll withdrawals.

The Soviet money supply, or the relationship between the Soviet money and the real Soviet economy

The second peculiarity of the Soviet money was the way the latter *related* to the real economy, or to the economy producing and distributing goods and services. In other words, it was the way the Soviet money was supplied to the household and enterprise sectors of the Soviet economy.

Under the conditions of *mixed capitalism*, the money supply, or money held by households and firms, consists of either a narrower money aggregate M1, or broader money aggregates, such as M2, M3, etc. And, in addition to currency (paper money and coins), the bulk of M1 in this form of capitalism is held in *checkable deposits*, or *checking accounts*. This checkable component of M1 is able to perform all three functions of money with respect to *any goods and services* in *any branch of the economy* of countries of mixed capitalism.

Let us see how things stood in the case of the Soviet money supply. For this purpose, let us *very conditionally* classify the Soviet money supply by the same methods of mixed capitalism. Then we will be in a position to judge the relationship between the Soviet money and the real economy.

The Soviet money aggregate M1. Speaking of a Soviet variety of the money aggregate M1, it is necessary to emphasize that in totalitarian state capitalism the checkable component of M1 was lacking. Such an absence could not but reduce the ability of the Soviet banking system to influence the money supply, because, under the circumstances, only currency was allowed to play the role of “real” money.

In our opinion, the absence of checking accounts available to the population even in the later years of Soviet totalitarian state capitalist system was not accidental. Checkable deposits would have allowed the Soviet banking system in a rather *unpredictable, unplanned* way to create money and the Soviet population to purchase consumer goods and services with this bank-created money, hence, reducing the *planned* and *predictable* use of state-created currency. Such an “independence” Soviet totalitarianism could not tolerate.

Thus, our conditional Soviet money aggregate M1 included exclusively currency, or paper money and coins. Since we have defined Soviet currency as limited cash money, by the same token Soviet M1 can be characterized as *limited* money aggregate. As such, it had the following influence on the real sector of the Soviet economy.

First, there was *some* effect of M1 on a certain sector of the real economy of the country both in the *short-* and the *long* run periods. This sector was the collective farm market where relative individual prices were formed by a more or less free play of market supply and demand.

For, the growth of cash money held by the population was leading to the increase in demand for the produce of *kolkhoz* markets. Given the constant (in the short run) and growing (in the long run) supply of the agricultural produce, this could cause the rise in the *quantitative* volume of buying and selling at the *kolkhoz* markets.

But, second, the share of the collective-farm-market trade in the total volume of retail trade in the country was insignificant. Measured in actual prices of the retail state, formally cooperative and *kolkhoz* trade, the indicator did not exceed 3 percent in 1980 - 1990.³ Thus, changes in M1 had a *very small* effect on the real Soviet economy in total.

Third, under the Soviet conditions of the unsatisfied consumer demand (too much money chasing too few consumer goods and services), the resulting *monetary overhang* in the *short* run showed *no* influence on retail trade, public catering and paid services. It did not lead to the growth of production of goods and services to meet the unsatisfied consumer demand. In the *short* run, the existence of the totalitarian political system was providing the class of bureaucracy, whose historical task was the expansion of production of producer goods (especially the means of production) at the expense of consumer goods, with opportunities to ignore the consumer dissatisfaction.

But we believe that in the *long* run the Soviet bureaucracy, though belatedly and probably not very adequately, nevertheless was being *compelled* to react to the unsatisfied consumer demand just to reduce tensions within society and hidden inflation in production. Therefore, in the long run, changes in the money supply, affecting

the amount of money people held for transactions, *one way or another* had to influence production and retail trade of consumer goods and services in the country.

The Soviet money aggregate M2. Above, it was pointed out that part of cash money which Soviet households were earning in the form of wages and some other incomes, such as, for instance, for selling agricultural produce in *kolkhoz* markets, money made on the side by building and running repairs of residential structures, livestock farms, etc., was being saved. One of the forms of savings (besides holding cash money at home, under the mattresses) was depositing currency into the noncheckable savings accounts in savings banks.

Under mixed capitalism, such deposits are considered to be a portion of the money aggregate M2. In our view, there is no reason not to regard Soviet household money held in the noncheckable savings accounts in savings banks as *near-money* and, thus, as a part of M2.

Besides this relatively “normal,” in the Western sense, money, we are also inclined to include into M2 another near-money, or that portion of bank deposits which could be converted into cash money to serve as wages or as a payment for some petty expenses.

Thus, in our opinion, the Soviet *limited* money aggregate M2 comprised the limited money aggregate M1 + the limited near-money in the form of deposits in noncheckable savings accounts + the limited near-money in the form of bank deposits convertible into cash money.

It seems reasonable to consider nocheckable savings deposits and convertible bank deposits as that portion of *potential* monetary overhang which at any point of time could affect the retail turnover in the country. In this respect, near-money *potentially* played the same role and in the same sectors of the Soviet economy which *in reality* was played by currency examined earlier.

The Soviet money aggregate M3. It is possible to go further and find in the Soviet Union the money aggregate M3, also conditional and limited. M3 included M2 and that part of bank deposits which was inconvertible into currency and which mediated relations of buying and selling between enterprises (wholesale trade) as well as between enterprises and their higher authorities.

It has been noticed that, in our view, this portion of bank deposits, in very limited boundaries of the intra-governmental relations, performed all three functions of money. But it needs to be stressed: “in very limited boundaries.” For, it is obvious that this component of M3 was actually absolutely *passive* in its relations to those sectors of the real economy which it served. Let us see why.

As a *medium of exchange*, this portion of bank deposits did not seek producer goods but obediently followed their movements. As a *unit of account*, it only *remotely* and *indirectly*, that is, through articles

of consumption sold to the population, was informing about prices of producer goods whose movement it served first of all. As a *store of value*, it had no influence on the behavior of enterprises with respect to savings.

All this should be of no surprise considering that, from the point of view of the *state*, i.e., of the *bureaucracy as a whole*, relations between enterprises and also between them and their higher authorities were as if of the *intra-family* character. Therefore, the bureaucracy as a whole in its central planning bodies viewed the portion of bank deposits simply as a bookkeeping device intended to register and passively follow that part of the real economy which the instrument was designed to serve.

Table 5.1 summarizes some most important, in our opinion, features of the Soviet money:

Table 5.1
Forms of the Soviet Money and Their Most Significant Features

Indices	Currency	Bank deposits	
		Convertible into currency	Inconvertible into currency
Forms of expression	Paper money in rubles and coins in copecks	Simple bookkeeping entries	Simple bookkeeping entries
Forms of incomes represented	Personal disposable incomes of households for personal consumption and personal savings	Portions of incomes of enterprises necessary to meet wage obligations and pay for petty expenses	Portions of incomes used by enterprises in their relations with each other and with higher authorities
Functions performed	All three functions <i>in actuality</i> : a medium of exchange, a unit of account, and a store of value	All three functions <i>in potentiality</i> : a medium of exchange, a unit of account, and a store of value	All three functions <i>in potentiality</i> : a medium of exchange, a unit of account, and a store of value
Sectors of real economy served	Retail trade, public catering, and paid services	No such services <i>in actuality</i> . <i>In potentiality</i> : retail trade, public catering, and paid services	Intra-state turnover of commodities (wholesale trade)
Goods and services served	Consumer goods and	None <i>in actuality</i> .	Producer goods, that is, means of

	services	Consumer goods and services <i>in potentiality</i>	production and articles of consumption in the sphere of wholesale trade
Characteristics	Limited cash money	Limited near-currency	Limited bank deposits
Components of money aggregates	M1=currency	M2=M1 + bank deposits convertible into cash money + personal savings out of personal disposable incomes in savings accounts	M3=M2 + bank deposits inconvertible into cash money
Influence over sectors of real economy served in the short run	Some in collective farm markets. None in retail trade, public catering, and paid services	None <i>practically</i> or <i>potentially</i> , except <i>potentially</i> some in collective farm markets	None either <i>practically</i> or <i>potentially</i>
Influence over sectors of real economy served in the long run	Stronger than in the short run in collective farm markets. Some in retail trade, public catering, and paid services	<i>Potentially</i> stronger than in the short run in collective farm markets. <i>Potentially</i> some in retail trade, public catering, and paid services	None either <i>practically</i> or <i>potentially</i>

In conclusion, Table 5.2 presents the data on the structure of currency in circulation in 1985 - 1990:

Table 5.2
The Structure of Currency In Circulation, 1985 - 1990
*(at the end of the year; in percentage)*⁴

Indices	1985	1986	1987	1988	1989	1990
Currency in circulation	100	100	100	100	100	100
Including held by households	97.7	97.6	97.9	96.2	95.6	97.5

The table confirms what has been said before: the overwhelming portion of cash money in the Soviet Union was held by the general public for payments for consumer expenditures.

Soviet financial intermediaries before 1987

The structure of *Soviet* financial intermediaries which we will examine below is that of the beginning of 1987. The structure then underwent changes in the process of the reform of the Soviet banking system which took place in 1987 - 1990. Since the reform opened a direct path leading to *Russian* financial intermediaries of the 1990s, the examination of Soviet financial intermediaries during 1987 - 1990 will be undertaken in the context of the arising Russian financial intermediaries of the 1990s.⁵ In the Soviet system of *totalitarian state* capitalism there was no *social* intra-bureaucratic splitting up of property of the means of production but only its *functional* subdivision. Therefore, the aggregate supply of and the aggregate demand for loanable funds were balanced not with the help of the interest rate, as it takes place predominantly in the system of *social* division of property of the means of production in *mixed* capitalism,⁶ but in the Soviet way: by *administrative* methods of the central planning state bodies.

The question is then: how did the Soviet system of financial intermediaries look like and what was it doing? Below, we will endeavor to find answers to these questions.

The absence of the social division of the national property in the Soviet Union presupposed the absence of financial intermediaries independent from the state. Soviet financial intermediaries performed their functions as an integral financial part of the indivisible national bureaucratic organism.

In the late USSR, there were two types of financial intermediaries: *depository institutions* and *contractual savings "banks."* Their structure and role in the country's economy in many respects was different from that of countries of mixed capitalism.

Soviet depository institutions

In the late Soviet Union, there were several depository institutions. Unlike their mixed capitalist brethren, they *did not* count among themselves either commercial banks, or mutual savings banks, or credit unions.

Gosbank (State Bank of the USSR) as depository of enterprises and organizations. The major depository institution in the country was the *State Bank of the USSR*, or *Gosbank*. It was more than a regular central bank. In the absence of commercial banks, Gosbank was responsible for certain commercial operations.⁷

Very briefly, we will do the following. First, we will examine the structure of Gosbank.

Second, we will get acquainted with its functions. Third, we will analyze its balance sheet. Finally, we will assess its activities.

The structure of Gosbank. In its structure, Gosbank reflected the centralized nature of the Soviet socioeconomic system.

Gosbank was built as a gigantic all-union pyramid after a military pattern. At the top of the pyramid, there was the *Governing Board* of Gosbank which was located in Moscow. The Governing Board was appointed by the Council of Ministers of the USSR. The Governing Board approved operational plans of Gosbank, regulated its credit-monetary activities and, *in the last resort*, was responsible for the supply of money and credits in the country.

The Board's duties also included controlling the operation of enterprises and organizations of the all-union (federal) importance. Orders, decrees, directives, instructions of the Governing Board were binding for all those who was included in the pyramid.

Below the Governing Board of the all-union state banking pyramid, there were republican, or *main*, offices of Gosbank located in capitals of each of the 15 union republics of the country. In addition, at the territory of the Russian Soviet Federative Socialist Republic (RSFSR) as the biggest republic among the union republics, there were *several* main offices. The republican (main) offices were to control the activities of enterprises and organizations of the republican importance on the territory of a corresponding republic.

Orders and directives of the main offices of Gosbank were to be strictly observed by the *regional* offices of Gosbank on the territory of a corresponding republic. In other words, the regional offices were on the pyramidal ladder below the main (republican) offices. Each main office supervised several regional offices, whose task was to monitor activities of enterprises and organizations of the regional importance and also to guide the operation of *local* (district) branches of Gosbank located on a portion of the territory of the corresponding region.

The local (district) branches of Gosbank were at the bottom of the state banking pyramid. As a rule, each of the numerous districts of the country had one local branch of Gosbank. Since local branches were the lowest ladder in the state banking hierarchy, they had no banking bodies to manage. So their functions were reduced to controlling the operation of enterprises and organizations of the local (district) importance on the territory of their district.

On the whole, the size of the state banking pyramid was very impressive. In the 1980s, Gosbank included 4.5 thousand branches scattered all over the huge country.⁸

The functions of Gosbank. Gosbank as an enormous pyramid performed several functions.

Some of these functions were similar to those carried out by central banks of countries of mixed capitalism. Among these functions were the following.

First, as the *government fiscal agent*, Gosbank collected, distributed and paid cash money receipts, which, in turn, were one of the major items of the Soviet state budget. Second, as the *supervisor of the movements of payments, including short-term credits, for goods and services*, Gosbank, in particular, served as the *centralized and all-embracing mechanism clearing bank deposits*, that is, mutual banking claims of enterprises and organizations to each other. Third, as the *issuer and supplier of both cash money and bank deposits*, Gosbank was responsible for the maintenance of a necessary level of the money supply in the country.

Other functions performed by Gosbank were specifically totalitarian state capitalist in their nature. Here the following might be mentioned.

First, as the *financial controller of microeconomic activities of each and all enterprises and organizations in the country*, Gosbank, thus, played a role of a state agency monitoring the *macroeconomic* behavior in fulfilling plan targets by the economy as a whole. In this, Gosbank favorably differed from ministries and departments which managed only particular branches and sub-branches of the Soviet economy.

Second, as the *social accounting center of the country*, Gosbank distributed payments to various specialized socio-cultural funds whose task was to provide financial incentives to improve the social conditions of life and the cultural situation of employees of enterprises and organizations.

Still, there were those functions of Gosbank which under mixed capitalism are carried out by the commercial banking system. These functions included the following.

First, enterprises and organizations were obliged to keep their accounts in local (district) branches of Gosbank. Enterprises and organizations deposited into these accounts their earnings (receipts) in the form of cash money and bank deposits. From these accounts, with the permission of their local Gosbank branches, enterprises and organization paid (1) bank deposits for commodities received from other enterprises and organizations, and (2) cash money as wages of their employees. Also, these accounts accumulated profits of enterprises and organizations.

Second, under the conditions when credit agreements between enterprises and organizations were strictly forbidden (since they would have represented a *horizontal* disregard of the *vertical* state banking pyramid), Gosbank was the only structure in the country which was authorized to issue short-term loans to enterprises and organizations.

Since, as we will see later in this chapter, there were no short-term and long-term capital markets in the Soviet Union (with the

exception of state loan bonds), Gosbank did not perform those functions which are traditional for central banks in mixed capitalism: did not participate in open-market operations, did not conduct policy of either minimal reserves or discount interest rates, did not serve as “bankers’ bank” for a simple reason that there were no “bankers” and no other banks.

The balance sheet of Gosbank. On behalf of the Council of Ministers of the USSR, Gosbank served *exclusively* enterprises and organizations of the country. As such, it did not enter into any relations with the household sector: private individuals could not open accounts, neither could they receive loans in the bank. In addition, as a result of the nonexistence of open market operations, Gosbank had no credit obligations to the Soviet government.

This stipulated a certain structure of the balance sheet. The major portion of its assets consisted of short-term loans to enterprises and organizations of various branches of the Soviet economy.⁹ The liabilities’ side of Gosbank included cash money and bank deposits of enterprises and organizations.

Assessing Gosbank’s activities. How do we to evaluate the role of Gosbank during the last years of the Soviet system of the one-party rule, state ownership of the means of production, mandatory central planning and state determined prices?

On the one hand, Gosbank had no *direct* influence whatsoever on the real sector of the economy, because the movement of goods and services, their structure and prices were subordinated to the requirements of the state plan. In this respect, Gosbank, unlike central banks of countries of mixed capitalism, played a rather passive role. Its credit-monetary “policy,” if it is possible at all to speak about this in totalitarian state capitalism aimed at physical production, *followed* changes in the real sector, not directed them. Moreover, all its activities as well as that of any other “real” enterprise in the country were taking place within the same framework of the same all-embracing state planning.

The most Gosbank could do when the actual performance of enterprises and organizations deviated from plan targets was to serve as an adjuster. In particular, Gosbank had the right not to allow enterprises and organizations to spend more money than it was designed by the plan. Besides, in extraordinary circumstances when the very fulfillment of plan targets by an enterprise or an organization was in danger, Gosbank could provide the enterprise or the organization either with an additional short-term loan or with some financial privileges.

On the other hand, Gosbank was able *indirectly* affect the real economy of the country. First, chairman of the Governing Board of Gosbank had a right to be present at meetings of the Council of

Ministers of the USSR. Here the chairman had an opportunity to express bank's opinions on economic questions.

Second, the Governing Board of Gosbank was in close contact with Gosplan (the State Planning Committee) and branch ministries. As such, Gosbank could, in a certain way, influence decisions made by Gosplan.

Third, Gosbank representatives participated in the most important economic discussions.

The Soviet system of specialized banks as specialized depositary institutions for enterprises and organizations. Besides Gosbank as the principal bank of the country, there operated in the Soviet Union other depositary institutions. These were specialized banks. Like Gosbank, each of the specialized banks was built in a centralized manner, that is, as a pyramid, and, in the last resort, was controlled by the Council of Ministers of the USSR. Below, we will list the most significant Soviet specialized banks.

The Soviet Investment Bank (*Stroibank*) as one of the specialized depositary institutions for enterprises and organizations. In accordance with plan targets and under the supervision of the Ministry of Finance of the USSR, Gosbank provided enterprises and organizations with *short-term* loans in the form of either bank deposits or cash money. The purpose was to replenish enterprises and organizations' *current assets*, or *circulating capital*. The latter included working physical capital (raw materials and fuel) and cash money for, first of all, wages.

Stroibank, on the basis of plan targets for the construction-assembly works and also under the guidance of the Ministry of Finance of the USSR, was authorized by the government to provide enterprises and organizations with *long-term* loans to replace and enlarge their *productive capacities*, or *fixed capital*. These are such physical capital, as industrial buildings, structures, machinery, equipment, etc. Thus, from the point of view of reconstruction and expansion of the material conditions of production, Stroibank provided for crediting of *major* repairs and *major* construction work of new units of industrial and nonindustrial purposes.¹⁰

The most part of Stroibank's money resources (the liabilities side of the balance sheet) was coming from the Ministry of Finance. This portion was, therefore, called the *centralized* funds. The funds were used for financing the construction of industrial units as well as residential structures.

Another portion of Stroibank's money resources was generated by deductions from profits and depreciation funds which some enterprises and organizations were allowed to have in special accounts in Stroibank. These were *decentralized* funds for financing residential construction as well as building day nurseries,

kindergartens and other socio-cultural objects for the employees of enterprises and organizations.

We can see that Stroibank, like Gosbank, was performing some functions which in countries of mixed capitalism are conducted by independent commercial banks. Also, it is necessary to point out that in terms of the number of its branches Stroibank was second only to Gosbank. In the middle of the 1980s, Stroibank had 2.5 thousands branches across the country.¹¹

The Soviet Bank for Foreign Trade (*Vneshtorgbank*) as another specialized depositary for enterprises and organizations. Its task was to provide financial backing to economic relations of the USSR with other countries.

Soviet customers of Vneshtorgbank included domestic enterprises and organizations working for foreign markets and also government institutions providing credits and financial assistance to foreign countries or receiving credits and financial assistance from the latter.

Among *foreign* customers of Vneshtorgbank were foreign enterprises and organizations, foreign governments and their institutions either trading with the Soviet Union or loaning to (borrowing from) it or giving (getting from) it financial-economic assistance.

Thus, to a certain extent, Vneshtorgbank served the role of a commercial bank oriented toward external economic activities.¹²

Vneshtorgbank had relations with many corresponding banks abroad. It also owned banks which operated in foreign countries. On the territory of the Soviet Union, Vneshtorgbank functioned through its branches. These were seven in the middle of the 1980s.¹³

Digression. Often, short-term principals on loans that enterprises and organizations borrowed from Gosbank were repaid late with a very symbolic, insignificant interest on them. Long-term credits to enterprises and organizations were not necessarily to be repaid to Stroibank and when repaid, often without any interest charge on them.¹⁴

This “all-forgiveness” resulted from the very essence of the system of totalitarian state capitalism: from the interrelations between the bureaucracy-owner and various layers of the bureaucracy and its individual representatives as possessors of the national wealth. These relations were of a *hybrid*, or a *credit-proprietary* character.¹⁵

In the credit relations, the bureaucracy-proprietor, called the state, provided credits (loans) to its own portions-possessors, called enterprises and organizations. This explains the *credit-non-credit*, or *loan-non-loan* nature of the connection between the whole and its parts. “Loan” and “credit,” since financial resources were lent by the owner to their (resources) potential possessor (user). “Non-loan”

and “non-credit,” because the process of lending and borrowing took place within the one and only system of state property.

The outcome of such strange relations was their vagueness, ambiguity: no attention to maturity dates by and miserably small interest charges to enterprises and organizations-borrowers.

Continuation: Soviet state labor savings banks (GTSK) as specialized depositary institutions for the population. Being a part of Gosbank, GTSK of the USSR were not independent in the system of Soviet depositary institutions. We, however, picked them out for the convenience of our narration. For, while Gosbank, Stroibank and Vneshtorgbank served exclusively *enterprises and organizations* of the country, the purpose of GTSK was to meet the needs of the *population*.

The structure of GTSK. They replicated the higher, the middle and the lower levels of the bureaucratic pyramid of Gosbank. Nevertheless, in some respect, the organizational structure of GTSK, at least at the base of the pyramid, had features of savings institutions and credit unions of countries of mixed capitalism.

At the lowest level, GTSK combined the following networks. First, the network of savings banks located in post and telegraph offices. These savings institutions provided the population with all available banking services.

Second, the web of GTSK in enterprises and organizations, that is, at the place of work of depositors. Here, the range of available banking services was narrower.

Table 5.3 demonstrates households' deposits in GTSK in 1980 and 1985 - 1986:

Table 5.3
Households' Deposits, 1980 and 1985 - 1986
*(at the year end)*¹⁶

Indices	1980	1985	1986
The number of GTSK, th.	79.9	78.5	77.9
Including in:			
Urban areas	24.7	24.1	23.9
Rural areas	55.2	54.4	54.0
The number of deposits, mln.	142.1	170.8	178.4
Including in	106.6	130.4	136.5
Urban areas	106.6	130.4	136.5
Rural areas	35.5	40.4	41.9
The amount of deposits, percentage	100	100	100
Including in:			
Urban areas	73.1	74.3	74.6
Rural areas	26.9	25.7	25.4
The average size of deposits, percentage	100	100	100

Out of it:			
Urban areas	97.4	97.4	97.5
Rural areas	107.9	108.6	108.2
Per capita average size of deposits, percentage	100	100	100
Out of it:			
Urban areas	115.3	113.9	113.6
Rural areas	73.4	74.0	74.0

According to the table, until 1987 there had been almost 80 thousand GTSK in the USSR. The major part of them (more than 50 thousand) was located in rural areas. This was, probably, due to a lower density of the rural population.

But in terms of the number of deposits and their amount the Soviet town was more than three times ahead of the Soviet country. This is because a significant portion of the Soviet population resided in urban areas.¹⁷

At the same time, it is necessary to emphasize that the average size of deposits in rural areas was higher than in urban areas. In all probability, the following two factors played their role.

First, villagers had to spend less of their incomes on foodstuffs than urban dwellers. Second, rural areas provided a more limited choice in purchasing goods and services forcing rural people on average save a higher proportion of their disposable incomes as compared to that of town people.

It is interesting to note that per capita average size of deposits was bigger in town than in countryside. We can assume that this was caused by the greater size of the average rural family as compared to the urban one.

The distribution of deposits held in GTSK by the Soviet population on January 1, 1989 and on January 1, 1991 in accordance with the number and amount of deposits is presented by Table 5.4:

Table 5.4
The Structure of Deposits Held in GTSK by the Soviet Population
*(in percentage to total)*¹⁸

Deposits, rubles	On January 1, 1989		On January 1, 1991	
	The number of deposits	The amount of deposits	The number of deposits	The amount of deposits
All deposits	100	100	100	100
Including:				
Up to 300	33.3	2.4	31.7	2.0
Above 300 to 1,000	22.9	9.7	21.0	7.7
Above 1,000	24.6	25.4	24.4	22.0

to 2,500				
Above 2,500 to 5,000	12.4	27.8	13.9	27.0
Above 5,000 to 10,000	5.7	24.5	7.2	27.1
Above 10,000	1.1	10.2	1.8	14.2

It can be seen that in terms of the *number of deposits*, the majority (around 80 percent) of them were small-size (to 1,000 rubles) and middle-size (above 1,000 to 2,500 rubles) deposits. But in terms of the *amount of deposits*, dominated deposits of greater sizes (above 2,500 rubles), approaching to two-thirds of the total amount of deposits. This, of course, tells us about the stratification of Soviet society into those who could have saved more than others.

Functions of GTSK. Savings banks provided the Soviet people with opportunities to earn though a small (2 - 3 percent annually) but, nevertheless, guaranteed interest rate. Stimulating in this way the population to voluntary savings of its disposable incomes, GTSK offered certain (true, very minimal) banking services. In this, GTSK performed functions similar to that of depositary institutions of countries of mixed capitalism.

First, the population had a chance to open various personal accounts in branches of savings banks. Among them were the following.

Non-checkable savings deposits, with two percent annual interest rate earned. They had no fixed term in the sense that depositors could at any time withdraw money from these accounts.

Deposit accounts, with three percent annual interest earned. They were held for one year. Depositors could withdraw money from these accounts early, only paying some amount of penalty. Deposit accounts constituted around two-thirds of all deposits of the population.

Letters of credit, which were equal to traveler's cheques. Depositors could use them in case of changing places of residence, going to vacations to regions or simply traveling outside the residence. Letters of credit could be exchanged for money of the equal amount at any GTSK on the territory of the Soviet Union.

Limited "checking" accounts, earning two percent annual interest rate. They were not "checking" in the regular, mixed capitalist sense of the word. Rather, they were one-time money remittances given by GTSK to those who, in turn, could use them to buy goods of a significant value (for instance, motorcycles).

Second, savings banks were charged by the state with an important mission with respect to the population. Through GTSK,

pensioners, war and labor veterans and disabled persons *received* (from the state) their corresponding pensions; mothers of many children, their allowances; etc. Through GTSK, on the other hand, Soviet people made monthly *payments* (to the state) of rent, public utilities, telephone, etc.

Third, through the system of GTSK, the state sold bonds of the state economic development loan to the population.

Finally, GTSK sold lottery tickets to the Soviet population.

But the system of GTSK did not perform some functions of the depositary institutions of countries of mixed capitalism. It offered no real checking accounts. It provided no short- or long-term loans to the population. It was not in charge of money deposits of the population. This was a prerogative of the state which carried out the function through Gosbank and the Ministry of Finance.

Soviet contractual savings "banks"

Besides depositary institutions, Soviet financial intermediaries also included contractual savings "banks." We put the word "banks" in quotation marks for a simple reason that they were not banks in a direct meaning of the word. As Soviet depositary institutions, they were state institutions of the pyramidal character.

First of all, they comprised *state insurance funds*. In the framework of mandatory centralized state planning, the goal of the funds was to create conditions for the uninterrupted development of the economy of the country. Being all-state and centralized, they served as financial reserves in case of unforeseen events which could become an obstacle to the Soviet steady economic development.

The funds (their assets) were formed by compulsory payments of enterprises. The funds were used (their liabilities) to replenish material and financial funds of those enterprises which found themselves in extraordinary circumstances.

The system of contractual savings "banks" also included *funds of state property and personal insurance, funds of state social insurance and state pension funds*. As their titles tell, the basic feature of these involuntary-voluntary funds was their state character. This character was revealing itself when people were making voluntary payments to insure their property, life and/or health; and when enterprises were making compulsory payments of portions of their financial resources into pension funds.

The major indicators of the Soviet state insurance system in 1980 and 1985 - 1990 are listed in Table 5.5:

Table 5.5
The Soviet State Insurance System, 1980, 1985 - 1990
(at the year end)¹⁹

Indices	1980	1985	1986	1987	1988	1989	1990
The number of insurance funds	6097	6116	6079	5985	5900	5765	5636
Receipts of insurance payments to the funds, total (percent)	100	100	100	100	100	100	100
Including:							
From the economy	35	38.6	37.2	37.8	37.8	35.4	37
From the population	65	61.4	62.8	62.2	62.2	64.6	63
Insurance reimbursements and payments of insurance by the funds, total (percent)	100	100	100	100	100	100	100
Including:							
To the economy	44	33.3	34.3	40.5	44.4	40.8	41.3
To the population	56	66.7	65.7	59.5	55.6	59.2	58.7
The number of voluntary insurance contracts between the corresponding funds and the population, mln.	156.8	183.8	202.0	206.1	204.0	203.9	201.8
The same on average per household	2.1	2.4	2.6	2.6	2.5	2.5	2.5

The table indicates that there were two aspects of the Soviet system of state insurance (*Gosstrakh*) in 1980 and 1985 - 1990. First, its major source was savings of households. Second, the population was contributing to *Gosstrakh* more than it was receiving from the latter. Third, with regard to the economy, it was the other way around: enterprises were getting more than they were paying to the insurance system. This means that the state was channeling a portion of household savings into the Soviet sphere of production.

Soviet financial markets and instruments

In order to understand the place of financial markets under the conditions of the Soviet system of totalitarian state capitalism, let us recall its following features. These were: the state ownership of physical capital, land and the major part of the material wealth produced in the country; the domineering role of the state in the allocation of resources: what, how much and for whom to produce, what portion of goods produced to use as savings for investment and what for personal and public consumption; the state determination of profits, taxes, wages and prices.

Thus, under the Soviet conditions, as a result of the absence of the subdivision of the ownership of material economic resources, the Soviet state-proprietor as well as every enterprise-possessor, or user of resources to produce goods and services, were

able to draw practically all the necessary resources from *domestic state* savings. These included depreciation allowances and profits created by the economy as a whole.

It is obvious, therefore, that under the Soviet conditions the role of *external* sources (such as securities) of financing the activities of the state and particular enterprises had to be very insignificant. Still, the state participated in selling some securities in the market. Let us see what securities and to whom the Soviet state was selling.

Soviet financial markets of promissory notes

Soviet promissory notes were state-loan bonds sold by the state to domestic households and domestic enterprises. The bonds were long-term nature securities whose maturity was 25 years. The purpose of their issuance was to reconstruct the Soviet economy, devastated by WWII, and to further develop it.

Soviet state-loan bonds had a specific character which reflected the essence of totalitarian state capitalism. The specificity was in following.

First, a form of their purchase was involuntary. These were compulsory savings: the state actually confiscated portions of finances of enterprises and of wages of employees promising to redeem them during a certain period of time. With the help of bonds, the state forcefully reduced incomes of households intended for their personal consumption and profits of enterprises destined to satisfy socio-cultural needs of the population.

Second, the interest rate on state bonds was low (2 - 4 percent). Besides, the interest income on the value of bonds could be received only as a prize. Naturally, Soviet involuntary "investors" could not be happy with such an arrangement.

Third, very often the state broke its promises of bonds' redemption either by the postponement of their payment or by the conversion of already sold bonds into new ones, with worse conditions of redemption.

Soviet financial markets of stocks: a point of view

What can be said about the stock market in the USSR? "A strange (at least) question," anyone who is knowledgeable about the Soviet socioeconomic system would say: there was none. And, of course, *formally*, there was no stock market in the country. The Soviet bureaucracy had no desire to share belonging to it national pie in terms of property and/or profits either with individual bureaucratic layers, or with individual bureaucrats, or with the non-bureaucratic part of the population.

However, this was a formal side of the story. In *actuality*, things were not that simple.

With the development of the Soviet system, and especially during its last years, more openly and authoritatively started to reveal itself the inherent contradiction of the totalitarian state capitalist system: between the ownership of the bureaucracy as a class ("capital-property"), on the one hand, and the possession and usage of this property by the various bureaucratic layers and individual bureaucrats ("capital-function"), on the other.

Under these conditions, the *official* distribution by the senior parts of the bureaucracy (*nomenclature*) to separate bureaucratic layers and individual bureaucrats of the right to possess (manage) parts of the corporate bureaucratic property (that is, getting positions in the hierarchical bureaucratic structure) was but a *peculiar* form of the *actual* existence of stocks in the country. This was a *functionary* share in portions of the all-bureaucratic *possession*, and, as a result, with the development of the Soviet socioeconomic system in portions of the actual (though not yet legal, juridical) all-bureaucratic *ownership*.

In our opinion, the following *substitutes* played the role of Soviet shares (stocks). First, the *formal* substitutes allowing a person to become a bureaucrat with all ensuing privileges of the latter: belonging to a "right" nationality which met the requirements of the locality, region or republic of residence; the Party-membership card indicating a belonging to a club of "chosen" and reliability and loyalty in the eyes of the members of the club; a university diploma as a "voucher to bureaucratic life," given personal desires and capabilities, the "right" nationality and Party-membership; etc. All these surrogate shares provided *possibilities* for individuals to be transformed into bureaucrats.

Second, the *informal* substitutes for the stocks turning the possibilities of bureaucratic careers into *realities*: a certain psychological mentality displaying a mixture of naivety, cynicism, opportunism, unscrupulousness, cunning, mercilessness, a sharp instinct of self-preservation, ambition, etc.; a well entrenched and ever expanding system of protection (*blat*), the system of personal connections, acquaintances, mutual support; etc.

The role of "sellers" of such surrogate stocks, which were giving a right to bureaucratic privileges, was performed by the entire Soviet bureaucratic class in the person of its higher layers and individual members. The role of "buyers" and "holders" of the surrogate shares was played by the lower levels of the bureaucracy and of its individual members.

The transaction, as a rule, was carried out by the lower bureaucrats bribing the higher bureaucrats either with money, or with goods in short supply (refrigerators, cars, apartments), or with scarce services (helping to a relative of the higher-level bureaucrat to get admitted into a university or to get a job).

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- , *Osnovy Ekonomicheskoi Teorii. Mikroekonomicheskaya Teoriya Rynkov Vvodimyykh Resursov* [Principles of the Economic Theory. The Microeconomic Theory of Input Markets]. Moscow: "Nauka," 1996.

Notes to Chapter 5: The Soviet Monetary-Financial System

- 1 Based on E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Finansovo-Denezhnaya Sistema* [Principles of the Economic Theory. The Financial-Monetary System]. Moscow: "Nauka," 1999, pp. 34 - 37, 82 - 99.
- 2 G. Garvy, *Money, Financial Flows, and Credit in the Soviet Union*. Cambridge, Massachusetts: Ballinger Publishing Company. Published for the National Bureau of Economic Research, Inc., 1977, p. 76. See also M. Goldman, *The Privatization of Russia. Russian reform goes awry*. London and New York: Routledge Taylor & Francis Group, 2003, p. 83.
- 3 Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990]. Moscow: "Finansy i Statistika," 1991, p. 119.
- 4 Ibid., p. 28.
- 5 This observation demonstrates how arbitrary is any division of socioeconomic process into "before" and "after." Nevertheless, without such, though conditional, a delimitation of events their understanding becomes even more difficult.
- 6 See E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Makroekonomicheskaya Teoriya Valovogo Vnutrennego Produkta: Keinsianskiy Podkhod* [Principles of the Economic Theory. The Macroeconomic Theory of Gross Domestic Product: The Keynesian Approach]. Moscow: "Nauka," 1997, pp. 289 - 290.
- 7 "Certain," since some commercial operations in the USSR were performed by other state banks. We will talk about these "other" banks later.
- 8 *Den'gi, Kredit, Banki* [Money, Credit, the Banks], ed. By O. Lavrushina. Moscow: "Finansy i Statistika," 1998, p. 341.

- 9 Its assets also included gold and foreign currencies. But, unlike short-term loans to enterprises and organizations, amounts of these items in the balance sheet were not shown.
- 10 At this point, the following note is in order. In time, the border between Stroibank and Gosbank in terms of investing activities was becoming more and more blurred. Beginning with the second half of the 1960s, Gosbank, in addition to its duties as a short-term lender for financing current repairs, had been more and more involved in long-term financial investments into some agricultural projects.
- 11 *Den'gi, Kredit, Banki* [Money, Credit, the Banks], p. 341.
- 12 A more elaborate account of international economic relations of the USSR with its monopoly of foreign trade and foreign finance will be advanced in one of the subsequent chapters of the book.
- 13 *Den'gi, Kredit, Banki* [Money, Credit, the Banks], p. 341.
- 14 We need to stress that decisions with regard to principals as well as to interest rates were made not by enterprises and organizations themselves but their higher authorities in accordance with the corresponding plan targets.
- 15 See E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Mikroekonomicheskaya Teoriya Rynkov Vvodimyykh Resursov* [Principles of the Economic Theory. The Microeconomic Theory of Input Markets]. Moscow: "Nauka," 1996, pp. 55 - 57.
- 16 Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990], p. 48. Amounts of deposits, average sizes of deposits, including per capita, are calculated on the basis of this statistical source.
- 17 Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989]. Moscow: "Finansy i Statistika," 1990, p. 19.
- 18 Ibid., as in footnote #16, p. 49; *ibid.*, as in footnote #17, p. 93.
- 19 Ibid., as in footnote #17, p. 18. Percentages are calculated on the basis of this statistical source.

PART VII
THE LAST STAGE IN THE DEVELOPMENT OF THE
SOVIET SOCIOECONOMIC SYSTEM: THE STALINIST
MODEL IN OPERATION
(1940-1991)

Chapter 6
The Soviet State Budget¹

State budgets of any country in the world are designed to transfer economic resources in money form from one sector of economy into another. In *this* respect the Soviet state budget in its essence was comparable to state budgets of other capitalist countries.²

The distinctive features of the Soviet state budget

However, we must remember that many countries of the world are not like the Soviet Union in the sense that in these countries state ownership of the means of production is not predominant and central planning does not have its mandatory nature. This implies that in non-Soviet-type societies governments reallocate physical³ resources and transfer them from one owner to another (thus reappropriating *real property rights*) primarily *indirectly*, through the usage of money as an active instrument of budgetary policies.

The Soviet state budget, on the other hand, due to the specifics of property relations and the structure of mandatory central planning (following from this specifics), had certain peculiar features.

The peculiarities of the domestic reallocation of the means of production

In the Soviet Union, the redistribution of the means of production, when it took place within the sector of the economy, did not involve the reallocation of real property rights, but simply reduced the amount of the physical output of the enterprises by moving a portion of the means of production to whatever location and for whatever purposes the state desired. The goal was achieved *directly*, through various plan targets of supply, production and realization of material goods, with money, in the form of bank deposits, as we remember, playing a very *passive* role in the budgetary process.

The peculiarities of the domestic reallocation of the articles of consumption

On the other hand, the reallocation of consumer goods entailed the relationship between the state as their owner and the Soviet population as their consumer. When, therefore, a change in the proprietor of consumer goods took place, the state's objective was accomplished *more indirectly*, with money in the form of cash money, as we also remember, performing an *active* function in the budgetary transformation.

The peculiarities of forming the Soviet state budget

The existence of the state ownership of the means of production and mandatory central planning, as the core of the Soviet system of totalitarian state capitalism, left its mark on the determination of the Soviet state budget on both its revenue and expenditure sides.

The Soviet state budget as a consolidated budget. The Soviet state budget included revenues and expenditures not only at the all-union levels, but also at the lower levels, down to the smallest localities. The budget of the USSR, in other words, was a *unified, consolidated* budget, which reflected "the centralized character of the Soviet economic system."⁴

Table 6.1 adduces the division of the Soviet state consolidated budget into the all-union budget (the budget of the central government bodies) and the budgets of the lower levels of the state power for 1985 - 1990:

Table 6.1
Various Levels of the Soviet State Consolidated Budget, 1985 - 1990
*(in percentage)*⁵

Indices	1985	1986	1987	1988	1989	1990
Revenues, total	100	100	100	100	100	100
Including:						
All-union budget	51.5	50.1	48.9	44.8	39.4	44.6
Republican, regional and local budgets	48.5	49.9	51.1	55.2	60.6	55.4
Expenditures, total	100	100	100	100	100	100
Including:						
All-union budget	52.5	53.4	55.1	53.4	50.7	46.9
Republican, regional and local budgets	47.5	46.6	44.9	46.6	49.3	53.1

According to the table, at least during the last period of the existence of the Soviet socioeconomic system, the share of the all-union revenues (till 1987) and expenditures (till 1990) was more than a half of the consolidated budget. This implies that even during the time of the weakening of the system of totalitarian state capitalism, the aspiration of the higher Soviet authorities for the preservation of their control over the processes of the redistribution of a significant part of the budgetary resources of the country prevailed.

And it is during Gorbachev perestroika when the Soviet system began putting out metastases within the entire socioeconomic organism, the portion of the all-union budget started to decline, while that of the republics, regions and localities, to grow.⁶

The Soviet enterprise vs. the consolidated budget. It would be natural to expect the lowest economic unit, the enterprise, to be embodied in the hierarchical structure comprising the Soviet budget. This was not the case, however. Only a portion of the profit of enterprise was absorbed by the state budget, and the rest was allowed to be retained by the enterprise for its own purposes, which, in turn, were established by the state plan targets.

Why was this so? It can be explained by the real-life division of enterprises with respect to their relations to the budget into two types: *khozraschet* (working for positive or negative profits) enterprises and *budgetary* enterprises.⁷

Khozraschet enterprises were those which produced material welfare and which covered their expenses by *their own revenues*. When it was possible, such enterprises were expected to receive some positive profits. *Khozraschet* enterprises included those which were selling: each other their produce (which, regardless of its final purposes, that is, as producer or consumer goods, took a form of the means of production) for bank deposits; articles of consumption to the population for cash money; their products (producer or consumer goods) to foreign customers either for hard currency or for barter.

Thus, these were the only enterprises which had the means to contribute to the budget. So when in this section of the chapter we speak about enterprises which only partially allocated their profits into the state budget, we mean only *khozraschet* enterprises.

On the other hand, *budgetary* enterprises were those enterprises which worked exclusively for the domestic market and only for the state *in general*, but not for its separate productive units (enterprises). Not earning incomes, these enterprises (for instance, in free-for-all health care, education, etc.) covered their expenses exclusively from the state budget, that is, from incomes which the state budget, in its turn, accumulated from *khozraschet* enterprises. It is obvious, therefore, that budget enterprises brought no money into the state budget.

In a nutshell, enterprises of both types were possessors. They, however, were different possessors in their relation to the state-owner.

In the eyes of the state-owner, *khozraschet* enterprises as “bread-winning” possessors performed the role of “taken-from” to the state budget, and, thus, as their incentives, were allowed to keep a portion of *their* net revenue for their own purposes. From the point of view of the state-owner, budgetary enterprises as “sterile” possessors played the role of “given-to” by the state budget, and, hence, for maintaining their functioning, received a portion of *other’s* net revenue for their own purposes.

It must be understood that enterprises producing similar products could be of either type. For instance, the enterprise producing weapons for the own military was a budgetary unit, but for foreign contractors, was a *khozraschet* unit.

Sources of the revenue side of the Soviet state budget. In countries of mixed capitalism, economic agents (enterprises and households) relate to each other *horizontally* as various *proprietors*. Therefore, the major source of the revenue of the state budget as the *vertical* relation between the central government and these economic agents is taxes.⁸

In the system of totalitarian state capitalism, let us repeat, enterprises related to each other as horizontal *possessors*. Their vertical *owner* was the state.

At the same time, the *monetary* property of households as consumers and owners of their labor power was residual, derivative from the state property. From this follows that the *major* reservoir from which the state drew its budget revenues had to be *non-tax* receipts from enterprises of material production.

(Running ahead, we note that many of these receipts were called “taxes.” But business incomes on *state* property belong to the non-tax category.⁹ Therefore, if we were to understand taxes as mandatory, irrevocable payments by *non-state* owners to the *state*, then deductions from incomes of *state* enterprises to the *state* budget in the Soviet Union could not be considered as taxes. In the Soviet period, only deductions from households’ incomes could be regarded as taxes.¹⁰)

Let us turn to Table 6.2 which illustrates the distribution of the revenue side of the Soviet state budget during the last years of the Soviet system into non-state deductions from incomes of state enterprises and state deductions from incomes of the population:

Table 6.2
The Revenue Side of the Soviet Budget, 1985 - 1990
(in percentage to the total revenue amount)¹¹

Indices	1985	1986	1987	1988	1989	1990
Total revenue	100	100	100	100	100	100
Including:						
From enterprises	91.3	90.8	90.6	89.7	88.8	88.8
From the population	8.7	9.2	9.4	10.3	11.2	11.2

Indeed, the revenue of the unified Soviet state budget was derived overwhelmingly from the economy.

The peculiarities of some expenditure articles of the Soviet state budget

Recall that totalitarian state capitalism was called to accomplish the industrial revolution in an agrarian, peasant country. At the same time many developed countries of mixed capitalism were moving from the industrial stage to the stage of services.

Such a difference in levels of the historical development between the Soviet system of totalitarian state capitalism and the Western system of mixed capitalism created a different approach to the determination of productive and nonproductive labor, of material and nonmaterial production.

Mixed capitalism, that is, capitalism of the growing importance of services in economy, does not distinguish between productive and nonproductive labor and, correspondingly, between material and nonmaterial production. Totalitarian state capitalism, that is, capitalism of the industrial development, openly declared such a division.

From this follow distinctions between the two capitalist forms in defining some articles of the expenditure side of their budgets.

For example, in the mixed capitalist United States budget expenditures are considered to be *actual* expenditures regardless of whether or not the amounts spent leave the domain of the government. All expenses at all levels of governments are regarded as true expenditures, including transfer payments. Thus, transfer payments made by the Federal government to State and local governments are factual expenditures from the point of view of the Federal government; and those which are made by State governments to local governments are real spending in the eyes of State governments. The basic reason for this phenomenon is that there is no distinction between productive and nonproductive sector of economy in the USA.¹²

In the totalitarian state capitalist Soviet Union, consolidated state outlays on the *material* sector of the state economy (that is, in the state's relations with *khovraschet* enterprises) were treated as

transfer payments and, therefore, were *not* treated as *actual* budget expenditures. On the other hand, unified state expenditures on the *nonmaterial* sector within¹³ and without¹⁴ the state economy were regarded as real expenditures of the state budget.

The character and the size of the Soviet state budget during the last years of the existence of totalitarian state capitalism

Like in the case of inflation and unemployment, it has long been proclaimed by Soviet propaganda that the budget deficit in a “socialist” country, where the state owns the principal means of production and regulates all major economic activities through mandatory central planning, was, at least in peacetime, all but impossible; such a negative macroeconomic phenomenon was presumed to be a destiny of capitalism.¹⁵

However, suddenly, at the end of October 1988, the Soviet Union recognized the existence of the budget deficit.¹⁶ This acknowledgment raised the following four questions: (1) what was the structure of the Soviet budget? (2) what was the actual (not just declared by the government) size of the Soviet budget? (3) what was the meaning of the recognition of the existence of the budget deficit at the end of the year 1988?

The structure of the Soviet state budget during the last years of the existence of totalitarian state capitalism

The structure of the Soviet state budget for 1985 - 1990 in shown in Table 6.3:

Table 6.3
The Structure of the Soviet State Budget for 1985 - 1990
*(in percentage to total)*¹⁷

Indices	1985	1986	1987	1988	1989	1990
Revenues, total	100	100	100	100	100	100
Including						
Turnover taxes	26.2	24.6	25.0	26.7	27.6	25.7
Deductions from profits and other payments by state enterprises	32.1	34.9	33.7	31.6	28.7	24.7
Income taxes from cooperative and public enterprises and organizations	0.7	0.7	0.7	0.7	1.1	1.4
State loans realized among the population	0.4	0.5	0.5	0.5	0.5	1.6
State taxes on the population	8.1	8.4	8.6	9.5	10.4	10.3
Including income taxes	7.6	7.9	8.2	9.0	9.3	9.0

Social insurance	6.8	7.1	7.4	7.9	8.2	9.2
Incomes from the external economic activities (customs tariffs, incomes from exports and noncommercial operations)	19.1	17.3	18.3	16.5	16.7	15.9
Expenditures, total	100	100	100	100	100	100
Including						
National economy	54.1	54.3	52.7	52.8	41.8	38.5
Social-cultural undertakings and science	32.5	32.1	32.5	32.9	30.9	33.1
Out of them:						
Education and science	12.8	12.6	12.7	13.0	11.3	11.7
Health care and physical training	4.6	4.3	4.5	4.8	5.1	5.6
Social security	8.3	8.4	8.7	8.6	8.3	10.0
State insurance	5.9	5.7	5.6	5.6	5.2	5.7
External economic activities (import, export, gratuitous aid, noncommercial activities)	3.9	4.3	5.7	5.7	5.9	5.6
Defense	4.9	4.6	4.7	4.4	15.6	13.7
Administration and justice	0.8	0.7	0.7	0.7	0.6	1.0

According to the *official* structure of the revenue side of the Soviet state budget, the latter included seven items. The predominant among them were deductions from profits and other payments by state enterprises and organizations, turnover taxes, and income from the external economic activities. In the last resort, as it was pointed out earlier, a significant part of the Soviet budget revenue represented the redistribution of resources from the country's economy.

The revenue side of the Soviet state budget: deductions from profits and some other payments by enterprises

Here, besides receipts from profits, there were included payments by enterprises for the use of labor resources, deductions from the depreciation fund, etc.

Beginning with 1986, with the Soviet socioeconomic system approaching its historical end, the share of revenue item in total revenue started to decline. This was taking place because during the second half of the 1980s, enterprise directors who previously had been exclusively personalized possessors were being gradually transformed into semi-owners of the means of production of their enterprises. As a result, the enterprise managers were able either to hide or simply to refuse to deliver to the state budget the growing percentage of profits and other payments.

The revenue side of the Soviet state budget: turnover taxes

For the first time, the turnover tax was introduced in 1931, in full swing of collectivization and industrialization. Since, due to the purpose of its introduction, the tax in reality was a very complicated and basically *non-tax* phenomenon, we will devote to it a considerably more time than to other revenue items of the Soviet state budget.¹⁸

Four major views of turnover taxes. That the turnover tax was not a simple revenue item of the Soviet state budget but comprised very different elements is shown by the fact that, during the Soviet time, there were at least four opinions of it.

These views in a concise form are presented in Table 6.4:

Table 6.4
Four Major Views of Soviet Turnover Taxes (TT)

Characteristics	The first view	The second view	The third view	The fourth view
Definition of tax	TT=sales tax on consumer goods ¹⁹	TT=sales tax on consumer goods +rent on oil and oil products ²⁶	TT=sales tax on consumer goods +rent on oil, gas and electricity +tribute on agri-cultural produc-tion ³³	TT=part of surplus product in oil, gas and electricity-producing industries and in agriculture ⁴⁰
Economic incidence of tax	Consumer pays TT ²⁰	(1) Consumer pays sales tax ²⁷ (2) Producers of oil and oil products pay rent ²⁸	(1) Consumer pays sales, or excise tax ³⁴ (2) Users of oil, gas and electricity pay rent ³⁴ (3) Agricultural producer pays tribute ³⁴	(1) Heavy industry producer of oil, gas and electricity ⁴¹ (2) Agricultural producer ⁴¹
Legal incidence of tax	Retail stores ²¹	Large-scale wholesale trading organiza-tions ²⁹	(1) Wholesale organizations ³⁵ (2) Enterprises producing oil, gas and electricity ³⁵ (3) Agricultural procurement organizations ³⁵	(1) Light industry ⁴² (2) Oil and gas industries ⁴² (3) Electric power stations ⁴²
Character of tax	Indirect and hidden ²²	Indirect and hidden ³⁰	Indirect and hidden ³⁶	(1) It is tax only in name ⁴³ (2) In actuality, it is a portion of surplus product appropriated in a centralized manner by the state ⁴³
Tax and prices	(1) Tax forms	(1) Tax forms	(1) Excise	(1) Tax

	retail price ²⁵ (2) Tax is a markup on prices for consumer goods ²⁴	retail price ³¹ (2) Tax is a markup on prices for consumer goods ³¹ (3) No information about relation between rent and prices ³¹	taxes form retail prices for consumer goods ³⁷ (2) Non-excise sales taxes are consequence of difference between retail and industry wholesale prices for consumer goods ³⁷ (3) Agricultural tribute is a result of unequal exchange between low agricultural and high industrial prices ³⁷	neither forms nor influences prices ⁴⁴ (2) Tax is a residual of difference between : (a) industry wholesale price and factory wholesale price for consumer goods and, thus, a component of retail price; ⁴⁴ (b) industry whole-sale price and factory whole-sale price for oil products, gas and electric power; ⁴⁴ (c) industry wholesale price and factory wholesale price for agricultural machinery ⁴⁴
Purpose of tax	To subsidize production of capital and military goods at the expense of consumer goods ²⁵	(1) To create "money illusion" among consumers ³² (2) To collect money for the state budget ³² (3) To balance aggregate demand and aggregate supply ³²	(1) To allocate resources within consumer goods sector and between consumer and capital goods sectors ³⁸ (2) To establish some relationship between production of oil, gas and electricity, on the one hand, and coal, on the other ³⁹	To serve as a means for centralized allocation and reallocation of resources ⁴⁵

Which of the four views of turnover taxes was more adequate? Table 6.4 provides no answer to this question.

Remembering that the truth usually might be found somewhere in between, we will make an attempt to find it. With this goal in mind, in the table below we will synthesize the four approaches. But obviously, in no way, our synthesis pretends to put an end to the discussion:

Table 6.5
A Synthesized View of Turnover Taxes

Characteristics	A synthesized view
Definition of tax	<p>(1) Part of surplus product which, in the form of differential rent I, was produced in:</p> <p>(a) Those agricultural enterprises where, due to better conditions of production (fertility of land or its location), productivity of labor was higher</p> <p>(b) Oil gas and electricity enterprises with higher than average productivity of labor, due to better conditions of production</p> <p>(2) Excise tax on selective consumer goods</p>
Economic incidence of tax	<p>(1) Industrial, state agricultural and collectivized agricultural producer:</p> <p>(a) State and collectivized agricultural farmer</p> <p>(b) Workers in oil, gas and electricity industries</p> <p>(2) Consumer</p>
Legal incidence of tax	<p>(1) Producing enterprises, wholesale, procurement and retail organizations:</p> <p>(a) Managers of light and food industrial enterprises, retail stores, wholesale and procurement organizations</p> <p>(b) Managers of oil, gas and electricity enterprises, wholesale and retail organizations</p> <p>(2) Managers of retail and wholesale organizations</p>
Character of tax	<p>(1) Tax coincided with differential rent I. It was direct but hidden from producers:</p> <p>(a) As agricultural differential rent I, it was direct but hidden from agricultural farmers</p> <p>(b) As industrial differential rent I, it was direct but hidden from industrial workers</p> <p>(2) Tax was direct but hidden from consumers</p>
Tax and prices	<p>(1) Tax formed neither retail nor industry wholesale price. Tax's formation depended on its final destination:</p> <p>(a1) When agricultural raw materials were used for production of consumer goods, tax was a difference between retail price or receiving industry wholesale price (that is, retail price after retail and/or wholesale discounts) for consumer goods and receiving factory wholesale price for agricultural raw materials</p> <p>(a2) When agricultural raw materials were used for production of producer goods, tax was a difference between selling industry wholesale price and receiving factory wholesale price (that is, agricultural procurement price) for agricultural raw materials</p> <p>(b1) When oil, gas or electricity were used for production of consumer goods, tax was a difference between retail price or receiving industry wholesale price (that is, retail price after retail and/or wholesale discounts) for consumer goods and receiving factory wholesale price for oil, gas or electricity</p> <p>(b2) When oil, gas or electricity were used for</p>

	production of producer goods, tax was a difference between selling industry wholesale price and receiving factory wholesale price for oil, gas or electricity (2) Tax formed retail price at a fixed rate on industry wholesale prices of selected consumer goods
Purpose of tax	(1) Tax served as centralized means for allocation and reallocation of resources in order to achieve the following: (a) To develop heavy industry at the expense of agriculture (b) To develop heavy industry by transforming surpluses of oil, gas and electricity to branches of heavy industry with major priorities for government (2) To suppress consumption of some consumer goods in order to release resources for heavy industrial growth

Let us examine the table above.

With regard to the *tax's definition*. The turnover tax included two parts not connected to each other. One part (I.1a and I.1b) was *produced* and as differential rent I was appropriated by the state in the form of bank deposits. Another part (I.2) was created in the process of *exchange* and as the excise tax on some consumer goods was also appropriated by the state in the form of cash money.

With regard to the *tax's legal incidence*. In the Soviet hierarchical socioeconomic system of the military-type subordination and one-man management, the fulfilment of this task was a *personal legal* responsibility of those bureaucrats (managers) whose enterprises and organizations were subject to taxation.

With respect to the *tax's economic incidence*. This depended on the origin of the turnover tax. Take, for instance, differential rent I. Its formation, under the conditions of totalitarian state capitalism, required interactions of three economic agents: the bureaucracy as a whole-the passive owner of land and its entrails; individual bureaucrats who, as enterprise managers, actively used, possessed land and its entrails and as such organized the process of production, exchange and distribution of the produce; a non-bureaucratic part of employees who, under the supervision and control of the management of enterprises, produced goods, including differential rent I. And since the latter was a portion of the surplus product, the tax burden in the form of bank deposits was in *actuality* on the non-bureaucratic part of Soviet employees.

Now, let us look at the excise tax. Obviously, the burden of this portion of turnover taxes in the form of cash money was on the Soviet consumer.

With respect to the *tax's character*. Why do we believe, contrary to the widespread view, that the tax, regardless of whether it was in a form of differential rent I or of the excise tax, had a *direct* character?

Theoretically, the burden of the turnover tax as differential rent I in the *cash money* form could be shifted from the worker-

producer to the ultimate consumer. But in the *physical* and in the *bank deposits* form such a shift was impossible: through the enterprise management, differential rent I had to be received by the highest Soviet bureaucracy from the worker-producer for a simple reason that, except for rare occasions, the Soviet ultimate consumer was forbidden to purchase the means of production and, hence, that part of the surplus product which, as differential rent I, was a component of the means of production.

As far as the turnover tax in the form of the excise tax on selected commodities is concerned, here the direct character of the turnover tax was caused by the fact that, under the Soviet conditions, the excise tax was levied *a priori* and on those consumer goods whose demand was close to perfectly inelastic. Therefore, the tax could not be shifted to anybody but had to be paid by the consumer. Otherwise, if demand on the selected consumer goods is assumed to be not perfectly inelastic, then from this would have followed that the state-owner in the person of the highest bureaucracy was imposing excise taxes on its parts, that is, on lower-level bureaucratic possessors (managers of retail outlets). This can be imagined only theoretically and for a very short period of time.

With regard to the relationship between the *turnover tax and prices*. In our opinion, this is the most complicated and important problem in understanding the turnover tax. That is why so much place was given to it in the table.

The problem is whether or not the turnover tax formed such Soviet prices as the retail price and the industry wholesale price. Our approach is that the solution to the problem consists of two opposite answers.

That part of turnover taxes, which constituted differential rent I, formed no prices. This means that, being a portion of a given amount of the surplus product, the turnover tax in all its changes forced to move in the opposite direction the other part of the surplus product, the profit. As a result, there could be no change in the amount of the product and its price.

This, however, does not preclude the turnover tax from being a non-forming component of the retail price for consumer goods or of the industry wholesale price for oil, gas and electricity or of the procurement price of agricultural raw materials. In other words, the turnover tax, in the form of differential rent I, was *produced* in oil, gas, electrical power industries and agriculture, but was *realized* in the process of sales of consumer products for retail prices in retail trade (75 - 80 percent of the rental part of the tax) and of the means of production according to the industry wholesale price in wholesale trade (20 - 25 percent of the rental part of the tax).⁴⁶ At the same time, in its excise tax form, the turnover tax formed the retail price. The implication is that, unlike changes in the rental part of the turnover tax, changes in its excise tax's part caused

opposite changes in the purchasing power of the Soviet ultimate consumer.

Thus, the significance of the relationship between the turnover tax and the price can be reduced to the fact that this or that solution of the problem gives an opportunity to determine what role these or that economic agents and sectors of the Soviet economy played in the making and development of the Soviet system of totalitarian state capitalism.

Finally, with respect to the *tax's purpose*. The major task of the turnover tax was to provide the Soviet socioeconomic system with all the necessary material and financial means for industrialization, that is, for the accumulation of capital for the heavy industrial development. For instance, from 1929 to 1985, turnover taxes contributed around one-third to the total revenue of the Soviet budget. The share of the tax reached two-thirds of the state budget during 1934 - 1938, i.e., when collectivization and industrialization were either accomplished or at their peak.⁴⁷

Thus, turnover taxes played a great role in the development of the Soviet Union, and especially in times of crises (as was mentioned above, drives to collectivize and industrialize, WWII, the after-war reconstruction, and so on).⁴⁸

How were turnover taxes distributed among sources of their origin? Unfortunately, a data on this subject is very scarce. Some estimates for 1929 - 1941, for example, show that 60 percent of turnover taxes originated in agriculture, 11 percent in heavy industry, and 29 percent in the form of excise taxes on Soviet consumers.⁴⁹

The figures provided above cover a short period of time and are heavily biased towards excise taxation of the consumer. They, however, correspond to other estimates made for a longer period. According to these calculations, "the differential land (agricultural) rent on average represents about 60 percent of the total turnover tax."⁵⁰

"Agriculture, thus, made a decisive contribution to the financing of the [Soviet economic development]."⁵¹ And the latter was very impressive given the industrial mission of Soviet capitalism.

Let us turn to the following Soviet statistical data. For this we will compare two periods in the Soviet economic development: one which starts in 1928, the beginning of the Stalinist socioeconomic model, and another which ends in 1985, the last pre-perestroika year.

While in 1985 as compared to 1928 the Soviet total material production grew by 72.5 times, its total industrial production increased by 162.5 times because its agricultural production rose by only 16.9 times. When industrial production is divided into production of the means of production (group A) and production of the articles of consumption (group B), then it is further seen that the Soviet priorities had been not simply industry over agriculture

but heavy industry over light and food industries: 350 times for the former as compared to 54.6 times for the latter.⁵²

As a result of this development, the share of group A in industrial production achieved 74.8 percent in 1985 as compared to 39.5 percent in 1928, while the portion of group B decreased from 60.5 percent to 25.2 percent, correspondingly.⁵³

The revenue side of the Soviet state budget: receipts from external economic activities (customs duties, receipts from exports and noncommercial operations)

The name of the revenue item speaks for itself. We will discuss in detail Soviet economic activities in the next chapter of our book. But here we need to make one very short observation.

As Table 6.3 reveals, external economic activities occupied the third place in the Soviet budget revenue, after the turnover tax and deductions from profits. This, in itself, is very impressive considering the fact that the Soviet system for a long time had, in main, preserved its autarchic character.

In total, turnover taxes and deductions from profits of enterprises (with some additional contributions to the budget) amounted to the major part of the Soviet budget. And, although the share (as shown by Table 6.3) had been gradually declining during the last period of the Soviet system, even in 1990 it was equal to approximately a half of receipts of the Soviet budget.

If external economic activities are added to the sum of the two revenue items, then it can be seen that the three revenue items played a great role in forming the Soviet budget: 77.4 percent in 1985 and 66.3 percent in 1990.

The revenue side of the Soviet state budget: other receipts

What are we to say about the other items of the Soviet budget revenue?

Income taxes on cooperative and public enterprises and organizations. The name of the tax tells us that it was levied on incomes of collective (for instance, *kolkhozy*) and public (for instance, trade unions) enterprises and organizations. Its uniqueness was in the fact that it had been imposed not on profits but on gross incomes.

According to Table 6.3, the share of this tax in the Soviet budget revenue, while having grown by 2 times during the last years of the existence of the Soviet Union, nevertheless, had remained insignificant.

State loans realized among the population. We have already encountered this category in dealing with Soviet financial markets (see Chapter 5).

It is significant that these loans which, in their nature, were credits given by the Soviet population to its state, were treated as a component of the budget revenue. Apparently, the Soviet bureaucracy which in its totality personified the state and spoke on the behalf of society as a whole, thus considered as its sacred right to use the loans borrowed from the population as if the bureaucracy's own money.

But it must be admitted that, like income taxes on collective and public enterprises and organizations, state loans realized among the population had a very insignificant "say" in forming the state budget revenue. Thus, in 1990 as compared to 1985, their share although increased by 4 times, comprised only 1.6 percent of the revenue side of the Soviet budget (see Table 6.3).

State taxes on the population. These were predominantly personal income taxes, and, as such, they were direct and open. It is worth mentioning that, in their size, income taxes that people paid to the government were 1.5 - 2 times lower than contributions made to the revenue by external economic activities (see Table 6.3). This is despite the fact that in the Soviet economy, as we will see later, external economic activities traditionally occupied place which was derivative from internal economic activities.

Social insurance. As we already know, these were contributions made by enterprises into the budget for social security (see Chapter 5). The contributions, at different time at different rates, were charged to the wage fund of enterprises. The latter viewed the charges as their production and sales expenses.

The expenditure side of the Soviet state budget

Table 6.6 demonstrates the expenditure side of the Soviet state budget in 1980 and 1985 - 1990:

Table 6.6
*The Expenditure Side of the Soviet State Budget, 1980, 1985 - 1990*⁵⁴

Indices	1980	1985	1986	1987	1988	1989	1990
GNP (in current prices), bln. rubles	619	777	779	825	875	943	1000
Budget expenditures, bln. rubles	295	387	417	431	460	483	513
Budget expenditure, in percentage to GNP	47.7	49.8	52.2	52.2	52.6	51.2	51.3

Budget expenditures in the USSR in the period under consideration on average amounted to a half of GNP. For

comparison: "since 1929, roughly 10 to 30 percent of American [consolidated] GNP has been channeled through government budgets ..."⁵⁵

There were two major reasons for the higher share of GNP which the Soviet bureaucracy spent through the consolidated state budget: first, in comparison to mixed capitalism, where investment is financed horizontally (that is, by non-state economic agents), in totalitarian state capitalism a significant portion of capital investment was financed vertically (that is, through the state budgetary means); second, in the system of totalitarian state capitalism, unlike that of mixed capitalism, such items of state expenditures, as, for instance, health care and education, played a greater role in total budget expenditures than in the system of mixed capitalism.⁵⁶

The expenditure side of the Soviet state budget included expenditures on the national economy, on social-cultural undertakings, on defense, on external economic activities, and on state administration and justice.

The expenditure side of the Soviet state budget: expenditures on the national economy. Around a half of the consolidated Soviet state budget expenditures fell on the state expenditures on the country's economy (see Table 6.3). This was the highest share of expenditures in the budget. Their decline which began in 1989 can be explained by changes in the way the state began assessing (by increasing their estimates) defense expenses.

Expenditures on the national economy included, first of all, budget *investments* in the production of the means of production. They were not required to be returned to the state budget (as we remember from Chapter 5). They were *centralized* in their nature in comparison to *decentralized* investments financed by enterprises themselves from their own retained earnings (portion of profit) and from a part of the depreciation fund.

Expenditures on the national economy also comprised subsidies which the central Soviet bureaucracy distributed to various sectors of economy or some individual enterprises of the country. A significant part of subsidies, especially during the last years of the existence of the Soviet Union, were the following.

First, to agriculture, and especially, to the production of meat and milk. Second, to coal industry. In their economic meaning, these subsidies were nothing but partial returns of differential rent I to which, as we recall, these sectors of the Soviet economy contributed to the budget in the form of turnover taxes.

Third, state subsidies to cover expenses on the maintenance of the housing and communal services. Subsidies of this type took place because rent for housing that the Soviet people paid either to local organs of power or to corresponding enterprises did not

compensate current expenditures (even including current repairs) of the housing sector.

The expenditure side of the Soviet state budget: expenditures on social-cultural undertakings. This was the second, in its importance, item of the Soviet state budget. Its share which went through the state budget achieved around one-third of the budget expenditures (see Table 6.3).

Expenditures on social-cultural undertakings included several outlays. First, expenditures on education and science. Comprising during the last years of the existence of the Soviet socioeconomic system on average more than 12 percent of the expenditure side of the budget (see Table 6.3), they were the highest among the expenditures on social-cultural undertakings.

Second, expenditures on social security. These were pensions for the retirees and invalids, compensations for sickness, for pregnancy and childbirth, for taking care of children, etc. On average, during the decline of the Soviet system, these expenditures accounted for approximately 9 percent of the entire expenditure side of the budget (see Table 6.3). They occupied the second place among all the expenditures on social-cultural undertakings.

Third, expenditures on state insurance. They comprised around 5 percent of all budget expenditures (Table 6.3). As such, they found themselves in the third place among social-cultural expenditures.

Finally, expenditures on health care and physical training. Quantitatively, they had almost the same importance as the previous expenditures.

The expenditure side of the Soviet state budget: expenditures on defense. This was a third in its importance item of budget expenditures, after the expenditures on national economy and social-cultural undertakings. According to Table 6.3, until 1989, the official share of expenditures on defense was not exceeding 5 percent of the budget. However, 1989 witnesses a sharp jump in military expenditures so that as compared to the previous year they climbed by 3.5 times.

Such was a result of changes in the bookkeeping procedure during the time of perestroika. Some military expenses, for instance, the accumulation of military inventories, beginning with 1989, have found their expression directly in expenditures on national economy.

The expenditure side of the Soviet state budget: expenditures on external economic activities. As Table 6.3 shows these were the fourth in their importance outlays of the Soviet state budget. They comprised of financing export and import operations of the state-the monopolist

of Soviet foreign trade, gratuitous aid to Soviet ideological and strategic partners abroad, etc.

The expenditure side of the Soviet state budget: expenditures on state administration and justice. They occupied the lowest place in Soviet budget expenditures. They included, at least during the last years of the Soviet Union, expenditures on central (all-union), republican (union republican), regional and local administrative and juridical authorities of the country.⁵⁷

The actual size of the Soviet state budget residual during the last years of the existence of totalitarian state capitalism

Recall that in 1988, the Soviet government for the first time admitted the existence of the budget deficit. Accordingly, the Soviet authorities recalculated some budget revenue and expenditure data on the budget residual for years prior to 1988.

The data on the Soviet budget residual for 1985 - 1990 is provided in Table 6.7:

Table 6.7
The Soviet Budget Residual, 1985 - 1990
(in percentage to total)⁵⁸

Year	Excess expenditures over revenues (budget deficit)
1985	+3.7
1986	+12.2
1987	+13.9
1988	+21.3
1989	+20.1
1990	+8.8

Pay attention that we are very careful in not calling the residual the deficit. For, in the Soviet case the state (we repeat this again and again) was the proprietor of the principal means of production, of capital, of land, of military and consumer goods and, *at the same time*, the issuer of money, the tax collector and the tax spender. Here, therefore, the division of the total revenue into the budgetary and non-budgetary portions was rather arbitrary. Indeed, it was really imaginary:

Given the existence of non-budgetary financing, which also [was] envisaged by the authorities, the size of the budget [was] not rigidly determined ... the distinction between investment which [was] financed out of budget grant, or out of retained profits, [was] not a fundamental one... . For the state [was] at liberty to make higher grants depend on larger in-payments by enterprises, or of course to reduce the size of both out-payments and in-payments.⁵⁹

Thus, the Soviet budget residual (be this a deficit or a surplus) could not be determined without taking into consideration the total amount of the revenue received by the Soviet economy as a whole. Since this was not done in Table 6.7, its residual *could* have been in reality a *formal* budget deficit.

“Could have been,” but we do not know. We do not know because of idle turnovers of budgetary revenues and expenditures, when “enterprises withhold for the budget specific amounts and receive them back by way of budget financing... [which] do[es] not conform, however, to the actual needs of the economy.”⁶⁰

One of the basic reasons for this kind of gimmickry was the very nature of the Soviet socioeconomic structure, where “the Ministry of Finance, in conformity with the laws of the functioning of any bureaucratic system, [was] doing everything possible ... so that the USSR State budget would increase steadily and rapidly.”⁶¹

If, however, this had been done, that is, if the total amount of national income had been taken into consideration, there could have been no *actual* budget deficit in the country. This conclusion follows from the fact that, for instance, in 1979 -1987, neither the revenue, not the expenditure sides of the Soviet budget exceeded the Soviet national income.⁶²

On the meaning of the 1988 acknowledgment by the Soviet government of the existence of the budget deficit in the country

Why, then, when the *actual* budget deficit did not exist and the character and magnitude of the *formal* budget residual was undetermined, why, given all these ambiguities, did high ranking Soviet officials decide to “disclose” to the whole world the fact that they faced problems in managing their finances and that the problems were translated into constantly growing deficits? We think that the origin of the authorities’ financial “frankness” was rooted in the necessity of placating domestic and foreign opinion, given the unhappy conditions of the Soviet socioeconomic system of the 1980s.⁶³

Among *domestic* causes for the frankness the following two should be singled out. First, the need for “the existing pricing system ... [for] a radical price reform,”⁶⁴ with dire predictions for an incredible inflation made by the United Nations.⁶⁵

But as the Polish experience showed, a drastic increase in prices was extremely dangerous politically. Thus, by announcing the presence of the budget deficit, the Soviet leadership wanted to dramatize the existing situation, to blame the shortages of major food items on the havoc of the financial system, whose plight in turn stemmed from low prices of food products and, hence, to

prepare the Soviet consumer for future increases in prices, if and when the leadership decided to do so.

Second, too much personal savings which could not buy anything. Thus, the Soviet authorities decided to denounce the Soviet *worker* for the budget deficit by charging him that his pay was too high and to prepare him to probable future pay cuts or, at least, to slowing down of his pay raises.

The major *international* reason for the financial disclosure was the absence of a strong belief on the part of the Soviet leadership in the ability of perestroika to achieve its reformatory goals and, hence, the perceived need for outside help through the arrangement of foreign credits.

The Soviet state domestic (internal) debt

The Soviet internal debt represented “the sum of all types of loans which the state in the persons of the all-union government and the union-republican governments borrowed from the population, enterprises, organizations and credit institutions and which by a certain time [the state] had not paid off.”⁶⁶

Table 6.8 allows us to glance over the Soviet state internal debt in 1985 - 1990:

Table 6.8
The Soviet State Internal Debt, 1985 - 1990
(at the year's end; in percentage to GNP)⁶⁷

Year	The percentage to GNP
1985	18.2
1986	20.3
1987	26.6
1988	35.6
1989	43.1
1990	56.6

We can see that during the last years of the Soviet Union, its domestic state debt grew from 18.2 percent in 1985 to 56.6 percent in 1990, or by more than 3 times.

But does the very existence of the state domestic debt and its increase not contradict our conclusion about the absence of the *actual* budget deficit in the USSR during the last period of the Soviet socioeconomic system?

On the causes of the Soviet state domestic debt: the growing independence of enterprises and organizations

No, it does not contradict. For, here we are outlining just *tendencies* of the social changes in the Soviet system in the period of

its decline when, as we have pointed out continuously, the enterprise managers (the so-called the director's corps) was gaining its power at the expense of the central bureaucracy of the country.

As a result, at least, in the end of the 1980s - the beginning of the 1990s, the formal budget deficit (assuming it had already been there) was *gradually* being transformed into the actual budget deficit so that the *formal* state domestic debt was being transferred into the *actual* state domestic debt. But, we stress, the *process* ("being transformed, being transferred"), for the border-line between the two still remained rather blurred.

Therefore, this was a process of a hybrid-type transformation. That is, though the deficit was losing its formal features (if, again, it was there), it was not becoming yet a real, actual one. As a result, its internal accumulated part in the form of the state domestic debt had these hybrid formal-actual features as well.

The growing independence of enterprises from the center which found its expression in the declining share of deductions from profits and turnover taxes (see Table 6.3) in the total amount of budget revenues, forced the state in the person of the higher bureaucracy (above the bureaucracy of enterprises) to increase its borrowing from the population (see Table 6.3). But, as we already well aware, these debts had always had an *actual* character.

Thus, in our opinion, the development of the formal state internal debt of *enterprises* into an amorphous formal-actual status carried the internal debt burden to the Soviet *population*.

On the causes of the Soviet state domestic debt: the declining profitability of production of a portion of agricultural enterprises

There existed a second reason stipulating the above mentioned transformation of formalities into actualities with respect to the Soviet state domestic debt. This was a steadily declining profitability of agriculture under the conditions of the fulfillment of the industrial revolution: having contributed to the revolution all possible and impossible, Soviet agriculture was behaving more and more like a milking cow without the milk.⁶⁸

The central Soviet bureaucracy was unable, in the final analysis, not to recognize that, first, agriculture could no longer play this role of the milking cow of the industrial development; second, moreover, agriculture itself now needed help in the form of subsidies, grants, tax discounts, preferential credits, etc.; third, certain agricultural enterprises were in no position to repay their loans which they had incurred by borrowing from the state through the state banking system. That is why in 1990 the state was forced to write off the agricultural overdue debts.⁶⁹

Some words about the overdue debts under the conditions of the agony of the Soviet system. Speaking about the agricultural overdue debts, it is

necessary to touch on the problem in general. Because the origin of the now *Russian* overdue debts of the 1990s (mutual commitments of enterprises to each other, to their workers with regard to wages, to the state budget, etc.) can be found in the *Soviet* overdue indebtedness of enterprises and organizations to the state:

Table 6.9
*The Structure of Soviet Indebtedness of Enterprises and Organizations
to the Banking Systems and According to the Mutual Commitments,
(1985 - 1990; in percentage)*⁷⁰

Indices	1985	1986	1987	1988	1989	1990
Overdue indebtedness, total	100	100	100	100	100	100
Including:						
Bank credits	58.6	50.8	68.0	28.7	20.1	21.9
Mutual commitments of economic units	41.4	49.2	32.0	71.3	79.9	78.1

In the process of the weakening of the Soviet system, there was taking place a structural “perestroika” of the overdue indebtedness of economic units with regard to bank credits and to the mutual commitments: while the former was declining, the latter was growing. The meaning of this process was in the following.

We remember that, under Soviet capitalism, the banking system played the role of the all-embracing structure representing the interests of the bureaucratic class as a *whole* which was the *owner* of capital goods and land. At the same time, economic units (enterprises and organizations), being parts of separate ministries and departments, expressed *group*, that is, intra-departmental, ministerial, interests of *separate* bureaucratic layers, *possessors* of capital goods and land.

Therefore, as we also remember, the Soviet banking system was rather indifferent to late repayments of credits by enterprises and organizations, because, in the eyes of the whole bureaucracy as the aggregate owner this was a matter of a dispute within one and the same state property relations. Thus, a high level of the overdue indebtedness to the banking system even during the first years of perestroika.

However, separate enterprises and organizations considered their overdue indebtedness to each other as problems to be solved among various bureaucratic groups with regard to their possession of this or that piece of the all-union state property. Therefore, each economic unit strived for the reduction of other’s overdue debt to itself and for the increase of its own overdue indebtedness to others. This explains a relatively low overdue indebtedness to others during the same period.

But the beginning of 1988, as new laws of enterprises, cooperatives and the banking system were introduced,⁷¹ witnesses a

sudden change. The relative position of the economic actors on the Soviet scene is sharply altered. The all-state ownership of the bureaucracy as a whole becomes weaker and gradually disappears breaking into the ownership of various bureaucratic groups (group state property). As a result, while the old, Soviet banking system is shaken, it is now pregnant with the new, Russian banking system. In these circumstances, although enterprises become more independent, being transformed from the position of just possessors into the position of semi-owners, but, deprived of the banking support, they more and more find themselves in a labyrinth of mutual non-payment of their debts.

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Notes to Chapter 6: The Soviet State Budget

- 1 Based on E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Finansovo-Denezhnaya Sistema* [Principles of the Economic Theory. The Financial-Monetary System]. Moscow: "Nauka," 1999, pp. 213 - 238; E. Raiklin, "On the Nature and Origin of Soviet Turnover Taxes," *International Journal of Social Economics*, Volume 15, Numbers 5/6, 1988, pp. 3 - 64; and E. Raiklin, "The Soviet Budget Deficit: Reality ... or Myth?" *The Journal of Social, Political and Economic Studies*, Volume 14, Number 3, 1989, pp. 299 - 349.
- 2 See A. Nove, *The Soviet Economic System*, 2nd ed. London: George Allen & Unwin Ltd., 1980, p. 234.
- 3 By stressing the "physical" aspect of productive resources it is assumed that, on the revenue side of the state budget, only "goods" were counted, while "services", we remind the reader, were not (see also A. Becker, "National Income Accounting in the USSR," in V. Trembl and J. Hardt, eds., *Soviet Economic Statistics*. Durham, North Carolina: Duke University Press, 1972, p. 71). From this angle, all revenues were originated and generated in material production but realized in non-budgetary and budgetary processes of exchange.
- 4 R. Hutchings, *The Soviet Budget*. Albany: State University of New York Press, 1983, p. 29.
- 5 Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990]. Moscow: "Finansy i Statistika," 1991, p. 17. Percentages are calculated based on the data of the statistical source.
- 6 Causes for this process will be discussed later in the book.
- 7 Where are *organizations* in this discussion? Like enterprises, some belonged to *khosraschet* units, some to budgetary units. So organizations were here, in the picture. But for simplicity, we treat them as "enterprises." But we will, of course, let them reappear in the Soviet budget.
- 8 See, for instance, *The World Development Report. Knowledge for Development*. Published for the World Bank. Oxford: Oxford University Press, 1998/1999, pp. 216 - 217, Table 14.
- 9 Ibid., p. 241.
- 10 The difference between the tax and non-tax components of the Soviet budget revenue will become clearer when we discuss one of the major payments by enterprises into the state budget, the turnover tax.
- 11 Calculated from Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990], pp. 15 - 16.
- 12 There is one, though not explicit, exception: household production is not included in GDP (GNP) for a simple reason that it is not involved in market transactions.
- 13 When the state of a higher level was engaged in relations with the state of a lower level or when the state, at any level, spent on, say, services like commercial trade.
- 14 In the relation between the state, at any level, and the Soviet population when the state incurred expenditures on people's welfare: free health care, free education, etc.
- 15 See, for instance, I. Zlobin, et al., *Soviet Finance: Principles, Operation*, trans. by L. Lempert. Moscow: Progress Publishers, 1975, pp. 27, 28.
- 16 "Soviet Finance Minister] for the first time gave details about the annual Soviet budget deficit, which is officially expected to reach 35

billion rubles (about \$56 billion at the official exchange rate) next year [1989] ... [He also admitted] that the Soviet Union had run an annual budget deficit for the past 10 years that reached a 'critically large' peak of 37 billion rubles in 1984 - 1985. The current level represents about 4% of Soviet gross national product ... (P. Gumbel, "Soviets to Devalue Ruble by 50%, Alter Tariffs to Boost Economy." *The Wall Street Journal*, December 12, 1989).

- 17 Calculated from Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990], pp. 15 - 16. Note the following: since the sum of the absolute amounts of revenues and expenses is lower than their actual total absolute amount, the sum of revenues and expenditures in percentage is lower than the total percentage amount of revenues and expenses. On the gap, see, for instance, E. Raiklin, "The Soviet Budget Deficit: Reality ... or Myth?" pp. 322, 326, 344.
- 18 Here we offer only very small and condensed fragments of our analysis of the problem of Soviet turnover taxes, which we made in our: E. Raiklin, "On the Nature and Origin of Soviet Turnover Taxes."
- 19 In accordance with this view, turnover taxes are "excise taxes on goods sold to consumers in stores" (L. Herman, "Who Pays the Taxes?" in A. Inkeles and K. Geiger, eds., *Soviet Society. A Book of Readings*. Boston: Houghton Mifflin, 1961, p. 389). Herman uses "excise" in the same context as "sales" tax. On the other hand, Hutchings puts it simply: "TT is a tax on sales" (R. Hutchings, *Soviet Economic Development*, 2nd ed. New York: New York University Press, 1982, p. 163).
- 20 According to Davies, the tax is "a means of withdrawing from circulation part of the wages and other payments made to the population for production and services which were not bought by other producers, or by the consumer, but paid for by the state through the budget" (R. Davies, *The Development of the Soviet Budgetary System*. Cambridge: Cambridge University Press, 1958, p. 216).
- 21 This is because "... as long as all citizens, urban and rural alike, must come to the stores to buy their food, clothing, and other essentials, the tax will be collected in the process, approximately as planned in the fiscal offices of the government" (L. Herman, "Who Pays the Taxes?" p. 392).
- 22 This is because
 "... the Soviet government is unhampered by the constraints of political consent. The Soviet citizen has no voice in deciding how large his tax burden will be, nor has he anything to say about the methods of collection. In fact, he does not even know how much tax money he is paying at any given time, because, unlike all modern states, the Soviet Union chooses to collect the bulk of its tax moneys through a system of hidden taxation" (ibid., p. 389).
- 23 Hence, the price for consumer goods includes the price of capital goods, plus distribution costs, plus a given margin of profit, plus the turnover tax (ibid., p. 391).
- 24 Ibid., p. 389.
- 25 "Having the power to do so, the Soviet government proceeds to overprice the goods sold to the consumer by approximately the amount it wishes to underprice the goods it sells to itself, namely capital goods and military material. This Herculean task of 'compensation' ... is carried out by the turnover tax (ibid., pp. 390 - 391).

- 26 Holzman extends the definition of the turnover tax. While he accepts the view that "the turnover tax is a sales tax levied primarily on consumers' goods" (F. Holzman, *Soviet Taxation. The Fiscal and Monetary Problem of a Planned Economy*. Cambridge, Mass.: Harvard University Press, 1955, p. 90), he also adds that "... for petroleum and petroleum products ... the tax substitutes for explicit rent payments" (F. Holzman, "Financing Soviet Economic Development," in National Bureau of Economic Research, *Capital Formation and Economic Growth*. Princeton: Princeton University Press, 1955, p. 233).
- 27 The turnover tax, "reflect[s] the very large differential rent element in the production of oil" (F. Holzman, *Soviet Taxation. The Fiscal and Monetary Problem of a Planned Economy*, p. 137).
- 28 The same author complains that there is no way to know precisely what amount of turnover taxes is generated in the form of the differential rent on oil and oil products. This is "because the distribution of these taxes between the household and government sectors is not published" (F. Holzman, "Financing Soviet Economic Development," p. 270).
- 29 F. Holzman, *Soviet Taxation. The Fiscal and Monetary Problem of a Planned Economy*, p. 90.
- 30 See, for instance, M. Schnitzer, *Comparative Economic Systems*, 4th ed. Cincinnati: South-Western Publishing, 1987, p. 252, where the hidden nature of the tax is implicitly stated.
- 31 Since the consumer is the predominant source of the turnover tax and because, at the same time, no information is available about the oil producer's share of the tax, the latter is treated mostly as an element of the retail price (M. Bornstein, "Soviet Price Theory and Policy," in M. Bornstein and D. Fusfeld, eds., *The Soviet Economy. A Book of Readings*, 4th ed. Homewood, Illinois: Richard D. Irwin, 1974, p. 110).
- 32 Why did the Soviets prefer indirect, or commodity, taxation? Why did they not use direct taxation on incomes? Three main reasons are cited by the proponents of the view. The first reason was the "money illusion," according to which consumers are usually more conscious about the impact direct taxes would have on their nominal incomes than about changes in their real incomes due to changes in prices. The second reason was that "indirect taxes are easier to administer and harder to avoid than direct taxes. They are collected from thousands of enterprises rather than millions of individuals ..." (M. Schnitzer, *Comparative Economic Systems*, 4th ed., p. 252). Finally, the turnover tax was applied as an instrument of fiscal policy to balance aggregate supply and aggregate demand of consumer goods. In this function, "the turnover tax [was] used to fix the retail price at the desired level" (M. Bornstein, "Soviet Price Theory and Policy," p. 110).
- 33 Some economists see turnover taxes as covering
 "... three kinds of tax, which are in significant respects distinct from one another. The first is an excise duty in all but name ... the taxes on vodka, matches and salt are examples of this. The second may be described as 'tax by difference,' and ... [is] applied to industrial consumers' goods where there is very large assortment of product (for instance, textiles) ... The third species of turnover tax is in some respects similar to the second, but, so to speak, is a 'difference with difference': it arises from the acquisition by the state of farm produce at low prices" (A. Nove, *The Soviet Economy. An Introduction*. New York: Frederick A. Praeger, 1961, pp. 98 - 99. See also A. Bergson, *The*

Economics of Soviet Planning. New Haven and London: Yale University Press, 1964, p. 168f).

- 34 A. Nove, *The Soviet Economy. An Introduction*, p. 99.
- 35 Ibid., p. 100.
- 36 A. Nove, *An Economic History of the USSR*. New York: Penguin Books, 1982, p. 211.
- 37 Ibid., and also A. Nove, *The Soviet Economy. An Introduction*, pp. 128, 133, 135.
- 38 According to Nove, the turnover tax on consumer goods sold to the Soviet people was "a consequence rather than a cause of the retail price level" (A. Nove, *The Soviet Economy. An Introduction*, p.135). Hence, the role of the tax was not to affect retail prices, but the allocation of resources within consumer goods, on the one hand, and between consumer goods and capital goods, on the other (ibid., p. 104).
- 39 Ibid., p. 132. Supporters of the view consider agriculture as the principal source of turnover taxes:
"The main task [of the early 1930s when the turnover tax was introduced] was to produce and build a solid capital industrial base. Agriculture and peasantry were forced to finance the bulk of the accumulation need for this industrialization. The prices paid to the peasants for their agricultural products were kept at a below-cost levels. Accordingly, for decades afterwards, many peasants could not edge out enough from the collectivized sectors to sustain themselves" (M. Goldman, *USSR in Crisis. The Failure of an Economic System*. New York: W.W. Norton, 1983, p. 19).
- 40 For this Soviet view, see, for instance, VPSH pri TsK KPSS, *Politicheskaya Ekonomiya. Sotsializm–Pervaya Faza Kommunisticheskogo Proizvodstva* [Political Economy. Socialism, the First Phase of Communist Production], 2nd ed, Volume 3. Moscow: Izdatel'stvo "Mysl," 1977, p. 355; M. Atlas, I. Zlobina, et al., eds., *Politicheskaya Ekonomiya Sotsializma. Uchebnik* [Political Economy of Socialism. A Textbook], 2nd ed. Moscow: Gosudarstvennoye Izdatel'stvo "Vysshaya Shkola," 1962, pp. 305 - 307.
- 41 See M. Atlas, I. Zlobina, et al., eds., *Politicheskaya Ekonomiya Sotsializma. Uchebnik* [Political Economy of Socialism. A Textbook], p. 308.
- 42 See S. Miroshchenko, "Certain Problems Relating to Turnover Tax," *Problems of Economics*, Volume 18, Number 3, July 1975, p. 90; and also A. Birman, "The USSR State Budget in the Perspective of Economic Development," *Problems of Economics*, Volume 16, Number 11, March 1974, p. 80.
- 43 See M. Atlas, I. Zlobina, et al., eds., *Politicheskaya Ekonomiya Sotsializma. Uchebnik* [Political Economy of Socialism. A Textbook], pp. 307 - 308.
- 44 See A. Zverev, "A Role of the State Budget in the Distribution of the Social Product and National Income," *Problems of Economics*, Volume 7, Number 8, December 1964, p. 34; S. Stoliarov, "The Price of Industrial Output," *Problems of Economics*, Volume 6, Number 5, September 1963, pp. 15, 16, 17.
- 45 See A. Aleksandrov and G. Rabinovich, "Once More on the Nature of the Turnover Tax," *Problems of Economics*, Volume 6, Number 11, March 1964, p.31.

In conclusion, let us clarify some concepts used in Table 6.4:

"Rent on oil, oil products, gas and electricity" was generated in extracting industries and at electric power stations where there existed significant variations in costs of production. Enterprises-suppliers of oil,

oil products, gas and electricity, depending on the outlays of production of their corresponding product, received different prices for it. But enterprises-buyers of the product paid for it one and the same price. The difference between the price for the product of a lower cost and for the product of a higher cost in a form of differential rent was appropriated by the Soviet state. (On the category of rent in general and the differential rent, in particular, see E. Raiklin, *Osnovy Ekonomicheskoy Teorii. Mikroekonomicheskaya Teoriya Rynkov Vvodimyykh Resursov* [Principles of the Economic Theory. A Microeconomic Theory of Input Markets]. Moscow: "Nauka," 1996, pp. 76 - 88.)

"A tribute on agricultural production" was the difference between higher prices for industrial products sold to and paid for by the peasantry (especially in the earlier years of the Soviet system) and lower prices at which the peasantry sold its produce to the industrial sector and were remunerated for it (see A. Nove, *An Economic History of the USSR*, p. 155).

"A portion of surplus product appropriated in a centralized manner by the state" in oil, gas and electrical power industries was part of a difference between the total value of oil, oil products, gas and electricity and costs of their production.

"Tax neither forms nor influences prices." The meaning of this approach was as follows: the turnover tax was a difference between the industry and factory wholesale price. Hence, the retail price whose components were both wholesale prices could not be formed nor could it be influenced by this difference. From such a point view, it was the other way around: it was the retail price which formed and influenced the turnover tax.

"The purpose of the tax: to balance the aggregate demand and the aggregate supply." In accordance with this point of view, the turnover tax was added to the retail price in order to bring into equality quantities demanded and quantities supplied of consumer goods.

46 See E. Raiklin, "On the Nature and Origin of Soviet Turnover Taxes," pp. 35 - 38.

47 See E. Raiklin, "On the Nature and Origin of Soviet Turnover Taxes," p. 43.

48 Ibid., p. 44, Table III.

49 R. Davies, *The Development of the Soviet Budgetary System*, p. 292.

50 L. Kassirov, "The Profitability of Socialist Agriculture (Methodological Issues)," *Problems of Economics*, Volume 20, Number 6, October 1977, p. 61. Kassirov, however, is not explicit on the length of the period covered by his calculations.

51 A. Nove, *An Economic History of the USSR*, p. 212.

52 Calculated from TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1978 g.* [The National Economy of the USSR in 1978]. Moscow: "Statistika," 1979, p. 32; and TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1985 g.* [The National Economy of the USSR in 1985]. Moscow: "Statistika," 1986, p. 34.

53 Ibid., pp. 117 (for the former) and 96 (for the latter), respectively.

54 Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990], p. 5 (for GNP) and p.16 (for the 1985 - 1990 budget); TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1982 g.* [The National Economy of the USSR in 1982]. Moscow: "Statistika," 1983, p. 520 (for the 1980 budget). The absolute data on budget expenditures has been rounded off.

- 55 P. Gregory and R. Stuart, *Russian and Soviet Economic Performance and Structure*, seventh ed. Boston: Addison Wesley, 2001, p. 103.
- 56 See *ibid.*
- 57 We constantly emphasize “during the last period, or years of the Soviet system, or the Soviet Union” for a simple reason that the list of objects financed from this or that budget revenue item had changed many times.
- 58 Calculated from Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990], pp. 15 - 16.
- 59 R. Hutchings, *The Soviet Budget*, p. 16.
- 60 See Y. Liberman, *Gosudarstvennyi Biudzheth v Novykh Usloviyakh Khozaystvovaniya* [The State Budget Under the New Management Conditions]. Moscow: “Nauka,” 1970, pp. 269 - 270).
- 61 I. Birman, *Secret Incomes of the Soviet State Budget*. The Hague: Martinus Nijhoff Publishers, 1981, p. 207.
- 62 See E. Raiklin, “The Soviet Budget Deficit: Reality ... or Myth?” Table 1, p. 319.
- 63 We had to enter prematurely into the years of Gorbachev’s perestroika and glasnost. As it was promised earlier, we will examine these years in detail in one of the ensuing chapters of the book.
- 64 A. Aganbegyan, *The Economic Challenge of Perestroika*, ed. by M. Brown, trans. by P. Tiffen. Bloomington, Indiana: Indiana University Press, 1988, p. 117.
- 65 See J. Kurtzman, “Of Perestroika, Prices and Pessimism.” *The New York Times*, November 6, 1988.
- 66 Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990], p. 688.
- 67 *Ibid.*, p. 19.
- 68 We will return to this problem in one of the ensuing chapters.
- 69 Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990], p. 19.
- 70 *Ibid.*, p. 31.
- 71 On this, in one of the following chapters of the book.

PART VII
THE LAST STAGE IN THE DEVELOPMENT OF THE
SOVIET SOCIOECONOMIC SYSTEM: THE STALINIST
MODEL IN OPERATION
(1940-1991)

Chapter 7
Soviet Foreign Economic Relations¹

Soviet foreign trade

Soviet foreign trade had peculiar features. First, the Soviet state in the person of the highest bureaucracy had a *monopoly* over trade with foreign countries. This was unlike countries of mixed capitalism where the role of traders, exporters and importers, performed and performs a multitude of independent (from the state) economic agents.

Second, Soviet foreign trade operated in the framework of *mandatory central planning*. Being guided by more or less free market forces of supply and demand, foreign trade of countries of mixed capitalism had and has no such restrictions.

Third, the Soviet state, considering foreign trade as a *necessary evil*, aspired to achieve a *zero balance of trade*. Countries of mixed capitalism, as a rule, had and have as their goal the attainment of a positive trade balance.

The organizational structure of Soviet foreign trade²

Soviet foreign trade functioned within a specific state structure. As all other structures of the former Soviet Union, the organization of the country's foreign trade was built in a hierarchical bureaucratic manner.

International trade relations were an exclusive prerogative of the *central, all-union bureaucracy* of the country as a whole. Union republican and all other lower territorial and administrative bureaucracies were removed from the management of Soviet foreign trade.

At the head of the Soviet foreign trade pyramid there was the Ministry of Foreign Trade (Minvneshtorg). In turn, it was subordinated to Gosplan and to the Council of Ministers of the USSR.

But Minvneshtorg, like any other highest bureaucratic body in the Soviet Union, did not itself perform foreign trade functions of exports and imports. These were duties of specialized monopoly

subdivisions inside Minvneshtorg, called the Foreign Trade Organizations (FTOs).

The FTOs differed from each other in two respects. First, in terms of the type of goods and/or services which the FTOs either exported or imported or both, the FTO's were divided into various commodity structures. Thus, one FTO could export lumber. Another one could export and import grain. Still, the third one exported oil, while the fourth one imported natural gas. And so on.

Second, with regard to countries and regions which the USSR dealt with economically. For instance, there were the FTOs carrying out trade-economic relations separately with the USA, countries of Eastern Europe, etc.

To be sure, the FTOs themselves produced nothing for selling abroad and it was not for them commodities were bought from abroad. This was a prerogative of domestic enterprises-producers or and/or wholesalers.

But, because of Soviet trade monopoly, hardened by its commodity-regional differentiation, domestic enterprises were not allowed to enter into a *direct* contact with foreign enterprises. This was done *in a roundabout way*, through the FTOs.

Thus, the FTOs served as intermediaries between domestic producers or wholesale sellers of exports, on the one hand, and domestic consumers or wholesale buyers of imports, on the other. The intermediate activity of the FTOs took place in the following way.

With regard to *exports*: the FTOs purchased products from domestic enterprises at domestic ruble prices and sold them foreign importers at world hard currency prices.

There was an exception to this rule: countries of the "socialist" trading block, which was called the Council for Mutual Economic Assistance, or COMECON. A trade with these countries was often conducted on the basis either of barter or of the so-called transferable ruble.

As far as *imports* were concerned: the FTOs bought commodities from foreign firms at world hard currency prices (with the same exception as above) and sold these commodities to domestic consumers at domestic ruble prices. In case the latter price exceeded the former price, transferred into rubles, the difference was accumulated by the state budget. In the opposite case, the FTOs received a subsidy, in one form or another.

The movement of the monetary funds either in hard currency or in transferable rubles, needed for the fulfillment of export-import transactions, was monitored by Vneshtorgbank SSSR.³

*A reference to COMECON.*⁴ COMECON was created in 1949. During various years, its members included Bulgaria, Hungary, Vietnam, German Democratic Republic (GDR), Cuba, Mongolia, Poland, Rumania, the Soviet Union, and Czechoslovakia.

The primary goal for the establishment of COMECON was to integrate economies of countries of Eastern Europe with the Soviet economy. Countries, members of the organization, pledged to specialize in producing certain groups of commodities and exchanging them among themselves. For instance, the USSR was the major producer and supplier of oil and natural gas; GDR and Czechoslovakia, of certain products of electrical engineering, machine building and light industry; Bulgaria, of some agricultural produce; etc. To make sure that countries' obligations are met, each country had a certain production quota.

Despite the totalitarian nature of the Soviet Union, the driving force of the integration process; despite no less dictatorial character of countries involved in COMECON,—their drive to integration was not as smooth as they wanted it to be. There were many obstacles on their road.

First, its domineering military and political position among the countries involved notwithstanding, the USSR was unable to secure the establishment of a specialized authoritative center inside COMECON, which would have been in a position to give mandatory plans to the members of the organization. The “middle-aged” Soviet highest bureaucracy was unable because the emerging, young and vigorous, bureaucracies of other members of COMECON were categorically against such a center.

The COMECON countries were categorically against such an administrative superstructure, for, second, being afraid of losing, in addition to their political independence, their economic independence as well, they were determined to develop as many of branches of their own economy as possible. As was usual with the Soviet-type system, these countries paid the greatest attention to the development of heavy industry. As a result, very often their economies duplicated each other. This hampered the social division of labor in Eastern Europe and the use of the principle of comparative advantage.

Third, the full integration of economies of countries of COMECON turned out to be impossible since a relative segregation of these economies from each other isolated their microeconomic domestic prices from that of the world prices for the same products.

Fourth, national currencies of COMECON countries were inconvertible. The role of a single COMECON currency was served by the Soviet so-called transferable ruble which was artificially, bureaucratically calculated. No wonder that, as it was pointed out earlier, as a consequence of the third and the fourth reasons for difficulties with integration within COMECON, trade relations between its members were mostly of a barter character. This led to the impossibility of evaluating real costs and benefits of the intra-COMECON trade.

*Soviet foreign trade planning.*⁵ Soviet foreign trade, although a branch of external activities of the Soviet economy, was, nevertheless, a subject to mandatory central planning. The latter, proceeding from the requirements of totalitarian state capitalism for a complete control over domestic economy for the purpose of heavy industrial development, pursued the following four tasks.

First, the reduction of foreign economic operations to such a level that, to a maximum degree, would allow to escape the country's dependence on fluctuations in the volume of the world trade. Second (and this comes from the first), making foreign trade just a servant of the needs of the domestic economy. Third (and this follows from the second), the use of exports and imports as balancing items of national economy plans. Finally, for each given time period, the determination of the volume of exports and imports.

Since, as it has been emphasized, Soviet foreign trade relations were a domain of the FTOs specialized according to commodity groups, regions and countries, foreign trade targets were sent out by Gosplan to Minvneshtorg, by the latter to the FTOs, and by the latter to corresponding domestic enterprises. Plans provided detailed targets of "to and from whom, when and how much" of commodities to be exported and imported.

Statistics of Soviet foreign trade and its evaluation

The specificity of Soviet foreign trade activities becomes clearer if we turn our attention to some statistical data pertaining to Soviet foreign trade. For this purpose, we will examine one of the most characteristic features of Soviet foreign trade, a disparity between Soviet domestic and world prices for the same products:

Table 7.1
Soviet Domestic Prices (in bln. domestic rubles) Versus World Prices
(in bln. transferable rubles) for the Same Products, 1989⁶

Indices	Prices		
	Domestic	World	Domestic to world prices (times)
Imports	301.81	257.64	1.171
Exports	242.24	256.16	0.946
Balance (trade deficit)	-59.57	-1.48	40.25

As it can be seen, the gap between domestic and world prices in the Soviet economy remained even in 1989. This was a period, when the country, thanks to perestroika, opened its economy to the outside world and began abandoning some of the aspects of its foreign trade monopoly and central planning.⁷

Thus, imports calculated in domestic ruble prices were larger than imports evaluated in world transferable ruble prices by 17.1

percent. This tells us that even during the last years of the Soviet Union some imported goods sold in domestic markets were more expansive than that in the world markets.

At the same time, exports evaluated in domestic ruble prices were lower than exports calculated in world transferable ruble prices by 5.4 percent. It is indicative of the fact that during the same period some Soviet goods were exported at prices lower than that in the world markets. Such a dumping of some Soviet goods in foreign markets served as an additional proof that, in the Soviet-type socioeconomic system, exports were called upon to just earn hard currency (at any cost) to pay for imports of those commodities whose domestic production, in the eyes of the Soviet planners, was insufficient.

As a result of the gap between domestic and world prices, even in 1989 the USSR was insufficient (as it was pointed out earlier) in using the principle of comparative advantage. This is indicated by the huge difference between the trade balance calculated at domestic prices, on the one hand, and that at world prices, on the other.

Soviet trade partners. Soviet statistics, rather arbitrarily, divided Soviet trade into three groups. The first group included countries of the Soviet-type system of totalitarian state capitalism which called themselves “*socialist*” countries. In addition to COMECON countries, the group comprised China, North Korea, Laos, and Yugoslavia.

The second group, under the name of *developed capitalist countries* (DCCs), listed such countries, as Austria, Belgium, Great Britain, Italy, Canada, the Netherlands, USA, FRG, Finland, France, Sweden, Japan, etc.

The third group belonged to *less developed countries* (LDCs). In other words, from the Soviet point of view, this was an artificial conglomerate of relatively *underdeveloped or undeveloped capitalist countries*. Among them, there were such countries, as Algeria, Argentina, Afghanistan, Brazil, Egypt, India, Iran, Iraq, Morocco, Nigeria, Syria, Turkey, Ethiopia, etc.

The group structure of Soviet foreign trade is presented in Table 7.2:

Table 7.2
The Group Structure of Soviet Foreign Trade, 1950 - 1985
(in percentage to total)⁸

Indices	Years				
	1950	1960	1970	1980	1985
Volume of foreign trade (exports + imports), total	100	100	100	100	100
Including with countries:					
“Socialist”	81.1	73.2	65.2	53.7	61.1
Including with:					
COMECON countries	57.4	53.0	55.6	48.6	54.9
Developed capitalist countries	15.0	19.9	21.3	33.6	26.7
Less developed capitalist countries	3.8	7.8	13.5	12.7	12.2
Exports, total	55.2	49.7	52.2	52.7	51.2
Including with countries:					
“Socialist”	46.2	37.6	34.1	28.6	31.3
Including with:					
COMECON countries	30.8	27.9	28.4	25.9	28.3
Developed capitalist countries	8.1	9.1	9.8	16.9	13.1
Less developed capitalist countries	1.0	3.0	8.3	7.3	6.8
Imports, total	44.8	50.3	47.8	47.3	48.8
Including with countries:					
“Socialist”	35.0	35.6	31.1	25.1	29.8
Including with:					
COMECON countries	26.6	25.2	27.3	22.8	26.6
Developed capitalist countries	7.0	10.0	11.5	16.7	13.6
Less developed capitalist countries	2.8	4.8	5.2	5.4	5.4

The table includes foreign trade of not only the late Soviet period but of the early, after the WWII period, as well. This, we believe, will help us to better evaluate those foreign-trade changes that took place during the pre-perestroika period as the Soviet socioeconomic system was “aging.”

The following conclusions might be made with regard to each part comprising the table: total foreign trade, exports, and imports.

Soviet foreign trade from the static point of view. First, the major portion of Soviet foreign trade in total, as well as its exports and imports, fell upon “socialist” countries, that is, as a rule (with the exception of Laos and Yugoslavia), upon countries with *the same socioeconomic Soviet-style system of totalitarian state capitalism*. Second, among these countries, there prevailed COMECON countries, that is, those tied to the USSR by certain socioeconomic and political obligations.

Due to the closeness of their socioeconomic and political systems, for the USSR it was *easier* and *more convenient* to trade with these countries. “Easier,” since, regardless of the quality of Soviet products, the majority of “socialist” countries (and, first of all,

COMECON countries) had no choice but to buy from and sell to the Soviet Union such products that the USSR considered it necessary to export to and import from these countries, correspondingly. "More convenient," for Soviet foreign economic relations with "socialist" countries, to a large degree, were conducted on the basis of either barter or transferable rubles.

Third, Soviet foreign trade with developed capitalist countries, that is, with countries with a *different than in the USSR form of capitalism* (democratic mixed capitalism) in total, in exports and imports, occupied the second place. This was for a simple reason that for the Soviet Union, trade with these countries was *more difficult* and *less convenient*. "More difficult," because Soviet finished products in their quality, as a rule, could not compete with the same products of developed capitalist countries. Hence, a relative scantiness of Soviet exports to these countries. "Less convenient," since, as a result of the ruble inconvertibility and noncompetitiveness of the significant part of Soviet finished goods, the Soviet Union had a scarce amount of hard foreign currency.⁹ Thus, a relative limitedness of Soviet imports from developed capitalist countries.

Fourth, Soviet foreign trade relations with less developed capitalist countries, that is, either with *pre-capitalist* countries moving in the direction of capitalism or with relatively *undeveloped capitalist* countries, was listed in the last place. Soviet trade with these countries had a rather non-economical, peripheral, auxiliary, subordinate character. That such a trade took place at all could be explained by the following factors.

First, the *strategic* importance (from the Soviet point of view) of the Soviet trade partner. Thus, in 1985, the share of Soviet trade with India, a traditional strategic partner of the USSR in Asia, amounted to 17.8 percent of the entire Soviet trade with less developed countries.¹⁰ Second, the *import* significance (from the Soviet point of view) of the country-exporter. Latin-American countries sold to the Soviet Union those products which, as a rule, were not produced in the USSR. OPEC countries supplied the USSR, one of the biggest producers and exporters of oil, oil which the Soviet Union, in turn, resold to other countries (and, first of all, to "socialist" countries) so that to be able to use its own oil for its own purposes.

Third, the *export* importance (from the Soviet point of view) of the country-importer. The major items of Soviet exports to less developed countries included raw materials, oil, natural gas and consumer goods. Although the Soviet Union imported these commodities for its own needs, nevertheless, very often, due to these or that ideological, military or other considerations, it exported some of them so that to preserve the balance in the "cold war" with the United States.

Soviet foreign trade from the dynamic point of view. With the exception of the mid-1980s, the perestroika's attempt to reanimate COMECON, Soviet foreign trade had a tendency to the declining importance of the share of "socialist" countries in general and COMECON countries in particular at the expense of the growing economic relations with developed and less developed capitalist countries. The following factors caused this tendency.

First, as the Soviet-type system had been established in "socialist"-oriented countries, the possibility for the Soviet pressure on countries of the Soviet bloc (and especially of COMECON countries) had been gradually diminishing. These countries began to search for better trading partners.

Second, the growing technological lag of the USSR from developed capitalist countries and the increasing grain shortages in the country¹¹ created a need for grain imports from such countries. The necessity to pay for the growing grain imports required the increasing amount of foreign hard currency. This could be satisfied by the growth of Soviet exports of raw and energy materials into developed and less developed capitalist countries.

Third (and this is a consequence of the second), Soviet obligations to supply raw and energy materials to "socialist," and, first of all, to COMECON countries, to a greater degree were met by reselling corresponding imports from the less developed countries.

Soviet exports, imports, and the trade balance. The change of the export-import structure of Soviet foreign trade in 1950 - 1990 is shown in Table 7.3:

Table 7.3
The export-import structure of Soviet foreign trade, 1950 - 1990
*(in percentage to total trade)*¹²

Year	Exports	Imports	Trade balance
1950	55.2	44.8	+10.4
1960	49.7	50.3	-0.6
1970	52.2	47.8	+4.4
1980	52.7	47.3	+5.4
1985	51.1	48.9	+2.2
1990	46.2	53.8	-7.6

We can see a "roller-coaster" in changes of Soviet trade balance from positive to negative, again to positive and again to negative during the period under consideration. As Table 7.4 indicates, the principal "culprits" of these changes were uneven fluctuations in the volumes of exports and imports:

Table 7.4
Average Annual Rates of Growth of Soviet Exports and Imports
(1976 - 1990; in constant 1980 prices; in percentages)¹³

Indices	Years		
	1976 - 1980	1981 - 1985	1985 - 1990
Exports	+4.8	+1.9	+0.3
Imports	+5.8	+6.0	+1.0
Total foreign trade (exports+imports)	+10.6	+7.9	+1.3
Trade balance (exports- imports)	-1.0	-4.1	-0.7

Though during 1976 - 1990, there was a growth in the volume of Soviet foreign trade, the rates of its growth had been constantly declining. This unfavorable indicator was accompanied by the average annual growth of imports exceeding the average annual growth of exports.

Expressed in annual rates of growth during the period of perestroika and collapse of the Soviet system, the movement of exports, imports and total foreign trade turnover are reflected in Table 7.5:

Table 7.5
Annual Rates of Growth of Soviet Exports, Imports, and Total Foreign Trade
(1985 - 1990; in constant 1980 prices; in percentages)¹⁴

Year	Exports	Imports	Trade balance
1985	10	34	-24
1986	21	26	-25
1987	25	24	+1
1988	31	29	+2
1989	31	41	-10
1990	14	41	-27

With the exception of 1987 - 1988, when the start of perestroika brought some positive results, the country experienced a tendency to the more rapid growth of imports as compared to exports. This led to rising budget deficits.¹⁵ The reason was as follows.

Gaining in strength, the wave of people's dissatisfaction with growing commodities' shortages, caused by perestroika *per se*, forced the highest Soviet party bureaucracy, under the threat of losing power, to increase imports of consumer goods. The rise in imports took place under the conditions of declining export opportunities, due to sharp fluctuations in prices for energy resources and raw materials, the worsening of the quality of the exporting products, the growing frequent refusal of "socialist," and, first of all, of COMECON countries, to purchase the Soviet produce, etc.

The commodity structure of Soviet foreign trade. It needs to be emphasized that the Soviet Union was exporting and importing a great variety of products. A lack of space does not permit us to list all of them. We will limit ourselves to the most important commodity groups of the last decade of the existence of the country.

The commodity structure of Soviet exports. It is presented in Table 7.6:

Table 7.6
The Commodity Structure of Soviet Exports, 1980 - 1990
(in current prices; in percentages)¹⁶

Indicators	1980	1985	1986	1987	1988	1989	1990
Exports, total	100	100	100	100	100	100	100
Including:							
Machinery, equipment, means of transport	15.8	13.9	15.0	15.5	16.2	16.4	18.3
Fuel and electric power	46.9	52.7	47.3	48.5	42.1	39.9	40.5
Ores and concentrates, metals and products made of metals	8.8	7.5	8.4	8.5	9.5	10.5	11.3
Chemical products, fertilizers, and rubber	3.3	3.9	3.5	3.4	4.0	4.0	4.6
Lumber and pulp and paper products	4.1	3.0	3.4	3.3	3.5	3.5	3.7
Textile materials and semi-finished products	1.9	1.3	1.4	1.5	1.6	1.6	1.2
Foodstuffs and materials for their production	1.9	1.5	1.6	1.6	1.7	1.6	2.0
Industrial consumer goods	2.6	2.0	2.4	2.6	2.8	2.6	3.6

The table tells us that the major part of Soviet exports consisted of raw and energy materials. At the same time, finished products accounted only to 1/4 of the volume of exports.

Thus, despite the fact that the USSR was an industrial superpower, in its foreign trade, even during its late period, it behaved as if it was a backward country, that is, as a raw-materials' appendage to the world economic system. Three factors, mentioned earlier, contributed to such a structure of Soviet exports: noncompetitiveness of the Soviet production of finished goods for non-"socialist" markets; inconvertibility of the Soviet ruble; the necessity, following from this, to earn foreign hard currency by exports of raw and energy materials whose sale abroad found a relatively low competition from less developed countries, traditional suppliers of these kinds of commodities in non-"socialist" markets; finally, the need to supply raw and energy materials to "socialist" countries so that keep them as "friends" of the Soviet Union.

There were, however, two more factors, in our opinion, the most important. The country, being extremely rich in natural resources, considered them as an endowment ready to be exploited indefinitely. At the same time, the socioeconomic system, from the beginning of its existence having embarked on industrialization, regarded production as the sole purpose of its activities.

Hence, a certain mentality of the Soviet bureaucracy. With respect to the natural resources: do not worry about gifts of nature, use them in any way possible, including selling them to other countries. With respect to the finished goods, and, first of all, to the heavy industrial type: accumulate, enhance them in the country, try not to sell them abroad.

The commodity structure of Soviet imports. It is shown (together with Soviet imports going for re-exports) in Table 7.7:

Table 7.7
The Commodity Structure of Soviet Imports, 1980 - 1990
(in current prices; in percentages)¹⁷

Indicators	1980	1985	1986	1987	1988	1989	1990
Imports, total	100	100	100	100	100	100	100
Including:							
Machinery, equipment, means of transport	33.9	37.1	40.7	41.4	40.9	38.5	34.4
Fuel and electric power	3.0	5.3	4.6	3.9	4.4	3.0	4.1
Ores and concentrates, metals and products made of metals	10.8	8.3	8.3	8.1	8.0	7.3	9.6
Chemical products, fertilizers, and rubber	5.3	5.0	5.1	5.3	5.0	5.1	8.2
Lumber and pulp and paper products	2.0	1.3	1.3	1.2	1.2	1.2	2.4
Textile materials and semi-finished products	2.2	1.7	1.3	1.5	1.6	1.6	2.9
Foodstuffs and materials for their production	24.2	21.1	17.1	16.1	15.8	16.6	16.1
Industrial consumer goods	12.1	12.6	13.4	13.0	12.8	14.4	12.8

We can see that the picture of Soviet imports was a mirror image of the picture of Soviet exports. That is, during the period under consideration, the structure of Soviet imports was a *vice-versa* reflection of Soviet exports: imports of finished goods (industrial as well as consumer) were predominant. Thus, like in the case of exports, with respect to imports the industrial Soviet Union displayed all the features of an underdeveloped country.

Soviet foreign finance

Besides foreign *trade* goals, the Soviet planning authorities had two more tasks: first, with Soviet material and nonmaterial resources, to secure Soviet *investment* in foreign countries; second, to attain the *balance of payment* equilibrium. Such objectives were put forward because the USSR was involved into foreign economic relations expressed in movements of not only goods¹⁸ but of *finances* as well.

On the method of payments in Soviet foreign financial relations

Recall that the payment mechanism of Soviet foreign trade included three forms of payments: barter, transferable rubles, and hard (freely convertible) foreign currency. In terms of the balance of payments this implied the following.

First, transferable rubles were used in Soviet economic relations with “socialist” and less developed countries. Second, barter, measured in transferable rubles, played a role of the payment mechanism in Soviet economic relations with “socialist” and less developed countries and, to a certain extent, with developed capitalist countries. Finally, hard currency served as an instrument of payments in Soviet economic relations with developed capitalist countries.

Soviet investment in foreign countries

We have said that one of the goals of “the Soviet planning authorities [was], with Soviet material and nonmaterial resources, to secure Soviet *investment* in foreign countries. These “foreign” countries were “socialist” and less developed countries.¹⁹

There were two peculiarities in the movement of capitals from the USSR to “socialist” and less developed countries.

First, the movement had, in the main, a commodity nature, measured in transferable rubles. Second, it was not of an equity but of a debt character. Why? Because, as it was pointed out earlier, this was a movement of Soviet commodities as capital into “socialist” and less developed countries. The leadership of these countries, because of either economic (inefficiency of such a potential owner of resources as the Soviet bureaucracy) or ideological (defense of national interests) or other reasons, did not want to give up even an insignificant part of its economy into the hands of the Soviet bureaucracy.

The second conclusion begets the third one. Soviet debt relations with “socialist” and less developed countries took place exclusively at the state (government) level. The USSR credited governments, not non-governmental structures.

Statistical data on the indebtedness of foreign governments to the Soviet Union. The data on who and how much owed to the USSR are rather contradictory.

One post-Soviet Russian source gives the following information: "According to the Center of Complex Social Research 'The Round Table of Business in Russia,' on the whole, less developed countries borrowed from [the USSR] more than \$147 bln."²⁰

Another post-Soviet source explains that in the beginning of 1999, that is, already during the post-Soviet period Russia was owed by foreign (and, first of all, by less developed) countries more than \$120 bln.²¹

The difference cited is \$27 bln. Here, the following must be taken into consideration.

First, the fact that, at least, less developed countries, as a rule, were not able to repay their debts to the Soviet Union and its successor, the Russian Federation. Second, considering that, for instance, during 1992 - 1994 states-debtors repaid to post-Soviet Russia only \$5 bln. out of those \$50 bln. that they had to repay, it is hard to believe that in 1996 - 1998 they were able to repay a sum 5 times bigger. One cannot but agree with the opinion that what was going on was "a process of totally unjustified writing off and squandering of such a big and significant asset of Russia abroad as debts of foreign countries."²²

Since we do not possess a uniform, non-contradictory information about debts of foreign countries to the USSR, we decided conditionally, without any pretense to the correctness of such an approach, to combine the ruble data of the first source and the dollar data of the second source. The result of such a combination is Table 7.8, where we present foreign indebtedness to the USSR at the end of 1991 - beginning of 1992, the period of the disintegration of the Soviet Union and its system:

Table 7.8
Foreign Debt to the USSR, the end of 1991 - beginning of 1992²³

Country	Amount, bln. rubles		Amount, bln. dollars	
	Former "socialist" countries	Less developed countries	Former "socialist" countries	Less developed countries
Cuba	327.8		19.11	
Mongolia	200.8		11.70	
Vietnam	186.8		10.89	
North Korea	111.7		6.51	
Poland	27.2		1.59	
Laos	24.8		1.45	
Albania	4.5		0.26	
Yugoslavia	4.0		0.23	
Czechoslovakia	1.5		0.08	

Former "socialist" countries, total	889.1		51.82	
Syria		242.3		14.12
Afghanistan		174.5		10.17
Iraq		131.0		7.64
Yemen		126.8		7.39
Ethiopia		114.8		6.69
Algeria		66.6		3.88
India		62.1		3.62
Lybia		53.6		3.12
Egypt		34.5		2.01
Mozambique		34.0		1.98
Cambodia		26.5		1.54
Angola		20.8		1.21
Tanzania		12.4		0.72
Mali		10.9		0.64
Guinea		9.7		0.57
Somali		9.7		0.57
Zambia		9.2		0.54
Congo		8.1		0.47
Nicaragua		6.3		0.37
Madagascar		4.6		0.27
Guinea-Bissau		3.1		0.18
Pakistan		3.0		0.17
Morocco		1.2		0.07
Benin		1.2		0.07
Nigeria		1.0		0.06
Tunisia		0.7		0.04
Burundi		0.4		0.02
Cabo Verde		0.3		0.02
Others		0.6		0.03
Less developed countries, total		1,169.8		68.18
Grand total	2,058.9		120.0	

The following conclusions might be made from Table 7.8. First, it is statistically confirmed that, out of the total debt by "socialist" and less developed countries to the USSR, the major part (around 57 percent) of the debt was owed by less developed countries.

Second, among 10 "socialist" countries, the greatest debt burden was on four of them: Cuba, more than one-third of the total "socialist" debt; Mongolia, around 23 percent; Vietnam, 21 percent; and North Korea, around 13 percent. That is, in the aggregate, 40 percent of "socialist" countries, listed in Table 7.8, owed to the Soviet Union 93 percent of the entire debt of this group to the USSR. It is worth noticing that these four were countries whose economic situation gave practically no guarantee that either in the foreseeable future or ever they will be able to repay their debt.

Third, the list of foreign debtors to the USSR included more than 30 less developed countries. Five of these countries held 2/3 of the total debt of the group. None of these countries could repay its debt: Syria, because it lacked necessary resources and had not settled relations with Israel; Afghanistan, due to a prolonged civil war; Iraq, for a long embargo on exports of oil from the country; Yemen, because of domestic clannish problems within the country; Ethiopia as a result of the prolonged war with Sudan and Eritrea.

Soviet gross foreign debt

The inflow of capital into the Soviet Union took a form of debts, not investments. For investments would have meant a direct (stocks, equity) or indirect (portfolio) participation of foreigners in relations in decisions concerning Soviet property or possession relations.

But at least prior to Gorbachev reforms, the Soviet bureaucracy had no desire to share with anybody its ownership or possession property rights. Only in the middle of the 1980s, foreign capital in the form of *joint ventures*²⁴ started to be admitted into the Soviet markets.

As a consequence, in contrast to many developed and less developed countries, where the movement of money either as incomes on investments (current accounts) or as investments *per se* (capital accounts) take a variety of forms, in the Soviet Union, the movement of capital had predominantly just one form, that is, a form of *bank loans*, often under the guarantee of governments of those countries whose commercial banks loaned the USSR money in the first place. And it is necessary to emphasize that these were *developed capitalist countries*.

Statistical data on Soviet gross foreign debt

In one of the sections of this chapter, we stressed that the rise in Soviet imports had been accompanied by declining exports. This led to growing Soviet foreign debt.

Absolute numbers. A Western source provides the following data on the growth of Soviet *gross* (that is, without taking into consideration debts of other countries to the Soviet Union) foreign debt. The debt is expressed in hard foreign currency. It does not count hard foreign currency which belonged to the USSR and which was held in Western commercial banks. The amount of the debt was \$12.5 bln. in 1975 and \$53.6 bln. in 1990. Thus, within the 14-year period, Soviet gross foreign debt had grown by almost 4.3 times.²⁵

Relative numbers: the debt-service ratio. It is calculated as the ratio of debt payments in hard foreign currency to hard-currency earnings. As such, it shows the burden of foreign debt on the economy.

The ratio was 10 percent in the mid-1970s. In 1989, it reached 23 percent.²⁶ The rise of the ratio by more than two times for less than two decades indicates that during this period a growing portion of its hard-currency earnings the Soviet Union spent on servicing its foreign debt.

Relative numbers: the ratio of gross foreign debt. For a given country within a given time period, the ratio measures gross hard-currency debt to hard-currency earnings.

This second measure of the gross debt burden on the Soviet economy was 73 percent in 1980. It grew to 115 percent in 1985,²⁷ or by more than 1.6 times.

Two factors made a contribution to this negative phenomenon. First, the reduction of Soviet hard-currency earning, we talked about earlier. Second, the increase in the absolute amount of Soviet gross foreign debt.

Some additional information on Soviet gross foreign debt. The information pertains to the following.

First, with regard to a mechanism of the debt creation and to the measures taken by the Soviet government to reduce the debt to the minimum. A Russian post-Soviet source reports:

The USSR borrowed money from [developed capitalist countries] exclusively with the knowledge of the Central Committee and its Politburo. Any ministry which wanted to purchase for its enterprise a new technology or equipment made a request for this from Gosplan. Corresponding expenses budgeted for, then a draft of the decision by the Council of Ministers, which needed the approval of the Politburo, was prepared. The USSR traditionally saved hard foreign currency preferring, when it was possible, to pay [for purchases] with commodities. [During the late Soviet period] there was a widely known deal "gas-pipes," which supposed supplies of the Soviet natural gas into the Western Europe in exchange for pipes of a big diameter for the construction of pipelines. Such compensatory deals, including those related to foodstuffs (the USSR needed predominantly wheat and corn), were widespread.²⁸

Second, with respect to forms of loans which, raising the size of Soviet gross foreign debt, were given to the Soviet Union. Considering the USSR as a very reliable commercial partner, Western countries loaned it more and more money in the form of hard currency.

Besides governments of countries whose commercial banks provided the Soviet Union with credits, the loans were also

guaranteed by the perestroika-oriented Soviet government. The guarantors believed that they could provide this because they were optimistic about the future of the country and because of the latter's enormous deposits of oil, gas, gold, etc.

There were two types of Soviet borrowing. The most widely practiced were so-called *investment commodity credits*. The credits were used to import into the Soviet Union such critically important goods, as, for instance, cigarettes so that to pacify "tobacco riots" occurring here and there in the country in the late 1980s.

The second type of the Soviet borrowing consisted of *purely financial credits*. It is necessary to note that such loans were, in turn, used to service Soviet foreign debt.

On the whole, at the beginning of 1992, Soviet gross foreign debt was equal to \$96.6 bln.²⁹

Soviet net foreign debt

If we compare the amount of gross foreign debt owed by the USSR to other countries with the size of gross foreign debt other countries owed to the Soviet Union, then the amount of Soviet net foreign debt at the end of 1991 - beginning of 1992 was as follows:

Table 7.9
Net Foreign Debt of the USSR, the end of 1991 - the beginning of 1992
(in bln. US dollars)³⁰

Indicators	The size of debt
Gross foreign debt of "socialist" and less developed countries to the USSR	+120
Soviet gross foreign debt to developed capitalist countries	-97
Soviet net foreign debt	+23

Despite the conditional character and inexactitude of the data above, nevertheless, one conclusion is inescapable: during the last years of the Soviet system, other countries owed the Soviet Union more than the Soviet Union owed to other countries. But, as it was emphasized earlier, the problem for the USSR was that a significant portion of countries-debtors was unable to repay its debts to the Soviet Union, while countries-creditors were members of a group of developed capitalist hard-currency countries whose special position in the world forced the USSR to repay its debt to them, sooner or later.

Soviet balance of payments

Besides safeguarding material and non-material investment into "socialist" and less developed countries, the second purpose of

Soviet foreign economic relations was to attain the balance of payment. The task was solved in the following way.

As far as the trade balance was concerned, its achievement was not a difficult task for the state-monopolistic and centrally planned Soviet foreign trade. In relations with “socialist” countries, Soviet exports and imports were balanced bilaterally with the help, as we already know, of either barter or transferable rubles.

The problem of balancing Soviet export-import relations with less developed and developed capitalist countries was also solved rather easily. If, for example, the expected Soviet *hard-currency* earnings turned out to be lower its planned target, then the difference was covered by either reducing the actual volume of *hard-currency* imports or by increasing the actual volume of *hard-currency* exports.

Hence, for the Soviet Union the problem of the balance of payment was reduced mainly to the achievement of the balances of the *hard-currency* current and capital accounts.

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Notes to Chapter 7: Soviet Foreign Economic Relations

- 1 Based on E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Makroekonomicheskaya Teoriya Valovogo Vnutrennego Produkta. Keinsianskiy Podkhod* [Principles of the Economic Theory. A Macroeconomic Theory of Gross Domestic Product. A Keynesian Approach]. Moscow: "Nauka," 1997, pp. 217 - 218; and E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Vneshniye Ekonomicheskiye Otnosheniya* [Principles of the Economic Theory. Foreign Economic Relations]. Moscow: "Nauka," 2000, pp. 59 - 81. See also F. Holzman, *International Trade Under Communism*. New York: Basic Books, 1976.
- 2 See V. Gruzinov, *The USSR's Management of Foreign Trade*. White Plains, NY: M.E. Sharpe, 1979.
- 3 Familiar to us from Chapter 5. See also G. Garvy, *Money, Financial Flows, and Credit in the Soviet Union*. Cambridge, Massachusetts: Ballinger Publishing Company. Published for the National Bureau of Economic Research, Inc., 1977.
- 4 See M. Kaiser, *COMECON: Integration Problems of Planned Economies*. London: Oxford University Press, 1967.
- 5 See V. Treml, "Foreign Trade and Soviet Economy: Changing Parameters and Interrelationships," in E. Neuberger and L. Tyson, eds., *Transmission and Response: The Impact of International Disturbances on the Soviet Union and Eastern Europe*. New York: Pergamon Press, 1980.
- 6 Calculated from Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990]. Moscow: "Finansy i Statistika," 1991, p. 642.
- 7 We will discuss this later, in the chapter on post-Soviet Russian foreign trade.
- 8 TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1985 g.* [The National Economy of the USSR in 1985]. Moscow: "Statistika," 1986, p. 572. Because of rounding off, in some columns, the sum of percentages does not equal to the sum total.
- 9 See F. Holzman, "Some Theories of the Hard Currency Shortages of Centrally Planned Economies," in US Congress, Joint Economic Committee, *Soviet Economy in a Time of Change*, Volume 2. Washington, D.C.: US Government Printing Office, 1983, pp. 297 - 316.
- 10 TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1985 g.* [The National Economy of the USSR in 1985], p. 573.
- 11 We will talk about these problems in one of the following chapters.
- 12 Calculated: for 1980, 1985, and 1990: Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990], p. 644; 1950, 1960, and 1970: TsSU SSSR, *Narodnoye Khoziaistvo*

SSSR v 1985 g. [The National Economy of the USSR in 1985], p. 572.
Note: absolute figures in the statistical sources are in actual prices.

- 13 Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990], p. 644.

14 Ibid.

15 Ibid.

16 Ibid., p. 659. In the source, the sum of percentages is less than 100.

17 Ibid., pp. 660 - 661. In the source, the sum of percentages is less than 100.

18 At present, we statistically know almost nothing about the movement of Soviet trade in *services*.

- 19 "... the USSR generously credited less developed countries: built there industrial and military establishments, supplied equipment, technology and armaments. For this, we were paid with commodities: inexpensive textiles, fruits, from Iraq and Lybia we received oil and then supplied it to other countries. The amounts of credits were fixed in rubles. Later on, this turned for Russia into additional troubles. When in 1992 the ruble became [partially, domestically] convertible, the [Russian] government somehow forgot about ruble credits given to countries of the third world. Meanwhile, for [foreign] debts [to Russia] to be repaid, the old exchange rate set up by Gosbank had to remain: 62 kopeks for one dollar. But Russia found itself in a situation when, due to the ruble depreciation, the country had to resume its negotiations with its debtors by demanding for them to recognize its old exchange rate.

It is not to say that credits given to less developed countries were not repaid at all. For example, the construction cost of the Aswan dam in Egypt was compensated within 10 - 12 years. All this time, the Soviet Union was getting cotton, textiles, oranges. Per ruble of some industrial credits loaned to developing countries, the USSR was making from 4 to 12 rubles selling the same oranges and bananas in domestic markets.

But this was not always the case. There was no return on the construction of military establishments and supplies of armaments. And in many cases, Soviet credits were given for military purposes and had a political, not an economic character" (I. Andreeva, N. Kalinichenko, "Kreditor, Dai Spisat'!" [Creditor, Let Us Write It Off!], *Itogi*, 1999, #19, 11 May).

- 20 "Kto i Skol'ko Nam Dolzhen" [Who and How Much Owes Us], *Argumenty i Fakty*, 1996, 21 May. The same source presents a list of countries with debt to Russia as a successor to the Soviet Union.

21 "Russia Relying on Debtors," *The Moscow Tribune*, 1999, 12 March.

22 Ibid.

23 The nominal exchange rate: \$1=17.1575 rubles in February - March 1999. It is calculated conditionally by dividing the total ruble foreign debt to the USSR (2,058.9 bln. rubles) by the total dollar debt (\$120 bln.)

24 Of which we will talk in a proper time.

25 See CIA, Directorate of Intelligence, *Handbook of Economic Statistics, 1991*. Washington, DC: CIA, 1991, Table 42.

26 See P. Gregory and R. Stuart, *Russian and Soviet Economic Performance and Structure*, seventh ed. Boston: Addison Wesley Longman, Inc., 2001, p. 154.

27 Ibid.

- 28 I. Andreeva, N. Kalinichenko, “Kreditor, Dai Spisat’!” [Creditor, Let Us Write It Off!].
- 29 Ibid.
- 30 Sources: the first row: the second column of the last row of Table 7.8 (in USA dollars); the second row: rounded off data presented in the end of the last section.

PART VII
THE LAST STAGE IN THE DEVELOPMENT OF THE
SOVIET SOCIOECONOMIC SYSTEM: THE STALINIST
MODEL IN OPERATION
(1940-1991)

Chapter 8
Socioeconomic Causes for the Restructuring
of the Stalinist Developmental Model¹

Preliminary remarks to the main theme of the chapter

In the previous seven chapters of this part (Part VII), we examined the Stalinist model of socioeconomic development of the Soviet Union in operation. What conclusions can be made from what we already know?

General Soviet results

Socioeconomic conditions in the Soviet Union at its mature age were relatively good, although, of course, not without some contradictions. In terms of total physical production, the USSR was a world economic power, second only to the USA and first when compared to Europe. Speaking of total physical production of the most significant items, the Soviet Union consistently led (first-second places) in the world and was first compared to Europe. In total physical production of main items, the USSR held, as a rule, from first to third place in the world.

As the years progressed, the country had been narrowing the gap between itself and the United States in indices of total physical production (with the exception of productivity in agricultural labor). Again, the Soviet Union was able to reduce this gap thanks to its higher rates of total labor productivity over long periods of time.

Soviet per capita (per 1,000 and 10,000) indicators were not as good as its total indicators. But here, too, the situation was getting better.

Although a shortage of housing did remain, this problem was being solved gradually: in the 1960s - 1980s, the USSR was building more housing in total and per capita than any other major industrial country of the world (save for Japan).

The Soviet Union was also a leading country in the world (after the United States) in terms of total number of university students and per 10,000 population as well.

The number of hospital beds and medical doctors of all specialities in total and per 10,000 people exceeded that of all major industrial countries.

There were problems, for instance, with high rates of mortality per 1,000 newborns but in the 1980s this index was declining.

The distribution of individual incomes and wealth in the USSR resembled that of the largest most advanced countries of the world.

Again, the country had problems with the quality of its products, services, housing, etc. But in gradually opening up to the world and feeling economic pressures from Western firms, Soviet enterprises were being forced to change towards the production of more competitive goods and services.

The Soviet Union was a *military* superpower. And the list goes on...

Thus, at least *quantitatively* things were not going all that badly and *qualitatively* were even improving. And it is obvious that there is no country in the world for which everything goes well. Why then was there a need for *radical* reforms of the system which eventually led to its breakup? What was it that destroyed the Stalinist model?

The Soviet industrial development in light of historical experience

Rostow² considers the Soviet industrial development as a continuation of the Russian industrial development within the framework of his stages of economic growth.

According to this framework, the length of the period between the beginning of the take-off and the end of the drive-to-maturity stage was equal in Russia to 60 years, not far from that experienced by the major West European countries, Canada, and Japan:

Table 8.1
*Russia Within Rostow's Stages of Economic Growth*³

Countries	Beginning of take-off	End of drive to maturity	Years of take-off and of drive to maturity
Russia	1890	1950	60
Great Britain	1783	1850	67
France	1830	1910	80
United States	1843	1900	57
Germany	1850	1910	60
Sweden	1868	1930	62
Japan	1878	1940	62
Canada	1896	1950	54

But one of the basic characteristics of the two periods was the industrial development. In other words, this was the time of the industrial revolution.

It is now a commonly accepted view that in non-Soviet-type societies this relatively short historical period transformed pre-industrial capitalism of feudal society into industrial capitalism of *laissez-faire*.⁴ Marx calls this period one of primitive accumulation of capital, "which precedes capitalist accumulation; an accumulation which is not the result of the capitalist mode of production but its point of departure."⁵

What were the major features of the industrial revolution and the primitive accumulation in their classical British form?⁶ Toynbee⁷ lists the following:

The emergence of competition and its "substitution ... for the medieval regulations;"
The rapid growth of the population;
The "relative and positive decline in the agricultural population;"
The "substitution of the factory for the domestic system."

Now, if we classify the basic elements of the Soviet-type industrial revolution, we will find that, with the exception of competition, they have striking similarities to the principal characteristics of the industrial revolution of capitalism of free enterprise provided by Toynbee:

The Soviet population, adjusted for the enormous losses suffered by the Soviet people during the Stalinist terror and the war and for the new territories annexed by the Soviet Union after 1939, increased by 45.9 percent in 1950 as compared to 1922.⁸

The share of the rural population declined from 85 percent in 1920 to 61 percent in 1950.⁹ While in 1924 more than 75 percent of the population were of the agricultural origin, their share decreased to around 32 percent in 1959.¹⁰ During the period from the 1920s to 1950, the percentage of agricultural production in GNP was constantly declining, so that in 1958 it reached 20.4 percent.¹¹

This was a period of the extremely rapid development of modern industry.¹²

Now, when we have outlined the major features of the industrial revolution, let us compare its two classical cases, the British and the Soviet.

In essence, the Soviet period of the industrial revolution and of the primitive accumulation of capital was specified by the same major attribute which was characteristic of industrial revolutions in other countries: the expropriation of the class of peasants. But in Soviet-type societies this took a *form* and acquired *methods* different from those used by classical capitalism of *laissez-faire*.¹³

In this respect a Western observer makes the following point:

Current experience suggests that socialism is not a stage beyond capitalism but a substitute for it—a means by which the nations that did not share in the Industrial Revolution, can initiate its technical

achievements; a means to achieve rapid accumulation under a different set of rules of the game.¹⁴

The table below with corresponding commentaries in the footnotes summarizes our arguments:

Table 8.2
Principal Aspects of the Soviet Versus British Industrial Revolution

Indicators	Britain, 1890 - 1950	USSR, 1921 - 1950
The basis of the industrial revolution	The primitive accumulation of non-state private capital	The primitive accumulation of state private capital
The essence of the primitive accumulation of capital	The separation of the independent peasant from land as the principal means of production in agriculture, thus creating raw-material and labor resources for the industrial development of the country	The separation of the independent peasant from land as the principal means of production in agriculture, thus creating raw-material and labor resources for the industrial development of the country
The main form of the expropriation of the peasantry	Enclosures ¹⁵	Collectivization
The main method of the expropriation of the peasantry	Coercion from below by individual landlords ¹⁶	Coercion from above by the Soviet state as landlord; voluntariness from below by a part of the non- <i>kulak</i> peasantry
The immediate consequence of the expropriation of the peasantry	Industrialization ¹⁷	Industrialization ¹⁸
Industrialization in terms of its "design"	Not a conscious act "designed" <i>a priori</i> by the participants	A conscious act "designed" <i>a priori</i> by the Soviet state ¹⁹
The immediate industrial sector developed as a result of industrialization	Light industry ²⁰	Heavy industry ²¹
The socioeconomic system destroyed during the process of the industrial revolution	Feudalism	NEP as a mixed socioeconomic system
The socioeconomic system <i>eventually</i> created, as a consequence of the industrial revolution	Democratic mixed capitalism	Totalitarian state capitalism

Thus, the Soviet experience was not unique either in its *starting point* (expropriation of the independent peasantry), or in its *primary path* (industrialization at the expense of agriculture), or in the *content of its socioeconomic structure* resulting from industrialization (wage labor, or capitalism, within the system of the superior-subordinate relations of the machine and electrical civilization). This historical experience was common to both new-born mixed capitalism and totalitarian state capitalism.

From this follows that, within the general world tendency of the capitalist development, the dissolution of the Stalinist socioeconomic system did not mean the disappearance of capitalism, first, in the Soviet Union and, second, in post-Soviet Russia. *What* was destroyed was *not capitalism in general* but its *particular Soviet form: totalitarian state*.

Let us now see *why* it was demolished. For this, we need to look, first, at the major elements of the Soviet system whose weakening spell the collapse of the entire Soviet socioeconomic structure.

The four pillars of the Stalinist model

The socioeconomic structure of totalitarian state capitalism was composed, as we remember, of various parts. Each specialized in particular functions necessary for the maintenance of the system. The latter included the bureaucratic body of the pyramid and its non-bureaucratic base.

The glue which held the Soviet socioeconomic organism together was a combination of *vested interest, ignorance, fanatical belief, and fear*. With regard to the first element (vested interest), it must be remembered that the various bureaucratic strata possessed, in various degrees, the means of production which were the actual property of the entire class of the bureaucracy.

Hence, from the point of view of the status quo, the *vested interest* of the bureaucracy was to maintain the system of bureaucratic privilege: controlling and managing the pieces of what was formally national property as if it were their (bureaucrats') own. From the same point of view, the non-bureaucratic part of the population also appreciated its status within the bureaucratic structure by favorable weighing the advantages of the present stability and predictability against the disadvantages of future changes and uncertainty.

The vested interests of the supervising and supervised segments of the totalitarian state capitalist system were, in turn, supported by three pillars. The first was a sheer *ignorance* on the part of the population, including even the higher levels of the bureaucracy, about the state of affairs in their own country and in the rest of the world.²²

This ignorance was maintained by a demagogic distortion of reality, so that the entire country was engaged in wishful thinking. As a result,

... unattractive reality [was] artificially adjusted to a standard of what is desirable and ought to be according to the spirit of the doctrine. The authorities got used to observing in life what there must be, and not to noticing what there should not be. And not only they themselves got used to it, but, by the use of powerful, daily [and] purposeful ideological indoctrination, they compel[ed] the rest [of the population] to believe as well. This create[d] a situation of distorting mirrors and magic eyeglasses which twist[ed] the reality [but] which everybody [was] obliged to wear.²³

From ignorance, the second foundation of the Stalinist model of the vested interests followed. It was a *belief* in the eventual coming of the Kingdom of God on Earth, called communism. Disseminated by the party bureaucracy, the new religious faith of the population was creating a zealously optimistic outlook for the future of the Soviet Union. As such, this outlook served as a drug suppressing the people's abilities to take a sober view of the Soviet realities relative to that of the developed world.

Fear, which was the third support of the system of vested interests, had a multidimensional character. It was the anguish of those who were doubtful but whose skepticism was swept away by the pressure of dogmatic believers. It was also the anxiety of those who were rejecting the whole idea as naive, at best, and as blasphemous and fraudulent, at worst. They, however, were physically paralyzed by the horror of the dreadful KGB bureaucracy whose message was that there were the deadly labor (concentration) camps for heretics and for their loved ones.²⁴

A rather arbitrary analogy with a living creature might help to understand the working of the system by matching the main parts of its pyramidal structure with the major organs of the living organism. Its *brain* and *nervous* system were the party bureaucracy, penetrating all levels of the hierarchical structure. Its *muscles* were the KGB, the militia and the military bureaucracies. Its *vascular* system was the economic bureaucracy. And, finally, its *skeleton* was the non-bureaucratic part of the population.

Thus, the bureaucratic creature was served by a fearful and brainwashed population. The party bureaucracy was the force that unified and guided all parts of this living socioeconomic entity.

Social causes for the decomposition of the Stalinist developmental model

A gradual disintegration of the system was caused primarily by *internal* factors. We stress "internal," since, in our opinion, such an

external factor as the arms race, or the military-ideological competition with countries of mixed capitalism, and, first of all, with the United States, simply *speeded up* the process of the transformation without changing its *direction*. In the *social* respect, what actually caused the process of the demolition of the Soviet system was the great structural changes which, since 1953, had been taking place within Soviet society and which had been weakening the four main foundations upon which the Stalinist model was based.

The breakdown of the hierarchy of vested interests

The very development of Soviet society polarized relations within the bureaucracy, and between it and the non-bureaucratic part of the population.

The polarization and complication of relations within the bureaucracy. The web of the interdependence between the various bureaucratic strata became extremely complicated, with the relations of possession and actual ownership being continuously interchanged depending on the status of the bureaucratic layer within the vertical hierarchical structure.

Take, for example, the case of the Soviet enterprise managers. They were the closest to the national wealth. As petty economic bureaucrats, they commanded economic resources within their enterprise. They, therefore, were in the best position to "have" a portion of these resources. Hence, they did not want any competitors in this walk of life. And they could not allow to have anybody competing with them for a piece of the pie: the chiefs of the associations, their superiors, to which the enterprise managers were subordinated, were jealously overseeing their behavior. For the chiefs, the enterprise was "theirs." But the chiefs could not *directly* use their position of the "owner." The chiefs did this *indirectly*, through the managers of enterprises. Hence, the latter, even if it is presumed that they were absolutely honest people, *had* then to cheat for the benefit of their superiors. The latter, in turn, were *obliged* to do the same in order to please their bosses in the ministries, and so on. And, it must be stressed, economic bureaucrats had to take a bite not only for themselves and their superiors *within* the *economic* hierarchy, but also for the *non-economic* fractions of the bureaucracy as well.

As a result, the lower-level subordinate bureaucrat, formerly merely possessing a piece of the nationalized property, due to his proximity to it, began performing, with regard to the higher-level supervising bureaucrat, as an actual owner. This fact of the actual ownership by the smaller bureaucrat was revealed by his ability to bribe the bureaucrat above him with the use of the economic resources of the productive unit that the lower bureaucrat himself possessed and controlled.

Thus, the inevitable had occurred. In a highly specialized and enormously complicated and large economy of the country occupying one-sixth of the world's land mass, the center of gravity and real (but not yet legal) power to allocate economic resources was gradually moving down the pyramid. The process was undermining previously well-defined relations within the bureaucratic capitalist socioeconomic system as if the latter was being turned upside-down.

Hence, the first casualty of the development of Soviet society was the actual erosion of the hierarchy of vested interests of the various layers of the bureaucracy in preserving the Stalinist model. The confines of the model were increasingly perceived as rigid, inflexible and too tilted to the interests of the higher bureaucracies at the expense of its lower factions.

But since, with the exception of the top of the bureaucracy, every bureaucratic layer was simultaneously below and above some other layer, all of them below the top were dissatisfied with the status quo. Hence, the very existence of the military-type model of totalitarian state capitalism was rapidly becoming incompatible with the interests of bureaucracies that were growing restless, on the one hand, and more confident, on the other.²⁵

The growing inability of the highest bureaucracy to govern its lower strata was also caused, to a large degree, by the rapid rise of the shadow economy fed on shortages. The operators of the shadow economy, whose income was estimated to be between 20 and 40 percent of the national income,²⁶ were gradually merging their activities with those of the various levels of the bureaucratic class.

To change their status from clandestine and illegal ownership (based on actual possession) into open and legitimate ownership (based on denationalized private property) was an implicit intention of some of the bureaucracies and their illegitimate "friends" in the shadow economy. To strengthen their position within the loosened bureaucratic structure was the explicit slogan of the others.²⁷

The polarization and complication of relations between the bureaucracy and the rest of the population. But the outlook for the Stalinist model in the non-bureaucratic part of the Soviet population had been shaken as well. This was expressed in the alteration of relations between the bureaucracy and the rest of the population.

The rising actual power of the lower bureaucracies (especially of the local bureaucracies of enterprises, soviets and the party), enhanced by the growing merger between these bureaucracies and the participants in the shadow economy, with whom the common Soviet folk had to deal and on whom the people depended in their everyday life, was making the non-bureaucratic part of the population even more defenseless against the capricious and increasingly unpredictable behavior of the lower bureaucracies. Thus, a growing resentment towards them was being translated

either into a gradually building distrust for the entire hierarchical system, of which the local bureaucracies were an integral part, or into nostalgic longing for a return to the time of well-defined rules of the original Stalinist model.

Therefore, the diminishing interest in the preservation of the status quo on the part of both the bureaucratic and non-bureaucratic segments of the Soviet population (albeit, for their own and often opposite reasons) was the first major cause for the *cracks* in the old Stalinist system.

The breakdown of the Chinese wall of ignorance

From 1914 and up to 1956, first, the Russian and then the Soviet population had lived under conditions of continuous overstrain. This was caused by never-ending and frequently concurring events, such as WWI, the two revolutions, the civil war, industrialization, collectivization, the enforced demand to fulfill and over-fulfill the extremely tight five-year plans, WWII, the post-war reconstruction, political trials, concentration camps, the hardship of everyday life, and others.

The overstrain had gravely exhausted the entire nation. The country was becoming increasingly incapacitated and its advance, more and more, was caused simply by the forces of inertia.

Who was responsible for the *rising* tide of exhaustion? What had to be done to continue marching on the road to the Kingdom of God on Earth?

These were the questions that society was asking itself. These were the questions answers to which the Soviet people wanted to hear. But these were the questions answers to which could be given only by those who have a monopoly on all aspects of Soviet life, including the information.

The highest party bureaucracy which had such a monopoly had to respond. Initially, its response came in 1956 when the Twentieth Congress of the Communist Party of the Soviet Union punched the first hole in the curtain of unawareness of the realities of Soviet life (the cult of Stalin's personality).

So "... the people had learned the truth ... [t]hough not the whole truth, but, nevertheless, a terrible truth,"²⁸ not everyone, but at least some of the people, to start with.

However, as time went by, the truth, revealed by the highest party bureaucracy for its own purposes, like a snowball, was spreading among the people and increasingly serving their interests. But, unlike earlier times, the Soviet people in the last decades of the twentieth century were no longer illiterate peasants living in small villages, separated from each other by long and barely bridgeable distances.

Recall that in 1990, 66 percent of the population lived in urban areas, compared to 48 percent in 1959,²⁹ 33 percent in 1940

and 18 percent in 1917.³⁰ In 1989, only 19 percent of the Soviet population was engaged in agriculture and forestry,³¹ compared to 39 percent in 1960 and 54 percent in 1940.³²

In 1987, among the population ten years of age and older, there were 708 persons with high and secondary (completed and uncompleted) education per 1,000 people, compared to 361 in 1959 and 108 in 1939.³³ By 1990, the Soviet literacy rate was 99 percent,³⁴ compared to 87 percent in 1939.³⁵

Thus, increasingly the *desire* of Soviet citizens to know was matched by their *ability* to absorb the information, to think, to analyze and to compare. And, happily, the growing number of the fruits of the scientific-technological revolution, whose major application was the military-industrial complex, was finding its way within the civilian sectors of the economy, thus providing the *means* necessary to satisfy the longing and the capacity of the Soviet people to get the truth.

The means included such forms of communication as the Western radio, clandestinely listened to by the millions in their native languages, telephones, television, tape recorders, and, later on, computers, communication satellites, videocassette recorders, fax machines, electronic mail, and many others.

Table 8.3 illustrates the advance of some communications in the country:

Table 8.3
*Some Soviet Means of Mass Communications, 1940 - 1989*³⁶

Indicators	1940	1960	1980	1989
Radio receivers, mln.	1.1	27.8	67.9	84.8
Home telephones, mln.		0.9	11.8	24.1
TV stations, numbers	2	275	3,447	7,401 (1986)
TV receivers, mln.		4.8	66.8	92.4

In 1989, 97.1 percent of the Soviet population had access to television.³⁷ In the same year, there were 124 telephones per 1,000 population of the country.³⁸

These achievements were significant not only in total but per capita as well if one takes into account the fact of the population growth. In 1989, the population had grown about 1.5 times as compared to 1940 and close to 1.4 times as compared to 1959.³⁹

The availability of the means of mass communications was also greatly enhanced by the development of the mass transportation in the form of family automobiles and the air service. Thus, sales of private (non-state) cars over the years were: in 1940, none; in 1965, 64,000 cars;⁴⁰ in 1980, 1,193,000, and in 1989, 2,138,000 cars.⁴¹

As far as the air transportation is concerned, airline passenger kilometers (in billions) were: in 1940, 0.2; in 1960, 12.1; in 1980, 161;⁴² and in 1989, 229.⁴³

However, it was not only the various regions of their own country that the Soviet people were now able to hear, to watch and to see. The gates to the *outside* world were now opening to some the people as well.

The common Soviet people, however, did not open the doors. The timing of their discovery of the outside world was dictated by the needs of the bureaucracy of the pyramidal structure of society where the people lived. That is, the process of having contacts with foreigners and even going to foreign countries started with the highest levels of the bureaucracy, went down to its lower levels and only then trickled down to the base of the pyramid, the Soviet people.

Being the initiators of the change, the bureaucracy wanted to enjoy the fruits of increasingly urban, literate and sophisticated society. Its members were curious to know how other people lived for the simple reason that one's personal material and social status is rather relative in nature. Like the "others" (the foreigners and, especially, the Westerners), the bureaucracy wanted to satisfy its increasing consumerism by traveling abroad, by vacationing in exotic foreign resorts, by educating its children in the best Western schools.

Those non-bureaucratic segments of the Soviet population that, in one form or another, had close links to the bureaucracy, followed the suit. The wants of the bureaucracy were becoming their wants.

The extent to which some of these desires had been fulfilled may be seen from the following figures. In 1989, eight million Soviet citizens traveled abroad.⁴⁴ In the same year, close to eight million foreigners visited the Soviet Union.⁴⁵

The encounter with the outside world, and especially with the Western countries and Japan, further undermined the lack of knowledge the Soviets had about other countries and their own country. The encounter, therefore, was greatly strengthening the truth about the real nature of Western and Soviet societies.

Gradually, and in increasing numbers, the Soviet people of all ranks began to realize how *relatively* miserable their life was in social, economic and political terms. With shock and dismay, they discovered that the level of consumption of this superpower was at best between that of Turkey and Portugal, themselves the poorest OECD nations.⁴⁶

Thus, progress in literacy and urbanization, in mass communications and transportation, in interactions with the outside world was dissolving the Chinese wall of ignorance of the Soviet population, like a snowball. Once started, the process of gaining the truth could not be stopped.

The breakdown of the confines of fanaticism

The process led to the weakening of the belief in the fairness of the Stalinist model and to the strengthening of the doubts about the bright future which the development of the model was supposed to bring to the people of the country. Eventually, having come into collision with the truth, the Soviet people's enthusiastically uncritical outlook of the Soviet world and xenophobic view of the outside world had begun to break down.

There *started* appearing an understanding, that Soviet *public* property was an illusion masking the bureaucratic class's ownership; that social, economic, political and national equality, unity, freedom, fraternity and brotherhood were a myth; etc. And so fanaticism began its collapse, because some of the myths which it was based on had been greatly damaged while others had been ruined.

The breakdown of the house of fear

But with the gradual disappearance of the fanatical faith, the fate of organized fear, which prevented Soviet society from critically assessing the Soviet system, was sealed. And with the retirement from the historical stage of fanatical believers in the Stalinist model of development, brutal force had lost its power of "persuasion." Obviously, there were not enough persuaders, and there were not too many that could be persuaded.

This is because the Soviet bureaucracy no longer needed the house of fear and actually wanted its demolition. Having entrenched itself in power, having become the masters of the country and the corporate owners of its productive resources, the bureaucracy, in all its strata, was becoming increasingly impatient with the extreme atmosphere of fanaticism, fear and personal uncertainty and un-safety created by the Stalinist terror.

The bureaucracy was also becoming irritated by the necessity to live a conspiratorial life by constantly hiding the fact of its special status within the country:

... the new [party and economic] elite ... got tired of 'eating sandwiches under the blankets', of using good things of life in secret from its people, [and] only within the limits of a closed network of special country-cottages, special stores and others, [while] concealing [its life style] by demagogic speeches about the common good ...

And it is easy to understand the [new] elite: in a non-religious [in the traditional understanding of this word] society, a failed socialist ideal [which the elite never believed anyway] can only be replaced by the ideal of a personal well-being, [personal] wealth, [personal] control and power.⁴⁷

So like a person who reaches middle age and who, therefore, grows skeptical and moderate in his outlook of the world, the bureaucracy wanted to get out of the closet, to be accepted as a *legitimate* ruler of the country. Thus, getting “fatter” and comprised more and more of educated people (unlike the first cohorts of the Bolsheviks), the bureaucracy was becoming “softer” on the use of violence for the preservation of its interests. But where there is no fanaticism and no will to use force, there is no place for fear.

Economic causes for the decomposition of the Stalinist developmental model

It has been pointed out that the *real* power within the country was gradually moving down, to the level of enterprise managers, who were gradually being transformed from *functional* owners (possessors) of pieces of the national wealth into *social* (although no legal yet) owners. It has also been emphasized that, as a result, relations within the bureaucratic pyramid were becoming more and more cumbersome and complicated, since the highest bureaucracy was having a harder time to manage and control the bureaucracy and the country as a whole.

Such were *social* underlying reasons which led to perestroika and to the collapse of the Stalinist socioeconomic model. But there were also *economic* causes for Gorbachev’s “reforms” and the system’s transformation. Here we list some of them.

Success had created seeds of its own failure

Economically, the Soviet system fell a prey to its own success in the development of its economy. Industrialization led to an incredible growth of production. And while earlier Soviet production could be managed and controlled from one center, such a form of managing and controlling economy of an enormously huge country was becoming less and less possible.

Of course, these problems “are common to any large organization, including the Western corporation. [However,] [t]hey show[ed] themselves in acute form in the USSR because of its size and also the vast range of the activities which it cover[ed]; it [wa]s not only a super-corporation but a super-conglomerate.”⁴⁸

At the same time, thanks to the cultural revolution, the Soviet Union witnessed a rapid increase in the cadres of technically educated managers. The director’s corps, was, in a growing degree, freeing itself from the ideological blinders. These enterprise managers, knowing that they were able to solve their production problems on their own, felt burdened by the guardianship of the party and the central bureaucracy.

Thus, the highest bureaucratic layer was *less and less capable* to govern the production process. This bureaucratic strata, however,

did not want to share its power with anybody, believing that its speaks in the name of society as a whole. And yet it *had* to begin at least a partial decentralization of some economic elements of the system for the sake of preserving the USSR as a world power.

Soviet economic problems

Why did it *have* to? Was it not stated at the end of Chapter 1, "Soviet Production," of this part of the book that "in terms of the annual GNP growth among the [major] countries [of the world] ..., the USSR was behind only China and Japan... . with the exception of Japan, ... [that] the economic gap between the USSR and major countries of the world was slowly but surely narrowing[?]" And was it not emphasized in the beginning of the present chapter that "at least *quantitatively* things were not going all that badly and *qualitatively* were even improving [?]"

Yes, it was stated and emphasized. But there were *some* negative aspects in the functioning of the Soviet economy. Among the negative factors, there were as follows.

Declining rates of economic growth. Annual rates of the Soviet economic growth were *declining*. Here are two series, showing average annual growth rates by the Soviet economy over the five-year periods:

Table 8.4
Soviet Average Annual Growth Rates, 1951 - 1985
(in percentages)⁴⁹

Years	CIA Office of Economic Research	Official Soviet
1951 - 1955	10.9	13.2
1956 - 1960	9.6	10.4
1961 - 1965	6.8	8.6
1966 - 1970	5.3	7.7
1971 - 1975	3.3	5.7
1976 - 1980	2.3	4.3
1981	1.3	3.3
1982	2.2	3.9
1983	3.3	4.2
1984	1.4	3.2
1985	1.2	3.5

In *this* respect, two Western observers comment that

... by most measures, [Soviet] performance has been poor since 1975 and getting worse. Average annual growth of GNP was over 4 percent between 1960 and 1975, but only 2 percent from 1975 to 1985. During the same period, average net farm output grew by 1.9 percent and industry grew by 2.0 percent.⁵⁰

The technological lag behind the United States. Thus, the same two observers write in 1987, that:

[i]t is estimated that the United States holds leads against the Soviets from 7 to 12 years in advanced manufacturing categories, such as computer-operated machine tools, minicomputers, mainframes, supercomputers, software, and flexible manufacturing systems.⁵¹

As such, the highest Soviet bureaucracy regarded the phenomenon as a possibility of eventually losing its arms race with the USA.

Japan's economic threat. Due to Japan's higher rates of economic growth, the Soviet Union saw its displacement by Japan as the world second *industrial* nation. Thus, at the end of the 1970s, Japan's industrial output "surpassed that of the Soviet Union."⁵² Moreover, it was estimated that by the year 2000 Japan would overtake the Soviet Union in the size of total GNP.⁵³

A relatively low standard of living. As it was indicated in Chapter 2, "Soviet Consumption and Other Socioeconomic Indicators" of this part of the book, "[c]onsumption was not on the priority list of the Soviet system." Hence, while a standard of living in the Soviet Union was continuously growing, even in the 1980s it remained comparable to that of a developing country.

The following data show places occupied by the USSR in the world in terms of the standard of living:

Table 8.5
*Comparative Indicators of the Soviet Standard of Living*⁵⁴

Indicators	Year of comparison	Number of countries compared	Place among countries compared
Per capita consumer expenditures	1982	175	38 th
Number of persons per room	1980	138	59 th
Years of expectation of life for males	1980 - 1981	145	56 th
Years of expectation of life for females	1980 - 1981	167	27 th
The physical quality of life index ⁵⁵	1981	164	34 th
The index of net social progress ⁵⁶	1979 - 1980	107	45 th

Such a situation compelled a Western critic of the USSR to conclude that in some aspects of its standard of living the Soviet Union might be classified as “a Third World country with first-world weapons.”⁵⁷

A relatively dissatisfied population. This made many in the Soviet Union dissatisfied, channeling their frustration into loafing and drunkenness.⁵⁸ For, “[p]eople compare their situation not with that of traditional societies, but with that of wealthy countries, and grow angry as a result.”⁵⁹

The central planning dilemma. Central planning, as we know, was used by the bureaucracy as a means of allocating country’s resources and, therefore, of maintaining the bureaucracy’s power. As long as the productive forces of Soviet society were small and undeveloped, as long the bureaucracy itself was not very stratified and thus had a strong sense of commitment to a common cause of building, as it was perceived, a new society, and as long as the vast majority of the population was widely supportive of the regime in its expectations of a better life, the bureaucracy was able to perform its planning functions without great difficulties. In addition, it was expected that with the development of modern computers the process of planning would become even easier.

This, however, was not the case. It is not that the central planning procedure is deficient by its nature. In a homogeneous, harmonious, and highly computerized society planning would have no difficulties in achieving its goals, whatever they might be.⁶⁰ The trouble is that Soviet society was neither homogeneous nor harmonious nor automated. The trouble is that the industrial development made the Soviet Union more and more fragmented, with specialized groups each having their own special interests and caring less and less about the needs of society as a whole. Under these circumstances, the weapon of central planning was becoming less and less effective, and Soviet society appeared to be slipping into unruliness.⁶¹

In our opinion, these negative economic factors, if left alone, did not have to lead to a downfall of the Soviet system. But they were not left alone. As a result, ambitious attempts to adjust them triggered off a set of *social* and *political* changes that eventually brought about the collapse of the entire Soviet socioeconomic structure.

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Notes to Chapter 8: Socioeconomic Causes for the Restructuring of the Stalinist Developmental Model

- 1 Based on E. Raiklin, "Pre-Soviet, Soviet and post-Soviet Models of Economic Growth and Development." *International Journal of Social Economics*, Volume 32, Number 11, 2005, pp. 998 - 1001; E. Raiklin, "The Disintegration of the Soviet Union." *International Journal of Social Economics*, Volume 20, Numbers 3/4, 1993, pp. 37 - 43; E. Raiklin, "On Some Aspects of the Soviet-Type Development." *International Journal of Social Economics*, Volume 19, Number 6, 1992, pp. 46 - 54; and E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Ekonomicheskii Rost i Razvitiye* [Principles of the Economic Theory. Economic Growth and Development]. Moscow: "Nauka," 2001, pp. 180 - 194.
- 2 See W. Rostow, *The Stages of Economic Growth. A Non-Communist Manifesto*, 2nd ed. Cambridge: Cambridge University Press, 1971. See

also R. Reeve (R. Reeve, *The Industrial Revolution 1750 - 1850*. London: University of London Press, 1971), who estimates that, for instance, the period of the British Industrial Revolution lasted for 100 years, from 1750 to 1850.

3 Calculated from *ibid.*, pp. 38, 59.

4 See K. Marx, *Capital. A Critique of Political Economy*, Volume I, trans. by B. Fowkes. New York, NY: Vintage Books, A Division of Random House, 1977, p. 247; P. Mantoux, *The Industrial Revolution in the Eighteenth Century. An Outline of the Beginnings of the Modern Factory System in England*, revised ed., trans. by M. Vernon. New York, NY: Harcourt, Brace and Company, 1928, p. 374; and F. Engels, *The Condition of the Working Class in England*, trans. and ed. by W. Henderson and W. Chaloner. Stanford, CA: Stanford University Press, 1968, p. 23.

5 K. Marx, *Capital. A Critique of Political Economy*, Volume I, p. 873.

6 See *ibid.*, p. 876.

7 A. Toynbee, *The Industrial Revolution*. Boston, MA: Beacon Press, 1966, pp. 58, 60, 61, 63.

8 Calculated as follows:

a. The actual Soviet population in 1922 was 136.1 mln. (Goskomstat SSSR, *Naseleniye SSSR 1987* [The Population of the USSR]. Moscow: "Finansy i Statistika," 1988, p. 8);

b. The adjusted Soviet population in 1950 was 198.5 mln.:

i. The actual Soviet population in 1950: 178.5 mln. (*ibid.*);

ii. Minus approximately 20 mln. of those who were forcefully annexed after 1939 (*ibid.*);

iii. Add approximately 20 mln. of those who were executed or starved to death during the purges of 1936 - 1950 (R. Conquest, *The Great Terror. Stalin's Purges of the Thirties*, revised ed.. New York, NY: Collier Books, 1973, p. 710);

iv. Add approximately 20 mln. of those who were killed during WWII (A. Zimbalist, H. Sherman and S. Brown, *Comparing Economic Systems. A Political-Economic Approach*, 2nd ed. San Diego, CA: Harcourt Brace Jovanovich, 1989, p. 143).

9 TsSU SSSR, *Narodnoye Khoziaistvo SSSR v 1963 g.* [The National Economy of the USSR in 1963]. Moscow: "Statistika," 1965, pp. 7, 8.

10 *Ibid.*, p. 28.

11 *Ibid.*, p. 54.

12 See W. Nutter, *Growth of Industrial Production in the Soviet Union*. Princeton, NJ: Princeton University Press, 1962.

13 That the dispossession of the peasantry might vary from country to country was emphasized by Marx (K. Marx, *Capital. A Critique of Political Economy*, Volume I, p. 876):

"The expropriation of the agricultural producer, of the peasant, from the soil is the basis of the whole process. The history of this expropriation assumes different aspects in different countries, and runs through its various phases in different orders of succession, and at different historical epochs."

14 J. Robinson, "Marx, Marshall and Keynes," cited in G. Dalton, *Economic Systems and Society. Capitalism, Communism and the Third World*. Harmondsworth: Penguin Books, 1978, p. 114.

But it might also be added that in terms of its human costs Soviet totalitarian state capitalist industrialization, being in substance the same

as the British industrial revolution of laissez-faire, was incredibly harsher in the degree of suffering of the population. Of course, a truthful and objective description of life in the Soviet Union during the period of the 1920s - 1950s is still waiting for its Dickens. But to the question: "Does the Magnitogorsk of the 1930s compare so favorably with the Manchester of the 1830s?" (B. de Jouvenel, "The Treatment of Capitalism by Continental Intellectuals," cited in G. Dalton, *Economic Systems and Society. Capitalism, Communism and the Third World*, p. 114), the answer, from what is now known, must be "absolutely not."

- 15 See, for instance, P. Lane, *The Industrial Revolution. The Birth of the Modern Age*. New York, NY: Harper & Row Publishers, 1978, pp. 39, 41, 42.
- 16 See, for example, K. Marx, *Capital. A Critique of Political Economy*, Volume I, pp. 885 - 886.
- 17 In the case of the industrial revolution in England, "agriculture was the source of much of the investment-capital that was ploughed into industry and transport as well as into urban development" (P. Lane, *The Industrial Revolution. The Birth of the Modern Age*, p. 60).
- 18 That agriculture had to serve as the basic source for Soviet industrialization was not disputed by the participants of the already familiar to us "industrialization debate." This was what Preobrazhensky (E. Preobrazhensky, *The New Economics*, trans. by B. Pearce. Oxford: Clarendon Press, 1965, pp. 35, 88 - 89) terms "primitive socialist accumulation" of capital as a counterpart to the Marxian "primitive accumulation of capital:"
"... the law of primitive socialist accumulation ... is indeed the law of the relation of state economy (including world economy) in the given period of the development of this economy, and thereby also the law of the specific distribution of the productive forces within the state economy ...

In the period of primitive socialist accumulation the state economy cannot get by without alienating part of the surplus product of the peasantry and the handicraftsmen, without making deductions from capitalist accumulation for the benefit of socialist accumulation ... A country like the USSR, with its ruined and in general rather backward economy, must pass through a period of primitive accumulation in which the sources provided by the pre-socialist forms of economy [meaning mainly the independent peasantry] are drawn upon very freely."

It must be pointed out though that, while the term "primitive socialist accumulation" was applied in practice, since it had a very bad peasantry-exploitive connotation, it had never officially been used in the Soviet Union. On the contrary, it was officially condemned in the USSR. For this, see a speech by Preobrazhensky in his role of a defeated oppositionist cited by Nove (A. Nove, *An Economic History of the USSR*. Harmondsworth: Penguin Books, 1982, p. 221).

- 19 But at first the fact that "primitive socialist accumulation" to be successful needed the policies of collectivization was recognized by a very few in the Soviet leadership:

"... the new device which Stalin first announced at the end of 1927 and which became increasingly crucial to him as the crisis [of supplying industry and the urban population with agricultural products] deepened went to work full blast. The wholesale collectivization of agriculture did

away with the peasants' 'freedom to choose the time and the terms at which to dispose of their surplusage.' It was now up to the state to set these terms and thus to determine the rate of peasant saving. Preobrazhensky was undoubtedly right when he exclaimed in his self-castigating speech several years later: 'Collectivization—this is the crux of the matter! Did I have this prognosis of the collectivization? I did not'" (A. Erlich, *The Soviet Industrialization Debate, 1924 - 1928*. Cambridge, MA: Harvard University Press, 1960, pp. 176 - 177).

- 20 "In particular this was true until the 1770s of the textile industry which ... was the largest industry outside agriculture" (P. Lane, *The Industrial Revolution. The Birth of the Modern Age*, p. 61). A Soviet textbook explains this phenomenon in the following way:

"In capitalist countries, industrialization usually starts with light industry. The amount of investment required in light industry is less as compared to that in heavy industry; capital in light industry turns over faster than in heavy industry and, hence, brings the profit faster. Only after a protracted period, after the accumulation of the profit in light industry ... capitalists begin investing their capitals in heavy industry" (G. Kozlov, gen. ed. *Politicheskaiya Ekonomiya. Tom I: Dokapitalisticheskiye Sposoby Proizvodstva. Obshchiye Zakonomernosti Razvitiya Kapitalizma* [Political Economy, Volume I: Pre-Capitalist Modes of Production. General Laws of the Capitalist Development], 3rd ed. Moscow: Izdatel'stvo "Mysl'," 1973, p. 264).

- 21 In the Soviet Union, "[u]ltimately, the investment program with emphasis on heavy industry was implemented under Stalin with a speed and ruthlessness that exceeded all formulations" (A. Koriagin and I. Loginov, *Politicheskaya Ekonomiya. Tom 3: Sotsializm—Pervaya Faza Kommunisticheskogo Sposoba Proizvodstva* [Political Economy. Volume 3: Socialism, a First Phase of the Communist Mode of Production], 2nd ed. Moscow: Izdatel'stvo "Mysl'," 1977, p. xviii).

- 22 That the extent of the lack of knowledge even among the highest strata of the Soviet bureaucracy was enormous is confirmed by Yeltsin (B. Yeltsin, *Against the Grain. An Autobiography*, trans. by M. Glenny. New York, NY: Summit Books, 1990, p. 139). In his assessment of the advent of Gorbachev to power in 1985, Yeltsin writes:

"I believe that when Gorbachev first came to power there were few people in the country who realized what a heavy burden was awaiting him. Indeed, I doubt whether he himself fully understood what a disastrous legacy he was inheriting."

Since, under the conditions of the Stalinist model, the bureaucracy controlled all the information within society, one can imagine the degree of ignorance among the population at large. Thus, the whole affair backfired. Having deceived its people for so long, the bureaucracy had finally lost control of the truth and eventually started deceiving itself (see M. Gorbachev, *Perestroika. New Thinking for Our Country and the World*. New York, NY: Harper & Row, Publishers, 1987, pp. 21 - 22).

- 23 L. Vasiliev, "Krizis Sotsializma" [The Crisis of Socialism], in A. Protashchik, ed., *Perestroika: Glasnost', Demokratiya, Sotsializm. Cherez Ternii* [Perestroika: Glasnost, Democracy, Socialism. By the Way of Thorns]. Moscow: "Progress," 1990, p. 41.

- 24 The extremely important role played by fanaticism and fear in maintaining the Stalinist model was recognized in the Soviet Union during its last years:

"[The Stalinist model] ... was based on two foundations—on the doctrine, i.e. the devotion of the indoctrinated mass[es] to the ideas of ... socialism, and on the apparatus of coercion and fear. The doctrine, which at its mass level (and not only at the mass level) appeared in the role of a religion, of an unconditional fanatical belief, in whose name it was necessary to destroy, without mercy, the enemies and those who had doubts, created an ideological basis for [the] power: the repressive apparatus [as] an institutional [basis]. Both these foundations secured an extra overstrain and ... served as a kind of the artificial circulation of the blood, which prevented the structure from suffocating in convulsion (ibid., p. 27).

25 Ibid., p. 29.

26 See *Perekhod k Runku. Kontsepsiya i Programma* [A Transition to the Market. A Concept and a Program], by the working group organized by the mutual decision of M. Gorbachev and B. Yeltsin. Moscow, "Arkhangel'skoye:" The Ministry of the Press and Mass Information of the RSFSR, 1990, p. 138; and M. Zavel'sky, "Ten'evaya Ekonomika: Vrag, Drug ... ?" [The Shadow Economy: A Friend, an Enemy ...?], in A. Protashchik, ed., *Perestroika: Glasnost', Demokratiya, Sotsializm. Cherez Ternii* [Perestroika: Glasnost, Democracy, Socialism. By the Way of Thorns]. Moscow: "Progress," 1990, p. 248.

27 An explanation which bureaucracies and why pursued their routes will be given in one of the subsequent chapters dealing with the post-Soviet Russia.

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30 Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR za 70 Let* [The National Economy of the USSR for 70 Years]. Moscow: "Finansy i Statistika," 1987, p. 373.

31 Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], p. 46.

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33 Ibid., p. 523.

34 *The World Factbook 1990*. Washington, DC: CIA, 1990, p. 287.

35 G. Kozlov, ed., *Politicheskaya Ekonomiya. Sotsializm, Pervaya Faza Kommunisticheskogo Sposoba Proizvodstva* [Political Economy. Socialism, the First Phase of the Communist Mode of Production], 3rd ed. Moscow: Izdatel'stvo "Mysl'," 1974, p. 33.

36 The data for 1940, 1960 and 1980 are provided by Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR za 70 Let* [The National Economy of the USSR for 70 Years], p. 370; for 1989, by Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], pp. 608 - 609.

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- 44 Ibid., p. 671.
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- 54 *The New Book of World Rankings*. New York: Facts on File, 1984, pp. 314, 320, 327, 328, 332, 333.
- 55 It "is a composite index calculated by averaging three indices—life expectancy, infant mortality and literacy—giving equal weight to each of the three indicators" (ibid.).
- 56 It "is based on 11 sub-indices and 44 indicators, a total of 55 variables" (ibid.).
- 57 G. Will, "The Sickening Soviet Reality." *Newsweek*, 19 January, 1987, p. 68.
- 58 "... alcohol abuse is rampant and represents a serious threat to productivity. Other symptoms of worker discontent are illustrated by high rates of absenteeism unrelated to drinking, the practice of exploring 'socialist property' for one's own private use, and high rates of crime and juvenile delinquency among working people. One of the most telling signs of worker discontent is the widely expressed view that 'we pretend to work, and they pretend to pay us' (R. Krickus, *The Superpowers in Crisis. Implications of Domestic Discord*. New York: Pergamon-Brassey's International Defense Publishers, 1987, p. 33).

- 59 F. Fukuyama, *The End of History and the Last Man*. New York: The Free Press, A Division of Macmillan, Inc., 1992, p. 175.
- 60 On the possibilities or impossibilities of central planning, see M. Ellman, *Socialist Planning*. Cambridge: Cambridge University Press, 1982, pp. 50 - 65.
- 61 On the problems of Soviet central planning, see A. Nove, *The Soviet Economic System*, 1980, pp. 33 - 61; N. Shmelev & V. Popov, *The Turning Point. Revitalizing the Soviet Economy*, trans. by M. Berdy. New York: Doubleday, 1989, pp. 114 - 115. See also F. Fukuyama, who in *The End of History and the Last Man*, 1992, pp. 93, 94, writes:

"The failure of central planning in the final analysis is related to the problem of technological innovation. Scientific inquiry proceeds best in an atmosphere of freedom, where people are permitted to think and communicate freely, and more importantly where they are rewarded for innovation. The Soviet Union and China both promoted scientific inquiry, particularly in 'safe' areas of basic or theoretical research, and created material incentives to stimulate innovation in certain sectors like aerospace and weapons design. But modern economies must innovate across the board, not only in hi-tech fields but in more prosaic areas like the marketing of hamburgers and the creation of new types of insurance. While the Soviet state could pamper its nuclear physicists, it did not have much left over for the designers of television sets, which exploded with some regularity..

The complexity of modern economies proved to be simply beyond the capabilities of centralized bureaucracies to manage, no matter how advanced their technical capabilities. In place of a demand-driven price system, Soviet planners have tried to decree a 'socially just' allocation of resources from above ... This proved to be an illusion ... Bureaucracies sitting in Moscow ... might have had a chance of setting a semblance of efficient prices when they had to supervise economies producing commodities numbering in the hundreds or low thousands; the task becomes impossible in an age when a single airplane can consist of hundreds of thousands of separate parts."

PART VII
THE LAST STAGE IN THE DEVELOPMENT OF THE
SOVIET SOCIOECONOMIC SYSTEM: THE STALINIST
MODEL IN OPERATION
(1940-1991)

Chapter 9
Moral-Psychological Causes for the Restructuring
of the Stalinist Developmental Model¹

Previously, in Chapter 7, “The Practical Making of the Stalinist Model: The Cultural Revolution in Its Ideological Aspects” of Part V of the book, we made a sketch of the moral-psychological portraits of the Soviet bureaucratic man and his non-bureaucratic fellow-citizen at the end of the 1930s. Let us now see how subsequent social and economic changes influenced ethics and the behavior of the Soviet people. In our opinion, such an analysis will allow us to shed an additional light on the evolutionary processes which eventually resulted in the disintegration of the Stalinist model.

Period two: ethics and the behavior of the marchers on the road to the earthly paradise (the end of the 1930s - the beginning of the 1950s)

By the late 1930s, the work of collectivization and industrialization was nearing completion. In addition, all opposition to the new church (the Bolshevik party) and its highest priest (Joseph Stalin) had been destroyed. Thus, in the realms of economics, politics and ideology, the “socialist” road had been built, and the country was ready to enter a second stage in its quest for a communist utopia.

The problem of “socialism” in one country and its theoretical resolution

This period confirmed Engels’ famous warning about the “phantasy of overturning an entire society through the action of a small conspiracy.”² It also revealed (once again) the contradictory and unpredictable nature of socioeconomic development, even if such development was consciously guided from above.

Referring to the self-appointed makers and transformers of human history, Engels wrote:

Supposing these people imagine they can seize power, what does it matter? Provided they make the hole which will shatter the dyke, the flood itself will soon rob them of their illusions. But if by chance these illusions resulted in giving them a superior force of will, why complain of that? People who boasted that they *made* a revolution have always seen the next day that they had no idea what they were doing, that the revolution *made* did not in the least resemble the one they would have liked to make. That is what Hegel calls the irony of history, an irony, which few historical personalities escape.³

The triumphant Bolsheviks were not exempt from this prophesy. They were champions of a movement whose major purpose was to reduce and eventually eliminate differences between the leaders and the led, thus creating a society of happiness and equality for all. During the first stage, they became the new rulers of the country by exterminating, exiling, or subjugating the old rulers. Initially, they justified the preservation of the division of society into masters and subordinates by the need to vanquish the previous masters of the country and the would-be foreign conquerors.⁴

Yet by the end of the first period, the messiah had proudly claimed “the complete victory of the socialist system in all spheres of the national economy ... [which meant] that the exploitation of man by man has been abolished, eliminated, while the socialist ownership of the implements and means of production has been established.”⁵

Thus, according to the Father of Nations, “socialism” in one country had been successfully built, and the Bolsheviks had delivered on their promises to the people. But having done this, the Party was confronted with a dilemma: The “socialism” they had constructed was supposed to be based on Marxian principles; thus, the creation of a “socialist” society implied an absence of exploiting classes.⁶ This, in turn, implied that the state, along with the Party and even the high priest, had to fade away.⁷

This is because,

[a]s soon as there is no longer any class of society to be held in subjugation; as soon as, along with class domination and the struggle for individual existence based on the former anarchy of production, the collisions and excesses arising from these have also been abolished, there is nothing more to be repressed which would make a special repressive force, a state, necessary. The first act in which the state really comes forward as the representative of society as a whole—the taking possession of the means of production in the name of society—is at the same time its last independent act as a state. The interference of the state power in social relations becomes superfluous in one sphere after another, and ceases of itself. The government of persons is replaced by the administration of things and the direction of the process of production. The state is not “abolished,” *it withers away*.⁸

Unwittingly, the Bolsheviks had thus become victims of their own rhetoric.⁹ It was one thing to pronounce the ultimate goals of the revolution when the makers sincerely believed in the fulfillment of these goals. In that case the Bolsheviks were deceiving everyone, including themselves. But it was completely another thing to insist on the realization of the original ideals when the revolutionaries, defenders of the oppressed and exploited, became bureaucrats, i.e. oppressors and exploiters. In this case the Bolsheviks were deceiving only the masses.

The problem was therefore no longer a theoretical issue but a practical one, centering on how to preserve the new Soviet ruling class whose continued existence had to be explained to the Soviet people.

Yet the Bolsheviks rose to the occasion, protecting their own position by creating "a country where Orwellian double-talk has been raised to a fine art, where lofty Marxist principles are used to conceal a system of injustice and repression."¹⁰ They entered the second stage of the movement towards the communist utopia drilling into the heads of the Soviet people the idea that the "complete" victory of socialism in one country was a necessary but not sufficient condition for the elimination of the state, the Party and other trappings of a class society. What was also needed, as Stalin made clear to everybody, was the victory of socialism "once and for all," that is, the socialization of the whole world or, at least, of the majority of countries in the world.¹¹

Stalin continued:

We are moving ahead, towards Communism. Will our state remain in the period of Communism also? Yes, it will, unless the capitalist encirclement is liquidated, and unless the danger of foreign military attack has been eliminated ... No, it will not remain and will wither away if the capitalist encirclement is liquidated and is replaced by a socialist encirclement.¹²

Stalin did not make clear what he meant by "the majority of countries" (i.e. did he mean the majority in terms of numbers, or in terms of population? And does "majority" mean 51 percent, or more than that?) But the message was unmistakable: the state and the Party bureaucracies were going to stay for an indefinite time.

Paradoxically, the "capitalist encirclement," which had been presented as an obstacle to the attainment of the utopian society, became a justification for the continued existence of the Party and of the state. Dialectics had surfaced again: Soviet "socialism" needed Western capitalism to justify its existence in the eyes of the Soviet population.¹³

Officially, it was declared that the best way to help their foreign brothers begin building the road to socialism was for the Soviet marchers to concentrate on the development of the economy. The Party taught that economic success, demonstrated by the ability of

the USSR to catch up with and overtake the developed capitalist countries, would attract to the Soviet system millions of working people abroad who were presently exploited by the capitalists and disoriented by "bourgeois propaganda."¹⁴

Thus, the Soviet people were to become a weapon in the struggle of the emerging Soviet ruling class for the preservation and strengthening of the latter's power within the country and in the world.

Labor's creation of physically tangible objects was proclaimed to be the means of conquering the world. To cajole its workers and peasants, to sugar the pill of the new oppression and exploitation, the bureaucracy, which itself was engaged in the mental work of supervision, glamorized the manual labor of the supervised.¹⁵

The problem of income inequality and its theoretical resolution

To the surrealistic world of politics the bureaucracy had added a Kafkaesque world of economics. To justify the existence of the social, political and economic inequality and at the same time to encourage laborers to work harder, the "socialist" principle of the remuneration of labor became the law of the land. It stated that:

The principle of socialism is that in a socialist society each works according to his ability and receives article of consumption, not according to his needs, but according to the work he performs for society. This means that the cultural and technical level of the working class is as yet not a high one, that the distinction between mental and manual labor still exists, that the productivity of labor is still not high enough to ensure an abundance of articles of consumption, and, as a result, society is obliged to distribute articles of consumption not in accordance with the needs of its members, but in accordance with the work they perform for society.¹⁶

Since all activities in the country were politicized and were directed through the state and Party bureaucracies, Soviet man was thus required to perform political functions by channeling all his energy into supervised and regulated economic acts. Politics was reduced to economics because economics was raised to the level of politics. Working for the well-being of the motherland (by following the instructions of the bureaucracy) was to be the sole purpose of life for Soviet man and, in a sense, his only way to salvation.

Like the Puritans who pushed Calvinism to its extreme, the Soviet bureaucracy made State Puritanism a way of life, a new morality for all non-bureaucratic Soviet men. However, bureaucratic Soviet men, having survived the period of purges and great troubles, began to enjoy their role as masters of the country.¹⁷ Workers and peasants were required to lead ascetic lives, supposedly for the sake

of their country and for the great cause of the revolution and of the future communist society. However, their sacrifices were primarily for the sake of carousing bureaucrats.¹⁸

If we replace “God” with “State,” “Party” or “Motherland,” then Weber’s explanations of the ascetic requirements which Puritanism imposes on its followers become applicable to the conditions dictated to the Soviet people during the period from the late 1930s to the mid-1950s.¹⁹

Calvinism, in its extreme form of Puritanism, became a spiritual vehicle for *individual* capitalism through its emphasis on the importance of *individual* saving. Bolshevism, in its extreme form of developed Stalinism, became the spiritual vehicle for *state* capitalism (in the non-agricultural and in part of the agricultural sectors of economy) and *state* feudalism (in the dominant portion of agriculture) with its emphasis on *state* saving.²⁰

The problem of the emerging “the haves and have-nots” division and its temporary resolution by the Second World War

By the end of the 1930s, the division of Soviet society into the “haves and have-nots,” each with their own moral codes, was well established. From that time until the mid-1950s, the acquisitive and Epicurean ethics of the rulers had imposed an austere and stoical morality on their subjects. While loafing and plundering, Soviet bureaucrats had been preaching state Puritanism to the impoverished Soviet people. The atheistic bureaucracy, in the name of the Party, of the state and of the Motherland, was demanding from its flock what ascetic Protestantism, in the name of God, required from its congregation.

However, in one respect the morals of the rulers and of the ruled of the Soviet Union had become, using the language of dialectics, “a unity of opposites.” The degrading poverty and powerlessness of most of the non-bureaucratic population, the relative affluence and omnipotence of the great portion of the Soviet bureaucracy, coupled with state-organized terror, produced complete complacency at all levels of Soviet society. The Soviet Union had been transformed into a community of atomized and conformist individuals, from top to bottom.²¹

The new, Bolshevik church of the Soviet Union had, thus, achieved what every institutionalized religion always wants from its parishioners, namely, total obedience to its highest priests and absolute faith in their infallibility. But this was done at great moral and psychological cost: the objective process of the division of Soviet society into the three major classes (the bureaucracy, the working class and the peasantry) was generating growing resentment and cynicism on the part of the Soviet population towards their *immediate* superiors (i.e. the bureaucracy’s “parish priests”). Though this erosion of moral and psychological values was gradual and

slow, it nevertheless threatened the very foundation of the Soviet “socialist” structure by spreading, like a cancer, from the bottom of the hierarchical social pyramid to higher and higher levels. If left unchecked, it was plausible that there might even be a challenge to the authority of the supreme leader himself.

Of course, this was a change in *attitudes*, not in *actions*.²² The change stemmed from a strange and seemingly incompatible mixture of feelings: an almost idolatrous reverence for the highest priest, the Party, the state, the Motherland, and “socialism” in *abstract*, accompanied by a resentful, though conformist, attitude towards their *local* representatives.²³

Nevertheless, the attitude of the majority of the Soviet population became very dangerous, as far as the existing regime was concerned. In the *long* run, as the Bolsheviks clearly understood, once the Soviet working class and peasantry came to realize that the miserable and humiliating conditions of their local life were not an accident, but a necessary outcome of the Soviet system, and that they had been lied to about the true nature of the system, the end of the Soviet regime, its bureaucracy, its Party, and its priests would be in sight.

But the consequences for the *short* run were probably even more alarming. The very success of the Bolshevik party in enslaving its own population meant that the Soviet people experienced a decline in their loyalty towards the regime, and, more importantly, were afraid to act on their own initiative. In a word, they became *inert*.²⁴

This created a situation where a portion of the Soviet population became susceptible to outside propaganda. This group of people, together with those who were completely dissatisfied with the Soviet system, could become a significant domestic liability in the proper circumstances.

This short-run danger became a reality with the advent of the Second World War. At the beginning of that war the combination of inertia and negative emotions on the part of many Soviet citizens contributed to the disintegration of the Soviet social structure. Thanks to the disarray and confusion of the Soviet leadership during the first months of the war, the majority’s inertness and the minority’s hatred of the Stalinist regime produced three major outcomes: a significant part of the Soviet Army surrendered, the German Army occupied a sizeable portion of the European regions of the Soviet Union, and the people of the occupied Soviet territories welcomed or at least were indifferent to the advancing Germans.²⁵

Fortunately for the Bolshevik rulers, the polarization of Soviet society was stopped and even reversed during the later stages of the war. The Soviet regime was saved by the policies of Nazi Germany which forced *almost all* peoples of the Soviet Union to become patriotic and to unite behind their leaders.²⁶

The Bolsheviks, masters of political manipulation, were quick to capitalize on Germany's horrible behavior in the occupied territories.²⁷ Once again, the Bolsheviks were able to portray themselves as the defenders and liberators of the oppressed. The war thereby restored the people's faith in the regime, and gave it a breathing space during the period of reconstruction. During that time and long afterwards, the Bolsheviks have been able to exploit the theme of the suffering of the Soviet people during the war. Although the Soviet people did not and do not have a monopoly on suffering, the Soviet leadership has obtained the maximum possible political mileage from it.

The continuation of the "the haves and have-nots" problem and its temporary resolution by "the Cold War" and by the anti-cosmopolitan campaign

After the war, in order to uphold the "capitalist encirclement" argument justifying the existence of the Soviet *state* system (as it was described earlier), the Soviet leadership "restored" its bad relations with its wartime allies. The wartime friendship with them was ended because it was undermining the rationale for the preservation of the Party and state bureaucracies. Soviet man was now directed to channel his postwar frustrations and anger, caused by his miserable living conditions, into the hatred of foreign imperialists. Thus began the period which came to be known as "the Cold War."²⁸

In case the foreign scapegoat was not enough to divert the attention of the Soviet people from the real sources of their slavish and destitute existence, a domestic scapegoat was invented in the form of the *cosmopolites* (the codeword for Jews). Having prolonged the arrival of the *positive* ideal (communism) and, hence, having weakened its people's *positive* emotions, the Party leaders found themselves in desperate need of an outlet for the people's *negative* feelings. This implied a need for another prolonged period of tension within the country.²⁹

No person is able to remain under an extreme psychological strain for a prolonged period of time. The individual, sooner or later, becomes exhausted, indifferent and worn out. Likewise, no society can operate for a long time in an atmosphere of emotional strain. Ultimately, such a society will be worn down by the strain.

During the last years of Stalin's rule, tensions within Soviet society reached their highest level. The passions of the Soviet people were manipulated by the regime in its urgent desire to maintain the social structure. The intent of some members of the Party bureaucracy was to electrify the masses by repeating the show trials of the 1930s.

The problem within "the haves" and its temporary resolution by Stalin's death

The conditions of the early 1950s were, however, very different from those of the late 1930s. The principal dissimilarity was in the position and mood of the great majority of Party and state bureaucrats. In the late 1930s, the purges served as a climatic means to resolve the struggle for power *between* various sections within the Party and, hence, to unite the Soviet people behind the *forming* and *consolidating* Stalinist faction. In the period of the early 1950s, the show trials were designed, as *preventive* measure, to solve any *potential* squabble for power *within* the *formed* and *consolidated* Stalinist faction.³⁰

Obviously, this change in the nature of the fighting altered the view of the bureaucracy in a profound way. The Stalinist faction of the state and Party bureaucracies, from top to bottom, greeted and applauded the destruction of the non-Stalinist sections. The successful outcome of the struggle of the 1930s was *beneficial* to the Stalinist faction within the Party and state bureaucracies because it solidified its power.

This was not the case in the beginning of the 1950s. No force was *seriously* challenging the bureaucracy from within.³¹

There was, of course, the previously mentioned *potential* threat from forces outside the bureaucracy, i.e. the growing resentment of the Soviet people to the lifestyle of the visible, lower-level bureaucrats. That danger, however, was not perceived to be immediate and, in the eyes of the bureaucracy, did not require the draconian measures which were being proposed by the high priest and some of his associates. The year was 1953; the greatest war in the country's history had been won; the period of postwar reconstruction had come to an end; countries of Central and Eastern Europe had become a part of the "socialist" camp under the leadership of the Soviet Union; and the latter had finally been recognized as a great world power.

For the bureaucracy, this was a time to enjoy its status as the master of its own country and of a part of Europe, to relax, and to be confident about the future. The new purges and show trials were, thus, not in the interests of the established bureaucracy.

This meant, as was pointed out earlier, that the regime of terror was losing its foundation. The *fanaticism* of the vested interests was giving way to a *pragmatism* of the vested interests. The long-term welfare of the bureaucracy as a class was being sacrificed for the short-term benefits of the bureaucrats as individuals. To paraphrase Grier,³² the bureaucracy now accepted "a doctrine of *qualitative differences* in evil, such that the evils inflicted upon the Soviet population [and the individual bureaucrats] by Stalin [during the 1930s] in the name of the Communist Party ... [had], *regardless of their extent*, [to] be viewed as qualitatively different from the evils

inflicted”on the Soviet population and the individual bureaucrats during the 1950s in the name of the same Party.

The Soviet system, like any class system, had become mature and, as a consequence, had a life of its own, independent of the high priest and his associates.³³ Thus, within the system, Stalin had to either adapt to the new situation or leave office.³⁴ The Soviet bureaucracy yearned for the system created under the leadership of Stalin, with Stalin at its head, but with civilized and enlightened methods of governance.

However, the bureaucracy faced a dilemma, because Stalin did not want to adopt, nor would he ever leave office.³⁵ Yet it was obvious that something had to be done, for to do nothing was to wait for the ‘Doctors’ Plot’ affair to develop into mass purges of the bureaucracy itself and then into full-fledged show trials.³⁶

Apparently something was done by somebody at the higher levels of the Party or state bureaucracies, for Stalin passed away exactly at the time when the political spectacle was to begin. We still do not know how and when he actually died.³⁷ But what we do know is that “after February 25 [1953] no more arrests of Jews were reported. Quite suddenly ... within a matter of hours the *chistka* collapsed.”³⁸

Period three: ethics and the behavior of the losers on the road to the earthly paradise (the beginning of the 1950s - the end of the 1980s)

With the death of Stalin, Bolshevism lost not only its messenger of the ultimate truth but also its deliverer to the paradise on earth. With the messiah’s death, the extreme enthusiasm and pride of belonging to a great cause, which had in any event been evaporating during the second period of Soviet history, disappeared overnight. But the disappearance of the grand design allowed the Soviet bureaucracy’s longing for security and stability finally to be realized. In addition, a solution to the bureaucracy’s dilemma concerning the welfare of the Party and state versus personal interests was found: if during the first and second periods of the formation and development of the Soviet bureaucracy all its layers were *required* to make sacrifices for the sake of the Party and the state, they were now simply *presumed* to do that, while in fact they were pursuing their own self-interest.

The problem within “the haves” and its temporary resolution by Stalin’s appraising condemnation in the aftermath of his death

Its liberating effects notwithstanding, Stalin’s death made the Soviet bureaucracy extremely nervous. This was because the bond tying it to the Soviet people (that is, their common nothingness with respect to the leader) had been broken.³⁹ The uneasy relations

between the bureaucracy and the populace, which had been covered by the mystical, bewitching and will-paralyzing veil of the all-embracing and all-knowing Father of the Nations, were becoming dangerously apparent to the eyes of those who wanted to see and to the ears of those who wished to hear. No longer was there somebody to worship and to take responsibility for making decisions. The bureaucracy itself had to become responsible, for there was nobody left to hide behind; and it now confronted the people face to face. The prewar corrosive process, which had not been given a chance to develop because of the war and its aftermath, renewed its development at an accelerating speed. The antagonistic attitude of the Soviet people towards their *immediate* and *local* bosses began, like a fire, spreading up along the vertical bureaucratic hierarchy.

The struggle for power *within* the post-Stalinist bureaucracy was making things worse. The Soviet system could not tolerate a power vacuum because of the existence of very strong centrifugal forces: (1) within the bureaucracy itself, manifested in the desire of its lower levels to gain independence from the higher levels; (2) within the union of nations where each nation, big or small, strove for some degree of sovereignty; and (3) within the Soviet population, whose lack of democratic traditions made them greatly predisposed to anarchy.

Thus it was becoming obvious that, to save the bureaucratic system from disintegrations, the widening moral and ideological schisms had to be stopped or reversed. The first thing to do was to put an end to the jockeying for power among Stalin's potential heirs and to "let" one of them, Nikita Khrushchev, emerge as the country's new leader.⁴⁰

The second goal was to restore a sense of belonging to a great cause, to create a purpose in life and, therefore, to heal the deepening wounds in the rapidly disintegrating and disoriented society. Along these lines, two messages were sent, both negative and positive.

The negative message and its consequences. The *negative* message was conveyed to people of all social standings by the new Party and state "collective leadership." Its goal was to use the well-tested Stalinist method of channeling people's frustration into a designated object. Ironically, this time it was directed against Stalin himself under the code-words, "the fight against the cult of personality."

There were, however, three major differences: first, while Stalin had ignited the public's feelings against the *living* "enemies of the people," his followers were now inciting their countrymen's emotions against the *dead* "champion" of the people's interests. Second, while those accused by Stalin were simply painted with the color *black* (like Satan, for instance, in the Christian religion), Stalin's conduct was presented in *grey* colors: he was "criticized" for

“mistakes” he made in brutally treating “some” of his comrades-in-arm and “many other” Soviet citizens, while simultaneously he was “praised” for his “contribution” to the great cause of building “socialism” in the Soviet Union.⁴¹

Third, the campaign against the “cult of personality” was not developed into new purges but was confined to the “show trials”⁴² staged by the new leadership at the 20th and 22nd congresses of the Party.⁴³

One might question the wisdom of such a double-edged campaign. Why not simply abandon Stalinist methods of governing without exposing Stalin himself? Why reveal Stalin’s “mistakes” and thus endanger the morale of the Soviet people? For if the messiah made errors, then the message he delivered was not directly from God (Lenin) and, therefore, the society he commanded the people to create was far from being what it was intended to be. If the Soviet people ever realized this, their anarchic instincts would unfold, and the authority of the bureaucracy would be challenged and perhaps even jeopardized.⁴⁴

Despite the clearly perceived risk, Stalin’s successors went ahead with the difficult task of simultaneously condemning and honoring Stalin. It is important to understand, however, *why* they were denouncing Stalin. It was not because of his crimes against the Soviet people. This could not have been their motive, for they themselves had come to power by willingly and mercilessly carrying out Stalin’s policies. They also did not criticize Stalin because they were ashamed of the discrepancy between theoretical socialism as sketched by Marx and the real, practical “socialism” existing in the Soviet Union. They could not have cared less about this subject, for they were semiliterate people ignorant of theory⁴⁵ and because they owed their privileges, their special status, and their colossal power to the Stalinist system.

The real reason they condemned Stalin was because of his use of brutal force against the bureaucracy which they now headed.⁴⁶ As pointed out previously, having become the masters of the country, they were no longer inclined to live in the perilous and uncertain world of terror. They strove for an order where they would be certain that they were not expected to be perfect, where any mistakes they made would not be equated with crime and treason, and where they did not have to live in a world of extremes.

But to aspire to these goals was to recognize tacitly, for the first time in Soviet history, that they were humans, not heroes, and certainly not infallible priests who could create a perfect society, a paradise on earth. Hence, in condemning Stalin, they were showing the first signs of losing a communist perspective. They were informing Soviet society that, as far as the bureaucracy (and especially its highest layers) were concerned, they intended to live according to an inverted form of a passage from the Bible: of every one to whom little is given, little will be required.

But at the same time, by openly praising Stalin, they were sending a message to the Soviet people that even though extreme methods were no longer going to be used, the basic features of the social arrangement instituted under Stalin's leadership were to remain. Thus, all levels of the bureaucracy still had to be obeyed, as in the past.

The *negative* message which Stalin's heirs were sending to the people was not only confusing but extremely shocking as well: a whole generation had been raised glorifying the wisdom and magnanimous selflessness of the messiah, worshiping him and his sermons, following his teachings, trusting that he would eventually lead them to the promised land. Suddenly it was announced that he was a cruel, paranoid and selfish despot. Yet, in spite of that, they were told that his vision of "socialism" was the same as the original views of Lenin and the Party.

Bewilderment and paralysis rapidly spread across all levels of the Soviet population. Soviet society became increasingly disoriented, and the first significant postwar cracks in the ideological and moral structure of "socialism" began appearing. A vacuum was created which was gradually filled by the intelligentsia, especially by its most delicate and sensitive *literary* part. The bravest, the most honest, the most conscientious of them were challenging official Soviet "socialist realism," in which characters and events were portrayed not as they *really were* but as they *should be* according to the vision of the Party and state bureaucracies. Words like "dissidence" and "dissidents" resurfaced in the Soviet vocabulary after more than 40 years of silence. The nation was becoming acquainted with new names like Pasternak, Solzhenitsyn, brothers Medvedev, Brodsky, etc., who, using legal, illegal domestic (*samizdat*)⁴⁷ and illegal foreign (*tamizdat*)⁴⁸ publishing channels,⁴⁹ sought some ultimate truth about their country's past and present.⁵⁰

The country was desperately searching for answers. It was not satisfied with explanations which attributed the existence of Stalinism to personal features of Stalin himself;⁵¹ in the eyes of the questioners, such reasoning was not Marxist, because it was "subjective" in nature. But it was futile to expect a satisfactory "objective" answer from the Soviet leadership.⁵² For the top Party and state bureaucrats to make an unbiased assessment of what had happened in the past would have been tantamount to revealing the true, state-capitalist, class-exploitive character of Soviet society.

The *negative* message about the past and the present of the country which the leadership was sending to the Soviet people, though useful in the short run, was damaging in the long run. It was saving the bureaucracy from its own internal forces but, by relaxing its control of society, was becoming vulnerable to other dangers. As the bureaucracy soon recognized, focusing on the past and the present, whether in critical or positive terms, was a poor means of holding society together.

The positive messages and their consequences. To inspire the nation and to unite it behind its rulers, it was necessary to look to the future. Once again, the Soviet people had to be instilled with a sense of destiny. Hence, the post-Stalin hangover had to be cured with a new dose of drugs; the Soviet people had to be permanently drunk on ideology.

Khrushchev's leadership designed two new *positive* messages for the Soviet people, namely, a new program and a new moral code for the builders of communism. To be sure, the link to the past had not been severed completely. But to achieve this, the trinity (Lenin-God, Stalin-the-Messiah and the Party-the-Holy-Spirit) had to be reduced to a unity of two in one: Lenin and the Party. It was decided that there would be no more intermediaries between Lenin and the Party, on the one hand, and between these two and the Soviet people, on the other.⁵³

A new positive message one: the new Communist program. The new Communist program was proclaimed at the 22nd Congress of the Party. It was intended not only to bring back the ultimate purpose of society's existence but, more importantly, to specify, for the first time, a particular date for the arrival of the earthly paradise. The elimination of terror, urbanization and the growing educational level of the Soviet population (of which we talked in the previous chapters) made it urgent to find new methods of persuasion by which the Party and state bureaucracies could continue to control Soviet society. It was determined that the Soviet people would no longer accept promises which could only be made good in some indefinite future time. And having dethroned Stalin, the Soviet leadership was optimistic and confident that it could lead society towards an earthly heaven in the foreseeable future.⁵⁴

Making a report on the program to the 22nd Party Congress in 1961, Khrushchev firmly asserted to the whole society that the sacred event would take place by 1980, that is, in no more than 20 years. That was the time the Soviet leadership was asking its people to give it in order to fulfil its pledge.⁵⁵

However, the "communism" which the Party promised had a striking resemblance to mature, self-centered, consumerist American capitalism. Although lip service was still paid to the elevated ideas of the previous period, "long-term," "idealistic" communism⁵⁶ was put aside in favor of "short-term" "materialistic" communism. The latter was "determined in tremendous degree by the competition between the Soviet Union and the United States of America."⁵⁷

That is, communism, Khrushchev told the Soviet people, would be built within the next 20 years because during that period the Soviet Union would overcome the United States and become the mightiest economic power on earth.⁵⁸

From this *positive* message which the top Party and state bureaucracies were sending to the Soviet people one can infer that utopian goals had been lost. The leadership was content with the place occupied by the bureaucracy within Soviet society and had no illusions about a visionary paradise. This paradise would and should never come because its arrival would spell the end for the bureaucracy.

The bureaucracy was setting a new moral standard to be followed by the whole country. The standard said that it was not wrong to live for the day (as opposed to the future) and to strive for a more comfortable life for oneself and one's family.⁵⁹

History had again played a malicious joke on the would-be designers of Soviet society by providing the last link in a circular chain: having started as a society where individuality was supposed to serve the collectivity, the system ended up as a social structure where *formal* collectivism became subordinated to *actual* individualism. Except for the highest Party and state officials, Soviet citizens were forbidden to participate in politics, were given only a ceremonial role in the processing of governing their country and were not allowed to engage in any genuine, spontaneous, unsanctioned voluntary activity for *others*. Yet they were now permitted to channel their energies into the quest for *personal happiness*.

Thus, beginning in the 1960s, Soviet men had gradually become Americanized in their attitude towards life. To a large and growing degree, they have found themselves preoccupied with the acquisition and enjoyment of material and financial conveniences (though at a much lower level than that of their American counterparts).

The first legitimate Soviet "me" generation had appeared. The ultimate goal of its members was to solve the Soviet version of the standard problem in neoclassical economics, i.e. satisfying their unlimited wants with their extremely limited resources. And Soviet man knew very well that bettering his living conditions depended both on his ability to pay and on his mastery of "obtaining"⁶⁰ scarce consumer goods and services in the Soviet Union's sellers' market.

It was obvious to Soviet man that the size of his income was contingent on his cleverness in finding a "good," well-paying, "legal" job within the system. He clearly understood that to obtain such a job, a "correct" nationality, Party membership, higher education, conformism, ruthlessness, street-smartness and luck would be needed. He was also aware of a "second" avenue he could pursue to earn his livelihood, namely, working illegally outside the state system. That kind of activity could be dangerous (as he was often reminded⁶¹) but, if he was not caught, could be well rewarding. However, Soviet man also knew that a "good" income was a necessary but not sufficient condition for "obtaining" consumer goods and services. The maximization of his utility also hinged on his ability to

establish “good connections” with those who administered market supplies.

Thus, as an outcome of the *first* positive message, a new Soviet man emerged in the 1960s, one who was egocentric and indifferent to anything which did not directly concern him as his family. He became greedy in his pursuit of consumerism, and resentful and envious of the more prosperous and successful.

Soviet man also became very impatient: he no longer believed in and no longer wished to exist for the majestic promises of the future. He wanted to enjoy his life *now*. It can be said without exaggeration that beginning in the 1960s, Soviet society had emerged as one of the most petty-bourgeois, Philistine and vulgar societies in the world. Corruption, nepotism, bribery and cynicism had naturally evolved as a result.

A new positive message two: the “moral code for the builders of communism.” Unwilling and unable to block this ethical corrosion with the old Stalinist methods of terror, the bureaucracy attempted to stop the process by means of moral persuasion.

Therefore, the “new moral code for the builders of communism” was designed as a *second* positive message to be employed by the top Party and state officials. Its major intent was to convey to society a need for restraint in the quest for personal gain and to remember the common good. Rejecting the Stalinist moral code according to which individual interests had to be sacrificed for collective interests, the new value system was an effort to reconcile individual egotism and cooperative altruism, i.e. short-run pragmatic and consumerist communism with long-run idealistic, public-spirited and benevolent communism.

In other words, having opened Pandora’s box of selfishness, the Soviet leadership endeavored to contain it with a prayer of selflessness. It wanted to reconcile the reconcilable.

The new moral code, promulgated in 1961, included the following rules of conduct:

devotion to the Communist cause; love of the “socialist” motherland and of the other “socialist” countries;
 conscientious labor for the good of society—he who does not work, neither shall he eat;
 concern on the part of everyone for the preservation and growth of public wealth;
 a high sense of public duty; intolerance of actions harmful to the public interest;
 collectivism and comradesly mutual assistance: one for all and all for one;
 humane relations and mutual respect between individuals—man is to man a friend, comrade and brother;
 honesty and truthfulness, moral purity, modesty and unpretentiousness in social and private life;

mutual respect in the family, and concern for the upbringing of children;
 an uncompromising attitude to injustice, parasitism, dishonesty, careerism, and money-grubbing;
 friendship and brotherhood among all peoples of the USSR;
 intolerance of national and racial hatred;
 an uncompromising attitude to the enemies of Communism, peace, and the freedom of nations;
 fraternal solidarity with the working people of all countries, and with all peoples.⁶²

Khrushchev's fall and the arrival of Brezhnev were logical steps in the further evolution of the moral and psychological climate of the country.⁶³ Having freed the bureaucracy from the nightmare of terror and having legitimized its status in Soviet society, Khrushchev's methods had become obsolete. Khrushchev therefore had to face a fate similar to that of Stalin. Both had made the bureaucracy tired: by the end of Stalin's period, of terror and erratic behavior; by the end of Khrushchev's period, of constant change and the consequent uncertainty. It became obvious during the last years of Khrushchev's era that the Soviet bureaucracy had reached a point in its development where it viewed as a threat to its vested interests any attempt by anybody to change its established and well-entrenched position.

By "retiring" Khrushchev,⁶⁴ Brezhnev's faction of the Party and state leadership was not intent on returning to Stalinist ways of running the country. Nor was it abandoning the basics of Khrushchev's governance. What it wanted was a continuation of Khrushchev's relaxations, only based on predictable stability, not on unpredictable and inconsistent changes. It did not wish to eliminate the new moral code but it did not insist that it be implemented either, especially where the bureaucracy was involved. It had no problem with allowing bureaucrats at all levels to enjoy their newly achieved positions of power at the expense of society as a whole, as long as lip-service was paid to the "collective" interests and as long as the abusers of power did not become too visible and were not caught.

Thus, Brezhnev's term (1964 - 1982) might be characterized as being similar to Khrushchev's, only without Khrushchev and without his attempts to reconcile the irreconcilable. It was a stage during which Soviet society added one more feature to its Philistine nature: hypocrisy on an unprecedented scale.⁶⁵ Collective interests were continually subordinated to individual interests while the opposite was continually preached.⁶⁶

Through its *actions*, the bureaucracy was telling the Soviet people to forget about that romantic and golden future which had been promised and which, it appeared, would never come. The implicit message was "live for today," and "after us the deluge."⁶⁷ And the nation understood its leaders very well; increasingly finding

life without meaning and spiritually empty, Soviet society began sinking deeper and deeper into Epicurean orgies of physical pleasure and self-congratulation.⁶⁸

To be sure, there were the Kassandras, the dissidents, the internal and external exiles, who were crying, pleading and begging for a stop to the moral decay, people who wanted to “live not by lies,”⁶⁹ some of whom were cursing and defying the system.⁷⁰ But these remained voices in the wilderness, living at the margin of Soviet society. This was because within this group there had not yet emerged a social *group* or *class* which was in a position to challenge the rule of the bureaucracy both materially and intellectually. As a result, the vast majority of Soviet citizens accepted and followed the Brezhnev bureaucratic order.

To counterbalance the moral and, therefore, intangible outrage of the intellectual dissidents, the Brezhnev bureaucracy was able to provide the Soviet population with an increase in the physical consumption of concrete and tangible goods and services. As a result, Soviet society, which had suffered enough in the past, stayed firmly behind the regime, despite all its moral misgivings about it.⁷¹

However, this unity between the bureaucracy and the people was gradually coming to an end. During the last years of Brezhnev’s era, that is, during the late 1970s and early 1980s, the Soviet economy witnessed, as we already know, the declining rates of economic growth. This meant that the bureaucracy had been increasingly unable to meet the provisions of the implicit contract between it and the people. The gap in the standard of living between the two was not only growing at an accelerating rate, but was becoming more visible in a society where, thanks to the absence of terror and fanaticism, people were able to see and hear.

During this period “people were justly indignant at the behavior of ... [those] who, enjoying trust and responsibility, abused power, suppressed criticism, made fortunes and, in some cases, even became accomplices in—if not organizers of—criminal acts.”⁷² Yet while the orgies of the bureaucracy intensified, the people’s party was over. The long-run vision of a future utopia had been lost by *everybody*; but the Soviet *people* were also losing something else: while the bureaucracy continued to enjoy the fruits of short-term consumerist and secure “communism,” in *relative* terms, it shared less and less with the Soviet people.

But the ensuing societal moral confusion simply reflected a reality which many Soviet dissidents had already pointed out: a mature, industrial, urban, literate, class society, without any visible common *social* (that is, positive-internal) and not simply *nationalistic* (that is, negative-external) goal could not be governed as if it were still an agrarian, rural and illiterate country united by a fanatical vision of a future paradise.⁷³

The post-Brezhnev period (during the short tenures of Andropov and Chernenko) made it more obvious that the theocratic nature of the Soviet state could no longer be tolerated and that the existing form of the marriage between the Party and the state had to be changed, because “on the whole, [Soviet] society was becoming increasingly unmanageable.”⁷⁴

The psychological and moral features of major groups of Soviet society had been completely established by the time Andropov and then Chernenko came to power. The two did not have time nor would they have been able to alter the settled patterns of society’s behavior. It is not they did not try: Andropov’s emphasis on strict discipline and Chernenko’s attempts to continue Andropov’s policies were aimed at changes. But, had they been given even more time, they still would have not been able to succeed because their disciplinary policy would not have worked in a petty-bourgeois society of self-centered disbelievers.

Bibliography to Chapter 9: Moral-Psychological Causes for the Restructuring of the Stalinist Developmental Model

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Notes to Chapter 9: Moral-Psychological Causes for the Restructuring of the Stalinist Developmental Model

- 1 Based on E. Raiklin and K. McCormick, “Soviet Men on the Road to Utopia: A Moral-psychological Sketch,” *International Journal of Social Economics*, vol. 15, no. 10, 1988, pp. 17 - 62.
- 2 F. Engels, “A Letter to Zasulich. April, 1895,” in K. Marx and F. Engels, *Selected Correspondence. 1846 - 1895*, Volume XXIX, trans. by D. Torr. Westport, Conn.: Greenwood Press, 1975, p. 437.
- 3 Ibid., pp. 437 - 438.
- 4 Stalin (J. Stalin, “Report to the Eighteenth Congress of the Communist Party of the Soviet Union (Bolshevik) on the Work of the Central Committee (1939),” in B. Franklin, ed., *The Essential Stalin. Major Theoretical Writings 1905 - 1952*. London: Croom Helm, 1973, pp. 385, 386), observing the evolution of the Soviet state, admits, with many reservations, that the “socialist” state of the first period resembled the previous capitalist state. He divides the first stage into two phases and then defends the state's position during each phase on the following grounds:
 “Since the October Revolution, our socialist state has passed through two main phases in its development. The first phase was the period from the October Revolution to the elimination of the exploiting classes... . In this period our state performed two main functions. The first function was to suppress the overthrown classes within the country. In this respect our state bore a superficial resemblance to previous states whose functions had also been to suppress recalcitrants, with the fundamental difference, however, that our state suppressed the exploiting minority in the interests of the laboring majority, while previous states had suppressed the exploited majority in the interests of the exploiting minority. The second function was to defend the country from foreign attack. In this respect it likewise bore a superficial resemblance to previous states, which also undertook the armed defense of their countries, with the fundamental difference, however, that our state defended from foreign attack the gains of the laboring majority, while previous states in such cases defended the wealth and

privileges of the exploiting minority. The second phase was the period from the elimination of the capitalist elements in town and country to the complete victory of the socialist economic system and the adoption of the new Constitution ... the functions of our socialist state changed accordingly. The function of military suppression within the country ceased, died away; for exploitation had been abolished and there were no more exploiters left, and so there was no one to suppress. In place of this function of suppression the state acquired the function of protecting social property from thieves and pilferers of the property of the people. The function of the armed defense of the country from foreign attack fully remained; consequently, the Red Army and the Navy are fully remained, as did the punitive organs and the intelligence service, which are indispensable for the detection and punishment of spies, assassins and wreckers sent into our country by foreign espionage services."

- 5 J. Stalin, *Leninism. Selected Writings*. Westport, Connecticut: Greenwood Press, 1975, p. 382.
- 6 Stalin (ibid.) points out that, as a result of the creation of "socialism," "... the class structure of our society has ... changed ... all the exploiting classes have now been eliminated. There remains the working class. There remains the peasant class. There remains the intelligentsia."
- 7 It must be emphasized that the role of the Party in the future classless society of brotherhood and happiness for all had never been discussed by the Bolsheviks *explicitly*. But their insistence on the fact that the paradise to come would include as one of its integral parts self-governance of the workers implied that there would be no place for the Party with all its horizontal and vertical elements.
- 8 F. Engels, *Anti-Duhring*, trans. by E. Burns, ed. by C. Dutt, New York: International Publishers, 1976, pp. 306 - 307.
- 9 Citing a hypothetical questioner, Stalin (J. Stalin, "Report to the Eighteenth Congress of the Communist Party of the Soviet Union (Bolshevik) on the Work of the Central Committee (1939)," in B. Franklin, ed., *The Essential Stalin. Major Theoretical Writings 1905 - 1952*, 1973, pp. 379 - 380) writes:
 "It is sometimes asked: 'We have abolished the exploiting classes; there are no longer any hostile classes in the country; there is nobody to suppress; hence there is no more need for the state; it must die away—Why then do we not help our socialist state to die away? Why do we not stride to put an end to it? Is it not time to throw out all this rubbish of a state?' Or again: 'The exploiting classes have already been abolished in our country; Socialism has in the main been built; we are advancing toward Communism. Now, the Marxist doctrine of the state says that there is to be no state under Communism—Why then do we not help our socialist state to die away? Is it not time to relegate the state to the museum of antiques?'"
- 10 D. Singer, *The Road to Gdansk. Poland and the USSR*. New York: Monthly Review Press, 1981, p. 152.
- 11 Using this line of reasoning, Stalin (J. Stalin, "Report to the Eighteenth Congress of the Communist Party of the Soviet Union (Bolshevik) on the Work of the Central Committee (1939)," in B. Franklin, ed., *The Essential Stalin. Major Theoretical Writings 1905 - 1952*, 1973, pp. 382 - 383) puts forward the following arguments against Engels' prediction concerning the fate of the state in socialist society:

"Is this proposition of Engels' correct? Yes, it is correct, but only on one of two conditions: (1) *if* we study the socialist state from the angle of the internal development of a country, abstracting ourselves in advance from the international factor, isolating, for the convenience of investigation, the country and the state from the international situation; or (2) *if* we assume that Socialism is already victorious in all countries, or in the majority of countries, that a socialist encirclement exists instead of capitalist encirclement, that there is no more danger of foreign attack, and that there is no more needed to strengthen the army and the state. Well, but what if Socialism has been victorious only in one, separate country, and if, in view of this, it is quite impossible to abstract oneself from international conditions—what then? Engels' formula does not furnish an answer to this question [Engels' formula could not furnish an answer to this question for a simple reason that neither Marx nor Engels envisioned a situation of 'socialism in *one* country.' For them, such a situation was impossible.]. As a matter of fact, Engels did not set himself this question, and therefore could have not given an answer to it. Engels proceeds from the assumption that Socialism has already been victorious more or less simultaneously in all countries, or in a majority of countries. Consequently, Engels is not here investigating any specific socialist state of any particular country, but the development of the socialist state in general, on the assumption that Socialism has been victorious in a majority of countries... . Only this general and abstract character of the problem can explain why in his investigation of the question of the socialist state Engels completely abstracted himself from such a factor as international conditions, the international situation.

But it follows from this that Engels' general formula about the destiny of the socialist state in general cannot be extended to the particular and special case of the victory of Socialism in one country only, a country which is surrounded by a capitalist world, is subject to the menace of foreign military attack, cannot therefore abstract itself from the international situation, and must have at its disposal a well-trained army, well-organized punitive organs, and a strong intelligence service, consequently, must have its own state, strong enough to defend the conquests of Socialism from foreign attack [and these were precisely the reasons why Marx and Engels saw no possibility of 'socialism in *one* country'."]

12 Ibid., p. 387.

13 In 1968, when Western Europe, and especially France, was shaken almost to its foundation by the joint movement of students and workers, the Soviet press, reflecting the views of its leadership, was close to panic: the major condition for the preservation of the state, of the military build-up, of the absence of freedom, of the relatively low standard of living in the USSR seemed to be suddenly evaporating.

14 Stalin (J. Stalin, *Leninism. Selected Writings*, 1975, p. 448) set forth this task in his speech to the 18th Party Congress:

"We have outstripped the principal capitalist countries as regard technique of production, and rate of industrial development. That is very good, but it is not enough. We must outstrip them economically as well... . Only if we outstrip the principal capitalist countries economically can we reckon upon our country being fully saturated with consumer goods, on having an abundance of products, and on being able

to make the transition from the first phase of communism [socialism] to its second phase.”

But could this be done? Stalin (ibid., p. 367) had no doubt that it could:

“Why is it that socialism can, should, and certainly will defeat the capitalist system of economy? Because it can furnish higher models of labor, a higher productivity of labor, than the capitalist system of economy; because it can provide society with more products and can make society richer than the capitalist system of economy can.”

- 15 It was officially proclaimed in the Soviet Union: “Labor in our country has become a matter of honor, glory, valor, and heroism!” Yet this was said while the draconian measures attaching the worker and the peasant to their place of work and imposing on them harsh disciplinary penalties had become the norm of Soviet life and while millions of workers, peasants and intellectuals were interned in labor (concentration) camps. Here are some accounts of this:

The worker and his place of work:

“Special instructions were sent out to the effect that the crimes of ‘squeezing’, ‘botching’ and ‘braking’ were to be regarded as economic counterrevolutionary activities under Article 58, clause 7, of the Penal Code, which allows the death penalty. [In addition] ... the Presidium of the Supreme Soviet issued two decrees forbidding workers to move to another factory or arrive late for work, both offenses to be punishable by imprisonment” (A. Uralov, *The Reign of Stalin*, trans. by L. Smith. Westport, Connecticut: Hyperion Press, 1975, p. 173).

The peasant and his place of work:

“The Statute of Agricultural Associations, adopted at the Second Pan-Soviet Congress of Kolkhoz Shock-Workers (February 1935) ... amounted to the following:

The peasant was legally subjected to the kolkhoz.

All his property was transferred to the kolkhoz, without compensation.

He returned to the status of a serf, tied to the day of his death to the glebe of his master, the State.

He could no longer follow any other calling.

He was forbidden to move or to live anywhere except in his own district.

In short, he was back where he was before 1861” (ibid., pp. 174, 175). We have previously discussed the peasant’s plight analyzing the process of collectivization.

Workers, peasants and intellectuals arrested:

Year	Number arrested	Background of arrested
1936	6,500,000	Peasants, workers, intellectuals of worker and peasant origin
1938	11,500,000	Peasants, workers, intellectuals of worker and peasant origin
1941	13,500,000	Workers, peasants, intellectuals from the former regime

“This mass of prisoners was spread over 450 different places in the USSR. Immense territories were transformed into interment areas.

The largest of these are in Novaya Zemlya and on the Kalyma, whither 3,000,000 Soviet citizens have been deported. This is the paradise which ... [the regime] created in the icy deserts of the arctic regions" (ibid., pp. 158 - 159).

- 16 J. Stalin, *Leninism. Selected Writings*, 1975, p. 368. This "socialist" principle can hardly be distinguished from the "capitalist" principle of the marginal productivity of labor. That is why in the Soviet Union the "socialist" principle of actual *inequality* was proclaimed to be a "temporary" one. In a future communist society it was supposed to be abolished and replaced by a "permanent" principle of actual *equality*:

"Communism represents a higher stage of development. The principle of Communism is that in a Communist society each works according to his abilities and receives article of consumption, not according to the work he performs, but according to his needs as a culturally developed individual. This means that the cultural and technical level of the working class has become high enough to undermine the basis of the distinction between mental labor and manual labor, that the distinction between mental labor and manual labor has already disappeared, and that productivity of labor has reached such a high level that it can provide an absolute abundance of articles of consumption, and as a result society is able to distribute these articles in accordance with the needs of its members" (J. Stalin, *Leninism. Selected Writings*, 1975, p. 368).

- 17 Uralov (A. Uralov, *The Reign of Stalin*, 1975, pp. 180, 181 - 182) provides some examples of the prewar budgets of some representatives of the bureaucracy in which he includes "all Party officials, leading administrators, directors of State enterprises and members of the Officer's Corps." He then goes on and evaluates their respective material positions. For instance, Citizen Sarkis as a representative of the party bureaucracy, in his capacity as a regional party secretary, received as his annual remuneration (in rubles):

Annual salary	9,000
Salary as a Deputy	3,600
Central Committee allocation for medical treatment	1,500
Central Committee allocation for holiday in a rest-house for himself and wife	1,200
Traveling expenses	5,000
Entertainment and working expenses	25,000
Total	45,300

Citizen Sarkis' expenses (in rubles) for the same period were:

Food for himself, his family and domestic staff (allowing for taxation)	—
60 rubles a day. Maximum	18,000
Clothing	10,000
Seven-room furnished apartment (free)	—
Furnished country villa (free)	—
Two pianos (free)	—
Two radio receivers (free)	—
Three cars (for himself, his wife and his domestic staff) (free)	—
Cook, housemaid, hairdresser, chauffeur, bodyguard, private secretary (charged to the Regional Party Committee)	—
Total	28,000

That enabled him not only to lead a very comfortable life (according to that day's Soviet standards) but, in addition, to save 17,300 rubles, not a small amount of money. Uralov sarcastically remarks that "Sarkis is a former workman. In the USSR the pre-Revolution proletariat lives at the expense of the existing proletariat." But, as Uralov points out, "the directors of factories and mines, railways, sovkhozes and so on are even better off than Citizen Sarkis. Their pay and allowances are on the same scale, but in addition to these they have at their disposal what is known as the 'directorial fund' ... over which there is no official check. Expenses covered by this fund are not shown in the books of the company. Some responsible person, often the director's private secretary, notes down on a scrap of paper the sum paid, the person it was paid to and its purpose. The scraps of paper are put in an envelope which only the director is entitled to open. At the end of the financial year he burns the envelopes, and draws up a general statement, which he signs himself. It may be added that all members of the Central Committee and all Ministers have open banking accounts on which they draw for their personal expenses, which are not checked in any way. Local Party officials are less well-off than the Regional and Central officials, the lower grades of the service receiving, in principle, nothing but their pay. However, they add to their resources by means of bonuses and special compensation, by 'pillaging socialist property' and by accepting endless bribes from their subordinates and from the public. Judges and prosecutors, the presidents and secretaries of rural soviets, all minor party functionaries, in short, whose monthly paychecks scarcely cover a week's expenses, indulge in these practices. Corruption has spread like a cancer throughout the Soviet body politic."

18 *The Worker:*

"An average Soviet worker in the year 1935, before Stakhanovism became general, earned 150 rubles a month, or 1,800 rubles a year. His food cost him 4 rubles a day, or 1,460 rubles a year. His other expenses—rent, clothing, subscriptions deducted from pay, taxes, incidentals of all kinds—brought his total necessary expenditure to round about 2,200 rubles. Anyone familiar with conditions in the [prewar] USSR will note that these figures represent maximum pay and minimum expenditure. If in addition he had a wife and two children to support ... at a further cost, let us say, of half his own expenditure, he was faced by an annual deficit of about 1,500 rubles.

How was he to bridge this gulf without being overwhelmed by debts? Very opportunely, the Soviets introduced piecework and output bonuses ... The Stalinists made use of the exploit to stimulate production throughout the country. Stakhanovism had been born ... The Soviet worker, forced to become a Stakhanovite, was able to meet his deficit at the cost of his health" (ibid., pp. 171, 172).

The Peasant:

"... take the figures for a medium-sized kolkhoz for the year 1940—the Stalin Kolkhoz, situated at Stepnaia, in the Ordjonikidze region of the North Caucasus [where the best agricultural lands of the country are located]. The Stalin Kolkhoz grows only corn. It cultivates 5,800 hectares of land (approximately 14,500 acres), and comprises 370 households with a total labor force of 1,420. The harvest for the year in question amounted to approximately 148,470 bushels ...—that is to say,

104.5 bushels per worker. But before this could be distributed to the workers on the basis of the number of hours worked, the Kolkhoz, in conformity with regulations, had to reserve the following quantities [in bushels]:

For the State	23,200
For maintenance and implements	18,000
Insurance	6,000
Seed	23,200
Reserve	14,848
Investments	34,272
Tax for the benefit of the cooperatives	4,000
Total	123,520

Leaving 24, 950 bushels for division among workers. In other words, the Stalin Kolkhoz divided less than 20 percent of its yield among its workpeople, the remainder being devoted to upkeep and to taxation in various forms. The requirements of the administrative and office staff had also to be satisfied before the workers got their share. The following are a few examples of what, in fact, the workers got. The Stakhanovite, Nicholas Trofimov, who had the largest number of days of kolkhoz-work to his credit (280) received 16 bushels. Ivan Nicolski received 8 bushels for 180 days, and the widow, Eudoxia Annissimova, 4 bushels for 80 days. Trofimov, with a family of five, two of them working, is just able to make ends meet. Nicolski, with four children, has not enough corn to feed his family, although his wife also works for the kolkhoz. The widow Annissimova has three small children and is the only one to work. She has to feed the four of them with 4 bushels of corn. How do Nicolski and Annissimova manage not to starve? It is very simple: Annissimova scours the fields for ears of maize or wheat. As for Nicolski, at night he steals corn from the kolkhoz itself.

Such practices became a part of the normal life of the kolkhozes, and developed on a large scale. The peasants answered the system of organized pauperdom ... by singly and collectively robbing the kolkhozes and secretly sabotaging their work" (ibid., pp. 176 - 177).

The non-bureaucratic intellectual:

"These professors, doctors, engineers, communal officials and others are not offered bribes, because their influence is nil. Nor can they pillage socialist property, because they are not in charge of it. They have only their pay and such bonuses as the people in charge occasionally allow them. But since these do not cover more than half their needs, they are obliged either to work overtime in their places of employment, or for some other establishment, or at home" (ibid., p. 182).

- 19 See M. Weber, *The Protestant Ethic and the Spirit of Capitalism*, trans. by T. Parsons. New York: Charles Scribner's Sons, 1958, pp. 157 - 158.
- 20 Commenting on the relationship between Calvinism and capitalism, Weber emphasizes that Calvinism stresses *voluntary* saving and accumulation (ibid., pp. 17 - 18). Soviet state capitalism, however, made saving *mandatory*.
- 21 "Bureaucratization was ... a logical correlate of the totalitarian atomization of society, of a process that destroyed old structures, institutions, associations, groupings, and informal devices of social

cohesion and control. Bureaucratization represented the restructuring, the rebuilding of the fabric of society ... An atomized society lends itself to bureaucratization" (P. Hollander, "Politicized Bureaucracy: The Soviet Case." *Newsletter on Comparative Studies of Communism*, Volume 4, Number 3, May 1971, 1971, p. 15).

- 22 For, although "man shall not live on bread alone," man will not live without bread either. And if the whole life of some men is devoted to earning their bread, while of others to enjoying eating their bread, no matter how desperate are the first and how bored are the second, both groups of men will live by bread alone and will be reluctant to take any practical effort aimed at change, as long as both believe that such an act is not only unnecessary ("The leadership of the Party and Comrade Stalin know what is happening in the country and they will correct any wrongdoings very soon") but simply dangerous ("Even if Comrade Stalin is not informed about what is going on in Soviet society, there is no way I will be able to make him aware of it").

Hoffer (E. Hoffer, *The True Believer. Thoughts on the Nature of Mass Movements*. New York: Harper and Row, 1951, pp. 16, 17) provides a very subtle explanation of such a seemingly strange phenomenon of complacency:

"The self-confidence of even the consistently successful is never absolute. They are never sure that they know all the ingredients which go into the making of their success. The outside world seems to them a precariously balanced mechanism, and so long as it ticks in their favor they are afraid to tinker with it... . Those who are awed by their surroundings do not think of change, no matter how miserable their condition. When our mode of life is so precarious as to make it patent that we cannot control the circumstances of our existence, we tend to stick to the proven and the familiar... . [Hence], the abjectly poor, too, stand in awe of the world around them and are not hospitable to change... . There is thus a conservatism of the destitute as profound as the conservatism of the privileged, and the former is as much a factor in the perpetuation of a social order as the latter."

- 23 One should not infer from our statement that only these two types (the true believer in general and the opportunistic believer in particular) were present among the Soviet population, bureaucratic and non-bureaucratic alike. Soviet society is no exception to the natural division of men into four types with respect to their position on society's established opinions:

"The *faithful believer* [who] makes the official belief a part of his individual superego, identifies himself sincerely, realizes the demands, and enjoys the blessings of a clear conscience. The *lukewarm or halfhearted believer* [who] does not fully internalize the collective belief, fails to realize the principles perfectly, and, perceiving his own weakness, struggles with his consciousness. The *opportunist* [who] has no faith and does not make the principles a part of himself but [who] feigns devotion and, with strains on his conscience, tries to comply outwardly with the belief. The *faithless type* [who] does not endeavor to comply with the official beliefs and does not find satisfaction in them but tries to go his own way (J. Kosa, *Two Generations of Soviet Man. A Study in the Psychology of Communism*. Durham, North Carolina: The University of North Carolina Press, 1962, p. 140).

In our analysis, we are referring to what we perceive to have been the types in the majority of the Soviet population.

- 24 Here is how Fischer (G. Fischer, *Soviet Opposition to Stalin. A Case Study in World War II*. Cambridge, Mass.: Harvard University Press, 1952, p. 122) explains the roots of the inertia:

"In the USSR, inertness, the exclusion of individual initiative in anything in the least related to politics, has become the central feature in the political behavior of the individual. A major explanation for this trademark of Soviet individuals is, of course, the impact of the totalitarian regime in the USSR. A system in which modern technology is combined with a wholly authoritarian leadership and ideology will inevitably lead to such a reaction. The minute supervision of most actions within the USSR, together with the extremely brutal punishment for even slight and innocent deviations, actually leaves the Soviet-bred individual little if any alternative to inertness."

- 25 Fischer (*ibid.*, p. 3) illustrates the first two points:

"... the vast number of Soviet soldiers ... fell into German hands... . The figures are: 2,053,000 prisoners taken in major battles before November 1, 1941; 3,600,000 total prior to March 1, 1942 ... ; The vast Soviet retreats ... within a few months brought the Wehrmacht to the gates of Moscow and Leningrad, to the Volga, and into the Crimea and the Caucasus."

On the reaction of a part of the Soviet people to the German occupation during the first months of the war, Thorwald (J. Thorwald, *The Illusion. Soviet Soldiers in Hitler's Armies*, trans. by R. and C. Winston. New York: Hartcourt Brace Jovanovich, 1975, pp. xiii - xiv) writes:

"The reception many German formations encountered was ... highly significant, for they were hailed by the populace, and not only in the rural districts and in the traditionally separatist regions—the Ukraine, the Caucasus, and the regions of White Russia—and in the Baltic countries that had been annexed to the Soviet Union only in 1939 and 1940. With no knowledge of German intentions at the highest level, in fact with very little knowledge of the Germans at all (except for the tales of fathers and grandfathers about the efficiency of these Westerners), millions upon millions of people accepted the German propaganda promising the Soviet population liberation from Stalinism."

- 26 In March 1943, General Vlasov, the leader of the Russian Liberation Army, which was fighting against the Soviet Army on the side of the Germans, gave the following assessment of the situation:

"... the masses of the [Russian] people hailed the German troops at the beginning of the war. With German aid they hoped to liberate themselves from an oppressive regime. That was two years ago. The mood of the population has changed because of various events... . The majority of the Russian population—especially the educated classes—now regard this war as a German war of conquest... . German propaganda offers ... no affirmative program to counteract this view. It speaks only of the ugly aspects of the Bolshevik regime. But hatred for Bolshevism is not sufficient to mobilize the Russian people today. The population wants to know what ... it is being asked to fight and shed its blood for ..." (*ibid.*, p. 120).

Vlasov, having actually being a German prisoner, could not openly list the events that brought about this change in the mood of the Soviet

people who (actively or passively) greeted the Germans. But by that time it was not a secret that Hitler's goal in the war was to break down the Soviet Union and to make its parts a colony of Germany. Rosenberg, the most famous ideologue of German Fascism, made this clear:

"Were we now to annihilate Bolshevism alone but permit the Russian empire to continue, we might soon be facing another peril namely that a White tsar might rise up again... . Such a tsar would spawn a new Russian, though not Bolshevik, imperialism and in 30 or 40 years require fresh sacrifices of Teutonic lives. The only way to avert this danger is for us to splinter the vast Russian area. We must shear away those large border nations that have been violently subdued by both Bolshevik and tsarist Moscow: the Ukrainian, the White Russian, and the Caucasian. We must either colonize these regions with Germanic peoples or set them up as independent entities under Germanic influence. In this way a bulwark against the Russians will arise. For the Russians must be diverted from Europe and turned toward Siberia" (ibid., p.9).

There is no doubt that such German goals had a profound effect, uniting the rulers and the ruled of the Soviet Union and preserving the Soviet system.

- 27 In 1942, Stalin (J. Stalin, *The Great Patriotic War of the Soviet Union*. New York: Greenwood Press, 1969, pp. 48, 49, 51) skillfully utilized the issue of Germany's intentions in a speech celebrating May Day:

"More than ten months have passed since the peoples of our country began the patriotic war against the bestial enemy in defense of the honor and liberty of their homeland. During this period we have had ample opportunity to study the German fascists, to understand their real intentions and to see them in their true colors... . Who are they, our enemies, these German fascists? ... What does the experience of war teach us in this respect? It is said that the German fascists are nationalists, upholding the integrity and independence of Germany against the encroachment of other nations. This, of course, is a lie... . In actual fact the German fascists are ... imperialists who seize other countries and bleed them white to enrich German bankers and plutocrats. We are told that the German fascists are socialists, seeking to defend the interests of the workers and peasants against the plutocrats.

This, of course, is a lie. Only liars can assert that the German fascists, who have introduced slave labor in the factories and the mills and resurrected serfdom in the German villages and in the vanquished countries [note the irony: Stalin is referring here to Germany, but his words are perfectly applicable to the Soviet Union as well], are champions of the workers and peasants. In actual fact, the German fascists are reactionary feudal barons and the German army is an army dominated by feudal barons and shedding its blood to enrich the German barons and reestablish the rule of landlords... .

We are told that the German fascists are promoters of European culture, and that they are waging a war to extend this culture to other countries. This, of course, is a lie... . In actual fact, the German fascists are enemies of European culture and the German army is an army of medieval obscurantism, employed to destroy European culture and implant the slave-owners' 'culture' of the German bankers and barons... . [Because of all these threats] our country is united more than ever before and has rallied around its government... ."

- 28 "... the origins of the Cold War have been the subject of controversy for ... [a long time]. The traditional view assigns initiation of the Cold War to the Soviet Union, interpreting US actions as responses to Soviet policies in Poland and Eastern Europe... . Revisionists do not see US foreign policy after World War II as merely responding to Soviet initiatives. Rather, they see US leaders using diplomatic policy and economic sanctions to try to shape the postwar world in accordance with US needs, standards, and conceptions" (S. Linz, "World War II and Soviet Economic Growth, 1940 - 1953," in S. Linz, ed., *The Impact of World War II on the Soviet Union*. Totowa, New Jersey: Rowman and Allanheld, 1985, pp. 35 - 36).

We think that both views are correct. We, however, believe that a main argument is missing from both views: just as the Soviet bureaucracy required for its existence the presence of Western (especially American) "imperialism," the military-industrial complex of the United States needed the Soviet threat to justify its existence.

With regard to the "needs" of the Soviet bureaucracy, it is interesting to note that we are not alone in our interpretation of the origin of the Cold War. Kennan and Ulam (see J. Hough, "Debates About the Postwar World," in S. Linz, ed., *The Impact of World War II on the Soviet Union*, 1985, p. 260) also recognize "that Stalin feared good relations with the West lest they undercut the rationale for terror and open the Soviet Union to dangerous ideas ..."

- 29 "... the anti-cosmopolitan campaign had been pursued vigorously in the years 1947 - 1948, but it was only in 1949 that it assumed its extraordinary dimensions and, particularly, its outspoken anti-Jewish tendency ..." (B. Pinkus, *The Soviet Government and the Jews, 1948 - 1967. A Documented Study*, ed. by J. Frankel. Cambridge: Cambridge University press, 1984, p. 155). The campaign culminated in the "Doctors' 'Plot'" affair.

The same author (*ibid.*, p. 200) continues:

"Placing Jewish doctors at the center of the 'plot' and the intended trial solved the problem of finding a homogeneous group around which the web of accusations—sabotage, espionage and moral corruption—could be easily woven. Since various groups of Trotskyites had already been eliminated in the thirties and the charge of Titoism was a heresy reserved for the satellite states, the Jewish doctors (to whom several non-Jewish doctors were added as camouflage) seemed eminently suited to be scapegoats. However, the issue that seems to have clinched the choice was Stalin's apparent decision to prepare the ground for the exile, in whole or in part, of the Jewish population to an outlying region of the Soviet Union.

The propaganda campaign, which was unleashed with the 13th January [1953] announcement of the 'Doctors' Plot,' grew to nightmarish proportions with the daily appearance of articles, *feuilletons* [newspaper satires] and caricatures virulently denouncing the 'Doctor-Poisoners' and their Zionist-American overseers. The authorities then began to apply behind-the-scenes pressure to "persuade" Soviet writers and scientists of Jewish origin [we again remind the reader that in the Soviet Union, like in the Nazi practice, Jewishness was defined not by one's religious affiliation but by his "blood."] to join in the campaign. The resultant panic, in all strata of the public, was ... described [for instance, by] ... Vasily Grossman, in his book *Forever Flowing*.

'It seems a dark cloud hung over Moscow, creeping into homes and schools and worming its way into human hearts ... [Doctors said] that it had become nearly impossible to carry on work in the hospital and polyclinics. The terrifying official announcement had made patients suspicious. Many refused to be treated by Jewish doctors ... Tales were being told on streetcars, at markets, and at work—claiming that several Moscow pharmacies had been shut down because the druggists—Jews and American agents—had sold pills consisting of dried lice. Tales were told about babies and their mothers being infected with syphilis in maternity homes... . And the rumors were widely believed—not just by half-literate and half-drunk janitors, truck drivers, and stevedores, but by certain scientists, writers, engineers, and university students too'."

30 Pinkus (ibid., p. 199) argues that

"Stalin's central aim had already been presaged at the 19th Party Congress in October 1952, when the Politburo was reconstructed and enlarged to include 25 members. It was to conduct extensive purges in the Party and the state apparatus, the chief victims apparently to be the veteran leaders Beria, Molotov, Mikoyan and Voroshilov."

Fischer (G. Fischer, *Soviet Opposition to Stalin. A Case Study in World War II*, p. 117), explaining this seemingly incongruous desire on the part of Stalin, asks for help from Freud:

"'It is understandable', Dr. Freud wrote, 'that the attempt to build up a new communistic culture in Russia finds its psychological backing in the persecution of the bourgeoisie. Only one cannot help wondering ... what the Soviets will undertake once they finish exterminating their bourgeoisie.' Stalin already knew the answer. He would, with added zest, exterminate Communists."

The nearer an opponent stands to Stalin, the greater Stalin's antagonism. His hatred of Socialists exceeds his hatred of capitalists, and as between right-wing and left-wing Socialists he has said he abominates the latter more. Stalin's fiercest ire, however, is for his own party comrades. He has killed a larger number of Communists than any other person in the world. A dissident Communist infuriates Stalin more than a distant capitalist, and brother Georgians get shorter shrift than Russians.

The Freudian dilemma, therefore, did not trouble Stalin. After liquidating the old bourgeoisie he would liquidate Bolsheviks and simultaneously he would liquidate the new Soviet bourgeoisie, the children of his own policies."

31 To underscore the fact that there was no real danger to the regime coming from inside its ruling bureaucracy, we put the word "seriously" in italics. But, as Deutscher (I. Deutscher, *Stalin. A Political Biography*. New York and London: Oxford University Press, 1949, p. 561) points out,

"... this statement needs to be qualified... . Towards the end of the war the officers' corps was morally on top of the nation. It had a leader to look up to in Marshal Zhukov, the defender of Moscow and the conqueror of Berlin, whose popularity was second only to Stalin's... . But although his own position was not imperiled, Stalin was only too anxious, just as he had been in the thirties, to suppress once more ... the potentiality of a ... successor to his government whom he himself had not designated."

32 P. Grier, *Marxist Ethical Theory in the Soviet Union*. Dordrecht, Holland: D. Reidel, 1978, p. 217.

33 Although Deutscher (I. Deutscher, *Stalin. A Political Biography*, pp. 560 - 561) does not make a distinction between the Soviet population and the Soviet bureaucracy in the passage below, he nevertheless writes insightfully that

“... the contact with foreign countries [during and after WWII] generated moral ferment [among all strata of Soviet society]... . What had begun in [the nation's] mind ... was an imperceptible process of trans-valuation of values, the duration and ultimate outcome of which nobody could prophesy. The recent experience gave new urgency to the nation's desire for the betterment in the material conditions of its life... . Beyond the sphere of material interest a new vague yearning for freedom and novel curiosity about the outside world made itself felt [by some strata of Soviet society]... . Victory could not but impart to the nation, at least to its intelligent, forward-looking elements, the feeling that it had stood its supreme test, that it had attained maturity and outgrown the tutelage to which it had owed and from which it had suffered so much. While it is true that in the mood of victory the nation was willing to forgive Stalin his past misdeeds, it is probably even truer that it was not willing to see a repetition of those misdeeds.”

34 Of course, this conclusion was never stated openly because by that time Stalin's personality cult had reached its culmination, and he was at the very top of “Marxist-Leninist” pantheon of Gods. Here is an account of the deifying process which took place on Stalin's seventieth birthday:

“A collective hallucination descended on Russia on ... December 21, 1949. The guns blazed in salute, the processions marched across the Red Square, and huge balloons bearing the features of a younger Stalin climbed into the wintry sky. The official buildings were draped in red, the color of happiness. From all over the country there came gifts of embroidered cloth, tapestries and carpets bearing his name or his features. Ornamental swords, cutlasses, tankards, cups, everything that might conceivably please him, were sent to the Kremlin, and then displayed in the State Museum of the Revolution... . Poets extolled him in verses. He was the sun, the splendor, the lord of creation. The novelist Leonid Leonov ... foretold the day when all the peoples of the earth would celebrate his birthday; the new calendar would begin with the birth of Stalin rather than with the birth of Christ. Had he not singlehandedly created the Communist state? Had he not singlehandedly introduced to the world an era of happiness and joy?

All the members of the Politburo vied with one another on his birthday in public worship of the godlike Stalin... . They acclaimed the good, kind, wise Stalin, generous in triumph, patient in adversity, calm in danger... .

The panegyrics were interchangeable. Molotov ... spoke in the authentic voice of Voroshilov, and Voroshilov in turn repeated words which had been spoken by Beria. They had said all these things so many times before that the formulas had lost all meaning and they scarcely knew what they were saying” (R. Payne, *The Rise and Fall of Stalin*, New York: An Avon Book, 1965, pp. 714, 715, 716).

Avtorkhanov (A. Avtorkhanov, *Stalin and the Soviet Communist Party. A Study in the Technology of Power*. New York: Frederick A. Praeger, 1959,

pp. 251, 252) adds to this surrealistic picture that the cult of Stalin exceeded even that of the founders of "Marxism-Leninism":

"Where Marx was regarded as an economist, Engels as a sociologist, and Lenin as a practical politician, Stalin allowed it to be said of him that he was a 'pillar of all science,' both technical and otherwise ...

Stalin was not merely the universal superman. He was a magic superman, a fabulous magician. [Someone] ... wrote in *Pravda*: 'if in meeting difficulties in your work and struggles you ever begin to doubt your strength, think of him, of Stalin, and faith in yourself will immediately return. If you feel fatigued at a time when you should not feel fatigued, think of him, of Stalin, and all fatigue will disappear. If you plan something great, something essential to the people, think of him, of Stalin, and your work will thrive.'

- 35 Changing conditions will not force a "savior" who rejects God but who combines the material and physical power of the state and the spiritual and religious power of the Party *immediately* to alter his actions. In fact, he can resist any change for a *certain period* of time. But *eventually* he too must yield to the "objective" circumstances, in one way or another. That was Stalin's destiny. Djilas (M. Djilas, *Conversations with Stalin*, 1st ed., trans. by M. Petrovich. New York: Harcourt, Brace and World, 1962, pp. 190, 191), who knew Stalin personally, provides the following impartial analysis:

"If we assume the viewpoint of humanity and freedom, history does not know a despot as brutal and as cynical as Stalin was. He was methodical, all-embracing, and total as criminal. He was one of those rare terrible dogmatists capable of destroying nine-tenths of the human race to 'make happy' the one-tenth.

However, if we wish to determine what Stalin really meant in history ... then he must for the present be regarded as being, next to Lenin, the most grandiose figure... . He did not construct an ideal society ... but he transformed backward Russia into an industrial power ... What he wished to accomplish, and even that which he did accomplish, could not be accomplished in any other way. The forces that swept him forward and that he led, with their absolute ideas, could have no other kind of leader but him, given that level of Russian and world relations, nor could they have been served by different methods. The creator of a closed social system, he was at the same time its instrument and, in changed circumstances and all too late, he became its victim."

- 36 Payne (R. Payne, *The Rise and Fall of Stalin*, pp. 739, 740) describes what was designed and what could have happened to the many small and big rulers of the country had Stalin and his closest circle succeeded in making their plans work:

"During the last weeks of his life [Stalin] was planning a holocaust greater than any he had planned before. The *chistka* [purge] had become a ritual like a ceremonial cleansing of a temple performed every three or four years according to ancient laws. The first *chistka* had taken place during the early months of the revolution; it had proved so salutary that periodical bloodbaths were incorporated in the unwritten laws of the state. This time there would be a *chistka* to end all *chistkas*, a purging of the entire body of the state from top to bottom. No one, not even the highest officials, was to be spared... . The men, who had been his closest companions and most willing executioners, would be the first to fall, followed by the leaders of the second rank, then of the third and

fourth, and so right down to the lowest stratum, until there was no one in the entire country who had not felt the touch of the healing knife... . It would seem that the arrests and executions were to take place at the beginning of March [1953]. For a few specially selected victims there would be public trials."

Mao's desire during the Proletarian Cultural Revolution to cleanse China of the "bourgeois spirit" was thus very similar to Stalin's final wish to purify the Soviet Union from the "class enemies of socialism." In both cases, the leaders and their associates attempted to reverse the movement to new, more civilized societies through the employment of the old methods of terror. In both cases, history repeated itself not only in the intentions of its heroes but also in the outcomes: both Mao and Stalin failed.

37 On different accounts of Stalin's death, see *ibid.*, pp. 773 - 780.

38 *Ibid.*, p. 770. This gives Payne (*ibid.*) the occasion to make the following comment:

"... it is in the nature of things that a *chistka* is irreversible under all conditions save one. A *chistka* feeds on itself, follows its own course, acquires a strange unhallowed strength by the mere repetition of the crimes committed in its name. It can be stopped only when the dictator is stopped. The Terror ends only when Robespierre loses his head."

39 Here is a comment on the appeal of the Party and state leadership to the Soviet people in connection with the death of Stalin:

"Stalin's death ... inevitably led to a crisis of self-confidence among his potential heirs. The dead man had long since come to embody the Soviet state, and there was no well-established mechanism for transmitting legitimate power to any heir or heirs" (R. McNeal, gen. ed., *Resolutions and Decisions of the Communist Party of the Soviet Union*, 5 Volumes. Volume 4: *The Khrushchev Years, 1953 - 1964*, by G. Hodnett. Toronto: University of Toronto Press, 1974, p. 21).

The state embodiment by a "great" individual was not peculiar to Stalin in the Soviet Union. Here is what Tocqueville (A. de Tocqueville, *Democracy in America*. New York, Toronto: Everyman's Library, Alfred A. Knopf, 1994, p. 242) had to say on the subject in France:

"In some nations the monarch is regarded as a personification of the country; and, the fervor of patriotism being converted into the fervor of loyalty, they take a sympathetic pride in his conquests, and glory in his power. There was a time under the ancient monarchy when the French felt a sort of satisfaction in the sense of their dependence upon the arbitrary will of their king; and they were wont to say with pride: 'We live under the most powerful king in the world.'"

40 Khrushchev's ascent to power was not easy. To achieve it, three major moves were made. First, in the aftermath of Stalin's death, infighting took place between the highest bureaucracy of the security apparatus led by Beria and the highest bureaucracy of all other factions of the Party and the state led by a group of the Party secretariat which included Khrushchev. The security forces failed, and Beria himself was executed (see R. McNeal, *Resolutions and Decisions of the Communist Party of the Soviet Union*, 5 Volumes. Volume 4: *The Khrushchev Years, 1953 - 1964*, by G. Hodnett, pp. 21 - 24).

During the second round, a struggle broke out within the highest levels of the Party bureaucracy, between the Khrushchev faction and the so-called members of the "anti-party group." Supported by the highest

strata of the army and the KGB bureaucracies, the Khrushchev faction won and the members of the “anti-party group” were either expelled from the Party or removed from their positions within the Party in June 1957 (*ibid.*, pp. 92 - 98).

The last round of infighting was staged in October 1957 between the Party leadership led by Khrushchev and the top army bureaucracy commanded by Marshal Zhukov, the second-world-war hero. The latter, having played the role of a power broker during the campaign against the “anti-party group” and having thus allowed the Khrushchev faction to remain in power, was now perceived as having too much power and hence posing a threat to the Party leadership. Zhukov was stripped of the post of Minister of Defense and lost his membership in both the Presidium and the Central Committee of the Party (*ibid.*, pp. 100 - 102).

It took Stalin more than ten years to become the sole and unchallenged Leader (with a capital “L”) of the country which was building its road to utopia. It took Khrushchev four years to acquire the power of a leader (with a small “l”), of a challenged first among equals of the country which was losing its missionary destiny.

41 Here is how Khrushchev assesses Stalin’s role as the leader of the country:

“It is known that Stalin, after Lenin’s death, especially during the first years, fought actively for Leninism against the foes of Leninist theory and against those who deviated. Basing itself on Leninist theory, the Party, headed by its Central Committee, started on a great scale the work of socialist industrialization of the country, agricultural collectivization and the cultural revolution.

At that time Stalin gained great popularity, sympathy and support. The Party had to fight those attempted to lead the country away from the correct Leninist path... . This fight was indispensable. Later, however, Stalin, abusing his power more and more, began to fight eminent Party and governmental leaders and to use terrorist methods against honest Soviet people [why? Because he was representing the desires of the latecomers arriving into the bureaucratic ranks from the peasantry and semi peasant workers.]... . We consider that Stalin was excessively extolled [why? Because it was traditional for the peoples of Russia to do just that. And because it was gainful for all strata of the forming bureaucracy since the latter’s representative were then extolled as small Stalins.]. However, in the past Stalin undoubtedly performed great services to the Party, to the working class and to the international workers’ movement [having no arguments to explain, Khrushchev repeats himself]. The question is complicated by the fact that all that we have just discussed was done during Stalin’s life, under his leadership and with his concurrence; here Stalin was convinced that it was necessary for the defense of the interests of the working class against the plotting of the enemies and against the attack of the imperialist camp. He saw this from the position of the interests of the working class ... the interests of the victory of socialism and Communism. We cannot say that these were the deeds of a giddy despot. He considered that this should be done in the interests of the Party, of the working masses, in the name of defense of the revolution’s gains. In this lies the whole tragedy!” (L. Gruliow, gen. ed., *Current Soviet Policies*, Volume 2: *The Documentary Record of the 20th Communist Party Congress and Its Aftermath*. New York: Frederick A. Praeger, 1957, p. 187).

42 We put the expression “show trials” in quotation marks, since the congresses, dealing with the problem of Stalin, served as forums where the dead were tried by the living.

43 Hints of the de-Stalinization campaign were made at the Central Committee report delivered by Khrushchev to the 20th Congress of the Party and in the speeches made by other members of the party and state leadership. Stalin was “openly” denounced for his “mistakes” in Khrushchev’s “secret” speech at the end of the Congress (see *ibid.*, pp. 55 - 56, 77 - 78, 80, 92, 102, 112, 124, 172 - 184, etc.).

The campaign reached its climax at the 22nd Congress of the Party when the question of the mausoleum where the remnants of Lenin and Stalin were resting was addressed. The 22nd Congress made the following resolution:

“... the continued presence in the mausoleum of the sarcophagus with the coffin of I.V. Stalin is recognized as unsuitable, since Stalin’s serious violations of Leninist precepts, his abuse of power, his mass repressions of honest Soviet people, and his other actions during the period of the cult of personality make it impossible for the coffin with his body to remain any longer in the mausoleum of V.I. Lenin” (R. McNeal, *Resolutions and Decisions of the Communist Party of the Soviet Union*, 5 Volumes. Volume 4: *The Khrushchev Years, 1953 - 1964*, by G. Hodnett, pp. 281 - 282).

44 In essence, this was one of the major arguments of the so-called “anti-party group.” That Khrushchev’s faction of the Party and state bureaucracies clearly understood the danger of the “thaw” (as the immediate post-Stalin period came to be known) is confirmed by Khrushchev (N. Khrushchev, *Khrushchev Remembers. The Last Testament*, trans. and ed. by S. Talbott. Boston: Little, Brown, 1974, pp. 78 - 79):

“We in the leadership were consciously in favor of the thaw, myself included ... [But we] were scared—really scared. We were afraid the thaw might unleash a flood, which we wouldn’t be able to control and which could drown us. How could it drown us? It could have overflowed the banks of the Soviet riverbed and formed a tidal wave which would have washed away all the barriers and retaining walls of our society. From the viewpoint of the leadership, this would have been an unfavorable development. We wanted to guide the progress of the thaw so that it would stimulated only those creative forces which would contribute to the strengthening of socialism.”

45 In his foreword to Khrushchev’s memoirs (*ibid.*, p. viii), Crankshaw remarks:

“What has been forgotten, or never understood, was the completeness of the destruction, first by Lenin, then by Stalin, of the all-too-thin upper layers of Russian society. Lenin destroyed, or drove out of Russia, not only the whole governing class but also the greater part of the radical and revolutionary intelligentsia who dared to question Bolshevik policies. After Lenin’s death in 1924, Stalin proceeded to eliminate the best of the Bolsheviks and those idealists who decided to accept them. If we remember that in 1917 four-fifths of the population of Russia consisted of the most backward peasantry in Europe and that the celebrated proletariat were urbanized peasants whose fathers and grandfathers had been serfs—slaves, that is—it is no exaggeration to say that by 1928 the Soviet government was a government of peasants ruling over a peasant country brutalized by civil war and revolutionary

violence. The men who Stalin chose to replace the Old Bolshevik intelligentsia were themselves peasants or factory workers who had risen to positions of authority in the bitter school of civil strife. They had nobody to look to for guidance. They were men lacking education and despising culture. Some of them, like Khrushchev himself, were moved by a dream of the future that had its roots in ignorance of Russia's past—of the present too, outside the Soviet Union. Others were possessed simply by a love of power. Their only guide was a sort of kindergarten Marxism. And throughout the whole of Russia, except in books, in monuments, in buildings, in central and local government archives, there were no traces left of the old culture. Russia had to start being Russia all over again, and its leaders [after Lenin], knowing nothing of the outer world, could only resurrect old institutions and old policies under new names and in the crudest form."

- 46 Thus, Khrushchev complained in his "secret" speech to the 20th Party Congress:

"Stalin ... used extreme methods and mass repressions at a time when the revolution was already victorious, when the Soviet state was strengthened, when the exploiting classes [Khrushchev means "the old exploiting classes"] were already liquidated and socialist relations [Khrushchev means "totalitarian state capitalist relations"] were rooted solidly in all phases of national economy, when our party was politically consolidated and had strengthened itself both numerically and ideologically. It is clear that here Stalin showed in a whole series of cases his intolerance, his brutality and his abuse of power. Instead of proving his political correctness and mobilizing the masses, he often chose the path of repression and physical annihilation, not only against actual enemies, but also against individuals who had not committed any crimes against the Party and the Soviet government... Stalin, using his unlimited power [what was the source of this "unlimitedness"? The well-known centuries-old passive reliance of the peoples of Russia on a leader who might "save" them], allowed himself many abuses [again, Khrushchev repeats himself]" (L. Gruliov, gen. ed., *Current Soviet Policies*, Volume 2: *The Documentary Record of the 20th Communist Party Congress and Its Aftermath*, p. 175).

- 47 *Samizdat* is a variation on *Gosizdat*, which is the short form of *Gosudarstvennoye Izdatel'stvo*, the State Publishing House. The *sam* means "self," so that *samizdat* translates as: "We publish ourselves,"—i.e. we, the people (without the state's permission).

- 48 The *tam* means "there," that is, in the capitalist West. So we can translate *tamizdat* as: "We publish in the capitalist West" (without the state's permission).

- 49 Aleksandr Solzhenitsyn was allowed to publish in the Soviet Union in the 1962 - 1963 period a short novel, *One Day in the Life of Ivan Denisovich*, *The Incident at Krechetovka Station*, and *Matryona House*; the rest of his works were published in the West. The manuscript of Boris Pasternak's major work, *Doctor Zhivago*, had to be smuggled abroad; there it was published in 1957. Roy Medvedev, one of the twin brothers, published his works in *samizdat* and *tamizdat* through a period of time (see R. Medvedev, ed., *The Samizdat Register*, Volume 1. New York: W.W. Norton, 1977; and R. Medvedev, ed., *The Samizdat Register*, Volume 2. New York: W.W. Norton, 1981). There were many others (on Soviet dissidence during the period of 1953 - 1970, see A. Rothberg, *The Heirs*

of Stalin. *Dissidence and the Soviet Regime. 1953 - 1970*. Ithaca, New York: Cornell University Press, 1972).

- 50 Here is how Rothberg (ibid., pp. 42 - 43) describes the process by which Soviet intellectuals were probing into Soviet reality:

“As the fear of physical liquidation and repression was reduced, the literary intellectuals became braver and freer in carrying out the Khrushchevian de-Stalinization and liberalization; but in their thirst for ‘truth’ and ‘sincerity,’ for writing candidly about the world they saw around them, they were bound to come into basic conflict with the aims of the Party and the government. The writers, in writing truthfully, were bound, either explicitly or by implication, to ask questions which cut to the core of Soviet life. How, for instance, did a maniac and monster like Stalin achieve and retain power in ‘socialist’ conditions? Why had not the Party and its ‘leading representatives’ unseated the dictator the moment his ‘distortions’ became apparent? How could such horrible means—Stalinism—produce a halcyon end—socialism? One question inevitable led to another and finally to that unwritten and unspoken question: Was it perhaps precisely *because* of the Soviet institutions they had built that Stalin came to leadership?”

- 51 Attempting to clarify its position on the causes of Stalin’s cult and “inviting” Lenin for help, the Central Committee of the Party in one of its resolutions on the subject stated in 1956:

“The development of the cult of personality was enormously favored by certain of I.V. Stalin’s personal qualities, whose negative nature had been noted by V.I. Lenin” (see R. McNeal, *Resolutions and Decisions of the Communist Party of the Soviet Union*, 5 Volumes. Volume 4: *The Khrushchev Years, 1953 - 1964*, by G. Hodnett, pp. 62, 63).

- 52 However, *some* “objective” response, although unsatisfactory from the point of view of the concerned, was given to them. In the same resolution, the Central Committee pointed out such internal and external conditions, in which builders of “socialism in one country” found themselves as: being pioneers in the field, the capitalist encirclement, difficulties confronted by the backward and illiterate country, and others (see ibid., pp. 58 - 65).

- 53 The new leadership had determined, therefore, “to persist in the efforts ... to ensure strictest observance, in all party organizations from top to bottom, of *Leninist* principles of party leadership and, in particular, the highest such principle—collective leadership, to ensure observance of the norms of party life set forth in the rules of ... [the] party” (ibid., p. 69).

- 54 A resolution of the 22nd Party Congress thus stated:

“The party is confident that the Soviet people will accept the new Program of the CPSU [Communist Party of the Soviet Union] as their own vital cause, as the greatest purpose of their life and as a banner of nation-wide struggle for the building of Communism. The party calls on all Communists, on the entire Soviet people ... to apply their energies to the successful fulfillment of the historic tasks set forth in this Program” (ibid., p. 263).

- 55 The resolution pathetically proclaimed:

“Under the tried and tested leadership of the Communist Party, under the banner of Marxism-Leninism, the Soviet people have built socialism. Under the leadership of the Party, under the banner of Marxism-Leninism, the Soviet people will build communist society.

The Party solemnly proclaims: the present generation of Soviet people shall live in communism!" (ibid., pp. 263 - 264).

- 56 In the draft program, communism in the long run is defined as "... a classless social system with one single form of public [that is, non-state] ownership of the means of production and full social equality of all members of society ... [with] the all-round development of people ... [where] the great principle 'From each according to his ability, to each according to his needs,' will be implemented. Communism is a highly organized society of free, socially conscious working people in which public self-government [hence, again, without the state] will be established, a society in which labor for the good of society will become the prime, vital requirement of everyone, a necessity recognized by one and all, and the ability of each person will be employed to the greatest benefit of the people" (N. Khrushchev, *On the Communist Program. Report on the Program of the CPSU to the 22nd Congress of the Party, October 18, 1961*. Moscow: Foreign Languages Publishing House, 1961, p. 27).

- 57 Ibid., p. 96.

- 58 "*The Party sets the task of converting our country, within the next decade, into the world's leading industrial power, of winning preponderance over the United States both in aggregate industrial output and in industrial output per head of the population.* By approximately the same time, the USSR will exceed the present US level of agricultural production per head of the population by 50 percent, and will surpass the US level of national income.

But that is only the first objective. We shall not stop at that. *In the course of the second decade, by 1980, our country will leave the United States far behind in industrial and agricultural output per head of the population*" (ibid., pp. 96 - 97).

A brief reference: in 1983, that is, 22 years later the corresponding economic indicators of the two countries looked as follows:

Indices	USSR	USA
GNP (billion 1983 US \$)	1,843	3,311
Per capita GNP (1983 US \$)	6,765	14,120
Labor productivity in agriculture (percentage USA:100)	6.0	100.0
Consumer expenditures, 1982		
Total, bln. US \$	563	1,510
Per capita, mln. US \$	2,113	6,860

(The first three rows are from P. Gregory and R. Stuart, *Soviet Economic Structure and Performance*, 3rd ed. New York: Harper and Row, 1986, pp. 18, 280; the rest are from *The New Book of World Rankings*. New York: Facts on File, 1984, p. 314).

- 59 "... under Khrushchev ... the ethos of the Party and state bureaucracy seemed to evolve, essentially, into something resembling western consumerist culture with its preoccupation with the acquisition of new goods and gadgets. The Party and state bureaucracy has developed, then, a new ethos in which the pursuit of a career, the pleasure of purchasing goods, including new gadgets, the placing of personal interests at the center of one's private life and the acquisition of as much money as possible to satisfy the new wants, are not only approved but encouraged"

- (M. Hirszowicz, *The Bureaucratic Leviathan. A Study in the Sociology of Communism*. Oxford: Martin Robertson, 1980, pp. 115 - 117).
- 60 Soviet people rarely used the word “to buy” to describe the process of acquiring consumer goods and services. They employed instead the word “to obtain” to emphasize that the process could not be reduced to the simple exchange of goods and services for money.
- 61 Thus, the Criminal Code of the Russian Soviet Federative Socialist Republic (RSFSR), adopted in 1960 and implemented in 1961, stated unequivocally that any economic activity outside the state was considered to be criminal and was subject to penalties ranging from a fine, to imprisonment for up to 15 years, to the confiscation of property and internal exile, to the death penalty (see Ministerstvo Yustitsii RSFSR [Ministry of Justice of the RSFSR], *Ugolovnyi Kodeks RSFSR* [The Criminal Code of the RSFSR], 2nd ed. Moscow: “Yuridicheskaya Literatura,” 1971, articles 88, 152 - 154, 158, 162 - 169).
- 62 “Program of the Communist Party of the Soviet Union, Part Two, V, 1: *The Road to Communism: Documents of the 22nd Congress of the Communist Party of the Soviet Union*,” cited in R. De George, *Soviet Ethics and Morality*. Ann Arbor: The University of Michigan Press, 1969, p. 83. The source provides a Western appraisal of the new moral code on pp. 84 - 103.
- 63 On the reasons for Khrushchev’s downfall and Brezhnev’s accession to power, see, for instance, A. Brumberg, “The Fall of Khrushchev—Causes and Repercussions,” in J. Strong, ed., *The Soviet Union under Brezhnev and Kosygin. The Transition Years*. New York: Van Nostrand Reinhold, 1971, pp. 6 - 7, who, in particular, writes:
- “Khrushchev’s agricultural panaceas, from massive corn-cultivation to the virgin-land campaign had turned out to be failures. The latest harvest was wretched, and flour was at a premium. His successive reorganizations in industry, agriculture, and the Party had come to grief. The widely hailed educational reform had been virtually aborted. The grandiose promises to overtake the United States in the production of meat and butter, and to usher in ‘full communism’ within the lifetime of the present generation, had now been superseded by the more mundane advocacy of a hearty portion of goulash on every proletarian plate—but even that did not seem to be forthcoming. The truce between the party and the intellectuals had been brutally disrupted in late 1962 and early 1963, with Khrushchev’s intemperate attack on those who strayed from the orthodoxy of ‘socialist realism,’ as a result of which the Russian intelligentsia was more bitter and restive than ever. De-Stalinization, too, in its symbolic aspect, seemed to have come to a halt, with Khrushchev’s partial rehabilitation of the late dictator in the spring of 1963. The Sino-Soviet conflict had produced not only a weakening of Moscow’s hold over its one-time empire, but a pluralism and dogged search for independence as much among the East European Communist countries as among non-block parties. Togliatti’s [the leader of the Italy’s communist party] famous ‘Testament’ was still to come, but the views and sentiments it embodied—severe criticism of a stifling and moribund system—were already in the air. Under these circumstances, is it any wonder that Khrushchev’s star had become lackluster ... ?”

Not much time will be spent on the state of affairs in the period following Khrushchev’s descent from and Gorbachev’s advancement to

power since, as will be shown shortly, in essence, there was not a big difference among the Khrushchev, Brezhnev, Andropov, and Chernenko periods.

- 64 At the meeting of the Central Committee of the Party held on 14 October 1964 it was announced that Khrushchev “asked” to be relieved from his duties as the First Secretary of the Communist Party of the Soviet Union and retire because of “poor health.”

- 65 One might raise questions about the validity of applying the term “unprecedented scale” to the hypocrisy of the Brezhnev period, especially in light of the Stalinist demagoguery. But this is to miss the point: although it is true that during the time of the “Great Dictator” (particularly during his early rule) the gap between the real and invented worlds reached unparalleled proportions, many “inventors” and, especially, the majority of those for whom it was invented, sincerely believed in the invented reality. This was not the case during the Brezhnev era: “freed” from fanaticism and the fear of retribution, the Soviet people were now able to see, to hear and, hence, to sense the difference between what was and what was said.

- 66 That such was the condition of the country was admitted by Gorbachev in his book (M. Gorbachev, *Perestroika. New Thinking for Our Country and the World*. New York: Harper and Row, 1987, p. 22):

“The presentation of a ‘problem-free’ reality backfired: a breach had formed between word and deed, which bred public passivity and disbelief in the slogans being proclaimed. It was only natural that this situation resulted in a credibility gap: everything that was proclaimed from the rostrums and printed in newspapers and textbooks was put in question... . The world of day-to-day realities and the world of feigned prosperity were diverging more and more.”

- 67 J.A.P. Marquise de Pompadour (1757), reputed reply to Louis XV after the defeat of the French and Austrian armies by Frederick the Great in the battle of Rossbach. Cited in J. Bartlett, *Familiar Quotations: A Collection of Passages, Phrases and Proverbs Traced to Their Sources in Ancient and Modern Literature*, 15th and 125th anniversary edition, ed. by E. Morrison Beck. Boston: Little Brown and Company, 1980, p. 364.

- 68 “Decay began in public morals ... alcoholism, drug addiction and crime were growing; and the penetration of stereotypes of mass culture ... which bred vulgarity and low tastes and brought about ideological barrenness ... increased.

Political flirtation and mass distribution of awards, titles and bonuses ... often replaced genuine concern for ... a favorable social atmosphere. An atmosphere emerged of ‘everything goes,’ and fewer and fewer demands were made on discipline and responsibility. Attempts were made to cover it all up with pompous campaigns and undertakings and celebrations of numerous anniversaries centrally and locally” (M. Gorbachev, *Perestroika. New Thinking for Our Country and the World*, p. 22).

We are far from suggesting that Brezhnev’s period should be colored only in black. There were many positive moments:

“... the pace of social change that marked the Stalin era had appreciably slowed, and a stable social structure had emerged ... The creation of a reasonably stable middle-class society was a development earnestly welcomed by many within the Soviet Union. Indeed, it had much to recommend it: gone were the initial traumas of industrialization and

collectivization; and now seemingly also absent were the fears and uncertainties engendered by the purges and occasional campaigns for vigilance... . The regime had tacitly struck ... 'the big deal' with the emerging middle class. In exchange for their loyalty, their acceptance of essentially conservative standards of personal and social conduct, their reasonable efforts to advance the economy, and, above all, their political quiescence, the regime would provide a tolerable degree of both real and psychological security, of material comforts, and of hope for personal advancement" (D. Kelley, *The Solzhenitsyn-Sakharov Dialogue. Politics, Society, and the Future*. Westport, Connecticut: Greenwood Press, 1982, p.9).

"One of the most significant accomplishments of the Brezhnev era was the prolonged and substantial growth of Soviet mass consumption. The last 15 years saw a growth in the standard of living of the Soviet people that was rapid by any –but especially by Soviet–standards, particularly in the area of durable consumer goods. This gain is especially notable because it was achieved simultaneously with the rapid growth of Soviet military power. In other words, Brezhnev successfully pursued a guns-and-butter policy. The stability of the Brezhnev period in the absence of terror can be explained to a large degree by the leadership's basic ability to satisfy more fully the demands of the Soviet consumer. The Soviet citizen ... has become accustomed to an uninterrupted upward trend in his standard of living and has come to expect more goods and services from the government" (S. Bialer, "The International and Internal Contexts of the 26th Party Congress," in S. Bialer and T. Gustafson, eds., *Russia at the Crossroads. The 26th Congress of the CPSU*. London: George Allen and Unwin, 1982, p. 31).

However, every step in establishing such a reasonable and moderate status quo was dealing a mortal blow to the Bolshevik religion of the sacrificial and impassioned movement towards the realization of the grand design.

69 A subtitle of A. Solzhenitsyn's *The Oak and the Calf: Sketches of Literary Life in the Soviet Union*. New York: Harper and Row, 1980, pp. 383 - 397.

70 Although common to all of them was their indignation at many features of the Brezhnev regime, they were far apart from each other in the alternative models they were proposing: from the new economic policy of the 1920s to the Stalinist system of the 1930s (but without terror), to a Christian state, to a social-democratic society of the Scandinavian type, to, finally, the liberal multi-party mixed capitalist system of Western Europe and of the United States.

As Kelly (D. Kelley, *The Solzhenitsyn-Sakharov Dialogue. Politics, Society, and the Future*, p. 12) stresses:

"... the dissident elements that emerged in the 1960s grew from diverse and varied roots and eventually brought forth complex, and at times contentious, groups and points of view. Surveying the field of dissidents, Andrei Amalrik [himself a dissident of a pro-Western orientation] claims to discern three major philosophical schools of thought—'true Marxism-Leninism,' 'Christian ideology,' and 'liberal ideology'—while other critics of the regime such as K. Volnyi and Roy Medvedev group the various strains of the opposition movement according to their 'liberal' or 'radical' views, or their status as 'neo-Stalinist,' 'conservative,' or 'Party-democratic' elements. Western commentators have generated even more complex schemata of the

dissident movement which highlight not only political philosophy, but also other factors such as nationality, ethnic identity, form of organization, political tactics, and so forth.”

- 71 Thus, the nation’s response to the righteous and ethical outcry of the dissenter was that of engineer Suslov to doctor Maria Lvovna in Gorky’s play (M. Gorky, *Collected Works*, 10 Volumes, trans. and designed by I. Kravtsov. Volume 4: *Summer Folk*, trans. by M. Wettlin. Moscow: Progress Publishers, 1978, pp. 479, 480):

“You, Maria Lvovna, are what is called a person of high principles. You’ve devoted yourself to some mysterious cause—maybe a great one, even a historic one—I can’t say, but evidently you think your activities give you the right to look down on other people ... You try to exert influence over everybody, to teach others how they ought to behave... . What I want to say is, that if we don’t live as you think we ought to, respected Maria Lvovna, there’s good reason for it. We starved and suffered enough in our childhood. It’s only natural that on growing up we should want to eat and drink and enjoy ourselves to our heart’s content, that we should want to make up for all the hunger and hardships behind us ... and [to] take life easy—that’s our psychology. You may not like it, Maria Lvovna, but it’s only natural, and nothing else is to be expected of us. The human nature in us comes first, Maria Lvovna, and the all the tinsel and furbishing.”

- 72 M. Gorbachev, *Perestroika. New Thinking for Our Country and the World*, p. 23.
- 73 See D. Kelley, *The Solzhenitsyn-Sakharov Dialogue. Politics, Society, and the Future*, p. 12.
- 74 M. Gorbachev, *Perestroika. New Thinking for Our Country and the World*, p. 23.

PART VII
THE LAST STAGE IN THE DEVELOPMENT OF THE
SOVIET SOCIOECONOMIC SYSTEM: THE STALINIST
MODEL IN OPERATION
(1940-1991)

Chapter 10
Perestroika as the Agony of the Stalinist Model¹

Preliminary observations

The historical experience of Russia shows that its major intentional and unintentional socioeconomic changes usually were initiated from above: Ivan the Terrible's undermining of the power of the *boyars* which "converted the Principality of Moscow into a national Great Russian State ... and invested the Moscovite ruler with the status of a national Tsar of Great Rus;"² Peter the Great's attempts to copy Western culture; Alexander II's emancipation of the serfs; and others.

The 70 years of the Soviet era repeated this pattern: Lenin's new economic policy, Stalin's collectivization and industrialization, Khrushchev's reforms of decentralization and Brezhnev's undoing of the reforms, while preserving all the major features of the Khrushchev's period.

But no matter what particular leader was in power at any time of Soviet history, it was the *party* bureaucracy which was the initiator and the ring-leader of any movement for the alteration of the existing socioeconomic structure. And in the mid-1980s again, as in the past, the drive to reorganize Soviet society was being activated by the top echelons of the Party bureaucracy.

From the beginning, we want to be sure of the reader's awareness of a major lesson of history that no social group-holder of power has ever *voluntarily* reduced (let alone given up) its authority. Power structures have initiated changes and have changed only when *forced* to do so by internal or external pressure (or both).³ It does not necessarily have to be a love for power and all privileges that it brings which makes members of a dominant social group resist any change in the position of the group. Their defense of the unyielding position of their own group is often based on their sincere belief that this is in the interests of society as a whole.⁴

The party bureaucracy was no exception to this rule. It was in no mood to surrender "the great concentration of power in [its] hands ... emanating from a monopolistic control of economic, political, social and legal organization of society ..."⁵ It shared its

determination with all the other factions of the Soviet bureaucratic class.

However, the socioeconomic problems (discussed earlier) which confronted the country they ruled compelled the bureaucrats to do something. The highest party bureaucracy which was the most to lose but which, at the same time, had the most power to use, took the lead but, of course, in the name of society.

Consequently, disregarding those who believed that things would eventually work out for the better by themselves, one can discern two mutually exclusive tendencies in the actions of the party leadership.

The first was to improve the working of the totalitarian state capitalist system without any significant change in the balance of power *within* the bureaucracy, and *between* the bureaucracy and the Soviet people. This was the approach of those who were convinced that what the country needed was a tightening of the bureaucratic grip on society and greater law and order, so that everyone would again know his place. This might be labeled "a Stalinist method of solving Soviet problems without a Stalin and his excesses," or "*perestroika* without *glasnost*."

According to the second mode of thinking, the only way for the one-party, state-ownership socioeconomic system to survive and to function successfully was to alter meaningfully both the delicate balance existing between different vertical and horizontal factions of the bureaucracy, and between the lowest bureaucratic layers and the Soviet people. If this could be achieved, went the argument, the party control of all aspects of Soviet life will be preserved at the expense of the vested interests of the top levels of the non-military, non-party bureaucracy, while strengthening the lower levels of that bureaucracy. The only faction of the bureaucracy which would stay intact from top to bottom was the military bureaucracy. This method was what was widely known in the West as "*perestroika* and *glasnost*," and what we would prefer to call "*perestroika* based on *glasnost*."

"Perestroika without glasnost," or an attempt to preserve and revitalize totalitarian state capitalism

"*Perestroika* without *glasnost*" was an attempt to revitalize the country using the two available "reformist" means. First, by begging, threatening, cajoling and urging the Soviet man, to transform him from exhausted, disillusioned, depraved, but obedient performer, into an enthusiastic and initiative-taking executor; to reinvigorate his zeal without terror; to implant in him a largely forgotten sense of responsibility and duty without giving him any additional rights; to make him sacrifice as much as he could be persuaded to do with rewards (as usual) coming in a distant future.⁶

The second tool of the policy under consideration was to *strengthen* the existing centralized system of managing society's affairs and thus to make it more efficient. This would have been accomplished by making technical-organizational changes such as further automating and computerizing the central planning process; by further developing industrial associations (the mid-level economic bureaucracies between the ministerial bureaucracies and that of enterprises); by cautiously introducing "state quality inspection ... a system for controlling the quality of products ... independent of the management of an enterprise."⁷

Consequently, policies of "*perestroika* without *glasnost*" were a desperate attempt to cure a serious and chronic social disease by means of largely palliative measures; to reanimate totalitarian state capitalism without giving up any of its bad "habits" which brought about the corresponding state of its health; to alter the consciousness of the Soviet man from top to bottom without any real change in the society's being;⁸ in short, to save the existing order.

This did not work. The efforts failed. For the organization of society whose primary goal was "primitive totalitarian state capitalist (or what is commonly known as 'socialist') accumulation of capital" in a relatively backward, illiterate and peasant country, fueled with extremely high expectations based on the all-promising ideology, was not suitable for a modern, highly literate, industrial nation whose bitter experience left it without any expectations about the ability of the system to change things for the better.⁹

"Perestroika based on glasnost," or an attempt to transform totalitarian state capitalism into authoritarian state capitalism

The Soviet leadership, although it acknowledged that it had "no ready-made answers,"¹⁰ admitted that the mild measures destined simply to maintain the status quo would not do, so what was actually needed was "radical reforms for revolutionary change."¹¹ This meant that, instead of leaving the balance of power within the Soviet bureaucracy intact and just striving for a more sophisticated centralization of Soviet society, including its planned economy, the party had to alter the balance of bureaucratic forces in favor of the lower levels and at the expense of the higher levels of the non-party and non-military factions of the Soviet bureaucracy.

That is why, in Chapter 8, "Socioeconomic Causes for the Restructuring of the Stalinist Developmental Model," of the book we stated that "... the highest bureaucratic layer ... *had* to begin at least a partial decentralization of some economic elements of the system for the sake of preserving the USSR as a world power."

For, although those who brought Gorbachev to power did not want to admit it, they probably "underst[ood] that to preserve the leading role of the party in the military, foreign affairs and internal

security, they ... [had to] resign from a leading role in economic affairs."¹² Thus, in pursuing its policies of "*perestroika* based on *glasnost*," Gorbachev's leadership did not intend to separate the Party-church from the secular state. On the contrary, one of the major charges Gorbachev's leadership made against the previous regimes (Brezhnev's and Chernenko's) was that during their tenures "party guidance was relaxed."¹³

Hence, the main goal of Gorbachev's "*perestroika* based on *glasnost*" was not to diminish the role of the party and state bureaucracies in society's affairs, for to do that would have been to weaken "socialism." Gorbachev made this perfectly clear when he proclaimed that "we ... [we]re conducting our reforms in accordance with the socialist choice. We ... [we]re looking within socialism, rather than outside it, for the answers to all the questions that arise[d]. We assess[ed] our successes and errors alike by socialist standards."¹⁴

It can be said that the social mandate of Gorbachev's administration was to prolong the life of the bureaucratic state-capitalist system by restoring Khrushchev's compromise between short-run consumerism and long-run communist idealism and by instilling into all levels of society a Stalinist revolutionary zeal and enthusiasm without Stalinist terror and coercion.¹⁵

The policies of "*perestroika* based on *glasnost*" did not reject the psychological approach of the policies of "*perestroika* without *glasnost*." However, while the latter approach "consist[ed] of many sticks and too few carrots,"¹⁶ the basic assumption of the policies of the former was to promise the lower echelons of the non-party and non-military bureaucracies more carrots and fewer sticks. This could be done, according to the supporters of the view, by introducing "a new concept of centralism ... to replace predominantly administrative methods by predominantly economic methods,"¹⁷ especially in the field of the economy.

This implied the transformation of *totalitarian state capitalism*, where the microeconomic forces of the market were *governed* by the macroeconomic forces of *mandatory* central planning, into *authoritarian state capitalism*, in which the microeconomic forces of the market would be *influenced* by the macroeconomic forces of *indicative* central planning.

Concretely, this rearrangement included such measures as:

"... [the] election of managers at enterprises and offices ...; joint ventures with foreign firms; self-financed factories and plants, state and collective farms ...; wider cooperative activities; encouragement of individual enterprises in small-scale production and trade; and closure of non-paying plants and factories operating at loss, and of research institutes and higher educational establishments working inefficiently."¹⁸

In addition to this whole complex of socioeconomic instruments, the top party leadership was willing to use *glasnost* by sacrificing the interests of any non-party and non-military factions of its own class in order to achieve the following four major goals: (1) to win over to *perestroika* the non-bureaucratic portion of the Soviet population, many of whom, based on their personal experience, remained skeptical about any initiatives coming from the top party bureaucracy; (2) to convince the Soviet people that the expected growing power of the lower levels of the bureaucracy would not be pursued at the expense of the general populace, because the policy of *glasnost* would serve as a guarantee that those who abuse their power would be openly named and prosecuted; (3) to switch the attention of those would-be unsatisfied with the *perestroika*'s policies of decentralization from the national to the local level, that is, from the central to the local bureaucracy; (4) to bring to the field of restructuring the skeptical Soviet intelligentsia by assuring it that the Soviet leadership was serious and sincere in its desire to meet the intellectuals' needs.¹⁹

Obviously, such an *indeterminate* policy *provoking a more open split in society* was doomed to failure. Further confusing the relations *within* the bureaucracy and *between* the bureaucracy and the non-bureaucratic population, "*perestroika* based on *glasnost*" had simply complicated the rules of the socioeconomic "game," thus discouraging the major productive force of the country, the Soviet non-bureaucratic population. As a result, being unable to solve the old problems of centralized inertness and irresponsibility, "*perestroika* based on *glasnost*" was simply piling up new problems of growing anarchy, unemployment and inflation. Thus, "reforms" did not delay the end of the totalitarian state capitalist system, but, on the contrary, speeded up its disintegration.²⁰

Short summary

Viewed from a philosophical point of view, the Soviet experience confirms Karl Marx's dictum that it is people who create history. But the Soviet experience proves this by correcting Marxist thought: people make their own history not only actively but *passively* as well. Soviet village-communal-type man created the Soviet bureaucracy in his own image. For, it was the passive slavish-peasant mentality of the Soviet people which had broken the early fanatical and romantically naive Bolsheviks. It was this people's passivity which forced the Bolsheviks, in the final analysis, to take upon themselves the management of all life in the country and, as a result, unwittingly to turn themselves into a ruling class of Soviet society.²¹

But as Soviet society progressed, the early, predominantly semiliterate, village-communal-type Soviet bureaucracy (an outcome of the village-communal peasantry) was destined to accomplish a

tardy industrial revolution in the country and in turn (as a result of this industrial revolution) gradually was being transformed itself, becoming more and more urbanized, more literate, less village-communal, and finally a more individualistic bureaucracy.

Due to such a metamorphosis, consequences became causes. The new bureaucracy was creating and “educating” the new, industrial, urbanized, literate Soviet people. And now, it was also this new bureaucracy which was leading the Soviet people towards the destruction of this same socioeconomic structure which, at one time, the Soviet people had “forced” the bureaucracy to create.

Thus, we repeat, in our opinion, the decisive factor which caused the destruction of the Soviet socioeconomic system was *not economic but social*. The system of totalitarian state capitalism was crushed by the very bureaucracy which managed its creation and whose interests (a significant part of the bureaucracy) the system, at some point, stopped to satisfy. In our view, no other reasons can *fully* explain the disintegration of the mature Stalinist economic model.

However, there are those who argue that, on the contrary, it is precisely the economic factors which led to the demise of the Soviet economic structure. Let us listen closely to some of these people.

A Russian economist²² writes:

Under the centralized planning system, economic growth had its own peculiarities:

1) ... a cyclical recurrence of economic development ... Although the total volume of output was systematically growing, fluctuations of the average annual indices ... remained. The periods of accelerated growth were followed by periods of adjustments, after which everything repeated itself ...

“So what?” one is tempted to ask. People in much less developed countries of the world might say “we would like to have your problems.” In these countries a cyclical recurrence of economic development includes not only accelerated or decelerated positive but negative rates of growth as well. But these people do not change nor do they have any intention to change their socioeconomic structure.²³

The Russian economist continues:²⁴ “2) The quality of economic growth ... was poor ... no success had been achieved to fully overcome the syndrome of shortages.”

But these two negative factors, the poor quality and shortages of basic commodities, had been an integral feature of the Stalinist model of economic development from the very first day of its appearance. Moreover, as far as scarcity of consumer goods was concerned, this was a much more painful phenomenon during the early years of this model, the years of the Stalinist five-year plans (when entire villages were dying out, when the village was “traveling” to the town in order to “get” foodstuffs) than during the Brezhnev-

Gorbachev periods when the problem of village hunger was practically resolved. And, nevertheless, 'socialism' collapsed in the 1990s and not in the 1950s.

The same Russian economist puts forward yet another argument.²⁵ "3) Despite high rates of economic growth, the standard of living of the population of ['socialist'] countries remained low ... from the point of view of the population, it was growing rather slowly which caused social dissatisfaction ..."

This statement actually repeats what was said earlier in point 2. Yes, the Soviet standards of living were lower than that of the major advanced countries. But they were higher than in many other countries in Asia, Africa, and Latin America.²⁶ Why did *these* countries not alter their socioeconomic systems?

It is true that in *absolute* terms Soviet standards of living in the 1980s were much higher than that of the 1950s. It is also true that in *relative* terms, that is, from the point of view of the Soviet people's expectations, it was low. But we can also assume that this lag existed earlier on as well. So if the lag between reality and expectations in the country's standard of living had persisted for a long time; if the lag was the cause of the Soviet Union's demise (as the economist asserts), why such a rush at *this particular* time to change the system and bring this incongruity into conformity?

This Russian economist also believes that 4) Under the conditions of centralized planning in the economy, there emerged a peculiar "fatigue of growth." With completion ... of the period of high rates of growth in the [19]50s - [19]60s, ... [the latter] considerably decreased ... [because of] the lowering of [the] efficiency [of investment].²⁷

But there is nothing "Soviet" in this phenomenon. The "fatigue of growth" mentioned is known to many countries having had to start from a very low level in their development. These countries initially were able to achieve significant rates of growth and after that, as they matured, were forced to sharply reduce the speed of their economic development.²⁸ At different historical times, this was the experience of Great Britain, the United States, and other developed countries of the world. But none of these countries, during a slow down in their rates of economic growth, had to breakup their socioeconomic structures.

Let us conclude with the following prophetic words of Western observers with regard to the fate of the Stalinist model of totalitarian state capitalism:

It has been a common expectation that the technocratic imperatives of industrial maturity would eventually lead to a softening of communist central control, and its replacement by more liberal, market-oriented practices. The judgment of Raymond Aron that 'technological complexity will strengthen the managerial class at the expense of the ideologists and militants'

echoed an earlier one that technocrats would be the 'grave-diggers of communism.'²⁹

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Notes to Chapter 10: Perestroika as the Agony of the Stalinist Model

- 1 Based on E. Raiklin, “The Disintegration of the Soviet Union,” *International Journal of Social Economics*, Volume 20, Numbers 3/4, 1993, pp. 44 - 47; E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Ekonomicheskii Rost I Razvitie*. Moscow: “Nauka,” 2001, pp. 201 - 204; E. Raiklin, “On People’s Welfare in Aganbeguan’s ‘The Economic Challenge of Perestroika’,” *International Journal of Social Economics*, Volume 16, Number 7, 1989, pp. 16 - 33; E. Raiklin, “Reflections on Economic Aspects of Gorbachev’s Book ‘Perestroika: Wishful Thinking for a Make-believe World’?” *International Journal of Social Economics*, Volume 16, Number 3, 1989, pp. 9 - 33; E. Raiklin, “The Soviet Union in Transition (The Question Is Open to Discussion),” *International Journal of Social Economics*, Volume 15, Number 7, 1988, pp. 12 - 23, 29 - 36; E. Raiklin and K. McCormick, “Soviet Men on the Road to Utopia: A Moral-psychological Sketch,” *International Journal of Social Economics*, Volume 15, Number 10, 1988, pp. 33 - 34, 58 - 62.
- 2 V. Kluchevsky, *A History of Russia*, trans. by C. Hogarth. New York: Russell and Russell, 1960, p. 10.
- 3 Confirming the view that changes within the system by those who are in power are sought only when this becomes a matter of vital necessity, Gorbachev (M. Gorbachev, *Perestroika. New Thinking for Our Country and the World*. New York: Harper and Row, 1987, p. 17) writes:
 “... one thing should be borne in mind when studying the origins and essence of perestroika in the USSR. Perestroika is no whim on the part of some ambitious individuals or a group of leaders.
 Perestroika is an urgent necessity arising from the profound processes of development in our socialist society. This society is ripe for change. It has long been yearning for it. Any delay in beginning perestroika could have led to an internal situation in the near future, which, to put it blindly, would have been fraught with serious social, economic and political crises.”
- 4 “It is a common feature of all political and social systems that those who benefit most from their existence tend to identify the preservation of their privileges with the good of society” (A. Nove, *Stalinism and After*. London: Allen and Unwin, 1975, p. 172).
- 5 B. Mieczkowski and O. Zinam, *Bureaucracy, Ideology, Technology*. Charleston, Illinois: Association for the Study of Nationalities (USSR and Eastern Europe), 1984, p. 396.
- 6 “Everyone will probably have to make sacrifices at the first stage of perestroika ... perestroika ... is designed to bring society to new

frontiers and raise it to a qualitatively new level" (M. Gorbachev, *Perestroika. New Thinking for Our Country and the World*, pp. 52, 53).

7 Ibid., p. 53f.

8 Thus, making a mockery of Marx's famous dictum that "life is not determined by consciousness, but consciousness by life" (K. Marx and F. Engels, *The Eighteenth Brumaire of Louis Bonaparte*. Peking: Foreign Languages Press, 1978, p. 47).

9 Nove (A. Nove, "History, Political Culture, and Economics in the Soviet Union," in H. Hoffman, A. Nove and H. Vogel, eds., *Economics and Politics in the USSR, Problems of Interdependence*. Boulder, Colorado: Westview Press, 1986, p. 14) predicts, along the familiar to us line, why the totalitarian state capitalist system would be unable to revitalize itself:

"A problem with such a system is that its dynamism depends on pressure from above. This is also of vital importance for the economy ... In the absence of the stick of competition and of the carrot of profit-making, inertia is a major problem. True, terror has its own high economic costs, but its absence, in the absence of effective alternative stimuli, leave the system short on dynamism."

10 M. Gorbachev, *Perestroika. New Thinking for Our Country and the World*, p. 49.

11 Ibid., p. 52.

12 W. Trzeciakowski, cited in B. Newman, "Polish Church, Communist Party Search for a Workable Power-Sharing Formula," *The Wall Street Journal*, 12 May, 1988.

13 M. Gorbachev, *Perestroika. New Thinking for Our Country and the World*, 1987, p. 22.

14 Ibid., p. 36.

15 "Today our main job is to lift the individual spiritually, respecting his inner world and giving him moral strength... . Perestroika means overcoming the stagnation process, breaking down the braking mechanism, creating a dependable and effective mechanism for the acceleration of social and economic progress and giving it greater dynamism. Perestroika means mass initiative. It is the comprehensive development of democracy, socialist self-government, encouragement of initiative and creative endeavor, improved order and discipline, more glasnost... . Perestroika is the all-around intensification of the Soviet economy, the revival and development of the principles of democratic centralism in running the national economy... . Perestroika means ... the combination of the achievements of the scientific and technological revolution with a planned economy. Perestroika means priority development of the social sphere aimed at ever better satisfaction of the Soviet people's requirements for good living and working conditions, for good rest and recreation, education and health care. It means unceasing concern for cultural and spiritual wealth, for the culture of every individual and society as a whole" (ibid., pp. 30, 34, 35).

According to this design, the end-result of perestroika was a better "socialism" and, hence, the speeding up of the arrival of communism:

"The ultimate goal of the CPSU is to build communism in our country. Socialism and communism are two consecutive phases of one communist formation. There is no distinct line dividing them: the development of socialism, an ever fuller revelation and use of its possibilities and advantages, and the consolidation of the general

communist principles characteristic of it—this is what is meant by the actual advance of society to communism [that is, people were told not to look for the arrival of communism at some *definite* date, for there would be no such a date. People would simply *feel* its coming. Thus, communism was becoming like a *horizon* whose achievement was impossible by anyone to claim.]” (“The Program of the Communist Party of the Soviet Union. A New Edition,” in *The Challenges of Our Time. Disarmament and Social Progress*. New York: International Publishers, 1986, p. 174).

Whether the Gorbachev leadership sincerely believed that it would be able to find the lost road and thus renew the “masses’” march towards utopia is hard to say. It could be that some of its members, including Gorbachev himself, really thought that this could be done. It is more probable that the others were either confused (like the rest of the Soviet population) or were simply hanging on, not having faith in anything, except their own power.

In any event, the personality of Gorbachev and his circle revealed the extent of degeneration of the Soviet bureaucracy in its final years. In place of the early Bolshevik leaders of determination, strength and deeds (Lenin, Trotsky, Stalin) came late Bolshevik leaders of the Gorbachev type, who were weak and starry-eyed phrase-mangers.

- 16 J. Hardt and R. Kaufman, “Gorbachev’s Economic Plans: Prospects and Risks,” in *Gorbachev’s Economic Plans. Study Papers Submitted to the Joint Economic Committee Congress of the United States*, Volume I. Washington: US Government Printing Office, 23 November, 1987, p. xiii.
- 17 M. Gorbachev, *Perestroika. New Thinking for Our Country and the World*, 1987, pp. 89, 88.

In this respect, a very knowledgeable and insightful Western observer writes:

“The crisis [that led to Gorbachev’s reforms] had been created by the mechanisms of economic management that had emerged in the 1930s and were still powerful. The new leaders saw the problem clearly: the party had been sponsoring the state machine, but in the process the political arm had become an adjunct of the economic machinery, rather than the other way around. The political agency had succumbed, become ‘economized’ ... and political leadership had been relegated to three deeply enmeshed bureaucracies, state-economy-party, that rigidly and mechanically applied the methods used in economic management to all problems it faced. This single-mindedness had succeeded for a time, but had by now turned into a trap. The national leadership had failed to develop ways of adapting to and dealing with the crucially important spheres of society and culture. As the newly urbanized society took shape, it began placing pressure on the governing model, insisting that each sphere of action receive the attention it needed and that new institutions and new methods be created to serve the new social forms. The system needed to ‘loosen up’” (M. Lewin, *The Gorbachev Phenomenon. A Historical Interpretation*. Berkeley, Los Angeles: University of California Press, 1988, pp. 112 - 113).

- 18 M. Gorbachev, *Perestroika. New Thinking for Our Country and the World*, 1987, p. 66.

- 19 There were also other sides of *glasnost*. Here is what *The New York Times* had to say on 27 December, 1987, that is, several days before the start of *perestroika*:
- “The first serious test of *perestroika* starts Jan. 1 [1988], when the first of the major economic reforms take place. Enterprises generating some 60 percent of Soviet output will cease being passive cogs in the wheels of the central plan. ‘Self-financing’ plants will be free to bargain with suppliers and wholesale customers for some products. Successful enterprises will be permitted to keep much of their profits ... Unprofitable enterprises will suffer the classical capitalist penalty: bankruptcy. Perhaps a quarter of all enterprises are expected to be unprofitable the day they become self-financing.”
- These were the extracts from the *Law of the State Enterprise* of 1987. It needs to be added that, besides the *state* enterprise, “*perestroika* based on *glasnost*” also *envisioned* the following measures:
- In accordance with the *Law on Private Economic Activity* of 1986, to legalize some activities outside the state sector of the economy in a form of *cooperatives* and *individual labor activities* (see, for instance, K. Plokker, “The Development of Cooperative and Individual Labor Activity in the Soviet Union,” *Soviet Studies*, Volume 2, July 1990);
- Joint ventures* with foreign firms and the relaxation of the monopoly of Soviet foreign trade (by allowing more direct relations between Soviet enterprises and foreign firms) to make domestic Soviet enterprises more competitive in the world;
- Since Gorbachev’s “reforms” had a very short span of time and had remained mostly in the realm of *intentions*, these activities actually started either simply functioning or flourishing only in the post-Soviet era. We, therefore, will return to their analysis in the subsequent chapters.
- 20 As far as statistics of the Gorbachev era (1985 - 1991) is concerned, the reader was introduced to it in the previous chapters dealing with the *late-Soviet* production, consumption, employment, inflation, foreign trade relations, etc. Thus, there is no need to repeat the numbers again.
- 21 The people’s passivity and slavish mentality were not created by the Bolsheviks. This goes back in history, long before the Bolsheviks’ accession to power (see, for instance, The Journals of the Marquis de Custine, *Journey for Our Time*, ed. and trans. by P. Kohler. New York: Pellegrini & Cudahy, 1951). In general, it can be said that it is not the oppression of the rulers which makes their people passively submissive; on the contrary, it is the passive submissiveness of the people which allows their rulers mightily oppress their people.
- 22 G. Kolodko, “Globalizatsia i sbliženie urovnei ekonomicheskogo razvitiia: ot spada k rostu v stranakh s perekhodnoi ekonomikoi” [Globalization and Bringing Together the Levels of the Economic Development: From the Slump to the Growth in Countries with Transitional Economies], *Voprosy ekonomiki* [The Problems of Economics], Number 10, 2000, pp. 7 - 9.
- 23 See, for instance, some data on the average annual growth of total GDP and GDP per capita of some countries in 1997 - 1998, The World Bank, *World Development Report 1999/2000: Entering the 21st Century*. Oxford: Oxford University Press, 1999/2000, pp. 230 - 231.
- 24 G. Kolodko, “Globalizatsia i sbliženie urovnei ekonomicheskogo razvitiia: ot spada k rostu v stranakh s perekhodnoi ekonomikoi”

[Globalization and Bringing Together the Levels of the Economic Development: From the Slump to the Growth in Countries with Transitional Economies], pp. 7 - 9.

25 Ibid.

26 For instance, "... in 1982 the Soviet Union occupied 38th place in the world in terms of consumer expenditures per capita" (E. Raiklin, "On People's Welfare in Aganbegian's 'The Economic Challenge of Perestroika'," *International Journal of Social Economics*, p. 17).

27 G. Kolodko, "Globalizatsia i sbližhenie urovnei ekonomicheskogo razvitiia: ot spada k rostu v stranakh s perekhodnoi ekonomikoi" [Globalization and Bringing Together the Levels of the Economic Development: From the Slump to the Growth in Countries with Transitional Economies], pp. 7 - 9.

28 On this subject, see A. Gerschenkron, *Economic Backwardness in Historical Perspective*. Cambridge, Mass.: Harvard University Press, 1962, ch. 1.

29 M. Lewin, *The Gorbachev Phenomenon. A Historical Interpretation*, p. 95.

PART VIII
THE FIRST STAGE IN THE DEVELOPMENT OF THE
POST-SOVIET SOCIOECONOMIC SYSTEM
(1991 - PRESENT)

We remember that various bureaucratic layers and various bureaucrats had very complicated relations within the Soviet socioeconomic structure. From such a complex web of relations, which became even more intricate by Mikhail Gorbachev's reforms of *perestroika* and *glasnost*, there followed a divergence of interests and motives of activities for various parts of the bureaucracy in the decaying Soviet and emerging post-Soviet system.

In our opinion, to understand the various approaches of these various strata of the Soviet bureaucracy towards the socioeconomic structure passing from and to that of the arriving at the historical scene is the key to unraveling the "secrecy" of the post-Soviet society. For this, we need to move back and forth from the 1991 watershed dividing Soviet and post-Soviet epochs. The task will be attempted in the first chapter of Part VIII.

PART VIII
THE FIRST STAGE IN THE DEVELOPMENT OF THE
POST-SOVIET SOCIOECONOMIC SYSTEM
(1991 - PRESENT)

Chapter 1
Transformation in Its Major Behavioral Motivational and
Legal Aspects:
The End of the 1980s - the Beginning of the 1990s¹

Before tackling the problem of the major behavioral motives in the process of transformation, we need to get to know the concept of the *closeness* of the various strata of the Soviet bureaucracy to the process of production and distribution of wealth.

General observations with respect to the closeness of possessors to the process of management of the national wealth creation

For wealth *per se* is a stock, it must be continuously replenished by a stream of goods and services emanating from productive activities of the nation. There could be no doubt that, in principle, the closer a possessor was to such a process, the stronger had to be his desire to become a legally recognized owner, and, hence, the more ardent defender of denationalization he ought to be. It is obvious that in the complex semi-feudal web of relations, various bureaucratic layers had different accesses to the process of wealth creation.

The proximity question contains three sets of problems. They are: closeness versus remoteness; directness versus roundaboutness; and, finally, the meaning of denationalization.

Closeness versus remoteness

The first is the primary problem of nearness versus remoteness. How far was a certain bureaucratic stratum, in its function of possession, from the production and allocation of the national property? The *horizontal* differentiation of the bureaucracy, discussed in the first chapter of the first part of the book, provides the answer to this question.

By ranking on a scale from 1 (the closest) to 6 (the furthest) the degree of proximity of the various horizontal types of the bureaucracy to the process of creation of the national wealth, the *economic* bureaucracy comes first. This is because its *sole* function,

within the social division of labor, was to manage the *everyday* supervision and control of the production and allocation of goods and services by the nation.

The *party* bureaucracy, *one* of whose *major* duties, within the social division of labor, was the *general* supervision and control of the activities of the economic bureaucracy, occupied the second place.

The third place belonged to the bureaucracy of the official *trade unions*. *One* of their *major* tasks, within the social division of labor, was to tame the Soviet worker and hence to facilitate the job of the party and the economic bureaucracies in running the Soviet economy.² Fourth and fifth ranks were shared by the military and the ideological bureaucracies, respectively. Since their *primary* assignment, within the social division of labor, was to safeguard the existing socioeconomic system, they were creating conditions for the preservation of the bureaucratic ownership and possession.³

Finally, the type of horizontal bureaucracy which was further removed from the process of wealth creation than any of the others was the bureaucracy of the soviets. The reason was simple. The bureaucracy of the soviets was always a “fig-leaf” of the system of “developed socialism.” Its control over certain local branches of Soviet economy was, to a large degree, nominal (formal), because (and this was especially true for the late Soviet period) it came into conflict with the interests (and control) of either the local economic bureaucracy situated closer to the process of production or the much more powerful local party bureaucracy.⁴

Directness versus roundaboutness

In the question of proximity, the second set is a derivative of the first. It can be reduced to the problem of directness versus roundaboutness: within the *economic* bureaucracy, which was the closest to the process of the national wealth creation, how *directly* were its particular ladders involved in the supervision and control of the process?

Clearly, the *lower* the layer of the *economic* bureaucracy was, the *more directly* it was engaged in the actual procedure of production and allocation. Hence, in terms of directness, the petty (the lowest) economic bureaucracy might be ranked first.

It is equally obvious that the *higher* a stratum of the *economic* bureaucracy was, the *less directly* it was involved in the real process of production and distribution of goods and services. Thus, with respect to directness, the *highest* economic bureaucracy was the most remote from the immediate process of production as compared to all other ladders of the *economic* bureaucracy.

The meaning of denationalization

The third issue of proximity is related to the essence of denationalization. It has been stated earlier that there had to be a direct correlation between the proximity of the possessor of the national wealth to the process of production and his inclination for *denationalization*. The importance of denationalization to the entire process of Soviet economic reforms renders it necessary to delve into the meaning of the concept.

The term “denationalization” has an explicit *negative* connotation. The *positive* message which the notion carries remains undefined. This is understandable because the positive meaning of the concept depends solely on the socioeconomic conditions under which denationalization is implemented.

For the Soviet situation, denationalization in its negative sense entailed a simple act. It was the removal of the national wealth from the ownership and possession by the *all-union, central* government, that is, by the highest Soviet bureaucracy. On the other hand, multiple positive goals of the Soviet-type denationalization led to the following.

Denationalization in the form of territorialization. This was an act of the transfer of pieces of the national property held within the territory of the all-union or autonomous republics and localities from the *all-national bureaucratic* ownership and control to:

The bureaucracy of the union republics, or *union republican territorialization*

The bureaucracy of the autonomous republics, or *autonomous republican territorialization*

The bureaucracy of the provinces within the republics (union and/or autonomous), or territorialization in the form of *regionalization*

The bureaucracy of the districts (and/or cities) within the regions, or territorialization in the form of *communalization*

But the all-national pyramidal bureaucratic structure was replicated at the lower administrative levels. Therefore, in terms of territorialization, the vertical-horizontal rules of the bureaucratic possession and of the direct relationship between the proximity of various horizontal and vertical bureaucracies to the process of production and their desire for legal and actual ownership had to be also applied to those lower than the all-national administrative ladders.

Denationalization in the form of privatization. Privatization as a form of denationalization was a process of the placement of pieces of the national wealth into the ownership and possession of private individuals and corporations.

Two groups of economic agents aspired to denationalization in the form of privatization. First, the *members* of the bureaucracy, or *insiders* to the bureaucratic pyramidal system. In this case, in the view of the previous analysis, the lower a certain bureaucratic layer within the vertical hierarchy and/or closer it was to the process of production of the national wealth, the stronger had to be its voice for privatization.

However, a psychological element was added. The loudness of the voice for privatization depended also on the propensity of the bureaucratic ladder to take a risk in changing its status from that of the more or less riskless possessor to a more or less risk-taking owner. Obviously, the more risk-averse the bureaucrat was, the less was his inclination to jump into the unknown waters of proprietorship.

Second, economic agents *outside* the bureaucratic pyramidal structure. The outsiders, in turn, combined two subgroups of economic agents.

The first subgroup included the *non-bureaucratic* elements of the Soviet population. Since the group did not belong to the circle of the bureaucratic possessors (who in totality comprised the class of bureaucratic owners), the attitude of the bureaucracy toward these outsiders had to be diametrically opposite than that to the would-be actual owners from the ranks of the bureaucracies-possessors. Hence, the lower the bureaucracies were in the hierarchical structure and the nearer they were to the production process, the more resolutely they might be expected to oppose the privatization of the national property by the outsiders.

Non-Soviet citizens belonged to the second subgroup of the outsiders. In this case, privatization of state property implied its acquisition by foreign individuals, corporations and/or governments. Foreigners could participate in the ownership of the Soviet means of production either as sole proprietors or in cooperation with Soviet partners.

The major motives and interests during the transitional period

Such a description shows a divergency of motives and interests with respect to the socioeconomic disintegration of the Soviet system. Let us examine them closely.

The status-quo approach

Previously, it has been emphasized that it was the Soviet bureaucracy which destroyed the Soviet socioeconomic system. This statement needs some correction: there were certain segments of the bureaucracy which wanted to preserve the totalitarian state capitalist structure of Soviet society.

As it can be expected, the higher its position within the vertical pyramidal structure, the less a bureaucratic faction was involved in the immediate process of production of goods and services and/or the more it found itself within the ranks of the military-industrial complex (with its extremely privileged and protected status in the Soviet system of priorities in the allocation of the productive resources),—then, other things being equal, the stronger the voice of such a bureaucracy was going to be for the preservation of the Soviet socioeconomic system. For, such a bureaucracy had everything to lose (from power to prestige to material and financial security and privileges) from the disintegration of the existing structure. The economic bureaucracies of the ministries, central administrative boards, trusts, associations, and of those enterprises that were either the most protected and nourished and least exploited by the system of state priorities (such as heavy industry) or were the most threatened by and had little to gain from privatization (agriculture), as well as the top middle administrative bodies of the party, military, the official trade unions and other bureaucracies,—these and some others were likely to be among the prime defenders of the old regime of centralized state monopolies.⁵ (But, of course, as we will observe later, there were exceptions to the rule.)

The bureaucratic status-quo conservatives were not alone in their stand. They had followers among that portion of the Soviet population which did not belong to the bureaucracy and which had no stake in the process of denationalization in any form. The interest of the status-quo bureaucrats in preserving the system of centralized state monopolies appealed to many people in the Soviet Union.

One source of the attraction was the stability and predictability such a structure brought to the common people in the fields of prices, wages and employment. Another cause was the illusion of equality in the standard of living that the Stalinist system created among the non-bureaucratic part of the population.

Decentralization within the pyramidal structure, or from centralized to decentralized state monopoly

Decentralization meant economic-branch denationalization of *exclusively* all-bureaucratic *possession*. During the process of decentralization, a shift took place in the management of and control over a part of the all-bureaucratic “pie” from the *highest economic* layers of the bureaucracy to its *lowest* layers and non-bureaucratic economic agents. But the *bureaucracy as a whole*, that is, the all-bureaucratic structure, had remained the *owner* of the decentralized portion of the national “pie.”

The movement of decentralization reflected the attitude of the economic bureaucracies of those enterprises which were less

protected and nourished and most exploited by the system of state priorities, but which were not threatened by privatization (for example, unprofitable large-scale enterprises in light industry, trade and services). The inclination of these bureaucracies was to create for themselves a freer environment by weakening the chains imposed on them by the party bureaucracy and the higher levels of the economic bureaucracy.

The Communist Party bureaucracy, their principal supervisor, having lost, as we have seen, any moral and ethical ground for its governance of the country, had been on the decline for several years. During this time, the dreams the bureaucracies had of running their own show were gradually coming through. Then, with the formal suspension of the activities of the party after the failed August 1991 coup⁶ and with a visible vacuum of political and economic power in the country, the bureaucracies were able to enjoy even more freedom.

We define such a movement as one that was directed away from *totalitarian* state capitalism and towards *authoritarian* state capitalism. The aspirations of the advocates of this course were to transform the economy (which was still nationalized, that is, all-bureaucratized) into a structure where a greater power to make decisions to allocate productive resources would shift from the higher to the lower levels of the bureaucracy (especially economic) within the framework of indicative central planning and a weakened or formally abolished party bureaucracy. In essence, as long as the transformation was taking place within the hierarchical bureaucratic structure of state ownership, it meant the replacement of *centralized* state monopoly by *decentralized* state monopoly.

From state monopoly to decentralized semi-non-state (semi-state) monopoly

Like the previous trend, this was a movement towards decentralization. However, unlike the previous trend, the movement was taking place *partially* outside the confines of the bureaucratic pyramid in the form of a *partial privatization* of the state (all-bureaucratic) property. Three major forces were behind this movement.

First, former managers of the economic ministries and departments of such profitable branches of fuel and energy and raw-materials' industries, as gas, oil, etc. Like the representatives of the previous movement, these managers wanted to escape the control by the party-planning center, but, unlike the representatives of the previous movement, they needed no *all-bureaucratic* guardianship. They desired to skim the cream off the enterprises within *their financial-industrial group*,⁷ but they were *compelled* to take into account the *all-bureaucratic* interests, which were pretended to be in the interests of the nation as a whole.

Second, managers (directors) of the above mentioned branches of industry, whose task was a *direct* and *immediate* supervision of the process of production and distribution of the high profitable product.

Third, forces *outside* the initial group bureaucratic structure. These were *forces of money* (Soviet-era operators of the black and shadow markets plus foreign firms). In contrast to the first two forces of *decentralization* with the help of the established bureaucratic economic connections, this third force was a supporter of *privatization* with the help of the new (outside the bureaucracy) domestic and foreign money means.

Decentralized semi-non-state (semi-state) monopoly took a form of the joint-stock company with a certain share of state (that is, all-bureaucratic) capital on the federal (examples: RAO "UES," Gazprom") and regional (that is, territorial-bureaucratic) levels.

Both movements [decentralization within the pyramidal structure, or from centralized to decentralized state monopoly, and from state monopoly to decentralized semi-non-state (semi-state) monopoly] have become integral parts of post-Soviet authoritarian state capitalism.

The movement to non-state enterprises

The movement took place along two paths. First, through *privatization* of a big chunk of state centralized monopolies (state retail trade, public catering and services). Thus, for a certain "payment" (bribe) made to the representatives of the all-bureaucratic property, its parts, *in the final analysis*, were becoming the property either of enterprise managers, who, as a result, had been transformed into independent actual owners, or of outsiders, that is, of non-bureaucratic buyers.

Second, through creation of *new* enterprises by various economic agents (insiders or outsiders to the bureaucracy) with the same bribing means.

With the elimination of the party and of the centralized planned control over the all-state ownership and distribution of economic resources, characterized the Soviet system of totalitarian state capitalism, the process of decentralization and privatization took place as follows. First, decentralization manifested itself in the *transformation of the all-bureaucratic* (all-state) ownership and, correspondingly, of the *all-bureaucratic* (all-state) allocation of economic resources into the *group bureaucratic* (branch, regional and municipal, that is, local) ownership and, correspondingly, into their *group bureaucratic* allocation, with some portion of non-state capital. Second, privatization was carried out either by the detachment of parts of the *all-bureaucratic* property or by the creation of new, independent enterprises outside of the latter.

The major legal aspects of the transformation

Let us now turn to some major legal aspects of the development of the post-Soviet socioeconomic system, certain elements of which, as we have seen, had already begun appearing during the late Soviet period. In accordance with the major motives of the transitional period discussed early (except that of the status-quo), we will divide our analysis into four parts.

In the first part, we will show the legal aspects of decentralization of the all-bureaucratic property. In the second part, we will examine the legal aspects of its territorialization. In the third part, we will analyze the legal aspects of bureaucratic-non-bureaucratic decentralization of the all-bureaucratic property. And, finally, in the fourth part, we will look at the legal aspects of privatization of the all-bureaucratic property and its transformation into the non-state private property.⁸

The legal aspects of the intra-bureaucratic process of decentralization of the all-bureaucratic property

In its *essence*, this was to be a process of the transformation of the all-bureaucratic possession of a part of the property into a group bureaucratic possession of this part of property, while conserving the all-bureaucratic character of the latter (that is, of the part). Such a transformation could not but be ambiguous, because it depended on the correlation of forces between the central bureaucracy and that segment of the economic bureaucracy which "received" in its possession a portion of the all-bureaucratic property.

Under the circumstances, three outcomes had to prevail. In the first case, the transforming part of the state property was to remain all-bureaucratic (all-state) not only *formally* but *actually* as well. In the second case, this part of the state property, *formally* continuing to be *all-state*, was *actually* to be conversed into the *group* bureaucratic property. Finally, in the case, when there was a semblance of the balance between the central and lower economic bureaucracies, the formal and actual borders of the ownership had to become rather ambiguous.

Be that as it may, since mandatory central planning and the party bureaucracy stopped functioning, in each of the three cases, to some extent, decentralized state monopolies were to be formed. Hence, the latter, depending on the correlation of forces between the center and the "bottom," were to take the following *organizational-legal* forms.⁹

The first case: a predominance of the central bureaucracy. Here an organizational-legal form of decentralized state monopoly was to be

performed by the *unitary enterprise* (whose owner was still to be the bureaucracy as a whole) of one of two major types:

(1) "The state unitary enterprise whose property is owned by the Russian Federation ... and is transferred to [the enterprise] into the operational management (at public expense)."¹⁰

This type of decentralized state monopoly was to perform exclusively a function of the *operational* management of the all-bureaucratic property, which the enterprise possessed (used). It means that its activity was to be devoid of any clear motive. This could be neither profit maximization by the bureaucratic possessor of a piece of the all-bureaucratic property aspiring to become its owner nor could it be physical product maximization by the bureaucratic possessor of the all-bureaucratic property, acting within the framework of mandatory central planning.

(2) "The state ... unitary enterprise whose property is owned by the Russian Federation ... and is transferred to [the enterprise] into the economic management ...".¹¹

Unlike the first type whose destination was only a *formal* possession (or, in other words, only an *actual* operational administration) of a piece of the all-union property, the second type of decentralized state monopoly presupposed a *certain actual possession* (that is, *actually* not only the operational but also the economic management) of pieces of the all-union-property. From this follows that, under the conditions of the disintegration of totalitarian state capitalism and the formation of authoritarian state capitalism, such actual possession had to *tend* to profit maximization.

The second case: a predominance of lower levels of the economic bureaucracy. In this situation, decentralized state monopoly was to take a form of the *joint-stock company*, "100 percent of the legal capital of which ... [was] formed from the property of the RF [the Russian Federation] ... while the property right to [the piece of the all-bureaucratic property] [that is, the possession right to it] [was] alienated to the joint-stock company, the legal person."¹²

As a legal person in command of a piece of the all-bureaucratic property, delegated to it, such an actually *state* joint-stock company was to receive a right to the *total actual* operational and economic management. Hence, other things being equal, activities of the company could not but to be motivated by the creation of conditions for profit maximization.

The third case: a balance of power between the central bureaucracy and its lowest economic layer. Legally, this case was not foreseen. But *actually*, in real life, it could represent something in the middle between the first and the second cases and, therefore, something very *amorphous, vague, ambiguous*.

Thus, it was possible to imagine a *formally* unitary enterprise whose management *actually* possessed (used, administered) it by bribing the higher authorities (for instance, the State Property Committee). In such a situation, the difference between the unitary enterprise and a joint-stock company was no longer to be in *actuality*.

The intra-bureaucratic (regional and municipal) process of territorialization of the all-bureaucratic property

This was to be a process of the transformation of the all-bureaucratic form of property and its possession into the territorial-group form. But, like in the case of decentralization, a territorial unit (a region or a locality), having received the property, was meant to possess (use, exploit, administer) it in the process of production not directly but in a roundabout way, that is, through the enterprise. Thus, from the point of view of *possession*, the process of territorialization of the all-bureaucratic property meant its regionalization or municipalization by the enterprise of a corresponding region or municipality (locality).

There were to be three organizational-legal forms of a *pure* regional or municipal decentralized monopoly. As under all-bureaucratic decentralization, each form would depend on the correlation of forces but now within the regional and municipal (local) bureaucracies:

(1) "The state unitary enterprise whose property is owned by ... a region of the Russian Federation ... and is transferred to [the enterprise] into the operational management (at public expense)."¹³

(2) "The state or municipal unitary enterprise whose property is owned by ... a region of the RF or by a municipality and is transferred to [the enterprise] into the economic management ...".¹⁴

(3) "The joint-stock company, 100 percent of the legal capital of which ... is formed from the property of ... a region of the RF or a municipality ... while the property right to [the piece of the regional or municipal bureaucratic property] [that is, the possession right to it] is alienated to the joint-stock company, the legal person."¹⁵

One thing needs to be clarified. *Legally*, the municipal form of power in Russia of the period under consideration (as well as at end of the XX - the beginning of the XXI centuries) was not considered a state structure. Therefore, *formally*, the municipal authorities could not have a bureaucratic character. But *actually*, under the conditions of the absence of the civil society and the preservation of a significant dependence of the municipal authorities on the regional authorities, on the one hand, and of the

passive, obedient population on the municipal authorities, on the other, the latter remained bureaucratic in its *essence*.

The bureaucratic-non-bureaucratic process of decentralization of the all-bureaucratic and territorial bureaucratic property

In this case, what was to take place was a process of the transformation of a certain part of the all-union and regional bureaucratic ownership into various kinds of possession (usage, management) by *non-bureaucratic* economic agents. In its *content*, such a decentralization implied that the *possession* of a portion of all-union and territorial bureaucratic property was to leave the confines of the vertical bureaucratic pyramid whose integral part this piece of property was. Decentralization of this type can be characterized as the creation of a state-non-state monopoly: “state,” in the sense of its all-bureaucratic and territorial bureaucratic owner; “non-state,” in the sense of its possessor.

Before we list the organizational-legal forms of such a decentralized monopoly, we need to clarify the following. Because of the amorphous state of the ownership-possession relations during the transitional period, the very term, “non-bureaucratic economic agents,” also had elements of a certain ambiguity. For, *non-bureaucratic* economic agents could include physical and legal persons: outside of the bureaucratic pyramid but also inside it, that is, in the last case, non-bureaucratic in relation to a particular part of the bureaucratic property transferred to their management and usage.

The following example makes this point clear: leasing of the enterprise by a group of physical persons who are bureaucratic managers of the enterprise leased. Here the leaseholders (new possessors, such as enterprise owners as its former possessors) are considered by the lease providers (the owners in whose name, say, the State Property Committee performs) not as their own but as the alien bureaucratic, and, hence, as non-state or non-territorial bureaucratic economic agents.

There were three organizational-legal forms of decentralized state-owning non-state possessing monopoly:

(1) “The state or municipal unitary enterprise whose property is owned by the Russian Federation, a region of the RF or by a municipality and is transferred ... to the physical or legal person—into the principal (confidential) property; to the private businessman (physical or legal person), labor collective, a group of physical persons—into leasing”¹⁶

(2) “The joint-stock company, 100 percent of the legal capital of which ... is formed from the property of the RF, a region of the RF or a municipality, and the property right to it [to the piece of the regional or municipal bureaucratic property] [that is, the

possession right to it] is alienated to the joint-stock company, a legal person.”¹⁷

(3) “The joint-stock company, the legal capital of which is formed by a share of the property of the RF, of a region of the RF and of a municipality, and the property right to it is alienated to the joint-stock company, a legal person.”¹⁸

The legal aspects of privatization of the all-bureaucratic and/or territorial bureaucratic property

From the first chapter of Part I the reader remembers that legality is referred to “what should be or should have been or should will be according to the law,” while social economy is “what it is or what it was or what it will be.” Accordingly, our analysis of the privatization process is divided into two parts.

In the remaining of this chapter we present the general *legal* provisions and main *normative* acts of privatization. In the second chapter of Part VIII of the book we then analyze the *socioeconomic* processes of full (complete) and partial (incomplete) privatization.

First of all, we need to make more exact the meaning of “privatization” given early in this chapter. Under the ambiguous, amorphous, iridescent conditions of the transitional period, privatization had to remain a vague, indeterminate phenomenon. In a sense, it was to repeat the history of relations of the ownership and the higher political power, their symbiosis in such a way that the *personal* political power change was usually to follow by the change in the *personal* or *group* ownership.¹⁹

It is natural, therefore, that the bigger, more important and “tastier” was a piece of the all-state and territorial bureaucratic property, to a lesser degree it had to be a subject to privatization. *Full* privatization was possible only with respect to those types of property as, for instance, small enterprises: retail, public catering, paid services, etc. As far as larger enterprises were concerned (and, first of all, industrial, agricultural, mining, mass communications, mass media, etc.), their privatization at that period (and also at the end of the twentieth - the beginning of the twenty-first centuries) could be nothing but a *partial, incomplete* departure of property from the all-state and group state bureaucratic “bosom” into the hands of the non-state economic agents; that is, such pieces of the state property did not go all the way to the latter (to the non-state economic agents).

Thus, during that period, privatization of the large and/or significant all-bureaucratic and group bureaucratic property, being partial, incomplete, was to create a *mixed, state-non-state, bureaucratic-non-bureaucratic* “product.” A state (non-state) share in it had to be directly depended on the strength (weakness), integrity (dishonesty) of the corresponding layers of the central or territorial bureaucracy

versus those state and non-state economic agents whose goal was to grab a “tasty morsel.”

The general legal provisions and main normative acts of privatization with our comments to them. A Russian statistical source²⁰ gives the following legal definition of privatization:

Privatization of state and municipal enterprises [is] purchase by citizens, joint-stock companies (associations) from the state, the state administrative federal organs, subjects of the [Russian] Federation [regions], municipal authorities into the private [non-state] ownership of enterprises, workshops, production units ... ; ... material and non-material assets of the [state] enterprises ... ; shares ... of the state and municipal organs in the capital of the joint-stock companies [associations] ... joint ventures, commercial banks ... [etc].”

This official characterization of privatization obscures its real, class meaning. Privatization is depicted here *not* as a chiefly intra-bureaucratic process of the separation of the all-bureaucratic and territorial bureaucratic property and its possession into the group bureaucratic, clan and shadow ownership and possession. Privatization is presented as a process of acquiring of the state, regional and municipal property by the *totally neutral* physical and legal persons.

On the question of the major legal purpose of privatization, a Soviet/Russian source²¹ asserts that it was “the creation of the independent proprietors.” The task of the latter was to maximize profits under the conditions of the production efficiency, modernization and development.

A careful analysis of this assertion reveals a clear ideological orientation of such an aspiration: a desire to transform the all-bureaucratic, corporate, abstract owner into a group, concrete proprietor, independent from the all-bureaucratic, corporate discipline of developed “socialism,” or totalitarian state capitalism. For, it is obvious that only the bureaucratic economic (and/or close to them) agents, with their huge connections (with each other and also with the “heroes” of the shadow economy who already had made money during the Soviet time) and with their proximity (in one degree or another) to the management of the process of production, had the best chance to become legal “independent owners” of that to which they had already been related as actual proprietors and possessors.

It needs to point out that not everything was allowed to be privatized. A post-Soviet Russian source²² provides a long list of those state (federal) objects that were forbidden to privatization.

But the long list ends with the following note to it: “The Government of the Russian Federation, in the enterprises included in section 2.1 of the Program [of privatization], might allow

privatization of some production units not connected to the production of special products.” The note actually cancels many of the prohibiting articles of the section 2.1 of the program of privatization. Thus, decisions to privatize or not to privatize the forbidden articles were left by the bureaucracy, which approved the document ... to the concerned bureaucrats.

The legal methods of privatization. In accordance with the above source, privatization of objects and enterprises not forbidden to be privatized envisioned a combined use of three methods. These were:

- (1) “a free sale of state (municipal) property of enterprises, assets, shares to citizens and legal persons not controlled by the government;
- (2) sales, on preferential terms (in some cases, it [was] permissible to transfer assets free of charge), of state (municipal) enterprises into the ownership of their employees;
- (3) gratuitous transfers of a part of assets of citizens of the RSFSR, subject to privatization, through the system of nominal vouchers and deposits.”

Thus, the authorities, responsible for the process of privatization, as the probable owners of portions of the bureaucratic (general or regional) wealth envisioned physical and legal persons in general as if these persons had no connections to the bureaucracy. In such a seemingly “neutral” way the Russian authorities stressed a just, impartial, neutral character of the process of privatization, in which, accordingly, could not be favorites, acquaintances and where all and everyone had an equal access to parts of the bureaucratic “pie.”

This seeming neutrality of the bureaucratic distributors of the bureaucratic property in the process of the latter’s privatization was especially stressed by its *nominal* orientation and by its gratuitous receipt. That is, judicially there was proclaimed a principle according to which no one would be deprived of his equal share of the national (bureaucratic) “pie.”

Such was a *formal* declaration of intentions of the authorities even at the Soviet time of the Gorbachev’s transformation of the mature “socialism.” Later, as it has promised, we will check the neutrality of privatization as it was *actually* carried out in post-Soviet Russia.

Legal privatization privileges. The process of privatization was to pass two stages. Before July 1, 1994, privatization had to have a non-monetary, *voucher* (privatization checks) character.²³ After that, state and municipal enterprises, not privatized for vouchers, were to be sold for *money*.

At both stages, in order to create conditions for the population (and especially its non-bureaucratic part) not to protest against the very process of privatization, the latter's managers took a great care to introduce certain privatization privileges to its participants. Besides privatization checks (vouchers) for the entire population, the privileges were given to the members of labor collectives (enterprises) as well as to the persons of the same status "[w]hen there are sales (a free of charge transfer) of the shares of joint-stock companies of the open type, created by the transformation of state and municipal enterprises, including those earlier transformed into joint-stock companies of the close type ..."²⁴

It was proclaimed that all members of the labor collective of the privatized enterprise and the persons of the same status had a legal opportunity to receive privatization privileges in accordance with one of the three versions.²⁵

A legal privatization privilege: the first variant. According to the first variant, *all* members of the collective of the privatized enterprise were to receive the following preferences: (1) only once, vouchers (privatization checks) in the amount of 25 percent of the legal capital, but not more than 20 times of the minimum monthly wage per person; (2) voting ordinary shares in the amount of 10 percent of the legal capital, but not more than 6 times of the minimum monthly wage per person, with a 30 percent discount from their value and by instalments for three months, with the initial contribution not less than 50 percent of the shares' value. Furthermore, the *administration* of the privatized enterprises was to have a chance to purchase ordinary shares up to 5 percent of the legal capital, but not more than 200 times of the minimum monthly wage per person.

Thus, the first variant of the privatization privileges was relatively candid in its *class* direction, for it divided the enterprise collective into a non-administrative (non-bureaucratic) and administrative (bureaucratic) parts, providing the latter with additional preferences, not stipulated for the former.

A legal privatization privilege: the second version. "All members of the labor collective of the privatized enterprise and the persons of the same status, who are given privilege rights, granted a right to acquire ordinary shares (with the voting right), constituting up to 51 percent of the legal capital. In this case, the gratuitous transfer and the sale of shares at discount are not exercised."

Hence, the second variant of the privatization privileges differed from the first in two respects: first, by the absence of the division of the collective of the privatized enterprise into administrative and non-administrative parts: formally it was announced that *each* member of the collective and *each* person of

the same status had an *absolutely equal* access to a piece of the privatized enterprise, regardless of the present and past position within the enterprise; second, *no* member of the collective of the privatized enterprise and *no* person of the same status was given an opportunity to obtain ordinary voting shares either free of charge or in the form of a discount from the share value.

So what was the privilege? It was in the following: despite an open character of the corporation (the joint-stock company) whose legal form was taken by the privatized enterprise, the latter's employees and the persons of the same status had an exclusive right to purchase the blocking share holding (up to 51 percent) and, therefore, a preferential right with respect to other potential external shareholders of the enterprise.

A legal privatization privilege: the third version. According to the third variant of the privatization privileges, a group of the enterprise employees or any physical and legal persons, by mutual consent of the labor collective of the enterprise, was allowed to take upon itself a responsibility for the fulfilment of certain conditions of privatization (preventing enterprise bankruptcy, personal material responsibility of the members of the initiating group for the fulfilment of the privatization contract in the form of a mortgage in the amount of not less than 200 times of the minimum monthly wage per each member of the group, etc.) during not longer than one year. In this case, preferential rights were to be distributed in the following way.

First, with regard to the initiating group of the employees of the privatized enterprise (potential internal owners) or any physical and legal persons (potential external owners). If after the term of the agreement the latter's obligations had been fulfilled, these economic agents were granted a right to purchase ordinary voting shares of the privatized enterprise in the full value in the amount of 30 percent of the enterprise legal capital.

Second, as far as *all* employees of the privatized enterprise and the above mentioned economic agents are concerned. They were given an opportunity to purchase ordinary voting shares in the amount of not more than 20 times of the legal capital of the privatized enterprise, not more than 20 times of the minimum monthly wage, on a discount of 30 percent of the share value, the payment of the rest of 70 percent of shares in instalments during three months under the condition that the initial contribution accounted for not less than 25 percent of the share value of the privatized enterprise.

It was especially emphasized that failure to meet the term obligations would strip the initiating group or physical and legal persons of a right to acquire shares, so that the latter were to be sold at auctions to the general public.

The following conclusions can be made. First, unlike the first variant but in accordance with the second variant, the third variant did not envisage the division of the collective of the privatized enterprise into its administrative and non-administrative parts. However, a category of potential *external* shareholders was permitted to participate in the process of privatization on equal grounds with the potential internal stockholders.

Second, like the first version of privatization, the law singled out a special group of people (internal as well as external in relation to the privatized enterprise) who were granted a privilege to obtain shares of the privatized enterprise as if twice: first, as the economic agents responsible for the fulfilment of the plan of privatization of the enterprise and, then, as members of the collective of the enterprise.

In conclusion, the following comments might be made with regard to all three variants. It is obvious that the first variant was more beneficial to the administration of the privatized enterprises (the petty and middle economic bureaucracy). There is also no doubt that the non-administrative part of the collectives of the privatized enterprises was mostly impressed with the second version. Finally, the third variant was more acceptable to the external investors (potential stockholders) of the privatized enterprises.

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Notes to Chapter 1: Transformation in Its Major Behavioral Motivational and Legal Aspects: The End of the 1980s - the Beginning of the 1990s

- 1 Based on E. Raiklin, "The Disintegration of the Soviet Union," *International Journal of Social Economics*, Volume 20, Numbers 3/4, 1993, pp. 12 - 13; E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Ekonomicheskii Rost i Razvitiye* [Principles of the Economic Theory. Economic Growth and Development]. Moscow: "Nauka," 2001, pp. 205 - 229; E. Raiklin, "The Social Significance of the Current Soviet Economic Programs," *The Journal of Social, Political and Economic Studies*, Volume 16, Number 1, Spring 1991, pp. 9 - 14.
- 2 The role of trade unions in the Soviet Union to induce workers to produce more and to obey discipline set by the party and economic officials was originally designed by Lenin. He wrote in 1918 (V. Lenin, "The Immediate Tasks of the Soviet Government," in V. Lenin, *Collected Works*, 4th ed., trans. by C. Dutt, ed. by R. Daglish, Volume 27. Moscow: Progress Publishers, 1974, Volume 27, p. 258):

"... the victory of socialism is inconceivable without the victory of proletarian conscious discipline over spontaneous petty-bourgeois anarchy..."

The more class-conscious vanguard of the Russian proletariat [the trade union] has already set itself the task of raising labor discipline. For example, both the Central Committee of the Metalworkers' Union and the Central Council of Trade Unions have begun to draft the necessary measures and decrees. This work must be supported and pushed ahead with all speed ... we must raise the question of applying much of what scientific and progressive in the Taylor system ... [to the conditions of the country] ..."
- 3 One might ask: "External only? Take the Soviet military bureaucracy. It possessed an enormous amount of the national wealth. It had one of the easiest accesses to the process of production and apportionment of the

military hardware. Why then is it put in the fourth-fifth place in terms of proximity?"

Such a question misses the point, for it was not the Soviet military which found itself in the role of the supervisor of the *production* of the military hardware, but the economic bureaucracy. Moreover, with or without privatization, the military hardware was destined always to be allocated to the military as the property of the nation-state, that is, as a so-called public good (which, of course, would not prevent the military, bureaucratic or not, to steal portions of it).

- 4 But, although the bureaucracy of the soviets was the most removed from the management of the process of production, this does not mean that it had no economic influence. At the end of the 1980s - the beginning of the 1990s, under the conditions of a persistent and wide-spread shortage of commodities, this horizontal layer of the bureaucracy was responsible for the consumer goods' rationing (for the latter, see P. Gumbel, "Soviet Ingenuity Is Filling the Food Gap. Shortages Are Greeted by Cynicism, Not Panic," *The Wall Street Journal*, December 7, 1990).
- 5 The fact that this analysis is not a pure speculation is confirmed by one of the witnesses of the abortive August 1991 *coup d'état* against Gorbachev. He observes that among those supported the putsch there were directors of large industrial enterprises and general directors of the largest industrial associations (see, S. Shelin, "Sankt-Peterburg: Nezametnaya Revolutsiya [St.-Petersburg: An Imperceptible Revolution], *Novoye Russkoye Slovo* [The New Russian Word], Russian American Daily, 31 October, 1991).

The composition of the State Committee for the State Emergency formed during the August coup was also notorious. The members of the Committee included representatives of the military-industrial complex (Baklanov and Tizyakov), the state agricultural farms (Starodubtsev), the top brass of the military (Yazov), the KGB (Pugo), etc. (see J. Corwin, "The Gang That Couldn't Shoot Straight," *US News & World Report*, 2 September, 1991).

And what was the aim of the coup-plotters? As an American correspondent (see L. Hays, "Moscow 14 Await Trial Over Coup; Gripes Include Health, Prison Food," *Wall Street Journal*, 18 September, 1991) reports from Moscow, "[t]hey assert that their brief seizure of power was intended to protect the country against aspiring capitalists, and wasn't aimed at those who wanted to maintain socialism."

- 6 The chronology of the plight of the CPSU is described in the following passage by American correspondents (see T. Morgenthau with F. Coleman and C. Bogert, "Now Comes the Witch Hunt," *Newsweek*, 2 September, 1991, p. 30) in Moscow:

"In the wake of the coup's collapse ... Yeltsin ... ordered the party shut down throughout Russia. And, at the weekend, Gorbachev himself resigned as general secretary, ordered all party property to be turned over to the people and urged the Central Committee [of the party] to formally dissolve the party."

- 7 We will subsequently talk about these groups.
- 8 No attempt will be made to delve into the process of formation of non-state private enterprises outside the state (all-union or group) property for a simple reason: we do not have enough statistical information.
- 9 On the organizational-legal forms of the ownership and possession emerging during the transitional period from the Soviet to the post-

Soviet socioeconomic system, see, for instance, *Grazhdanskiy Kodeks Rossiiskoi Federatsii* [The Civil Code of the Russian Federation], parts I and II, as of August 1, 2000. Moscow and St.-Petersburg: Izdatel'stvo "Torgovyi Dom 'Gerda'," 2000. But we need to emphasize that the problem of the organizational-legal forms of the socioeconomic processes of decentralization, denationalization and privatization we examine exclusively in the framework of our analysis of the splitting-up of the bureaucratic ownership and possession. We, therefore, completely ignore the *production* side of the problem, that is, a situation when an enterprise or a group of enterprises as a portion of the all-bureaucratic property plays a role of decentralized state monopoly due to the importance of its product for the country as a whole.

- 10 See *Kurs Perekhodnoi Ekonomiki* [A Course of the Economy in Transition], L. Abalkin, ed. Moscow: Finstatinform, 1997, p. 224.
- 11 Ibid.
- 12 Ibid.
- 13 Ibid.
- 14 Ibid.
- 15 Ibid.
- 16 Ibid.
- 17 Ibid.
- 18 Ibid.
- 19 The fate of count A. Menshikov, a favorite of Peter I, and, in our time, of some post-Soviet oligarchs, due to the change of the highest power from B. Yeltsin to V. Putin, comes to mind. The question of post-Soviet oligarchy will be discussed at a proper time.
- 20 *Metodologicheskiye Polozheniya po Statistike* [The Methodological Statistical Provisions], part I. Moscow: Goskomstat Rossii, 1998, p. 646.
- 21 *Sbornik Zakonodatel'nykh Aktov. Privatizatsiya Predpriyatiy. Kommentarii Zakonodatel'stva RSFSR i SSSR* [A Collection of the Legislative Acts. Privatization of Enterprises. Commentaries of the Legislation of the RSFSR and the USSR]. Moscow: "Ros. Kommersant," 1991, p. 3.
- 22 See *Sbornik Dokumentov. Privatizatsiya Gosudarstvennykh i Munitsipal'nykh Predpriyatiy v Rossii* [A Collection of Documents. Privatization of State and Municipal Enterprises in Russia], part 3. Moscow: "Niva Rossii," 1994, section 2.1.
- 23 The role of vouchers in the formation of the post-Soviet market of financial obligations will be discussed in one of the subsequent chapters.
- 24 *Privatizatsiya Posle 1 Iulia 1994 g.* [Privatization After 1 July, 1994]. Moscow: "Niva Rossii," 1994, pp. 15 - 16.
- 25 Ibid., pp. 16 - 18.

PART VIII
THE FIRST STAGE IN THE DEVELOPMENT OF THE
POST-SOVIET SOCIOECONOMIC SYSTEM
(1991 - PRESENT)

Chapter 2
The Implementation of Privatization:
The 1990s - the Beginning of the 2000s¹

In Chapter 1 of Part I we discussed *formally-legal* aims of privatization in Russia of the 1990s. Let us now see the *reality* of the process of privatization of the all-bureaucratic and territorial bureaucratic property.

To achieve this goal, we will use the following two sources: (1) statistical sources, which will provide us with an opportunity to get acquainted with the *quantitative* side of the Russian privatization process; (2) various journal and newspaper materials, which will allow us to look at the *qualitative* side of the Russian privatization process through the eyes of the authors of the materials.

But, before turning to the sources, we need to bring to the attention of our reader the following. In cases where we personify the process of privatization either by its bureaucratic ideological “distributors” (Yeltsin, Gaidar, Chubais, etc.) or by its bureaucratic (internal) and non-bureaucratic (external) “receivers” (Abramovich, Aven, Alekperov, Berezovsky, Bryntsalov, Vyakhirev, Gendukidze, Gusinsky, Deripaska, Jordan, Mamut, Potanin, Prokhorov, Smolensky, Vekselberg, Fridman, Khodorkovsky, Chernomyrdin, Yevtushenkov, etc.),—all this will be done in strict accordance with our understanding of the role of the so-called great personality in history, which was elaborated in Chapter 2 of Part I of the book.

Some statistics of privatization

Let us start with the share of the state sector in the USSR as compared to that of some other countries of the world in the mid-1980s, that is, before the beginning of privatization. For this purpose, we will utilize (1) the state portion in the production of value added and (2) in the number of state enterprises in the sphere of production:

Table 2.1
Some Comparative Indices of the Role of the State in Economies
Of Selected Countries²

Countries	A share in the production of value added, percentage	The number of enterprises in the production sphere
USSR	96	48,000
Czechoslovakia	97	4,800
GDR	97	8,000
Hungary	86	2,300
Poland	82	7,500
West Germany	11	-
USA	11	-

The table shows a comparative scale of the potential privatization reservoir of the Soviet state (all-bureaucratic, territorial bureaucratic and municipal, that is, actually bureaucratic) enterprises just in the production sphere.³ The author of the table then comments:⁴

In history of any country of the world, there have never been made attempts to privatize on such a colossal scale. Earlier, small-scale privatization took place in Chile during a period from 1979 to 1989, when 470 companies, which accounted for 24 percent of the value added produced, were privatized.

The main indices of the privatization process in post-Soviet Russia of the 1990s are demonstrated in Table 2.2:

Table 2.2
Post-Soviet Russian Privatization,
1993 - 1997⁵

Cumulative numbers, beginning 1 January 1992	1993	1994	1995	1996
State enterprises on the independent balance, on 1 January, units	204,998	156,635	126,846	90,778
The number of privatization orders on 1 January	102,330	125,492	143,968	147,795
Fulfilled privatization orders on 1 January, units	46,815	88,577	112,625	118,797
Including to privatization orders, in percentages	45.7	70.6	78.2	80.4

At the end of 1992 when the privatization process of state enterprises began, less than a half of privatization orders was fulfilled. By the end of 1995, the share of realized orders had exceeded 80 percent. Hence, if it is assumed that during this period

no construction of new state enterprises on the independent balance took place, it might be concluded that already by the end of 1995, more than a half of Russian state enterprises had been privatized.⁶

The privatization process continued in the subsequent years. Thus, in 1992 - 1997, 129.5 thousand state enterprises and objects were privatized.⁷

What was the structure of privatized enterprises with respect to their forms of property and methods of privatization in 1993 - 2002? To answer this question, we turn to Tables 2.3 and 2.4:

Table 2.3
The Structure of Privatized State and Municipal Property In Accordance
with Forms of Ownership and Methods of Privatization
1993 - 1997⁸

Privatized state and municipal unitary ⁹ enterprises	1993	1994	1995	1996	1997
The number of privatized state and municipal unitary enterprises, total	42,924	21,905	10,152	4,997	2,743
including by ownership forms:					
federal	7,063	5,685	1,875	928	374
subjects of the Russian Federation	9,521	5,112	1,317	715	548
municipal	26,340	11,108	6,960	3,354	1,821
Privatization methods:	100	100	100	100	100
selling of shares	31.1	44.8	27.7	22.5	18.1
auctioning ¹⁰	6.3	4.4	4.2	3.9	5.5
Commercial contest ¹¹	30.4	24.0	15.9	8.9	9.6
Investment contest ¹²	1.3	1.2	1.1	0.7	0.5
redeeming of leased property	29.5	20.8	29.8	32.1	14.6
selling of property of being liquidated, having been liquidated and whose construction not finished	0.4	1.5	4.2	5.7	9.1
selling of real estate	-	-	15.4	22.9	38.5
selling of land	-	-	0.6	1.5	2.6
other ¹³	1.0	3.3	1.1	1.8	1.5

Table 2.3 (continuation)
The Structure of Privatized State and Municipal Property In Accordance
with Forms of Ownership and Methods of Privatization,
1998 - 2002

Privatized state and municipal unitary ⁹ enterprises	1998	1999	2000	2001	2002
The number of privatized state and municipal unitary enterprises, total	2,129	1,536	2,274	2,287	2,557
including by ownership forms:					
federal	264	104	170	125	86
subjects of the Russian Federation	321	298	274	231	226
municipal	1,544	1,134	1,830	1,931	2,245
Privatization methods:	100	100	100	100	100
selling of shares	...	16.1	8.5	4.9	4.2
auctioning ¹⁰	12.1
Commercial contest ¹¹	11.0	-	-	-	-
Investment contest ¹²
redeeming of leased property	7.1	8.3	18.0	20.0	32.9
selling of property of being liquidated, having been liquidated and whose construction not finished	5.6	5.2	5.0	3.6	1.8
selling of real estate	47.6	47.7	56.7	59.1	47.4
selling of land	4.0	2.3	3.4	4.9	7.2
other ¹³	12.6	20.4	8.4	7.5	6.5

Table 2.3 reveals that in the 1990s - the beginning of the 2000s, the major portion of privatized enterprises was municipal. In other words, these were formally non-state (non-bureaucratic) enterprises whose actual possessors were petty economic bureaucrats of non-essential (from the point of view of the post-Soviet Russian authorities) sectors of economy (light and food industry, trade, public catering, and housing and communal services), as we will see shortly. The enterprises of the subjects of the Russian Federation (that is, its regions) took the second seat in the privatization process, while the federally owned enterprises were at a third place. Thus, we need to emphasize that the process took place according to the behavioral motivational picture which was drawn in Chapter 1 of this part of the book.

As far as the methods of privatization are concerned, here we see the following tendencies. At the beginning of privatization (1993-1994), selling of shares, commercial contests and redeeming of leased property occupied the first, the second and the third place, correspondingly. "Selling of shares," because, as we remember from Chapter 1 of Part VIII, this process made possible preferential privatization of state and municipal enterprises. "Commercial contests," since at that period just such a privatization method,

conditioned by certain investment and social commitments, could create an illusion of the authorities' concern for state and public welfare and, by this, to a certain degree, to appease the Russian people agitated by the perspective of change in the ownership. "Redeeming of leased property," for this process was able to fulfil the leaseholders' rights (which they already received during *perestroika*) to transform themselves from the position of just possessors of the state (federal and territorial) and municipal property into the position of their proprietors.

With the development of the process of privatization, with certain changes in the mood and expectations of the Russian people, which found their expression in the growing disillusionment with the "public" character of privatization, with the decline (following from this) of the necessity to pay attention to the people's mood, with strengthening, therefore, of the positions of the potential owners,—in connection to all these phenomena, beginning with 1995, the structure of the privatization methods witnessed a certain change. The portion of shares' selling and commercial contests declined. The portion of redeeming of leased property at first sharply increased (1995 - 1996), then no less sharply declined (1997 - 1998) and then (1999 - 2002) grew again.

To an increasing degree, the declining items were replaced by the rising items, such as selling of property and real estate. What took place was just an open selling off and renting out of the state and municipal property, one way or another (as we will see later), to the in-group at dumping prices and rents.

Some indirect indication of, for instance, selling out the state and municipal property can be found in the fact that

Despite, it seems, the huge mass of the realized [sold] state ... property ... [t]he portion of income from privatization in the structure of the income part of the federal budget constituted: [in] 1993, 0.3 percent; [in] 1994, 0.1 percent; [in] 1995 (the 'peak' of monetary privatization), 1.5 percent ... and [in] 1996 ... 0.5 - 0.6 percent.¹⁴

And the process was exacerbated by the financial default of 1998 (of which in a special chapter of this part).

Let us now examine (as was promised earlier in this chapter) the following question: enterprises of which branches of economy were privatized in 1993 - 2002?

Table 2.4
The Structure of the Privatized State and Municipal Property by Separate
Branches of the Economy, 1993 - 2002
(in percentages of the total number of the privatized state and municipal
unitary enterprises)¹⁵

Indices	1993	1995	1996	1997	1998	1999	2000	2001	2002
Total,	100	100	100	100	100	100	100	100	100
Including									
industry	28.1	20.6	17.3	13.3	10.8	9.1	7.0	5.4	5.4
agriculture	1.6	1.9	2.2	1.6	2.3	2.9	0.4	1.0	0.7
construction	8.9	9.3	10.2	6.8	4.9	4.1	4.3	2.8	2.4
transportation and communication	3.0 ¹⁶	3.0	3.5	2.1	2.4	2.3	1.5	1.9	1.3
trade	33.4	32.1	29.1	27.3	22.6	21.4	16.9	15.7	18.4
public catering	6.6	5.8	4.4	4.7	3.3	2.1	1.5	1.6	1.9
housing and communal services	...	6.1	7.5	13.6	14.5	11.0	11.0	9.3	8.9
health care, physical training, and social security	...	0.8	1.2	1.4	1.1	1.3	0.9	1.3	1.3
education	...	0.5	0.6	1.3	0.9	0.9	0.9	1.2	0.9
culture and arts	...	0.7	1.4	1.0	1.0	0.8	0.9	1.0	1.2
science and scientific supply	...	1.8	2.2	1.2	0.9	0.5	0.6	0.4	0.6
nonproductive types of consumer services for population	...	4.3	2.9	3.5	4.2	2.4	2.3	1.7	2.2
other branches	18.4	13.1	17.5	22.2	31.1	41.2	51.8	56.7	54.8
Out of total privatized state and municipal property, consumer services for population (both, productive and unproductive)	17.0	12.1	7.5	7.1	7.4	5.1	4.5	3.6	3.7

The table allows us to make the following conclusions. First, as it has been predicted, trade enterprises occupied the largest share of all privatized enterprises during the first four years of privatization (1993 - 1997). In 1993 - 1994, the second place was held by the industrial enterprises, among which dominated, as has also been anticipated, that of light and food industries.¹⁷

Second, in 1998 - 2002, enterprises of the other economic branches led the privatization list. The list contained such small branches of economy, as the information-computing supply, real estate, the general commercial activity to secure the market functioning, geology and prospecting, land-surveying and hydro-meteorological services, finances, credit, insurance, etc.¹⁸

Third, a very modest place of an important economic branch, agriculture, during the entire period under consideration, should not come as a surprise.¹⁹ There were many formidable obstacles restricting privatization in agriculture. Among them, the following can be mentioned: a very undeveloped infrastructure; low mobility due to internal passports and labor books; a Soviet-type total dependence on supplies of raw and energy materials, fertilizers, equipment, etc.; the Mafia as middlemen between agricultural farms and farmer's markets, since private "farmers ... [were] viewed as a threat to the Mafia's monopoly control;"²⁰ and the structure of the rural population in post-Soviet Russia with a visible presence of people of the old age, physically (pensions, medicine, transportation, etc.) and psychologically (due to the long tradition) dependent on the state, hence, unable to become private (non-state) owners.

Some general statistics on the change in the ownership forms in Russia in the 1990s - the beginning of the 2000s

In Chapter 1 of this part of the book, we stressed the impossibility to examine the process of creation of non-state enterprises outside the bureaucratic pyramid, because of the absence of a relevant statistical information. Therefore, here we will summarize the results of changes in the ownership in post-Soviet Russia without differentiating the sources of such changes: privatization of existing bureaucratic or the creation of new non-bureaucratic enterprises.

That is why we place this section within a framework of the statistical-informational theme of privatization discussed in the previous section of the chapter. But, at the same time, we stress that statistics the reader will get to be introduced goes beyond the framework of the privatization theme.

We start with the property structure of Russian enterprises and organizations for 1995 - 2004:

Table 2.5
Enterprises and Organizations In Accordance with
Forms of Property, on 1 January
1995 - 2004²¹

Indices	In percentages to total								
	1995	1996	1998	1999	2000	2001	2002	2003	2004
Total,	100	100	100	100	100	100	100	100	100
including with respect to forms of property:									
state	16.7	14.3	5.4	5.1	4.8	4.5	4.3	4.1	3.9
municipal	8.8	8.8	6.5	6.3	6.4	6.5	6.4	6.2	5.9

private	62.5	63.4	73.9	74.0	74.4	75.0	75.8	76.9	78.0
property of civil and religious organizations (associations)	2.7	4.2	5.8	6.3	6.9	6.7	6.6	6.4	6.1
other forms of property, including mixed, Russian, foreign, joint Russian and foreign	9.3	9.3	8.6	8.3	7.5	7.3	6.8	6.4	6.1

The structure of property relations in the post-Soviet period underwent the following change: private (non-state, non-bureaucratic) property has become a predominant ownership form. Thus, Russian statistics asserts that in the post-Soviet period the Russian economy stopped of being exclusively of the state character and instead was transferred into overwhelmingly private (non-state, non-municipal) economy.

Note that Table 2.5 has an important shortcoming: it does not contain the property structure of Russian enterprises and organizations during the years of the breakdown of the old system of totalitarian state capitalism, that is, during the period immediately preceding 1995. To a certain degree, such data, but with respect to fixed capital, is provided by Table 2.6:

Table 2.6
Fixed Capital According to Forms of Property, 1970 - 2004
(at the year beginning; at total accounting value)²²

Years	In percentages to total		
	Total fixed capital	Including with respect to forms of property	
		State	Non-state
1970	100	86	14
1975	100	88	12
1980	100	89	11
1985	100	90	10
1990	100	91	9
1991	100	91	9
1992	100	91	9
1993	100	69	31
1994	100	53	47
1995	100	42	58
1996	100	44	56
1997	100	45	55
1998	100	45	55

1999	100	45	55
2000	100	43	57
2001	100	42	58
2002	100	42	58
2003	100	41	59
2004	100	40	60

The table demonstrates that, beginning with 1992 when the privatization mechanism was put into action, the share of fixed capital owned by the state started to sharply decline, while that by non-state, to significantly rise. But the table does not answer the following question: What is to understand by “state” and “non-state” forms of property of fixed capital?

An answer to the first part of the question can be found in a Russian statistical collection.²³ Here we are told that the state property includes federal, regional and municipal types of property.

Partially, the second portion of the question is also answered. The source tells us that the non-state ownership form contains property of public associations and organizations, private (that is, not state) property, a mixed Russian property, foreign property and a mixed property with the Russian participation.

We, are, however, unaware about the proportion of various types of the non-state property of fixed capital to each other and, especially, before 1995. Such a knowledge is necessary for the estimation of the share of the “genuine” private (non-state, non-bureaucratic) property of fixed capital and, therefore, of the portion of “non-statehood” in post-Soviet Russian authoritarian *state* capitalism. For, it is obvious that all other forms of the non-state property, one way or another, are connected to the bureaucratic ownership of fixed capital and, as a result, are an integral part of “statehood” in post-Soviet Russian authoritarian state capitalism.

Some indirect information (opinions) about the transformation of property in post-Soviet Russia of the 1990s - 2000s

Since Russian statistics does not provide us with a direct and unambiguous answer to the question of a real correlation between state and non-state property in the post-Soviet period, we turn to some indirect references to this subject. As sources, we will use Russian and foreign materials. The reader is warned that he should pluck up all his patience and get prepared to, at times, extensive quotations each of which, in its own way, describes the process of the transformation of forms of property.

Materials narrating this process we divide into two parts in the following chronological order. First, how and for whom, from the point of view of the sources, the real process of the transformation took place. Second, what, in the opinion of the sources, in the last analysis, became of the property structure of Russian enterprises.

Opinions about how and for whom the real process of the property transformation took place

According to Plato, oligarchy is a state structure where the [political] power is held by the rich. But in our country, the very rich are called oligarchs. But *not every rich person in Russia is an oligarch, but only that one who grows rich thanks to the [political] power, who was displayed much kindness and, in return, paid the [political] power ...*

Russian oligarchy started to form in the beginning of the 1990s, when there began to be created an “empowered sector of the economy.” This sector included all the most profitable spheres of business (banks, the fuel-energy complex, metals and some other). This business immediately became big and has always remained under the state control. Only ones’ own people were allowed to the titbit. Oligarchy revealed itself publicly only in 1994 - 1995 when the locomotives of the Russian industry, oil and metallurgical companies, were brought forward to privatization auctions. After a short fight, of which the public was unaware, it became clear that almost all *the best enterprises with the export potential found themselves in the hands of a small group of the Moscow “empowered” banks. That is how we learned about the new masters of life.*

... First, the basic oligarchic structures were represented by the banks. But gradually a maternal bank was giving birth to a whole family of various companies. Here were the intermediary firms, commercial firms, insurance companies, detective agencies, and industrial enterprises. There was taking place a concentration of capital of several oligarchs: Berezovsky, Potanin, Gusinsky, Smolensky, Fridman, Vinogradov, Malkin. [So] [n]ow they were no longer simply bankers. In their hands, they concentrated the whole empires. They divided among themselves the largest oil and metallurgical companies, enterprises of chemical, petrochemical and food industries ...

Beyond the oligarchic control, there remained either not profitable or too complicated for the seizure economic objects. Structures, controlled by the oligarchs, employed ... hundreds of thousands of people.²⁴

The year was 1995. Privatization czar, A. Chubais, at the all-Russian level, organized a series of questionable money auctions of the leading Russian [state] industrial enterprises. [State] oil companies and giants in production of metals were sold for almost nothing at openly rigged auctions to the banks with political ties, and political commentators started talking about an arising oligarchy. The government entrusted Oneksimbank, for instance, to organize an auction to sell 38 percent of the Norilsk Nickel, a group of metal enterprises. Oneksimbank evaluated all the offers and announced the winner: Oneksimbank. The price of \$170.1 mln. [for which the 38 percent of the Norilsk Nickel were sold] was approximately equal to a monthly income of exports of the Norilsk Nickel. Then the government authorized bank Menatep to organize sales of 78 percent of Yukos, a [state] giant which controlled 2 percent of the discovered world oil deposits. No

wonder that Menatep found that the most attractive offer to buy had come from Menatep.

[Moscow] mayor, Luzhkov, was boiling over with rage and openly came forward against this cynical selling off [of state property]. But his city seven months earlier was an organizer of exactly the same type of dirty privatization ... of Moscow State Telephone Exchange.²⁵

With shooting down of the Supreme Soviet [in October 1993] and ... with the usurpation of power, the ruling oligarchy imposed on Russia a regime of a criminal dictatorship oriented on pillaging the country's national wealth and on exports of capital abroad. [The oligarchy] used elements of the national regulation in order to transform Russia into a "milch cow" for the adventurers, who seized the power, and their foreign patrons. Against a background of ravaged industry and agriculture, the Russian financial market secured for itself profits, the highest in the world, at the expense of the state budget and the state property. Russia was transformed into a "field of miracles" for the speculators and con artists of the whole world, where it was possible, without producing anything and with risking nothing, easily to receive 100 percentage and higher of the annual [profit] in the hard currency. The source of these super-profits has remained the state budget, which, for this purpose, was, time and again, been [reduced] for the redistribution in favor of financial speculators of money, earmarked for the payment of labor of teachers, medical doctors, state employees, for the financing of defense, science, investments ...

Having plundered the state property and having ruined the budget, the ruling oligarchy doubled the foreign debt [1999], bringing it to \$150 bln. and making Russia [one of the] biggest debtors in the world ...

Metastases of the organized crime have already affected all the organs of the state power, the financial and trade systems of the country; criminal groups and mafiosi cliques play the master in Russian cities, strangle entrepreneurship, pillage the population, appropriate the national wealth . .

Against a background of a hopeless abject poverty in which a half of the population of the country lives, a handful of oligarchs, who assumed the right to be masters of the economic potential of the country, continues to export a \$1 bln. a month. There remains abroad not only capital exported from the country but [also] hundreds of thousands of specialists, who were forced to leave the motherland because of a loss of job and life perspectives at home.

More than one-third of the federal budget is directed to serve the state debt: the Russian tax-budget system is transformed into an instrument for the redistribution of the national income of the country to the benefit of foreign capital ...²⁶

There is no subject [region] in ... the Russian Federation where there are no wage arrears. They exist even in vaunted Moscow. 'And at the same time there is no subject [region] of the Federation,-says A. Andreev, an auditor of the Auditing Chamber,-where the administration did not receive its wages on time and had no opportunity to increase them periodically. Besides, huge

amounts [of money] are spent on representation: 70 percent of the Russian regions have their representatives in the capital[;] in addition, many of them, abroad. And some governors even have their own private jets.²⁷

... in the overwhelming majority of companies, either dividends are not paid at all or they are extremely small. [Their] average annual rate for the country is less than 0.5 percent measured in rubles. That is, it is much more profitable to hold money not in stocks but, for instance, in the *Sberbank* [Saving Bank] known for its conservatism and stinginess.

Dividends are not paid for a number of reasons. First, according to the law, they have to be paid out of profits. Therefore, the latter, firstly, must be shown, then a 35-percent tax must be paid on [these profits]. Second, taxes are levied on dividends as well, and these are progressive income taxes. And so the problem is resolved to everybody's delight: rank-and-file stockholders enjoy various privileges, such as free-of-charge vouchers to after-work sanatoriums or free-of-charge meals. At the same time, income due to the big stockholders, naturally, does not disappear. [The big stockholders] receive it, but it is not named "dividends," and it is not in bookkeeping records. The big stockholders simply divide among themselves managerial positions, allowing them to control certain financial currents. Just because of this, the sharpest struggle is not for the size of dividends but for positions of the first persons [of the companies]

...

It is not to say that shareholders are totally disinterested in finances of companies owned by them. But in order for this interest not to interfere with the business of managers, many open corporations have so-called departments dealing with stockholders... . in some companies, these departments are engaged in 'enlightenment' activities, and in others, simply buy up shares for a limited number of people. In such a way, open corporations become close ones ...

To buy up shares of close joint stock companies is much more difficult: they are not quoted in the market, and, besides, the exclusive right to redeem them have other stockholders. It is no coincidence that the management of Gazprom [Gas Industry Corporation], which the reformers intended to make a people's company, that is, the biggest open joint stock company ... forbids its stockholders to freely dispose of their shares. That is, in essence, Gazprom is not an open stockholding company, as it is declared, but, in reality, a close one.²⁸

In the morning of 31 March, 1995, three mailed limousines drove up to the "White House." Bankers Potanin, Khodorkovsky and Smolensky arrived to make an offer to Prime-Minister V. Chernomyrdin: they will issue to the government a loan, \$1.8 bln., but as a collateral they demand from the state share holdings of oil enterprises. At that time, the government, as usual, badly needed money ... Khodorkovsky receives YUKOS [a state oil company]. Smolensky acquires Sibneft [another state oil company] for B. Berezovsky. Potanin gets an oil group Sidanko. After that, the oil barons divide Russia among themselves. Far East and North-West

fall to Potanin's lot. The southern part of Siberia found itself in the hands of Abramovich-Berezovsky. Khodorkovsky controls the center of Siberia, a middle part of the Volga-river and [the Russian] 'West Europe'... V. Alekperov (his empire LUKoil [an oil company], the biggest in Russia and the fourth in the world, was created by a personal ukase of B. Yeltsin ... in 1992) takes into his own hands districts close to the Caspian Sea and a part of the Rostov region as well. The owners of the Tyumen oil company, the Alfa Group, take a central part of Russia. The political authorities of Tatarstan and Komi [get under their control and] 'personal responsibility' the oil supplies of their regions ...

That's it. The partition has been completed. Each [of its participants] is guaranteed by the partners not to interfere into 'the sovereign affairs' [of the other partners] and an excellent opportunity to control any situation.²⁹

... it is under [Khrushchev], that clans emerged in the country ... And in October 1964, the national power [in Russia] came to an end. The clans arranged things behind Khrushchev's back ... From this time on, there began a continuous, lasting struggle of the clans. There remain four clans in Russia, not counting the minor 'ethnic' ones. This is a Stavropol clan which was headed by Gorbachev; this is a Leningrad clan which was led by Romanov [the former First Secretary of the Leningrad Regional Committee of the Party] ...; this is a powerful Ural clan, whose head is Yeltsin [this is written in 1999]. And, finally, this is a Moscow clan whose nominal leader is Luzhkov, but the underwater part of the iceberg is completely different, so that it looks like Luzhkov is simply a hired manager of the Moscow clan ...

The task of clans, if one pays no attention to a political trumpery, political flashes, in which [the clans] love to decorate themselves, is to appropriate the vital resources of the country. There is no other task simply because the clans are incapable to do anything else. Today they are divided into the mini-clans, [so that] the [political and economic] power in every big region of Russia is grabbed by a local clan. [Let us look at] Samara [region]. Titov is its governor, [his] son manages a bank, a dozen or more of close to [Titov] persons are in the head of all local [political] power structures. The same is in Moscow ...

Clans in Russia had a feeding ground. During Brezhnev time, oil prices were high, [so Russia was able to] build the oil pipeline to the West, and the Brezhnev clan proclaimed Russia as a country of raw materials ...

Brezhnev's fate demonstrated that [when] the clans are in power, they possess everything, but, if they lose the power, they lose everything. That is why they, with the help of Gorbachev, converted [their] power into the ownership. Practically, all the property of the country was bought for a song ...

The mechanism [used by] clans is simple as a moo. Uralmash [a machine-building conglomerate in the Ural mountains] has been privatized for a song. [At the same time,] the children of the [members of the] clans create at [Uralmash] intermediary offices

...

Today, the clans seized practically all the power in Russia, all the branches of raw materials in their entirety... the Jewish clans are in their service. They [the Jewish clans] ... are in the service of the mass-media currents, first of all, of the television. We [in Russia] curse NTV [a TV station] of Gusinsky as NATO-TV forgetting that Gusinsky in NTV owns 30 percent of [its] shares, while 30 percent is owned by ... Gasprom [and its] purely Russian [managers] ... Vyakhirev, Chernomyrdin and others of that ilk. [These Russians] in no way advertize their participation in NTV, instead putting in the foreground, as a fright, a Jew [like] Gusinsky...

In the beginning of mass privatization we had a middle class. Had people not been taken away money, through the shock therapy, they could have privatized bakeries, barber shops, small restaurants, dining-rooms, consumer services, and this middle class would have been preserved as the basis of [the] country. But no, the clans practically had no need for competitors, therefore, they destroyed the middle class.

The clans organized a hunger in the [19]89 - [19]90s when food products disappeared from the store shelves. The country had gigantic stocks of food items, but the clans, in concord, kept them in the warehouses, so that, in their infighting, to have their trump cards and to receive super-profits, thanks to the black market and food-items' speculation ...

[Every] nation consists of three parts. Each nation is like a biological type. A third [are] more active and ready to pick a fight for positive goals and ideals that they have. A third are peons who do not give a damn about anything, whose standard of living is barely above that of a physiological survival and who are satisfied with that. And 30 - 40 percent are unable to function: the retirees, the children, the sick. And the task of the clans, in the first place, is to misinform just these 30 percent of the active citizens, because they are their [the clans'] main enemy ...

The clan people ... advance a series of false aims and frights to distract the active part of the nation ... First, the Jewish fright, [the clans] attempt to use the Jews as a lightning-rod ... Around 500 Jewish families are clans' mercenaries at the level of mass-media, television, first of all, and at the level of banks... The second lighting-rod is "blacks," persons of the [so-called] Caucasian nationality. The clans, because they are incapable to manage, gave a gigantic part of the living space, especially, in Moscow, in the Moscow region, to the persons from the Caucasus. [They] ... conduct themselves as the occupiers on the territory of Moscow and the Moscow region only because it is profitable to the Moscow clan ... When the nation begins to see clearly, [it will] understand that the "anti-national" conspiracy is not from without but from within, that just this clannish scum is the main enemy of Russia, [of its] awakening. Hence, the struggle against the clans is that principal direction of the modern history of Russia in the nearest 10 years. In this connection, ... the Duma elections are seem to be useless and meaningless. [They] are not more than a fiction ...

The country is now divided into three categories: the clan people, [their] hirelings and the rest of the nation ...³⁰

The authority enjoys its life between elections, but during elections it feverishly searches for resources to be reelected. Those who invest money in its reelection, naturally, demand then a return with interest ... During the 1996 [presidential] election ... Yeltsin paid off its allies by mortgage-deed auctions where Khodorkovsky was presented as a gift YUKOS; Potanin, Normickel; Berezovsky, Sibneft; Smolensky, Agroprombank.

Today [the end of November 1999] the state almost does not have its own enterprises: everything has been sold out. And, therefore, there is catastrophically nothing to pay off ...

Hence, at present [again, the end of November 1999], before [the state] bestows upon its friends an enterprise, the latter has to be taken away from somebody else. It is absolutely obvious that all these cunning procedures will occur in the huge market of bankruptcies formed in the country: according to the estimate made by the World Bank, 80 percent of the Russian enterprises are formally insolvent. And the Federal Agency on Insolvency (FSDN) states that 12.5 thousand enterprises are already in the bankruptcy process. Today the bankruptcy procedure is the best, if not the only, way of transferring property [from those who are] not loyal [to those who are] loyal.

In the opinion of director of the Institute of the analysis of small enterprises and markets of the Higher School of Economics ... the main reason for the current barrage of bankruptcies is just ... privatization of the largest objects of the state property in the mid-[19]90s: “[Private non-state buyers], by definition, did not have necessary [financial] means to develop production, to finance the restructuring of the enterprises-monsters. Encountering these difficulties, at the same time, experiencing a constant pressure from governors, new capitalists were unable to introduce a qualitative restructuring of enterprises. Therefore, the sole purpose of their tenure in big enterprises ... was to squeeze [the latter] financially. Meantime, a certain parity of interests was established with the local authorities: we do not lay off people in our factories, we continue maintain social services [day nurseries, kindergartens, housing and communal services, etc.], but you [in response] close your eyes to our transgressions. [That is why as a result] ... the majority of privatized enterprises are on the brink of bankruptcy.”

At present, the market of bankruptcies is at an outrageous state. It is a space of an infinite arbitrariness of the authorities, who, at their own discretion, decide who is to be an owner of this or that enterprise. And the technology of “presenting as gifts” somebody else’s enterprises to own friends is very simple.

[These are] courts ...[which are] *absolutely dependent* upon Moscow (judges are appointed by the president [of the country]) and upon governors (who usually simply order the judges what sentences to pronounce, otherwise threatening to turn off gas [and all other services]).

[Thus,] to carry out the seizure of an enterprise during the bankruptcy procedure, *it is critically necessary to have a support of the authorities*. Local authorities, to influence local courts. And

federal [authorities], to be able to influence the higher courts in case of appeal.³¹

... the first source for the enrichment of the chosen was] ... an artificial restrain of prices for raw and energy materials [by the Russian state within Russia]. This was the most important ... [source]. Raw and energy materials made many people millionaires. [These people] ... were buying oil, metals, raw materials for 1 percent of the world price and then were selling all this abroad at their full value. [So] [i]n order to put an end to these scandalous practices, it was needed to control exports and, therefore, to introduce export licenses and quotas.

... But where there quotas and licenses, there is a great opportunity for abuse. According to ... [some] estimates, people who were trading raw materials and oil pocketed in 1992 \$24 bln... .

The second source for the enrichment of the chosen were preferential credits which, right and left, were lavishly handed out by ... [the management of the Central Bank of the Russian Federation]. These credits were given at [the annual rate] of 10 - 15 percent, while the rate of inflation in the country was more than 130 percent! . .

One more source of easy money was the system of different ruble-currency exchange rates. There were six such exchange rates! Someone was purchasing dollars at a preferential exchange rate, [then] was buying commodities abroad and selling them in Russia on a great margin. According to ...[some] estimates, on this [alone] the future oligarchs made \$12.5 bln. just in 1992. As a result, after the first year of reforms there took place a colossal stratification of people into a very rich and a very poor ... In 1997 ... the oligarchs became so powerful that it was impossible to oppose them. They made enormous capitals [by trading] the state treasury bills [GKO, of which we will talk in a special chapter].³²

The comments might go on. However, before we stop, we would like to present an opinion by a source from Armenia, one of the former Soviet republics. Although we give this opinion not in the chronological order, we, nevertheless, want to show that in questions of “how” and “for whom” with respect to the privatization process the situation in Russia was not unique:

The economic elite formed in Armenia is [composed of] people of the party-economic ... bureaucratic structures of yesterday and the semi-criminal and criminal associations of today, whose fortunes were made either from party-komsomol [the young communist league] bribes of the Soviet period or were looted by the apology for privatization of “democrats” of the present-day. These powerful new clans, rather well mastering pseudo-demagoguery, grabbed for themselves practically all the potential of preferential domestic and foreign credits, the most advantageous licenses, the most profitable state orders, privatized, at laughing prices, the best objects of yesterday’s state ... property ...

It is no secret that the creation of such an economy, whose basis is in the bureaucratic semi-criminal philosophy of mutual favors, requires neither intellectual, nor moral, nor organizational efforts. To perform major roles [in such a structure] it is sufficient either to be within the bureaucratic hierarchy, or to have personal connections with its representatives.³³

The resulting property structure of Russian corporations

The reader, thus, has been given an opportunity to look through some views of the process of the ownership transformation in Russia in the 1990s - the beginning of the 2000s. They draw a picture which is far from the juridical idyll with respect to both the *methods* of Russian privatization and the *potential beneficiaries* of such a transformation of property relations. In front of us, a picture of the creation of *corporate* clans, or oligarchic *groups*, parasitizing on the state property with the help of privileges either of connections to the political power or of the closeness to the "feeding-trough."

Now, what is the *resulting* balance of forces within a present-day Russian *corporation*? This question is necessary because the *clannish* character of the outcome of the privatization process at its *big-business* level, as it has been described above, gives us no clear answer to the question of the non-state-versus-state composition of *corporate* property in post-Soviet Russia.

Let us attempt to clarify the picture by turning again to the comments made by various Russian sources.

... the present-day confusion with regard to the management of state property, [that is] of the unitary enterprises, [of those] with a [state] portion in the capital of shareholding companies ... threatens the Russian [state] security.

... What is going on with state enterprises ... These enterprises are engaged in no one knows what, they bring no profits and are managed by accidental people, who have no idea what state task they ought to fulfil (properly speaking, the state sets them no goal). Managers are not reproached with losses, and they quite free in investing money they receive for the products [of their unitary enterprises] into ... private [non-state] firms created [by them] and attached to state enterprises ... [the managers] cannot be fired for it is unclear what their duties are. Representatives of the state in private [that is, formally non-state] shareholding companies with the participation of state capital do not understand their tasks either: whether to raise dividends paid to the budget or favor the growth of industrial investments.³⁴

[This citation affirms our continuously expressed view of the ambiguity of the ownership-possession relations of the Russian state in the 1990s - 2000s.]

Despite privatization (58 percent of enterprises are [supposed to be] private), the state is still the largest owner ... [But] [s]tate enterprises contribute almost nothing to the budget. Joint-stock companies [contribute] ... a little bit more ...

... *Still the state has no clear idea either of what it owns or of what [the state] might earn on it.* Thus, during the last years, the state property has been at the mercy of those who manage it: directors, presidents of stock-holding companies, “sponsoring” bureaucrats.³⁵

[Note that during privatization, directors of privatized enterprises were creating commercial structures whose goal was to solve the problems of supplying their enterprises with raw materials and semi-finished products, marketing the finished products of their enterprises and carrying out various barter settlements and operations on terms preferential for these structures.]

... Sometimes it is very difficult to comprehend who, in reality, this or that enterprise belongs to. To [its] [e]mployees who received [their] shares through privatization? To the members of the board of [its] directors? To the investment [checking] funds?

Even if there exists a list of shareholders, still one cannot be certain about the transparency of the enterprise. For example, the Achinsk group of alumina enterprises, as it suddenly turned out, has ... two (!) such registers. And two organizations ... lay claim to them.

And if one recalls the practice of ... offshore firms ... [the practice] which became common during the last years, then here is really ... no trace of true owners can be found.³⁶

... What becomes a distinctive feature of economies in transition [that is, of the post-Soviet socioeconomic systems] is a constant redistribution of the ownership rights and of the property under a determining influence of the local corporate regulation (“competition” of corporations) [what is meant is the struggle for “a place under the sun” between various clans, or financial-industrial groups, or oligarchs] and external economic factors (state acts, corruption, etc.). Quite often formally determined property rights turn out to be an insufficient basis for the owner to be able to realize these rights. On the contrary, [property] rights, rather limited and even questionable from the legal point of view, can be sufficient to secure a full possession [that is, actual ownership under the conditions of its questionable legality] of this or that property complex.

Therefore, property forms, juridically stated in transitional societies, do not conform to their real economic content. Not a small part of privatized, that is, formally private [non-state] enterprises is in the mixed property either with a significant state participation or with a considerable portion of stockholding capital in the hands of the employees of these enterprises. Interference by the state often takes a form of meddling of the concrete bureaucrats [that is, of the representatives of various bureaucratic groups, more or less independent from each other and from the central bureaucracy, into which the former Soviet bureaucracy has been split], pursuing their personal interests on making this or that decision, for example, [decisions] on the sale of the state share holding. Shares, which belong to the members of

labor collectives, in practice, secure the concentration of the real property rights in the hands of the administration of enterprises.³⁷

[In our opinion, one of the forms of such a “security” found its expression in chronic tardy wage payments, which we mentioned earlier. We believe that often employees encountered problems with their labor’s compensation because of the deliberate actions of their employers aimed to force their employees to sell the latter’s shares to the former.

Two tables tell us about the scale of wage arrears:

Table 2.7
*Wage Arrears in Russian Regions in November - December 1998*³⁸

Regional groups, in times, to the average level of wage arrears per an employee	Number of regions	The share of regional groups in the total number of regions, in percentages	Regional groups, in times, to the average level of wage arrears per an employee	Number of regions	The share of regional groups in the total number of regions, in percentages
Groups with the high wage arrears per an employee, in times			Groups with the low wage arrears per an employee, in times		
5 - 6.2	2	2.5	0.6 - 0.9	30	37.5
2 - 3.3	5	6.25	0.4 - 0.5	16	20.0
1.1 - 1.8	19	23.75	0.1 - 0.3	8	10.0
Subtotal	26	32.5	Subtotal	54	67.5
			Total	80	100

Thus, 80 Russian regions, out of 89 (or 90 percent of all the regions), had wage arrears. In 26 Russian regions (almost one-third of all the regions), wage arrears were above the average.

Table 2.8
*Wage Arrears in Russian Regions for Budget Employees, November - December 1998*³⁹

Regional groups according to the shares of wage arrears of budget employees in total wage arrears, percentages	The number of regions ⁴⁰	The share of the regional group in the total number of regions, percentages
Up to 10	3	3.4
From 10 to 20	13	14.8
From 20 to 30	31	35.2
From 30 to 40	29	33.0
From 40 to 50	6	6.8
From 50 to 80	5	5.7

Above 80	1	1.1
Total	88	100

Table 2.8 indirectly shows that in the majority of cases it is employees of the non-budget sphere of economy (that is, the sphere where, if certain limitations were observed, the transformation of state property was allowed) became hostages of wage arrears.]

A visible feature of [mixed] capitalism is private [that is, non-state] real estate property. In Moscow, during the years of the construction boom there have been built hundreds of new private [non-state] buildings. [Thus,] it looks like in front of us just that substance of the capitalist activity which constitutes the essence of the capitalist town-planning.

But one needs only to come closer to a concrete building, and the mirage of private [non-state] property melts away. The owner of "Gostinyi Dvor" [a big retail chain] is the shareholding company "Gostinyi Dvor," the owner of the complex on Manezhnaya [square in Moscow] is "Manezhnaya Ploshchad'," etc. Are they the private [non-state] structures? No, not the private, their fixed capital belongs to the Moscow government [that is, to the municipal bureaucracy] ... [Then] are they the state structures? No, not the state, they are private [non-state] enterprises ...

Such real estate [assets], obscure in terms of their ownership, are a majority in Moscow ... [The same can be said about the organizations engaged in construction of this real estate].⁴¹

So did we get a clear answer to the question posed in the beginning of this section regarding the non-state-state composition of the post-Soviet *corporate* property relations in Russia? No, we did not, for we still do not know who *in reality* owns what.

In this respect, we should not be fooled by the fact that *particular* oligarchic names are attached to *particular* pieces of corporate property. For, it is obvious, the oligarchs are tips of the icebergs and, at best, managers of the clannish property but, in no way, its owners. And it could not be the other way around: the *major* feature of the change in the ownership in post-Soviet Russia was its transformation from the *all-bureaucratic* into the *group* bureaucratic property, as we have tried to prove in the preceding chapter.⁴²

Legal versus actual processes of privatization in Russia of the 1990s - the beginning of the 2000s: our short remarks

In the previous chapter, we discussed the formal-legal aspects of the Russian privatization process. In this chapter, we endeavored to look at the realities of the procedure. Let us now compare the difference between the *what-should-be* and the *what-it-is* from a very general, societal angle.

The what-should-be charms us with the starry-eyed words about the welfare of the people and the country. The what-should-be bewitches us with beautiful, promising slogans, such as “perestroika for man,” “glasnost for democratization,” “the primacy of values common to all mankind and the preponderance of human rights over state rights,” “liberalization against totalitarianism,” “markets and socially oriented market economies versus planned economies,” “economic reforms to improve the people welfare and the might of the country,” “the effective owner to replace the absence of a such under the conditions of the administrative-command economy,” etc.

The what-is reveals for us the real essence of the process of privatization: bloody struggles of the lower (with regard to the central) layers of the bureaucracy (the “barons” of connections and material assets), together with the shadow players (the “barons” of money), with the purpose of dismantling the all-bureaucratic, all-corporate building into separate floors and apartments, so that to acquire the latter into their property or, if it is necessary, into their possession.

In such a comparison between what-should-be with what-is, one ought not forget the following. In the Soviet time, the bureaucracy identified its power and privileges with the public property and “socialism.” At present, in the post-Soviet time, the bureaucracy, breaking the Soviet system, presents its own, narrow-group, clannish interests as a protection of human rights, of all-human values, which are, in the bureaucracy’s opinion, inherent in the more “humane,” more “just,” more “effective” “free” system, shyly called by the post-Soviet apologetic ideologues of the bureaucracy not capitalism, but “market economy.”

In this comparison, one more thing has to be kept in mind. For us, in the framework of our analysis, all the talks, such as that the economic reforms have been conducted “correctly” or “incorrectly,” “well” or “badly,” “with the knowledge” or “without the knowledge,” “with the understanding” or “without the understanding” of the economic theory,—all this is a smoke-screen whose purpose is to pacify the non-bureaucratic and bureaucratic losers of the population. The winners attempt to instill in the losers the idea that the “reformers” have always had absolutely sincere, honest intentions, and, when something went wrong, it is because sometimes “reformers” did not have enough knowledge, intellect, etc.

We do not accept such an explanation for the process of the change of forms of the ownership in Russia. On the contrary, we believe that in the class, capitalist socioeconomic system the determining factor is not intellect or knowledge but interest. Knowledge and intellect play only a subordinate role to a certain economic interest. The former serve the latter in such a way that the better the former, the more is achieved in pursuing the latter.

Bibliography to Chapter 2: The Implementation of Privatization: The 1990s - the Beginning of the 2000s

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Notes to Chapter 2: The Implementation of Privatization: The 1990s - the Beginning of the 2000s

- 1 Based on E. Raiklin, "The Disintegration of the Soviet Union," *International Journal of Social Economics*, Volume 20, Numbers 3/4, 1993, pp. 14 - 32; E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Ekonomicheskii Rost i Razvitiye* [Principles of the Economic Theory. Economic Growth and Development]. Moscow: "Nauka," 2001, pp. 229 - 245; E. Raiklin, "The Social Significance of the Current Soviet Economic Programs," *The Journal of Social, Political and Economic Studies*, Volume 16, Number 1, Spring 1991, pp. 15 - 23.
- 2 L. Gaiger, *Makroekonomicheskaya Teoriya i Perekhodnaya Ekonomika* [A Macroeconomic Theory and the Economy in Transition], trans. from English into Russian [thus, ours is a reverse translation from Russian into English]. Moscow: INFRA-M, 1996, pp. 407 - 408.

- 3 Obviously, for post-Soviet Russia, the indices have to be corrected for the number of such enterprises which, first, could not be privatized and which, second, after the disintegration of the Soviet Union, became property of former Soviet republics.
- 4 L. Gaiger, *Makroekonomicheskaya Teoriya i Perekhodnaya Ekonomika* [A Macroeconomic Theory and the Economy in Transition], p. 408.
- 5 A. Radygin, "Privatizatsionnyi Process v Rossii v 1995 g." [The Privatization Process in Russia in 1995], *Voprosy Ekonomiki* [The Problems of Economics], 1996, Number 4, p.4. Percentages are calculated by us.
- 6 Calculated as: (118,797/204,998).
- 7 Goskomstat Rossii, *Rosskiiskiy Statisticheskii Ezhegodnik* [The Russian Statistical Annual]. Moscow: Goskomstat Rossii, 1999, p. 285.
- 8 1993 - 1998: *ibid.*, p.285, tabl. 12.11, 12.12; 1999 - 2002: Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rosskiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004]. Moscow: Rosstat, 2004, pp. 346 - 347, tabl. 13.15, 13.16. Two notes: (1) the "ownership forms"—on the date of privatization; (2) percentages for the "ownership forms" are calculated by the author.
- 9 We remind the reader that
 "The unitary enterprise is ... a commercial organization which has no ownership right to the property allotted to it by the owner [the state or the municipality]. The property of the unitary enterprise is indivisible and cannot be distributed in accordance with contributions (shares), including between the employees of the enterprise ...
 Only state and municipal enterprises might be created in the form of unitary enterprises ..." (*Grazhdanskiy Kodeks Rossiiskoi Federatsii* [The Civil Code of the Russian Federation]. Moscow, St.Petersburg: Izdatel'skiy Torgovyi Dom "Gerda," 2000, pp. 58, 59).
- 10 "**Auctioning**—public selling of property, enterprises, securities, without any preconditions. In such a case, the object is sold to a person offering the highest price. The most widely practiced in Russian economy ... during the process of privatization ..." (*Metodologicheskiye Polozheniya po Statistike* [The Methodological Statistical Provisions], part I. Moscow: Goskomstat Rossii, 1998, p. 646).
- 11 "**Commercial contest**—one of the forms of bargaining during privatization. Selling, under the commercial contest, is purchasing by physical and legal persons into their property of objects of privatization in those cases when buyers are required to meet certain conditions with regard to the object of privatization. A winner of the commercial contest is its participant whose offers totally satisfy the conditions of the contest and in the best way conform to the criterion of choosing the winner, that is, who offers the maximum price while meeting the other conditions of privatization" (*ibid.*).
- 12 "**Investment contest**—one of the form of bargaining during privatization and selection of investment projects. Selling, under the investment contest, is purchasing by physical and legal persons into their property of objects of privatization in those cases when buyers are required to carry out investment programs... . the property right is transferred to the buyer who offer in the best way corresponds to the established privatization plans" (*ibid.*).

- 13 "Other": for 1998, includes "selling of shares," "investment contest" and some small items; for 1999 - 2002, includes "auctioning," "investment contest" and some small items.
- 14 *Otnosheniya Sobstvennosti v Ekonomicheskom Mekhanizme Federativnykh Otnosheniy* [Property Relations in the Economic Mechanism of Federal Relations], in series "Ekonomicheskiye Osnovy Rossiiskogo Federalizma" [The Economic Principles of Russian Federalism]. Moscow: Institut Ekonomiki Rossiiskoi Akademii Nauk [the Institute of Economics of the Russian Academy of Sciences], Tsentr Sotsial'no-Ekonomicheskikh Problem Federalizma [a Center of the Socioeconomic Problems of Federalism], 1997, p. 113.
- 15 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rosskiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 347, tabl. 13.17.
- 16 For the intra-branch of "motor transport."
- 17 Light and food industry enterprises amounted to more than one-third of all privatized industrial enterprises in 1993 - 2002 (see Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rosskiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p.352, tabl. 13.23.
- 18 Goskomstat Rossii, *Rosskiiskiy Statisticheskii Ezhegodnik* [The Russian Statistical Annual], 1999, p. 273, Tabl. 12.1.
- 19 In reality, this was a big surprise to *Western* observers of Soviet and then post-Soviet Russian agriculture who believed that, with the restructuring of the Soviet economy, the first major changes in the forms of property must arise in agriculture. For the reasons why they saw that way, see, for instance, S. Zhurek, "Transforming Russian Agriculture: Why Is Privatization so Difficult?" *The Soviet and Post-Soviet Review*, 21, 2 - 3, 1994.
- 20 M. Goldman, *The Privatization of Russia. Russian Reform Goes Awry*. London and New York: Routledge, Taylor & Francis Group, 2003, p.188.
- 21 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rosskiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 331, tabl. 13.2.
- 22 Except for 1991 - 1994: *ibid.*, p. 321, tabl. 12.26; for 1991 - 1994: Goskomstat Rossii, *Rosskiiskiy Statisticheskii Ezhegodnik* [The Russian Statistical Annual], 1999, p. 264, Tabl. 11.36.
- 23 Goskomstat Rossii, *Natsional'nyie Scheta Rossii v 1989 - 1994 gg.* [The National Accounts of Russia in 1989 - 1994]. Moscow: Goskomstat Rossii, 1995, p. 71.
- 24 O. Kryshchanovskaya, *Argumenty i Fakty*, "Smert' Oligarchii" [The Death of the Oligarchy], November 1998, Numbers 46 - 47.
- 25 "The Meteoric Rise of Luzhkov's System," *Business Review*, February 1999, Volume 7, Number 1.
- 26 "Ekonomicheskaya Strategiya NPSR (Narodno-Patrioticheskogo Soiuza Rossii)" [The Economic Strategy of the PPUR (the People's Patriotic Union of Russia)], *Sovetskaya Rossiya*, 24 June, 1999.
- 27 V. Sivkova, Yu. Tikhonova, "Gde I Kak Zastrevaet Zarplata" [Where and How Wages Are Held Up], *Argumenty i Fakty*, Number 22, June, 1999.
- 28 A. Maliutin, N. Samoilova, "Otkrytoiye Obshchestvo Zakrytogo Tipa" [An Open Corporation of a Close Type], *Kommersant-Vlast'*, Number 26, 6 July, 1999.
- 29 V. Sivkova, "Razgadka Benzinovoi Katastrofy. Nefhtianyye Barony Rvut Nas na Chasti" [A Clue to the Gas Catastrophe. Oil Barons Tear Us to

Pieces], *Argumenty i Fakty*, Number 31, August, 1999. The same source provides us with the following data on the property structure of the Russian oil companies at the end of the 1990s:

"1. **State companies:** *Rosneft*: the Arkhangelsk region, the Murmansk region, Stavropol krai, Krasnodar krai, Dagestan, Kurgan region, Yamalo-Nenetsky autonomous okrug; *Slavneft*: Ivanovo region, Kostroma region, Yaroslavl region. *ONAKO*: Orenburg region.

2. **Empire of M. Khodorkovsky:** *YUKOS*, *VNK*: Belgorod region, Bryansk region, Voronezh region, Krasnoyarsk krai, Lipetsk region, Orlov region, Samara Region, Tambov region, Tomsk region, Ylianovsk region, Khakass autonomous region.

3. **Empire of B. Alekperov:** *LUKoil*: Astrakhan region, Volgograd region, Vologodsk region, Kirov region, Perm region, Rostov region, Tyumen region, and Cheliabinsk region.

4. **Empire of R. Abramovich-B. Berezovsky:** *Sibneft*: Omsk region, Novosibirsk region, Altai krai.

5. **Empire of V. Potanin:** *Sidanko*: Amur region, Irkutsk region, Kamchatka, Magadan region, Moscow region, Primorski krai, Rostov region, Saratov region, Khabarovsk krai, Chita region, Yakut-Sokha.

6. **Empire of V. Bogdanov:** *Surgutneftegaz*: Kaliningrad region, Karelia, Leningrad region, Novgorod region, Pskov region, Tver region, Tyumen region, St.Petersburg.

7. **Empire of P. Aven:** group "Alfa-Tyumen Oil Company": Kaluga region, Kursk region, Ryazan region, Tula region, Tyumen region.

8. **Etc.**

30 V. Polevanov, "Chuzhye Zdes' Ne Khodyat" [Strangers Do Not Walk Here], *Zavtra*, August 1999, Number 31.

31 B. Stolyarov, "Skol'ko Stoit Preemstvennost' Vlasti [How Much the Continuity of Power Costs], *Novaya Gazeta*, 22 - 28 November, 1999, Number 44.

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33 A. Vartanyan, "Gosudarstvo Protiv Obshchestva: Armyanskaya Ekonomika v Tiskakh Politiki" [The State Against Society: Armenian Economy in the Grip of Politics], *Sodruzhestvo-NG*, a supplement to *Nezavisimaya Gazeta*, 24 March, 1999.

34 S. Viktorov, "Gossobstvennost' Nebezopasna" [The State Property Is Not Safe], *Kommersant*, 22 January, 2000.

35 T. Korostikova, "Kto 'Strizhyet' Dokhody s Gossobstvennosti?" [Who Makes Money on the State Property?], *Argumenty i Fakty*, April 2000, Number 15.

36 I. Prokofyeva, "Kto Boitsya Bankrotstva? [Who Is Afraid of Bankruptcy?], *Rossiiskaya Gazeta*, 7 April, 2000.

37 A. Kolganov, "K Voprosu o Vlasti Klanovo-Korporativnykh Grupp v Rossii" [On the Question of Power of Clan-Corporate Groups in Russia], *Voprosy Ekonomiki*, 2000, Number 6, p. 115.

38 "Komu na Rusi Zhit' Khorosho? [Who in Russia Lives Well?], *Argumenty i Fakty*, December 1998, Number 50.

39 Ibid.

40 One of the regions, the Chechen Republic, is not counted here.

41 G. Revzin, "Sotsialisticheskiy Gorod dlya Kapitalizma" [A Socialist City for Capitalism], *Kommersant-Vlast'*, 29 August, 2000, Number 34.

- 42 Of course, matters are much clearer with regard to the *non-corporate* non-state property. Here the owner is visible: it is either a concrete individual or a concrete family.

PART VIII

THE FIRST STAGE IN THE DEVELOPMENT OF THE POST-SOVIET SOCIOECONOMIC SYSTEM (1991 - PRESENT)

Chapter 3

The Post-Soviet Russian Enterprise: The 1990s - the Beginning of the 2000s¹

As a continuation of the discussion of the privatization process, let us examine its consequences with regard to the post-Soviet Russian enterprise. For this purpose, the chapter is divided into three parts.

The first introduces us to those enterprises whose sales volume put them in the ranks of the oligarchic *financial-industrial groups*. In the second part, we will characterize Russian *small businesses*. Finally, we will be acquainted with Russian stock companies with foreign capital participation, or *joint ventures*.

Financial-industrial groups in post-Soviet Russia

Russian financial-industrial groups (FIGs) were formally legitimated in 1993, in accordance with the Decree of the President of the RF of #2096, "On the Formation of Financial-Industrial Groups in the Russian Federation," with the Provisions "On the Financial-Industrial Groups and the Method of Their Formation," and also by a series of normative-legal documents in this field.² As their name tells, the groups unite the financial (banks) and the industrial (enterprises) activities.

The following specific features characterized the FIGs³ in the 1990s. First, the major direction of their activities was the production of the means of production (heavy, raw materials, and ferrous metallurgical industries, and construction). Second, there were relatively poorly presented production of the articles of consumption (light and food industries, agriculture) and residential construction. Third, and this follows from the two features, the state heavily participated in their property. For it is obvious that at the early period of the creation of the system of authoritarian state capitalism only the state, that is, the group bureaucracy, had sufficient financial means to form and maintain such large-scale productive units.

Here is some data on the FIGs in Russia as of January 1, 1998.⁴ There were 75 FIGs, or almost 2.7 times more than in 1993 - 1995. Their industrial activities spread over 100 different directions. They included 90 banks and they employed 6 mln. people.

Along with the number of the FIGs as a form of big corporate capital, there has been a growth of the concentration of production in Russian industry. This is shown in Table 3.1.

The table demonstrates the dynamics of the concentration of production for 1994 - 2003 along the industrial branches as a share of the volume of industrial output produced by three, four, six and eight large-scale enterprises:

Table 3.1
Concentration of Production in Various Branches of Russian Industry⁵

Branches of industry	A share of the volume of industrial output produced by large-scale enterprises, in percentages								
	1994	1995	1996	1997	1998	1999	2000	2002	2003
By three enterprises									
Electric power production	9.6	16.0	15.4	16.8	13.4	12.4	15.6	13.8	14.1
Fuel industry	13.3	14.9	14.2	17.2	18.6	28.6	30.7	27.8	28.6
Oil-extracting industry	30.9	29.8	30.4	34.6	33.2	43.1	42.9	41.7	41.7
Oil-refining industry	32.8	37.7	31.6	31.5	26.0	31.8	36.5	31.6	30.0
Ferrous metallurgy	30.8	32.5	31.0	32.9	35.2	38.4	38.0	35.6	34.8
Non-ferrous metallurgy	31.6	31.8	35.4	34.3	37.0	29.4	37.6	26.1	27.0
Chemical and petrochemical industries	9.8	11.9	12.9	12.9	12.4	11.4	12.6	11.4	11.9
Metal-building and metal-working industries	13.0	15.0	16.6	17.1	17.5	18.0	15.0	13.6	12.6
Timber, woodworking and pulp and paper industries	8.8	13.5	9.3	10.7	10.8	12.2	12.0	10.8	10.4
Industry of building materials	3.4	3.2	3.3	4.1	4.6	5.1	5.2	4.6	4.9
Light industry	3.1	3.8	5.9	3.9	3.5	4.2	5.0	5.8	7.9
Food industry	4.0	2.2	5.4	3.9	4.1	5.1	4.9	6.6	5.5
By four enterprises									
Electric power production	12.3	18.9	18.4	19.1	16.9	15.0	18.7	16.9	17.0
Fuel industry	16.8	18.8	17.6	21.1	22.5	31.7	34.1	32.4	33.8
Oil-extracting industry	37.6	37.8	37.9	41.8	39.1	47.8	47.6	48.7	49.4
Oil-refining industry	40.1	45.1	38.1	38.4	32.8	40.1	44.3	40.5	39.1
Ferrous metallurgy	37.5	39.5	38.5	38.7	39.6	43.5	43.0	40.8	39.5
Non-ferrous metallurgy	36.6	37.1	39.4	38.8	42.0	33.2	40.9	28.6	29.3
Chemical and petrochemical industries	12.2	14.1	15.1	15.1	15.2	13.8	15.0	13.6	14.2
Metal-building and metal-working industries	14.8	16.6	17.9	18.5	19.0	19.0	16.4	15.0	14.8
Timber, woodworking and pulp and paper industries	11.1	16.7	12.1	13.5	13.6	15.9	15.5	13.5	13.2
Industry of building materials	4.3	4.2	4.2	5.0	5.5	6.3	6.3	5.6	6.0
Light industry	4.0	5.0	6.9	4.9	4.5	5.3	6.2	7.0	9.1
Food industry	5.0	2.9	6.3	4.8	5.2	6.5	6.1	7.9	6.8
By six enterprises									
Electric power production	17.4	24.4	24.1	23.7	21.6	19.9	24.2	21.3	21.6
Fuel industry	23.2	25.8	24.2	28.2	29.0	36.9	39.0	38.4	39.9
Oil-extracting industry	49.5	51.0	52.1	55.0	49.0	55.5	54.5	56.4	57.8
Oil-refining industry	51.8	57.5	49.9	49.4	45.8	52.7	57.8	51.7	48.9
Ferrous metallurgy	47.1	49.3	48.9	47.4	47.5	51.7	51.3	49.2	47.9
Non-ferrous metallurgy	43.4	43.6	45.8	46.4	48.9	38.9	45.1	33.1	33.5
Chemical and petrochemical industries	15.8	17.9	19.0	19.0	19.9	17.6	19.2	17.4	18.0
Metal-building and metal-working industries	17.3	18.6	20.0	20.4	20.9	20.7	17.9	17.0	17.0
Timber, woodworking and pulp and paper industries	14.8	22.2	16.6	17.2	18.4	21.8	22.3	18.6	18.8
Industry of building materials	5.7	5.7	5.7	6.6	7.2	8.4	8.3	7.5	8.0

Light industry	5.7	6.5	8.4	6.6	6.2	7.3	8.3	9.0	11.4
Food industry	6.6	4.1	7.7	6.3	7.4	8.9	8.4	10.4	8.7
By eight enterprises									
Electric power production	21.2	29.6	29.0	28.1	26.2	24.6	29.3	25.5	25.7
Fuel industry	28.9	31.6	30.5	34.8	34.4	41.3	43.2	43.6	44.5
Oil-extracting industry	57.3	59.6	62.6	64.2	57.9	60.9	59.9	62.7	64.0
Oil-refining industry	62.5	69.0	61.0	59.0	56.6	63.0	67.7	59.2	56.8
Ferrous metallurgy	55.5	57.0	56.6	54.7	54.1	58.0	57.5	54.0	52.9
Non-ferrous metallurgy	48.6	49.1	51.2	52.5	54.0	43.0	48.6	36.4	36.5
Chemical and petrochemical industries	19.2	21.6	22.7	22.6	23.7	20.6	22.9	20.5	21.3
Metal-building and metal-working industries	19.2	20.2	21.7	22.0	22.4	21.9	19.1	18.4	18.5
Timber, woodworking and pulp and paper industries	17.6	25.7	19.5	20.5	22.5	27.5	28.4	21.9	23.2
Industry of building materials	7.1	7.1	7.1	8.2	8.8	10.4	10.2	9.3	9.9
Light industry	7.4	8.0	9.9	8.2	7.8	9.2	10.1	10.7	13.4
Food industry	7.9	5.2	9.0	7.7	9.1	10.9	10.5	12.1	10.4

The following conclusions can be made from reading Table 3.1. The first is obvious: the greater the number of the big enterprises, measuring the concentration of industrial production, the higher the concentration.

Second, on average, over the years, the concentration of industrial production has been the greatest in fuel and metallurgical industries, while the least, in light and food industries. This confirms the major direction of the activities of the FIGs mentioned earlier in this section of the chapter.

Third, over the years, the concentration of industrial production in Russia has been increasing. By and large (with some exceptions), the increase affects all the branches of industry listed in the table.

In this concentration, a certain role was played by the desire of the FIGs, through the integration of the production processes, to lower *transaction costs* in the system more and more oriented on profit maximization. But, in our opinion, the major reason for the growth of the concentration of production in industry has been a *social "budding,"* that is, the formation of the group bureaucratic and semi-bureaucratic structures out of the all-bureaucratic property.

Small businesses in post-Soviet Russia

Although clan (oligarchic) groups dominated the economy of the country in the end of the 1990s - the beginning of the 2000s, another economic sector was emerging. These were small businesses which were growing despite all the monopolistic-clannish obstacles and which were becoming an integral part of the non-oligarchic, non-clannish branch of the Russian economy.

They originated in three movements: *the cooperative, individual labor activity, and leasing.* Hence, to have a better grasp of post-Soviet Russian small businesses we need to describe their three Soviet predecessors.

The Soviet predecessors to the post-Soviet Russian small businesses

The Soviet cooperatives. Cooperatives were organized in 1987. *Legally*, they had a right to own the means of production, to buy inputs from whatever sources available, and to sell their goods and services to whoever wanted to buy them at a more or less free price. *Legally*, their only obligation to the state was meeting tax obligations. *Legally*, therefore, there were no obstacles to anybody opening a cooperative enterprise.

But the *reality* was different. The *reality* was that not too many people had a chance to fill the ranks of the cooperators.

Thus, as of January 1, 1990, there were 193,000 cooperatives in the country. They employed close to 4.9 million, or on average, 25 persons per a cooperative. They were engaged in consumer goods production, public catering and paid services to the population.⁶

Since hiring of labor was prohibited, unless at least three cooperators were involved, one might guess that there were at most 600,000 cooperators in the country at this period.⁷ This constituted less than 4 percent of the total Soviet administrative personnel.⁸

The ranks of the cooperators were not numerous. Nevertheless, the number was impressive, if it is remembered that by 1990, the cooperatives had operated only for a couple of years.

But this, however, did not mean that the cooperatives were the embodiment of free enterprise. We believe that, as long as the system of state ownership of the means of production (whether in its centralized or decentralized form) reigned over the economy, the cooperatives were doomed to remain decentralized private monopolies, although in a more restrained version and at a much smaller scale than state monopolies. The reasons were as follows.

During the transitional period of the late 1980s - the beginning of the 1990s, land and buildings continued to be state property. To rent them from the state was an extremely difficult task.

First, there was a tremendous shortage of business structures, where "fixed capital investment of state enterprises and organizations fell to 21.4 percent in 1989 from 22.1 percent in 1988."⁹ This was a logical consequence of the growing power of the economic bureaucracy, and especially its lower levels, in retaining and allocating the profits of enterprises.¹⁰

Second, the would-be cooperators were restricted by the system of internal passports and residence permits (*propiska*) that continued to be an integral part of the socioeconomic structure even in the beginning of the 1990s.¹¹

Third, in a tight economy of the Soviet type, industrial and agricultural inputs could not be bought freely in the market. They had to be secured either officially, through the centralized state supply system, or unofficially, through the decentralized system of local economic and soviet bureaucracies.

In addition, some other very formidable obstacles stood in the way of the would-be cooperators. "[T]he upper limit for private [non-state] capital" was one of them.¹² Restrictions on hiring employees, where "[a] group of three officially registered cooperative businessmen ... [could] contract employees, but each of them individually ... [did] not have the right to do so [as it was mentioned earlier]," are another one.¹³

Thus, public sentiments about private (non-state) activities, on the one hand, and jealousy of the higher levels of the bureaucracies not involved directly in the cooperative movement, on the other, prevented the cooperatives from growing into really independent small businesses and condemned them to remain relatively small undertakings.

Such impediments, in the economy of shortages, could only be endured by those who had an access to the process of the allocation of productive (local bureaucracies) and monetary (members of the "shadow economy") resources. That is, in the economy of scarcities, local bureaucracies, being in charge of housing, business structures and supplies, were in the position to prevent outsiders from having a hold on these items. Thus, only insiders were welcome, so that to rent a place or to purchase materials it was necessary to have the right connections.

Among these local bureaucratic insiders, there were the unemployed low-level local party bureaucrats, who had been part of a web of good working relations with other local bureaucracies (especially economic and the bureaucracies of the soviets), were among the best candidates to whom the pieces of the national property could be "trusted."

With respect to the activists of the shadow economy, this was a group of the non-bureaucratic Soviet people with an ability to influence the bureaucratic decisions unofficially by the means of kickbacks, bribery, favors and collusion. These people amassed their fortunes under the shortage conditions of the state monopoly.¹⁴

They might also be considered insiders: they paid their way by bringing a lot of currency into the legitimate cooperative business. Their command over national resources was enormous. Some Soviet economists estimated that incomes the second economy had earned reached about 20 percent of Soviet GNP.¹⁵

Thus, the would-be cooperators of good connections, who came from within the hierarchical bureaucratic structure, were allied with the would-be cooperators of great (according to the Soviet standards) fortunes, who originated from outside the hierarchical bureaucratic structure. As a result, in the cooperative movement, the middle- and low-level party mafia of privileges, with its knowledge of the right people in the right places, joined hands with the shadow-business mafia whose illegal money was ready to be laundered.¹⁶

Soviet individual labor activity. During the end of the 1980s - the beginning of the 1990s, a new economic phenomenon *officially* appeared in the USSR. Its name was *individual labor activity*. The Soviet people were allowed *individually* to engage in home and craft industry, in providing services to the population in the social and cultural spheres, in public artistic craft, and in other activities (for example, transportation).

These were ventures by *regular, common*, non-bureaucratic Soviet folks. The tiny individual undertakings channeled the activities of hundreds of thousands of people, trained them to become real free entrepreneurs.

This is not to say that such enterprises did not exist in the past. They did, even under the pre-Gorbachev totalitarian regime. However, they were illegal. They were now coming to the surface.

It should be pointed out that there was a great deal of difference between this type of shadow economy when it was illegal and the shadow economy of bureaucratic connections and money. The latter economy was in reality a black-market economy. Individual labor activities, unlike their black-market counterparts, were predominantly pursued by hard-working and enterprising individuals who relied on themselves only (and not on high-powered connections).

Since these activities embarked on the road to free competitive markets, they were viewed as potential rivals by the state and other monopolies. And it was in the power of these monopolies to restrict, to curtail the growth of the private (non-state) competitive sector of the economy, to make sure that it does not survive, at most, or condemn it to remain small, at least.

That this statement is not unsubstantiated may be found in the comparison between the development of cooperatives (the enterprises of the privileged and well-connected) and individual labor activities (open endeavors of people not belonging to the inner circle). The comparative data available for 1988 - 1990 reveals that the development of individual labor activities was less dramatic and more uneven than that of the cooperatives.¹⁷

First, the number of cooperatives and the number of persons they employed had been increasing steadily. At the end of 1989, the former was almost 10 times and the latter was almost 20 times larger than their respective levels at the beginning of 1988. Meanwhile, during the same period, the number of people engaged in individual labor activities increased by less than twice. Moreover, in 1989, the number actually dropped by 10 percent.

The cooperatives also grew in size. Calculations show that, in terms of the average number of employees per a cooperative, they increased their size from 13 in the first quarter of 1988 to 20 in the second quarter of 1989 to 25 at the end of 1989. It might be concluded that economies of scale put cooperatives in a much better position than enterprises with individual labor activities.

Soviet leasing. Since in rural areas the bureaucracy dealing with agriculture possessed the agricultural land and capital, owned by the bureaucracy as a whole, the leasing procedure ended up by strengthening its position of power.¹⁸ The reasons are clear.

Land was leased only if it suited the interests of the local bureaucracies dealing with agriculture. The number of leases allowed by the agricultural bureaucracies was strictly regulated: first, in order to prevent more or less unrestrained competition which could drive prices of the agricultural products down; second, to enable the bureaucracies to retain firm control over the activities of the lessees.

The prospective lessee was totally dependent on the agricultural farm managers for agricultural machinery and equipment, fertilizers, seeds, transportation, etc. Still, another reason was a complete dependence of the would-be lessee on the bureaucracies of the local soviets for the right of zoning, for selling surpluses to local free farm markets, for buying necessary construction materials, and so on.¹⁹

At the end of the 1980s, the leasing system in agriculture was at its embryonic stage. According to the estimates by the Soviet Agricultural Ministry, there were 60,000 non-state and non-collective farms in the Soviet Union.²⁰ These farms leased from the state 3.7 mln. acres of land.²¹ This constituted a negligible 0.6 percent of the country's agricultural land, or 1.6 percent of its arable land.²²

The sole purpose of allowing leasing in agriculture was to alleviate food problems and at the same time to retain the existing power of the agricultural bureaucracy.²³

The leasing process, as has been mentioned earlier, was taking place in the non-agricultural sectors as well. In November 1989, the Soviet authorities allowed to lease facilities of state enterprises, but only to their immediate employees in their spare time.

As a result, at the end of 1989, there were 1,332 industrial enterprises, 731 construction organizations, 138 enterprises of consumer services, and others that operated within the leasing structure.²⁴ This represented a very small proportion of Soviet enterprises and organizations with a very small share of production.

But already by the end of 1991, "almost 30,000 ... [factory] leases had been arranged, and by 1992, 13 percent of the country's industrial output was produced in leased factories."²⁵

The post-Soviet Russian small businesses

Here is the official description of small businesses in post-Soviet Russia:²⁶

... *small businesses* ... [are] commercial organizations (legal persons) in which an average number of employees per year (per a period, for new businesses) does not exceed 100 in industry, construction and transportation, 60 in agriculture and the scientific-technical sphere, 30 in retail trade, non-productive types of consumer services for the population, 50 in wholesale trade, other branches ...

Besides, the law determined some other criteria of classifying enterprises as small businesses, which are used together with ... the number of employees:

-a share of the participation in legal capital of the property of the Russian Federation, of the municipal property, of the social and religious organizations (associations), of the charitable and other funds for small businesses [that is, of outsiders] should not exceed 25 percent;

-a share belonging to one or several legal persons which are not subjects of small businesses [that is, to outsiders] should not exceed 25 percent.

Table 3.2 illustrates the distribution of small businesses by economic branches in 1997 - 2004:

Table 3.2
Small Businesses by Economic Branches, 1997 - 2004
(as of January 1)²⁷

	1997		2000		2002		2004	
	Number (ths)	Percent to total	Number (ths)	Percent to total	Number (ths)	Percent to total	Number (ths)	Percent to total
Total	841.7	100	890.6	100	843.0	100	890.9	100
Including by branches:								
Industry	131.9	15.7	136.2	15.3	125.1	14.8	118.7	13.3
Agriculture	10.9	1.3	13.5	1.5	13.4	1.6	17.8	2.0
Construction	138.0	16.4	135.9	15.3	121.9	14.5	116.8	13.1
Transportation	17.5	2.1	21.0	2.4	18.8	2.2	21.8	2.4
Communications	2.9	0.3	4.8	0.5	3.7	0.4	4.7	0.5
Trade and public catering	359.3	42.7	399.7	44.9	388.1	46.0	416.7	46.8
Wholesale of industrial-technical commodities	14.6	1.7	14.6	1.6	15.9	1.9	27.4	3.1
Informational- computing services	6.1	0.7	5.2	0.6	6.4	0.8	8.0	0.9
Real estate operations	3.9	0.5	8.4	0.9	14.2	1.7	23.6	2.6
General commercial activities to secure market functioning	35.9	4.3	36.7	4.1	34.7	4.1	39.5	4.4
Housing and communal services	2.8	0.3	5.4	0.6	5.2	0.6	4.0	0.5
Non-productive types	10.2	1.2	9.2	1.0	9.4	1.1	10.3	1.2

of consumer services for the population								
Health care, physical culture and social security	11.0	1.3	17.9	2.0	17.4	2.1	19.9	2.2
Education	6.6	0.8	6.5	0.7	5.0	0.6	3.1	0.3
Culture and arts	6.5	0.8	7.8	0.9	7.9	0.9	8.4	0.9
Science and scientific support	46.7	5.5	37.1	4.2	28.5	3.4	22.1	2.5
Finances, credit, insurance, pensions	10.8	1.3	6.6	0.7	5.6	0.7	4.4	0.5
Other branches	26.1	3.1	24.1	2.8	21.8	2.6	23.7	2.9

In general, there has been a tendency for the number of small businesses to grow. The rate of growth has been the largest in such branches of the Russian economy, as real estates operations (6.1 times), wholesale of industrial-technical commodities (1.9 times), health care, physical culture and social security (1.8 times), agriculture (1.6 times), housing and communal services (1.4 times), etc.

At the same time, the period under consideration witnessed a sharp decline in the number of small enterprises in the spheres of finances, credit, insurance, pensions (by 2.5 times), education, science and scientific support (by more than twice), etc.

Apparently, such an increase in the number of small businesses in some economic branches and a decrease in others was caused by certain changes in the corresponding Russian markets. For example, the opportunity for the millions of Russian citizens to improve their living conditions and also the requirements for commercial premises to open new small businesses favored the development of real estate operations. At the same time, the financial crisis of 17 August 1998 (of which, as it has been promised, we will talk in some time in the future) could not but further undermine the confidence of the population in enterprises of finances, credit, insurance, etc.

Let us now turn our attention to the structure of the activities of small businesses. In this respect, trade and public catering, industry and construction were at the top. As a result, in the beginning of the twenty-first century almost 3/4 of Russian small businesses were engaged in trade, industrial and construction activities.

Table 3.3 provides us with the number of employed and the volume of production in small businesses by the corresponding economic branches in 2003:

Table 3.3
The Number of Employed and the Volume of Production in Small Businesses
*by Economic Branches in 2003*²⁸

	The average number of employees		The volume of production (works, services), percentages to total
	Thousands	Percentages to total	
Total	7,433.1	100	100
Including by branches:			
Industry	1,594.9	21.5	23.2
Agriculture	198.0	2.7	1.1
Construction	1548.3	20.8	23.9
Transportation	253.7	3.4	3.9
Communications	40.8	0.5	1.0
Trade and public catering	2,452.5	33.0	29.8
Wholesale of industrial-technical commodities	164.2	2.2	3.1
Informational-computing services	66.8	0.9	0.8
Real estate operations	144.7	1.9	1.9
General commercial activities to secure market functioning	202.4	2.7	2.9
Housing and communal services	41.5	0.6	0.4
Non-productive types of consumer services for the population	85.8	1.2	0.5
Health care, physical culture and social security	114.9	1.5	1.3
Education	14.8	0.2	0.1
Culture and arts	61.9	0.8	0.7
Science and scientific support	168.9	2.3	3.2
Finances, credit, insurance, pensions	13.2	0.2	0.0
Other branches	265.8	3.6	2.2

More than third of the employees of small businesses were occupied in trade and public catering; more than 42 percent, in industry and construction. Thus, more than 3/4 of the employees of small enterprises were engaged in these three branches of the economy of the country.

As far as the volume of production is concerned, here industry and construction as spheres of material production were together producing almost a half of the output of small businesses.

This is understandable, for it is in such branches of material production, in contrast to trade operations, the creation of the major part of value added of commodities was taking place.

Nevertheless, trade and public catering absorbed a third of the entire volume of production by small businesses. It could be explained by the fact that this sphere of economy, with its high capital turnover, was able to give many small businesses a chance to survive during the period of primary non-state capitalist capital accumulation.

An evaluation of the role of small businesses in the post-Soviet Russian economy of the end of the nineteenth - the beginning of the twentieth centuries. To see what role small enterprises played in the Russian economy during the period, we will use Table 3.4:

Table 3.4
Small Businesses in the Russian Economy, 1997 - 2003

Indices	1997 ²⁹	1998 ²⁹	2000	2003
The total number of enterprises and organizations, ths.	2,505	2,727	3,106 ³⁰	3,845 ³⁰
Including the number of small businesses, ths.	842.0	861.0	890.6 ³¹	882.3 ³¹
In percentage to the total number of enterprises and organizations ³²	33.6	31.6	28.7	22.9
The average annual number of employees, mln. people	64.6	63.6	64.3 ³³	65.7 ³³
Including the number of employees in small businesses, mln. people ³⁴	8.6	7.4	7.6 ³⁵	8.2 ³⁵
In percentage to the average annual number of employees in small businesses ³²	13.3	11.6	11.8	12.5
GDP, bln. rubles ³⁶	2,479	2,696	7,306 ³⁷	13,285 ³⁷
Including the volume of production by small businesses, bln. rubles ³⁶	303	261	613.7 ³⁸	1,682.4 ³⁸
In percentage to GDP ³²	12.2	9.7	8.4	12.7

The table shows a very uneven development of Russian small businesses at the end of the twentieth - the beginning of the twenty-first centuries (1997 - 2003). First, while the number of small businesses in 2003 as compared to 1997 increased, their share in the total number of enterprises went down. Second, while the average annual number of employees went up in 2003 as compared to 1997, their share in the total number of employed decreased. Thus, the only index which performed favorably both absolutely and relatively was the volume of production by small businesses.

But, wherever positive or negative, changes in the status of small enterprises, were not dramatic. This contrasted with the end of the 1980s - the beginning of the 1990s. For example, in the

beginning of the 1990s the annual average rate of growth of the number of small businesses as well as people they employed was equal about 80 percent.³⁹

The major reason for this was that, beginning with *perestroika*,

... small businesses [often] played a role of a channel pumping over resources of administratively managed state enterprises into the shadow economy, to the benefit of criminal ... pseudo-market entrepreneurship ... the means accumulated in small business by the method of "plundering" of the state sector, with a few exceptions ... were practically forever leaving the sphere of investment and were not used for the development of national production and its infrastructure.⁴⁰

But already in 1994 - 1995, when there took place a strengthening of the oligarchic groups, small businesses were becoming competitors of the latter in the struggle for "a piece of the state pie." Therefore, small enterprises had to make room for the "big brothers" and to a greater extent rely on own, as a rule, relatively not great resources. As a result already in 1994 above listed rates of the growth of small businesses, first, declined to 4 percent, and in 1995 even reached a negative number 2.2 percent.⁴¹ As a consequence, the official Russian sector in 1999 produced less than 10 percent of GDP (close to 13 percent in 2003), while in other industrial countries the indicator was 50 percent.⁴²

A final note on small businesses in post-Soviet Russia. So far we have dealt with them in their non-agricultural endeavor. But they were engaged in agriculture as well.

Due to the specifics of Russian agriculture (discussed earlier), their participation in this field was not very impressive. Thus, although their share in agricultural production grew significantly in 2003 as compared to 1995, it was relatively small. For example, in 2003 the share of production by independent farmers as an agricultural form of small businesses (including individual entrepreneurs) in the total agricultural production was: 14.4 percent of grain, 10.1 percent of sugar beets, 2.1 percent of cattle and poultry for slaughter, and 2.5 percent of milk.⁴³

Joint ventures in post-Soviet Russia

As semi-private monopolies, joint ventures represented a business cooperation between Soviet enterprises (that is, certain Soviet bureaucracies) and foreign business firms (foreign business classes). These joint stock companies were either Russian enterprises with foreign direct or portfolio investment or foreign enterprises on the Russian soil.⁴⁴

The basic principles of their creation, types and conditions of their activities and their liquidation were established by the Law of the RSFSR "On Foreign Investment in the RSFSR."⁴⁵ The law was

introduced in 1987, that is, before the breakup of the Soviet system and the USSR.

As of January 1, 1990, 1,274 joint ventures had been approved on the territory of the USSR.⁴⁶ But only 307 joint ventures, or 24 percent of those approved, were actually in operation.⁴⁷ In 1989, the volume of production by joint ventures was 877 mln. rubles, including 579 mln. rubles by industrial enterprises.⁴⁸ The number of joint ventures and the amount of their production were a small fraction of the corresponding Soviet indices.

As long as joint ventures with foreign firms promised the infusion of hard currency into the country, those bureaucracies which were able to benefit from such arrangements could be expected to resolutely promote them. These were the bureaucracies of Soviet enterprises and also the bureaucracies of those organizations to which the enterprises were subordinated and with which the enterprises were obliged to share their foreign currency earnings. Obviously, the vertical and horizontal ladders of the bureaucracy that were unable to gain from such an association with foreigners grew increasingly resentful about the whole procedure.

Most international economic and hard-currency transactions were the prerogative of the central Moscow bureaucracies which had an exclusive right to do business with foreign businessmen. The distribution of joint ventures on the territory of the Soviet Union (before its disintegration) implicitly confirms this.

Data about the geographical distribution of *actually operating* joint ventures are not available. But the figures for those that had been *registered* show that, on January 1, 1990, out of 1,274 joint ventures, 947, or roughly 75 percent, were located on the territory of the Russian republic.⁴⁹ It would be a good guess that, among those joint ventures that had been actually operating, the share of the Russian, or, more precisely, of central bureaucracies, was much higher.⁵⁰

Let us now look at the major indices of the activities of joint ventures in Russia:

Table 3.5
Major Indices of the Activities of Joint Ventures,
*1998 - 2003*⁵¹

Indices	Number of joint ventures, at the end of the year				
	1998	2000	2001	2002 ⁵²	2003 ⁵²
Total	8,835	9,102	9,295	11,279	11,815
Including by branches:					
Industry	2,316	2,424	2,435	2,869	3,046
Agriculture	55	72	87	110	126
Construction	636	551	496	597	663
Transportation	394	463	489	554	581
Communications	204	257	264	304	281

Trade and public catering	3,311	3,112	3,150	3,826	4,083
Wholesale of production-technical commodities	157	221	185	365	409
Science and scientific support	306	277	240	272	246
General commercial activities to secure market functioning	565	613	711	813	789

Table 3.5
Major Indices of the Activities of Joint Ventures,
1998 - 2003⁵¹
(Continuation)

Indices	Average annual number of employees (without external holders of more than one office), th.				
	1998	2000	2001	2002 ⁵²	2003 ⁵²
Total	969.0	1,337	1,533	2,834	3,009
Including by branches:					
Industry	712.8	960.2	1,114	2,247	2,246
Agriculture	3.0	16.1	18.6	22.1	25.3
Construction	25.5	26.2	27.7	32.5	41.7
Transportation	32.3	53.2	57.6	94.3	144.3
Communications	51.6	100.3	105.3	118.3	112.1
Trade and public catering	83.4	94.1	106.4	146.7	244.2
Wholesale of production-technical commodities	6.3	7.7	5.3	11.6	15.4
Science and scientific support	4.9	10.9	10.3	18.9	19.0
General commercial activities to secure market functioning	13.3	16.4	20.9	25.6	37.3

The table demonstrates a continuous growth of joint ventures in the period under consideration in terms of their numbers (except that of "Science and scientific support") and in terms of the number of people they employed. The table also shows that most joint ventures were in retail, public catering and industry, while the largest number of people employed was in industry alone.

In our opinion, the major cause for such a steady growth was the lure of *hard currency* and the *ability to export it abroad* that joint ventures were giving to their Russian partners. Table 3.6 implicitly confirms this:

Table 3.6
*Russian Joint Ventures at the End of 2003*⁵³

Indices	The number of joint ventures	Percentage of total
With countries with hard currency	8,537	84.0
With countries with little hard currency (11 former Soviet republics)	1,627	16.0
Total	10,164	100.0

The list of the first group, "With countries with hard currency," includes Great Britain, Germany, Cyprus, China, Netherlands, the USA, Turkey, Finland, and Switzerland. It is very interesting to note that among these countries dominated tiny Cyprus, with 1,576 joint ventures. As we will see in a chapter on post-Soviet Russian foreign economic relations, these were offshore Russian companies the whole purpose of whose existence was to, one way or another, "pump" hard currency from Russia to foreign countries.

The second group is represented, as it was pointed out, by eleven former Soviet republics: Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kirghizia, Moldova, Tajikistan, Turkmenistan, Uzbekistan, Ukraine. Together, these newly formed countries, with long traditions of interdependence with Russian economy, thus, with their would-be natural partner, comprised only 16 percent of the total number of Russian joint ventures. And even Ukraine, the largest former Soviet republic, had more than 2.5 times less joint ventures than the small Cyprus. Obviously, Ukraine, being poor in foreign reserves, was not very attractive to the hard-currency-hungry Russian companies.

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Notes to Chapter 3: The Post-Soviet Russian Enterprise: The 1990s - the Beginning of the 2000s

- 1 Based on E. Raiklin, "The Disintegration of the Soviet Union," *International Journal of Social Economics*, Volume 20, Numbers 3/4, 1993, pp. 20 - 29; E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Ekonomicheskii Rost i Razvitiye* [Principles of the Economic Theory. Economic Growth and Development]. Moscow: "Nauka," 2001, pp. 247 - 257.
- 2 *Stanovleniye Promyshlenno-Finansovykh Grupp v Rossii* [The Formation of the Industrial-Financial Groups in Russia]. Moscow: Institut Nauchnoi Informatsii po Obshchestvennym Naukam [The Institution of the Scientific Information on Social Studies], 1995, p. 5.
- 3 See, for instance, Goskomstat Rossii, *Promyshlennost' Rossii* [The Russian Industry]. Moscow: Goskomstat Rossii, 1996, pp. 41 - 43.
- 4 B. Milner, "Krupnye Korporatsii-Osnova Pod'ema i Uskorennogo Razvitiya Ekonomiki [Large-Scale Corporations Are a Basis for the Revitalization and Accelerated Growth of the Economy], *Voprosy Ekonomiki*, 1998, Number 9, p. 71.
- 5 Data for 1994 - 1998: Goskomstat Rossii, *Rosskii Statisticheskii Ezhegodnik* [The Russian Statistical Annual]. Moscow: Goskomstat Rossii, 1999, p. 307, tabl. 13.10. Data for 1999: Goskomstat Rossii, *Rosskii Statisticheskii Ezhegodnik* [The Russian Statistical Annual]. Moscow: Goskomstat Rossii, 2000, p. 307, tabl. 14.7. Data for 2000 - 2003: Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rosskii Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004]. Moscow: Rosstat, 2004, p. 364, tabl. 14.5.
- 6 Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989]. Moscow: "Finansy i Statistika," 1990, p. 268.
- 7 There is no direct way to determine the actual number of cooperators. The indirect estimate is 579,000 (193,000x3).
- 8 Calculated from footnote #7 and Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], p. 51.
- 9 OECD, IMF, World Bank, EBRD, "An Economic Portrait of the USSR," *Economic Insights*, Volume II, Number 2, March/April 1991, p. 40.
- 10 The theme will be discussed in an appropriate chapter.
- 11 On this point, a Soviet commentator (A. Podrabinek, "Tsel' Vlasti-Vlast', ili Novaya Zhizn' Starykh Apparatchikov" [The Goal of the Authorities Is Power, or a New Life of the Old Apparatchiks], *Novoye Russkoye Slovo*, Russian-American Daily, 24 October, 1991) complains:

"[All the] talks about the transition to the [free] market will remain a regular Soviet bluff as long as the regime of *propiska* exists in the country. A free allocation of the labor resources [is] and absolutely necessary condition for the development of a free economy. *Propiska* hinders this."

- 12 B. Pinsker and L. Piyasheva, "Property and Freedom," in I. Tarasulo, ed., *Perils of Perestroika. Viewpoints from the Soviet Press, 1989 - 1991*, trans. from Russian. Wilmington, DE: Scholarly Resources Inc., 1992, p. 168.

- 13 Ibid.

- 14 That the shadow (second) economy was a consequence of the Stalinist model of shortages was recognized by Soviet economists: "The shadow economy[was] a necessary supplement of the administrative-command system [that is, of the system of totalitarian state capitalism]" (*Perekhod k Rynku. Kontseptsiya i Programma* [A Transition to the Market. The Concept and the Program], by the working group organized by the mutual decision of M. Gorbachev and B. Yeltsin. Moscow: The Ministry of Press and Mass Information of the RSFSR, 1990, p. 135).

- 15 Ibid., p. 138.

- 16 This symbiosis was noticed and met by alarm by many in the Soviet Union. Even Yeltsin was forced to point out the danger such limited decentralized semi-private monopolies posed to free competitive markets:

"The very essence of the mafia [is] the coalescence of private [non-state] and state structures out of which arises the worst kind of monopolies. No free enterprise will [be able to] survive along their side" ("Nuzhen Krupnyi Reformistskiy Proryv [A Major Reformist Break Is Necessary], *Pravda*, 29 October 1991).

It worth noting that this was not a Soviet phenomenon alone. For instance, the Czechoslovak Ambassador to the United States noted that

"... the transition to the free market is taking place not exactly the way it was envisaged by economists. In particular, the new class of entrepreneurs is being formed in the first place from former swindlers, party apparatchiks and law enforcement agencies' employees, which threatens with the emergence of a new mafia" ("Prezident Czechoslovakii v SshA" [The President of Czechoslovakia in the USA], *Novoye Russkoye Slovo*, Russian-American Daily, 23 October 1991).

- 17 The data are compiled from the following sources:

For cooperatives: Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1987 g.* [The National Economy of the USSR in 1987]. Moscow: "Finansy i Statistika," 1988, p. 74; Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1988 g.* [The National Economy of the USSR in 1988]. Moscow: "Finansy i Statistika," 1989, p. 321; Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], p. 268;

For individual labor activities: Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1987 g.* [The National Economy of the USSR in 1987], 1988, p. 80; Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1988 g.* [The National Economy of the USSR in 1988], p. 329; Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], p. 275.

- 18 In agriculture, the would-be nature of and the extent to which leasing might affect the power of the horizontal and vertical layers of the bureaucracy dealing with agriculture was a subject of a round-table

discussion sponsored by a Soviet journal. The participants raised the following concern:

"The question is usually posed this way: Who's the lessee and who is the lessor? The lessee could be a collective farm or a state farm, or individual peasant farms within them, taking technology into consideration.

But who could be the lessor?... At present, the Lease Law, which was first adopted ... [in 1988], and the decree of April 7 [1989], supposedly indicate very clearly that a collective farm, state farm, or local agencies of the Soviet power [the local soviets] may be lessors.

Theoretically, this is the case. But in most cases, local agencies of Soviet power have no free land in the national land accounts. This means that, for all intents and purposes, the land is assigned to collective and state farms, and only they can lease it. Consequently, the decision to lease or not to lease land depends on the farm or, more bluntly, on the director of the particular collective or state farm" (G. Podlesskikh, "Finding a Steward for the Land," in I. Tarasulo, ed., *Perils of Perestroika. View points from the Soviet Press, 1989 - 1991*, trans. from Russian. Wilmington, DE: Scholarly Resources, Inc., 1992, p. 187).

19 Here is a confirmation report from the Yaroslavl region:

"Until recently, private farmers were supplicants to collective [and state] farm directors for land, machinery and materials. Often, farmers weren't allowed to sell their crops on the [free farm] market and had to sell them back to the collective [or state] farm for a pittance" (N. Banerjee, "Soviet Private Farmers Hope the Coup's Collapse Will Finally Rid Them of the State Heavy Hand," *Wall Street Journal*, 19 September, 1991).

20 Ibid.

21 Ibid.

22 Calculated from Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], p. 432.

23 That this was the case and that it would create some additional socioeconomic problems was recognized by some Soviet economists:

"Certain politicians and legislators consider leasing within collective and state farms and leased farms to be an acceptable way of resolving our long-term agricultural crisis, which is an economic, cultural and social crisis. Thus, they propose, putting it crudely, to preserve our virginity and to derive pleasure at the same time by maintaining the monopolistic system of nationalized property in land, while simultaneously creating conditions for the development of markets systems for regulating the agricultural production. Putting it mildly, this is a dubious project. After all, what do all of the many centuries of experience in other countries tell us ... ? They tell us that short-term and medium-term leases are socially destructive and dangerous. Long-term leasing with the right of inheritance is supposedly free of the basic disadvantages ... because it guarantees a sufficient economic interest in improving the land and creates incentives for a reasonable and long-term intensification of farming. At the same time, long-term leasing contains the seeds of major social and economic conflicts between the tenants and the owners of land—in our case, the representatives of the government" (B. Pinsker and L. Piyasheva, "Property and Freedom," in I. Tarasulo, ed., *Perils of Perestroika. Viewpoints from the Soviet Press, 1989 - 1991*, pp. 169 - 170).

Western observers agreed. Referring to leasing in both the agricultural and non-agricultural sectors of the economy, one of them comments (I. Tarasulo, ed., *Perils of Perestroika. Viewpoints from the Soviet Press*, 1989 - 1991, p. 146):

"Leasing, introduced in 1988, was intended to offer some remedy for the centralized economy and possibly to facilitate a transition to privatization. There are no clear legal and financial frameworks for the existence of other [than state] forms of property. However, all attempts under *perestroika* to introduce leasing have failed, largely because factory workers cannot feel free if the ministries are still in control, just as individual rural leaseholders cannot survive if collective and state farms [more precisely, their management] and rural *apparatchiks* retain power."

Since agriculture demands a lot of physical and mental endurance, especially under the Soviet conditions of scarcity and harsh climate, the most probable candidates for the lessees' positions were rank-and-file members of the state and collective farms and their friends and relatives in urban areas, that is, non-bureaucratic households. This was confirmed by some Soviet and Western sources. On the social composition of lessees in the Leningrad region of the Russian Republic, see, for instance, A. Belousov, "Fermertvo Obrastayet Biurokratei, Sledovatel'no, Ono Nepobedimo" [Independent Farming Creates Its Own Bureaucracy, Hence, It Is Invincible], *Chas Pik*, Number 33, 19 August 1991, p.5. On the same problem in Ukraine, see, for example, J. Carlson, "Uncertainty Is Newest Crop Among Ukrainian Farmers," *The Des Moines Register*, November 12, 1991.

- 24 Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], p. 264.
- 25 M. Goldman, *The Privatization of Russia. Russian Reform Goes Awry.* London and New York: Routledge, Taylor & Francis Group, 2003, p. 78.
- 26 Goskomstat Rossii, *Rossiiskiy Statisticheskii Ezhegodnik.* Moscow: Goskomstat Rossii, 1998, p. 294.
- 27 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 338, tabl. 13.5.
- 28 Ibid., tabl. 13.6.
- 29 For 1997 - 1998: E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Ekonomicheskii Rost i Razvitiye* [Principles of the Economic Theory. Economic Growth and Development], p. 255, tabl. 4.13.
- 30 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 331, tabl. 13.1.
- 31 Ibid., p. 338, tabl. 13.5.
- 32 Percentages are calculated by the author.
- 33 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 32, tabl. 1.1.
- 34 The average annual number of employees in small businesses is estimated as the sum of the average number of the main personnel, the average number of the external holders of more than one office, and the average number of those employed as contractors.

- 35 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rosskiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 339, tabl. 13.7.
- 36 In current prices.
- 37 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rosskiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 33, tabl. 1.1.
- 38 Ibid., p. 341, tabl. 13.8.
- 39 See A. Vilensky, "Etap Razvitiya Malogo Predprinimatel'stva v Rossii" [A Stage in the Development of Small Businesses in Russia], *Voprosy Ekonomiki*, Number 7, 1996, p. 30.
- 40 Ibid., p. 32.
- 41 Ibid., p. 30; and also E. Buchwald and A. Vilensky, "Rossiiskaya Model' Vzaimodeistviya Malogo i Krupnogo Predprinimatel'stva" [A Russian Model of the Interaction Between the Small and Big Business], *Voprosy Ekonomiki*, Number 2, 1999, pp. 67 - 68.
- 42 S. Rao, *Business Review*, "Flattened by Taxes. The Tax System Is Especially Harsh on Small Businesses, Many of Whom Flee to the Shadows," Volume 7, Number 1, February 1999.
- 43 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rosskiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 342, tabl. 13.9.
- 44 The following joint ventures were allowed to be created and function on the territory, first, of the RSFSR and then of post-Soviet Russia:
- enterprises with the share holding by foreign investments (joint ventures), and also their branch establishments and subsidiaries;
 - enterprises totally owned by foreign investors, and also their branch establishments and subsidiaries;
 - subsidiaries of foreign legal persons.
- Joint ventures can be created either by its establishing or as a result of acquiring by a foreign investor of a portion of the shares of the enterprise already established without the foreign participation or by acquiring this enterprise in its entirety" (Goskomstat Rossii, *Rosskiiskiy Statisticheskii Ezhegodnik* [The Russian Statistical Annual]. Moscow: Goskomstat Rossii, 1998, p. 762).
- 45 Ibid.
- 46 *Vneshniye Ekonomicheskiye Sviazi SSSR v 1989 g. Statisticheskii Sbornik* [International Economic Relations of the USSR in 1989]. Moscow: "Finansy i Statistika," 1990, p. 290.
- 47 Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], p. 670.
- 48 Ibid.
- 49 Ibid.
- 50 One might suspect that in a society which, before the advent of joint ventures, had been run by the party bureaucracy and where any (especially economic) relations with foreigners (especially Western) had been precious and open to a chosen few, the central party bureaucracy might have been the initiator of the entire invention. For what purpose?
- There had been some suggestions that the whole affair had been designed to save the material and financial holdings of the party bureaucracy in the anticipation of its eventual downfall:

“Officially, little is known. But unofficially, Soviet newspapers report that the party socked away some 300 billion rubles ... one-third of the annual gross domestic product. Many suspect it’s all in gold, stashed away in numbered Swiss bank accounts ... unearthed documents indicat[e] that the party spent billions of rubles over the past year [1990] secretly buying up assets in the country to create ‘an invisible party economy’ ... The money was hidden in shareholder associations, commercial banks and overseas joint ventures... . the party used hundreds of illegal enterprises, mostly joint ventures, to export materials and money” (L. Hays, “Soviets Tackle Mystery of Party’s Hoard. Many Believe Communists Hid Billions of Rubles,” *Wall Street Journal*, October 15, 1991).

Whether such accusations were correct or not, still unknown. There might be a kernel of truth in the incrimination, because of the highly suspicious suicides of two former high party officials in charge of party assets, just before these two men’s testimony (*ibid.*).

- 51 Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], p. 345, tabl. 13.11.
- 52 Including organizations where a share of foreign investment in legal capital was less than 10 percent.
- 53 Compiled from Federal’naya Sluzhba Gosudarstvennoi Statistiki, *Rosskiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 344, tabs. 13.12 and 13.13.

PART VIII
THE FIRST STAGE IN THE DEVELOPMENT OF THE
POST-SOVIET SOCIOECONOMIC SYSTEM
(1991 - PRESENT)

Chapter 4
The Post-Soviet Russian Standard of Living in the 1990s -2000s¹

This chapter is devoted to changes in the standard of living that the new system of authoritarian state capitalism brought to the Russian population at the end of the twentieth - the beginning of the twenty-first centuries. We analyze these changes from different angles: as changes in incomes and their elements, in Gini coefficient, in living conditions, in education, and in health care.

Post-Soviet Russian incomes

Dynamics of the post-Soviet Russian income structure

In Table 4.1 we present some elements of Russian incomes in their dynamics:

Table 4.1
The Structure of Post-Soviet Russian Incomes in Their Dynamics, 1992 - 2003
(in percentages to 1992)²

Year	Real disposable personal incomes	Real gross wages	Real monthly pensions ³	Population with money incomes below subsistence minimum ⁴	Real personal consumption ⁵
1993	61	68	68	100	97
1994	69	62	65	67	94
1995	59	45	52	73	92
1996	59	48	56	65	88
1997	62	50	53	61	92
1998	52	43	50	68	89
1999	46	34	30	82	85
2000	51	41	38	70	91
2001	55	49	46	66	100
2002	61	57	53	60	109
2003	70	63	55	...	118

The table reveals a disturbing picture of lowering the standard of living of the population of Russia in its post-Soviet period. Thus, in 2003, real disposable personal incomes were one-third less; real gross wages, 40 percent less; and real monthly pensions, almost twice less their respective levels in 1992.

We can see that real disposable personal incomes decreased to a lesser degree than real gross wages and real monthly pensions. Probably, this was caused by a certain change in the *structure* of the real income of the population of the country in its post-Soviet period. For, the income structure has witnessed the growth of incomes from the entrepreneurial activities and also of property incomes. Thus, the share of the last two in the total real income of households went up from 9.4 percent in 1992⁶ to 20.8 percent in 2002.⁷

Against such a background, the reduction of the population with money incomes below subsistence minimum by 40 percent in 2002 as compared to 1993, was, of course, a positive development. This factor, however, could not hide a harsh Russian reality of the beginning of the twenty-first century: in 2003, almost 30 mln. people, or one-fifth of the entire population of Russia, had incomes below the subsistence level, that is, lived below the poverty line.⁸

The eventual rise in real personal consumption needs a closer examination. For, this took place at the same time as real disposable incomes of households took a deep dive. What could explain such a divergency?

It could be a significant reduction in personal savings. This might have partially compensated the decrease in real disposable incomes.

However, Russian statistics shows some *increase* in the share of personal savings in real income during the period under consideration. Thus, if in 1992 this indicator amounted to 18.9 percent,⁹ in 2003 it was 25.4 percent.¹⁰

We believe that it would be a good guess to assume that the most probable cause for the dichotomy were incomes that Russian citizens earned in the shadow economy which, as we remember, according to some estimates, comprised 40 percent of Russian GNP.¹¹

Dynamics of the post-Soviet Russian Distribution of Income

As indicators of the distribution of income we will utilize the Gini coefficient and the quintiles (the fifths). These are presented in Table 4.2:

Table 4.2
The Dynamics of the Distribution of Post-Soviet Russian Incomes, 1990 -1993
*(in percentages)*¹²

Years	Money incomes: total	First quintile: the lowest incomes	Second quintile	Third quintile	Fourth quintile	Fifth quintile: the highest incomes	Gini coefficient
1990	100	9.8	14.9	18.8	23.8	32.7	...
1992	100	6.0	11.6	17.6	26.5	38.3	0.289
1993	100	5.8	11.1	16.7	24.8	41.6	0.398

1994	100	5.3	10.2	15.2	23.0	46.3	0.409
1995	100	6.1	10.7	15.2	21.7	46.3	0.387
1996	100	6.1	10.7	15.3	21.8	46.1	0.385
1997	100	5.8	10.5	15.2	22.3	46.2	0.390
1998	100	6.0	10.5	15.0	21.5	47.0	0.394
1999	100	6.0	10.4	14.8	21.1	47.7	0.400
2000	100	5.8	10.4	15.1	21.9	46.8	0.395
2001	100	5.6	10.4	15.4	22.8	45.8	0.398
2002	100	5.6	10.4	15.4	22.8	45.8	0.398
2003	100	5.6	10.3	15.3	22.7	46.1	0.400

We deliberately brought into the picture the year 1990, which represents the last “pure,” “real” year of the existence of the Soviet system (“pure” and “real,” since 1991 was a year of a turmoil in transition.)

In 1990 - 2003, there was a certain tendency to the growth of income inequality in Russia. Both indices reflect this tendency.

With regard to the *fifths*, the share of those with the lowest incomes fell by 40 percent. The decline was also witnessed by the second, third and fourth fifths, although not to such an extent. The reduction by four fifths was “picked up” by a sharp increase in the share of incomes of the group with the highest incomes, from a third of the incomes in 1990 to almost a half in 2003. This means that during the 1990 - 2003 period the fruits of a new system of authoritarian state capitalism went exclusively to a one-fifth of the population of the country.

The *Gini coefficient* confirms this tendency of a growing disparity of incomes in post-Soviet Russia. Although we have no information about the index in the Soviet time, the data for 1992 - 2003 shows a very significant increase in income inequality in the post-Soviet period from 0. 289 in 1992 to 0. 400 in 2003, or by almost 40 percent.

The tendency can be seen in still another indicator: the *coefficient of income differentials* between the average levels of income of the 10 percent of the population with the highest incomes and the 10 percent of the population with the lowest incomes. If in 1992 the gap between the incomes of the first and the second was equal 8.0 times,¹³ in 2003 it reached 14.3 times, thus growing by almost 80 percent.

Indicators concerning absolute levels of post-Soviet Russian incomes

In 2003, the average per capita monthly subsistence minimum was 2,112 rubles, while the average monthly per capita income was 5,162 rubles.¹⁴ This means that a Russian with an *average* income was able to purchase 2.44 baskets of a *minimum* set of goods and services.

But in that year (as well as in the previous ones) the major portion of money incomes was concentrated in wages (63.9 percent) and social payments (14.1 percent).¹⁵ In other words, a

predominant part of money incomes (78 percent) was coming to the vast majority of the Russian population who were wage-earners and receivers of social payments.

Thus, average incomes, given the fact of their actual differentiation, could not but have been, as we saw earlier, skewed to the more prosperous population of post-Soviet Russia. This, for instance, can be seen in the situation of Russian retirees. Their monthly pensions allowed them on average to buy 1.02 baskets of a minimum set of goods and services.¹⁶ They, therefore, on *average* lived barely above a minimum subsistence, that is, at a poverty level. And they were not a few in numbers: in 2003, there were 38.2 mln. pensioners,¹⁷ or around 26.5 percent of the entire Russian population.

Post-Soviet Russian incomes in the eyes of Russians

But how did the Russians perceive their standard of living at the end of the twentieth century? We will consider this indicator from the point of view of wages, which, we remind again, were a predominant form of incomes in post-Soviet Russia and whose average monthly nominal level even in 2003 (the beginning of the twenty-first century) was 5,499 rubles.¹⁸

We will look at this issue from two angles. First, what level of wages did the Russian people consider “normal”? Second, why, in their opinion, their current wages were relatively low?

On the first question, here are the answers:¹⁹

By the Russian professionals:

“If one proceeds from the preference for the standard of living of a person not spoiled by the fate, [of a person] who eats rationally, [who] takes care of his health, [who] supports one dependent, but [who], at the same time, does not forget to save money for the old age, for the education of [his] children, then [his] *monthly income* must be *around 13 thousand rubles*” (M. Shmakov, Chairman of the Federation of the Independent Trade-Unions of Russia).

“... a normal life requires receiving at least \$500 (*that is, the same 12.5 - 13.0 thousand rubles*). It is exactly the minimum [monthly] wage in Greece, Portugal, Spain” (D. Shavishvili, Director of the Center of the Standard of Living of the Academy of Labor and Social Relations).

“A wage is normal ... *if less than 60 percent [of it] is spent on food*” (A. Golov, Vice-Chairman of the Duma Committee on Labor and Social Politics).

[Our comment: In this respect, “average” Russia was a “normal” country. In 2003, food accounted for 44.8 percent of its personal consumption.²⁰]

By the Russian people (in whose name the author of the article writes):

“... the majority of the [Russian] people dreams of nothing like this... . [As normal,] it consider[s] 2,000 rubles of income per capita [May 1999, when, on average, it was 1,664 rubles]. This, in [their] opinion, allows [them] daily to eat meat and fish meals, pay for *dacha* trips and buy necessities. Also, the term ‘normal’ includes the possibility to purchase, for example, *a new TV set—once in 10 years, a bicycle—once in 6 years.*”

On the second question, the answers were as follows:

“[Our wages are low because] we work poorly... . But just all together, and not each one. ‘We have a low efficiency in the enterprise as a whole, in the country as a whole, says [above-mentioned] Golov.-Therefore, wages are low, no matter how well a person performs by himself. *The reason [is] bad managers.* The only thing they can do [is to] steal. And in order to receive a personal ruble, [they are] ready to wreck 10 common [belonging to their enterprise] rubles. Because of this, many enterprises are, in essence, bankrupts’.”

[Our comment: These words, probably unconsciously, reflect the core of the post-Soviet socioeconomic system as a speculative struggle of group-favorites for pieces of the all-bureaucratic property.]

“At present, many commodities are produced and sold [in Russia] at world prices (and sometimes even higher). Given [our] low wages, where do these high prices come from? *If one looks at the price*, then it appears that out of the money [received for selling the commodity at the price] *the employee gets only 11 percent. In other countries*, the share of the wage in the price is 40 - 53 percent. Where does the difference go? The employer puts it in his pocket” (D. Shavishvili).

[Our comment: And the employer can do that because he is not resisted (or very little resisted) by his employees. And why is that? Because there is still no civil society in Russia, one of characteristics of which is the willingness of workers to fight for their economic rights, and not to wait for their employers’ handouts.]

Post-Soviet Russian social conditions of life

We divide this statistical section into three parts. The first introduces the reader to the data concerning the housing conditions. The second informs the reader about the educational conditions. Finally, the third allows the reader to glance at the state of health care in post-Soviet Russia.

Post-Soviet Russian housing conditions

Table 4.3 gives us a certain idea about the dynamics of main indices of the housing conditions of the population of Russia:

Table 4.3
Main Indices of the Housing Conditions of the Russian Population
*1992 - 2003*²¹

Years	Average provision of the population with dwellings, at the end of the year, m ² per person			Share of households (including single persons) who:	
	Total	In urban areas	In rural areas	Were on the waiting list to receive dwellings, at the end of the year, in the total number of households	Received dwellings or bettered their housing conditions during the year, in the total number of households, who were on the waiting list ²²
1992	16.8	16.3	18.1	19	10
1993	17.4	17.1	18.1	18	9
1994	17.7	17.5	18.4	17	8
1995	18.0	17.8	18.6	15	8
1996	18.3	18.1	18.8	14	6
1997	18.6	18.4	19.1	13	6
1998	18.8	18.6	19.4	13	5
1999	19.1	18.9	19.5	12	5
2000	19.3	19.2	19.8	11	4
2001	19.7	19.5	20.2	10	5
2002	20.0	19.8	20.6	9	5
2003	20.2	19.8	21.0	9	5

We see a contradictory picture of changes of housing conditions in post-Soviet Russia. During the period, on the one hand, the average provision of the population with dwellings was increasing among the population in total as well as among the city and countrymen.

But, on the other hand, the portion of households who were able to improve (free of charge) their housing conditions, as well as the share of those who were on the waiting list, was declining.

To attempt to explain this factor, we will employ Table 4.4:

Table 4.4
The Provision of Households with Dwellings, 1992 -2003
*(in thousands of people)*²³

Year	The number of households (including single persons) who:			
	Were on the waiting list to receive dwellings, at the end of the year	Received dwellings or bettered their housing conditions during the year	Would be on the waiting list to receive dwellings, if there were no new persons included in the waiting list or if there were no previous persons excluded from the waiting list	Were new (+) or old (-) on the waiting list
1992	9,646	948		
1993	9,104	897	9,646-897=8,749	9,104-8,749= +355
1994	8,467	741	9,104-741=8,363	8,467-8,363= +104
1995	7,698	652	8,467-652=7,815	7,698-7,815= - 117
1996	7,248	492	7,698-492=7,206	7,248-7,206= + 42
1997	6,760	416	7,248-416=6,832	6,760-6,832= - 62

1998	6,286	344	6,760-344=6,426	6,286-6,426= -140
1999	5,882	282	6,286-282=6,004	5,882-6,004= -122
2000	5,419	253	5,882-253=5,629	5,419-5,629= -210
2001	4,857	242	5,419-242=5,177	4,857-5,177= - 320
2002	4,428	229	4,857-229=4,628	4,428-4,628= -200
2003	4,409	224	4,428-224=4,204	4,409-4,204= +205

The last column of the table shows us a tendency of the declining number (except in 1993, 1996, and 2003) on the waiting list of those households which wanted, free of charge, to improve their housing conditions.²⁴ This could be explained by a set of reasons: the loss of a hope to achieve the goal, selling of the place on the waiting list to someone listed below, the reduction of the Russian population (of which later), etc.

But it is clear that just the *provision* with dwelling units is not sufficient to determine the quality of the housing conditions of the population. It is also necessary to take into account certain indices of the level of services and utilities of the housing resource, such as its equipment with running cold and hot water, the sewage system, central heating, bathrooms, and gas.

This information is provided by Table 4.5:

Table 4.5
Services and Utilities of the Housing Resources, 1993 - 2003
*(in percentages)*²⁵

Years	The share of the dwelling equipped with:					
	Running cold water	The sewage system	Central heating	Bathrooms	Gas	Running hot water
For the country as a whole:						
1993	66	61	64	57	70	51
1995	71	66	68	61	69	55
1996	71	67	69	62	69	56
1997	72	67	70	63	69	57
1998	73	68	71	63	70	58
1999	73	69	72	63	70	59
2000	73	69	73	64	70	59
2001	74	70	75	64	70	61
2002	74	70	75	64	70	61
2003	75	70	75	65	70	61
For urban areas:						
1993	83	80	84	75	68	69
1995	84	82	85	77	67	72
1996	85	82	86	78	67	73
1997	85	83	86	79	68	73
1998	86	84	87	79	68	74
1999	86	84	87	79	68	75
2000	86	84	87	79	69	75
2001	87	85	88	80	69	77
2002	87	85	88	80	69	77
2003	87	85	88	80	69	77
For rural areas: ²⁶						
1993	30	19	20	16	73	9
1995	35	24	23	20	73	12
1996	36	25	25	21	74	14
1997	37	26	26	22	74	14
1998	38	26	28	22	74	14

1999	39	28	34	23	73	16
2000	39	30	37	24	74	17
2001	40	31	40	24	74	19
2002	41	31	41	24	75	19
2003	41	32	41	25	75	20

The table shows a certain improvement in the housing conditions in Russia as a whole as well as in its urban and rural areas over the period of 1993 - 2003. But the table also reveals an enormous gap in the housing conditions (with the exception of gas services) between urban and rural areas, although, with years, the gap has been narrowing. Nevertheless, at the end of the twentieth - the beginning of the twenty-first centuries the major part of the rural Russia continued to live as it used to live over the centuries: without any adequate sanitary and other domestic conveniences.

Post-Soviet Russian educational conditions

The dynamics of the post-Russian educational conditions is given in Table 4.6. Since the table lists many educational indicators, the reader is urged to arm himself with all the patience he possesses:

Table 4.6
Main Educational Indices, 1990 - 2003
(at the end of the year)²⁷

Indices	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003
The number of pre-school institutions, th.	87.9	68.6	64.2	60.3	56.6	53.9	51.3	50.0	48.9	47.8
The number of children in them: Mln.	9.01	5.58	5.10	4.71	4.38	4.23	4.26	4.25	4.27	4.32
Percent to children of the corresponding age	66.4	55.5	54.9	54.4	53.9	54.9	56.0	57.2	58.1	57.6
The total number of children of the pre-school age, mln. ²⁸	13.6	10.1	9.3	8.7	8.1	7.7	7.6	7.4	7.3	7.5
The number of children per 100 vacancies available in preschool institutions	108	83	81	80	78	79	81	83	86	88
The number of daytime institutions providing general education, th.	67.6	68.9	68.8	68.5	67.9	67.5	67.0	66.9	65.7	64.5
The number of students in them, mln.	20.3	21.6	21.7	21.7	21.5	20.9	20.1	19.4	18.4	17.3
The number of evening (shift) institutions	2.1	1.8	1.8	1.7	1.7	1.7	1.7	1.8	1.8	1.7

providing general education, th.										
The number of students in them, mln.	0.52	0.47	0.47	0.48	0.49	0.49	0.48	0.48	0.48	0.48
The number of institutions of elementary professional education, th.	4.33	4.17	4.11	4.05	3.95	3.91	3.89	3.87	3.84	3.80
The number of students in them, mln.	1.87	1.69	1.67	1.67	1.68	1.69	1.68	1.65	1.65	1.65
The number of institutions of secondary special education, th.	2.60	2.63	2.65	2.65	2.63	2.65	2.70	2.68	2.82	2.81
The number of students in them, mln.	2.27	1.93	1.99	2.03	2.07	2.18	2.36	2.47	2.59	2.61
The number of institutions of higher education, units	0.51	0.76	0.82	0.88	0.91	0.94	0.97	1.01	1.04	1.05
Including:										
State and municipal:										
Units	0.51	0.57	0.57	0.58	0.58	0.59	0.61	0.62	0.66	0.65
Percent in total	100	75.0	69.5	65.9	63.7	62.8	62.9	61.4	63.5	61.9
Non-state:										
Units	-	0.19	0.25	0.30	0.33	0.35	0.36	0.39	0.38	0.40
Percent in total	-	25.0	30.5	34.1	36.3	37.2	37.1	38.6	36.5	38.1
The number of students in them, mln.	2.83	2.79	2.97	3.25	3.60	4.07	4.74	5.43	5.95	6.46
Including in:										
State and municipal:										
Mln.	2.83	2.66	2.80	3.05	3.35	3.73	4.27	4.80	5.23	5.60
Percent in total	-	95.3	94.3	93.8	93.1	91.6	90.0	88.4	87.9	86.7
Non-state:										
Mln.	-	0.13	0.17	0.20	0.25	0.30	0.47	0.63	0.72	0.86
Percent in total	-	4.7	5.7	6.2	6.9	8.4	10.0	11.6	12.1	13.3

Pre-school education. In post-Soviet Russia, the number of pre-school institutions was declining, year after year. As a result, in 2003 they amounted to a little bit more than a half of their level in 1990. Accordingly, the number of children in these institutions was diminishing. In 2003, it was less than a half of its size in 1990. As a result, only 58 percent of children of the corresponding age were enrolled in pre-school institutions, which was less than in 1990.

Since in 2003 as compared to 1990 the number of pre-school institutions went down less (by 45 percent) than the number of children enrolled in them (by 52 percent), pre-school institutions did not have all their vacancies filled with children. Consequently, in 2003 per 100 vacancies available there were actually 88 children, which was less by 20 spaces as compared to 1990 (when pre-school institutions were overcrowded). At the same time, as was just

mentioned, 42 percent of children of the pre-school age were not enrolled in the pre-school institutions.

There could be, at least, two major explanations for the decline in pre-school education in post-Soviet Russia in 2003 as compared to 1990. First, the decrease in the number of children of the pre-school age. This was a result of the decline of the country's birth rate (per 1,000 population: from 13.4 in 1990 and to 10.2 in 2003).²⁹

Second, relatively high fees for pre-school education for many impoverished Russian people with children of the pre-school age. In particular, this is confirmed by the fact that "[a]t the beginning of 2004, 597 th. children needed to be enrolled in pre-school institutions."³⁰ Obviously, that under the conditions of vacancies for children in pre-school institutions, the major cause of such a need could be financial problems faced by the parents.

Secondary general education. The decline of the birth rate had no *quantitative* practical effect on the position of secondary general education. Probably, the latter lived on the "reserves" of children of the school age, "accumulated" during the Soviet period.

Thus, a time is not far off when the diminishing number of children of the school age will be transformed into the declining number of schools and students in them. In this respect, the beginning of the twentieth century should be considered as the first signal ushering in the start of this phenomenon.

As far as the *social quality* is concerned, then the post-Soviet Russian secondary general education endured significant *class* changes. According to the sociological research conducted by a group of scientists of the Institute of Sociology of the Russian Academy of Sciences,³¹

...[a]t present, the eleventh grade [the highest grade in the Russian school of the secondary education] is reached by the strongest, by those who made a firm decision that he can afford further studies ... *slightly more than third of first graders graduate from the [high] school* ... Among [those who] graduated from [high] school there turned out to be more [children] of the elite than of all other [social groups]... . [during the late Soviet period,] the offspring of the managers comprised one-twenty-fifth part of the graduating class. But in the 1990s, more than a fourth. At the same time, the share of the children of workers and peasants fell by 2.5 times. [Thus,] nowadays, outsiders "do not live till" even the high school diploma, not mentioning the university [diploma].

Elementary professional and secondary special education. Here the *quantitative* picture appears the same as in the case of the secondary general education. The assumption made with respect to the latter is applicable, in our opinion, to the former.

As far as *qualitative* changes are concerned, there continued and grew the tendency of “packing” these low prestige institutions with children of the lower social groups.

Higher education. On the face of it, during the post-Soviet time Russian higher education experienced a period of a swift growth. In 2003 as compared to 1990, that is, for 13 years, the number of the institutions of higher education increased by two times, and the number of students in them, by 2.3 times.

A careful examination of such a phenomenal process shows that, to a large degree, the boom was taking place owing to non-state higher education. Thus, during the period under consideration (2003 with respect to 1990), the number of state and municipal institutions of higher education increased only by 1.3 times and the number students in them by almost two times. This implies that the corresponding indicators for non-state higher education (which began its existence in 1993) were higher than for its state counterpart. As a result, the share of the state institutions of higher education and students in them was reduced giving way to that of the non-state institutions and students in them.

The diminishing role of state, that is, as a rule, of *free* higher education and the increasing role of non-state, that is, as a rule, of *paid* higher education, had a profound effect on the opportunity to enter into and to graduate from the higher education institution for children of various strata of post-Soviet Russian society.

Thus, according to the above-mentioned sociological research, children of managers and specialists made up a third of all the children, who graduated from high school in the 1980s, but a half, in the 1990s. For children of white- and blue-collar workers and peasants, the indices were correspondingly 3/4 and a half.

If in the 1980s, 43 percent of children of managers and specialists, who graduated from high school, planned to enroll into institutions of higher education. In the 1990s, the number of such children climbed to 58 percent. Accordingly, the portion of children of white- and blue collar workers and peasants dropped from more than a half to more than one-third.

Finally, while in the 1980s the correlation between children of managers and specialists, on the one hand, and those of blue- and white-collar workers and peasants, on the other, admitted to institutions of higher learning, was equal to 1.5 times, in the 1990s the correlation reached more than two times.

One of the participants in the research concludes: “... inequality [in high education] has not only been maintained but increased. And has even grown younger. [High] [e]ducation is becoming a privilege!”³²

Post-Soviet Russian health care conditions

We will evaluate the dynamics of this social index, based on such criteria, as medical institutions, their personnel, and sickness of the population.

Medical institutions and their personnel. The network of medical institutions and their employees are presented in Table 4.7:

Table 4.7
Medical Institutions and Their Personnel, 1992 - 2003
(per 10,000 population)

Years	The number of medical institutions ³³	The number of: ³⁴		The provision of beds in hospitals ³⁵
		Medical doctors	Nurses	
1992	1.26	43.0	115.3	130.8
1993	1.26	43.4	113.1	129.4
1994	1.23	43.3	109.7	127.4
1995	1.21	44.5	111.0	126.1
1996	1.18	45.7	112.7	123.9
1997	1.15	46.1	111.4	120.6
1998	1.11	46.7	111.4	117.8
1999	1.09	47.1	111.3	115.5
2000	1.07	47.2	108.4	115.9
2001	1.06	47.3	107.8	115.4
2002	1.03	47.9	109.3	113.7
2003	1.01	48.0	108.5	111.6

As we see, there were positive and negative tendencies in the dynamics of the indicators listed in the table. On the positive side, there was an increase in the number of medical doctors per 10,000 population. It may be that, besides the growing prestigiousness of the profession, not a small factor for such a phenomenon was the emerging possibility for earning money on a side for the medical doctors even of the budget (that is, working for the state) sphere.

The other three indices were negative. The number of medical institutions, nurses and beds in hospitals per 10,000 population declined sharply. One would guess that the first and the third were due to the typical for the post-Soviet period wear and tear of buildings and insufficient monetary funds, while the second was caused by the extremely low wages of nurses who, unlike the medical doctors, because of the low prestige of their profession, were unable to compensate these low wages by working outside the state sector of the economy.

Sickness of the population. The post-Soviet period is characterized by the following three tendencies.

First, by the increase of the general sickness rate (per 1,000 population) among the population of Russia from 615.6 in 1992 to 748.6 in 2003, or by more than 20 percent.³⁶ Second, by the growing proportion of diseases characteristic of the developed countries, such as, for instance, the system of blood circulation, malignant diseases, etc.³⁷ Third, by the rising level of diseases of the countries in the developing world: infectious and parasitic, active tuberculosis, and that of the respiratory organs.³⁸

Thus, the post-Soviet Russian population at the end of the twentieth - the beginning of the twenty-first centuries has increasingly suffered from diseases which were the consequences of the tense-comfortable excesses of life of the population of developed countries, on the one hand, and of the sanitary-physiological-social inadequacy of life of the population of less developed countries, on the other.

The tendency to the worsening health of the population of post-Soviet Russia was aggravated by the appearance of a rare (for the Soviet period) disease, such as drug addiction. Thus, in 2003 as compared to 1990, the number of people who were diagnosed with drug addiction and non-alcohol types of substance abuses grew by four times.³⁹

The dynamics of the spread of substance abuses was rooted, in our opinion, in two major factors. First, the *social* factor: the dethroning of the old "socialist" myths, the confusion and the stratification of post-Soviet society unacceptable to the majority of the Russian people, under the conditions of the latter's civil passivity, created a burning *desire* to leave behind the real world with the help of substances much stronger than alcohol.

Second, the *territorial-geographical* factor: the disintegration of the Soviet Union led to a relative (compared to the strict Soviet period) openness and transparency of the national borders. This, together with the moral-ethical "values" of anarchy and all-permissibility, created a *possibility* for the penetration of narcotics into the territory of post-Soviet Russia.

A short final comment

The major task of this chapter was to compare the standard of living of the population in the final years of the Soviet Union with that of the first decade of post-Soviet Russia. In this respect, an unbiased reader would conclude that mostly, on average, the population was better off in the first as compared to the second.

If, however, we are to evaluate the post-Soviet period of Russia in its own dynamics, without referring to the Soviet period, we would be justified to assert that, at least, since the end of the twentieth century (or, more precisely, since 1999 - 2000), on average, the quality of life in Russia has been improving. The reader can judge it for himself if he returns to tables of this chapter and

compares the data, for instance, for 1992, the first post-Soviet year, with that for 2003, the beginning of the second decade of post-Soviet Russia.

What were the causes for such an improvement? In the subsequent chapters we will attempt to answer this question. There we will discuss the *economic* impact of the financial default of 1998 and of high oil prices, and the *political* impact of the stabilization of the oligarchic regime on the positive changes in the standard of living of the post-Soviet Russian population.

Bibliography to Chapter 4: The Post-Soviet Russian Standard of Living in the 1990s -2000s

- Alekseev, A., "Rossiya Voshla v Bol'shuiu Shesterku Stran s Samoi Razvitoi Tenevoi Ekonomikoi" [Russia Is Listed Among the Six Countries with the Most Developed Shadow Economy], *Kommersant*, 31 August 1999.
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Notes to Chapter 4: The Post-Soviet Russian Standard of Living in the 1990s -2000s

- 1 Based on E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Ekonomicheskii Rost i Razvitiye* [Principles of the Economic Theory. Economic Growth and Development]. Moscow: "Nauka," 2001, pp. 257 - 275.
- 2 The data are calculated by the author by using the chain rule from Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004]. Moscow: Rosstat, 2004, p. 175, tabl. 7.1.
- 3 1993 - 2001: taking into account compensation.
- 4 "The *subsistence minimum* represents a value estimate of the minimal basket of foodstuffs necessary for the preservation of health of an individual and maintenance of his vital functions, and also expenditures on non-food items and services, taxes and compulsory payments, based on the share of the expenditures for these purposes among the lower-income groups of the population. The subsistence minimum level is

- calculated according to the methodological recommendations ... [of] the Ministry of Labor of the Russian Federation ... The indicator has been calculated since 1992" (see *ibid.*, p. 222).
- 5 1993 - 1995: E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Ekonomicheskii Rost i Razvitiye* [Principles of the Economic Theory. Economic Growth and Development], p. 258, tabl. 4.16.
 - 6 *Ibid.*, p. 258.
 - 7 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 175, tabl. 7.2.
 - 8 *Ibid.*, p. 175, tabl. 7.1.
 - 9 E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Ekonomicheskii Rost i Razvitiye* [Principles of the Economic Theory. Economic Growth and Development], p. 258. Here personal savings include bank deposits, investment in securities, credits, purchasing of real estate, of hard currency and money held by the population.
 - 10 Calculated from Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 200, tabl. 7.30.
 - 11 "In 'the United States of Shadow Dealers' ... Russia occupies the sixth place" in the world after Nigeria, Thailand, Egypt, the Philippines, and Mexico (see A. Alekseev, "Rossiya Voshla v Bol'shuiu Shesterku Stran s Samo Razvitoi Tenevoi Ekonomikoi" [Russia Is Listed Among the Six Countries with the Most Developed Shadow Economy], *Kommersant*, 31 August 1999).
 - 12 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p.193, tabl. 7.22, where 1990 represents "a combined income, including the net value of production of subsidiary small holdings of the population" (*ibid.*). 1992 - 1994: E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Ekonomicheskii Rost i Razvitiye* [Principles of the Economic Theory. Economic Growth and Development], p. 260, tabl. 4.17.
 - 13 *Ibid.*, pp. 259 - 260.
 - 14 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 175, tabl. 7.1.
 - 15 *Ibid.*, p. 177, tabl. 7.7. The data includes hidden (that is, officially not counted) wages.
 - 16 *Ibid.*, p. 175, tabl. 7.1.
 - 17 *Ibid.*, p. 187, tabl. 7.16.
 - 18 *Ibid.*, p. 32, tabl. 1.1.
 - 19 See T. Korostikova, "Zarplata dlia Normal'noi Zhizhni" [Wages for a Normal Life], *Argumenty IFakty*, June 1999, Number 25.
 - 20 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 211, tabl. 7.41.
 - 21 1995 - 2003: *ibid.*, p. 216, tabl. 7.49; 1992 - 1994: E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Ekonomicheskii Rost i Razvitiye* [Principles of the Economic Theory. Economic Growth and Development], p. 264, tabl. 4.20.
 - 22 1992 - 1994: E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Ekonomicheskii Rost i Razvitiye* [Principles of the Economic Theory. Economic Growth and Development], p. 264, tabl. 4.20; 1995 - 2003: Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 218, tabl. 7.55.

- 23 1992 - 1999: E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Ekonomicheskii Rost i Razvitiye* [Principles of the Economic Theory. Economic Growth and Development], p. 265, tabl. 4.21; 2000 - 2003: Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 218, tabl. 7.55. The data for the last two columns were calculated by the author.
- 24 At the end of October 2005, president of the Russian Union of Builders reported that "at present, about 60 percent of the population need to improve [their] housing [conditions], around 4.5 mln. people are on the waiting list to receive dwelling [free of charge], and the period of waiting is 15 - 20 years" ("Glava Gosstroiya Poobeshchal Udvoeniye Stroitel'stva Zhil'ya k 2010 Godu" [The Chief of the State Building Corporation Promised to Double the Housing Construction by 2010], *Gazeta.Ru*, October 26, 2005).
- 25 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 217, tabl. 7.52.
- 26 Statistical observations of the housing services and utilities in rural areas began in 1993.
- 27 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 227, tabl. 8.1.
- 28 This indicator is calculated by the author as the quotient of the two previous rows of the table.
- 29 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], , p. 101, tabl. 5.25.
- 30 Ibid., a footnote to tabl. 8.5 on p. 229.
- 31 V. Sivkova, "Obshchestvo Neravnykh Vozmozhnostei" [Society of Unequal Opportunities], *Argumenty i Fakty*, May 2000, Number 21.
- 32 And one more fact must be added: It is now not infrequent that Russian nouveau riches send their children first to expensive and prestigious boarding schools and then to not less expensive and prestigious foreign institutions of higher education.
- 33 Calculated by the author from Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], , p. 263, tabl. 9.1.
- 34 See ibid. p. 266, tabl. 9.4 (at the end of the year).
- 35 Ibid., p. 263, tabl. 9.1.
- 36 Ibid., p. 271, tabl.9.15.
- 37 Ibid.
- 38 Ibid.
- 39 Ibid., p. 276, tabl. 9.26.

PART VIII

THE FIRST STAGE IN THE DEVELOPMENT OF THE POST-SOVIET SOCIOECONOMIC SYSTEM (1991 - PRESENT)

Chapter 5 Post-Soviet Russian Unemployment¹

The chapter is divided into two parts. In the first part, we lay out general theoretical views of the subject. The second part provides certain statistical data pertaining to unemployment in Russia at the end of the twentieth - the beginning of the twenty-first centuries and makes comments.

General theoretical views of unemployment in authoritarian state capitalism

On frictional unemployment in authoritarian state capitalism

Having put forward the possibility of frictional unemployment in Soviet totalitarian state capitalism in chapter 4 of Part VII of the book, we advanced a supposition of the *growth* of the rate of frictional unemployment already within the late Soviet system. It is possible to assert, with much more certainty, the strengthening of the tendency to rising frictional unemployment in post-Soviet Russian authoritarian state capitalism.

First, Article 27 of the Constitution of the Russian Federation of 1993 *formally* proclaimed such freedoms, as that of movement, of choosing one's place of staying and residence for all those, "who lawfully reside on the territory of the Russian Federation."² Although this *actually* did not abolish the institution of the mandatory registration *on permission* (*propiska*), the Article, nevertheless, replacing the latter by the mandatory registration *on notice* (or *registration proper*), to a certain degree, casts doubt on and, hence, limits the use of *propiska*.

In addition, the following three factors undermine the institution of a formal attachment of Russian citizens to their place of residence and, thus, increased their freedom to choose their work and its place. The first factor is the remoteness from large cities. The closer one to large cities, the more important is the institution of registration.

There are reasons for this. Residents of large Russian cities need registration in order to protect their privileged positions from the encroachment of people of other residential areas. These are every-day privileges: the cold and hot running water supply, the

sewage system, the refuse system, telephones, etc. These are privileges in infrastructure: the developed transportation system, such as the subway, trolleybuses, trams, buses, taxi, asphalt roads, etc. These are medical privileges: the developed network of outpatients' clinics, hospitals, ambulances, their better technical equipment, more professional medical doctors, nurses, etc.). These are educational-cultural privileges: more advanced and of a better quality schools for general education, technical secondary schools, universities and colleges, museums, theaters, attractions, etc.

But the further one from the big city, the more difficult his life is. There are less privileges, hence, a weaker desire to protect them, thus, a lower interest to the institution of registration.

The second factor, influencing the institution of registration, is money. Despite all the hypocrisy of the Soviet system, money always played a great role in the country. One could *unofficially* "buy" *propiska* in the Soviet Union by bribing certain officials. One can sometimes *officially*, sometimes *unofficially* "purchase" a permanent registration, with a right to live in any post-Soviet Russian city.

The third factor, which weakens the system of the formal attachment of people to the place of their residence, is the formation of the real estate market in post-Soviet Russia. This leads to the following.

First, it is now possible to privatize, buy or sell dwellings, moving from one region of Russia into another. No registration to reside permanently for people with means is actually necessary, and for others, their registration follows their purchasing of the chosen place to live.

Second, the tendency to the growing freedom of choice with respect to work and its location and, as a result, to the increase in frictional unemployment in modern Russia can be observed in the fact that there is no more need for a special administrative authorization to get a job at a new place of residence.

Third, a movement in the same direction was also assisted by the abolition of the system of a mandatory temporary appointment to a certain working place of young specialists after their graduation from institutions of higher and secondary special education.

Finally, the establishment of the system of unemployment insurance and benefits also played its role in the rising possibility to choose one's own work and, hence, in the growth of frictional unemployment.

On structural unemployment in authoritarian state capitalism

The historical mission of *totalitarian* state capitalism of the Soviet period was industrialization of the country through the accelerated rate of capital accumulation at the expense of personal

consumption of the population. *Authoritarian* state capitalism, using certain achievements of totalitarian state capitalism (for example, the urbanized country with general literacy and a very high development of science and engineering), at the same time, has been unable to reveal its growing short-run profit-maximizing essence, not destroying the established Soviet system of capital accumulation for the sake of capital accumulation. For, as a rule, profit from accumulation is a long-term profit, while a short-run profit is profit from personal consumption.

Therefore, authoritarian state capitalism, while remaining predominantly state monopolist (although a decentralized, that is, group-oriented one) and, hence, being unstable in its nature, must be predominantly disposed to the short run. Present-day Russian state capitalist society clearly understands that it is rather a very temporary socioeconomic phenomenon,³ unlike its Soviet state counterpart which expected to exist forever.

Thus, authoritarian state capitalism, negating totalitarian state capitalism, signifies the breaking of the early formed structure of production in post-Soviet Russia in such a way, that the Soviet preference for *heavy industrial production* is being replaced by the preference for the *extraction and trade of raw materials*.⁴

From this follows that post-Soviet Russian authoritarian state capitalism, with a necessity, is forced to break the tendency to *lowering* the rate of structural unemployment of the Soviet period (see a corresponding chapter in a corresponding part of the book). Moreover, it is necessitated not only to interrupt but to begin a swift movement in the opposite direction, towards *increasing* the rate of structural unemployment in post-Soviet Russia.

The reason is clear: changes in the structure of production in the post-Soviet period require such alterations in the demand for labor force which a portion of the latter, losing its jobs, is unable to meet because of the absence of the necessary qualification.

This rise in the rate of structural unemployment in the country is favored by the following factor. The chase for short-run profits compels Russian enterprises lower their production expenses, including that of labor. The tendency to reserve labor inputs, which characterized the behavior of Soviet enterprises-squanderers of economic resources, is bound to be replaced by the tendency to a more capitalistically efficient use of labor force and, hence, to the latter's reduction.

On the natural rate of unemployment in authoritarian state capitalism

From the tendency of the movement of the frictional and structural components of unemployment outlined above, the following conclusion with regard to the direction of the natural rate of unemployment can be made. So long as we assume that frictional and structural rates of unemployment have a tendency to

rise in post-Soviet Russia of authoritarian state capitalism, then we have to make a further logical step and presuppose that the natural rate of unemployment, consisting of these two components, ought to increase as well.

The assumption is, of course, different from that we made with respect to the direction of changes in the natural rate of unemployment in Soviet totalitarian state capitalism. There, as the reader recalls, it was supposed that changes were ambiguous.

On cyclical unemployment in authoritarian state capitalism

Beginning with 1991 and till the end of the 1990s, the downturn in the economic activities spread to a significant part of branches of the economy and regions of Russia. The character of the decline was obviously macroeconomic. This is seen from the annual decrease of actual real GDP of the period.⁵

The period witnessed a big increase in the actual annual rate of unemployment.⁶ During the same time, according to our suppositions, there took place the growth of the natural rate of unemployment. Unfortunately, at present nothing can be said of the actual size of the rate.

Theoretically, though, such a level of unemployment is accepted as its natural level, under which the inflation rate remains stable: changes in the general price level neither accelerate, nor they decelerate. It is also agreed that theoretically, at least in the short run, the decline (rise) of the actual unemployment rate below (above) its natural rate causes speeding up (slowing down) of the inflation rate.

After the swift growth of the price level in 1992,⁷ there has been observed in Russia the decelerating rate of inflation. Theoretically (and again, at least in the short run) this might mean that the actual unemployment rate has exceeded its natural rate.⁸

If this was the case, then it is necessary to conclude that in Russia of the 1990s the rate of cyclical unemployment had to *grow*. But, while theoretically we can predict the *direction* of the latter's movement, we cannot calculate its *size* for a simple reason that we do not know, as was emphasized earlier, the size of the natural unemployment rate.⁹

It is doubtful, however, that the sizes of the rate of cyclical unemployment and of its growth in Russia of the period were significant. The following factors might have played their role as counter-cyclical forces.

First, there could have had their "say" the "remnants" of the Soviet system which, in rather a paradoxical way, combined the labor force surplus in some enterprises due to its reserving "just in case," on the one hand, and the labor force shortage in some other enterprises, on the other hand. Therefore, in the beginning of the transformation of Soviet totalitarian into Russian authoritarian state

capitalism the decline in demand for labor, in main, had to be accompanied by the reduction not in labor force per se, but only in its "vacancies."¹⁰

Second, a certain influence could have been exerted by the vagueness of property relations in Russia. Authoritarian state capitalism continues to develop the tendency of late totalitarian state capitalism by further blurring the line dividing state property from non-state property. But this process, enlarging the *rights* of the enterprise management to profits, on the one hand, at the same time left the major portion of *responsibilities* to the higher bureaucratic levels to cover expenditures of enterprises. As a consequence of the process, there was the absence on the part of enterprises of a stimulus strong enough to reduce the number of employees even under the conditions of a significant downturn in production.

Third, their part was played by "the corporate behavior and the corporate ethics ... of Russian economic managers ... a certain solidarity of the labor collective and the administration."¹¹ This corporate spirit could have weakened the desire of the cost-alert enterprise management to lay off its unnecessary labor.

Some statistical data on unemployment in post-Soviet Russia

The last Soviet statistical annual for 1990 was published in 1991. In the usual Soviet fashion, it had not a word about unemployment in the country.¹²

The first statistical works informing the reader about the situation in post-Soviet Russia and providing him with the official data on unemployment in the country began appearing in 1993. Thus, for the first time for more than 60 years, that is, since 1930, those who are interested in the socioeconomic conditions of post-Soviet Russian life were given an opportunity to be informed about unemployment, one of the most important macroeconomic phenomena of capitalism in any of its forms.

As a consequence, the study of the problem of unemployment in present-day Russia is getting more concrete: now it is based on a certain statistical material. The question is, of course, whether the Russian statistics can be trusted. The question is not idle.

Soviet statistics which illustrated the achievements of totalitarian state capitalism with its inclination to production for the sake of production, "sinned" in an *overstatement* of the volume of production and the size of employment in order to fulfil or over-fulfil plan targets. Russian statistics, disclosing the activities of authoritarian state capitalism with its growing aspiration to profit maximization, cannot but be bent for an *understatement* of the volume of production and the size of employment in order to conceal or reduce tax obligations.

On the method of determining and estimating unemployment in post-Soviet Russia

Before we provide and comment on post-Soviet Russian unemployment, we need to point out some specifics of the method used by the State Committee of the Russian Federation on Statistics (Goskomstat) in defining and calculating the number of the unemployed in the country.¹³

Russian statistics divides the unemployed into two groups. The first group, defined as *the total number of the unemployed*, includes those unemployed persons whose number is measured according to the standards of the World Labor Organization (WLO). Any information about this group and its structure is based on materials of surveys of the population with regard to the latter's employment.

The second group of the unemployed persons, information about whom is provided by the Ministry of Labor and Social Development of the Russian Federation, counts people without jobs, who look for a job and who receive an official unemployment status in corresponding state employment offices. As such, the group is termed as *the number of the unemployed registered with state employment agencies*.

As it can be seen, the definition and measurement of two groups differ. The Russian interpretation of the second group of the unemployed is narrower than that used by the WLO for the first. The second group is only a part of the first.

Why is that? Because "the Russian people simply do not believe that the state is really willing and able to aid them. That is why people prefer not to register at the labor registry office."¹⁴

Some statistical data on labor force, employment and unemployment in 1992 - 2003

The data on labor force, its two components, the employed and the unemployed, and their gender structure are illustrated in Table 5.1:

Table 5.1
Labor Force, Its Components, and Gender Structure, 1992 - 2003
(mln. people)¹⁵

Years	Labor force			Employed			Unemployed ¹⁶		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
1992	75.66	38.88	36.78	72.07	37.06	35.01	3.59	1.82	1.77
1993	75.01	38.71	36.30	70.85	36.56	34.29	4.16	2.15	2.01
1994	73.96	39.08	34.88	68.48	36.13	32.35	5.48	2.95	2.53
1995	72.87	38.90	33.97	66.44	35.41	31.03	6.43	3.49	2.94
1996	72.79	38.84	33.95	66.00	35.11	30.89	6.79	3.73	3.06
1997	68.08	35.93	32.15	60.02	31.55	28.47	8.06	4.37	3.69
1998	67.34	35.38	31.96	58.44	30.59	27.85	8.90	4.79	4.11
1999	72.17	37.64	34.53	63.08	32.84	30.24	9.09	4.80	4.29
2000	71.46	37.15	34.31	64.46	33.37	31.09	7.00	3.78	3.22

2001	70.97	36.85	34.12	64.67	33.44	31.23	6.30	3.41	2.89
2002	72.14	37.08	35.06	65.86	33.65	32.21	6.28	3.39	2.89
2003	72.59	37.31	35.28	66.61	34.10	32.51	5.98	3.21	2.77

According to the official data by Goskomstat of the Russian Federation, from 1992 to 2001, the size of the labor force was annually declining (with the exception of the sudden big jump in 1999), and in 2002 - 2003, it was growing.

The labor force as a derivative of the sizes of the able-bodied and the population. In order for the *supply* of labor for the production of goods and services in Russia to change (decline or grow), at least two conditions were necessary. First, a change in the number of the *able-bodied* persons¹⁷ in the *population*, who were *able* to offer services of their labor in labor markets. Second, a corresponding change in the number of those who were *not in the labor force*, that is, of those who, for one reason or another, were *unable* or *unwilling* to work or to actively look for work.¹⁸

Let us see the relationship between the four indicators (in the labor force, not in the labor force, the able-bodied, and the population) with the help of Table 5.2:

Table 5.2
Labor Force, Able-Bodied, not in the Labor Force, and the Population
(1992 - 2003; mln. persons)

Years	Labor force		Able-bodied		Not in labor force		Population	
	Total ¹⁹	Change ²⁰	Total ²¹	Change ²⁰	Total ²²	Change ²⁰	Total ²³	Change ²⁰
1992	75.66		89.86		14.20		148.0 ²⁴	
1995	72.87	-2.79	90.75	+0.89	17.88	+3.68	147.6	-0.40
1996	72.79	-0.08	92.14	+1.39	19.35	+1.47	147.3 ²⁴	-0.30
1997	68.08	-4.71	88.19	-3.95	20.11	+0.76	146.7	-0.60
1998	67.34	-0.74	88.49	+0.30	21.15	+1.04	146.3	-0.40
1999	72.17	+4.83	91.36	+2.87	19.19	-1.96	145.6	-0.70
2000	71.46	-0.71	90.92	-0.44	19.46	+0.27	144.8	-0.80
2001	70.97	-0.49	91.93	+1.01	20.96	+1.50	144.0	-0.80
2002	72.14	+1.17	93.08	+1.15	20.94	-0.02	145.0	+1.00
2003	72.59	+0.45	93.91	+0.83	21.32	+0.38	144.2	-0.80
Accumulated change		-3.07		+4.05		+7.12		-3.80

Since the number of the able-bodied persons increased, while the size of the labor force became smaller, this resulted in the growth of persons not in the labor force. But because the population of Russia declined (-3.80 mln. people), where did the growth in the number of the able-bodied persons (+4.05 mln. people) come from, in the first place?

Obviously, it had to come from the reduction in the other portion of the population, that is, from those who were not able-bodied. Their number had to decrease by 7.85 mln. people. This means that the age structure of the Russian population had to

change in such a way that for a part of the not able-bodied persons below the able-bodied age to mature into the able-bodied persons.

The labor force as a derivative of its two components. Let us now look at changes in the Russian labor force from the point of view of changes in its components in 1992 - 2003.

For this purpose, on the basis of Table 5.1 and Table 5.2 we will build Table 5.3:

Table 5.3
Changes in the Components of the Labor Force, 1992 - 2003
(million persons)

Years in comparison	Changes in total labor force ²⁵	Changes in total employed ²⁶	Changes in total unemployed ²⁶
1995 to 1992	-2.79	-5.63	+2.84
1996 to 1995	-0.08	-0.44	+0.36
1997 to 1996	-4.71	-5.98	+1.27
1998 to 1997	-0.74	-1.58	+0.84
1999 to 1998	+4.83	+4.64	+0.19
2000 to 1999	-0.71	+1.38	-2.09
2001 to 2000	-0.49	+0.21	-0.70
2002 to 2001	+1.17	+1.19	-0.02
2003 to 2002	+0.45	+0.75	-0.30
Accumulated change	-3.07	-5.46	+2.39

According to the table, the structure of the labor force in Russia in 1992 - 2003 underwent significant changes due to the reduction in the number of employed in 1993 - 1998 and its growth in 1999 - 2003, not compensated by the increase in the number of unemployed in the first period and its fall in the second period. We might assume that the following had taken place: the growing number of persons were either laid off or left their jobs on their own accord because of either a chronic nonpayment of wages or its scantiness.

Be that as it may, a certain fraction of these people was joining the ranks of the officially unemployed. The majority of them, leaving the ranks of the labor force, was *officially* replenishing the number of those who were not in the labor force. (But the number was insufficient to explain the growth of the size of the latter.)

We stress "officially." Because there is no doubt that a certain portion of those not in the labor force was finding itself *unofficial* work in the growing individual sector of the economy, where there was no need to pay taxes.²⁷

The gender structure of the labor force and of its components. Table 5.3 shows that in 2003 as compared to 1992 the *absolute* number of people in the labor force and of those who were employed declined while the *absolute* number of the unemployed increased. Table 5.4 provides the *relative* distribution of these indicators within their gender structure:

Table 5.4
The Gender Structure of the Labor Force and of Its Components
(1992-2003; in percentages)²⁸

Indicators	1992	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total labor force,	100	100	100	100	100	100	100	100	100	100
including:										
Men	51.4	53.4	53.4	52.8	52.5	52.2	52.0	51.9	51.4	51.4
Women	48.6	46.6	46.6	47.2	47.5	47.8	48.0	48.1	48.6	48.6
Total employed,	100	100	100	100	100	100	100	100	100	100
including:										
Men	51.4	53.3	53.2	52.6	52.3	52.1	51.8	51.7	51.1	51.2
Women	48.6	46.7	46.8	47.4	47.7	47.9	48.2	48.3	48.9	48.8
Total unemployed,	100	100	100	100	100	100	100	100	100	100
including:										
Men	50.7	54.3	54.9	54.2	53.8	52.8	54.0	54.1	54.0	53.7
Women	49.3	45.7	45.1	45.8	46.2	47.2	46.0	45.9	46.0	46.3

Since 1995 there has been a constant decrease in the fraction of men and a corresponding increase of women in the total labor force, where during all these years the number of men in the labor force exceeded that of women. With the declining share of men among both those who were employed and those who were unemployed, the portion of women in these indicators was growing.

The share of women was smaller than the share of men among the employed. This was not unexpected. But the fact that it was also smaller among the unemployed raises two interesting questions.

First, could it be that during the period Russian women were more honest than Russian men? That is, could it be that a greater number of Russian men than Russian women worked in the shadow economy for cash while claiming to be unemployed? Second, on the other hand, could it be that Russian women were more content with low wages and work hardships than men?

We have no answers to these questions. We hope that future studies will answer them.

The gender structure of the unemployment measured in its rates. Table 5.5 informs us about the unemployment rates (in accordance with the WLO as well as unemployed registered with state employment agencies) within the gender structure of the same time frame:

Table 5.5
The Gender Structure of the Unemployment Measured in Its Rates
(1992 - 2003; in percentages)²⁹

Years	The WLO unemployment rate			The registered unemployment rate		
	Total	Men	Women	Total	Men	Women
1992	5.1	5.1	5.1	0.8	0.4	1.2
1995	9.6	9.8	9.5	3.3	2.3	4.3
1996	9.8	10.1	9.6	3.6	2.5	4.8
1997	12.0	12.3	11.8	2.9	2.0	4.0
1998	13.4	13.7	13.1	2.9	1.9	3.9
1999	12.9	13.0	12.8	1.7	1.0	2.5
2000	10.0	10.4	9.6	1.5	0.9	2.1
2001	9.1	9.4	8.7	1.6	1.0	2.2
2002	8.7	9.1	8.3	2.1	1.1	2.6
2003	8.1	8.4	7.8	2.3	1.4	3.1

The following can be inferred from the table.

First, as it was to be expected, during the years, the registered unemployment rate was lower than the WLO unemployment rate. Second, and this follows from the data in Table 5.4, the WLO unemployment for women, except for 1992, was less than that of men.

Third, the opposite was true for the registered unemployment rate for women as compared to men. Why? We can just guess: probably, Russian women trusted the state more than Russian men.

Fourth, till 1998 the WLO unemployment rate and its male and female components were increasing. But, beginning with 1999, the trend has been reversed.³⁰

Finally, it is interesting to note that from 2001 the registered unemployment rate for both women *and* men has been *increasing*. This could be attributed to the fact of a growing confidence of the Russian population in the Russian authorities.

The age structure of the WLO unemployed. For this, we employ Table 5.6:

Table 5.6
The Age Structure of the WLO Unemployed
(1992 - 2003; in percentages)³¹

Years	Total	Including in the age of, years					
		Younger than 20	20 - 29	30 - 39	40 - 49	50 - 59	60 and over
Total							
1992	100	16.8	31.7	23.4	13.0	10.4	4.6
1995	100	11.1	32.4	27.2	20.3	7.4	1.6
1996	100	10.3	30.9	27.8	21.5	7.9	1.6
1997	100	9.2	30.1	29.1	21.8	8.4	1.5
1998	100	7.9	31.6	26.7	23.7	8.5	1.8
1999	100	7.0	29.6	26.9	23.5	9.8	3.2
2000	100	7.0	30.7	25.9	24.1	9.5	2.7
2001	100	8.6	30.1	25.0	24.5	9.3	2.6
2002	100	8.9	30.2	23.5	23.8	10.8	2.9
2003	100	9.7	31.1	22.8	23.4	10.7	2.3

Men							
1992	100	15.5	34.8	23.2	12.5	9.4	4.6
1995	100	9.4	33.2	28.2	20.0	7.8	1.5
1996	100	8.8	30.9	28.1	21.5	8.8	2.0
1997	100	7.9	31.0	29.0	21.2	9.1	1.6
1998	100	7.3	32.7	26.8	22.4	8.8	2.0
1999	100	7.2	30.7	27.2	21.1	10.8	3.0
2000	100	7.0	31.8	26.0	23.5	8.8	2.8
2001	100	8.5	30.8	24.5	24.6	9.2	2.3
2002	100	8.0	29.9	24.1	23.6	11.2	3.2
2003	100	9.5	32.1	23.4	22.4	10.4	2.3
Women							
1992	100	18.3	28.4	23.6	13.7	11.4	4.6
1995	100	13.1	31.4	26.0	20.7	7.1	1.7
1996	100	12.0	31.1	27.5	21.3	7.0	1.1
1997	100	10.7	28.9	29.0	22.4	7.5	1.4
1998	100	8.5	30.3	26.4	25.0	8.2	1.5
1999	100	6.8	28.4	26.6	26.0	8.8	3.4
2000	100	6.9	29.4	25.8	24.8	10.5	2.6
2001	100	8.6	29.3	25.5	24.4	9.3	2.9
2002	100	9.9	30.8	22.8	23.8	10.3	2.4
2003	100	10.0	30.1	22.1	24.5	10.9	2.4

The Table 5.6 shows the following. First, the largest portion of the unemployed was among men and women in the age range between 20 and 29. But, while among Russian men it declined in 2003 as compared to 1992, among Russian women it increased.

Second, behind the first group there were men and women in the ages between 30 - 39. Together these two groups included more than a half of unemployed Russian men and women. That men and women in their prime age comprised the highest share of unemployed might be explained by the fact that these were the most vigorous and most demanding Russian people and, as such, they were among the first either to look for other job opportunities or simply to be forced to go.

Third, a fraction of the unemployed among men and women of the youngest age (to 20 years of age) declined. Since the population of this age increased,³² while the share of the age group among the employed decreased,³³ the obvious question is: Where did they go?

In our opinion, the decline in the portion of this age group among the unemployed Russian men and women was due to the growing demand for a physically strong labor in the criminal business and in the shadow economy. Hence, it might be assumed that many in this age group were used as prostitutes, sellers of narcotics, bodyguards, etc.

The educational level of the WLO unemployed. This is illustrated by Table 5.7:

Table 5.7
The Educational Distribution of the WLO Unemployed
(1992 - 2003; in percentages)³⁴

Years	Total unemployed	Including with education:		
		Higher profession- al, completed and not completed	Secondary profes- sional and general	Below seconda- ry ³⁵
Total				
1992	100	13.5	65.4	21.0
1995	100	11.4	70.4	18.2
1996	100	10.5	70.7	18.7
1997	100	11.3	60.5	28.3
1998	100	12.6	59.9	27.5
1999	100	13.5	58.2	28.4
2000	100	15.2	55.4	29.4
2001	100	14.3	58.5	27.2
2002	100	13.1	59.2	27.7
2003	100	13.8	54.1	32.1
Men				
1992	100	11.6	64.0	24.4
1995	100	10.5	67.7	21.8
1996	100	9.3	68.1	22.6
1997	100	10.1	57.5	32.3
1998	100	11.8	56.4	31.8
1999	100	11.6	56.1	32.4
2000	100	12.4	52.9	34.7
2001	100	12.5	55.8	31.6
2002	100	12.4	55.7	31.8
2003	100	12.9	50.6	36.5
Women				
1992	100	15.6	67.0	17.4
1995	100	12.4	73.6	14.0
1996	100	12.1	73.8	14.2
1997	100	12.7	63.9	23.4
1998	100	13.7	63.9	22.4
1999	100	15.5	60.7	23.8
2000	100	18.5	58.3	23.1
2001	100	16.4	61.7	21.9
2002	100	14.0	63.2	22.8
2003	100	14.9	58.2	26.9

The table speaks for itself. The lowest percent of the unemployed was among Russian men and women with the highest level of education. However, it was higher for women than for men. This could, probably, indicate a certain discriminatory attitude of Russian employers, who were mostly men, toward highly educated women.

The highest portion of the unemployed is observed in the group with the average (secondary) level of education. Since the share of the employed of this group was the largest,³⁶ the conclusion can be made is the same we did with respect to the unemployed in the age group of 20 - 39.

The distribution of the WLO unemployed according to the length of the job search.

Table 5.8
The Distribution of the WLO Unemployed According to the Length of the Job Search
(1993 - 2003, in percentages)³⁷

Years	Unemployed, total	Including those who look for a job:				The average time of job search, months
		Up to 3 months ³⁸	From 3 to 6 months ³⁹	From 6 to 12 months	More than a year	
Total						
1993	100	36.8	28.7	16.2	18.2	5.7
1995	100	25.2	26.3	18.9	29.6	7.4
1996	100	17.7	26.8	23.0	32.5	8.2
1997	100	23.7	15.8	22.4	38.1	8.8
1998	100	22.2	15.9	20.9	41.0	9.1
1999	100	20.9	13.6	18.3	47.2	9.7
2000	100	24.5	14.1	19.1	42.3	9.1
2001	100	31.0	14.0	18.0	36.9	8.2
2002	100	27.1	15.1	19.1	38.7	8.6
2003	100	30.0	14.7	19.5	35.8	8.2
Men						
1993	100	41.7	28.6	15.0	14.8	5.1
1995	100	27.9	27.2	18.1	26.9	7.0
1996	100	19.2	28.2	22.4	30.2	8.0
1997	100	25.4	16.2	22.5	35.9	8.5
1998	100	23.2	16.8	20.7	39.3	8.9
1999	100	23.7	14.4	18.4	43.5	9.2
2000	100	27.4	14.6	19.3	38.3	8.6
2001	100	35.4	13.5	17.2	33.9	7.8
2002	100	29.5	14.7	18.6	37.1	8.3
2003	100	32.5	14.9	18.1	34.5	7.9
Women						
1993	100	31.4	28.9	17.7	22.1	6.4
1995	100	22.0	25.4	19.9	32.7	7.9
1996	100	15.9	25.1	23.8	35.3	8.7
1997	100	21.6	15.4	22.2	40.8	9.1
1998	100	21.1	14.7	21.3	42.0	9.4
1999	100	17.7	12.7	18.1	51.5	10.2
2000	100	20.4	13.5	18.8	47.1	9.1
2001	100	25.9	14.6	19.0	40.5	8.8
2002	100	24.2	15.4	19.6	40.7	8.9
2003	100	27.0	14.6	21.0	37.4	8.6

The table enables us to discern the following. First, from 1993 till 1999, the share of the unemployed men and women looking for jobs for less than 6 months was declining, while the corresponding share of the searchers for more than a year was increasing. This indicates that Russian unemployment till 1999 had a predominantly cyclical (long-term) character.

Second, only beginning with 2000, the trend has started to show a movement in the opposite direction. This happened when

real Russian GDP began growing, year after year,⁴⁰ leaving behind the period of the prolonged recession of the transformation.

Third, the reversal was not sufficient so that in 2003, as compared to 1993, the average time needed to find a job by the unemployed in Russia was greater by 44 percent in total, by 55 percent for men, and by 34 percent for women. It might be concluded that, with the diminishing role of cyclical unemployment, the greater role had to be played by the “regular” components of unemployment: frictional and structural.

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Notes to Chapter 5: Post-Soviet Russian Unemployment

- 1 Based on E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Bezrobotitsa i Inflatsiya* [Principles of the Economic Theory. Unemployment and Inflation]. Moscow: “Nauka,” 1998, pp. 39 - 58.
- 2 *The Constitution of the Russian Federation*. Moscow: 1997.
- 3 In our view, the time of its life *historically* might not be long and, thus, may not exceed more than a quarter of the century, counting from 1992. We base this belief on the previous 14 years of its existence, which demonstrated, as we will see later, the propensity of the post-Soviet Russian “elite” to grab as much as possible now, to keep its financial assets in the Western financial institutions, to hold more than just Russian citizenship, to send its families to reside abroad, etc., in other words, to be ready to leave Russia for good at any time. But by what

other socioeconomic structure the present post-Soviet Russian system might replaced will be explored in the last part of the book.

- 4 We also base this opinion on all the history of Russia as a great world power, which, under no circumstances, will, for long, be satisfied with its subordinate (to the developed countries) role as a world supplier of raw and energy materials. And even if the country decided to content itself with such a subsidiary status, it will not be able to survive as such, given its geopolitical location and the size of its population (on all this, in the last part of the book).
- 5 Corresponding numbers will be provided in the chapter on inflation.
- 6 Whose data will be given in the second part of the chapter.
- 7 See note #5.
- 8 The relationship is one of the consequences of Okun's Law (see A. Okun, *Political Economy of Prosperity*. Washington, D.C.: Brookings Institute, 1970).
- 9 We cannot calculate the rate of cyclical unemployment for a simple reason that its mathematical formula in this case contains two unknowns in one equation:

$$\text{the rate of cyclical unemployment (unknown)} = \text{the actual rate of unemployment (known)} - \text{the natural unemployment rate (unknown)}.$$
- 10 See *Ekonomika Perekhodnogo Perioda* [Economy of the Transitional Period], ed. by V. Radayev and A. Buzgalin. Moscow: Izdatel'stvo MGU, 1995.
- 11 V. Volkonsky and G. Pirogov, "Rossiiskaya Ekonomika na Rasput'ie" [The Russian Economy at the Crossroads], *Novyi Mir*, Number 1, 1996.
- 12 See Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1990 g.* [The National Economy of the USSR in 1990]. Moscow: "Finansy i Statistika," 1991.
- 13 See Goskomstat Rossii, *Trud i Zaniatost' v Rossii* [Labor and Employment in Russia]. Moscow: Goskomstat Rossii, 1996.
- 14 On the subject see, for instance, M. Mikeli, "WHERE ARE WAGES RISING? Why is unemployment in Russia different from unemployment in the West?", trans. by A. Yevtikhova), from WPS Monitoring Agency, April 29, 2002.
- 15 1992 - 1996: E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Bezrabotitsa i Inflatsiya* [Principles of the Economic Theory. Unemployment and Inflation], p. 48, tabl. 1.5; 1997 - 2003: Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004]. Moscow: Rosstat, 2004, p. 133, tabl. 6.1.
- 16 Measured according to the WLO method.
- 17 In Russia, "[a]ble-bodied persons ... are men from 16 to 60 and women, from 16 to 55 years of age" (Goskomstat Rossii, *Trud i Zaniatost' v Rossii* [Labor and Employment in Russia], p. 5).
- 18 That is why in Russia, "[n]ot in the labor force [are] persons who are not considered to be either employed or unemployed during the period under consideration" (ibid., p. 44).
- 19 From Table 5.1.
- 20 As compared to the previous year.
- 21 Calculated as follows: labor force (Table 5.1) divided by the rate of labor force (Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 134, tabl. 6.3), where the rate of labor force is the ratio of labor force to the able-bodied.

- 22 Calculated as follows: able-bodied (Table 5.2) minus labor force (Table 5.2).
- 23 At the end of the year. See Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 32, tabl. 1.1..
- 24 1992, 1996: see Goskomstat Rossii, *Trud i Zaniatost' v Rossii* [Labor and Employment in Russia], p. 6, tabl. 1. The data for these years is for the *permanent population*, which "includes persons residing on a given territory, including those who are temporarily absent" (ibid., p. 5).
- 25 From Table 5.2.
- 26 Calculated from Table 5.1.
- 27 On this, in chapter on the Russian budget.
- 28 Calculated from Table 5.1.
- 29 See Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 134, tabl. 6.3.
- 30 The reversal was due to the factors, political and economic, which, as it was promised earlier, will be discussed in a proper time.
- 31 See Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 146, tabl. 6.12.
- 32 Ibid., p. 83, tabl. 5.7.
- 33 Ibid., p. 145, tabl. 6.10.
- 34 Ibid., p. 147, tabl. 6.15.
- 35 Before 1997, persons with elementary professional education were listed among those with either secondary general or below secondary education.
- 36 See Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 145, tabl. 6.11.
- 37 Ibid., p. 148, tabl. 6.18.
- 38 1993 - 1996: up to 2 months.
- 39 1993 - 1996: from 2 to 6 months.
- 40 See footnote #5.

PART VIII

THE FIRST STAGE IN THE DEVELOPMENT OF THE POST-SOVIET SOCIOECONOMIC SYSTEM (1991 - PRESENT)

Chapter 6 Post-Soviet Russian Inflation¹

In the study of post-Soviet Russian inflation we include the following. First, the acquaintance with price indices which Russia began to use after 1992, that is, after the disintegration of the Soviet Union and the downfall of the system of totalitarian state capitalism in 1991. Second, a statistical information about Russian inflation since 1991. Third, the analysis of the causes of the Russian inflationary processes within the framework of the critical synthesis of various points of view on the nature of Russian inflation. Fourth, the elucidation of the socioeconomic consequences of inflation for Russia. Finally, a very short introduction to the anti-inflationary measures of the Russian authorities.

Some major post-Soviet Russian price indices

Post-Soviet Russian statistics uses price indices different from the Soviet price indices. The principal distinction of *all* Russian price indices from their Soviet counterparts lies in the *method of their formation*.

None of the Russian price indices is established in the legislative manner. And inflation which is measured by *all* the Russian price indices reveals itself in only one inflationary form: as overtly gradual inflation.

A short description of each of some major Russian price indices, as it is given by Russian statistics, with our brief commentaries is provided below.

The consumer price index (the CPI)

*“The combined index of consumer prices measures the relationship of the value of the fixed basket of consumer goods and services in the current period to its value in the base period ...”*²

The fixed market basket includes 382 groups of goods and services. Among them, 100 food items, 201 non-food items, 81 items of services.³

The CPI is computed and published monthly. It covers all 89 regions of the Russian Federation.

The CPI is calculated by Goskomstat of the RF. For its computation, the weights of the previous year survey of households budgets are used.⁴

The post-Soviet Russian CPI differs from the Soviet index of state retail prices in three respects. First, from the point of view of the *general* assortment of the basket, the Russian CPI is wider, because the Russian basket includes not only goods but services as well. The Soviet basket contained only goods.

Second, from the point of view of the *commodity* assortment of the basket, the Soviet price index was wider. Its *commodity* basket included the *whole* range of consumer goods sold through retail trade and public catering. The relative narrowness of the Russian CPI can be explained by the inclusion in its market basket only a *selective* set of groups of consumer goods.

Third, from the point of view of the *forms of property* of retail trade enterprises, the Russian consumer price index is wider than its Soviet "colleague." While the Russian CPI allows for prices for consumer goods sold through the retail trade of *all* forms of property (including the cooperative one), the Soviet index of retail prices was taking into consideration prices for goods only in state retail outlets (including the public catering but excluding the cooperative and *kolkhoz* markets).

Price indices of the producers of the industrial output

According to the Russian methodology,⁵

... *price indices of the producers of the industrial output* are calculated on the basis of the registered [actual] prices [without taxes forming the cost] for representative commodities in basic industrial organizations... . The set of the representative commodities includes more than 800 commodity groups practically of all branches of industry. The list of the basic organizations contains more than 7.5 thousand key associations and organizations of industry.

It can be seen that Russian indices of industrial wholesale prices in their essence are not different from the corresponding Soviet indices. However, there are two points of dissimilarities between the Russian and the Soviet wholesale prices.

First, to calculate the Soviet price index more representative commodities were used than for the estimation of the Russian counterpart. It might be assumed that either Russian statistics does not have sufficient resources, which Soviet statistics had in its disposal; or that the Russian set of industrial products has been consolidated into larger groups; or that Russian statistics relies more on the selectiveness of its commodity positions than Soviet statistics, which was prone to the widest inclusion of subjects it observed.

Second, Russian industrial wholesale price indices do not have the Soviet division into indices of the factory wholesale prices and that of the industry wholesale prices. This is caused by the fact that the end of the Soviet era has spelled the end of turnover taxes.⁶

Some other Russian price indices

Besides those discussed earlier, there are some other price indices in present-day Russia. Two of them need to be mentioned: *indices of the producers of the realized agricultural output* and *indices of the tariffs on cargo transportation*. For price comparisons of the current and base periods, both indices use their own *selected* assortment of commodities.

Statistical data on post-Soviet Russian inflation: 1991 - 2003

Let us now see the quantitative expressions of Russian price indices for 1991 - 2003:

Table 6.1
Price Indices In Various Sectors of Russian Economy
(December to December of the previous year;
till 1996, in times; 1996 and after, in percentages)⁷

Years	Price indices			
	CPI	Of the producers of the industrial output	Of the producers of the realized agricultural output	Of the tariffs on cargo transportation
1991	2.6	3.4	1.6	2.1
1992	26.1	33.8	9.4	35.6
1993	9.4	10.0	8.1	18.5
1994	3.2	3.3	3.0	3.5
1995	2.3	2.7	3.3	2.7
Total for 1991 - 1995 ⁸	4,694.8	10,239.4	1206.1	13,069.9
Annual average for 1991 - 1995 ⁹	8.60	6.34	4.13	6.66
1996	121.8	125.6	143.5	122.1
1997	111.0	107.5	109.1	100.9
1998	184.4	123.2	141.9	116.7
1999	136.5	167.3	191.4	118.2
2000	120.2	131.6	122.2	151.5
2001	118.6	110.7	117.5	138.6
2002	115.1	117.1	98.1	118.3
2003	112.0	113.1	124.7	123.5
Total for 1996 - 2003 ¹⁰ (times)	6.25	5.37	7.47	5.21
Annual average for 1996 - 2003 ¹¹ (times)	1.26	1.24	1.29	1.23
Total for 1991 - 2003 ¹² (times)	29,342.5	54,985.6	9,009.6	68,094.2
Annual average for 1991 - 2003 ¹³ (times)	2.21	2.31	2.01	2.35

The following conclusions can be made. For Russia, the years of 1991 - 2003 were a time of continuous inflationary processes. In fact, price indices were rising annually.

Nevertheless, Russian inflation of the period might be divided into two phases: 1991 - 1995 and 1996 - 2003.

The first stage: 1991 - 1995

During the first phase, the annual price growth was so large that it had to be measured in times, not percentages. As a result, the annual average increase in prices for the first stage was in the range of 4.13 - 8.60. This tells us that Russian inflation of the first phase was something between galloping inflation and hyperinflation. Moreover, for a short period of 1992, the former turned into the latter.

Overall, during the first period of 1991 - 1995 the prices in Russia had grown by *several thousands* times. Only prices for agricultural products were an exception: they had increased only (!) by 1, 206 times.

The inflationary splash took place in 1991. To see that this was the case one needs to compare, for instance, consumer price indices and producer price indices in 1991 with the corresponding indices of state retail prices and industry wholesale prices in 1990.¹⁴

The first period witnessed a decline in the rate of inflation, beginning with 1993. Although the rate was still very high, from 1994 it has been leveling off for all four price indices.

The second stage: 1996 - 2003

In the second period, the rate of inflation continued to decline (with the exception of 1998 and 1999). We call the period as "second" for a simple reason: from 1996, the continuously decreasing rate of inflation has been in percentages, not in times.

This found its expression in the annual average increase in prices. The latter in the second period was in the range of 1.23 and 1.29. Thus, for the first time since 1991 Russian inflation has become more "moderate," though, of course, still far from low.

On the whole, in the second period of 1996 - 2003 the general sectorial price level in Russia went up from more than five to more than seven times. As compared to the first phase, inflation in Russia has been tamed.

Causes for the post-Soviet Russian inflationary processes

Before attempting to ascertain the reasons for post-Soviet Russian inflation, we will present a picture of events which were occurring in Russia in 1991 - 1993. It is because during these years

the state price *regulation* of the Soviet period was being gradually replaced by price *liberalization*.

A brief information about the events of 1991 - 1993¹⁵

In 1991, Russia introduced contractual prices for the products of the industrial-technical purposes (50 percent) and for the articles of consumption (25 percent). Beginning with January 1992, the major part of these products and services was allowed to be sold at free (from the state) prices.

During 1992 - 1993, the government stopped a direct federal regulation of prices for oil, oil products, a significant number of foodstuffs, and transportation services. Thus, the federal price regulation took an indirect character: prices for oil, oil products, products of natural monopolies (gas, electric and heat power, railway and pipeline transportation), some types of housing and communal services and communication services, and also products of bakeries began to be regulated by the rate of profitability, or by the percentage relation of money profits to the value of industrial fixed and circulating capital.

In 1992 - 1993, prices for coal were liberalized from the state regulation. During the same period, there was a decline in the number of cities regulating local prices for the major groups of foodstuffs.

On the causes of the initial inflation of 1991 - 1992

As Table 6.1 demonstrates, in 1991, and especially in 1992, price liberalization was followed by a sharp and spasmodic growth in its general level. Price liberalization became a factor thanks to which inflation in the post-Soviet Russian period could have *unchained* itself: the release of prices from the state's embrace has broken the *suppressed* status of Soviet inflation¹⁶ and opened the way to *overt* Russian inflation.

From 1991, Soviet inflation in potentiality has become Russian inflation in reality. That is, with the elimination of a significant number of administrative obstacles, *hidden* inflation was able, at last, to "enjoy" its "hour of triumph" and come to the surface.

It might be asserted that the degree of *openness* of the inflationary *possibilities* depended on the degree of price liberalization. In other words, the wider the scope of products whose prices were freed, the greater was the opportunity for inflation to reveal itself in the open form. And vice versa, the narrower the range of products with liberalized prices, the less the possibility for inflation to come out in the open form, the more it remained in the hidden, repressed condition.

But, in our opinion, this does not mean that the *intensity* of the initial inflation was caused by price liberalization *per se*. Freeing

prices did not result in inflation. If there are no convicts in prison, then nobody will gain freedom when its gates are open.

We believe that the force with which post-Soviet Russian inflation broke away from the state and into freedom, depended not on the *external* factor (price liberalization). The power of the initial inflation was contingent, first of all, on the *internal* factor: the inflationary *potential* already accumulated in the midst of the Soviet economy of shortages.

Obviously, the relationship was direct. The greater (smaller) the size of commodity shortages, the greater (smaller) had to be the size of the initial open (overt) Russian inflation.

It is necessary to point out that the inflationary potential of 1990 - 1991 was not solely of the Soviet origin. The size of the inflationary potential was in a large degree was influenced by the struggle between the dying Soviet federal center and the gathering strength Russian republican center.

To better understand the colossal scale of the initial post-Soviet Russian inflation, the following should be noted.

Despite the wish of the Soviet leadership, the Russian leadership envisioned as the main task of its activities to liberalize prices of *almost all* goods and services.¹⁷ This goal of the Russian program was discussed in the press, on radio and TV, thus creating certain inflationary expectations among Russian households and enterprises.

The consequence was quite predictable: "the flight from money." Inflation had not become overt, and low inflation had not developed into galloping inflation yet. But the expectation itself of a significant rise in prices *after* their liberalization was increasing the rates of still hidden inflation even *before* their actual liberalization.

The announcement that prices will be freed beginning with December 15, 1991 and the two-week postponement of the decision speeded up even more the rate of hidden inflation. This was manifested in the fact of an almost complete emptying of stores, and especially in such strategically important for the authorities (be it Soviet or Russian) cities as Moscow and Saint Petersburg.

Thus, inflationary expectations aggravated the commodity "hunger" which achieved the level unprecedented for the peacetime. The catastrophic commodity deficit, in its turn, exacerbated the hidden inflationary pressure on the country's economy. Hence, the Russian government of authoritarian state capitalism *had* to liberalize prices, for, otherwise, not having in its arsenal the instruments of totalitarian state capitalism (central planning, the party rule, the special force policing economic criminal activities), it would have been swept away by the popular spontaneous movement.

On the causes of inflation of 1993 - 1995¹⁸

But when the Soviet closeness of prices finally came out to the surface in the form of galloping (1991) and hyperinflation (1992), why is that general price levels for each sector of the Russian economy continued in the headlong fashion (although not as fast as in 1992) to grow in the following, 1993 - 1995, years?

Economists, Russian as well as Western, are not of one view of the nature of the post-initial Russian inflation. There exists a whole spectrum of opinions on the problem. But in general, on this issue economists are divided into two camps.

One camp includes those who as the major reason for the post-initial Russian inflation consider *non-monetary* factors. To the second camp belong those who believe that the post-initial Russian inflation had a predominantly *monetary* character.¹⁹

We start with presenting arguments of each group separately. Then we will attempt to find a common ground between the two, finally supplementing it with our own stand on the subject.

Arguments of the non-monetarists. They believe that the core of post-Soviet Russian inflation lies in those non-monetary factors which we will differentiate into two groups.

The first are the *structural* factors which are the source of *structural inflation*, or inflation of the transitional period from the Soviet socioeconomic system to the Russian form of capitalism. The second includes economic factors causing *cost inflation*.

The structural factors. According to the view, these factors of the transitional period are as follows.

First, the very structure of Soviet economy, which was inherited by post-Soviet Russian economy. In its structure, Russian economy of the beginning of the 1990s was still very sharply "tilted" toward heavy industry and the military-industrial complex (VPK) at the expense of the light industry, agriculture and the sphere of services. But, since the concentration of production (its scale, the value of its assets, the number employed, etc.) was greater in these economic sectors, the latter had better opportunities to raise prices.

Second, monopolization of production and markets in all economic branches. This level of monopolization of production and sales (especially in wholesale trade) the post-Soviet Russian economy also inherited from the Soviet economy.

These two factors (the heavy industrial and VPK structure plus monopolization of the economy in general) served as a ground for post-Soviet Russian enterprises to increase their prices when the latter became free.

The cost factors. Such a stand is based on the following reasoning.

First, on the factor of raw and energy materials. The approach emphasizes the difference in the structure of Russian domestic prices and world prices. Soviet economy, in this respect, was very disproportional. It was especially true for raw and energy materials whose prices domestically were much lower than in the world markets.

The downfall of the Soviet system and price liberalization which followed it allowed natural monopolies extracting raw and energy materials to sharply raise their prices in order to overcome the price dis-proportionality.²⁰ The same monopolized position provided these natural monopolies with an opportunity to continue to inflate prices, thus making a great “contribution” to the post-Soviet Russian inflationary process.

Second, on the factor of the structure of demand. The factor had the same influence on inflation as the one indicated in the first argument. That is, during the period of transformation, there was taking place a movement of demand from one sector of the Russian economy into another. The result was not a relative change in prices, but their increase in those branches of production where demand went up (for instance, in industries extracting raw and energy materials) with a simultaneous preservation of prices in those branches of production when demand went down (for instance, in manufacturing industry).²¹

Third, on the factor of nominal wages. The extremely high inflation, and first of all, of the consumer price index, could not but compel workers to seek higher nominal wages. In such a longing, workers, following the old tradition of corporative ethics and social partnership, found their patrons in the administration of their enterprises. Enterprises, in order to compensate the unrestrained rise in prices, were forced to index nominal wages “approximately at 80 percent of the growth of consumer prices.”²² And enterprises were covering the growing expenditures by further raising prices for their products.

Fourth, on the factor of the technical lag. The inflationary process was exacerbated by a relative technical backwardness of many enterprises, first, in Soviet and then in post-Soviet Russian economy. But a backward economy implies a relatively low productivity of social labor. The low productivity of social labor causes a high cost per unit of production. To cover these high costs, high prices were obviously needed.

It should be added that the technological conditions of production in many branches of economy were already getting worse in the Soviet period (the moral and physical depreciation of industrial buildings, machinery and equipment, relatively outdated technological processes, etc.). This tendency became even more pronounced in the post-Soviet Russian period. Hence again, the growing production costs were to be compensated by rising prices when the latter were permitted to “come to the surface.”

Fifth, on the factor of the rupture of the economic ties due to the disintegration of the Soviet Union. Customs barriers, import and export tariffs, rise in prices for cargo transportation due to the taking place reorientation of economic relations from former Soviet republics ("near abroad") to foreign countries ("far abroad"),—all this could not but raise production outlays of Russian enterprises. Hence, as a consequence, inflation caused by the growing costs of production.

Finally, sixth, on the factor of inflationary expectations. The very life of the Russian people in the beginning of the 1990s, under the conditions of the actual overt inflation, was conducive to their learning of the science of forecasting the future inflation. As a result, adaptive inflationary expectations of the Russian population "added fuel to the fire" of the growing price level raging in the country.

Arguments of the monetarists, or demand inflation. In their interpretation of post-Soviet Russian inflation of 1993 - 1995, monetarists insist that, like any other inflation, this was primarily a short-run monetary phenomenon. Other things being equal, the more (less) the financial authorities use the policy of easy money or, conversely, the less (more) the financial authorities employ the policy of tight money, the higher (lower) the rates of inflation in the economy.

According to the monetarist approach, the basic reason why the Russian state was conducting rather an easy money policy, which led to high inflation, was the fiscal policy of the Russian government. This was a fiscal policy of the state budget deficit.²³

Who is right? These were the major arguments of the non-monetarist and monetarist approaches to the nature of post-Soviet Russian inflation of 1993 - 1995. On the face of it, the two views were so far apart from each other that it is impossible to build a bridge between them.

But we will attempt to do just that. We will try to show that in reality both standpoints on the causes of Russian inflation of 1993 - 1995 do not substitute but rather complement each other; that a real understanding of this inflation might be made only by taking into account the whole specter of opinions about it.

Moreover, we will take one more step in the direction of the inflation's interpretation. For this purpose, we will add our own conception of the problem.

A synthesis of the non-monetarist and monetarist views of Russian inflation of 1993 - 1995. The core of the non-monetary approach to understanding this inflation is cost-push inflation aggravated by the specifics of the transitional period. The essence of the monetarist view of the subject is demand-pull inflation.

In our opinion, both types of Russian inflation of the period “needed” each other. For, if there was *only* monetary demand-pull inflation (the easy money policy), as the monetarists assert, then *both* real GDP and the GDP deflator²⁴ had to *grow*.

But this was not the case. As the table below demonstrates, the growing general price level was accompanied by *declining* real GDP:

Table 6.2
Russian Real GDP and GDP Deflator
(1991 - 1995; to the previous year)

Years	Real GDP (in percentages) ²⁵	GDP deflator (in times) ²⁶
1991	87.2	2.3
1992	85.5	15.9
1993	91.3	9.9
1994	87.3	4.1
1995	95.9	2.8
1991 - 1995	57.0	4,156.3

At the same time, the changes presented in the table above would be perfectly explainable by the non-monetary cost-push inflation. However, if there was *only* non-monetary cost-push inflation, then the consequences of a potentially inflationary significant growth in the supply of money in post-Soviet Russian economy of the period, claimed by the monetarists, would remain unexplained.²⁷

Thus, in our opinion, both types of inflation had to be present during the period. But they were to be present in such a way that non-monetary cost-push inflation had to be *stronger* than monetary demand-pull inflation.²⁸

An additional element to understanding Russian inflation of 1993 - 1995. In our opinion, the synthetic standpoint is not sufficient to interpret Russian inflation of the period. This is because it is too general: it does not *fully* take into account the *socioeconomic* specifics of the transitional stage from totalitarian to authoritarian state capitalism.

We stress “fully,” for hints of the recognition of the *economic* specifics of the transitional period are present in the structural interpretation of post-Soviet Russian inflation as an outcome of high monopolization which Russian economy inherited from Soviet economy. However, a *social* explanation is absent in the structural analysis of Russian inflation.

A social peculiarity of the transitional period, we need to remind our reader, consisted in the replacement of centralized Soviet monopoly whose goal was maximization of production by decentralized Russian monopoly with its growing aspirations to maximize profits.

Our argument might be reduced to the following. From a *microeconomic* point of view, as a result of the social

transformation, enterprises, which were no longer required to meet their production quotas, were gradually reducing their output production and, being monopolies, were increasing their prices.

Thus, enterprise managers were compelled to adapt to functioning under the new conditions. As a consequence, *macroeconomy imitated microeconomy*.

We think, therefore, that in its *pure, theoretical* form Russian post-initial inflation *had* to take place even in the absence of demand- and cost- types inflation. In our view, there is little doubt that *actual, concrete* Russian inflation was a result of the interrelationship of all three its types (non-monetary, monetary, and socioeconomic). But we believe that the first two kinds of inflation *did not create* but simply *speeded up* or *slowed down* the inflationary processes originated by its third type.

On the causes of inflation of 1996 and after

To be sure, with the end of the transitional period, the socioeconomic type of inflation will be forced to leave the Russian economic scene. Then, and only then, non-monetary and monetary types of inflation might start playing the role of not just catalysts (negative or positive) of the Russian inflationary process but as independent forces.

And that is what has been happening since 1996: a gradual reversal of movements in Russian real GDP, with a continuation, although on a much milder scale, of the Russian inflationary processes. To see this, we employ table 6.3:

Table 6.3
Russian Real GDP and GDP Deflator, 1996 - 2003
*(in percentages to the previous year)*²⁹

Years	Real GDP	GDP deflator
1996	96.4	150
1997	101.4	120
1998	94.7	120
1999	106.4	170
2000	110.0	140
2001	105.1	120
2002	104.7	120
2003	107.3	110
1996 - 2003	127.9	8.1 (times)

With the exception of 1996, when the post-initial inflationary period apparently finally came to an end, and of 1998, when the Russian government announced a default on its securities after which, with a time lag, the GDP deflator jumped in 1999,³⁰ post-Soviet Russian inflation showed signs of a “normal” inflation. “Normal” in the sense, that from that period on it has been driven by the “normal,” “regular” forces of aggregate demand and aggregate supply.

How do we know? The not so big numbers in the table above indirectly indicate this. They also tell us that, unlike inflation of 1993 - 1995, in which in the interplay of demand-pull and cost-push types of inflation the latter had to be stronger than the former, in inflation of the following period the roles were to be reversed.³¹

Socioeconomic consequences of Russian inflation of 1991 - 2003

The redistributive consequences of Russian inflation of 1991 - 2003

To get some idea of the effect that inflation of 1991 - 2003 had on post-Soviet Russian society, we turn to Table 6.4:

Table 6.4
1991 - 2003 Inflation and Its Effect on Russian Society

Indicators	1991 - 1992	1993 - 1995	1996 - 2003	1991 - 2003
Social groups-losers as a result of Russian inflation:				
Retirees, annual averages, mln. people ³²	34.7	36.6	38.3	36.5
Real monthly pension, in percentage to the corresponding previous period ³³	50.3	101.8	112.0	60.8
Employed, annual averages, mln. people ³⁴	73.0	68.6	63.7	68.4
Real wages per employee, in percentage to the previous period ³⁵	65.0	66.5	140.7	60.8
Permanent population, annual averages, mln. people ³⁶	148.2	148.1	145.5	147.3
Real personal disposable incomes, in percentage to the previous period ³⁷	60.9	111.6	122.0	82.9
Incomes from wages and social transfers, in percentage to total money incomes, annual averages ³⁸	79.6	63.2	78.5	73.7
Nominal deposits of the population in Sberbank of RF, annual averages, bln. rubles ³⁹	515.3	24,222.8	215,354.1	80,030.7
CPI, December to December of the previous period, in times ⁴⁰	67.9	69.2	6.3	
Real deposits of the population in Sberbank of RF, annual averages, bln. rubles ⁴¹	7.6	350.0	34,183.2	11,513.6
Population's loss from depreciation of deposits in Sberbank of RF, annual averages, bln. rubles ⁴²	-507.7	-23,872.8	-181,170.9	-68,517.1
Social groups-winners as a result of Russian inflation:				
Incomes from property, entrepreneurial activities and others, in percentage to total money incomes, annual averages ⁴³	20.4	36.8	21.5	26.2
State's gain from depreciation of people's deposits in Sberbank of RF, annual averages, bln. rubles ⁴⁴	+507.7	+23,872.8	+181,170.9	+68,517.1

The table allows us to make the following conclusions with regard to social losers and social winners of Russian inflation of 1991 - 2003.

Social losers. These are, first, retirees who constituted almost a quarter of the Russian population. Russian retirees were most severely hit in 1991 - 1992, when the increase in the general price level achieved its peak. As a consequence, their real monthly pensions lost a half of their purchasing power.

As inflation slowed down, Russian retirees were able to recover some purchasing power of their pensions in the subsequent periods of 1993 - 1995 and 1996 - 2003. But this was not enough. So, as a result of inflation, the purchasing power of their pensions in 2003 as compared to 1991 declined by close to 40 percent, or by 1.6 times.

The second group of losers included those employed who were wage-earners, or close to a half of the population of Russia. They lost most of the purchasing power of their incomes in the first two periods of "abnormal" inflation (1991 - 1992, 1993 - 1995), and gained in the third period of a more "normal" inflation (1996 - 2003).

However, this was not sufficient for catching up with the inflationary process. In the end, Russian wage-earners lost the ability to purchase goods and services to the same degree as did Russian pensioners.

The third group of losers belonged to all those who, in one form or another, were getting their incomes after paying their taxes. In other words, the group contained wage-earners as well as receivers of other, non-wage, forms of income. Like the previous two groups, these ones lost a lot of their purchasing power in the first period of extremely high inflation, gained in the following two periods of high and "moderate" inflation correspondingly, but still were unable to recover their disposable incomes in 2003.

It is interesting to note that in 1991 - 2003 the decline of real disposable incomes was less than that of both pensions and wages. This was characteristic of all three periods, although it might be said that the introduction of 13 percent flat tax on personal incomes in Russia in January 1, 2001 could have played some role in the last three years (2001 - 2003) of the third period.⁴⁵

But, in any event, the more favorable situation in which earners of disposable incomes found themselves at the end of the inflationary period under consideration (1991 - 2003) was due to the fact that Russian disposable incomes consisted of both labor and non-labor incomes (among the latter were incomes from property, entrepreneurial activities and others). This shows that earners of non-labor incomes were able to benefit from inflation at the expense of pensions and wages, as we will see shortly.

The fourth group of inflation losers included depositors in the Russian state bank, Sberbank. Because of inflation, their deposits were constantly depreciating.

It is true, of course, that Russian depositors were able, at least partially, to compensate their inflationary losses through interest earnings on their deposits. But only partially, for, as we will see in one of the following chapters of the book, on average interest rates were less than the rates of inflation in the country.

Social winners. Among them were, as it was pointed out, first, persons who derived their incomes from non-wage sources. As it can be seen, on average the share of non-wage incomes grew from 20.4 percent in the 1991 - 1992 period to 26.3 percent at the end of the entire period of 1991 - 2003. The opposite was true for wage-earners and retirees.

The second inflationary gainer was the Russian state as the owner of Sberbank. Inflation permitted it to reduce its debts to Russian depositors during each inflationary period.

The productive consequences of Russian inflation of 1991 - 2003

Earlier in this chapter it was proposed that post-Soviet Russian inflation had been caused by three factors: non-monetary cost, monetary demand, and socioeconomic transitional. It was hypothesized that the latter (transitional) factor had been the initiator of the inflationary process and the former two (non-monetary and monetary) factors had been its followers.

It was also believed that, at least till 1995 (including), the “union” of cost and transitional elements of inflation had dominated its monetary elements. From this followed a significant reduction in real production and increase in unemployment in the 1991 - 1995 period. These were *negative* productive consequences of Russian inflation of 1991 - 1995.

But it was assumed that after 1995 the causation of the inflationary situation had taken an opposite direction. So, as a result, real production started climbing and unemployment showed a tendency to decline. These were *positive* productive consequences of Russian inflation of 1996 - 2003.

Unfortunately, at the end of 2003 Russian real GDP was still lower than in 1991 and Russian unemployment was still higher than in 1992 (for which data is available). The end-result was *negative* which means that as a whole post-Soviet Russia lost in both economic indicators due to the enormously high overall inflation.⁴⁶

Table 6.5 illustrates these statements:

Table 6.5
1991 - 2003 Inflation and Its Effect on Russian Production and
Unemployment

Year periods	GDP deflator (times)	Real GDP (percentage)	Changes in WLO Unemployment	
			Mln. people ⁴⁹	Rate of WLO unemployment ⁵⁰
1991 - 1995	4,156.3 ⁴⁷	57.0 ⁴⁷	+2.84	+4.5
1996 - 2003	8.1 ⁴⁸	127.9 ⁴⁸	-0.81	-1.7
1991 - 2003	33,666.0	72.9	+2.39	+3.0

The anti-inflationary measures of the post-Soviet Russian authorities: a preliminary observation

In 1991 - 1995, Russian economy experienced a severe form of stagflation: extremely high inflation and simultaneously a catastrophic downturn of production. The emerging Russian authoritarian state capitalism was facing a terrible specter of the Weimar Republic of the 1920s. Stagflation in Germany of that period turned into hyperinflation, brought about mass unemployment, ruined very many Germans and, to a large degree, contributed to coming to power in 1933 of the Nazi which subsequently buried the very Republic.⁵¹

Naturally, the new Russian regime, which, for its own good, at that time was engaged in the process of the redistribution of "socialist" property, had no desire to suffer the same fate as the Weimar Republic. Therefore, the regime was searching for the ways to cure the Russian economy from its diseases of high inflation, declining production and high unemployment.

But because of its specific social origin (from the all-bureaucratic to the group-bureaucratic property through the latter's redistribution), the Russian authoritarian state-capitalist regime envisioned its salvation in resolving just one problem and by only one method. The Russian authorities saw their task neither in raising real production nor in reducing unemployment. A single-minded anti-inflationary policy became a sole purpose of their activities, while a persistent and tough state-monetarist form of fighting inflation was accepted as the only way out of the crisis in Russian economy.

Due to the specific character of the post-Soviet Russian regime (the prevalence of and the preoccupation with the redistribution of the all-state property), the solution to the problem of the economic slump and to the concomitant problems of growing unemployment and the declining standard of living, one way or another, was left to the elemental forces of the market. In other words, relying on the traditional Russian off-chance, the Russian authorities of the period believed that the resolution of the inflationary problem served as a necessary and sufficient condition of overcoming the real production and unemployment problems.

Hence, the monetary policy of the Russian authorities, aimed at the declining rates of inflation, took a form of the tight credit-monetary measures. This brought about lower inflation in the 1996 - 2003 period.

But, because of the policy of the money supply restriction, the lower inflation had its price: demonetization of the Russian economy and the use of barter. That this did not lead to the collapse of the economy was due to a variety of factors, such as, for instance, the weakening of the transitional sources of inflation (gradually coming to an end of the transitional period), rising prices for energy materials for export, etc. These *objective* factors, serving as a countervailing power to the *subjective* government tight-money policy, were not only able to check but eventually to reverse the slump in real economy and employment.⁵²

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Notes to Chapter 6: Post-Soviet Russian Inflation

- 1 Based on E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Bezrobotitsa i Inflitsiya* [Principles of the Economic Theory. Unemployment and Inflation]. Moscow: "Nauka," 1998, pp. 135 - 166.
- 2 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004]. Moscow: Rosstat, 2004, p. 645.
- 3 See <http://laborsta.ilo.org/appv8/data/ssm1/e/ru.html>.
- 4 See *ibid*.
- 5 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 646.
- 6 On taxes, in the appropriate chapter.
- 7 For 1992 - 1994: Goskomstat Rossii, *Rossiiskiy Statisticheskii Ezhegodnik* [The Russian Statistical Annual]. Moscow: Goskomstat Rossii, 1996, p. 176, tabl. 10.1; for 1995 - 2003: Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 627, tabl. 24.1.
- 8 For each index, calculated by the author by multiplying indices of each year from 1991 to 1995, including.
- 9 For each index, calculated by the author by extracting the root in the degree of 1/5, or 0.2, from the total for 1991 - 1995.
- 10 For each index, calculated by the author by multiplying indices of each year from 1996 to 2003, including.
- 11 For each index, calculated by the author by extracting the root in the degree of 1/8, or 0.125, from the total for 1996 - 2003.
- 12 For each index, calculated by the author by multiplying indices of the total for 1991 -1995 by indices of the total for 1996 - 2003.
- 13 For each index, calculated by the author by extracting the root in the degree of 1/13 from the total for 1991 - 2003.
- 14 See tables 4.1, 4.2, and 4.3 in chapter 4 of Part VII of the book.
- 15 See Goskomstat Rossii, *Tseny v Rossiiskoi Federatsii* [Prices in the Russian Federation]. Moscow: Goskomstat Rossii, 1993.

- 16 To refresh his memory on types of *Soviet* inflation, the reader is advised to reread a section on Soviet inflation in chapter 4 of Part VII of the book.
- 17 See, for instance, E. Gaidar, *Days of Defeat and Victory*. Seattle: University of Washington Press, 1999; and also M. Ellman and V. Kontorovich, eds., *The Destruction of the Soviet Economic System: An Insider's View*. Armonk, New York: Sharpe, 1998.
- 18 On this subject, see, for instance, B. Ikes, "Inflatsiia v Rossii: Uroki dlia Reformatorov" [Inflation in Russia: Lessons for the Reformers], *Voprosy Ekonomiki*, 1995, Number 3; A. Illarionov, "Zakonomernosti Mirovoi Inflatsii" [Conformities to the Laws of World Inflation], *Voprosy Ekonomiki*, 1997, Number 2; A. Illarionov, "Priroda Rossiiskoi Inflatsii" [The Nature of Russian Inflation], *Voprosy Ekonomiki*, 1995, Number 3; and A. Nikiforov, "Vyivlenie Monopol'no-Vysokikh Tsen" [Revealing Monopolistically High Prices], *Ekonomika I Zhizn'*, 1994, Number 30.
- 19 True to our method which we laid out in chapter 2 of Part I of the book and believing that the list in note #18 would be sufficient for the reader, we will not use particular names for the discussion.
- 20 Obviously, such an interpretation contains in itself elements of structuralism discussed above.
- 21 Such a reasoning shows that all definitions are conditional. For, with the help of the factor of the changing structure of demand it is possible to explain the structural type of inflation. However that may be, the blurry nature of the inflationary interpretation of the factor might be indicated by the fact that inflation grounded in the changing structure of demand sometimes is classified not as a variety of cost-inflation but as an intermediate variant between cost inflation and demand inflation.
- 22 D. Belousov, A. Klepach, "Monetarnyie I Nemonetarnyie Faktory Inflatsii v Rossiiskoi Ekonomike v 1992 - 1994 gg." [Monetary and Non-Monetary Factors of Inflation in Russian Economy in 1992 - 1994], *Voprosy Ekonomiki*, 1995, Number 3, p. 55.
- 23 Of which, as was promised earlier, in one of the subsequent chapters.
- 24 Let us recall that, first, Soviet statistics in 1988, and then post-Soviet Russian statistics in 1992 started to use the GNP (the gross national product) indicator. Let us also recall that from 1993 GNP has been replaced by GDP (the gross domestic product). As a result, Russian GDP has been "accompanied" by its price index, the GDP deflator.
The latter is defined as "the relationship of GDP calculated in the actual prices to the volume of GDP measured in the constant prices of [some] base period" (Goskomstat Rossii, *Rosskiiskiy Statisticheskii Ezhegodnik* [The Russian Statistical Annual], 1996, p. 284). In this, the Russian GDP deflator does not differ from GDP deflators used in the world and, in particular, from the USA GDP deflator. As its world and USA "colleagues," the Russian GDP deflator is the most all-embracing among all the Russian price indices.
- 25 Calculated as follows: for 1991, from Goskomstat Rossii, *Rossiia v Tsifrakh*, 1995 [Russia in Numbers, 1995]. Moscow: Goskomstat Rossii, 1995, p. 20; for 1992 - 1995, from Goskomstat Rossii, *Rossiia v Tsifrakh*, 1997 [Russia in Numbers, 1997]. Moscow: Goskomstat Rossii, 1997, p. 13.
- 26 Goskomstat Rossii, *Rosskiiskiy Statisticheskii Ezhegodnik* [The Russian Statistical Annual], 1996, p. 285.

- 27 As was promised earlier, we will deal with money questions in post-Soviet Russia in one of the following chapters.
- 28 The following remark should be added here. In the monetary capitalist economy, it is, of course, actually impossible to draw a distinction between the non-monetary and monetary reasons for Russian inflation. The border between the two could be only conditional, mostly theoretical. For, while capitalist expenditures are monetary, the monetary policy of a capitalist state has a cost from the point of view of the opportunity cost.
- 29 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 303, tabl. 12.1.
- 30 Which, as it has been promised, will be discussed later.
- 31 Post-Soviet Russian monetarists would strongly disagree with this assessment of the sequence of the causes of Russian inflation. On the one hand, they assert that "three years ago, four years ago [that is, in 1992 - 1993] monetary factors in our country absolutely dominated the determination of the inflation rates ..." But then they claim that "during the last two - three years [that is, in 1994 - 1996] their role was reduced [so that], say, the role of [the monopolistic cost factors] rose."
- However, being faithful monetarists, they, nevertheless, conclude, evaluating reasons for post-Soviet Russian inflation that "still ... the monetary factor with the inflationary inertia [caused, according to them, first of all by the monetary factor], of course, a domineering factor" (E. Gaidar, "Panika-Khudshiy Sposob Vedeniya Boiya!" [Panics Is the Worst Way to Conduct Fighting!], *svoboda.org*, January 9, 2006).
- On the other hand, some non-monetarists would insist that even after 2003 the major cause of Russian inflation was not monetary but rising production costs (see, for instance, "Vremia Gostei: Ekonomicheskiye Itogi 2005 Goda Podvodiut Mikhail Deliagin, Aleksandr Lebedev i Yakov Urinson" [The Time for Guests: The Economic Results of 2005 Are Summarized by Mikhail Deliagin, Alexander Lebedev and Yakov Urinson], *Radio "Svoboda"*, May 1, 2006). Here non-monetarist Deliagin insists that "practice proves that ... now [2006] there is no monetary inflation ... inflation is caused not by monetary factors but primarily by the tyranny of monopolies ..."
- 32 Calculated as follows: 1991: Goskomstat Rossii, *Rossiia v Tsifrakh, 1995* [Russia in Numbers, 1995], p. 20; for 1992, 1993 - 1995: *Rossiia v Tsifrakh, 1997* [Russia in Numbers, 1997], p. 61, tabl. 4.14; 1996 - 2003: Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 187, tabl. 7.16; 1991 - 2003: on average for the period.
- 33 Calculated as follows: 1991: Goskomstat Rossii, *Rossiia v Tsifrakh, 1995* [Russia in Numbers, 1995], p. 20; for 1992, 1993 - 1995: *Rossiia v Tsifrakh, 1997* [Russia in Numbers, 1997], p. 61, tabl. 4.14; 1996 - 2003: Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 187, tabl. 7.16; 1991 - 2003: in total for the period.
- 34 Calculated as follows: 1991 - 1992, 1993 - 1995: Goskomstat Rossii, *Trud i Zaniatost' v Rossii, 1996* [Labor and Employment in Russia, 1996]. Moscow: Goskomstat Rossii, 1996, p. 15, tabl. 12; 1996 - 2003: tabl. 5.1 in Chapter 5 of this Part of the book (only 1996 is a year showing permanent population); 1991 - 2003: on average for the period.

- 35 Calculated as follows: 1991: Goskomstat Rossii, *Rossiia v Tsifrakh*, 1995 [Russia in Numbers, 1995], p. 20; for 1992, 1993 - 1995: *Rossiia v Tsifrakh*, 1997 [Russia in Numbers, 1997], p. 50, tabl. 4.1; 1996 - 2003: Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 175, tabl. 7.1; 1991 - 2003: in total for the period.
On the effect of inflation on wages in the 1991 - 1995 period, see, for example, "Tseny S'eli Zarplatu" [Prices "Ate up" Wages], *Argumenty I Fakty*, March 1995.
- 36 Calculated as follows: 1991 - 1992, 1993 - 1995: Goskomstat Rossii, *Trud i Zaniatost' v Rossii*, 1996 [Labor and Employment in Russia, 1996]. Moscow: Goskomstat Rossii, 1996, p. 6, tabl. 1; 1996 - 2003: tabl. 5.2 in Chapter 5 of this Part of the book; 1991 - 2003: on average for the period.
- 37 Calculated as follows: 1991: Goskomstat Rossii, *Rossiia v Tsifrakh*, 1995 [Russia in Numbers, 1995], p. 20; for 1992, 1993 - 1995: *Rossiia v Tsifrakh*, 1997 [Russia in Numbers, 1997], p. 50, tabl. 4.1; 1996 - 2003: 1996 - 2003: Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 175, tabl. 7.1; 1991 - 2003: in total for the period.
- 38 Calculated as follows: 1991: Goskomstat Rossii, *Rossiia v Tsifrakh*, 1995 [Russia in Numbers, 1995], p. 67; for 1992, 1993 - 1995: *Rossiia v Tsifrakh*, 1997 [Russia in Numbers, 1997], p. 53, tabl. 4.3; 1996 - 2003: Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 177, tabl. 7.7; 1991 - 2003: on average for the period.
- 39 Calculated as follows: 1991: Goskomstat Rossii, *Rossiia v Tsifrakh*, 1995 [Russia in Numbers, 1995], p. 65; for 1992, 1993 - 1995: *Rossiia v Tsifrakh*, 1997 [Russia in Numbers, 1997], p. 66, tabl. 4.21; 1996 - 2003: Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 205, tabl. 7.34; 1991 - 2003: in total for the period. All deposits are in ruble accounts only.
- 40 Calculated from Table 6.1 of this chapter. Numbers are rounded off.
- 41 Calculated as follows: nominal deposits of the population (footnote #39) divided by the CPI (footnote #40).
- 42 Calculated as follows: real deposits of the population (footnote #41) minus nominal deposits of the population (footnote #39). The erosion of the purchasing power of people's deposits was a major obstacle to investment, and especially to the creation of small businesses. See, for instance, B. Smirnov, "Deval'vatsiia Vkladov Naseleniia Lishila Ekonomiku Investitsionnoi Bazy" [Devaluation of People's Deposits Deprived the Economy of the Investment Base], *Finansovye Izvestiia*, 10 November, 1995.
- 43 Calculated as follows: 100 minus a corresponding percentage of wages and social transfers (footnote #38).
- 44 The population's loss in the state banking institution (footnote #42) is the state's gain.
- 45 We will deal with Russian taxes in an appropriate chapter.
- 46 "The pooled experience of 127 countries shows that the most rapid growth is associated with low inflation rates... moderate inflation accompany slow growth, while hyperinflations are associated with sharp

downturns” (P. Samuelson and W. Nordhaus, *Macroeconomics*, 18th ed. New York: Mc-Graw-Hill/Irwin, 2005, p. 335).

47 See Table 6.2 of this chapter. 1991 - 2003: calculated by the author.

48 See Table 6.3 of this chapter. 1991 - 2003: calculated by the author.

49 See Tables 5.1 and 5.3 of the previous chapter, where 1991 is not available. 1992 - 2003: calculated by the author.

50 See Table 5.5 of the previous chapter, where 1991 is not available.

51 On the subject, see, for instance, B. Granville and N. Ferguson, “Sovremennaya Rossia I Veimarskaya Respublika: Vysokaya Inflatsiia I Politicheskii Krizis” [Modern Russia and the Weimar Republic: High Inflation and the Political Crisis], *Voprosy Ekonomiki*, 1997, Number 5.

52 The next and subsequent chapters will provide a detailed account of the monetary, fiscal and international-economic-relations’ policies of the Russian state and also the role of the much debated stabilization fund and their effect on the economy.

PART VIII
THE FIRST STAGE IN THE DEVELOPMENT OF THE
POST-SOVIET SOCIOECONOMIC SYSTEM
(1991 - PRESENT)

Chapter 7
The Post-Soviet Russian Financial Markets and Financial
Instruments¹

When in December 1991 - January 1992 the system of totalitarian state capitalism collapsed, together with it sank into oblivion the Soviet structure of official state financial markets and financial instruments.² The 1990s were the years of the triumph of Russian authoritarian state capitalism which replaced Soviet totalitarian state capitalism.

As we remember, the economic essence of what was taking place could be reduced to the following: privatization and the creation of stock-holding companies on the basis of the all-bureaucratic property, or a gradual transformation of possession rights of separate bureaucratic layers and individual bureaucrats or bureaucratic vacancies for some people who were entering the bureaucratic pyramid from without, into property rights; dying off of mandatory centralized macro- and microeconomic allocation of productive resources leading to the formation of decentralized monopolies; following from this, a departure of the state from the centralized policy of the mandatory determination of prices, incomes, wages, savings, personal consumption, loans, etc.

The growing social and functional breakup of the all-bureaucratic property, accompanied by the increasing withdrawal of the state from the economic allocation of resources, was reducing the role of the internal sources necessary to replenish physical and financial capital of enterprises and the state and, as such, was enlarging the role of the external sources.

The general characteristics of the post-Soviet Russian financial markets

Consequently, in the 1990s there began in Russia a development of *modern* financial markets. We stress the term "modern," since, as we already know, markets of state securities in its rather primitive form already had existed in the Soviet Union.

The major prerequisites for the functioning of the Russian financial markets had been created by 1994. Among these preconditions, the following might be noted: the presence of such Russian and foreign participants of financial transactions with

financial securities on the demand and supply sides, as the state at all levels, stockholding companies, commercial banks and households; financial intermediaries: Russian commercial banks, insurance companies, stock exchanges, investment companies, etc.; the system of the state regulation and the system of self-regulation and self-control of the financial market without which the latter cannot operate at all.

But we remember that post-Soviet Russian economy went into two inflationary periods: one of the extremely high inflation and the other of a relatively “moderate” inflation. Since, however, as we just pointed out, the Russian financial markets were being formed in the high inflationary period, we will devote our analysis to the formative stage of Russia’s development.

The Russian financial market in 1993 - 1996³

The financial market formed in Russia in the 1990s was very underdeveloped and inefficient. The backwardness and inefficiency of the Russian financial system⁴ was a consequence of the undeveloped character of property relations and the predominance of monopolies in the real sector of the Russian economy.⁵

In this connection, we remind the reader that denationalization and privatization as one of its forms have brought about a social and functional subdivision of property in the country. But this is a very strange subdivision. It is amorphous, for, often there is no clear divide between state and non-state types of property, especially in those cases where the state enterprise is turned into a shareholding company.

The problem is more complicated when the state owns even a formal, quantitatively determined share in the joint-stock company. This is because the state by itself is an abstraction, generalization. Its concrete manifestation are concrete ministries and, hence, concrete bureaucratic layers and concrete bureaucrats within these layers.

It is appropriate here to compare the Soviet and the post-Soviet Russian periods of the development of capitalism in the country. Recall that the Soviet period was characterized by individual and group nomenclature shares in *possession*, or a right to a *position* within the bureaucratic class, but not in the individual and group *ownership* inside and outside of this class. On the other hand, in the post-Soviet Russian period, together with individual and group shares in possession, or a right to a position, there emerged individual and group shares in *ownership* within a certain state financial-industrial group.

All this led to a very *personal* and, therefore, unstable character of the *corporate* property in Russia. It is from here sprang the incompleteness and inefficiency of the Russian financial market.

Correspondingly, backwardness and inefficiency of the Russian financial market were demonstrated in the following of its features.

The first feature: an insignificant volume of people's expenditures on securities in money incomes of the Russian population. Thus, in the 1993 - 1996 period, the share of people's expenditures on financial securities in people's money incomes was between 0.02 and 0.17 percent:

Table 7.1
People's Expenditures on Financial Securities in Money Incomes
(1993 - 1996; in current prices; bln. rubles)⁶

Years	Money incomes of the population	Expenditures on financial securities	Share of money incomes spent on financial securities
1993	79.9	0.012	0.02
1994	364.8	0.022	0.01
1995	910.7	0.57	0.06
1996	1346.8	2.261	0.17

There were two major reasons for this. First, the majority of the population, as we saw in Chapter 4 of this part of the book, were relatively poor so not many people could afford such "luxuries," as financial securities. Second, among those who could buy these instruments many were suspicious of them for a variety of reasons: they were new, they were risky, they promised a lot but delivered a little (like vouchers, of which we will talk a bit later), the government continuously changed the rules of the game of playing with them, etc.

The second feature: a relatively high share of enterprises' and organizations' expenditures on financial securities in gross profits. To see whether this was the case, we turn to Table 7.2:

Table 7.2
Financial Investments of Enterprises and Organizations,
(1993 - 1996; in current prices; bln. rubles)

Years	Gross profits of enterprises and organizations ⁷	Financial investments of enterprises and organizations ⁸	Portions of enterprises' and organizations' gross profits spent on financial investments ⁹
1993	76.962	2.575	3.34
1994	251.344	37.289	14.84
1995	736.425	70935	9.63
1996	935.847	121599	12.99

With the development of the financial market, the share of the gross profits which producers were spending on financial securities was relatively large as compared to that spent by consumers.

It is now hard to point out the precise causes for the relatively high role of investments of enterprises in financial instruments: at present, we have no information about either the quantitative structure of various types of financial investments or the share of a particular financial security in financial investments of enterprises and organizations.

It is probable that at this stage the major factor in decisions that enterprises and organizations were making with regard to financial investments was the presence and the character of credits owed by some enterprises and organizations to others and to the banking system.

This indebtedness to a large degree was overdue and showed a tendency to grow:

Table 7.3
The Total Indebtedness of Enterprises and Organizations
(1993 - 1996, at the end of the year; bln. rubles)¹⁰

Years	Total indebtedness (to enterprises and to banks)	Including overdue indebtedness	Share of the overdue indebtedness to total indebtedness ¹¹
1993	58.3	17.5	30
1994	219	96	43.8
1995	574	250	43.6
1996	1.065	538	50.5

The increasing overdue indebtedness of enterprises and organizations was indicative of their chronically growing insolvency, that is, of the decline of *the coefficient of current liquidity*. The latter is defined as one of the indicators of the solvency of enterprises and organizations. It is "calculated as the ratio of the actual value of the circulating assets¹² held by enterprises and organizations to the most urgent obligations of enterprises in a form of short-term credits and loans ..."¹³

That this was the case is illustrated by Table 7.4:

Table 7.4
The Coefficient of Current Liquidity, 1993 - 1996
(in percentage)¹⁴

Indices	1993	1994	1995	1996
Coefficient of current liquidity	124.5	117.2	115.6	98.8

It might be concluded that unlike the population's "allergy" to financial securities, the relatively heightened interest of producers was primarily caused not by their love for the financial investments but by a hard necessity of the ever rising shortage of own circulating assets. Table 7.5 which provides data on *the coefficient of the provision*

of enterprises and organizations with own circulating assets¹⁵ indirectly confirms this conclusion:

Table 7.5
The Coefficient of the Provision of Producers With Own Circulating Assets
*(1993 - 1996; in percentage)*¹⁶

Indices	1993	1994	1995	1996
Coefficient of provision with own circulating assets, in main branches of Russian economy	11.5	9.9	14.2	-1.1

Note the negative number for 1996. If the number is statistically correct, then it tells us that in general in 1996 Russian enterprises and organizations in main branches of the economy, having spent their own circulating assets, operated on credit.

It might be assumed that these were credits which, to a large degree, some enterprises were compelled to give to other enterprises. The forced character of crediting resulted from the fact that enterprises-suppliers, under the pressure of some external factors (federal, regional, local, etc.) were coerced to continue their deliveries (such as, for instance, electricity, fuel, etc.) to insolvent enterprises- and organizations-buyers, which could pay for the deliveries not with "live" money but with some financial securities.

The third feature: a low liquidity of financial securities. The low transferability of the Russian financial instruments into money, in our opinion, was caused by the following four factors. First, the extremely high rates of inflation of the period. Under the circumstances, it was hard to expect that significant trade in financial securities would take place.

Second, as it was mentioned earlier, lack of faith of the population in financial securities. Third, the unsettled and often changing tax system. This created a risk of additional tax deductions, especially in case of a successful trade of securities.

Fourth, the undeveloped material and informational infrastructure of the financial market reflecting the undeveloped and amorphous character of the property relations in the country and leading to a mass of reservations with regard to the observance of the rules of the "investment game." Hence, the prevalence of the less liquid primary financial market, with the more liquid secondary financial market being in the process of development.

The fourth feature: the predominance of the financial market of state and municipal securities over the financial market of corporate securities. During the 1993 - 1996 period, Russian financial markets were characterized by the dominant and growing role of the state at the federal, regional and local levels.¹⁷

That this was the case is confirmed by the structure of the turnover of financial securities:

Table 7.6
The Structure of the Turnover of Financial Securities
(1993 - 1996; in percentage)¹⁸

Indicators	1993	1994	1995	1996
Turnover, total	100	100	100	100
Including:				
State financial securities	87.2	99	99.1	99.7
Corporate financial securities	12.8	1	0.9	0.3

There were several reasons for the prevalence of state financial securities over the corporate ones. First, in the eyes of potential investors, the former were less risky than the latter. Second, the former had a higher return than the latter. For example, on average, the return of state financial papers at the federal level was almost 1.5 times greater than on deposits in financial intermediaries.¹⁹

Obviously, in this the post-Soviet Russian authoritarian state capitalist financial market differed from the financial markets of developed mixed capitalism. For, in the latter, the profitability of government financial papers, because they are less risky and more stable financial instruments, is lower than that of non-government (non-state) financial papers.

The fifth feature: the predominance of the financial market of debt securities over the financial market of equity securities. Since any state, as a rule, is present in financial markets as an issuer of debt securities, the fifth aspect of the Russian financial market follows from its previous feature:

Table 7.7
The Debt-Equity Structure of the Russian Financial Market
(1993 - 1996; in percentage)²⁰

Indicators	1993	1994	1995	1996
Turnover, total	100	100	100	100
Including:				
Debt financial securities	88.5	99.2	99.9	99.9
Equity financial securities	11.5	0.8	0.1	0.1

Later (in the current chapter), we will discuss why this was the case.

The sixth feature: the prevalence of the market of short-term financial securities over the market of long-term financial securities. Russian economy of the period had a distinctive trade-speculative character: its participants were disposed to making money fast and by any means.

Since the Russian state had run into a chronic budget deficit,²¹ it was the principal and all-embracing “speculator” in the financial market. Under the conditions of extremely high inflation, in order to attract investors so that to finance its budget deficit, the Russian state at all its levels was issuing, on terms very advantageous to investors, financial securities a significant portion of which were short-term financial papers.

It was especially true of the federal government. Thus, in 1996, the share of the turnover of the state short-term no-coupon bonds (GKO) was equal to 83.8 percent of the total turnover of financial securities in the Russian financial market.²²

The Russian financial market of debt securities²³

The issuers of debt securities were the state (at the federal, regional, and local levels), enterprises and organizations, which take a form of corporations. Let us look at each of the participants of the financial market separately.

The financial market of state debt securities

As it was noted earlier, the state was issuing debt securities, first of all, in order to finance its budget deficit. In general, state debt securities circulated in the *domestic* financial market, which is a *centralized* financial market. Its principal organizer is the *Moscow interbank currency exchange* (MMVB).²⁴

Beginning with the 1990s, Russian debt securities entered *international* financial markets. From 1996, *foreign* investors have been granted a right to participate in Russian domestic financial markets.²⁵

There have been the following debt instruments. They will be discussed in a sequence depending on the level of the state issuing them.

*The major federal debt securities.*²⁶ Among them, the two can be listed: the *state short-term non-coupon bonds* (GKO) and the *federal bonds with a constant and variable coupon income* (OFZ).

GKO. These are the state promissary notes, or treasury bills. They grant “[their] owners a right at a given time to payment of the face value of the bond. GKO belong to a group of the discounted financial papers whose income is a difference in purchasing prices (below the face value) and paying off prices (at the face value).”²⁷

GKOs are issued by the *federal* state in the person of the Ministry of Finance of the Russian Federation. GKOs are distributed, served and paid off by the Russian Central Bank.

GKOs are issued with a maturity of 3, 6 and 12 months. In the speculative atmosphere of the first half of the 1990s (1993 - 1995),

the primary market of GKO was dominated by the shortest-term treasury bills with 3-months maturity. In 1996, GKOs with longer-term maturity (6 months) started prevailing in the market:

Table 7.8
The Primary Market of GKOs, 1993 - 1996
*(in percentage to total)*²⁸

Years and indicators	The volume issued	The volume distributed	The revenue from sales
1993	100	100	100
Including the term of maturity:			
3-months rate	95.8	95.6	96.6
6-months rate	4.2	4.4	3.4
12-months rate	—	—	—
1994	100	100	100
Including the term of maturity:			
3-months rate	76	81.3	84.3
6-months rate	20.1	17.4	15.2
12-months rate	3.9	13	0.5
1995	100	100	100
Including the term of maturity:			
3-months rate	72.8	75.3	79.3
6-months rate	26.4	24.1	20.2
12-months rate	0.8	0.6	0.5
1996 (first half of the year)	100	100	100
Including the term of maturity:			
3-months rate	35.3	35.1	40.7
6-months rate	64.7	64.9	59.3
12-months rate	—	—	—

During this early post-Soviet period, the major GKO buyers were commercial banks. They were then reselling the treasury bills to the general public and foreigners. These functions of the commercial banks will be discussed in the next chapter.

OFZ. These state loan bonds are “promissory notes of the Russian Federation in the form of state financial papers, granting [their] owner ... a right to receive the principal (at a face value), paid off at [their] maturity ... and also to receive an income in the coupon form ...”²⁹ Belonging to the class of the medium-term (that is, issued at their maturity from one to 5 - 10 years), state financial securities, OFZs in all other parameters are just like GKOs.

It needs to be emphasized that in all respects GKOs as short-term financial papers prevailed over OFZs as middle-term financial securities. This is illustrated by Table 7.9:

Table 7.9
The Primary Market of OFZ, 1994 - 1996
(in percentage to total)³⁰

Years	The volume issued		The volume distributed		Revenue from sales	
	GKO	OFZ	GKO	OFZ	GKO	OFZ
1994	100	–	100	–	100	–
1995	91.8	8.2	95.6	4.4	94.3	5.7
1996 (first half of the year)	90.7	9.3	92.9	7.1	89.8	10.2

Since GKO and OFZ are very similar, OFZ is closely tied to GKO, and also because of the overwhelming prevalence of GKO in the market of state financial securities at the federal level, the data for the two can be combined. This is done in Table 7.10 for December 1997 and January 1998:

Table 7.10
The Combined Data for GKO and OFZ, December 1997 - January 1998
(bln. rubles)³¹

Period	Declared issued volume	Actual volume distributed	Actual revenue from sales	Rate of profitability (percentage)
December 1997	41	29	24.7	30
January 1998	44.5	30.6	24.8	30

*The major municipal (regional and local) debt securities.*³² These are issued by the subjects of the Russian Federation (Russian regions) and by the localities.

Besides their main purpose of financing the current regional and local budget deficit, the issuance of the regional and municipal debt securities intends to achieve two goals: financing of investments for which the corresponding budgets have no resources (for example, building, reconstructing and repairing roads, bridges, schools, hospitals, etc.) and diminishing the negative consequences of non-payments to the population, enterprises or the federal authorities.

The major form of the issuance of the municipal debt securities is *municipal bonds*. Among them there are, first of all, *housing bonds* to finance the housing construction. Sometimes municipal debt securities take a form of *municipal bills*.

As a rule, the role of the purchasers of municipal debt securities is played by commercial banks and the population of that region or locality where the debt instrument is issued as well as by insurance companies and pension funds.

In contrast to the market of federal debt instruments, the Russian market of municipal debt securities has, in main, a middle-term (1 - 5 years) and long-term (more than 5 years) character. But because of this, in the speculative Russian economy of the 1990s,

the share of the market of municipal debt securities remained negligible:

Table 7.11
*The Structure of the State Debt Securities, 1996*³³

Indicators	The turnover volume of state debt securities	
	Bln. rubles	Percentage to total
The market of state debt securities	1,034,340.4	100
Including:		
Federal debt securities	1,011,278.8	97.8
Municipal debt securities	23,061.6	2.2
Including:		
Regional debt securities	22,972	2.2
Local debt securities	89.6	0

Thus, for instance, in 1996, that is, after two years of the creation of the financial market in Russia, the market of municipal debt securities occupied a very modest place (2.2 percent) in the whole financial market of state debt securities. And what is more, actually the entire market of municipal debt securities was “flooded” with regional financial papers.

The financial market of corporate debt securities

It was pointed out earlier in this chapter (Table 7.6) that Russian markets of corporate debt securities were relatively much less developed than their state counterparts. But, although in a rather rudimentary form, the market of corporate debt securities existed even in the 1990s.

The issuers of these debt instruments were shareholding companies, commercial banks, investment funds and some other types of enterprises and organizations. Issued with the purpose of replenishing the shortage of money, the Russian corporate debt securities took a form of either *corporate bonds* or *corporate bills*.

Corporate debt bonds, unlike their state counterparts, were not framed within a well-defined temporal (long-, mid- and short-term) framework. However, the market of corporate bills was clearly a short-term market.

Table 7.12 shows the structure of the corporate debt instruments in 1993 - 1996:

Table 7.12
The Structure of the Corporate Debt Instruments, 1993 - 1996
*(in percentage)*³⁴

Sales	Corporate debt securities	Including:	
		Corporate bonds	Corporate bills
1993	100	0	100
1994	100	12.1	87.9
1995	100	7.2	92.8
1996	100	71.6	28.4

The fact that in 1993 - 1995, the market of corporate debt securities was dominated by corporate bills, while in 1996 the market of corporate bonds advanced to the first place can be explained as follows.

The 1993 - 1995 phenomenon was caused by the role corporate bills had to play during the period of the emergence of post-Soviet Russian authoritarian state capitalism: to secure the deferment of payments by insolvent buyers of goods and services under the conditions of the mounting barrage of mutual non-payments.

As far as corporate bonds are concerned, their purpose was different. With the development of the process of denationalization and privatization of the state (all-bureaucratic) property, the issuance of corporate bonds was aimed at an additional (to shares) financing of the activities of corporations. The beginning of the process took place in 1996.

The Russian financial market of equity securities³⁵

Denationalization and privatization of the state (all-bureaucratic) property created conditions for the formation and functioning of the financial market of equity securities. According to the stages of privatization, it is possible to classify the changes which have been taking place in the financial market of equity securities.

*The period of vouchers (privatization checks)*³⁶

The period of an initial stage of privatization. It received a name of *voucher privatization*. It began in October 1992 when, on the order of the Russian government, the State Property Committee (*Goskomimushchestvo*) issued *privatization checks*, or *vouchers* to distribute each of them, free of charge, to every citizen of the Russian Federation, including men, women and children, that is, to 148 mln. Russians.

Although vouchers were apportioned free of charge, they, nevertheless, had a face-value. The nominal price of each

privatization check was equal to 10,000 not-denominated (at that time) rubles. Their actual market value and, especially, their real price, taken into consideration the very high inflation, turned out to be much *less* than their initial nominal price.

Owners of vouchers were given the following options: to change vouchers for stocks of 15,000 large- and middle-size enterprises which were scheduled to be privatized first; invest vouchers in *voucher investment funds* (ChIFs) which had been created for this purpose, thus delegating to the funds the right to make the most profitable investment decisions on behalf of the voucher owners; finally, simply sell vouchers in the emerging secondary market to anyone at any market price.

The voucher privatization stage came to an end in June 1994. By that time, approximately 100,000 enterprises and organizations had been privatized through this program.

In their essence, vouchers were *state* equity securities, since it was the Russian state which was their issuer. It might be implied, therefore, that the voucher market was not yet a market of equity securities in its modern meaning, that is, it was not a market of *corporate* equity securities.

The period of the inception of the modern market of equity securities, or shares of enterprises and organizations

A modern market of debt securities began its appearance in the country as the privatization process was building up. As a result, from October 1992 till February 1996, there were privatized more than 120,000 enterprises and organizations, including those 15,000 large- and medium-size enterprises from the beginning included in the privatization process. It is necessary to emphasize that by 1996 already a significant portion of the largest industrial enterprises of the country had been privatized.

Privatization led to the emergence of the primary and secondary markets of shares of enterprises and organizations. The owners of the stocks were becoming various state institutions at the federal, regional and local levels as well as directors of enterprises and organizations issuing the equity instruments, commercial banks, private individuals, and foreign investors.

The following moments need to be pointed out here. First, the prerequisites for the existence of the equity market already began to show in 1990 - 1992, that is, even before the start of the actual process of privatization. Second, trading in shares was taking place side by side with voucher transactions. Third, before the mass (voucher) privatization of 1993 and, especially, before 1994, the Russian market of shares (both primary and secondary) was very weak: the volume of transactions in it was very small. Fourth, even by 1996, the stock market had not been established yet: the shares'

turnover in the total turnover of financial papers amounted to less than 0.1 percent in 1995 and 1996.³⁷

Practically, all *trading* in shares was occurring in over-the-counter markets. This was despite the fact that by 1996 there had functioned 18 stock markets licensed by the Ministry of Finances of the Russian Federation and specialized in trading with financial securities of all types.³⁸

A certain percent of trading was done in rubles. But the major part of it took place in dollars. This reflected the instability of the Russian currency infected by a very strong and persistent inflationary disease. But besides the inflationary sickness, the Russian stock market experienced a problem of *liquidity*. For, in the bureaucratically arranged denationalization of the all-bureaucratic property, the overwhelming portion of shares remained in the hands of persons whose official status provided them with an access to the insider information or state institutions at the federal, regional or local levels. Hence, the participation of the population in trading in shares was very limited. Hence, only an insignificant amount of shares was traded in the market.

Purchasing shares was aimed at getting a stake in the privatized Russian state property. This goal, in turn, served as a means of receiving incomes from shares either in the form of dividends or as the difference between the selling and the buying price of shares.

The Russian stock market of the 1990s was extremely speculative. Shares in this market could be bought by very risky investors. Shares performed as corporate equity papers whose investors were mostly interested in incomes from the growth of shares' prices, not from dividends.

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Notes to Chapter 7: The Post-Soviet Russian Financial Markets and Financial Instruments

- 1 Based on E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Finansovo-Denezhnaya Sistema* [Principles of the Economic Theory. The Financial-Monetary System]. Moscow: "Nauka," 1999, pp. 37 - 51, 263 - 278.
- 2 With regard to the latter, this statement ought to be corrected. For, the last Soviet-type state internal premium bonds were issued by post-Soviet Russia in 1992. This financial instrument had operated during three years, was the first and, at the same time, the last for post-Soviet Russia. This is because its annual income (15 percent) was far less than the level of inflation of the period (26.1 times), which, in the final analysis, made it absolutely unacceptable for the Russian population.
- 3 The reader recalls that the first inflationary stage was 1991 - 1996. But the Russian financial markets began their statistically recorded operations only in 1993. And since 1996 was a year of inflation, although not measured in times, but still relatively high, we decided that for our purposes it would be more appropriate instead of the 1993 - 1995 period to dub it as the 1993 - 1996 period.
- 4 This also includes financial intermediaries which we will discuss in the following chapter.
- 5 See, for instance, the following Russian sources: "Razvitiye Finansovogo Rynka Rossiiskoi Federatsii" [The Development of the Financial Market of the Russian Federation], *Ekonomika i Zhizn'*, St.-Petersburg, regional issue, June 10, 1995; *Rynok Tsennykh Bumag: Uchebnik* [The Securities Market: A Textbook], ed. by V. Galanov and A. Basov. Moscow: "Finansy i Statistika," 1998; S. Liesman, Russian Stock Market Limitations Are Hard to Ignore. Inefficiency and Poor Liquidity May Mask Size of Decline Since October 27, *The Wall Street Journal*, November 5, 1997; V. Rud'ko-Silivanov, "Finansovyi I Real'nyie Sektory: Poisk Vzaimodeistviya" [Financial and Real Sectors: A Search for Interactions], *Voprosy Ekonomiki*, 1998, Number 5; Yu. Danilov, "Stanovleniye Rossiiskogo Rynka Tsennykh Bumag Blizitsia k Zaversheniiu" [The Formation of the Russian Financial Market Is Coming to Its Completion], *Finansovyye Izvestiia*, January 26, 1995; A. Simanovsky, "O Vzaimodeistvii Real'nogo i Finansovogo Sektorov Ekonomiki" [On the Interaction Between the Real and Financial Sectors of the Economy], *Voprosy Ekonomiki*, 1999, Number 4; E.

- Sukhanova, "Tsennyye Bumagi" [Securities], *Ekonomika i Zhizn'*, May 1995, Number 19.
- 6 Goskomstat Rossii, *Rosskiiskiy Statisticheskyy Ezhegodnik* [The Russian Statistical Annual]. Moscow: Goskomstat Rossii, 1997, p. 140, tabl. 4.5, and p. 143, tabl. 4.9. Percentages are calculated by the author.
 - 7 Ibid., p. 306, tabl. 8.5. "*Gross profits* ... are that part of the Gross Domestic Product ... which is left to the producers after deductions expenditures ... [such as] wages and pure taxes on production and imports ..." (ibid., p. 302).
 - 8 Goskomstat Rossii, *Finansy v Rossii* [Finances in Russia]. Moscow: Goskomstat Rossii, 1996, p. 86, tabl. 73; 1996: Goskomstat Rossii, *Rosskiiskiy Statisticheskyy Ezhegodnik* [The Russian Statistical Annual], 1997, p. 425, tabl. 12.39. "*Financial investments* [are] investments of money, material and other assets in financial securities of other legal persons, in state and municipal interest bonds, in legal capital of other legal persons ... and also credits provided to other legal persons" (Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rosskiiskiy Statisticheskyy Ezhegodnik 2004* [The Russian Statistical Annual, 2004]. Moscow: Rosstat, 2004, p. 624).
 - 9 Calculated by the author.
 - 10 Goskomstat Rossii, *Rosskiiskiy Statisticheskyy Ezhegodnik* [The Russian Statistical Annual], 1997, p. 535, tabl. 17.30.
 - 11 Calculated by the author.
 - 12 "*Circulating assets* of enterprises are the advanced value in the money form, which, in the process of circulation of assets takes a form of the circulating funds ... [they] are necessary for the maintenance of the continuity of the circulation and which, after its completion, return to [their] original form. Circulating ... assets include objects of labor (raw materials, main and auxiliary materials, fuel, packages, spare parts) as well as the means of labor (low-value and fast worn out objects). In addition, circulating assets include incomplete production, semi-finished products ... finished products ... money deposited" (Goskomstat Rossii, *Rosskiiskiy Statisticheskyy Ezhegodnik* [The Russian Statistical Annual], 1997, p. 528).
 - 13 Ibid.
 - 14 Ibid., p. 534, tabl. 17.27.
 - 15 "[*The*] coefficient of the provision with own circulating assets ... is calculated as the ratio of own circulating assets to the actual value of all circulating assets which the enterprise (organization) has in its possession" (ibid., p. 528).
 - 16 Ibid.
 - 17 *Formally, legally*, it must be stressed, localities (municipalities) were not a part of the state but self-governing bodies. But *actually* they were state entities.
 - 18 Calculated from Goskomstat Rossii, *Rosskiiskiy Statisticheskyy Ezhegodnik* [The Russian Statistical Annual], 1997, p. 426, tabl. 12.40 and 12.41. 1993 - 1994: not counting vouchers which were distributed to the population free of charge; 1996: including financial securities of regions and localities of the Russian Federation.
 - 19 A. Potyomkin, "V Tiskakh Mezhdru Politikoi i Finansami" [In the Grip Between Politics and Finances], *Nezavisimaya Gazeta*, February 28, 1998.
 - 20 Calculated from Goskomstat Rossii, *Rosskiiskiy Statisticheskyy Ezhegodnik* [The Russian Statistical Annual], 1997, p. 426, tabl. 12.40 and 12.41.

- 1993 - 1994: not counting vouchers which were distributed to the population free of charge.
- 21 We will deal with the Russian budget in one of the following chapters of this part of the book.
 - 22 Goskomstat Rossii, *Rosskiiskiy Statisticheskii Ezhegodnik* [The Russian Statistical Annual], 1997, p. 426, tabl. 12.41. This will be discussed in a segment of this chapter devoted to the Russian financial market of debt securities and especially to the financial market of state debt securities.
 - 23 See, for instance, "Rynok Dolgovykh Obiazatel'stv" [The Market of Debt Securities], *St.-Petersburg, Ekho*, July 5, 1995.
 - 24 See, for instance, A. Grigoriev, "Valiutnyie Birzhi Organizovali Rynok Tsennykh Bumag" [Currency Exchanges Have Organized Financial Markets], *Segodnia*, August 6, 1997.
 - 25 See, for instance, S. Liesman, "Russia to Ease Foreign Access to Bonds, Though Domestic Banks Could Be Hurt," *The Wall Street Journal*, December 18, 1996; A. Bychkov, "Globalizatsiya Ekonomiki i Mirovoi Fondovyi Rynok" [Globalization and the World Financial Market], *Voprosy Ekonomiki*, 1997, Number 12.
 - 26 On this subject, see, for instance, V. Akhashev, "Razgovoram o Bol'shoi Nadiezhnosti GKO Vkladchiki Veriat Malo" [Investors Have a Little Confidence in the Reliability of the GKO], *Izvestiia*, June 21, 1995; "Poryadok Pogasheniia Gosudarstvennykh Kratkosrochnykh Beskuponnykh Obligatsii i Obligatsii Federal'nykh Zaimov s Postoiannym i Peremennym Kuponnym Dokhodom so Srokami Pogasheniya do 31 Dekabria 1999 g. i Vypushchennykh v Obrashcheniye do 17 Avgusta 1998 g. Utverzhdien Postanovleniem Pravitel'stva RF ot 25 Avgusta 1998 g. #1007" [The Procedure of the Repayment of the State Short-Term Non-Coupon Bonds and Federal Bonds with a Constant and Variable Coupon Income with the Maturity in December 31, 1999 and Issued Before August 17, 1998. Approved by the Decision of the Government of the RF of August 25, 1998, Number 1007], *Parlamentskaya Gazeta*, August 28, 1998; E. Semenkova, V. Eleksanian, "Razvitie Rynka GKO-OFZ: Uroki i Perspektivy" [The Development of the GKO and OFZ Market: Lessons and Perspectives], *Voprosy Ekonomiki*, 1999, Number 5; E. Starostenkova, "Na Rynke Obligatsii Sberzaima Formiruetsia Edinoe Depozitarnoie Prostranstvo" [The United Depositary Space Is Being Formed at the Market of Sberbank's Bonds], *Finansovye Izvestiia*, July 5, 1996.
 - 27 Goskomstat Rossii, *Finansy v Rossii* [Finances in Russia], 1996, p. 122.
 - 28 Ibid., p. 125, tabl. 114.
 - 29 Ibid., p. 122.
 - 30 Goskomstat Rossii, *Finansy v Rossii* [Finances in Russia], 1996, p. 126, tabl. 116.
 - 31 Goskomstat Rossii, *Sotsial'no-Ekonomicheskoye Polozheniye Rossii* [The Socioeconomic Situation in Russia]. Moscow: Goskomstat Rossii, 1998, p. 195.
 - 32 See, for instance, A. Birman, "Moskovskie Obligatsii Stali na 75% Privlekatel'nyye. Stolichnomu Pravitel'stvu Prishlos' Pereplatit'" [Moscow Municipal Bonds Became 75% More Attractive. The City Government Had to Overpay], *Segodnya*, March 14, 1997.
 - 33 Goskomstat Rossii, *Rosskiiskiy Statisticheskii Ezhegodnik* [The Russian Statistical Annual], 1997, p. 426, tabl. 12.41.
 - 34 Ibid., tabl. 12.40 and 12.41.

- 35 See, for instance, N. Mil'chakova, "Novyie Instituty Fondovogo Rynka i Problema Zashchity Prav Aktsionerov" [The New Institutions of the Stock Exchange and the Problem of Protecting the Rights of Shareholders], *Voprosy Ekonomiki*, 1997, Number 12; E. Torkanovsky, "Aktsionery i Upravlenie Firmoi" [Stockholders and The Management of the Firm], *Voprosy Ekonomiki*, 1997, Number 9; M. Volkova, "Zapovedi Torgovli Aktsiiami" [Precepts to Trade Stocks], *Politekonomiya, Prilozheniye k Nezavisimoi Gazete*, January, 1998.
- 36 On the issue, see, for instance, M. Bornstein, "Russia's Mass Privatization Program," *Communist Economics and Economic Transformation*, Volume 6, Number 4, 1994, pp. 419 - 457.
- 37 Calculated from Goskomstat Rossii, *Rosskiiskiy Statisticheskii Ezhegodnik* [The Russian Statistical Annual], 1997, p. 426, tabl. 12.40 and 12.41.
- 38 Ibid.

PART VIII

THE FIRST STAGE IN THE DEVELOPMENT OF THE POST-SOVIET SOCIOECONOMIC SYSTEM (1991 - PRESENT)

Chapter 8

Post-Soviet Russian Financial Intermediaries¹

Beginning with 1987, first the Soviet and then the post-Soviet Russian systems of financial intermediaries underwent serious structural and functional changes. In our opinion, these alterations can be understood only within the framework of the profound changes in the country, which started in the 1980s. We, therefore, need to remind the reader, at least very generally, the core of these changes in socioeconomic and, as a follow up, in specifically financial-intermediary terms.

Post-Soviet Russian changes

The socioeconomic content of the financial-intermediary changes²

In the end of the 1980s, there began a splitting-up of the state all-bureaucratic property not only *functionally* (possession) but *socially* (ownership) as well. The process which continued in the 1990s had blurred the borderline dividing the state from the non-state property.

The situation was aggravated by the fact that post-Soviet Russia *intensified* the Soviet *functional* breaking-up of the state property, transforming the whole process into a new qualitative reality. Let us recall what this meant.

At the end of the 1980s, the pressure of the centrifugal all-union republican forces broke the weakened Soviet federal center. As a consequence, the *all-bureaucratic, all-Soviet* property disintegrated into *15 all-union-republican* (in accordance with the number of union republics which comprised the Soviet Union and which, after its disintegration, became independent states) properties.

At the end of the 1990s, now the Russian center began repeating the fate of the Soviet center, in whose breakup the Russian center played a decisive role. During that period, the centrifugal regional onslaught was undermining the Russian center eroding its power over the *all-Russian all-bureaucratic state* property. In these activities, the regions had as their allies *extra-regional* forces of the all-Russian structures of the former ministries, departments and central administrative boards.

The outcome of such attacks on the Russian center was *decentralization* of the all-bureaucratic Russian property. This implies that the *all-bureaucratic* Russian state property began its subdivision into the *group-bureaucratic* Russian state property, or into pieces of the all-bureaucratic state property which now found itself belonging to various bureaucratic strata. A characteristic feature of such a property was the absence of a single center able to glue together different decentralized parts of the all-bureaucratic property.

The general remarks about the changes in the system of the post-Soviet Russian financial intermediaries

This complicated functional-social process was taking place in all sectors of the post-Soviet Russian economy, including the system of financial intermediaries. During such a process of the transformation of Soviet totalitarian state capitalism into Russian authoritarian state capitalism as a transitional stage to authoritarian mixed capitalism, the system of financial intermediaries in the country started undergoing certain changes.

But it is necessary to emphasize that, while some changes in the system of post-Soviet intermediaries *were favoring* the movement of the country to mixed capitalism, still other changes not only *were hindering* the movement in this direction but were even *reversing its course* to its totalitarian past.

The changes in the system of post-Soviet Russian financial intermediaries conducive to the transition to mixed capitalism. In the 1990s, post-Soviet Russian financial intermediaries in their structure as well as in the functions performed began *approaching* the structure and activities of financial intermediaries of countries of mixed capitalism. This was expressed in the following.

First, there in the country started functioning not two but three types of financial intermediaries. Depositary institutions and contractual savings “banks” of the Soviet era³ were now supplemented by investment intermediaries.

Second, the structure of assets and liabilities of Russian financial intermediaries began resembling that of countries of mixed capitalism.

Third, there appeared inside the depositary institutions commercial banks whose services started to detach themselves from the services provided by the Central Bank of the country.

Fourth, the Central Bank of Russia (CBRF) began providing services similar to the ones provided by the central banks of countries of mixed capitalism. This meant that, with the disappearance of the Soviet system, side by side with the CBRF stopping performing the functions of the commercial banks, there also had sunk into oblivion such activities of the Soviet period, as the financial control over the fulfillment of quotas set up by

mandatory central planning both at the microeconomic (enterprises and branches of the economy) and the macroeconomic (for the country as a whole) levels. This also implied that the CBRF had begun conducting an independent monetary and credit policy using for this purpose traditional financial instruments of central banks of countries of mixed capitalism: open market operations, the policy of minimum (required) reserves and the discount-rate policy.

Finally, the structure and activities of the contractual savings “banks” began to grow and widen to such an extent that they might be now called banks without the quotation marks. Although, while, like all post-Soviet Russian institutions, these banks had rather an ambiguous character, nevertheless they started providing the population with a much wider assortment of services than during the Soviet period.

The changes in the system of post-Soviet Russian financial intermediaries hindering the transition to mixed capitalism. Along with the changes bringing the structure and the functions of the Russian financial intermediaries closer to the structure and the functions of the financial intermediaries of countries of mixed capitalism, there was taking place a movement in the opposite direction. The movement was leading to the reduction of the role of *live* (real) money and to the increase in the role of non-payments, barter, payment with surrogate money, etc.⁴ This caused a certain degradation of the credit and monetary system of the country and, in the final analysis, the further decrease of the real GDP and the growth of unemployment.

Post-Soviet Russian depositary institutions

First, a short historical reference. Its goal is to show that, beginning with 1987, the system of depositary institutions (as well as of other types of financial intermediaries in the country in transition) has been in Russia in the making.

A brief historical information

Recall that the system of depositary institutions in the Soviet Union was structured as *centralized state* banks.⁵ It included: Gosbank of the USSR, whose functions were, in particular, in issuing money, providing short-term credits and carrying out clearing operations in the country; Stroibank of the USSR, whose task was to provide long-term credits for capital investment; Vneshtorgbank of the USSR, securing the financial base for foreign trade of the country; GTSK of the USSR, which for a long time had been part of the Gosbank system as a bank serving the population of the country.

The reorganization of the Soviet into the post-Soviet Russian system of depositary institutions had passed over three stages.

The first stage: 1987 - 1988. The first reform of the system of depositary institutions of the late Soviet Union was carried on during the period of perestroika and glasnost. The reform led to the creation of the *two-tier* depositary institutions.

Institutions of Gosbank remained in the first tier. In 1987, Gosbank itself was renamed as the Central Bank of the USSR (CBUSSR). It retained the functions of the country's central bank. Therefore, its client was the Soviet banking system.

The second tier was occupied by depositary institutions whose purpose was a *commercial* (that is, repayable and for a certain banking interest) service to their clients: enterprises and organizations and the population of the country. In its turn, the second tier was divided into two parts.

The first part of the second tier included specialized but *still* state banks. They numbered five.

Three of them were *reorganized* from: GTSK, which became the state savings bank (Sberbank of the USSR), thus exiting the structure of the CBUSSR; Vneshtorgbank, which was renamed into the bank of foreign economic affairs (Vneshekonombank of the USSR); Stroibank, which was changed into the industrial and construction bank of the USSR (Promstroibank of the USSR).

Two specialized state banks within the first part of the second tier were *created from scratch*. These were the agricultural-industrial bank of the USSR (Agroprombank of the USSR), whose goal was commercial crediting of the agricultural-industrial complex of the country, and the housing-social bank of the USSR (Zhilsotsbank of the USSR), whose task was commercial crediting of the housing and social sectors.

The second part of the second tier began to be occupied by the *newly created* commercial and cooperative banks. However, it must be pointed out that during the period under consideration there were only about 400 of them, and they were of a very small size.

Also, it ought to be noted that the CBUSSR was not an indifferent observer of the banking alterations. The CBUSSR *directly* controlled operations of commercial crediting performed by Promstroibank, Agroprombank and Zhilsotsbank. The CBUSSR watched the amounts of the commercial credits provided by these banks.

As far as commercial and cooperative banks are concerned, the CBUSSR, while regulating their activities, controlled them *indirectly*. Although commercial and cooperative banks were now allowed to accept deposits from the population and, hence, to compete with the institutions of Sberbank, nevertheless, interest

rates on these deposits could not exceed those provided by Sberbank

The second stage: 1990 - 1992. On the one hand, this was the second period of reforming of the late *Soviet* two-tier system of depositary institutions. But, on the other hand, the period witnessed the beginning of the creation of the early *post-Soviet Russian* two-tier system of depositary institutions.

First, in 1990 the Russian branch of the CBUSSR became the Central Bank of the Russian Federation (CBRF). In such a way, were organized the central banks of all other union republics which comprised the Soviet Union. As a result, the CB of the USSR started its transformation into a conglomerate of central banks of union republics. By these actions, union-republican bureaucracies declared themselves as a new power (economic, monetary, political, etc.) which the growing weaker central Soviet bureaucracy, represented by the CBUSSR, was forced to tolerate and reckon with.

Second, the system of commercial and cooperative banks was getting stronger. Within the boundaries established by the CBRF, these financial intermediaries were granted a right to set up their own interest rates and fees for their banking services. Besides, the status of commercial and cooperative banks became more transparent and definite. Conditions were outlined under which the CBRF would issue licenses to these not-state banks to perform banking activities and under which these licences could be revoked.

Third, in November of 1991, the CBRF, without preliminary permission, took upon itself functions of the CBUSSR. The latter ceased its activities in December 1991 because of the disintegration of the Soviet Union. On the latter's ruins, there were formed 15 independent central banks of the newly created 15 independent republics.

Fourth, at the end of 1991 - the beginning of 1992, there was created the Intra-republican bank of the central banks of those independent states at the territory of the former Soviet Union, which had comprised a very loose organization called the *Commonwealth of Independent States* (SNG).

Fifth, after the dissolution of the Soviet Union, Vneshekonombank of the USSR ceased to exist. It was replaced by Vneshekonombank of the RF (Rossii). In 1992, the latter took upon itself the responsibility for the debts of the former USSR. Vneshekonombank Rossii, although remaining a specialized state bank, nevertheless, in reality performed the functions of a commercial bank of the country.

Sixth, with the disintegration of the USSR, other Soviet state specialized banks fell into oblivion. In post-Soviet Russia they, however, were resurrected in a new, Russian dress: Promstroibank of the USSR became Promstroibank Rossii, Agroprombank of the USSR was turned into Agroprombank Rossii, Zhilsotsbank of the

USSR was converted into Zhilsotsbank Rossii and, finally, Sberbank of the USSR was transformed into Sberbank Rossii. Moreover, the latter, although being a state institution, but, because of the commercial operations it was to perform, was now considered, like Vneshtorbank Rossii, a commercial bank.

The third stage: 1995 - This stage represents the *post-Soviet Russian period proper*: the period of the formation of a genuine two-tier system of depositary institutions. Besides the further advancement in the market of commercial banks as a form of depositary institutions, a characteristic feature of the period is a clearer (of course, to a degree which is possible in the blurred, ambiguous conditions of the Russian transitional period) definition of the status of the CBRF.

The Federal Law on the Central Bank of Russia, which was adapted by the State Duma of the Russian Federation (GosDuma Rossii) in April 1995, *formally* determined, first, the accountability of the Central Bank of post-Soviet Russia and, second, the goals of its activities.

The accountability of the CBRF. The CBRF has now been taken under the control of GosDuma in the following aspects.

First, at the presentation of the President of the RF, GosDuma is granted a right to appoint the CBRF chairman to the term of four years and also to confirm an appointment of twelve members of the board of its directors. At the presentation of the Russian President, GosDuma might decide to relieve the chairman of his post.

Second, at the request of GosDuma, the chairman of the CBRF is obliged twice a year to report about the activities of the CBRF for a certain period of time.

Third, the annual reports of the CBRF and reports of the examination of its activities by auditors have no power if not approved by GosDuma.

But it is necessary to emphasize that such strict rules with regard to the CBRF, to a certain degree, have rather a *formal* character. For, under the Russian conditions of the post-Soviet period, when the legislative power in the person of GosDuma was placed by the Constitution of the country on unequal footing with the executive power in the person of the President of the country, the influence which the President has on the personnel and functioning of the CBRF cannot be exaggerated.

The goals of the activities of the CBRF. In the *economic* sense (that is, in terms of its activity as a central bank), the CBRF is recognized as an independent legal person. In post-Soviet Russia, this implies the following.

First, the CBRF, on behalf of the Russian state-owner, manages capital and assets of the bank.

Second, the CBRF (and not the Russian state) is responsible for debts incurred by it in the process of its functioning. But, at the same time, to minimize the possibility of inflation, the CBRF is not responsible for the Russian state debt. This is a responsibility of the Russian government.

Third, in order to encourage the conduct of an independent credit-monetary policy, the CBRF is forbidden to issue those credits to the Russian government whose aim is to finance the state budget deficit.

As an independent legal person, the CBRF in its activities resembles more and more that of the central banks of the countries of mixed capitalism. Like they, the Russian Central Bank, as it was pointed out earlier, is authorized to control the money supply in the country through the use of such instruments of monetary policy, as open market operations, minimal obligatory reserve requirements, and discount-rates.

One of the major tasks of the CBRF is to maintain the ruble stability and control the exchange rate of the national currency. Also, the CBRF is responsible for the functioning of the entire system of depositary institutions in Russia.

Commercial banks of the Russian Federation

The dynamics of the development of Russian commercial banks in 1994 - 2004. Table 8.1 gives an idea about the presence and dynamics of changes in the number of the Russian commercial banks in 1994 - 2004:

Table 8.1
Commercial Banks, 1994 - 2004
(at the beginning of the year)

Years	The number of commercial banks registered by the CBRF, th. units ⁶	The number of branches of commercial banks, th. units ⁷
1994	2.0	4.5
1995	2.5	5.5
1996	2.6	5.8
1997	2.6	5.5
1998	2.6	4.4
1999	2.5	2.6
2000	2.4	2.2
2001	2.1	2.3
2002	2.0	2.2
2003	1.8	2.2
2004	1.7	2.2

Thus, on the annual average in the 1990s - the beginning of the 2000s, Russia had between 1.7 and 2.6 thousand *registered* commercial banks. The number of *registered* commercial banks was growing till 1996, remained steady in 1996 - 1998, and then began to decline in 1999 - 2004.

We stress that these were “registered” banks, for their number included those of them that had lost the right to conduct banking operations but had not been liquidated yet as legal persons. Their number was not small. In particular, on January 2004 the CBRF recalled banking licenses of 338 commercial banks.⁸ Thus, in actuality in Russia in 2003 there were functioning not 1.7 but 1.3 thousand commercial banks.

It is interesting to know why since 1999 the number of commercial banks in the country has been declining. In our opinion, there were two reasons for this.

First, the Russian financial crisis of 1998. The crisis bankrupted many financial institutions, including commercial banks, and will be discussed in one of the forthcoming chapters of the book.

Second, the narrowing gap between registered and actually operating commercial banks. Thus, while, for instance, on January 1998 the gap was equal 900 banks, on January 2004 the gap was three times smaller. This was caused by the growing political stability of the oligarchic system in the 2000s as compared to the period of its chaotic formation in the 1990s. The stability brought about more control and supervision over many aspects of the economic and financial life in Russia, including that of the commercial banking sector (commercial banks and their branches).

Briefly about the ways Russian commercial banks have been created. Three methods were used for the formation of the post-Soviet Russian commercial banking sector. With the help of two of them, commercial banks grew out of the existing Soviet institutions.

The first of the two methods was the transformation of a Soviet state bank into a Russian commercial bank. An example: the conversion of Sberbank Rossii from the state labor saving bank into the largest commercial bank of the country.

The second method of the two was used when there was ripening of the commercial banks thanks to the funds provided by various ministries, departments and/or enterprises (oil, gas, coal, mineral, automobile, textile, etc.). An example: the creation of Oneximbank.⁹ The bank was formed within the Ministry of Foreign Trade of the USSR thanks to the help of the ministry and the department of foreign affairs of the Central Committee of the Communist Party of the Soviet Union. These two very powerful organs helped Oneximbank, first, to obtain large pieces of the all-bureaucratic property, which was managed by the bureaucracy of the Ministry of Foreign Trade of the USSR, and, second, to attract clients of Vneshekonombank, which served the ministry.¹⁰

Finally, commercial banks were created from scratch with the help of non-state sources. Very often, and this, first of all, applies to the largest commercial banks, capitals required for their birth were accumulated through the operations in the black market,

extortions, gangsterism, participation in undertakings of the fraudulent character, usury, etc. An example: Mostbank.¹¹

But, regardless of the ways commercial banks came into being,¹² there was something that united them, which was common to them: the shameless and cynical ability to resort to all sorts of tricks, connections and graft to achieve their goals. And these goals were worth to try all this.

Commercial banks, grabbing pieces of the all-bureaucratic property, were becoming kernels of the financial-industrial groups. In other words, they were becoming a financial backbone of various national, regional and economic branch bureaucratic groups. This is because, unlike the USA commercial banks, but like the Japanese commercial banks, the emerging Russian commercial banks have a right to buy and hold shares of other financial and non-financial companies. They "had a right," since the right, according to Marx, is the will of the ruling class elevated into the law.

Thus, Oneximbank at the end of 1997 owned 25 percent of shares of the telecommunication company "Svyazinvest," 96 percent of shares of oil and gas company "Sidanko," 55 percent of shares of the metallurgical company "Norilsk Nickel," 51 percent of shares of the steel company "Novolipetsk Metallurgichesky Kombinat," etc.¹³

What else united many Russian commercial banks, regardless of their origin, was their ability to parasitize on the all-bureaucratic property, tearing it to pieces but at the same time creating nothing in and for the *real* sector of the Russian economy. Two examples are suffice here.

An example of parasitizing on the all-state property. This was the case of the commercial banks' 1995 operation known as "loans for shares."

The scheme of the operation was suggested to the Russian government by the consortium of the Russian banks in Summer 1995. The consortium promised to the government which badly needed money to finance a portion of its budget deficit to provide credits to the government for a government collateral in the form of shares of some large enterprises owned by the state and which the state intended to sell. The Russian government agreed to the scheme under the following conditions.

First, during the period of the operation of the collateral the commercial banks, participants of the deal, in their capacity as holders of the collateral would be granted a right to vote with the collateral shares. In those cases when the collateral was a controlling share holding, commercial banks as holders of the collateral would become the actual managers of the enterprises. In reality, this gave the banks-creditors an opportunity during the managing time to syphon from the enterprises resources by making such contracts between the enterprises and contractors close to the banks, which were unfavorable to the enterprises.

Second, in case the state was unable to repay the loan, banks-holders of the collateral would have a right to resell the collateral shares. In reality, since the state was unable to collect taxes to pay the banks-creditors, the latter, through dummies, got an opportunity to secure gigantic profits (reaching 100 percent) as a difference between the selling value of shares and their value as a collateral.

An example of the commercial banks' relation to the real sector of the Russian economy. Accumulating, through various cunning ways, a colossal (with respect to the scale of the Russian economy of the time) financial wealth, commercial banks were in no rush to invest it in the real economy of the country. Thus, in 1997, the Russian commercial banks' assets amounted to \$155 bln. However, the real sector was provided credits in the amount of \$9 bln. only, or less than 6 percent of the value of the assets.¹⁴

Briefly about the main direction of the activities of the Russian commercial banks. There are many statistical data on this subject.¹⁵ The data, however, can not provide us with a definite and unambiguous answer to the problem: the data gives us information only about some commercial banks, but we have no way of knowing to what degree these banks are representative of the entire commercial banking system in the country.

We are compelled, therefore, to turn to a widespread opinion in Russia that the principal sphere of activities of the country's commercial banks in the 1990s was just a simple *theft* of money from the population, enterprises and institutions, that is, from the depositors in the commercial banking system and the taxpayers paying their taxes through the commercial banks.

In accordance with this view, there existed several ways of stealing money by Russian commercial banks from their depositors and taxpayers. The most efficient of them was opening by a commercial bank, through figureheads from the native population, of own enterprises in the *offshore zones*.¹⁶

The mechanism of theft was as follows. After its opening, the offshore enterprise borrows money from the commercial bank (for example, \$1 bln.) at a certain annual interest rate (say, 10 percent). Thus, in a year the *formally* independent offshore enterprise must return its *actual* owner (the commercial bank) \$1.1 bln. The bank management which opened the offshore enterprise in the first place has three options in syphoning out the money to its account in its offshore enterprise.

First. The offshore enterprise grants \$1 bln. as a loan to its commercial bank at the annual interest which is higher than that the offshore enterprise borrowed from the commercial bank (say, 20 percent). This means that in a year it is the commercial bank which ought to pay to its formally independent offshore enterprise

\$1.2 bln. As a result, \$100 mln. minus a very small amount of taxes are transferred from the account of the commercial bank in Russia to the account in the offshore enterprise, that is, in the same commercial bank but now abroad.

Second. The offshore enterprise using the \$1 bln. loan from its commercial bank purchases from the latter, at a below-market price (for instance, at \$400 mln.) financial securities. Then the offshore enterprise authorizes its commercial bank to sell these papers at the market price (say, at \$1 bln.). The difference in \$600 bln. is accumulated in the account of the formally independent offshore enterprise but actually in the foreign account of the same commercial bank.

Third. The offshore enterprise uses the \$1 bln. loan from the commercial bank to buy in Russia a very large enterprise. Then the commercial bank declares bankruptcy but, through the formally independent but actually its own offshore enterprise retains this newly acquired property.¹⁷

Contractual savings banks

Gradually, although with many difficulties, contractual savings banks, which were dominated by *insurance companies*, in the 1990s began to change their ownership status from state into non-state. But it needs to be emphasized that contractual savings banks had the same social illness as commercial banks: friability and ambiguousness of property relations.

Our task in this section of the chapter is a mere acquaintance with some statistical information about the activities of the Russian contractual savings banks in the post-Soviet period.

*Key insurance categories.*¹⁸ But, first, let us start with some key concepts of insurance in their Russian interpretation.

The Law of the Russian Federation "On Insurance," which established norms for regulating the insurance activities in the Russian Federation in the 1990s, states the following:

Article 3. Forms of insurance.

1. Insurance might take voluntary and mandatory forms.
2. Voluntary insurance is carried out on the basis of an agreement between the insurant and the insurer ...
3. Mandatory insurance is [that which is] carried out because of the law ...

Article 4. Objects of insurance.

Objects of insurance can be property interests not contradicting laws of the Russian Federation [and] connected to:
life, health, ability to work and the provision of pensions of the insurant ... (personal insurance);

possession, usage, command of property (property insurance);
 reimbursement by the insurant of the damage caused by [the insurant] to personality or property of a physical person and also of the damage caused to a legal person (responsibility insurance).

Some insurance statistics. On 2003, there were 1,143 insurance companies in Russia. Moscow alone had 366 insurance companies.¹⁹

This, like in the case of commercial banks, although to a lesser degree, shows a very uneven distribution of insurance companies in the country. For, Moscow with its 5.9 percent of the total population, concentrated on its territory one-third of the country's insurance companies. Moreover, the majority of regional insurance companies were simply branch offices of Moscow insurance companies.

The structure of insurance companies' premiums and payments in 2003 was as follows:

Table 8.2
The Structure of Premiums and Payments of Russian Insurance Companies
(2003; in percentage to totals)²⁰

The structure	Premiums	Payments
Total, including:	100	100
Voluntary insurance, including:	76.8	74.0
Personal insurance	44.3	64.6
Property insurance	29.3	8.5
Responsibility insurance	3.2	0.9
Mandatory insurance, including	23.2	26.0
Medical	16.3	24.2
Auto	5.9	0.5

Monetarism and Russian money

Since the 1990s, post-Soviet Russia has developed under the badge of the economic doctrine called *monetarism*. Since that period, there has been a clear-cut relationship between the application of this theory to the Russian reality and the behavior of the ruble. But why did the monetarist thinking become the domineering economic approach in post-Soviet Russia?

*Shortly about monetarism as a theory*²¹

The core of monetarism as a *theory* consists in the following. First, changes in money supply are the *main* factor in changes of nominal aggregate demand and, therefore, of the level of nominal GDP. “Nominal,” because monetarism, assuming prices and wages to be flexible, accepts only a long-term equilibrium of full employment.

Second, since prices and wages are presumed to be flexible, aggregate supply in the short period is built in such a way, that changes in aggregate demand have almost no effect on real GDP, only on prices and wages.

From these two suppositions of the monetarist approach follows that, for example, an increase in money supply, in the final analysis, would result in inflation.

So monetarists propose the following remedies. First, to prevent inflation, it is necessary to restrain the money supply. Second, to stimulate real economy with a small rate of inflation, it is advisable to increase money supply annually in the range of 3 - 5 percent.

Shortly about monetarism as a post-Soviet Russian practice

From Chapter 6 of this part of the book we remember that post-Soviet Russian economy of the beginning of the 1990s had a character of stagflation (high inflation or hyperinflation, on the one hand, and a sharp decline in real production, on the other). During this period, in accordance with the monetarist doctrine, the Russian government decided that private (non-state) markets, because of, it was thought then, flexible prices and wages, would take care of the real sector of economy. Therefore, it was decided that the economic role of the state was simply to fight inflation and hyperinflation.²²

Thus, the Russian authorities decided to stop inflation by employing monetarist means. But the monetarist measures in their Russian implementation turned out to be a clumsy work of extremes (either-or). For, if, according to the father of modern monetarism M. Friedman, inflation is always and everywhere a monetary phenomenon,²³ then the Russian monetarist authorities had to do just a very simple thing: reduce the amount of money “hunting” for goods and services.

And they did just that. But how did they do that? They “starved” the country in money terms creating a monetary dearth.

Under the Russian conditions of the 1990s their activities resulted in an almost total belittling of money in Russian economy. 3/4 of commercial operations in the country were carried out not with the use of “live” Russian money (rubles) but, instead, by

employing barter, American dollars and various money surrogates.²⁴

But a national currency is a blood of the capitalist organism. If a significant part of the system did not use its own currency, then the Russian economy experienced a clinical case of *anaemia* and, hence, badly needed an additional blood by increasing the amount of rubles in circulation.

That this was the case, demonstrates Table 8.3:

Table 8.3
Real GDP and Money Supply, 1995 - 2003

Years	Nominal GDP, bln. rubl. ²⁵	GDP deflator, times to 1995 ²⁵	Real GDP, bln. rubl. (nominal GDP to GDP deflator)	M2, bln. rubl. ²⁶	M2 to real GDP, percentage	M0, bln. rubl. ²⁶	M0/M2, percentage
1	2	3	4	5	6	7	8
1995	1,428.5	1.0	1,428.5	97.8	6.8	36.5	37.3
1996	2,007.8	1.5	1,338.5	220.8	16.5	80.8	36.6
1997	2,342.5	1.8	1,301.4	295.2	22.7	103.8	35.2
1998	2,629.6	2.16	1,217.4	374.1	30.7	130.3	34.8
1999	4,823.2	3.672	1,313.5	453.7	34.5	187.7	41.3
2000	7,305.6	5.1408	1,421.1	714.6	50.3	266.1	37.2
2001	8,943.6	6.16896	1,449.8	1,154.4	79.6	418.9	36.3
2002	10,834.2	7.402752	1,463.5	1,612.6	110.2	583.8	36.2
2003	13,285.2	8.1430272	1,631.5	2,134.5	130.8	763.2	35.8

“*Money supply M2* (the national definition) includes: currency in circulation (the money aggregate M0) [that is, real, “live” ruble money]; bank money [clearing accounts], representing the rest of the money of non-financial organizations and physical persons in [bank accounts] ... [as such, virtual money].”²⁷

We are interested here in the sixth and eighth columns of the table. Column sixth shows that over the period of 1995 - 2003 there was a dramatic increase in *total* money supply. The column also indicates that in the 1990s the indicator was relatively low: from a “starving” level of 6.8 percent in 1995 to 34.5 percent in 1999. But already in 2003, the level reached 130.8 percent of real GDP.

Apparently, the problem of the money dearth by 2003 had been resolved. “Apparently,” for the growth of money supply was in *both* types of money: real (M0) and virtual (bank) money.

But if we consider M0 only, we can see that money supply even in the 2000s was far from adequate. No wonder that wage arrears, which we encountered in Chapter 2 of this part of the book, took place in Russia of the 1990s.

But how much is adequate? one might ask. According to a prominent Russian economist,²⁸ it must be at least 70 percent of real GDP. And when the economist speaks about this level of monetization, he means *real, actual* monetization, that is, the economy supplied with “live” rubles.

But it should be remembered that, in addition to the shortage of blood (rubles) in its economic organism, Russia also had a problem of a *hypertrophied concentration of blood* (rubles) in just one region, city of Moscow, where in the 1990s, 80 percent of the money circulation of the entire country was located; and in several sectors (especially, the financial and extracting) of the economy. Finally, there was also a problem of a very *low speed of the blood circulation* (rubles) from the center to the periphery.

Shortly on the causes of the prevalence of monetarism in its extreme form in post-Soviet Russia

First, monetarism of the Russian authorities was rooted in the very specifics of the Russian economy of the 1990s - the beginning of the 2000s. This was the predominance of the *speculative momentary* interests of the financial sector, domestic and foreign trade (connected to some extracting branches of economy) over the long-term interests of producers of commodities in processing industries.

Second, in the post-Soviet Russian economy which was becoming decentralized and more amorphous from the point of view of the real property relations, the ruble money was that lever that the central authorities could use for influencing the development of the country as a whole and of its regions in particular. Hence, Moscow as the *post-Soviet Russian* center, under the pretext of monetarism, was creating the shortage of the ruble *money* in the same way, as in its time Moscow as the *Soviet* center, on the pretext of the defense of "socialism" and, thus, building the military-industrial complex, was creating the shortage of *products* (goods and services).

In our opinion, money shortage had no sinister racial, national, ethnic or religious intent. Through the ruble-money relations, the country experienced a struggle of various intra-Russian bureaucratic groups, regardless of their race, nationality, ethnicity or religion, for property and power.

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Notes to Chapter 8: Post-Soviet Russian Financial Intermediaries

- 1 Based on E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Finansovo-Denezhnaya Sistema* [Principles of the Economic Theory. The Financial-Monetary System]. Moscow: "Nauka," 1999, pp. 99 - 180, 263 - 278.
- 2 See Chapter 1, Part VIII of the book.
- 3 See Chapter 5, Part VII of the book.
- 4 See, for instance, G. Gritsenko, V. Stupin, "Platezhnyi Krizis v Ekonomike s Neravnovesnymi Tsenami" [The Payment Crisis in the Economy with Non-Equilibrium Prices], *Voprosy Ekonomiki*, 1998, Number 5; A. Illarionov, "Teoriya 'Denezhnogo Defitsita' kak Otrazheniye Platezhnogo Krizisa v Rossiiskoi Ekonomike" [The Theory of the 'Money Deficit' as a Reflection of the Payment Crisis in Russian Economy], *Voprosy Ekonomiki*, 1996, Number 12; V. Klistorin, V. Cherkasskii, "Denezhnyie Surrogaty: Ekonomicheskiye i Sotsial'nyie Posledstviya" [Money Surrogates: The Economic and Social Consequences], *Voprosy Ekonomiki*, 1997, Number 10; V. Kokorev, A. Remizov, "Modernizatsia Kreditnoi Sistemy Rossii v Usloviyakh Krizisa Likvidnosti: Mozhno li Udeshevit' Den'gi bez Rosta Inflatsii?" [Modernization of the Credit System of Russia Under the Conditions of the Crisis of Liquidity: Is It Possible to Cheapen Money Without Inflation?], *Voprosy Ekonomiki*, 1996, Number 8; V. Makarov, G. Klyainer, "Barter v Rossii: Institutsional'nyi Etap" [Barter in Russia: An Institutional Stage], *Voprosy Ekonomiki*, 1999, Number 4; N. Shmelyov, "Neplatezhi–Problema Nomer Odin Rossiiskoi Ekonomiki" [Non-Payments Are Problem Number One of the Russian Economy], *Voprosy*

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- 5 See Chapter 5, Part VII of the book.
- 6 For 1994 - 1996: Goskomstat Rossii, *Rossiiskiy Statisticheskii Ezhegodnik* [The Russian Statistical Annual]. Moscow: Goskomstat Rossii, 1997, p. 543, tabl. 17.46; for 1997: Goskomstat Rossii, *Sotsial'no-Ekonomicheskoye Polozheniye Rossii* [The Socioeconomic Situation in Russia], XII. Moscow: Goskomstat Rossii, 1998, p. 190; for 1998 - 2004: Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004]. Moscow: Rosstat, 2004, p. 577, tabl. 22.24.
- 7 Without the Sberbank branches.
- 8 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 577, tabl. 22.24.
- 9 See M. Goldman, *The Privatization of Russia. Russian Reform Goes Awry*. London and New York: Routledge Taylor & Francis Group, 2003, p. 119.
- 10 As a result, on August 1, 1998, "according to the public opinion polls by the 'Russian economic barometer,' former state enterprises own[ed] on average ... 20 percent [shares] in the capital of new commercial banks" (N. Kuznetsov, "Liberalizatsiya Denezhnogo Obrashcheniya: Problemy i Podkhody" [Liberalization of the Money Circulation: Problems and Approaches], *Voprosy Ekonomiki*, 1996, Number 8, p. 30).
- 11 See, for instance, P. Klebnikov, "An Enthusiastic Convert", *Forbes*, December 1, 1997, p. 148; and also M. Goldman, *The Privatization of Russia. Russian Reform Goes Awry*, p. 129.
- 12 On May 1, 1998, the majority of commercial banks were created in the post-Soviet period. They accounted for 55.3 percent of all commercial banks in the country. Also, the major part of all Russian commercial banks (57.7 percent) was located in Moscow. See, for instance: Krupneishie Banki Rossii (po Sostoianiyu na 1 Maiya 1997 g.) [The Largest Banks of Russia (As of May 1, 1997)], *Profil'*, June 15, 1998, pp. 4 - 9; *Rossiiskaya Bankovskaya Entsiklopediya* [The Russian Banking Encyclopedia]. Moscow: ETA, 1995; "Stolichnyie Banki Ostaiutsia Osnovnymi Kreditorami v Rossii: Moskovskiy Bankovskiy Soiuz Podveyt Itogi Goda" [Capital Banks Remain Principal Creditors in Russia: The Moscow Banking Union Reviewed the Year], *Segodnia*, March 6, 1997; B. L'vin, "Ob Ustroistve Bankovskoi i Denezhnoi Sistemy" [On the Organization of the Banking and Money System], *Voprosy Ekonomiki*, 1998, Number 10.
- 13 *Ibid.*, p. 151.
- 14 See, for instance, E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Finansovo-Denezhnaya Sistema* [Principles of the Economic Theory. The Financial-Monetary System], p. 107.
- 15 See *ibid.*, pp. 107 - 170.
- 16 See, for instance, P. Pravdolyubtsev, "Kak Kommercheskiye Banki Voruyut Den'gi" [How Commercial Banks Steal Money], *Argumenty i Fakty*, September 1998, Number 38.

There were other means to achieve the goal. See, for instance, L. Abalkin, "Begstvo Kapitala: Priroda, Formy, Metody Bor'by" [Capital Flight: the Nature, Forms, Methods of Fighting], *Voprosy Ekonomiki*, 1998, Number 7; V. Kuz'michev, Tsentral'nyi Bank Pestoval Odnikh Spekulantov. Italiyskiy Ekspert Schitaet, Chto Rossiyskiye Kommercheskiye Banki Ochen' Khilye" [The Central Bank Was Nursing Just Speculators. An Italian Expert Thinks that Russian Commercial Banks are Very Weak], *Nezavisimaya Gazeta*, February 21, 1998.

- 17 This thievish activities of the commercial banking system of Russia of the 1990s is summarized by Yavlinsky, the leader of "Yabloko." In his interview to a correspondent of the New-York based Russian-language newspaper "Novoye Russkoye Slovo," given in the beginning of November of 1997 in Sweden, he remarks:

"Who is the banker in Sweden and America? He is someone who receives money from the population and invests it in industry [that is, in the real economy]. Then [this person] pays interest to the people. In Russia, the banker is a person who gets money from the budget and then sends it to some place in Switzerland" (N. Grachyeva, "Oдна Страна, Dvye Sistemy [One Country, Two Systems], *Novoye Russkoye Slovo*, November 14, 1997).

See also P. Korotkov, "Kommercheskiye Banki: Dostizheniya i Problemy" [Commercial Banks: Achievements and Problems], *Ekonomika i Zhizn'*, January 1995, Number 4; E. Krom, "Skol'ko Zhdat', Poka Den'gi Postupiat na Schet? A Eto Zavisit ot Banka" [How Long One to Wait Until Money Is Deposited to One's Account? This Depends on a Bank], *Chas Pik*, August 2, 1995; "Vashi Vklady Oni Prevratili v Svoi Sostoianiya" [Your Deposits They Transformed Into Their Fortune], *Argumenty i Fakty*, June 16, 1995.

- 18 See *Strakhovyye Organizatsii: Spravochnik*. Moscow: SVOP, 1996, p. 267.
- 19 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiyskiy Statisticheskiy Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 584, tabl. 22.34.
- 20 Ibid., p. 583, tabl. 22.33. On some current problems with the activities of the Russian insurance companies, see, for instance, T. Grishina, M. Shishkin, "Strakhovshchikov Ot'uchat ot 'Serykh' Shem" [Insurers Are to Be Broken of the Habit of 'Grey' Schemes], *Kommersant*, May 12, 2006.
- 21 See, for instance, M. Friedman and A. Schwartz, *Monetarist History of the United States, 1876 - 1960*. Princeton, N.J., 1963.
- 22 There were also two more fronts for the state to fight: the stability of the Russian ruble in its relation to the American dollar and budget entailing no deficit. We will discuss this in the next two chapters.
- 23 See M. Friedman in *The New Palgrave Dictionary Economics*, S1, 1987.
- 24 On this topic (for and against monetarist policies in Russia), see, for instance, the following: L. Abalkin, "Emissiya: Mify i Fakty. Razumnaya i Upravliaemaya Emissiya Dolzhna Priiti na Smenu Razrushitel'noi Demonetizatsii" [The Issuance of Money: Myths and Facts. A Reasonable and Governable Money Issuance Must Replace the Destructive Demonetization], *Nezavisimaya Gazeta*, September 16, 1998; A. Anichkin, E. Vishnevskaya, I. Savateeva, Yu. Ul'ianova, "Napechatat' Den'gi Mozhno ..." [It Is Possible to Print Money ...], *Izvestiya*, November 16, 1996; A. Belousov, "Denezhnaia Emissiya Mozhnet Legko

Razognat' Infliatsiyu" [Printing Money Might Easily Speed Inflation], *Finansovye Izvestiya*, May 20, 1997; V. Evstigneev, "Denezhnaia Emissiya i Perekhodnaya Ekonomika" [Money Issuance and the Transitional Economy], *Voprosy Ekonomiki*, 1997, Number 10; S. Glazyev, "Kriticheskiye Zamechaniya po Fundamental'nyim Voprosam Denezhnoi Politiki" [Critical Remarks on the Fundamental Problems of the Monetary Policy], *Voprosy Ekonomiki*, 1999, Number 2; F. Glisin, A. Yakovlev, "Pyataia Chast' Nalichnogo Oborota v Promyshlennosti Okazyvaetsia Nelegal'noi" [A Fifth Part of the Cash Money Circulation in Industry Turns Out to Be Illegal], *Finansovye Izvestiya*, July 9, 1996; B. Granville, "Problemy Stabilizatsii Denezhnogo Obrashcheniya v Rossii" [Problems of the Stabilization of Money Supply in Russia], *Voprosy Ekonomiki*, 1999, Number 1; Yu. Latynina, "Dogonim i Peregonim Ameriku po Denezhnoi Masse" [Let Us Catch Up With and Overcome America in Money Supply], *Izvestiya*, November 20, 1996; L. Makarevitch, "Ot Kabineta Ministrov Trebuiyut Dopolnitel'noi Emissii" [The Cabinet of Ministers Is Demanded an Additional Money Issuance], *Finansovye Izvestiya*, December 10, 1996; G. Melloan, "Another Russian Crisis? Define 'Crisis' Please," *Wall Street Journal*, June 2, 1998;

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25 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 303, tabl. 12.1.

26 Ibid., p. 571, tabl. 22.19.

27 Ibid., p. 606.

28 N. Shmelyev, "Ves' Mir Finansiruyem My" [The Whole World Is Financed by Us], *Argumenty i Fakty*, August 1998, Number 35.

PART VIII

THE FIRST STAGE IN THE DEVELOPMENT OF THE POST-SOVIET SOCIOECONOMIC SYSTEM (1991 - PRESENT)

Chapter 9

The Post-Soviet Russian State Budget and the State Domestic Debt¹

With the downfall of the Soviet system of totalitarian state capitalism, with its replacement by the Russian system of authoritarian state capitalism and with the growing tendency for the development of the latter into the system of authoritarian mixed capitalism, the budget of the country underwent corresponding changes. In its characteristics, the Russian budget began to resemble that of the countries of mixed capitalism.

The post-Soviet Russian state budget

Gradually, those elements of the budget which were characteristic of the Soviet period and which were described in Chapter 6, Part VII of the book, started falling away. They were being replaced by the specifically post-Soviet features.

Steadily, there was coming to naught the peculiarities caused by the “Chinese wall” separating rubles as “bank money” (virtual money) from rubles as “cash money” (real money) and demonstrated in the form of the allocation of the means of production and the articles of consumption inside the country. The gradual breaking up of the all-bureaucratic property, leading to the growth of flexibility in the transfer of bank money into cash money and back, was eroding the difference in the allocation of the two forms of the material wealth of the country.

The structure of the Russian budgetary system

The Constitution of the Russian Federation adopted on December 12, 1993 became a legal foundation of the budgetary system of the country. In contrast to the Soviet state budget as a *consolidated* budget, the Constitution of the Russian Federation established as the main principle of forming the budget and organizing finances of post-Soviet Russia the principle of the *budget federalism*. Later on, this principle was affirmed by the GosDuma of the Russian Federation which in July 1998 adopted a corresponding budget code.

The post-Soviet Russian budgetary system includes three levels: federal, regional and local. The existence of the three autonomous

levels of the state budget is an indicator of the *decentralization of state finances* in post-Soviet Russia in a sense of the reallocation of a part of fiscal rights and responsibilities to lower levels.

It should be noted that the *consolidated* budget, combining together the federal and territorial budgets (which includes regional budgets, or budgets of the subjects of the Russian Federation), did not disappear. But, unlike the federal, regional and local budgets, no longer it “is a subject to approval [of central authorities] and is used [only] for estimations and analysis.”²

The federal level of the Russian budgetary system. The first, the federal budgetary level of the budgetary system of Russia, consists of the *federal budget* and the *budgets of the state extra-budgetary funds*. In their total, the federal budget and the budgets of the state extra-budgetary funds comprises the *state federal finances*.

The federal budget is a budget of exclusively the central organs of power of the Russian Federation. In other words, the federal budgets declare such rights and responsibilities of the federal government, as collecting revenues and carrying out expenditures at the federal level only.

As constituent parts, the federal budget includes, in a capacity of independent legal persons, *budgetary funds for special purposes*. Among them, the following funds can be mentioned: the State fund for fighting criminality, the Interdepartmental fund for the development of the tax system and the tax service, the Fund for the development of the customs system, the Federal road and the Federal environmental funds.

Budgets of the state *extra-budgetary* funds consist of the State fund for the employment of the population, the Fund for the mandatory medical insurance, the Pension fund, the Fund of the social security of the population, and the Fund for social insurance. Each of these funds represents a state organization structure *autonomously* (with respect to the federal budget) managing its receipts.

The management and control of the financial results of the state federal finances are the prerogative of the government of the Russian Federation, the state financial agencies, the tax agency, the treasury and the governing body of the extra-budgetary funds.

The regional level of the Russian budgetary system. At the second level of the post-Soviet Russian budgetary system, there are *regional budgets of the subjects of the Russian Federation* and *budgets of the territorial state extra-budgetary funds*. Together, they form *territorial finances*.

“Budgets of the territories is the main financial plan of creating and using the monetary fund of the region, approved by the highest government bodies of the national-state and administrative-territorial formations of the Russian Federation.”³ As far as the territorial extra-budgetary funds are concerned, they are

analogous to the federal extra-budgetary funds but within a certain territory.

The management and control of the financial results of the territorial finances are carried out by the regional government bodies, including the governing bodies of the extra-budgetary funds.

The local level of the Russian budgetary system. This is the third and the lowest level of the budgetary system of post-Soviet Russia. It is comprised of budgets of local (municipal) government bodies.

It is necessary to emphasize that, while there exists a more or less clear-cut differentiation between federal finances and that of the regions (subjects of the Russian Federation), the borderline dividing the latter and municipal finances is not clearly defined. In reality, local government bodies, are financed from the regional budgets. This is not an accident, for localities are non-state entities in a country of a passive and obedient population, not used to defend its local rights.

The revenue sources of the Russian budget

The post-Soviet Russian budget at each of its levels forms its revenue from three sources: *taxation, non-taxation, and other.*

The taxation sources of the Russian budget. As it was pointed out, the border between the federal and regional budgets is demarcated relatively well. This is true, first of all, of the revenue side of the federal and territorial budgets of the country. It must also be emphasized that Russian economic agents very often have to pay the same taxes to both federal and regional public coffers. Finally, local budgets are not a part of the state budgetary system. For all these reasons, we will consider only the first two budgetary levels, federal and regional.

Let us turn to Table 9.1. It shows the revenue side of the Russian consolidated budget in 1995 - 2003:

Table 9.1
The Revenue Structure of the Russian Consolidated Budget
(1995 - 2003; in percentage to total)⁴

Indicators	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total revenues, including:	100	100	100	100	100	100	100	100	100
Tax revenues, including:	83.3	84.7	83.5	82.2	83.0	81.4	87.4	89.1	90.3
Taxes on profits of organizations	26.9	17.3	14.7	14.5	18.2	19.0	19.1	13.2	12.7
Taxes on personal incomes	8.4	10.1	10.6	10.4	9.7	8.3	9.5	10.2	11.0
Value added tax	21.9	25.8	25.7	24.8	23.7	21.8	23.8	21.4	21.3
Excise taxes	5.5	9.6	9.6	10.5	9.0	7.9	9.1	7.5	8.4

Real estate taxes	3.9	6.6	6.7	6.9	4.4	3.1	3.3	3.4	3.3
Taxes for the use of natural resources	2.8	3.8	5.2	3.3	3.7	3.7	5.1	9.4	9.6
Taxes on foreign trade and foreign economic relations	5.7	4.1	3.8	5.0	7.1	10.9	12.3	9.2	10.9
Non-tax revenues, including:	12.2	10.2	9.0	9.7	7.0	6.5	7.4	7.6	8.1
From foreign economic activities	5.4	3.0	1.6	2.7	3.0	1.8	1.9	1.9	1.3
From federal and municipal property	1.4	1.6	1.3	2.0	2.0	3.4	4.3	4.6	5.8
Other revenues, including:	4.8	5.6	7.6	8.1	10.0	12.2	5.2	3.4	1.7
Uncompensated transfers	0.6	0.6	1.3	1.5	1.2	0.1	-0.6	-1.6	-2.2
Revenues from budgetary funds for special purposes	4.2	5.0	6.3	6.6	8.8	12.1	5.5	4.6	3.5
Revenues from entrepreneurial and other activities	–	–	–	–	–	–	0.3	0.4	0.4

We will now look at some of the revenue items separately.

Taxes on profits of organizations. This tax replaced the Soviet deductions from profits. Unlike the Soviet tax, which was calculated at *individual* rates in *direct* connection to enterprises' profitability, the Russian tax is a *single proportional* tax, regardless of the profitability of the enterprises.

The nature of the tax on profits of organizations is such that in post-Soviet *criminal* Russia⁵ it is one of the most "corrupt taxes." For, the size of a profit and, therefore, of a tax on it depends on two factors. First, on the degree of "smartness" of the accountant estimating the profit. And, second, on the extent of the "material convincings" of the enterprise representative in his negotiations with the tax inspector, the government representative, with regard to the composition of production costs of the enterprise and, hence, to the size of the enterprise profits.

Currently, its rate is 24 percent.⁶ It has been reduced from the previous rate of 35 percent,⁷ ostensibly with the aim of inducing businesses to cheat less and to pay more profit taxes. The goal was to stimulate the economic growth as well.⁸ Given that with the increase of the share of tax revenues the portion of taxes on profits declined, it would be hard to assert that the post-Soviet Russian authorities were successful in such a drive.

Taxes on personal incomes. Before the 2000s, this was a *progressive* tax, with a range between 12 and 35 percent. But at present its rate is just 13 percent.

Motivated by the same reasoning as the tax above, the introduction of this tax rate in reality was an *additional* tax burden on people with lower incomes (from 12 to 13 percent) and a much *smaller* tax rate on people with higher incomes.

Thus, like in the Soviet period, *current* personal income taxes in Russia have a *single proportional* rate. However, in our opinion, there are different reasons for the singularity and proportionality of the tax rates of the two periods.

During the Soviet time, such a character of the personal income tax resulted from its low importance to the state, which, anyway, collected *all* the revenues produced in the Soviet Union but which, at the same time, was “shy” and, hence, hypocritical enough to show to the outside world its unbiased nature with respect to the equality of the distribution of incomes in the country. But during the post-Soviet Russian period, this distribution of personal income taxes clearly demonstrates a cynically open biased attitude of the Russian authorities favorable to the well-to-do at the expense of those with meager incomes.

Value added tax (VAT). This tax replaced the Soviet turnover tax known to us from Chapter 6, Part VII of the book. Recall that turnover taxes played a great role as an extremely important source for the industrial revolution in the USSR during which the development of the means of production was accomplished by suppressing the production of the articles of consumption.

In our view, the VAT is not very different from turnover taxes. But, with the completion of the period of the industrial revolution in the country and with the transition to the stage of utilizing the fruits of the revolution to meet the consumer demand, the tax base of the post-Soviet Russian VAT is wider than the tax base of Soviet turnover taxes. That is, the VAT “does not discriminate” against producers of either capital goods or consumer goods: it is the same for both.

While on January 1, 1999, the VAT was 20 percent, at present it is 18 percent. Still, as the table above shows, it remains a very important part of taxes collected by the Russian government.

Excise taxes. These are taxes on sales of such items as, for instance, alcohol, tobacco, crude oil and gas. They are calculated at various ruble rates. In our opinion, excise taxes are just an independent part of former turnover taxes.

Real estate (property) taxes. They are *single* and *proportional*. Their rate has grown from 0.1 percent to 2.2 percent on the property’s balance value.

Taxes for the use of the natural resources. Various rates are applied to a resource value.

Tax revenues: concluding remarks. There are several problems with the tax system in post-Soviet Russia. First, as it was mentioned earlier, tax rates have been frequently changed. Second, federal and regional bureaucracies have continuously argued about who collects taxes, who gets what and how much.⁹ Third, since the

Russian bureaucracies, businesses and people have been susceptible to corruption to a point of paying little or no taxes at all, the overall tax system in Russia has been very inefficient.¹⁰

The non-taxation sources of the Russian budget revenue. In 1995 - 2003, tax revenues accounted to between 83 to 90 percent of the total revenues of the Russian budget. Thus, taxes were the major source of budget revenues for the federal and regional Russian authorities. Non-tax sources of the Russian budget occupied a relatively modest place. In this respect, the structure of the Russian budget revenues differed drastically from the structure of the Soviet budget revenues, where the relationship between the tax- and non-tax revenue items was reversed.

It is interesting to note that, while revenues from foreign economic activities were declining, those from property were growing. Since foreign economic relations are the prerogative of the federal authorities, while property taxes are collected by regional bureaucracies, the changing structure of the non-tax revenues shows that, at least in the sphere of non-taxes, there has been a tendency to the rise of the power of regions at the expense of the federal state.

Other sources of the Russian budget revenue. These are the least important contributors to the consolidated budget of the Russian Federation. Their significance has been declining over the years. As the table above demonstrates, the major player here are the revenues from the budgetary funds for special purposes.

The dynamics of the actual distribution of the budget revenues between the federal state and the regions in 1992 - 2003. This information is provided in Table 9.2:

Table 9.2
*The Dynamics of the Actual Distribution of Budget Revenues
Between the State and the Regions, 1992 - 2003
(in percentages)*¹¹

Years	Total revenues	Federal budget	Regional budgets
1992	100	52.6	47.4
1993	100	45.9	54.1
1994	100	41.4	58.6
1995	100	49.1	50.9
1996	100	46.6	53.4
1997	100	44.2	55.8
1998	100	44.1	55.9
1999	100	48.2	51.8
2000	100	51.5	48.5
2001	100	54.7	45.3
2002	100	57.4	42.6
2003	100	57.3	42.7

Beginning with 1993 and till 1998, including, the share of the budget revenue acquired by the central authorities of the state had a tendency to decline, while that of the regions was on the rise. The trend reflected the power struggle between the central and regional bureaucracies. In the chaos of the immediate post-Soviet period, the regional bureaucracies were gaining an upper hand over the federal bureaucracies.¹²

With the consolidation of the oligarchic regime in 2000,¹³ the Russian center began taking back many of the liberties which the center was forced to yield to the regions before that time. As one of the indicators of the swing in the balance of power between the two bureaucratic forces, the share of the budget revenues collected by the central authorities began to increase and eventually to exceed that of the regional authorities.

The expenditure side of the Russian budget

Table 9.3 presents the structure of the Russian budget expenditures for 1995 - 2003:

Table 9.3
The Expenditure Structure of the Russian Consolidated Budget
(1995 - 2003; in percentage to total)¹⁴

Indicators	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total expenditures, including on:	100	100	100	100	100	100	100	100	100
State administration and institutions of local government	2.4	2.6	3.5	3.7	3.7	3.7	4.6	4.4	4.6
Foreign affairs	5.6	4.1	0.3	2.1	4.7	0.6	1.0	1.0	0.8
National defense	10.2	9.8	9.7	7.7	9.2	9.8	10.2	8.6	9.0
Law and order activities and safeguarding of state security	5.6	6.0	7.0	5.4	5.9	6.7	7.6	7.0	7.7
Industry, power engineering and construction	7.3	6.0	6.0	3.1	2.5	3.0	9.8	9.5	8.4
Agriculture and fishing	4.6	3.9	3.7	2.9	2.8	2.8	2.8	1.7	1.7
Transportation, road economy, communications and information	2.7	2.6	2.8	2.2	2.1	2.0	3.6	3.6	3.9
Environmental protection, hydrometeorology, cartography and land-surveying	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.5	0.5
Housing and communal services	13.4	13.6	13.4	11.5	10.1	10.2	8.1	6.5	6.4
Social-cultural measures	26.6	28.9	32.2	29.2	29.2	27.4	30.1	39.6	29.6
Servicing state and municipal debt	5.8	6.8	4.9	17.7	15.1	14.1	10.1	7.1	6.1
Expenditures of budget funds for specific purposes	3.5	3.2	4.3	5.2	8.0	12.7	6.3	4.9	4.1
Other expenditures	11.9	12.1	11.7	8.9	6.3	6.6	5.4	5.5	17.2

“Social-cultural measures” were the major item of expenditures for the period, on average amounting to 1/3 of the entire budget expenditures. Wages of present and pensions of former state employees were the main *obligation* of these government expenditures.

If we disregard “other expenditures,” a mixture of various expenditure items (not spelled out explicitly), then it can be seen that the second place was occupied by the expenditures on national defense. And so on.

With the exception of “foreign affairs,” “agriculture and fishing” and “housing and communal services,” expenditures on the majority of budget items were more or less stable. It is difficult to assess why the first outlay declined. It might be that the post-Soviet Russian state, having lost many of the “friends” of the former Soviet Union, did not need to “reimburse” the rest to the same extent as the latter did.

As far as government expenditures on agriculture and fishing are concerned, their decrease was, probably, caused by lowering preferences of the Russian authorities for these economic sectors as producers. It may well be that agricultural imports played a very important role in their (authorities’) decision.¹⁵

The reduction in the expenditures on housing and communal services can be explained by the very group-bureaucratic nature of Russian authoritarian state capitalism. Engaged in the inter-group struggle for pieces of the all-bureaucratic property, only mildly challenged by the obedient and servile population, the Russian authorities as the representatives of this or that bureaucratic group at any point of time have consequently manifested a declining desire to pay attention to one of the most pressing issues of modern Russia: a lack of housing and of its decent maintenance.

The dynamics of the actual federal/regional distribution of budget expenditures in Russia in 1992 - 2003. Table 9.4 allows us to see the allocation of the budget expenditures of the federal and regional budgets in 1992 - 2003:

Table 9.4
The Federal/Regional Distribution of the Russian Budget Expenditures
(1992 - 2003; in percentage)¹⁶

Years	Total expenditures	By federal budget	By regional budgets
1992	100	62.5	37.5
1993	100	55.7	44.3
1994	100	55.9	44.1
1995	100	52.7	47.3
1996	100	51.0	49.9
1997	100	48.3	51.7
1998	100	52.8	47.2
1999	100	50.5	49.5
2000	100	49.9	50.1
2001	100	49.8	50.2
2002	100	54.9	45.1
2003	100	54.3	45.7

Over the years, there have been certain fluctuations in the spread of budget expenditures between the two levels of governmental bodies. The table shows that the struggle between these bureaucracies did not stop at the revenue side of the budget but continued in the field of expenditures as well.

On the size of the Russian budget residual in 1992 - 2003

To see this, we will turn to Table 9.5:

Table 9.5
The Russian Budget Residuals in 1992 - 2003
(percentages to revenues)

Years	Consolidated budget residual ¹⁷		Federal budget residual ¹⁸		Regional budget residuals ¹⁸	
	Surplus	Deficit	Surplus	Deficit	Surplus	Deficit
1992		12.1		33.3	11.1	
1993		15.9		38.8	6.3	
1994		38.0		84.0	2.7	
1995		11.2		18.9		2.5
1996		16.9		26.4		6.2
1997		18.0		27.1		8.0
1998		22.6		44.9		2.2
1999		3.7		8.4	1.1	
2000	6.6		9.1		3.2	
2001	9.8		17.1			0.6
2002	2.8		6.8			3.3
2003	4.2		8.8			2.8

During the 1992 - 1999 period, the actual consolidated Russian budget was a deficit budget. In 1992 - 1994 and 1999, the major “contributor” to the budget deficit was the federal budget; in 1995 - 1998, this was accomplished by both levels of the Russian budgetary system.

In our opinion, the budget deficit of the period was caused by those elements of chaos (mentioned earlier) which were created by

the transition from one form of capitalism to another. Among them were: high inflation and the consequent demonetization of the economy; declining real incomes, wage arrears, widespread tax avoidance, etc., leading to lowering the tax base on the revenue side of the economy; pressures on the weak federal government from various social (coal miners, for instance) and political (regional authorities, for example), etc., resulting in growing government obligations.

Beginning with 2000, the Russian authorities have begun to run actual consolidated Russian budget as a surplus budget. With the exception of 2000, when both federal and regional budgets experienced budget surplus, 2001 - 2003 witnessed budget surpluses exclusively because of the federal budget surpluses.

In our view, there were three major reasons for such a drastic change of budgetary events. First, a significant slowing down of inflation rates and, hence, a growing monetization of the economy. Second, a certain consolidation, settlement of the oligarchic regime of authoritarian state capitalism and, as a result, a steadier flow of budget revenues in and budget expenditures out. And, finally, skyrocketing oil prices which literally "overfilled" the budgetary coffers.¹⁹

The post-Soviet Russian state domestic debt²⁰

In the Russian practice of authoritarian state capitalism, where the borderline between the state and non-state property was very ambiguous, the division into domestic and foreign debt was not unequivocal either.

In 1992, the Supreme Soviet of the Russian Federation, the legislative body of that time, promulgated a law concerning the state domestic debt of the Russian Federation. As a criterion of belonging to one of the two kinds of government debt, the law put forward a principle of the *currency of the emerging obligations*.

According to the criterion, *internal* borrowing and, consequently, *domestic* debts were considered to be those which were incurred in *rubles*, and *external* borrowing and, consequently, *foreign* debts were those which were made in *hard foreign* currencies.

But at that period (the beginning of the 1990s) an article of the Soviet criminal code, which "equated" the ruble with the Russian residents and the dollar with its non-residents, had not been annulled. Hence, in actuality, the Russian state domestic debt was a ruble credit given to the Russian government by the residents of Russia, while the Russian state foreign debt represented a hard currency credit received by the Russian government from its non-residents.

But in the process of denationalization and decentralization of the property relations, as limitations imposed by the Russian government on the foreign exchange operations by its residents

were lifted, such a dichotomy between the actual and legal classification of the domestic and foreign debt became an obstacle to the further development of the Russian budgetary reality.

In order to remove the gap between the theory and practice of the debt problem, the Russian GosDuma, which replaced the Russian Supreme Soviet, in 1994 accepts a new law on the external credits to the Russian state and provided by the latter to its non-residential entities (foreign states, foreign legal and physical persons). This document states that borrowing from internal sources constitutes domestic debt, while that from external sources is foreign debt.

Some statistical data on the Russian state domestic debt

Russian budget deficits have been financed *internally* and *externally*. Internally, by: issuing government financial securities (such as, for instance, GKO and OFZ); selling the state, regional and municipal property, precious metals and jewels, etc. Externally, by borrowing hard currencies from international financial organizations, foreign governments, foreign commercial banks, firms, etc.²¹

As a result of the *internal* borrowing, the Russian government have been piling up state *domestic* debts.²² As a consequence of receiving *external* credits, the Russian government have been accumulating state *foreign* debts.

In this section of the chapter, we will deal with the domestic debt of the Russian state. In the following chapter, we will discuss the Russian state foreign debt.

Table 9.6 provides the data for the Russian state domestic debt during 1995 - 2003:

Table 9.6
The Volume of the State Domestic Debt in GKO and OFZ
(1995 - 2003)

Years	Debt, bln. rubles ²³	GDP, in current bln. rubles ²⁴	Debt/GDP ratio, percent
1995	76.6	1,428.5	5.4
1996	237.1	2,007.8	11.8
1997	384.9	2,342.5	16.4
1998	385.8	2,629.6	14.7
1999	270.4	4,823.2	5.6
2000	185.1	7,305.6	2.5
2001	160.2	8,943.6	1.8
2002	217.0	10,834.2	2.0
2003	314.7	13,285.2	2.4

Till 1998, including, the *nominal* amount of the domestic debt was rising, began to decline (1999 - 2001) and was again growing in

2002 - 2003. In any event, in 2003, the nominal domestic debt was greater than it was in 1995 by 4.1 times.

But we stress “nominal,” since a significant role here was played by the inflationary processes. They, without doubt, had slowed down a *real* rise in the domestic debt. This is indicated by the reduction in the debt/GDP ratio by almost a half in 2003 as compared to 1995.

Despite the increase in the nominal amount of domestic debt during the period, in real terms its burden on the Russian state was less in 2003 than in 1995. That is, to pay debts to its residents out of each produced ruble, the Russian state had to spend 5.4 kopecks in 1995 and only 2.4 kopecks in 2003.

But domestic debts carried also an obligation by the state to pay its residents certain interest incomes. The sizes of the domestic debt servicing for the 1995 - 2003 period are in Table 9.7:

Table 9.7
Domestic Debt Servicing by the Russian State
(1995 - 2003)

Years	The amount of the total debt servicing, bln. rubles ²⁵	GDP, in current bln. rubles ²⁶	Debt servicing/GDP ratio, percent
1995	28.0	1,428.5	2.0
1996	44.6	2,007.8	2.2
1997	41.4	2,342.5	1.8
1998	148.7	2,629.6	5.7
1999	190.0	4,823.2	3.9
2000	276.7	7,305.6	3.8
2001	244.4	8,943.6	2.7
2002	243.7	10,834.2	2.2
2003	240.9	13,285.2	1.8

The correlation between the 1995 - 2003 numbers for the debt servicing to Russian residents tell us approximately the same story as the correlation between the corresponding numbers for the debt itself.

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Notes to Chapter 9: The Post-Soviet Russian Budget

- 1 Based on E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Finansovo-Denezhnaya Sistema* [Principles of the Economic Theory. The Financial-Monetary System]. Moscow: "Nauka," 1999, pp. 238 - 262, 263 - 278.
- 2 Goskomstat Rossii, *Rossiiskiy Statisticheskii Ezhegodnik* [The Russian Statistical Annual]. Moscow: Goskomstat Rossii, 1997, p. 517.
- 3 Goskomstat Rossii, *Finansy v Rossii* [Finances in Russia]. Moscow: Goskomstat Rossii, 1996, p. 12.
- 4 Calculated from Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik 2004* [The Russian Statistical Annual, 2004]. Moscow: Rosstat, 2004, p. 564, tabl. 22.4. Because of the arrangement of the statistical items in the consolidated budget, some totals are less and some more than the sums of the parts.
- 5 See, for instance, M. Goldman, *The Privatization of Russia. Russian Reform Goes Awry*. London and New York: Routledge Taylor & Francis Group, 2003, pp. 177 - 194.
- 6 The reader needs to be reminded that, like everything in present-day Russia, tax rates in the country are in a continuous flux. So there is no guarantee that, by the time the book will have been published, the tax rates are provided in this chapter will not change again.
- 7 Here and below previous tax rates are from A. Gordeyev, "Tax Tricks. New State Tax Service Chief ... Says He Can Cut Taxes and Boost Growth. It Is a Matter of Politics More Than Economics," *Moscow Times*, December 15, 1998.
- 8 It is as if the authorities followed an advice of Yavlinsky given several years before the introduction of the new tax rate (G. Yavlinsky, "Cut Taxes for Growth," *Moscow Times*, January 10, 1998).
- 9 See, for instance, the following: N. Bikalova, "Intergovernmental Fiscal Relations in Russia," *Finance & Development*, September 2001, Volume 38, Number 3; K. Laikam, "Optimizatsiya Raspredeleniya Nalogov Mezhdru Federal'nym i Regional'nymi Urovnyami Byudzhetnoi Sistemy" [The Optimization of the Distribution of Taxes by the Federal and Regional Levels of the Budgetary System], *Voprosy Ekonomiki*, 1998, Number 10; Yu. Shvetsov, "Byurokratizatsiya Byudzheta" [Bureaucratization of the Budget], *Kommersant.ru*, May 15, 2006; "Ob'ekty Federatsii. Federal'nyi Tsentr Lishayet Regiony Ekonomicheskoi Samostoyatel'nosti" [Objects of the Federation. The Federal Center Deprives Regions of an Economic Independence], *Kommersant.ru*, May 5, 2006.
- 10 See, for instance, the following: A. Yakovlev, "O Prichinakh Bartera, Neplatezhei i Ukloneniya ot Uplaty Nalogov v Rossiiskoi Ekonomike" [On the Causes of Barter, Non-Payments and the Avoidance of Paying Taxes in Russian Economy], *Voprosy Ekonomiki*, 1999, Number 4; O. Zinchenko, M. Volkovsky, "My Nie Dadim Tenevikam Spat' Spokoino" [We Will Not Give the Operators of the Shadow Economy to Rest], *Nezavisimaya Gazeta*, April 11, 1998; E. Evstigneeva, "Zhivuchest' 'Chernogo Nala': Kakim Obrazom v Rossii Ukhodyat ot Nalogov" [The Vitality of the 'Cash Under the Table': How Taxes Are Averted in Russia], *Nezavisimaya Gazeta*, December 4, 1998; "Nalog s Dobavlennoi Slozhnost'yu" [A 'Difficulty' Added Tax], *Kommersant.ru*, March 3, 2006.

- 11 Calculated from Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskiy Ezhegodnik 2004* [The Russian Statistical Annual, 2004], pp. 565 - 566, tabs. 22.5 and 22.6.
- 12 We will deal with this struggle in the last chapter of this part of the book.
- 13 This will be discussed in the last part (Part IX) of the book.
- 14 Calculated from Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskiy Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 564, tabl. 22.4. Because of rounding off, the 2002 total does equal 100.
- 15 We will return to this issue in the next chapter of the book.
- 16 Calculated from Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskiy Ezhegodnik 2004* [The Russian Statistical Annual, 2004], pp. 565 - 566, tabs. 22.5 - 22.6.
- 17 Ibid., pp. 563 - 564, tabs. 22.3 - 22.4.
- 18 Ibid., pp. 565 - 566, tabs. 22.5 - 22.6.
- 19 On this, in the next chapter of the book.
- 20 On the question of the Russian domestic debt, see, for instance, L. Abalkin, "Dolgovaya Ekonomika. Sotsial'no-Ekonomicheskii Krizis Prinyal Polzuchuyu Formu" [A Debt Economy. The Socioeconomic Crisis Has Taken a Creeping Form], *Nezavisimaya Gazeta*, October 8, 1996; V. Simonov, A. Kukharyev, "Perspektivy Razvitiya Rynka Vnutrennego Gosudarstvennogo Dolga Rossii" [The Perspectives of the Development of the Market of the State Debt of Russia], *Voprosy Ekonomiki*, 1998, Number 11; M. Volkova, V. Kuz'michev, "GKO Rassypaietsia. Minfin ne Skryvaet, Chto dlia Pogasheniya Chasti Vnutrennego Dolga Budet Ispol'zovan Kredit MVF" [The GKO Pyramid Is Going to Pieces. The Ministry of Finance Does Not Hide That In Order to Pay Off a Portion of the Domestic Debt, a Loan From the IMF Is Needed], *Nezavisimaya Gazeta*, 29 July, 1998; V. Virkunen, "Ruletkha na Biudzhethnykh Den'gakh" [Playing Roulette on the Budget Money], *Argumenty i Fakty*, May, 1998, Number 20.
- 21 A corresponding data for 1995 - 2003 is provided by Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskiy Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 567, tabs. 22.9 - 22.10.
- 22 In order to make a logical step from budget deficits to the government debt, we stated in the beginning of this section that the internal borrowing to finance the Russian budget deficit led to the state domestic debt. But we need to add that wage arrears were the second reason for the origin of this phenomenon.
- 23 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskiy Ezhegodnik 2004* [The Russian Statistical Annual, 2004], p. 581, tabl. 22.30.
- 24 Ibid., p. 303, tabl. 12.1
- 25 Calculated from ibid., pp. 565 - 566, tabl. 22.6.
- 26 From Table 9.6.

PART VIII
THE FIRST STAGE IN THE DEVELOPMENT OF THE
POST-SOVIET SOCIOECONOMIC SYSTEM
(1991 - PRESENT)

Chapter 10
Post-Soviet Russian Foreign Trade and Finance¹

The post-Soviet breaking up of the Russian state property along its functional (decentralization and regionalization) and social (denationalization) features could not but have its influence on the post-Soviet Russian foreign economic relations.

Russian foreign trade

Changes in the activities of foreign trade and its structure had already begun in the last years of the existence of the USSR. They continued during the post-Soviet period.

A historical reference²

We will discuss separately changes of two periods: the late Soviet and the early post-Soviet.

Changes of the late Soviet period. During the time of perestroika, there began a dismantling of that part of the Soviet state bureaucratic machine which was engaged in the foreign economic activities and which we dealt with in Chapter 7, Part VII of the book.

In 1986, the Soviet monopoly of foreign economic relations, though not totally liquidated, but, nevertheless, was somewhat weakened. At that time, not only the mighty Ministry of foreign trade but, to a growing degree, some ministries and even some large enterprises were granted a certain independence in directly conducting trade relations with other countries, in earning and receiving hard currency for export operations and in its limited use for their own needs.

In the same year, there was organized the State Committee for Foreign Economic Relations. The purpose of its creation was to *coordinate* (not to manage) the Soviet foreign trade operations which were becoming more and more decentralized.

In 1988, the Soviet monopoly of foreign trade by foreign trade organizations (FTOs) was completely liquidated. Ministries and large enterprises were granted even greater rights to trade independently (from the central bureaucracies) with foreign firms.

De-monopolization of foreign trade which began in the late 1980s was accompanied by a certain liberalization (decentralization) of export-import prices. The process was in many ways favored by the fact that the Soviet state had begun to establish a more realistic exchange rate of the ruble in comparison to that previously set too high.

In the final analysis, during the period under consideration, *objectively* there was taking shape a transformation from a direct totalitarian-state form of managing of foreign economic operations of the country with the help of mandatory central planning to an indirect authoritarian-state form of regulating these operations with the help of such traditional (for mixed capitalism) means as customs-tariffs, import and export quotas, licensing, etc. It needs to be emphasized though that *subjectively*, from the point of view of the central Soviet leadership, these, however, were measures undertaken *within* and for the *strengthening* of the system of totalitarian state capitalism.

Be that as it may, all above mentioned measures on decentralizing Soviet foreign trade were conducive to the beginning of the gradual integration of the USSR into the world economic association. In that period, the Soviet Union was making the first steps to enter into such a world trade organization as GATT.

*Changes of the early post-Soviet period.*³ Already during the first years after the demise of the system of totalitarian state capitalism, within the process of de-monopolization of foreign trade, together with the tendency to decentralization, there started to reveal itself a tendency to its denationalization. The latter tendency particularly concerned the *problem* of licensing and export quotas.

We stress "problem," since the way for a Russian export company to wealth, glory and power depended on who and how much was allowed to export goods for hard currency. And we emphasize "problem," because the post-Soviet bureaucrat educated under the conditions of *rationing* corruption suddenly had been given an opportunity for *unrestrained* enrichment.

And they, still a semi-state Russian exporter and already decentralized (that is, partially freed from the rigid higher administrative surveillance of the Soviet type) Russian bureaucrat, clutch at the list of export licenses and quotas. Neither exporters who were close to power nor bureaucrats who represented the power wanted for free market forces to define in the list an exporter and his export quota. But both were not indifferent to which product to seek after for export, for both followed the economic law of foreign markets: try to receive licenses for those goods and services whose export price is higher than the corresponding domestic price and which, therefore, creates an opportunity for additional profits.

Such a situation was reflected in a series of decrees which were issued in the beginning of the 1990s. *Formally*, the decrees, true to the laws of free markets, were prescribing senior state bureaucrats to sell export licenses only to those exporters who were able to win the license by agreeing to pay for it the highest price. But *actually* export licenses were being sold through informal channels of acquaintances, connections, influence. As a result, the export license was given not to the exporter who was willing and able to pay for it the highest official price but to that exporter who, thanks to a friend at court ("blat") was able to bribe, at the highest amount, a corresponding bureaucrat.

This unofficial Russian practice arose resentment of those exporters who were given no chance to enter the circle of lucky men—"blatniks." So the Russian government had to respond to these feelings. In May 1992, the Ministry of Foreign Economic Relations of the Russian Federation, which replaced the Ministry of Foreign Trade of the USSR, issued an instruction in which, referring to the problems of the national security of the country, restored the centralization of exports of some strategically important raw and energy materials.

However, the growing pressure from getting stronger but still unlucky non-state and/or semi-state enterprises and organizations not only exporters but importers as well was gradually forcing the state bureaucrat to renounce the overt administrative methods of influencing them. As a consequence, in place of and side by side with licenses, quotas, etc., there were introduced more delicate methods of pressure of the state as a whole (the corporation of bureaucrats) as well as separate bureaucratic layers (bureaucratic groups) and bureaucrats on the export-import activities in the country.

Export measures. There have been lowered such export barriers, as, for example, customs tariffs on raw materials. In April of 1996, export tariffs on all commodities, with the exception of that of crude oil a significant part of whose exports remained under the strict government control, were abolished.

In the same year, the state gave up on such non-tariff export limitations, as, for instance, the mandatory registration of export contracts. Giving the increasing control over the growing assortment of produce for export to the non-state and semi-state enterprises, the Russian state, nevertheless, reserved for itself an exclusive monopoly right to sell abroad weapons and military equipment.⁴

Import measures. There have been introduced duties on imported goods and services. In 1997, the system of import duties was revised so that the latter were increased. At the same time, the state introduced quotas on imports of alcohol, cloth and some agricultural products.

Aims of the state regulation of Russian foreign trade

Export and import restrictions imposed by the post-Soviet Russian state pursued certain goals and, as such, were not an exception to the world rules of foreign trade. We will look at these goals using as an example the functioning of the custom-house of the time.

The main directions of the policy of the Russian government with respect to foreign economic activities using as an example the activities of the Russian custom-house. Any custom-house, regardless of its country, has as its main goal the function of protectionism: protection of domestic producers and lessening the problem of unemployment.

In post-Soviet Russia, this function occupied the second place. As the major goal of the custom-house, the Russian state regarded the *fiscal* policy.

This customs policy of the post-Soviet Russian state aimed at the chase for fisc was indicative of the following two phenomena: first, of the weakness of the national economy, whose budget revenues to a large degree depended on custom duties and tariffs; second, a certain unbalanced approach of the Russian state to the interests of its budget, its domestic producer and its domestic consumer. For, the priority of the first to stop a gap of the federal budget of the 1990s was achieved at the expense of the interests of the second and the third.⁵

The integration of Russian economy into the world economic relations

It was noted in the beginning of this chapter that already during the last years of the Soviet system of totalitarian state capitalism the country began its participation into the process of the world economic integration. Post-Soviet Russia widened the framework of the movement and accelerated its rates.

In main, the trade-economic relations of Russia with different world economic groups were developing in the following three directions: first, in the direction of rapprochement with countries of Western Europe and, first of all, with countries of the European Union (EU); second, in the direction of closer relations with countries of the Asian-Pacific Economic Association (APEC); third, in the direction of maintaining and, where it was necessary, of the restoration of the traditional economic relations with countries of the near abroad, the former republics of the Soviet Union.

The integration of Russian economy into the economies of the countries of the EU. The necessity and the possibility of such an integration was caused, first of all, by the geographical proximity of the countries of Western Europe to Russia as an European power.

However, the first steps in this direction were made in 1994. In that year, there was signed and in 1996 ratified the Agreement on partnership and cooperation between Russia and the EU.

Originally, the Agreement was concluded for ten years. According to its provisions, Russia and countries of the EU established a *regime of the most favored nation*. The establishment of the regime led to two very important foreign economic consequences for Russia: first, in the case Russia (the EU) grants trade privileges to the commodities of third countries, the same privileges must be given to the commodities of the EU (Russia) ; second, the Agreement established a principle according to which taxes and duties on Russian commodities in the EU markets and EU commodities in the Russian markets could not be higher than that in the domestic markets.

The introduction of the regime of the most favored nation between Russia and the EU greatly enhanced the development of Russian exports in the EU countries, and also the access of Russia to the West European *civilian* (in contrast to the Russian *military*) technologies of production and sales of goods and services.

But, naturally, at the same time, the regime, first, created the opportunities for importing less expensive and, therefore, more competitive (in comparison to the domestic) products from the EU to Russia; and, second, even more bound Russia to Western Europe as its raw and energy material appendage.

But, in any event, as a result of the process of the European integration, as we will see below in the statistical part of the section of the chapter, the EU became a major Russian partner in foreign trade.

*The integration of Russian economy into the economy of the APEC.*⁶ But Russia is also an Asian country and, what is extremely important, a Pacific country. Hence, a necessity for establishing foreign economic relations with the countries of the APEC. These relations were second to that Russia had with the countries of the EU.

Nevertheless and despite the fact that Russia began paying attention to economic relations with the APEC later than with the EU, the integration processes of Russia with the former had a deeper character than with the latter. Thus, first in 1995 Russia became a member of the Pacific economic council and then entered into the APEC.

How to explain the fact that the country's integration in the Pacific direction turned out to be for Russia easier and faster than that in the European direction? The fact is that the APEC had some different requirements for the membership than the EU.

As was noted earlier, to enter the more developed European integration system a potential member had to fulfill all those conditions which for the *potential member* were drawn up by the EU.

But in joining the younger Pacific system, a potential member could function on the basis of *its own individual plans*, thus, having even been integrated into the world economic structure, was permitted to defend *its own* priorities of economic activities.

However, the integration into the APEC, together with positive aspects, had its negative consequences as well.

The positive aspects of the integration were as follows: the growth of the commodity turnover, which will be discussed in the statistical section of the chapter; the rising role of Russia as a bridge connecting APEC with former republics of the Soviet Union, none of which, with the exception of Russia, had an access to the Pacific shore; the appearance of opportunities for Russia, via some European republics of the former Soviet Union (such as, for instance, Ukraine, Belarus, Moldova, etc.), to serve as a bridge connecting entire Europe (including the EU) with the entire Pacific region (including APEC).

Among the negative features of Russia entering APEC the following two, presenting a certain danger in Russia's relations with its Western European partners (as was pointed out earlier), need to be mentioned: first, growing imports of cheap consumer goods from countries of East Asia (for example, from China), thus having very negative effects on corresponding Russian domestic production; second, an increasing energy and raw materials' role Russia had to play with countries of East Asia.

The economic relations with former Soviet republics. This topic closely relates to the problem of the disintegration of the Soviet Union. We will devote a whole chapter to this problem. Here we want, preliminarily and briefly, to explore some elements of foreign economic relations between Russia and former republics of the USSR.

At the beginning of 1992, the Soviet Union broke down into 15 independent states, comprising its formerly 15 union republics. Newly formed states, freed from the strict control of the Soviet totalitarian-state capitalist system, set about a search for new foreign economic partners in Eastern and Western Europe.

Trade between republics within the Soviet Union was conducted in domestic prices which significantly deviated from world prices for the same products. The situation was beneficial for the majority of republics, since they could buy (and, first of all, raw and energy materials) from other republics at lower than corresponding world prices, while at the same time sell (for instance, light industry goods) at higher than corresponding world prices.

As a result of the destruction of the all-union market of goods and services, the former republics of the USSR as beneficiaries of the intra-republican trade suffered a significant loss. For, now they had to import as well as export at world prices.

As a raw and energy materials' exporter, Russia, as we will see later, gained, thanks to the changed conditions of world trade. There was no longer any need to actually subsidize exports of raw and energy materials (oil, natural gas, etc.) to the union republics which were now independent countries. But Russia lost as a purchaser of industrial production and certain types of raw materials (for instance, cotton) from the now independent countries.

Statistical data on Russian foreign trade for 1992 - 2003 and its evaluation

A general information about the volume of Russian foreign trade turnover in 1992 - 2003 is provided in Table 10.1:

Table 10.1
Russian Foreign Trade Turnover: A General Information
(according to the methodology of the balance of payments;
in current prices)⁷

Years	Total turnover ^a		Including:					
			Exports		Imports		Balance ^b	
	\$bln.	Percent	\$bln.	Percent	\$bln.	Percent	\$bln.	Percent
1992	79.4	100	42.4	53.4	37.0	46.6	5.4	6.8
1993	77.1	100	44.3	57.5	32.8	42.5	11.5	15.0
1994	118.1	100	67.6	57.2	50.5	42.8	17.1	14.4
1995	145.0	100	82.4	56.8	62.6	43.2	19.8	13.6
1997	158.9	100	86.9	54.7	72.0	45.3	14.9	9.4
1998	132.4	100	74.4	56.2	58.0	43.8	16.4	12.4
1999	115.1	100	75.6	65.7	39.5	34.3	36.1	31.4
2000	149.9	100	105.0	70.0	44.9	30.0	60.1	40.0
2001	155.7	100	101.9	65.4	53.8	34.6	48.1	30.8
2002	168.3	100	107.3	63.8	61.0	36.2	46.3	27.6
2003	211.3	100	135.9	64.3	75.4	35.7	60.5	28.6

As we can see, post-Soviet Russia of the 1990s - beginning of the 2000s enjoyed a significant growth of its total foreign trade turnover. There were two exceptions: 1993, in October of which the country found itself in a deep political crisis (discussed earlier in the book); and 1998, when the country went into the August financial crisis (which will be discussed in the next chapter), whose aftermath was felt in 1999.

Barring these two aberrations, the dynamics of the structure of the Russian foreign trade turnover shows big increases of both exports and imports. There were years when the growth of exports exceeded that of imports; there were other years when the situation was reversed. Overall, however, during each year of the period, exports were greater than imports, so that the foreign trade balance of the country was positive: opening its markets after many years of the Soviet-type semi-isolation, post-Soviet Russia was earning foreign currency.

Foreign trade partners of Russia. Russian official statistics divided foreign trade partners of the country into two groups.

The first group included those eleven former union republics of the Soviet Union which, together with Russia, comprised the Commonwealth of Independent States (CIS). Among them were: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

The second group listed countries outside the CIS. Members of the second group were countries of the EU and the rest.

Table 10.2 gives the reader a glance at the volumes of trade Russia had with each of the group:

Table 10.2
Russian Foreign Trade Turnover: Foreign Trade Partners
(according to the methodology of the balance of payments;
in current prices; in \$bln)⁹

Years	Total turnover		Exports		Imports		Trade balance	
	Outside CIS	CIS	Outside CIS	CIS	Outside CIS	CIS	Outside CIS	CIS
1992	65.3	14.1	33.5	8.9	31.9	5.1	1.6	3.8
1993	57.2	19.9	32.9	11.4	24.3	8.5	8.6	2.9
1994	89.0	29.1	53.1	14.5	37.0	13.5	16.1	1.0
1995	109.7	35.3	65.4	17.0	44.3	18.3	21.1	-1.3
1997	121.2	37.7	67.8	19.1	53.4	15.6	14.4	0.5
1998	102.4	30.0	58.6	15.8	43.7	14.3	14.9	1.5
1999	92.7	22.4	63.6	12.0	29.1	10.4	34.4	1.7
2000	122.2	27.7	90.8	14.2	31.4	13.4	59.3	0.8
2001	127.3	28.4	86.6	15.3	40.7	13.0	45.9	2.2
2002	139.7	28.6	90.9	16.4	48.8	12.2	42.1	4.2
2003	174.8	36.5	114.6	21.3	60.2	15.2	54.3	6.2

The table reveals that overwhelmingly Russia of the 1990s - the beginning of the 2000s traded with countries outside of the CIS. This was true for the total turnover, exports and imports.

Besides, such a direction of trade was beneficial to Russia in terms of its trade balance. It was always positive and, with the exception of 1992, much larger in Russia's relations with countries outside the CIS than in Russia's relations with the CIS countries.

A better understanding of the group structure of Russian foreign trade is provided by relative numbers (a share of each group's trade in the total turnover, exports, imports, and the trade balance):

Table 10.3
Russian Foreign Trade Turnover: Foreign Trade Partners
(according to the methodology of the balance of payments;
in current prices; in percentages to total)¹⁰

Years	Total turnover, 100 percent		Exports, 100 percent		Imports, 100 percent		Trade balance, 100 percent	
	Outside CIS	CIS	Outside CIS	CIS	Outside CIS	CIS	Outside CIS	CIS
1992	82.2	17.8	79.1	20.9	86.1	13.9	29.6	70.4
1993	74.2	25.8	74.3	25.7	74.0	26.0	74.9	25.1
1994	75.4	24.6	78.5	21.5	73.2	26.8	94.2	5.8
1995	75.7	24.3	79.4	20.6	70.7	29.3	106.6	-6.6
1997	76.3	23.7	78.0	22.0	74.2	25.8	96.6	3.4
1998	77.3	22.7	78.8	21.2	75.3	24.7	90.9	9.1
1999	80.5	19.5	84.1	15.9	73.7	26.3	95.3	4.7
2000	81.5	18.5	86.4	13.6	70.1	29.9	98.7	1.3
2001	81.8	18.2	85.0	15.0	75.7	24.3	95.4	4.6
2002	83.0	17.0	84.7	15.3	80.1	19.9	90.9	9.1
2003	82.7	17.3	84.3	15.7	79.9	20.1	89.8	10.2

The relative numbers of Russian foreign trade even more vividly depict the extremely important role played by countries outside the CIS and, at the same time, demonstrate the relative insignificance of traditional Russian partners, the CIS countries.

It would be interesting to see which countries contributed the most to trade with Russia in the 1990s - 2000s period. This will be done separately for each trading group and will cover 1995 - 2003. We start, in the alphabetical order, with the most important countries outside the CIS and then draw a table for the most significant countries within the CIS.

Table 10.4
The Most Important Partners of Russia Outside the CIS, 1995 - 2003
(in actual prices; average annual totals)¹¹

Countries outside the CIS	Total turnover		Exports		Imports		Trade balance	
	\$bln.	% to total	\$bln.	% to total	\$bln.	% to total	\$bln.	% to total
Total, including	111.2	100	78.8	100	32.4	100	46.4	100
China	6.6	5.9	5.0	6.3	1.6	4.9	3.4	7.3
Finland	4.4	4.0	2.9	3.7	1.5	4.6	1.4	3.0
France	3.6	3.2	2.0	2.5	1.6	4.9	0.4	0.8
Germany	13.6	12.2	7.7	9.8	5.9	18.2	1.8	3.8
Great Britain	4.8	4.3	3.7	4.7	1.1	3.4	2.6	5.6
Italy	7.5	6.7	5.6	7.1	1.9	5.9	3.7	8.0
Japan	3.4	3.1	2.5	3.2	0.9	2.8	1.6	3.4
Netherlands	6.1	5.5	5.1	6.5	1.0	3.1	4.1	8.8
Poland	4.3	3.9	3.2	4.1	1.1	3.4	2.1	4.5
Switzerland	4.3	3.9	3.9	4.9	0.4	1.2	3.5	7.5
Turkey	3.3	3.0	2.7	3.4	0.6	1.9	2.1	4.5
USA	7.6	6.8	4.5	5.7	3.1	9.6	1.4	3.0

The Russian statistical source we use to construct Table 10.4 lists 57 countries as trading partners of Russia in 1995 - 2003. Out of

them, during this period, Russia had the most trade relations with the 12 countries in the table.

Among these 12 countries, the first place in terms of its turnover, exports and imports was occupied by Germany. From the point of view of the trade balance, Russia's trade was the most beneficial with the Netherlands. In total, Russia experienced positive trade balance with each of its trading partners.

Table 10.5
The Most Significant CIS Partners of Russia, 1995 - 2003
(in actual prices; average annual totals)¹²

CIS countries	Total turnover		Exports		Imports		Trade balance	
	\$bln.	% to total	\$bln.	% to total	\$bln.	% to total	\$bln.	% to total
Total, including	26.7	100	15.0	100	11.7	100	3.3	100
Belarus	9.0	33.7	5.1	34.0	3.9	33.3	1.2	36.4
Kazakhstan	4.6	17.2	2.4	16.0	2.2	18.8	0.2	6.1
Ukraine	10.0	37.5	6.1	40.7	3.9	33.3	2.2	66.7

It can be seen that Russia's trade with the CIS countries in some way differed from that with the countries outside the CIS. The trade with the latter was much more dispersed: together, the best 12 Russian non-CIS trade partners accounted for less than 2/3 of the total turnover, exports and imports of the group. Among them, the contribution of the most significant trade partner of Russia, Germany, was only 1/8 of the total turnover, 1/10 of exports and 1/5 of imports.

The trade of Russia with the eleven countries of the CIS was heavily tilted toward just three of them. That is, trade with Belarus, Kazakhstan and Ukraine comprised more than 88 percent of the total turnover, more than 90 percent of Russian exports, and more than 85 percent of Russian imports. Moreover, in its trade residual, Russia's average annual trade surplus with the three countries of the CIS was enough to offset its average annual trade deficit with the rest of the CIS countries.

Let us now see what commodities Russia traded with the countries of each group.

The commodity structure of the Russian foreign trade turnover. Table 10.6 draws a picture of the commodity structure of Russian foreign trade in total, that is, including both groups of the country's trading partners:

Table 10.6
The Commodity Structure of the Russian Foreign Trade Turnover
With All Trading Partners, 1995 - 2003
(in actual prices; average annual totals)¹³

Indicators	Total turnover		Exports		Imports		Trade balance	
	\$bln.	% to total	\$bln.	% to total	\$bln.	% to total	\$bln.	% to total
Total, including:	137.9	100	95.1	100	42.8	100	52.3	100
Foodstuffs and agricultural raw materials (except textile fabric)	12.1	8.8	1.9	2.0	10.2	23.8	-8.3	-15.9
Mineral products	50.9	36.9	48.9	51.4	2.0	4.7	46.9	89.7
Production of chemical industry, rubber	14.2	10.3	7.4	7.8	6.8	15.9	0.6	1.1
Tanning materials, furs and their articles	0.5	0.4	0.3	0.3	0.2	0.5	0.1	0.2
Timber and pulp and paper articles	6.0	4.4	4.4	4.6	1.6	3.7	2.8	5.4
Textiles, textile articles and footwear	3.1	2.2	0.9	0.9	2.2	5.1	-1.3	-2.5
Metals, precious stones and their articles	23.8	17.2	20.6	21.7	3.2	7.5	17.4	33.3
Machinery, equipment and means of transport	24.3	17.6	9.4	9.9	14.9	34.8	-5.5	-10.5
Other commodities	3.0	2.2	1.3	1.4	1.7	4.0	-0.4	-0.8

The conclusion is inescapable: post-Soviet Russia has not deviated from the Soviet experience by continuing to be a country of predominantly (and now even more than during the Soviet period) exporting raw and energy materials and importing finished products (food and machinery). Thus, mineral products, metals, precious stones and their articles on average comprised annually almost 3/4 of Russian exports within the 1995 - 2003 period as compared to close to _ during the 1980 - 1990 period.¹⁴ At the same time, exports of machinery, equipment and means of transport as a share of total exports declined from 16 - 17 percent in 1980 - 1990¹⁵ to 10 percent in 1995 - 2003.

Table 10.7
The Commodity Structure of the Russian Foreign Trade Turnover
With Countries Outside the CIS, 1995 - 2003
(in actual prices; average annual totals)¹⁶

Indicators	Total turnover		Exports		Imports		Trade balance	
	\$bln.	% to total	\$bln.	% to total	\$bln.	% to total	\$bln.	% to total
Total, including:	111.8	100	80.3	100	31.5	100	48.8	100
Foodstuffs and agricultural raw materials (except textile fabric)	9.1	8.1	1.1	1.4	8.0	25.4	-6.9	-14.1
Mineral products	42.5	38.0	41.9	52.2	0.6	1.9	41.3	84.6

Production of chemical industry, rubber	11.2	10.0	5.8	7.2	5.4	17.2	0.4	0.8
Tanning materials, furs and their articles	0.4	0.4	0.2	0.2	0.2	0.6	0.0	0.0
Timber and pulp and paper articles	5.3	4.8	4.0	5.0	1.3	4.1	2.7	5.5
Textiles, textile articles and footwear	1.6	1.4	0.6	0.7	1.0	3.2	-0.4	-0.8
Metals, precious stones and their articles	20.7	18.5	19.1	23.8	1.6	5.1	17.5	35.9
Machinery, equipment and means of transport	18.7	16.7	6.6	8.2	12.1	38.4	-5.5	-11.3
Other commodities	2.3	2.1	1.0	1.3	1.3	4.1	-0.3	-0.6

Table 10.8
The Commodity Structure of the Russian Foreign Trade Turnover
With Countries of the CIS, 1995 - 2003
(in actual prices; average annual totals)¹⁷

Indicators	Total turnover		Exports		Imports		Trade balance	
	\$bln.	% to total	\$bln.	% to total	\$bln.	% to total	\$bln.	% to total
Total, including:	26.2	100	14.8	100	11.4	100	3.4	100
Foodstuffs and agricultural raw materials (except textile fabric)	3.1	11.8	0.8	5.4	2.3	20.2	-1.4	-41.2
Mineral products	8.6	32.8	7.1	48.0	1.5	13.1	5.6	164.7
Production of chemical industry, rubber	2.9	11.0	1.5	10.2	1.4	12.3	0.1	2.9
Tanning materials, furs and their articles	0.09	0.4	0.05	0.4	0.04	0.3	0.01	0.3
Timber and pulp and paper articles	0.8	3.1	0.5	3.4	0.3	2.6	0.2	5.9
Textiles, textile articles and footwear	1.3	5.0	0.3	2.0	1.0	8.7	-0.7	-20.6
Metals, precious stones and their articles	3.1	11.8	1.5	10.1	1.6	14.0	-0.1	-3.0
Machinery, equipment and means of transport	5.5	21.0	2.7	18.3	2.8	24.5	-0.1	-3.0
Other commodities	0.8	3.1	0.3	2.0	0.5	4.4	-0.2	-6.0

As Tables 10.7 and 10.8 demonstrate, post-Soviet Russia performed its colonial role of a supplier of raw and energy materials and a purchaser of finished products with respect to both world groups of its trading partners: to countries outside the CIS and to countries within the CIS.

Russian foreign finance

In the 1990s, post-Soviet Russia continued to open its economy to the world community not only in the field of

commodity-economic relations, but also in the field of finances. As a result, the following problems emerged to be resolved.

First, the problem of rights of enterprises, organizations and individuals to hold and use foreign currencies and the problem of ruble convertibility necessitated by it. Second, the problem of a flexibility of the currency exchange rate. Third, the problem of the opportunities for foreign investment in Russian economy. Finally, the problem of capital movements.

The problem of the decentralized use of foreign currencies by Russian economic agents

Recall that foreign trade state monopoly began disintegrating already during the last years of the Soviet system. But foreign trade, whether with or without state monopoly, cannot exist without solving the problem of the domestic currency exchange rate.

Therefore, already at the late Soviet period, as first, enterprises and organizations and then, individuals were granted a right to conduct foreign trade operations, there arose a question of allowing these economic agents at their own discretion to use currencies of foreign states. Convertibility of the domestic currency, the ruble, became a logical continuation of the widening rights of economic agents being more and more decentralized and/or denationalized.

But granting the opportunity to exchange rubles for foreign and, first of all, hard currencies had remained rather an *incomplete* measure. The Soviet law allowed only *domestic* (internal) ruble convertibility. *Externally*, that is, outside the Soviet Union, the ruble continued to be not exchangeable into foreign currencies.

This lasted during the early post-Soviet Russian period as well. Only in 1999, Russia subscribed to the article VIII of the Charter (Articles of Agreements) of the IMF. Accordingly, Russia and its domestic currency were proclaimed to be convertible with respect to the *current* account, without any limitations.¹⁸ But as far as the *financial* account is concerned, the Russian ruble outside Russia remained inconvertible.

The problem of a flexibility of the currency exchange rate

The problem originates within the Soviet system. As such, the problem has been inherited by post-Soviet Russia.

The ruble exchange rate in the USSR. Under the conditions of totalitarian state capitalism, there had existed (until 1989) *two* ruble exchange rates.

The first was *official, fixed* and very *high*. It was determined by the *highest level of the central bureaucracy* of the country. After WWII, the ruble-dollar exchange rate was determined in 1947.¹⁹

The second time the ruble/dollar exchange rate was considered in 1961. It was then fixed at \$1=61 kopecks, or at 1 ruble=\$1.64.

But it is necessary to emphasize that there was some logic in this apparent bureaucratic voluntarism in the determination of the relatively high exchange rate of the ruble and, hence, of the relatively low exchange rate of the dollar.

First, such an exchange rate was *ideologically* advantageous to the central Soviet bureaucracy. The low price of the dollar in rubles was meant to show the strength of the Soviet "socialist" ruble vis-a-vis the weakness of the American "capitalist" dollar.

Second, to some extent, a strong ruble was *economically* beneficial to the Soviet state as a host to foreign tourists. For, the latter were, thus, forced to sell their currencies at relatively low ruble prices. As far as Soviet tourists to foreign countries are concerned, their number before perestroika was rather small.²⁰

The second ruble exchange rate was *unofficial* and *flexible*. It was determined by the laws of demand for and supply of the hard currency in the *black market*. It is this rate which indicated that the official price of the domestic currency was relatively too high.

During the last years of perestroika, there began some softening of the policy of the central Soviet bureaucracy toward the ruble exchange rate. Thus, in 1989, with the borders of the USSR being open for Soviet tourists going abroad and with the increase of foreign tourists coming to the country,²¹ Gosbank was granted a permission to use a special (in relation to the official) "tourist exchange rate" of the ruble.

In 1991, a law allowing currency trade in Soviet currency markets was issued. The law created a ground for the determination of the exchange rate at a flexible market base, that is, independent from the fixing role of the state. By this law, the monopoly of Vneshekonombank to carry foreign currency operations had been undermined.

But within the chaotic and convulsive period of the transformation and breakdown of the Soviet system, the execution of the law was contradictory. For, side by side with the so-called *market* exchange rate, there were also in operation *official*, or *commercial*, exchange rates. They were to serve the following two purposes.

First, for statistical (accounting) purposes: to be able to evaluate the volume of Soviet foreign trade in hard currencies. The necessity of such an evaluation arose from freeing of the former "socialist" countries from the Soviet influence, the demolition of the system of COMECON and, as a result, the gradual transition of the Soviet Union to the mutually beneficial economic relations with its former younger trading partners.

Second, to lower the ruble expenses on foreign currencies which Soviet enterprises, while being decentralized and

denationalized and, hence, in the process of freeing themselves from state monopoly, were, nevertheless, obliged to sell to Gosbank of the USSR. The country needed hard currencies to serve its growing foreign debt (of which is in the next chapter).

The ruble exchange rate in post-Soviet Russia. Such a contradictory policy with respect to the foreign exchange rate continued in the early post-Soviet period.

On the one hand, the ruble foreign exchange rate has now been determined, as was pointed out above, by the market forces of supply and demand. Thus, the exchange rate was flexible.

This is told by Table 10.9:

Table 10.9
The Dynamics of the Official Foreign Exchange Rates In Rubles
(1992 - September 2004; at the end of the period)²²

Years	US dollar		Euro	
	Rub./US doll.	In percentages to the previous period	Rub./euro	In percentages to the previous period
1992	415.50			
1995	4,640.00	130.7		
1996	5,560.00	119.8		
1997	5,960.00	107.2		
1998	20.65	346.5		
1999	27.00	130.8	27.23	
2000	28.16	104.3	26.14	96.0
2001	30.14	107.0	26.49	101.3
2002	31.78	105.5	33.11	125.0
2003	29.45	92.7	36.82	111.2
2004, September	29.22	98.9	35.99	97.7

Besides, in the beginning of 1992, there came into effect a presidential decree allowing legal as well as physical persons in Russia to hold foreign currencies, open corresponding foreign currency accounts in domestic commercial banks and, at own discretion, to use foreign currencies in such accounts.

But, on the other hand, the Russian government was trying, through some administrative measures, to influence *directly* the Russian bank depositors of foreign currencies and, hence, *indirectly* the ruble exchange rate. Thus, in the 1990s, such a policy of the Russian government went into the following three stages.

The beginning of 1992. All physical and legal persons of the country who were holders of foreign currencies were obliged to sell (for rubles) 10 percent of their hard-currency export revenue to the CB. It needs to be noted that the exchange rate of the foreign currency which the CB was buying for rubles from these economic agents was determined by the CB itself at a relatively *low* ruble rate. But at the same time, enterprises which exported energy and raw materials, were required to sell the CB *additional* 40 percent of their

hard-currency export revenue, however, at a relatively higher commercial ruble exchange rate.

July 1992. *All* Russian exporters were now obliged to sell the CB 30 percent of their hard-currency revenue at a relatively low CB exchange rate. *Additionally*, they were required to sell 20 percent of the hard-currency revenue to purchasers in the Russian currency market.

At the first as well at the second stage, the result of the state interference into the process of the foreign-currencies trade was the reduction of their supply in the currency market of Russia. For, first, the state regulation was reducing the incentive for the exporters to earn foreign currencies. For, second, the exporters were finding the ways that foreign currencies from foreign trade remained outside Russia. For, the third, the exporters were learning and, hence, frequently were performing the growing export operations with the help of barter, thus, further reducing the supply of foreign currencies in the country.

The mid-1990s. With further dismantling of the Soviet system of totalitarian state capitalism, the Russian state was weakening the former restrictions to the foreign currency trade for rubles. But these restrictions were not abolished, thus, in essence, being a *hidden* tax to supplement the revenue side of the Russian budget with the help of Russian exporters.

The problem of the opportunities for foreign investment in Russian economy

Before discussing the problem, it is necessary to define the very term “foreign investment in Russian economy.”

Defining “foreign investment in Russian economy.” According to a Russian statistical annual,²³ these are all investments of property and intellectual values by foreign investors and also by foreign branches of Russian legal persons in objects of the entrepreneurial and other types of activity on the territory of Russia for the purpose of earning revenue. The investments are divided into direct, portfolio, and other.

Direct investment is that made by legal or physical persons, who own the entire enterprise or who control not less than 10 percent of shares of a corporation.

Portfolio investment is a purchase of shares, bonds, promissary notes and other debt-type financial securities. They are supposed to be less than 10 percent of the company’s legal capital.

Investment classified as neither direct nor portfolio is defined as *other*. These are trade credits, credits of foreign governments guaranteed by the Russian government, credits of financial organizations, etc.

Already in 1987, that is, during the late Soviet period, a law was issued allowing the creation on the territory of the Soviet Union of

joint ventures with foreign capital. Hence, for the first time since NEP of the 1920s the Soviet highest bureaucracy permitted investments in its economy by foreign firms. Since that time, foreign capital has begun flowing into the country not only in the form of portfolio investment but in the form of direct investment as well.

Statistics of foreign investment in post-Soviet Russian economy. The data is provided in Table 10.10:

Table 10.10
*Types of Foreign Investment in Russia, 1995 - 2003*²⁴

Years	Total investment		Direct investment		Portfolio investment		Other investment	
	\$mln.	% to total	\$mln.	% to total	\$mln.	% to total	\$mln.	% to total
1995	2,983	100	2,020	67.7	39	1.3	924	31.0
1999	9,560	100	4,260	44.6	31	0.3	5,269	55.1
2000	10,958	100	4,429	40.4	145	1.3	6,384	58.3
2001	14,258	100	3,980	27.9	451	3.2	9,827	68.9
2002	19,780	100	4,002	20.2	472	2.4	15,306	77.4
2003	29,699	100	6,781	22.8	401	1.4	22,517	75.8

In the 1995 - 2003 period, the volume of foreign investment in Russian economy was constantly growing. However, the structure of foreign investment was changing: the decline of the share of direct foreign investment was being accompanied by the increase in the share of other investment, such as foreign credits.

Obviously, there was something in the Russian investment climate that favored foreign investment in the form of credits at the expense of other forms of foreign investment, and especially of direct investment. Among factors determining this climate, we will point out the following.²⁵

First, the territory of an enormously large country was covered by a very underdeveloped infrastructure and, first of all, communications: roads, transportation, telephone, etc. Also, given an extremely harsh climate, the country suffered from the absence of normal sanitary-housing conditions of life for many of country's citizens.

Second, the political, economic and social struggle of everyone against everyone, expressed in the lawlessness and characterized by a high level of everyday and economic criminality, a widespread corruption, the feebleness of the law and order when confronted by impudence and impunity of "big" criminals, on the one hand, and omnipotence and all-permissibility of the same authorities toward a "small" person, on the other.

Third, the regional centrifugal forces fighting for either a complete independence (Chechnya) or more budget autonomy from the Russian center.

Obviously, this background, under which there existed a very high degree of economic, social, political and regional risks in

investing in Russian economy, was not very conducive to such *direct* foreign activities. It was less risky to provide Russia with loans, especially when the latter were backed by the Russian government.

However, crediting Russian economy was not without its own risks. For example, a high profitability of Russian state financial securities (which we discussed in one of the previous chapters of this part of the book) served as an evidence of an extreme risk which lay in wait for potential foreign investors and which revealed itself in the Russian financial crisis of August 17, 1998 (of which we will talk later in this chapter).

Anyway, paradoxically but, as post-Soviet Russia was leaving behind itself its Soviet past, in the field of foreign investment the country was more and more returning to the same Soviet past whose source of foreign investment was foreign crediting.

Countries which invested in Russia in the period under consideration are listed in Table 10.11:

Table 10.11
Countries-Investors in Russia in 1995 - 2003
(average annual investment)²⁶

Countries	Average annual investment, \$mln.	Percentage					
		1995	1999	2000	2001	2002	2003
Total investment, including:	14,540	100	100	100	100	100	100
USA	1,535	27.9	30.6	14.6	11.2	5.7	3.8
Germany	2,169	10.3	17.7	13.4	8.7	20.2	14.5
Cyprus	1,879	1.4	9.7	13.2	16.3	11.8	14.2
Great Britain	1,660	6.1	7.7	5.4	10.9	11.5	15.5
Netherlands	1,003	2.9	5.7	11.2	8.8	5.9	5.9
Switzerland	897	14.6	4.2	7.2	9.4	6.8	3.6
France	1,210	3.6	3.3	6.8	8.4	6.0	12.5
Sweden	148	2.1	0.7	2.8	0.5	0.7	0.8
Austria	233	2.7	0.4	0.7	3.0	1.9	1.3
Japan	348	2.5	0.4	1.1	2.9	2.2	3.4
Other countries	3,458	25.9	19.6	23.6	19.9	27.3	24.5

The distribution of the volume of investment made by various countries in Russia during the 1995 - 2003 period was uneven. Thus, while in 1995 and 1999 a sizable portion of investment in Russia was made by the USA, in 2003 this was made by the Great Britain, Germany, Cyprus and France, with the share of the USA shrinking by almost 7 - 8 times.

The position of Cyprus in this list is very peculiar: the country was an offshore heaven of Russian companies. Thus, investment by Cyprus in Russia was in reality investment by Russian companies located in Cyprus in Russian companies located in Russia.

On annual average, in absolute terms, the investment hierarchy in Russia was headed by Germany, the Great Britain and the United States (for the above reason, Cyprus is not included)

With regard to the branches of Russian economy foreign investment was flowing into during 1995 - 2003, the answer is given in Table 10.12:

Table 10.12
Average Annual Foreign Investment in Russia by Sectors of Economy
*in 1995 - 2003*²⁷

Indicators	\$mln.	Percent to total
Total investment, including:	14,540	100
Industry, including:	6,035	41.5
Fuel	1,809	12.4
Chemical and petrochemical	272	1.9
Mechanical engineering and metal-working	504	3.5
Forestry, woodworking and pulp and paper	296	2.0
Food	1,215	8.4
Construction	146	1.0
Transport and communication	984	6.8
Trade and public catering	4,782	32.9
Finance, credit, insurance, social security	282	1.9
General commercial activity to support the market functioning	1,026	7.1
Other sectors of economy	1,285	8.8

Industry and, first of all, its fuel branch was the most attractive to foreign investors. The second place was occupied by trade and public catering.

Lastly, it would be interesting to see how foreign investment was distributed among regions of Russia:

Table 10.13
The Average Annual Distribution of Foreign Investment Among Russian Regions
*(1995 - 2003)*²⁸

Regions	\$mln.	Percent to total
Total Russian Federation, including:	14,540	100
Central federal region, including:	6,918	47.6
City of Moscow	6,012	41.3
Northern-Western federal region	1,469	10.1
Southern federal region	713	4.9
Volga federal region	845	5.8
Ural federal region	1,970	13.5
Siberian federal region	1,494	10.3
Far Eastern federal region	1,131	7.8

Moscow alone, with its population of around 10 mln. people, or close to 7 percent of the Russian population,²⁹ accumulated more than 41 percent of total foreign investment in Russia in the 1995 - 2003 period. This disproportional distribution of foreign investment in one of the Russian regions shows one more time the disproportional development of social, economic, political and other aspects of life in modern Russia. In this respect, post-Soviet Russia of authoritarian state capitalism differs little from the Soviet Union of totalitarian state capitalism.

The problem of movements of capital out of Russian economy

First, a short explanation is in order. When we speak about capital flight from Russian economy, what is meant is exclusively the movement of hard currency, not of the Russian ruble.

In total, the problem of capital flight included two aspects. They need to be distinguished from each other.

A legal export of capital. This is the first aspect of the problem. The permission to move capital out of Russia was given by the Russian authorities to satisfy certain needs of Russian economic agents in hard currency. There were two legal allowances.

First, the movement of capital out of Russia was permitted for the creation of joint ventures or just Russian companies abroad. Second, Russian enterprises were allowed to move capital out of the country for opening special bank accounts abroad in those cases when there emerged a necessity to pay for foreign economic operations.

Capital outflow. This was the second aspect of the problem. In essence, it was a partially legal, partially illegal movement of capital from the country's economy.

The capital movement was channeled into two directions. The first was capital flight from Russia abroad. The second was the accumulation of foreign currency by the Russian residents.

Capital flight from Russia abroad. This was a *physical* outflow of capital *from* Russia. Its size, because its not accounted for, not registered character, is difficult to determine.

For example, specialists in the department of the hard currency control of the CB of the RF, calculate that "in ... [1999] capital flight from Russia reach[ed] 1 bln. dollars a month."³⁰ And a Russian general, formerly a commander of the frontier troops of Russia, notes in the same way:³¹

... if we are to talk seriously about our financial interrelations with the world economy, then, first of all, we need to say the following: today Russia is the largest investor on the whole planet. According to the data of the Accounting Chamber of the RF [a federal

auditing body whose Russian name is *Schyetnaya Palata*], which are officially handed out to the GosDuma, beginning with 1992 there had been taken out from our country 400 bln. dollars. We have abroad property whose book value is 3 bln. [dollars]. Its market value [is] 100 bln. dollars. Moreover: everybody knows that we extract raw materials. And what do we get from its proceeds? In this year [1999] Russia ought to pump from its entrails 300 million tons of oil. With the price of one ton at the lowest we must receive 21 billion dollars from oil. But the budget will get only 700 million. Who would answer where 20 billion go? We produce gas in the amount of 23 billion dollars [annually]. Out of [this amount] only 1.6 billion goes to the budget. Every year we sell wood in the amount of 10 billion dollars. But I am ready to give a pricy prize to someone who would find a kopeck from the income [of the forestry]. According to calculations made by the Institute of Roskomrybolovstva [Russian commercial fishing], we [annually] catch fish products worth of two tens of billion of dollars. And where are these billions?"

One of the directions of capital flight were offshore zones.³² Here is what a Russian source³³ writes about them and their attractiveness:

... an offshore [is] just a place alluring to rich foreigners who either themselves come there with their money or simply transfer the money there, [themselves] remaining in [their] country. [For offshore zones] to attract foreign currency, they, naturally, need to do something so that the money was more comfortable than in [own] country ... that it was better defended from somebody else's encroachments ...

... there will be no offshore zones only when citizens of all countries start feeling comfortable in their own countries ... when any country of the world has normal taxes, bank secrecy ... a prosperous economy [not corrupt authorities, and law-abiding, not criminal business]."

The accumulation of foreign currency by the Russian residents. This was a second direction of the outflow of capital from the country's economy. But, unlike the first direction where there was primarily *illegal physical emigration of foreign currency not only from Russian economy but out of Russia as well*, the accumulation of foreign currency by the Russian people was *in some cases legal and in other cases illegal physical emigration of foreign currency only from the Russian economy but within the country*. Thus, the 1990s witnessed *dollarization* of Russian economy, of the flight of its citizens from their domestic currency.

During this period and beyond (2000s), a foreign currency and, first of all, the American dollar drove away the ruble to the margin of the economic life in Russia. The US dollar almost exclusively began performing a function of a store of value, partially of a unit of account and, on those occasions when large sums of

money in transactions were involved (real estate, for instance), of a medium of exchange.

Of the scope of such a flight tells us, for instance, the following fact: even in 1998, when the financial crisis in Russia took place, almost 13 percent of personal money expenditures were spent on purchasing foreign currency.³⁴ According to some *unofficial* estimates, in the same year, Russian residents held between \$53 and \$55 bln., of which 40 percent were deposited in commercial banks and 4 percent invested in state financial securities.³⁵

The rest (\$30 - \$31 bln.) were held under the mattresses (in money-boxes). This amounted to almost 15 percent of Russian GDP of the period.³⁶

The major reasons why the Russian people changed their rubles into US dollars, held the latter primarily under the mattresses (in money-boxes) and used them in large money transactions were as follows.

First, this reflected people's distrust in the state, which deceived them in 1992 when, as a result of price liberalization, people's savings evaporated almost instantly.³⁷

Second, the psychological attitude of the Russian people was affected by the scandals in the higher echelons of the government when money intended for paying wages and pensions was used by commercial banks exclusively for their own purposes and eventually went into some unknown destination.³⁸

Third, this psychological mood of the Russian people was stirred up by their lack of faith in the commercial banking sector's ability and willingness to keep their deposits secret and not to be revealed to the criminals, racketeers and the mafia.

Finally, the Russian people held foreign currency in money-boxes simply because they (the people) were anxious that commercial banks could cheat them in the same way as it was done by the government and various financial institutions. As the events of August 17, 1998 showed, the Russian people were not mistaken in their feelings. For, after the 1998 financial crisis, Russian commercial banks, following the example of the Russian state, suspended, delayed or significantly reduced their obligations to depositors, investors and/or creditors.

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- 2 See, for instance: L. Abalkin, "Rol' Gosudarstva v Stanovlenii i Regulirovanii Rynochnoi Ekonomiki" [The Role of the State in the Formation and Regulation of the Market Economy], *Voprosy Ekonomiki*, 1997, Number 6; V. Buglai, N. Liventsev, *Mezhunarodnyye Ekonomicheskiye Otnosheniya* [Foreign Economic Relations]. Moscow: Finansy I Statistika, 1999.
- 3 See, for instance: W. Adams, J. Brock, *Adam Smith Goes to Moscow: A Dialogue on Radical Reform*. Princeton, N.J.: Princeton University Press, 1993; U. Kikivari, "Liberalizatsiya Vneshnei Torgovli v Protsesse Ekonomicheskoi Transformatsii v Rossii" [Liberalization of Foreign

Trade During the Process of the Economic Transformation in Russia], *Voprosy Ekonomiki*, 1997, Number 8; D. Kirillov, "Gosudarstvo Vypuskaiyet Nyeftyanuiyu Otrast' iz-pod Kontrolya" [The State Liberates the Oil Industry from Its Control], *Finansovyye Izvestiya*, July 22, 1997; St. Liesman, N. Benerjee, C. Rosett, "Split Decisions. Without the Politburo, Russia's Power Centers Are All Over the Map. Some Businesses Seek Links to Both the Kremlin and Organized Crime. Chaplains Return to the Army," *The Wall Street Journal*, April 4, 1996; V. Loginov, A. Barysheva, R. Lekach, eds, *Ekonomicheskiye Reformy v Rossii: Itogi Pervykh Lyet, 1991 - 1996* [Economic Reforms in Russia: the Results of the First Years 1991 - 1996]. Moscow: "Nauka," 1997; "Nuzhno li Rossii Vstupat' vo Vsemirnuiyu Torgovuiyu Organizatsiyu? Oslablennyyi Ekonomicheskimi Spadom, Otechestvennui Biznes Mozhet ne Vyderzhat' Konkurentsii s Inostrannym Kapitalom" [Is It Necessary for Russia to Become a Member of the World Trade Organization? Weakened by the Economic Slump, Domestic Business Might Not Endure Competition With Foreign Capital], *NG-Politekonomiya*, Number 3, Prilozheniye k *Nezavisimoi Gazete*, February 1998.

- 4 See, for instance, S. Kandaurov, "Pyerspektivy Razvitiya Mirovogo Rynka Oruzhiya. Varianty Politiki Rossii" [The Perspectives of the Development of the World Arms Market. Policy Choices for Russia], *Informatsionno-Analiticheskiiy Byulleten' "Strategicheskiye Problemy Ekonomicheskoi reformy v Rossii,"* 1995, Number 4; and N. Novichkov, "Russkoie Oruzhiye Tesnit Konkurentov na Mirovykh Rynkakh" [The Russian Arms Are Crowding Out Competitors In the World Markets], *Finansovyye Izvestiya*, August 12, 1997.

- 5 In mid-1999, this situation was bitterly commented by the chair of the country's Customs Committee:

"Practically, we have no customs-tariffs policy. [If we have it,] it is unsystematic, uncoordinated. .

Custom-house is created to protect the domestic producer. To fulfill the protectionist role. But we have turned [it] mainly into tax collector... .

The more we import, the greater the income, the better, it appears, we performed. The amount of domestic taxes we collect is small, therefore, the share of the custom-house in budget revenues is significant ...

We live at the expense of imports ... we kill the domestic producer, we import, collect taxes on [imports], use them to pay off the budget employees, the army, we again import commodities ...

Moscow collects almost a half-around 43 - 46 percent-of custom duties of the country, and, if the capital [city] fails to collect, then the whole budget is in jeopardy" (O. Litvinenko, M. Vanin, "Tarif Dolzhen Byt' Proshchie" [The Tariff Must Be Simplier], *Profil*, June 21, 1999, Number 23).

See also V. Zmyeyushchenko, "Oposhlennaya Tamozhnya" [The Vulgarized Custom-House], *Profil*, August 2, 1999, Number 29.

- 6 See, for instance, S. Zhil'tsov, "Strany Yugo-Vostochnoi Azii Stanovyatsya Strategicheskimi Partnyerami Rossii" [Countries of the South-East Asia Are Becoming Strategic Partners of Russia], *Finansovyye Izvestiya*, August 12, 1997.

- 7 1992 - 1994: Goskomstat Rossii, *Rossiya I Strany Mira* [Russia and Countries of the World]. Moscow: Goskomstat Rossii, 1998, p. 304, tabl.

- 10.4; 1995 - 2003: Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik, 2004* [The Russian Statistical Annual, 2004]. Moscow: Rosstat, 2004, p. 650, tabl. 25.2.
- 8 Calculated by the author as a sum of exports and imports.
- 9 1992 - 1994: Goskomstat Rossii, *Rossiiskiy Statisticheskii Ezhegodnik, 1998* [The Russian Statistical Annual, 1998]. Moscow: Goskomstat Rossii, 1998, p. 743, tabl. 25.2, p. 745, tabl. 25.5; 1995 - 2003: Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik, 2004* [The Russian Statistical Annual, 2004], p. 650, tabl. 25.2.
- 10 Percentages are calculated by the author from the follows: 1992 - 1994: Goskomstat Rossii, *Rossiiskiy Statisticheskii Ezhegodnik, 1998* [The Russian Statistical Annual, 1998]. Moscow: Goskomstat Rossii, 1998, p. 743, tabl. 25.2, p. 745, tabl. 25.5; 1995 - 2003: Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik, 2004* [The Russian Statistical Annual, 2004], p. 650, tabl. 25.2.
- 11 Annual averages and percentages are calculated by the author from: Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik, 2004* [The Russian Statistical Annual, 2004], pp. 652 - 653, tabl. 25.7.
- 12 Annual averages and percentages are calculated by the author from *ibid.*, p. 653, tabl. 25.8.
- 13 Calculated by the author from *ibid.*, p. 654, tabl. 25.10 and p. 655, tabl. 25.13.
- 14 See tabl. 7.6 in Chapter 7 of Part VII of the book.
- 15 See *ibid.*
- 16 Calculated by the author from *ibid.*, p. 655, tabl. 25.11 and p. 656, tabl. 25.14.
- 17 Calculated by the author from *ibid.*, p. 655, tabl. 25.12 and p. 656, tabl. 25.15. Because of rounding off, sums of some parts do not equal some totals.
- 18 See, for instance, V. Gerashchenko, "Vokrug Rublya" [Around the Ruble], *Argumenty i Fakty*, September 1999, Number 39.
- 19 How it was done at Stalin's time, that is, during the period of young Soviet capitalism, can be seen from the following episode:
"It is said that in 1947, the Minister of Finance ... came to Stalin and showed calculations from which followed that a dollar cost 14 rubles. Stalin crossed out [number] one: '4 will be enough for them' ("Na Skol'ko Tyanyet Dollar" [How Much Is the Dollar Worth?], *Argumenty i Fakty*, August 1998, Number 36).
- 20 It could not be otherwise given the *totalitarian* nature of the Soviet system.
- 21 "In 1989, eight million Soviet citizens traveled abroad ... In the same year, close to eight million foreigners visited the Soviet Union ..." (E. Raiklin, "The Disintegration of the Soviet Union," *International Journal of Social Economics*, Volume 20, Numbers 3/4, 1993, p. 41).
- 22 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik, 2004* [The Russian Statistical Annual, 2004], p. 695, tabl. 26.42.
- 23 *Ibid.*, p. 624.
- 24 *Ibid.*, p. 620.
- 25 Here, we just list these factors. We explore some of them in a more detail in some of the final chapters of the book.

- 26 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik, 2004* [The Russian Statistical Annual, 2004], p. 623, tabl. 23.18.
- 27 Calculated from *ibid.*, p. 620, tabl. 23.16.
- 28 Calculated from *ibid.*, pp. 621 - 622, tabl. 23.17.
- 29 Calculated from *ibid.*, p. 77, tabl. 5.3.
- 30 V. Gerashchenko, "Vokrug Rublya" [Around the Ruble].
- 31 "Nasha Tsel'—Smenit' Vlast'" [Our Goal Is to Change the Power], *Zavtra*, April - May 1999, Number 17.
- 32 A list of the countries and regions which the CB of the RF considers as the offshore zones can be found in R. Kulakova, M. Builov, "TsB Predotvratil Ottok Kapitala. Zaodno i Pritok" [The CB Averted Capital Outflow. At the Same Time, Its Inflow], *Kommersant*, July 23, 1999.
- 33 S. Minayev, "Zakon Sokhraneniya Deneg" [A Law of Preserving Money], *Kommersant*, August 3, 1999, Number 30. See also "Central Bank's Primitive Instinct Spawns Capital Flight," *The St. Petersburg Times*, April 20, 1999; T. Fyodorova, A. Selin, "Offshornyi Biznes—Eto Slovosochetaniye, ot Kotorogo Pakhnyet Den'gami i Tainoi" [Offshore Business Is a Word-Combination Which Smells Money and Secrecy], *Chas Pik*, June 21, 1995; Interfaks, "Ottok Kapitala iz Rossii" ["Interfax," Capital Flight From Russia], *Nezavisimaya Gazeta*, August 22, 1998; and "Vyvoz Kapitalov i Investitsionnyi Krizis v Rossii" [Capital Flight and the Investment Crisis In Russia], *Ekonomika i Zhizn' (Spb)*, May 6, 1995.
- 34 See Goskomstat Rossii, *Rossiya v Tsifrakh* [Russia in Numbers]. Moscow: Goskomstat, 1999, p. 107, tabl. 8.5.
- 35 Y. Bragina, "Losing Investor Trust," *The Moscow Times*, April 23, 1998. See also, for instance, T. Virkunen, "Skol'ko zhe Dollarov Khranitsya v Rossiiskikh Kubyshkakh? [How Many Dollars Are Kept In Russian Money-Boxes?], *Argumenty I Fakty*, March 1999, Number 10.
- 36 Calculated from Goskomstat Rossii, *Rossiya v Tsifrakh* [Russia in Numbers], 1999, p. 26, tabl. 1.1 and p. 412, tabl. 26.9.
- 37 See Chapter 6 of Part VIII of the book.
- 38 See Chapter 8 of Part VIII of the book and also, for instance, "Sberbank Stroit Dvortsy. A Vkladchikam ne Khvataet Protsentov na Khizhinu" [Sberbank Builds Palaces. And Depositors Do Not Have a Sufficient Interest Income for a Hut], *Komsomol'skaya Pravda*, May 27, 1997; A. Semyenov, I. Trosnikov, "Byudzhetye Den'gi Ostayutsia v Bankakh. No Bankam Pridyetsia za Eto Zaplatit" [Budget Money Remain in Banks. But Banks Will Have to Pay for This], *Kommersant-Daily*, May 14, 1997; T. Virkunen, "Chto Proiskhodit v Vashem Banke?" [What Is Going On In Your Bank?], *Argumenty I Fakty*, October 1998, Number 42.

PART VIII

THE FIRST STAGE IN THE DEVELOPMENT OF THE POST-SOVIET SOCIOECONOMIC SYSTEM (1991 - PRESENT)

Chapter 11

Other Aspects of the Post-Soviet Russian Foreign Financial Relations¹

In this chapter, which is a continuation of the previous chapter, we will explore such aspects of the foreign financial relations of post-Soviet Russia as Russia's foreign debt, the balance of payment, and the financial crisis of August 17, 1998.

Post-Soviet Russian foreign debt

Russian foreign debt, like any foreign debt, consisted of two parts. The first was Russia's gross indebtedness to non-residents. The second was the sum total of foreign indebtedness to Russia.

Russian gross foreign debt to non-residents

At the beginning of 2004, Russian gross foreign indebtedness to its non-residents was equal to \$184.2 bln.² This amounted to more than 40 percent of Russian GDP.³

The structure of the debt was as follows:

Table 11.1
Russian Gross Foreign Debt to Non-Residents
(at the beginning of 2004)⁴

Indicators	\$bln.	Percent to total
Total	184.2	100
Short-term debt obligations	36.0	19.5
Long-term debt obligations	148.2	80.5
Government bodies ⁵	97.9	53.2
New Russian debt	38.6	21.0
Soviet debt	58.1	31.5
Monetary authorities ⁶	7.8	4.2
Banks (without participation in capital) ⁷	24.9	13.5
Non-financial organizations (without participation in capital)	53.6	29.1

The table reveals the following chain of causes and effects. Since, within the domineering state debt obligations, Soviet debts

prevailed, then the long-term indebtedness was the major debt obligation of the Russian authorities.

It needs to be pointed out that there was no clear-cut pattern of behavior of many components of Russian gross foreign debt, at least in the 2001 - 2004 period. While the new Russian debt was constantly declining, the Soviet debt went down in 2001 - 2003, then slightly increased in 2004. All other components of the debt repeated the pattern of the Soviet debt.

As a result, 2004 witnessed a sharp rise in total Russian foreign debt at the beginning of 2004 as compared to the previous years under consideration (from \$161.4 bln. in 2001 to \$184.2 bln. in 2004). The principal cause of such an increase in Russian indebtedness to non-residents was a constant rise in debts of banks (from \$9.3 bln. in 2001 to \$24.9 bln. in 2004) and of non-financial organizations (from \$21.8 bln. in 2001 to \$53.6 bln. in 2004).⁸

It is hard to pinpoint to what extent the banks and non-financial organizations were non-state and to what extent state. But one thing is clear: feeling more independent from the all-state control, various banking and financial bureaucratic groups of Russia, at least, at the beginning of the 2000s were engaged in heavy foreign borrowing, while enjoying foreign trade surpluses, on the one hand, and legally and illegally stocking hard currency abroad, on the other.

Foreign debt to Russia

As of January 1, 2006, Russia was owed \$68.9 bln. Russian major debtors were Iraq (\$9.4 bln.). North Korea (\$4.4 bln.), former Soviet republics (\$3.3 bln.), China and Syria (each \$1.4 bln.), Algeria, India and Vietnam.⁹

Thus, Russian real (net) foreign indebtedness was smaller than its gross foreign debt suggested. However, one of the major problems with this foreign debt to Russia was that part of the debt, which post-Soviet Russia inherited from the Soviet Union. This were credits the USSR gave to developing countries and which many of the countries were unable to repay Russia.¹⁰

The post-Soviet Russian balance of payments

Let us recall that the achievement of a zero balance of payments by securing zero balances of both current and financial (capital) accounts was the main task of foreign economic relations under the Soviet conditions. The striving for accomplishing this goal was caused by the inconvertibility of the Soviet ruble. Hence, the Soviet highest bureaucracy wanted, in the best case, to prevent any occurrence of any foreign debt and, in the worst, if it was inevitable, to reduce it to a minimum.¹¹

Till the end of the 1970s, the Soviet Union had been able to attain a minimal (in relation to its hard currency reserves and real GDP) amount of foreign hard currency debt. But beginning with the 1980s and up to the downfall of the Soviet system and the disintegration of the country, such a goal was no longer to be achieved.

Post-Soviet Russia of the 1990s inherited the *hard currency aspirations* of the Soviet system and its late *currency practice* as well. This is because, on the one hand, the Russian ruble, like the Soviet ruble, remained externally inconvertible. Hence, the Soviet desire of post-Soviet Russia to keep under control its foreign hard currency debt, minimizing it or not having it at all.

This is because, on the other hand, the continuation of the late Soviet chaos in early post-Soviet Russia was compelling the country to engage in growing hard currency borrowing, thus, increasing its foreign hard currency debt. The post-Soviet Russian balance of payments of the 1990s was a reflection of these two tendencies.¹²

With the advancement from the chaotic 1990s to the more stable 2000s, the hard currency policy in Russia began changing, and this found its way in the balance of payments. Let us look at the latter for the year 2003, both for countries outside the CIS and within the CIS:

Table 11.2
The Major Items of the Russian Balance of Payments, 2003
(\$mln.)¹³

Indicators	Consolidated balance of payments	Including	
		With countries outside CIS	With CIS countries
Current account, including:	35,845	31,564	4,281
Trade balance in commodities	60,493	54,322	6,171
Trade balance in services	-11,093	-10,196	-897
Investment income	-13,171	-12,960	-211
Current transfers	-385	397	-783
Financial (capital) account, including:	-28,420	-26,951	-1,469
Capital account	-993	-1,026	32
Financial account	-27,427	-25,926	-1,501
Direct investment	-3,002	-2,354	-648
Portfolio investment	-4,880	-5,045	165
Other investment	6,820	7,838	-1,018
Reserve assets	-26,365	-26,365	-
Corrections	-	1,315	-1,315
Net errors and omissions	-7,425	-5,927	-1,497
Total balance (sum of current and financial accounts)	0	0	0

The current account

The 2003 current account of Russia was positive, because the positive trade balance in commodities was larger than the negative trade balance in services, investment income and current transfers. And the current balance was positive mostly because of the surplus merchandise trade with non-CIS countries.

The financial account

Where did the surplus in the amount of \$35,845 mln. go? There were the following channels.

First, net capital transfers paid to foreigners (\$993 mln.). Second, net direct, portfolio and other investment made by Russia abroad (\$1,062 mln.). Third, reserve assets (\$26,365 mln.) which went to some unidentified direction, probably paying portions of the country's foreign debt. For instance, in 2006, Russia, finally, paid off its entire Soviet debt ahead of the schedule.

The post-Soviet Russian financial crisis of August 17, 1998

We are now in the position to analyze events of August 17, 1998. In this endeavor, we will discuss the following questions related to the events.

First, the actual side of the story. Second, the causes of the crisis. Third, the consequences of the crisis. Finally, the measures to overcome it.

Facts related to the financial crisis

In the table below, the chronology of the *international* financial crisis of 1997 - 1998, one of the elements of which was the *Russian* financial crisis, is given:

Table 11.3
*The Chronology of the International Financial Crisis, 1997 - 1998*¹⁴

Date	Events
07.02.1997	Thailand depreciates its national currency.
10.13.1997	The downfall of the stock market in Japan.
10.27.1997	The downfall on the Wall Street by 7 percent.
11.17.1997	South Korea liberates its national currency.
11.25.1997	A series of financial bankruptcies in Japan.
12.06.1997	The downfall of the Indonesian national currency.
03.09.1998	Oil prices reach \$13 per barrel, a minimum for 9 years.
03.23.1998	The dismissal of the Chernomyrdin government in Russia.
05.12.1998	Anti-government manifestations in Indonesia.
05.18.1998	The downfall of the financial market in Russia by 12 percent.
05.27.1998	The discount rate in Russia is raised from 50 to 150 percent
07.24.1998	The downfall of the DJIA by 400 points because of the fear of the influence of the South-East financial crisis on the economy of the USA
08.17.1998	The ruble depreciation, the suspension of the debts on GKO in Russia
09.11.1998	The introduction of strict restrictions on the movement of capital in Malaysia, the flight of \$30 bln. of investments from Brasil.

In the chronology of events we will separate events preceding the Russian financial crisis of August 17, 1998 from events directly connected to the Russian crisis.¹⁵

Events preceding the Russian financial crisis of August 17, 1998.
These were as follows.

The summer of 1997. The period was marked by problems at financial markets in India, Indonesia, Thailand, South Korea, and Japan. These countries experienced a cumulative reduction in the exchange rate of their domestic currencies to the US dollar and a cumulative increase in the annual inflation rates.¹⁶

But these financial problems of the countries of South-East Asia had no effect on Russian economy. Thus, in 1997 as compared to 1996, Russian economy was growing: real GDP, by 0.8 percent; real industrial production, by 2 percent; and real agricultural production, by 1.3 percent.¹⁷ At the same time, the Russian rate of inflation, calculated as the GDP deflator, went down from 40 to 20 percent.¹⁸

November - December 1997. The waves of the financial crisis which hit a number of countries of South-East Asia now roll to the markets of the leading industrial countries of the West. Thus, on October 27, 1997 the DJIA dropped on the New York Stock Exchange by 554 points.¹⁹

As a result, investors in various parts of the globe, including Russia, panic. Following the herd mentality, foreign investors begin losing their confidence in Russian financial securities as well. As a result, foreign demand for Russian financial papers starts falling.

Under these conditions, prices for Russian bonds and shares are declining. For instance, in November 1997, average prices for stocks of Russian companies declined by 32 percent.²⁰ At the same time, non-residents' demand for the hard currency was growing in order to move the hard currency away from Russia to the more quiet and predictable West.

January 1998. The panic among foreign investors in Russian financial markets continues. A fear of losses pushes non-residents to speed up their sales of Russian financial securities. But this, in turn, reduces prices of Russian financial instruments even more.

Now, the Russian government, for whom the flight of non-residents (as well as residents) from the Russian financial markets, selling their GKO and OFZs, threatens with growing budget deficit, enters the scene. In order to stop the capital flight from Russia, the Russian government raises the rate in the market of financial securities by 40 percent.²¹

March - June 1998. On March 23, 1998, the Russian government, under the decree of the president of the RF, replaces its prime minister. The immediate task of the new prime minister (appointed as an acting prime minister) is to bring into a healthy state the Russian budget running a deficit.

For the first six months of 1998, as compared to the same period of 1997, the new government achieves the following results. First, an increase in the federal budget revenues. Second, a decrease in almost all items of the federal budget expenditures, except the expenditures on state management and servicing the state debt. Third, as a result of the first and the second, the decline in the federal budget deficit.

July - August 1998. But these achievements extolled a heavy price on the Russian government. Already at the end of May 1998, and particularly during the subsequent June - August 1998, the GKO revenues reach 65 percent.²² This means gigantic expenditures on country's debt servicing in the nearest future.

Although the growth of the GKO rate slows down capital flight, the growth, nevertheless, cannot stop capital flight completely. As a result, the Russian stock index of financial securities declines by 40 percent.²³

At the same time, in order to prevent a panic, the CB of the RF conducts an active policy of supporting the exchange rate of the ruble by throwing on the market significant hard currency reserves. As a consequence, the hard currency reserves of the country are reduced by \$1.4 bln., or by 10 percent.²⁴ The ruble starts to depreciate with respect to the US dollar.

All these factors lead to deepening of the financial crisis in Russia.

Events directly connected to the Russian financial crisis of August 17, 1998. The culmination of the crisis, which on August 23, 1998, brings about the resignation of the new cabinet, comes in August 17, 1998, when the Russian government and the CB of the RF make the following three decisions.

First, in regard to the ruble exchange rate. The limits of the range ("corridor") of the exchange rate are widened from the middle level of 6 rubles 20 kopecks for \$1, with the opportunity to deviate by not more than 15 percent either up or down, to a "floating" exchange rate of 6 - 9 rubles 50 kopecks for \$1. By this action, the Russian government and the CB of Russia acknowledge their impotence in maintaining the limits of the old hard currency "corridor."

Second, with regard to payment (nonpayment) of the *non-state* foreign debt of Russia. The government decrees a three-month moratorium on payment of the foreign debt by Russian commercial banks and non-state companies. In other words, the government

proclaims default on major obligations of the Russian non-state economic system and, first of all, of its banking system.

Third, in relation to payment (nonpayment) of the Russian *state* foreign debt. Depending on the conditions, character and time of the payment, the government announces a *compulsory* restructuring of the state GKO and OFZ domestic and foreign obligations. Thus, the government admits a collapse of the state financial pyramid, which was created by issuing very profitable state financial securities, GKO and OFZs.

Causes for the financial crisis

Usually those get sick first whose immune system is not strong enough. Therefore, in our opinion, it would be a mistake to suppose that the financial crisis in a number of countries of South-East Asia *caused* the Russian financial crisis of August 17, 1998.

It is very plausible to assume that in the end of the twentieth century the weak Russian organism was *ready* to catch *any* financial-economic virus and to fell ill. The fact that this was a South-Eastern virus simply turned the potentiality into actuality just in 1998.²⁵

In our view, the causes of the Russian financial crisis of August 17, 1998 should be looked for not without but within the Russian financial-economic structure. These causes we will group in the following way.

Economic causes: the budget deficit. We have already pointed out²⁶ that the basis of the post-Soviet Russian socioeconomic structure were certain branches of the extracting industry, finance and trade, and some sectors of the military-industrial complex directed toward exports.²⁷

However, in August 17, 1998 the Russian state was forced to go against a part of its financial foundation. Because of the growing budget deficit,²⁸ the government, as was emphasized above, defaulted on its GKO - OFZ obligations. And since the major *domestic* holders of these financial instruments were the Russian commercial banks,²⁹ the federal government by its action made bankrupt a number of them.³⁰

But, in its turn, the Russian financial sector, using the state default directed against banks as an excuse, defaulted its own investors and creditors, both domestic and foreign.

Now, why was the Russian state unable to hold the growth of the federal budget deficit? Previously, we have already outlined the reasons for this.³¹ Let us recall some of them.

Tax arrears. The government could not collect all the taxes envisaged by the state budget.³² Reasons? The major of them were tax evasions by many taxpayers (enterprises as well as households); the economic crisis of the transitional period resulted in the

reduction of real GDP, the growth of unemployment, and, hence, the narrowing of the tax base;³³ finally, declining oil prices.³⁴

Let us concentrate on the last factor. On the role oil played in the Russian (and the Soviet) budget revenue of the 1990s, a Russian source³⁵ writes:

The Russian economy always depended heavily on prices of oil. There is a feeling that God punished us by [giving us] rich natural resources ... [and] first of all, oil and gas. The hope for the revenues from exports [of gas and oil] leads to the fact that we do not develop other branches of our economy. What for? Everything is O.K. anyway. But for our laziness we have to pay. And periodically we pay off. Thus, the drop in oil prices in the mid-1980s urged on the leadership of the country to the necessity of perestroika and [eventually] had brought about the collapse of socialism ... domestic [oil and gas] prices are approximately three times less than the world [prices] ... [Domestic oil] [c]ompanies, in all probability, would be glad to export all the oil they extract but a number of factors prevents this. First: export quotas for each company. Second: simply technically, Russia is not in a position to export more than 120 mln. tons of oil a year.

The same source provides the following data for the dynamics of the average annual world prices for Russian oil from 1985 to 1998, including (in US dollars per barrel):

1985 - \$13.19	1990 - 22.65	1995 - 16.62
1986 - 13.68	1991 - 19.01	1996 - 20.81
1987 - 17.73	1992 - 18.09	1997 - 18.33
1988 - 14.15	1993 - 15.39	1998 - 11.83
1989 - 17.40	1994 - 15.23	

The oil price dropped sharply in 1998 as compared to 1997. In addition, the 1998 oil price was much lower than in all the years under consideration.

Constantly growing budget expenditures. With the declining real GDP and shrinking population, in post-Soviet Russia there were constantly growing expenditures of the federal, regional and local budgets. The following items of rising expenditures might serve as examples: expenditures on the federal, regional and local administration, leading to the growth of the bureaucracy with the possibility and reality of squandering and an outright theft of resources at each of the level of the government.³⁶

Economic causes: a shortage of money in circulation. We have discussed the problem of the dearth of money in circulation.³⁷ In this connection, we have noted that, under the Soviet conditions, the might of the central bureaucracy was finding its expression in the material, product shortage which the bureaucracy, on the basis

of the all-embracing state ownership, was forcing upon the population.

During the new, post-Soviet time the central authorities demonstrated their supremacy through the money deficit, which negatively affected enterprises and households. The basis of such a form of power of the Russian central bureaucracy was the group and atomistic division of the state and non-state property. As a result, money served only 12 - 15 percent of Russian GDP, while in developed countries the share was around 70 - 100 percent.³⁸

The money anaemia was a consequence of such a policy of the central Russian bureaucracy: money as a circulatory system of the Russian economic organism served only 30 percent of exchange operations, while other 70 percent were barter deals and/or were served by various substitutes to the national currency.³⁹

On the issue, a Russian economist⁴⁰ comments:

From this come universal non-payments: year after year, the budget does not pay enterprises for fulfilled state orders, does not pay pensions, wages to the employees of the budget sphere. Enterprises [in turn] do not pay taxes to the budget, to each other, to the banks, to their employees, to the pension fund and other funds, etc.

But at the same time as Russian economy was strangled by the shortage of money and the federal budget ran a deficit, in the 1990s, as we remember,⁴¹ approximately \$300 - 400 bln. "flew" from Russia. The number was by 1.5 - 2.0 times bigger than the official foreign debt of Russia of the time. Around \$40 - 60 bln. (of which 1/4 was used by small Russian traders, buying commodities abroad and selling them in Russia) were held by the population under the "mattresses," trusting to the banking system only \$2 - 3 bln., 80 percent of which to the state Sberbank.⁴²

*Political-social causes.*⁴³ Here, we have come to the problem of a deep distrust of the Russian population of the end of the 1990s to the Russian authorities (what is meant is, first of all, the executive branch of the government). For, the authorities have given many occasions to the people or, at least, a significant part of it, not to trust them. We will cite some examples.

Political examples. In October 1993, the Russian authorities destroyed the Russian parliament (the Supreme Soviet), which, in essence, wanted to stop or, at least, to slow down the bureaucratic denationalization of the state property. In 1994 - 1996, the Russian authorities bloodily crushed a Russian region, the Chechen republic, which was, in main, struggling for its independence from Russia. In the 1990s, the same authorities displayed an almost total inability or total unwillingness to fight the criminal and mafiosi elements, which were getting an upper hand in Russian life.

Social examples. The Russian authorities turned into a dust savings of their citizens when in 1992, liberating the majority of consumer goods' prices, paved the way to hyperinflation in the country.⁴⁴

The Russian authorities created favorable conditions for the emergence, literally at once and without any economic and moral justification (from the point of view of a regular man), of the incredible fortunes of a small group of people at the expense of the growing and scandalous misery of the millions.⁴⁵ To achieve their goal, the authorities used such means as: the system of vouchers; privatization (actually free of charge) of state enterprises by separate bureaucratic groups or by private individuals representing them; the regime of export quotas; running the huge amounts of the budget money through the system of authorized banks,⁴⁶ again practically free-of-charge for the banks (and this is in conditions when millions of people were not getting on time their scanty earnings). For the attainment of the same task, the Russian authorities allowed the building of financial "pyramids," in which, yielding to advertisements on the possibility of growing rich instantly, naive and credulous people were losing their money.

The Russian authorities were turning out to be either helpless or just closing their eyes to illegal, underground trade and smuggling of liquor. This, on the one hand, furthered even more a quick creation of criminal wealth, but, on the other hand, "diverted" from the budget so needed billions of rubles. The same effect had customs indulgences which the authorities were giving to various selected Russian importers and exporters (sporting, church, war veterans, and other organizations).⁴⁷

The Russian authorities behaved in the same way with respect to illegal sales of drugs and weapons, incomes from which allowed criminal and mafiosi structures to corrupt a part of the state apparatus and arose even greater enmity from the ordinary Russian people.

*Conspiracy of the Russian authorities as a hypothetical cause.*⁴⁸ In the end of July 1998, the IMF gave Russia a stabilization credit in the amount of \$4.8 bln.⁴⁹ So the Russian authorities had enough money to meet their current obligations.

However, in less than a month Russia proclaimed itself a bankrupt, unable to pay its foreign and domestic debts. Why was it done? Could it be that there were some hidden reasons and motives, besides those we have listed above?

And what could be they? In our opinion, these might have been as follows:

1. To blackmail the IMF and developed countries in order to receive from them additional loans for a country with nuclear weapons?

2. To frighten the Russian population, to force it to hurry to purchase US dollars at a high price so that (a) to help Russian exporters, for example, "Gasprom" to compensate a huge tax previously collected from it in rubles, and also Russian oil companies, which lost a portion of their revenues as a result of declining world oil prices; (b) in this way, through hard-currency exchange offices, to attempt to "pump" rubles from the Russian population so that be able at least partially to pay wages to striking miners and budget employees?
3. To help Russian exporters of oil, gas, timber, metals, arms, etc. to become competitive by exporting these commodities at lower hard currency prices and still receiving for them higher ruble revenues?
4. To help the domestic producer and, first of all, the food producer, to improve their positions in the country's economy thanks, to imports becoming more expensive (as a result of the decline in the ruble exchange rate)? For, in order to export Russian oil (given a strong competition from foreign oil companies and countries), Russia formerly consented to a *bound credit*, that is, tied to Russian imports of commodities (and, first of all, foodstuffs). So could it be that a time arrived to let food imports to drop?
5. Finally, might it be that *rumors*, according to which the \$4.8 bln. credit was simply embezzled by the highest Russian bureaucrats, acting together with bankers close to them, are not without a merit?⁵⁰

Consequences of the financial crisis

The Chinese have a hieroglyph which pictures a crisis, on the one hand, as a factor characterizing a collapse, but, on the other, as a factor opening new possibilities. Facts tell that the Russian financial crisis of August 17, 1998 might also be considered from the "Chinese" point of view.

Negative consequences of the Russian financial crisis. The crisis negatively influenced a certain part of Russian society, having done it a heavy harm.⁵¹

Among those who were hurt most were as follows:

1. Importers, since, because of the declining ruble exchange rate, imported goods became more expensive.⁵²
2. People with fixed incomes (retirees and state employees) as a result of (a) higher inflation,⁵³ (b) the collapse of the Russian credit system.⁵⁴
3. Commercial banks' depositors, since immediately after August 17, 1998 the CB established unfavorable conditions for the return of their deposits.⁵⁵

Table 11.4 provides some additional data in the aggregate form for Russian losses from the financial crisis:

Table 11.4
*Economic Consequences of the August 17, 1998 Financial Crisis in Russia*⁵⁶

Indicators	Period	
	Before the crisis (I qtr. 1998)	Immediately after the crisis (IV qtr. 1998)
Inflation, percent per month	1.0	7.3
GDP (calculating for a year), \$bln.	374.1	193.1
Rates of growth of GDP, in percentage to the corresponding period of the preceding year	0.0	-7.8
Rates of growth of industrial production, in percentage to the corresponding period of the preceding year	1.3	-8.2
Exports, monthly average, \$bln. ⁵⁷	8.4	6.4
Imports, monthly average, \$bln	7.2	3.1
Real wages, dollars	168.1	71.7
Rates of growth of real incomes of the population, in percentage to the corresponding period of the preceding year	-8.4	-30.0
Personal savings, \$bln.	48.8	16.2
Number of people with incomes below the subsistence minimum, mln. people	32.8	41.6
Unemployment rate according to the ILO methodology, percent	11.6	12.8

Positive consequences of the Russian financial crisis. The crisis created favorable opportunities for the following Russian economic agents:

1. The government, since the depreciation of the ruble exchange rate lowered budget liabilities to the retirees and state employees.
2. Exporters, selling their products for the US dollars, for, after the crisis they (the exporters) could exchange dollars for much more rubles.
3. Domestic producers who could increase domestic production and sales, because domestic production became more inexpensive as compared to imports becoming more expensive.⁵⁸
4. *Some lucky* commercial banks which the Central Bank included in the “survival list.” These commercial banks were allowed to write off all their debts to depositors and creditors under a “plausible” pretext of the financial crisis.⁵⁹

Measures to overcome the financial crisis and its consequences

In our opinion, the financial crisis of August 17, 1998 was an outcome of a systemic, all- embracing disease of the Russian socioeconomic structure of authoritarian state capitalism. The fact that this illness found its expression in the financial cataclysm indicates that, in all probability, because of its primarily speculative character, the Russian financial system was the weakest spot in the Russian socioeconomic organism of the time.

From this, in our view, followed that a cure for the prolonged (1991 - 1998) chronic sickness of the production slump, high rates of unemployment and inflation, an appalling property stratification of the population, raging lawlessness, criminality and national wars on the territory of Russia, which authoritarian state capitalism had brought to the country, demanded a change of this very system.

Obviously, such an action could not be expected from the Russian authorities which were just a summit of the socioeconomic structure: with its fall, they would have fallen to the ground as well. Thus, in our opinion, what had to be expected from the authorities were, although necessary, but quite insufficient decisions. And the Russian authorities had made these decisions.

In essence, the decisions were reduced to the following steps of an exclusively financial character: (1) overcoming the crisis of liquidity, (2) strengthening the supervision of the banking system, (3) restructuring of the banking system, (4) re-capitalizing the commercial banks.⁶⁰

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Notes to Chapter 11: Other Aspects of the Post-Soviet Russian Foreign Financial Relations

- 1 Based on E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Vneshniye Ekonomicheskiye Otnosheniya* [Principles of the Economic Theory. The Foreign Economic Relations]. Moscow: "Nauka," 2000, pp.118 - 150.
- 2 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik, 2004* [The Russian Statistical Annual, 2004]. Moscow: Rosstat, 2004, p. 567, tabl. 22.11.
- 3 Calculated as follows: nominal 2003 GDP=13,285.2 bln. rubles (ibid., p. 303, tabl. 12.1); the 2003 exchange rate=29.45/\$1 (tabl. 10.9 of the previous chapter); $13,285.2/29.45=\$451.1$ bln. (GDP in US dollars); $(\$184.2 \text{ bln.}/\$451.1 \text{ bln.}) \times 100 = 40.8$ percent.
- 4 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik, 2004* [The Russian Statistical Annual, 2004], p. 567, tabl. 22.11. There were two types of hard-currency credits owed by Russia. One was to the Paris Club through which the Soviet Union was credited by foreign governments and which post-Soviet Russia inherited from the USSR. The second was to the London Club through which Russia received loans from foreign commercial banks.
- 5 This indebtedness includes debts of Russian regions in the form of credits and financial securities issued by the regions (ibid., p. 606).
- 6 This is indebtedness by the CB and the Ministry of Finance of the RF (ibid.).
- 7 These are debts of Russian credit organizations, including Vneshekonombank (ibid.).
- 8 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik, 2004* [The Russian Statistical Annual, 2004], p. 567, tabl. 22.11.
- 9 "Foreign Countries' Debt to Russia Hits Almost \$69 Billion," *RIA "Novosti"*, Moscow, August 28, 2006.
- 10 We discussed this problem in Chapter 7 of Part VII of the book. On the development of Russia's relations with its foreign creditors and debtors in the 1990s, that is, during the early post-Soviet period, see, for instance, the following sources: C. Balmer, "Paris Club Delays \$8.1 bln.

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- 11 Again, see Chapter 7 of Part VII of the book.
- 12 See, for instance, Goskomstat Rossii, *Rossiya v Tsifrakh* [Russia in Numbers]. Moscow: Goskomstat, 1999, pp. 375 - 376, tabl. 25.1
- 13 Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskii Ezhegodnik, 2004* [The Russian Statistical Annual, 2004], p. 649, tabl. 25.1
- 14 V. Loginov, V. Kuz'michyev, "Mezhdunarodnyi Krizis Dlitsiya Tselyi God. Novyi Yego Vitok Mozhet Nachat'sya v Stranakh Latinskoi Ameriki" [The International Crisis Has Been Lasted the Whole Year. Its New Wave Might Begin in the Countries of Latin America], *NG-Politekonomiya. Prilozheniye k "Nezavisimoi Gazete"*, October 20, 1998.
- 15 We will follow the chronology of events as they are described in "Krizis Finansovoi Sistemy Rossii: Osnovnyie Faktory i Ekonomicheskaya Politika" [The Crisis of the Financial System of Russia: The Main Factors and the Economic Policy], *Voprosy Ekonomiki*, 1998, Number 11.
- 16 A. Illarionov, "Kak Byl Organizovan Rossiiskiy Finansovyi Krizis" [How the Russian Financial Crisis Was Organized], *Voprosy Ekonomiki*, 1998, Numbers 11, 12. See also J. Sapsford, D. McDermott, M. Williams, "Asia's Financial Shock: How It Began, and What Comes Next," *The Wall Street Journal*, November 26, 1997.
- 17 Goskomstat Rossii, *Rossiiskiy Statisticheskii Ezhegodnik 1998* [The Russian Statistical Annual 1998]. Moscow: Goskomstat Rossii, 1998, p. 16, tabl. 1.2.

- 18 Ibid., p. 45, tabl. 4.1.
- 19 "Krizis Finansovoi Sistemy Rossii: Osnovnyie Faktory i Ekonomicheskaya Politika" [The Crisis of the Financial System of Russia: The Main Factors and the Economic Policy], p. 43.
- 20 Ibid., p. 44.
- 21 Ibid., p. 46.
- 22 Ibid., p. 49.
- 23 Ibid.
- 24 Ibid., p. 50.
- 25 That is, it is not to deny that financial markets of the end of the twentieth century were, one way or another, interconnected. See, for instance, S. Moiseyev, K. Mikhailenko, "Terra Incognita: Globalizatsiya Finansovykh Rynkov" [The Globalization of Financial Markets], *Voprosy Ekonomiki*, 1999, Number 6.
- 26 See Chapter 8, Part VIII of the book.
- 27 On the importance of the extracting industry see, for instance, K. Baskayev, "Rossiiskiy TEK Ostayetsya Oporoi Ekonomiki" [The Russian Fuel-Energy Complex Remains the Support of the Economy], *Finansovye Izvestiya*, March 22, 1996; T. Batyenyeva, "Tryet'ya Nadezhda Sakhalina. Chto Prinyesut 'Ostrovu Sokrovishch' Plany Osvoyeniya Nyeftyegazovogo Shyelfa?" [The Third Hope of Sakhalin. What Will Bring to the "Treasure Island" Plans to Develop the Oil and Gas Shelf?], *Izvestiya*, July 15, 1997.

On the significance of the arms trade for Russia, here is the following event. In 2005, "Russia surpassed the United States ... as the leader in weapons deals with the developing world ... Russia's arms agreements with the developing world totaled \$7 billion ... an increase from its \$5.4 billion in sales in 2004 ... France ranked second in arms transfer agreements to developing nations, with \$6.3 billion, and the United States was third, with \$6.2 billion" (T. Shanker, "Russia Led Arms Sales to Developing World in '05," *New York Times*, October 29, 2006).
- 28 In nominal terms, it was: 43.1 bln. rubles in 1995, 79.7 bln. rubles in 1996, 93.2 bln. rubles in 1997, and 77.5 bln. rubles in January - November 1998 (1995 - 1997: Goskomstat Rossii, *Finansy v Rossii* [Finances in Russia]. Moscow: Goskomstat Rossii, 1998, pp. 27 - 29, tabl. 2.6; January - November 1998: Goskomstat Rossii, *Sotsial'no-Ekonomicheskoye Polozheniye Rossii* [The Socioeconomic Situation in Russia]. Moscow: Goskomstat Rossii, 1998, p. 210).
- 29 See *ibid.*
- 30 See, for instance, A. Astapovich, D. Syrmolotov, "Rossiiskiy Banki v 1998 godu: Razvitiye Sistemnogo Krizisa" [Russian Banks in 1998: the Development of the Systemic Crisis], *Voprosy Ekonomiki*, 1999, Number 5. But not all the banks were caught of guard, as is told by M. Davydova, "Sredniye Banki Nie Verili Prezidenty. Eto Pomoglo Im Spastis' ot 'Udlineniya' Pravitel'stvom GKO i OFZ" [Middle-Size Banks Did Not Trust the President. This Helped Them to Save Themselves From the "Extension" of GKO and OFZ by the Government], *Nezavisimaya Gazeta*, August 22, 1998.
- 31 See Chapter 9, Part VIII of the book.
- 32 Thus, the budget revenues were fulfilled by: 92.3 percent in 1996, 77.6 percent in 1997, and 66.2 percent in January - November 1998 (1995 - 1997: Goskomstat Rossii, *Finansy v Rossii* [Finances in Russia], 1998, pp.

- 27 - 29, tabl. 2.6; January - November 1998: Goskomstat Rossii, *Sotsial'no-Ekonomicheskoye Polozheniye Rossii* [The Socioeconomic Situation in Russia], 1998, pp. 209 - 210).
- 33 See, for instance, Ye. Yevstigneeva, "Zhivuchest' 'Chyernogo Nala'. Kakim Obrazom v Rossii Ukhodyat ot Nalogov" [The Tenacity of the "Black Cash." How In Russia Taxes Are Averted], *Nyezavisimaya Gazeta*, December 4, 1998. But, in any event, the issues are covered in the corresponding chapters of this part of the book.
- 34 That, despite of all these negative factors, the deficit at the end of the 1990s was less than it was projected, was due to the fact that the under-fulfilment of plans of budget revenues was less (with the exception of 1997) than the under-fulfilment of plans of budget expenditures. As a result, the actual budget deficit to the approved one was: 71.5 percent in 1995, 88.2 percent in 1996, 97.6 percent in 1997, and 58.6 percent in January - November 1998 (1995 - 1997: Goskomstat Rossii, *Finansy v Rossii* [Finances in Russia], 1998, pp. 27 - 29, tabl. 2.6; January - November 1998: Goskomstat Rossii, *Sotsial'no-Ekonomicheskoye Polozheniye Rossii* [The Socioeconomic Situation in Russia], 1998, pp. 209 - 210).
- 35 "Truba-dura. (Otvyet Eks-Ministra Ekonomiki RF E. Yasina na Voprosy Zhurnala "Profil")" [The Pipeline Is Stupid. Answers of the Ex-Minister of Economy E. Yasin on the Questions of the Journal "Profile"], *Profil*, July 6, 1998, Number 27.
- 36 With respect to the bureaucratization of post-Soviet Russia, a Russian source expresses the following opinion:
 "... who won from the market reforms? Within the class of the "new rich," perhaps, the most numerous group consists of the Russian bureaucracy ... Today [1999], the sphere of administration in Russia employs 18 mln. people, that is, a quarter (!) of the country's able-bodied population ... The transition to the market was supposed to lead to a decline in the number of administrators; in our country, [this number] doubled for the last ten years [1989 - 1999]. The population is dying out, decreasing by 700 thousand people a year, while the bureaucracy is growing and growing rich" (S. Khaitun, "Glavnyi Sobstvennik Derzhavy. Strana, Prinadlyezhashchaya Nomenklature, Obrechena" [The Main Proprietor of the State. A Country Owned by the Nomenclature Is Doomed], *Obshchaya Gazeta*, December 2 - 8, 1999, Number 48).
- 37 See Chapter 8, Part VIII of the book.
- 38 Ibid.
- 39 Ibid. See also V. Makarov, G. Kleiner, "Barter v Rossii: InstitutSIONal'nyi Etap" [Barter In Russia. And Institutional Stage], *Voprosy Ekonomiki*, 1999, Number 4; A. Yakovlev, "O Prichinakh Bartera, Nyeplatyezhei i Ukloneniya ot Uplaty Nalogov v Rossiiskoi Ekonomike" [On the Causes of Barter, Non-Payments and Tax Aversion in Russian Economy], *Voprosy Ekonomiki*, 1999, Number 4.
- 40 N. Shmelyev, "Krizis Vnutri Krizisa" [A Crisis Inside the Crisis], *Voprosy Ekonomiki*, 1998, Number 10, p. 6.
- 41 See Chapter 8, Part VIII of the book.
- 42 N. Shmelyev, "Krizis Vnutri Krizisa" [A Crisis Inside the Crisis], p. 6.
- 43 A view of the political aspects of the financial crisis of August 17, 1998 can be found, for example, in V. Mau, "Politicheskaya Priroda i Uroki Finansovogo Krizisa" [The Political Nature and the Lessons of the Financial Crisis], *Voprosy Ekonomiki*, 1998, Number 11.

- 44 See Chapter 6, Part VIII of the book.
- 45 On the intra-bureaucratic essence of denationalization in the form of privatization, see, for instance, T. Koshkaryeva, R. Narzikulov, "Interv'yu Andreia Kostina. Svoi Sredi Chuzhikh, Chuzhoi Sredi Svoikh: Prevrasheniye Vneshekonombanka v Gosudarstvennoye Aktsionernoye Obshchestvo Imenuyetsia v Rossii Privatizatsiei" [An Interview with Andrei Kostin. At Home With Strangers, a Stranger Among One's Own People: The Transformation of Vnesheconombank Into a State Joint-Stock Company Is Called Privatization in Russia], *NG-Politika*, *prilozhenie k "Nezavisimoi Gazete"*, January 1998, Number 2. Obviously, the political regime whose task was to supervise the transformation from totalitarian, all-bureaucratic to authoritarian, group-bureaucratic capitalism could have not done the other way. We will return to the question of the behavior of the Russian political power in the last part of the book.
- 46 See, for instance, G. Baranov, "Den'gi Tamozhni ne Derzhatsia v Tsentrobanke. Avansovye Platezhi Snova Budut Postupat' v ONEKSIMbank" [Money of the Custom-House Are Not Held in the Central Bank. Payments on Account Will Be Coming Again], *Kommersant-Daily*, March 18, 1998; A. Mochonov, "Lyubimye Banki Merii" [Bank-Favorites of the City Authorities], *Delovye Liudi*, September 1997, Number 81.
- 47 On all the issues in this section, see N. Shmelyev, "Krizis Vnutri Krizisa" [A Crisis Inside the Crisis], pp. 5 - 6.
- 48 In the very beginning of the book, we categorically rejected a conspiratorial method as the basis of our analysis of *deep* and *profound* socioeconomic developmental *trends*. As the reader can see, so far we have faithfully adhered to this principle. But our rejection does not apply to individual events within the general sea of changes. Themselves influencing the *speed* of objective profound and deep socioeconomic trends, particular events, in turn, *can* be affected by actions of some small groups of people. It is in *this* sense we employ the conspiratorial hypothesis of actions of the Russian authorities prior to August 17, 1998.
- 49 On the full account of relations between Russia and the IMF prior to the financial crisis of August 17, 1998, see "Krizis Finansovoi Sistemy Rossii: Osnovnyie Faktory i Ekonomicheskaya Politika" [The Crisis of the Financial System of Russia: The Main Factors and the Economic Policy], pp. 51 - 53.
- 50 See, for instance, B. Stolyarov, "Defolt-Eto Preobladaniye Lichnogo Nad Obshchestvennym" [Default Is the Prevalence of Personal Over Public], *Novaya Gazeta*, September 30 - October 3, 1999, Number 36.

Winding up the discussion of the probable major causes for the August 17, 1998 financial crisis, let us cite a Russian source (E. Chernyi, "Ukhod ot Real'nykh Problem. Strannyie Igry s Bol'shoi Stranoi" [Escaping Real Problems. Strange Plays with a Big Country], *Nezavisimaya Gazeta*, July 31, 1998) who makes an attempt to find real, in his view, reasons for the financial collapse. His arguments are dated by July 31, 1998, that is, 17 days *before* the culmination of the crisis. This shows that serious observers already in July of 1998 saw the indications of the approaching danger. Note that the source does not exclude the conspiratorial motives in the emergence of the crisis:

"... our crisis (managed, it looks like, not badly) was 'successfully' preceded by crises in [South] Korea, Indonesia and Japan. Here are the arguments, was decided by the [Russian] authorities, who began drawing

conclusions ... about the culprits of our misfortunes: the crisis in South-East Asia... the main motive was as follows: the economy of Russia is now a market [economy], hence, it directly depends on economies of other countries ...

The argument turned out to be convincing [as an excuse] not to search for other causes. Easily was found a solution ... a regular stabilization credit. Japan has received, and we are getting. Thus, we have the same disease, and it must be treated in the same way ... by credits ...

But is our economy integrated in economies of South-East Asia? Of course, not. We do not own shares of Japanese enterprises, our shares and rubles are not quoted or rated on Tokyo stock exchanges, Japanese capital does not own our enterprises.

Moreover, our economy is tied to a totally different currency system, to the [USA] dollar, a very stable currency of the mightiest country of the world, which serves as an efficient shock-absorber... if the dollar staggered, then the consequences for our economy could be really sad. A collapse could be inevitable. That is because not only the CB reserves are rested upon the dollar, but the [Russian] population as well keeps its savings in dollars, and not in Indonesian rupees or Japanese yens ...

Obviously, that reasons for our crisis are quite different, not external but internal. If we are to talk about the main reasons, they are simple and clear to the majority [of the Russian people]: non-functioning production and global stealing. The country has been transformed into a thievish empire. There is one more reason: exorbitant expenditures of the state on itself. Weigh up the degree of reasonableness of the authorities: the crisis, serious social problems and huge expenditures on the quasi-Olympic games (the Youth Olympiad [in Moscow]). Who believes in the economic wisdom of such a power?

But are that so ignorant those who ... were providing society with false arguments? It looks like the attempt to convince society by [using] false arguments is nothing but a way to consciously hide real causes and goals of the usual manipulations with our economy.

It is this 'crisis' which was just needed by many financial circles and the authorities connected to them. Only a 'crisis' allows easily to squeeze that social minimum which exists today. And this is a great saving of [social] expenditures...

Most likely [that] new Western credits will find themselves in the hands of mighty financial groups and be used, directly or indirectly, to acquire property [which will become] cheaper and, therefore, more attractive ...

The crisis is convenient to the power. It is easier to raise taxes, introduce the new ones, cut social outlays, etc. [For] [t]here is nothing to be done: a crisis, almost the world one."

See also S. Minayev, "MVF Ni Pri Chyem. V Rossiiskom, Da i v Mirovom Krizise Segodnya Mnogie Vinyat MVF" [It Is Not a Fault of the IMF. Today, Many Blame the IMF for the Russian and the World Crisis], *Kommersant*, February 9, 1999.

51 Here and in the section on the positive consequences of the crisis, we will deal only with the *Russian* economic agents who were influenced by the crisis.

52 A table below confirms this statement:

Table
Reduction in the Share of Food Imports in Russian Retail After August 1998
As Compared to Before August 1998
(in percentages)

Products	Period		Products	Period	
	Beginning of 1998	March 1999		Beginning of 1998	March 1999
Meat	26	22	Margarine	44	30
Poultry	58	50	Cheese	57	25
Boiled sausage	23	15	Frozen fish	30	22
Smoked sausage	25	15	Canned fish	40	25
Cooking oil	57	45	Chocolate	30	20
Butter	32	25			

See "Nashi Tovary Byerut Vyerkh?" [Are Our Goods Getting an Upper Hand?], *Argumenty i Fakty*, March 1999, Number 13. But, at the same time, the decline in imports of foodstuffs alarmed some Russian commentators (see, for instance, "Strana Mozhyet Ostat'sya Bez Prodovol'stviya" [The Country Might Find Itself Without Foodstuffs], *Nezavisimaya Gazeta*, September 5, 1998).

- 53 Because imported components, still remaining a significant portion of Russian domestic production, became more expensive.
- 54 See, for instance, A. Sarkisyants, "Karliki s Ambitsiyami Rotshiel'dov. Kreditnyie Organizatsii Vnov' Nakhodiyatsya na Grani Vyzhivaniya" [Dwarfs With the Ambitions of the Rotshields. Credit Organizations Again Find Themselves on the Brink of Survival], *NG-Politekonomiya. Prilozheniye k "Nezavisimoi Gazete"*, September 8, 1998.
- 55 On the mechanism of government manipulations with people's deposits in commercial banks, see, for instance, "Krizis Finansovoi Sistemy Rossii: Osnovnyie Faktory i Ekonomicheskaya Politika" [The Crisis of the Financial System of Russia: The Main Factors and the Economic Policy]; and also T. Virkunen, "Chto Proiskhodit v Vashem Banke?" [What Is Going On In Your Bank?], *Argumenty i Fakty*, October 1998, Number 42.
- 56 A. Illarionov, "Mify i Uroki Avgustovskogo Krizisa" [The Myths and Lessons of the August Crisis], *Voprosy Ekonomiki*, 1999, Numbers 10, pp. 6 - 7. See also G. Baranov, D. Ladygin, P. Rushailo, A. Semyonov, "Na Dnye" [At the Bottom], *Kommersant-Dnen'gi*, August 19, 1998, Number 31.
- 57 For the IV quarter of 1997.
- 58 See, for instance, E. Avraamova, I. Gurkov, "Rossiiskiy Predpriyatiya Posle Avgustovskogo Shoka" [Russian Enterprises After the August Shock], *Voprosy Ekonomiki*, 1999, Number 7.

But domestic producers also gained from the collapse of the GKO pyramid (see G. Trofimov, "Byl Li Rossiiskiy Gosudarstvennyi Dolg 'Finansovoi Piramidoi'?" [Was the Russian State Debt a "Financial Pyramid"?], *Voprosy Ekonomiki*, 1999, Number 5):

commercial banks could no longer make money on financial speculations so that they had no choice but to begin investing in the real sector of the economy. On the effect which the collapse of the GKO pyramid had on Russian real production, see, for instance, A. Ivanov, "Piterskaya Promyshlennost' Podayet Priznaki Zhizni" [St. Petersburg's

Industry Gives a Sign of Life], *Argumenty i Fakty*, December 1999, Number 48.

- 59 Many commercial banks were not as lucky as the “chosen” ones. As a result of the financial crisis, these banks found themselves in a deep trouble of being short of capital in its ruble form. On this and other issues the “unfortunate” commercial banks had to face after the crisis, see, for instance, M. Builov, “Skelet v Shkafu Tsentrobanka” [A Skeleton In the Closet of the Central Bank], *Kommersant*, July 15, 1999; “New Names But Same Old Bankers,” *The Moscow Times*, February 20, 1999.
- 60 On these measures, see, for instance, “Bankovskiy Krizis: Tuman Rassyevayetsya?” [The Banking Crisis: Is the Fog Being Lifted?], a report, *Voprosy Ekonomiki*, 1999, Number 5; “Chto TsB Sdyelal Dlya Podderzhaniya Rublya” [What the CB Has Done to Support the Ruble], *Kommersant*, March 27, 1999; K. Daigle, “Careful Steps Keep Ruble In Check,” *The Moscow Times*, August 22, 1998; K. Daigle, “Central Bank to Insure Private Savings,” *The Moscow Times*, August 21, 1998; J. Hitch, I. Gorchakov, “CB Presents New Rules for Foreign Investment,” *The St. Petersburg Times*, October 19, 1999; N. Kulakova, “Al’fa-bank Pomozhet ARKO” [Alfa-bank Will Help ARKO], *Kommersant*, June 23, 1999; N. Kulakova, “SBS-ARKO,” *Kommersant*, August 4, 1999; “K Voprosu o Restrukturizatsii Bankovskoi Sistemy Rossii” [To the Question of Restructuring the Banking System of Russia], *Kommersant*, March 19, 1999.

On some opinions of what should have been done either to prevent or to overcome the financial crisis, see, for instance, A. Belyakov, “Prosto Dyeval’vatsiya Rublya Nye Nuzhna i Opasna” [A Simple Ruble Devaluation Is Not Needed and Dangerous], *Nezavisimaya Gazeta*, August 14, 1998; A. Chernyavskiy, “Perspektivy Preodoleniya Bankovskogo Krizisa v Rossii” [The Perspective of Overcoming the Bank Crisis In Russia], *Voprosy Ekonomiki*, 1999, Number 5; S. Ognitsev, “Eto Strashnoye Slovo—Natsionalizatsiya. Pravym Byt’ v Evrope Stanovitsya Neprilichno” [This Terrible Word, Nationalization. It Is Indecent To Belong to the Right in Europe], *Nezavisimaya Gazeta*, August 12, 1998.

Finally, on the lessons of the financial crisis see: G. Baranov, P. Rushailo, “Krizis So Schastlivym Kontsom” [A Crisis with a Happy End], *Kommersant-Vlast’*, November 24, 1998, Number 45; M. Friedman, “Uroki Finansovogo Krizisa: MVF Byl Destabiliziruyushchim Faktorom v Iugo-Vostochnoi Azii” [Lessons of the Financial Crisis: IMF Was a Destabilizing Factor in South-East Asia], *Nezavisimaya Gazeta*, October 23, 1998; D. Lepetnikov, “Denezhnaya Politika: Uroki Fondovogo Krizisa” [Monetary Policy: Lessons of the Financial Crisis], *Politikonomiya*, Number 2, *prilozheniye k Nezavisimoi Gazete*, January 1998; A. Lyasko, “Ekonomicheskii Krizis i Ego Posledstviya dlia Byudzhethnoi Sistemy Rossiiskikh Regionov” [The Economic Crisis and Its Consequences for the Budget System of Russian Regions], *Voprosy Ekonomiki*, 1999, Number 3; V. Popov, “Uroki Valyutnogo Krizisa v Rossii i Drugikh Stranakh” [The Lessons of the Currency Crisis in Russia and Other Countries], *Voprosy Ekonomiki*, 1999, Number 6.

PART IX

AN ATTEMPT TO ANTICIPATE THE FUTURE, OR THE SECOND STAGE IN THE DEVELOPMENT OF THE POST-SOVIET SOCIOECONOMIC SYSTEM

In the last part of our work we will endeavor to look at the post-Soviet Russian future, elements of which, in our opinion, are emerging in the post-Soviet Russian present. We will, therefore, give some thought to the direction of the socioeconomic (Chapter 1) and administrative-territorial (Chapters 2 and 3) development of the country.

Chapter 1

Reflections on the Direction of the Socioeconomic Development of Post-Soviet Russia¹

The reader is now familiar with the *deterministic* approach which have so far been taken by the author of the book in his analysis of the development of pre-Soviet, Soviet and post-Soviet Russia since the middle of the nineteenth century to the beginning of the twenty-first century. The reader, therefore, should not be surprised to learn that the same method of investigation will be used by the author in his endeavor to predict the path of the socioeconomic development of the present-day Russia of authoritarian state capitalism.

In the deterministic view, any attempt of such an undertaking must be made not in dreaming the whole thing up but ought to be rooted in collisions within the present structure whose development in the future is to be extrapolated. Obviously, for the projection not to be of the utopian nature, it has to be made only in a rather general form. Thus, since we can talk here only about the most general contours of Russia's future, our reflections will be of a very general character.

Basic socioeconomic collisions of the post-Soviet system of Russia

From what we know about the transformation of the all-bureaucratic ownership and the all-bureaucratic possession of economic resources we can discern the following major collisions within the post-Soviet system:

- (1) Infighting within enterprises among their managers and employees for:
 - (a) Property control, possession or ownership
 - (b) The distribution of income between profits and wages.

- (2) A competitive struggle within various economic sectors.
- (3) A fight for property ownership or possession within group (branch, regional and municipal) bureaucracies (financial-industrial groups). This struggle is taking place between:
 - (a) Enterprise managers
 - (b) Enterprise managers, on the one hand, and bank managers, on the other
 - (c) Enterprise managers, on the one hand, and outside investors, on the other³
 - (d) Bank managers
- (4) A battle between decentralized state and semi-private (semi-state) monopolies (financial-industrial groups):
 - (a) For property ownership or possession
 - (b) To influence the central national (federal) bureaucracies of power structures, money and budgets through the so-called national (federal) oligarchic system
 - (c) To influence the regional bureaucracies of power structures and budgets through so-called regional oligarchic systems.

In our opinion, the post-Soviet Russian space is *dominated* by oligarchic conflicts with the purpose of influencing federal and regional authorities. In these clashes, now this, now that oligarchic group temporarily merges with the federal or regional power as if “privatizing” it.³

Such a mixture, temporary for *individual* oligarchic groups but constant for the oligarchic *system* as a whole, predetermines, to a large degree, the *state* character of the post-Soviet Russian authoritarian capitalist structure where decentralized state and semi-state monopolies dominate,⁴ with all the resulting consequences: corruption, criminality, high unemployment and inflation,⁵ the low standard of living of the population, the incredible stratification of the population in wealth and incomes,⁶ etc. So, in our view, it is the resolution of the oligarchic problem the direction of the post-Soviet development in Russia depends on.⁷

A probable outcome of the oligarchic struggle

In this author’s opinion, one should not think that the outcome of the existing battles and clashes will depend on wisdom (stupidity), knowledge (ignorance), understanding (misunderstanding), a strong (weak) will, kindness (spite), an ability (disability) to draw correct and smart developmental programs or on some other subjective qualities of the participants of post-Soviet Russian battles and clashes. A forthcoming outcome of these struggles, in our view, is deeply predetermined by the objective circumstances under which post-Soviet Russian society is functioning.

The developmental framework

The objective framework of post-Soviet Russian development has a general, particular, and individual character.

The general and particular frames. Within its *general* limits, present-day post-Soviet Russia, like its Soviet predecessor, cannot but continue to proceed at the stage of capitalism. This statement needs no further proof or evidence, since at present all countries of the world, without exception, one way or another, are moving along the road of capitalism. Russia cannot be an exception to this *general* path simply because it is "general."

Within the *particular* frame, present-day post-Soviet Russia, unlike its Soviet predecessor, has no option but to move from state (bureaucratic) to mixed capitalism. This assertion requires no further proof either because the transformation of national bureaucratic property ownership in the Soviet period into group bureaucratic-non-bureaucratic property ownership of the post-Soviet period proceeds according to its own internal dynamics: the transformation from group bureaucratic-non-bureaucratic property ownership into non-bureaucratic (non-state, private) property ownership.

The elements of an emerging economic non-bureaucratism are on hand: a growing, albeit still weak, non-oligarchic entrepreneurship; the growth, although not yet steady, of non-state joint ventures with foreign firms; etc.

By the beginning of the twenty-first century, there had emerged in Russia a sufficient number of representative social groups, not interested in such a development in which the adventurous, speculative capital parasitizing on political power, the budget and the economic resources of the country prevails. Besides, Russia's departure from the oligarchic system of state capitalism would meet the requirements of the vast majority of the population of the country, probably not fully recognized by them yet. This departure would help to speed up the dismantling of the enormous, chaotic, hostile (to the people) structure of state and semi-state property by means of its further decentralization and/or privatization, and in some case, where it would be necessary socially and economically, of its re-nationalization (for instance, raw and fuel materials extracting and also energy companies).⁸

Thus, we are of the opinion that there would be no specifically Russian in the transformation of state capitalist Russia into mixed capitalist Russia. For, at the end of the twentieth - beginning of the twenty-first centuries, other former Soviet republics and some countries of Eastern Europe were moving in this direction.

The individual frame. What is unclear is the political form of this transformation. The political structure of Russian post-post-

Soviet mixed capitalism cannot remain the same as it is now at the beginning of twenty-first century under post-Soviet state capitalism: semi-anarchically authoritarian, that is, a symbiosis of central bureaucracies which, to some degree, are impotent in their relations to economic group and political regional bureaucracies, on the one hand, and a relatively passive population with formal elections and weak political parties and movements, on the other. For, the emerging non-oligarchic businessman objectively needs a united and common market, with unified, equal rules of play for everyone. This fledgling Russian middle class, like his Western counterpart of the third estate at the period of the birth of capitalism, needs strong central authority.

But the character of this power depends on the current mentality, attitude, wants of the people, and their willingness, one way or another, to participate in their country's affairs and future. If such a willingness exists, if there is, in other words, a strong civil society within the country, then central power can be *democratic* in nature.

On the other hand, if such a willingness does not exist, if people expect that a "leader" or a "hero" will do for them what they are supposed to do for themselves, if there is, in other words, no civil society or if it is weak, then the central power will be of an *authoritarian* character.⁹

Obviously, Russia's non-oligarchic businessmen would find a strong democratic government, with its requirements of law obedience by all and backed by an independent judiciary, more suitable to their needs.

But there are two primary problems for the economically active non-oligarchic part of post-Soviet Russian society that stand in the way to achieving their democratic goal. First, the non-oligarchic businessman is politically passive and like the rest of the population waits for a political "handout." Second, this representative of the emerging Russian middle class is not supported by the general public which distrusts any kind of private business endeavor in Russia, be it oligarchic or non-oligarchic.

Therefore, the question of the political form of future mixed capitalism in Russia can be answered only by the desires of the *Russian people themselves*. Their recent (the end of the 1990s - the beginning of the 2000s) preferences (their voting patterns, their opinions reflected in public opinion polls, especially with regards to the strengthening of the vertical line of power) point to a direction of mixed capitalism in an authoritarian form. For what aim or purpose, you may ask? In the name of fairness and order,

[because] Yeltsin's¹⁰ Russia ... was a time of ... a kleptocratic regime, of shameless plundering of national [resources], of a shocking enrichment of a small group of people ... [all] at the

expense of the ... monstrous pauperization of the overwhelming majority of the population.”¹¹
 [Hence], having demanded law and order, Russia has produced from its ranks an adequate leader. *Putin* has emerged as a personification of the function of a “tamer of the chaos ...”¹²

However, one should not overlook the fact that the present post-Soviet Russian structure personified by Putin, represents an authoritarian regime whose goal is *not struggle against the oligarchic system, not for mixed capitalism of fairness and order (as it is anticipated by many Russians) but to protect, to consolidate the oligarchic system of privileges and preferential order under the conditions of fighting against its most odious personalities*. For, it is this regime which is not tired to repeat that there will be no revision of the results of privatization. For, it is under this regime in 2005 as compared to 2004 (that is, just for *one* year), the number of billionaires increased by six to 33; the capital of the country, Moscow, became the second city in the world (after New York city) in terms of the number of billionaires living in it; its richest man, Abramovich, was able to raise “his”¹³ fortune from \$13.3 bln to \$18.2 bln.¹⁴

In other words, Putin’s Russia is nothing but Yeltsin’s Russia which, in order to protect the oligarchic system and satisfy people’s expectations, has performed a *verbal* mimicry of anti-oligarchism. Moreover, the current (Putin’s) Russian regime is an attempt to preserve the oligarchic essence of post-Soviet Russia by consolidating oligarchy and, for this purpose, by removing from the political scene some individual, too independent, too obstinate, too “talkative” and, therefore, inconvenient oligarchs. In this, the present regime, by penalizing some individual oligarchs, protects oligarchs from themselves.

From this follows, that the present-day’s oligarchic authoritarianism, corrupting all the ways of life in the country,¹⁵ bringing misery to a vast majority of the Russian people, while sitting on the piles of gold and oil/gas money,¹⁶ making Russia a raw material appendage to the Western world, denigrating Russia to the position of a third-world country, can only be replaced by an anti-oligarchic authoritarianism. In the end, democracy as a political form of mixed capitalism in Russia will have to wait its turn.

Arguments for and against democratic vs. authoritarian anti-oligarchism

It can be argued that civil society in Russia in reality is stronger than it looks like on the surface. For, one of the manifestations of civil societies lies in the importance of political parties, associations, movements and blocs, arising from below. In this respect, there are such public bodies in the country. They are more or less developed. So might it be that they, though not as

soon as someone who is democratically inclined would want to, but, nevertheless, would be in the position by quite democratic methods to finish off, in the realm of what is possible, both the oligarchy and authoritarianism as the Russian political reality?

It could be counter-argued that the importance of non-state political organizations for the existence of democracy should not be exaggerated. That, while it is true that they constituted a core of civil society at a time, when they, due to a strong estate character even of capitalist society emerging from the womb of feudal society, were clearly delineated, the same cannot be said about modern political organizations. Today's developed world, where feudalism with its estates is no longer, demonstrates a certain loosening, ambiguity in lines separating modern political organizations. Because there is now a possibility to move up and down the class ladder: a subordinate employee might become a manager or a capitalist owner, and the bankrupted capitalist owner, in turn, could be turned into a subordinate employee. Besides, the universality of education promotes the process of blurring the lines between political organizations.

All this is, of course, true. But what is also true is that, while political organizations no longer play the same role as they did, say, at the end of the nineteenth - the beginning of the twentieth centuries, they, nevertheless, remain a formidable driving force of civil society.

So our task is to see what contribution and to what extent modern-day Russian political organizations can make to the development of civil society in the country. We will do this by examining their major constituents and supporters, whose interests the political organizations must serve.

The present-day Russian political parties

We will concentrate our attention only on Russian political parties. The reason is rather simple: there are more than 100 political parties, associations, movements and blocs, one way or another playing on the Russian political scene. Many of them list as their members, first a very small number of people and, second are often registered only regionally.

Thus, we will examine just those political organizations which have a mass character and, at the same time, function not only in Moscow but outside it as well.

At present, there are five of them: "United Russia" ("ER"), the Communist Party of the Russian Federation (KPRF), the Liberal-Democratic Party of Russia (LDPR), the Union of the Right Forces (SPS), and the "Apple" ("Yabloko").

We will proceed from the assumption that there is no need to describe either the *history* of the creation of the parties, or the number of their members, or their organizational and program

evolution. For a simple reason, that modern-day post-Soviet Russia witnesses a breakdown of the social status so that yesterday's worker, teacher, engineer, researcher is today's taxi driver, small trader, computer programmer, banker, entrepreneur, etc.; property relations are not very clear and blurred.

As a result, people's political sympathies are relatively fluid; hence, neither an individual nor a family tradition of a settled belonging to a certain political organization exists. Hence, the latter, at any given time period, with a necessity is supported by the representatives of various classes and social groups of Russian society.

Therefore, taking into consideration the fact that, under the Russian transitional conditions, political organizations cannot but be in the state of finding their identity, the best way to tackle the problem is to discover just the *current tendencies* in achieving this goal of identification. With regard to political parties, we will attempt to find an answer to the following question: are there in Russia organized political forces which could lead the country to democratic anti-oligarchism, that is, to democratic mixed capitalism?

*"United Russia."*¹⁷ In our opinion, this party unites, at least, three groups of people who pursue three different, often opposite, agendas.

The first group includes those who aspire to preserve and strengthen the current oligarchic system: a part of the federal oligarchic structures (for instance, Gazprom); power structures (for instance, the Ministry of Emergency Situations [MChS] and Ministry of Internal Affairs [MVD]; a part of regional oligarchic structures (regional heads and connected to them enterprise managers who strive for the safe haven in the ranks of "United Russia" so that under its banners to find a protective federal niche); various bureaucracies, since the membership in the party provides them with certain guarantees in preserving their jobs; etc. Thus, these are cynics who, we believe, while being perfectly aware of the real meaning of the anti-oligarchic rhetoric of their political organization, clearly understand its pro-oligarchic essence.

The second group attracts those who would like to weaken and, if possible, totally dismantle the country's oligarchic system. This group consists of those who want stability, law, order and justice, who see in "United Russia" a party ready to support all the actions of the current president of the country and who believe, therefore, that the president's reciprocity would allow the party to fulfill the desires of the members of the group. The third group comprises that portion of non-oligarchic entrepreneurs which has no illusions with regard to the prospect of the emergence of a strong lawful state in Russia and which, therefore, seeks a support

from a strong authoritarian state, whose party manifestation is the anti-oligarchic, in the opinion of the members of the group, "ER."

Thus, "ER" is a political party combining aspirations of defenders of the oligarchic regime and its foes. What unites them is their mutual non-acceptance of all other existing parties, because the latter, in the view of the adherents of "ER," would not be able to "deliver" what they need.

If the description of the supporters of "ER" is correct, then the ranks of such a party, in the process of the dissipation of anti-oligarchic illusions, would be left by its anti-oligarchic *dreamers* and non-oligarchic *entrepreneurs*. In our view, as anti- and non-oligarchic elements of "ER" open their eyes and leave the party, it will shrink to a dwarfish size and, in all probability, simply disappear from the Russian political scene.

Obviously, this party cannot become a building block for future Russian post-Soviet democratic anti-oligarchism.

The Communist Party of the Russian Federation. In our opinion, the KPRF confronts the same problem of heterogeneity which "ER" is inflicted with. But the problem of the KPRF is of a different character than the problem of "EU."

Unlike "EU," which, we believe, is a political organization of the *present* (the tendency to maintain and strengthen current post-Soviet authoritarian state capitalism) and, at the same time, of the *future* of just one variant (striving to the transition into post-post-Soviet authoritarian mixed capitalism),—the KPRF is simultaneously a party of the *past* (the tendency to return to Soviet totalitarian state capitalism) and of the *future* of a different variant (the tendency of the transformation into post-post-Soviet democratic mixed capitalism).

The "*past*" in the KPRF is represented by a significant number of people, quite rigid, having a hard time to adjust to the new post-Soviet situation. Nowadays, they suffer from a sharp (absolute and relative) decline in the standard of living and social status and/or from the national humiliation caused by the disintegration of the Soviet Union and/or from anarchy and lawlessness and/or from the bureaucratic arbitrariness and corruption, etc. The group of the "past" includes some common people and some directors of state enterprises residing in the Russian province (provincial cities and towns, workmen's settlements, and villages). These people are nostalgic about the Soviet period of: stability and predictability of jobs and their creation; clearly defined law and order; the absence of such irritants, as private (non-state) property, with its conspicuous and ostentatious magnificence and the scandalous inequality; being proud of belonging to a superpower which every country in the world was afraid of, etc.

The "*future*" in the KPRF is personated by a part of non-oligarchic businessmen which wants and believes in the possibility

of pulling down the oligarchic structure and replacing it by the system of democratic mixed capitalism through the purely *democratic* means. These people stand for a strong democratic federative Russian state, which is necessary for them: as a political guarantee of the very existence of the KPRF; for the observance equal rules of the economic game for all participants; for strengthening of the unified economic space on the territory of Russia, with the aim of deepening and widening the unified Russian market; for improving the economic relations, and, first of all, with former Soviet republics in order to go beyond the limits of the unified Russian market; and so on.

Despite such a distance in the positions of each of the two groups, there are some moments which are common to both, the KPRF of the "past" and the KPRF of the "future." First, longing for the social justice in their understanding: a fair and equitable distribution of property and incomes, of the social status, of the access to education, health services, housing, etc. From this follows the second: the reconsideration of the privatization results (total, from the point of view of those who call for the return to the Soviet past; partial, in the opinion of those who see the salvation in the post-post-Soviet future).

It needs to be emphasized that, like the Soviet Union was not a "socialist" country, the KPRF, despite its name, cannot be considered a Communist party. Its "communism" consists in the fact that it is to a greater degree than other major political forces in the country acknowledges the role of the state sector in the economy.

Thus, objectively, the KPRF prefers the state (bureaucratic) form to all other forms of private capitalist property. The KPRF, therefore, remains within the capitalist bounds, despite all its anticapitalist rhetoric.

The mixed character of the KPRF implies that it awaits an inevitable split: a demarcation of its elements of the future from its elements of the past. Freed from its reactionary ballast of the past, a renewed KPRF (whatever its name will be) will necessarily become a political force building democratic anti-oligarchism in the country.

The Liberal-Democratic Party of Russia. We understand the LDPR as a party of a state-inclined portion of the *military* and of the *military-industrial* complex in contrast to the KPRF as a party gravitated towards the state *social* orientation.

But the LDPR is a magnet to a specific psychological type of the state-inclined military and military-industrial people: eccentrics who enjoy in attracting attention to themselves. The LDPR, in our view, is a party of certain people with complexes, attempting to compensate the national humiliation of the country by such pipe-dreams as the restoration of the Russian borders from Poland and Finland in the west to Alaska in the east. The LDPR is a party

expressing the mood of people of emotional words but not of striking actions.

It must be added that people who support the LDPR love fuming. They are brave in front of the weak and timid in front of the strong: a fig at the pocket, on the one hand, and lick-spittle, on the other. They are always on the side of their superiors, on the side of the existing power. They revel in loud “anti” (for instance, anti-American, anti-NATO) talks. They need no action, words substitute for them deeds. To shout, to swagger, to sputter, to let out the wordy steam, to do something to spite somebody who is not in the position of authority, to give his gruel to someone who is far away, who would not be able to hear, who is indifferent to the LDPR’s position (the USA, Turkey, Japan, Israel, NATO, etc.),—these are the “acts” of the LDPR. It is a party of wordy “diarrhea” caused by a prolonged Soviet wordy “abstention.”

Such a psychological mood of people supporting the LDPR is rooted, in our opinion, in the following: they do not see the way out of the corrupt, oligarchical, national-degrading situation of modern post-Soviet Russia. For this or that reason, these people do not accept the Soviet past with its (though hypocritical) “dribbling,” in their opinion, moral of social equality. “Snotty” appeals to take care of those who cannot take care of themselves make them sick.

Also, for this or that reason, these people are against not less “dribbling,” in their view, the country’s democratic future. But, afraid of real deeds, they do not join those who see the solution of Russia’s problems in authoritarian anti-oligarchism.

That is why supporters of the LDPR find themselves in the impasse and do not long to political power. They are political “masturbators,” for they take a great pleasure in wordy “orgasms” into emptiness, into nowhere. As people of words, not deeds, they are always with the winners: if authoritarians prevail, then the LDPR becomes a party of authoritarians; and if democrats gain the upper hand, the LDPR turns into a party of democrats.

In our opinion, from all this follows that such a characterless and unable to function party in a country where there is a great need for actions will be gradually reduced to a marginal party so that, in the final analysis, will pass away.

The Union of the Right Forces. Although the SPS, like “Yabloko,” is no longer in the Russian parliament (GosDuma) and, in general, experiences not the best time in its political life, nevertheless, it remains, in our view, a political force of very strong groups in Russian society. Thus, this political organization should not be ignored in our analysis.

We believe that the following contingents of the population might support the SPS as a party expressing their interests.

First, a part of self-made men: owners and managers of non-state enterprises. Second, a certain fraction of the new middle class

which includes representatives of new and dynamic professions in such sectors of the economy, as finance, management, advertisement, insurance, information, etc. Third, some representatives of intelligentsia of big cities. Fourth, a certain portion of university students.

The SPS is a party of economic radicalism of social Darwinism: free market as much as possible, the state intervention as little as possible; the strong wins and lives, the weak loses and dies. Its adherents are individualists whose individualism is natural: they are, as a rule, relatively young, self-sufficient, and psychologically are the least burdened by any weighty moral considerations.

These complete egotists are energetic, mobile, tenacious, practical. They, who relatively fast “made themselves” in the post-Soviet world of gigantic opportunities opened to them, aspire to move even further, to the new heights in their career. Informational children of internet, they want to live as prosperous people in the West do, and they want achieve this now, immediately, elbowing out their less skillful or less energetic or more sluggish or more conscientious fellow-citizens.

In all this, the SPS is different from the LDPR. But there are some elements which are common to both of these political organizations. Supporters of the SPS, as well as of the LDPR, feel sick of all talks about helping the poor. Supporters of the SPS, as well as of the LDPR, are merciless to the unfortunate.

Being radical socioeconomic Darwinists, the SPS crowd is politically radical as well. They are ready to accept authoritarianism, but, sure, if it does not curtail their freedom to act. In the long run, orienting themselves toward democratic capitalism, in the “economic mixture” of which, in their opinion, only an insignificant state participation will be needed, they do not believe that nowadays Russian society is prepared to consent to their socioeconomic radicalism.

That is why in the short run they are not against imposing it through authoritarian measures. Besides, they are *for* short-run authoritarianism (not necessarily anti-oligarchic), since, as representatives of a more prosperous part of the Russian population, they have dread of their own citizens, on the one hand, and of an open confrontation with the bureaucracy, on the other.

This means that the SPS, which in the long run wishes to establish democratic anti-oligarchic capitalism, at present cannot but join oligarchic authoritarianism.

The “Apple” (“Yabloko”). There is a widespread opinion that the SPS and “Yabloko” are similar and the division into the two parties is simply caused by the ambitions of their leaders. We think that the view is incorrect.

The SPS and “Yabloko” are two different political organizations: while the SPS is supported by those who gained from the socioeconomic and political changes in the country, “Yabloko” is a political organization of those who lost as a result of the changes. But, unlike the KPRF, whose losers would like to return to the Soviet system of totalitarian state capitalism, losers of the “Yabloko” gravitate towards the anti-oligarchic post-Soviet system of democratic mixed capitalism. In its ranks, the “Yabloko” lists a certain part of university students and intelligentsia. But they are not from the Russian province; they live in big cities.

As far as their relations with the SPS are concerned, the “Yabloko” supporters, at first sympathizing with the anti-Soviet, anti-“communist” direction of the former, eventually have been disappointed in it. In our view, the “Yabloko” constituency was antagonized by the cruelty and cynicism of the first years of post-Soviet “reforms.”¹⁸

In main, sharing long-term democratic opinions of the SPS, the “Yabloko” people are not satisfied with the expectation of democracy in the future; they want it now. Hence, in contrast to the SPS, they in no way accept any authoritarianism.

Agreeing, in many respects, with denationalization of Russian economy, preached by the SPS, the “Yabloko” does not run to extremes of the SPS and, instead, insists on a reasonable participation of the state in the socioeconomic life of the country.

For the “Yabloko” it is important, first, to fight oligarchism *immediately*: it offers draconian measures against corruption; second, to do this by exclusively democratic methods. Democratic anti-oligarchism is the economic and political credo of the “Yabloko.”

The “Yabloko” supporters are intolerant to oligarchism due to their major psychological feature. To this university-student and intellectual layer belong, for the most part, individuals with a specific cast of mind: vulnerable, experiencing constant moral doubts about their moral words and actions.

They are post-Soviet failures just because they are very sensitive, conscientious to use the transitional situation to their own advantage. And that is why they are so sensitive to the problem of human rights in the country.

The “Yabloko,” in our opinion, is the only main Russian political organization whose partisans are *totally* oriented towards the *future*, hoping that it will bring democratic anti-oligarchism, or democratic mixed capitalism. In other words, the “Yabloko” is an integral, homogeneous political unit which lacks diversity of goals, such as a nostalgia for the past and clinging to the present.

As a *goal-homogeneous* political organization, the “Yabloko” of the *future* is similar to the LDPR of the mercurial *present*. And, like the LDPR, the “Yabloko” is a political organization more of words than deeds. Its words are a moral sermon of admonishment to the

political power-holding “sinners” to stop doing bad things to the population.

But, unlike the LDPR, the “Yabloko” supporters are ashamed of loud phrases and window-dressing. As conscientious, ready, if needs to be, to some self-sacrifice, the “Yabloko” supporters are little fit to the every-day, routine work.

Conclusion. Let us now see, whether democracy or authoritarianism, would be available to these parties to lead the country to anti-oligarchic mixed capitalism. In other words, on the basis of the major political directions of the five parties, we will attempt to foresee the future political form of anti-oligarchic mixed capitalism.

This we illustrate in the table below:

Table 1.1
A Summary of the Political Orientation of the Major Political Parties
In Post-Soviet Russia

Political parties	Orientation to:			
	Yesterday's totalitarianism	Today's oligarchic authoritarianism	Tomorrow's or after tomorrow's:	
			Anti-oligarchic authoritarianism	Democratic anti-oligarchism
“ER”	no	yes	yes	no
KPRF	yes	no	no	yes
LDPR	no	yes	no	no
SPS	no	yes	yes	yes
“Yabloko”	no	no	no	yes
Summary:	1: yes; 4: no	3: yes; 2: no	2: yes; 3: no	3: yes; 2: no

In the uncertain and ambiguous post-Soviet system of property, possession and the social status, a review of the political direction of the major political parties of the country tells us the following.

First, as a rule, the mood of the Russian people has not been clearly delineated. On the one hand, various political parties might be supported by people of the identical goals; but, on the other hand, one and the same political party might have as its adherents those who hold different goals.

Second, *formally*, given the number of currents supporting democratic anti-oligarchism, it, in the near future, has more chances than anti-oligarchic authoritarianism. But, in our view, it is only *formally*. For, unfortunately, statistics on the number of those in the KPRF who support yesterday's totalitarianism and who democratic anti-oligarchism are not available.

There is also no information on the differentiation of the SPS supporters into today's oligarchic authoritarianism, directly anti-oligarchic authoritarianism and indirectly democratic anti-oligarchism.

Such a problem does not exist for the “Yabloko,” all supporters of which are oriented towards democratic anti-oligarchism. But, as was pointed out earlier, the psychological portrait of an average “Yabloko” sympathizer compels us to doubt his determination to put his desires in practice. Besides, in the spirit of the moralizing people of the sixties of the last century, the Yabloko contingent pays, in our view, too much attention to legalities, preferring the struggle for human rights to the solution of social problems caused by the oligarchic regime.

So what conclusion can be made? There is no clear-cut indication on what political form Russian mixed capitalism will take: democratic or authoritarian. But there are other signs which point to the authoritarian direction.

First, many in Russia are completely apolitical. They are indifferent to either form of governing (democratic or authoritarian). Moreover, they are proud of their indifference to politics. They, therefore, cannot provide any ground for Russian democracy.

Second, as was emphasized earlier, authoritarianism is supported, one way or another, by one of the most active, energetic and enterprising part of post-Soviet Russian society, the part which is not burdened by any moral impediments: a portion of the SPS plus non-oligarchic elements of “ER.”

Third, the growing number of Russians prefer a recreation of the one-party system as it was in the old Soviet times. They go even further and believe that the country needs no parties but leaders.¹⁹

Fourth, the number of supporters of the multiparty system remains small and constant.

Fifth, many Russians doubt the advisability of the institution of elections: high oil prices allowing the authorities to maintain some political and economic stability in the country (as compared to the turbulent pre-Putin’s times) make many satisfied with the existing regime. So, as a result, less and less people actually participate in the voting processes.²⁰

Sixth, responding to such wishes of the majority of the Russian people, the current political authorities have been gradually strengthening the authoritarian form of the existing oligarchic regime by: actually appointing governors of regions, thus, despite the constitution, making Russia not a *federal* but a *unitarian* state; taking under tight government control the mass media (TV, press and radio); etc. These measures, though directed towards empowering the existing *oligarchic* authoritarianism, inadvertently lay ground for the future *anti-oligarchic* authoritarianism.

On the anti-oligarchic authoritarian forces

What forces would be willing and able to lead the country through the stage of anti-oligarchic authoritarianism? We believe that, given the weak development of civil society in Russia, these will be the power structures (the FSB [former KGB], the military, the MVD [the militia]), which, due to their specific internal organization, *comparatively* less than other structures of post-Soviet Russian society underwent erosional changes. The power structures, therefore, in our opinion, are *relatively* more disciplined, for, despite all the anarchical processes which are taking place in the country, they still preserve the one-man rule and the hierarchy of discipline.

It might be argued that it is not in the Russian tradition for the power structures to play an independent political role, that the Russian tradition leaves for the power structures to remain just instruments in the hands of the civilian authorities.

But traditions are not everlasting: as circumstances of life change, so do the traditions of the country and its people. History of various peoples demonstrates that, under normal conditions, when the socioeconomic and political system of the country is stable, when the majority of the population, including its power structures, is more or less satisfied with its standard of living, when any changes which are needed have rather a marginal, incremental character,—the power structures are occupied with their immediate task to defend the country, its socioeconomic and political system, the well-being of its citizens. In such circumstances, the power structure interferes into neither political, nor economic nor social organization of the country.

But history of various nations also shows that, when circumstances of life are not normal, especially under the conditions of the transformation from one socioeconomic order into another; when the old foundations of life are in the process of destruction, while the new foundations, having not been yet established, force to suffer a significant portion of the population, including the power structures; when that dispirited population loses all the illusions about the existing system but sees no way out of the situation,—in these circumstances *sometimes* the power structures might stop obeying civilian authorities and take political power into their own hands. This is what is called a military coup.

Let us now see what might become of anti-oligarchic authoritarianism in its Russian implementation. Just because it is *anti*-oligarchical and will have to strike at the mighty clannish-group bureaucratic interests, it will give rise to a violent resistance. The latter could be supported by the gigantic oligarchical financial means, by corrupt generals, by the pro-oligarchic media. But, in our opinion, the oligarchic resistance will not be supported by the vast majority of the Russian people, of the military, of the FSB, of

the militia. So, we believe, the opposition to the new oligarchic authoritarianism, although formidable, will be short-lived.

Having achieved the political authority, the anti-oligarchic people of the power structures would promote the restoration of the country's might and, correspondingly, its military might. This does not mean that they themselves would directly manage Russian economy and the country's social aspects. This would not be required of them.

Their task will be to *create political conditions* necessary for: a certain dismantling of the oligarchic structure by forced re-nationalization (with or without some compensation) of some major companies (as, for instance, extracting raw-material and fuel resources); reconstituting state monopoly on alcohol production and, to a some degree, on distribution; breaking many monopolies and creating conditions favorable to competition; reducing the sharp inequality in wealth (by forcing the wealth-holders who are unable to prove the legitimacy of the origin of their assets to pay steep taxes and penalties) and incomes (by, for instance, restoring the high progressive income tax rate on the more prosperous people and lowering the marginal tax rate on the less prosperous people); by fighting corruption and graft; by helping education, science, medicine, etc.

Many of these programs will have to be managed by the new civilian authorities, themselves specialists in various fields of the country's life. The task of the power structures will be to safeguard the acts of the civilian authorities with the help of bayonets.

On paper, the scenario, probably, looks smooth. However, it should not be forgotten that the road we are projecting here will be taken by the military people in *Russia*. Post-Soviet Russian anti-oligarchic authoritarianism cannot but function in purely Russian traditions of irresponsibility, slovenliness and maximalism,²¹ when, without a necessity, a problem is solved not by a scalpel but by a kitchen knife, not by a hammer but by a sledge-hammer, not by a knife but by an axe, etc.

Thus, there is no guarantee that post-Soviet anti-oligarchic authoritarianism will not start, as it often happened in the country's past, firing indiscriminately at friends and foes alike. For, based on the Russian history, the following might be expected from post-Soviet Russian anti-oligarchic authoritarianism.

First, the worsening of the status of intelligentsia: under the conditions of a ruthless struggle against the mighty oligarchy in order to crush any critique in its address, anti-oligarchic authoritarianism will be compelled to: sharply restrict such human rights, as freedom of speech, of demonstrations, of assembly, etc.; suspend or turn into a pure smoke-screen activities of political parties, legislative and juridical branches of government.

Second, the infringement of the rights of trade unions, in particular, the right to strike, so not to give oligarches an opportunity to manipulate lawful economic demands of employees.

Third, a further offensive on the rights of citizens when, to fight criminality, gangsterism and corruption, anti-oligarchic authoritarianism, no longer bound by any critique of its actions, might start criminal persecution of all its opponents, no matter who they could be.

Such, we believe, will be the deeds of post-Soviet Russian anti-oligarchic authoritarianism called by history to revise the results of privatization and cut the tentacles of the oligarchic monster sucking the country's blood. In all probability, its (anti-oligarchic authoritarianism's) *progressive*, in our view, *goals* under specific Russian traditions could not but be achieved by *reactionary methods*.

Unfortunately, this is the price the Russian people will have to pay for their slavish behavior, for their centuries-old believe in their current leader who, they expect, will do for them what they are supposed to do for themselves.²² *Unfortunately*, in other words, this *tragic necessity* for moving away from the oligarchic system by the *undemocratic* means is the cost the Russian people, in all probability, would have to incur for shunning civil society.

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Notes to Chapter 1: Reflections on the Direction of the Socioeconomic Development of Post-Soviet Russia

- 1 Based on E. Raiklin, *Osnovy Ekonomicheskoi Teorii. Ekonomicheskii Rost i Razvitiye* [Principles of the Economic Theory. The Economic Growth and Development]. Moscow: "Nauka," 2001, pp. 245 - 246, 275 - 280; E. Raiklin, "The Disintegration of the Soviet Union," *international Journal of Social Economics*, Volume 20, Numbers 3/4, 1993, pp. 48 - 49, 50 - 55; E. Raiklin, "Besedy Rossiyanina i Emigranta" [Conversations of the Russian and Emigrant], *Chelovek i Vselennaya*, St. Petersburg, Russia, ## 8[29], 9[30], 2003; E. Raiklin, "Pre-Soviet, Soviet and Post-Soviet Models of Economic Growth and Development," *International Journal of Social Economics*, Volume 32, Number 11, 2005, pp. 1003 - 1006, 1008.
- 2 On this issue, see, for instance, R. Kapelyushnikov, "Ekonomika Okopavshikhsya" [The Economy of Those Who Are Entrenched], *Kommersant*, February 21, 2006.
- 3 As if anticipating such a situation, Weber (M. Weber, "The Protestant Ethic and the Spirit of Capitalism. New York: Harper Collins Academic, 1930, p. 76) writes that "adventurous capitalism ... is oriented on exploitation of political possibilities and ... speculation."
- 4 See Chapter 1 of Part VIII of the book.
- 5 See, correspondingly, Chapters 5 and 6 of Part VIII of the book.
- 6 See Chapter 4 of Part VIII of the book. On the scandalous income inequality in Russia, see, for instance, "Strana–Odna, Zhizn'–Raznaya" [The Country Is One Thing, People's Life Is Another], *Argumenty i Fakty*, December 14, 2005.
- 7 It was in Chapter 2 of Part VIII that the term "oligarch" for the first time came to our attention. Let us refresh our memory on the subject. The Russian federal (or regional) oligarch is a person who, one way or

another, “received” a relatively large piece of national (or regional) property from a corporation of bureaucrats responsible for that piece of property; promised to use (manage) the property in such a way that a portion of incomes on it regularly and steadily should flow to the bureaucracy as a corporation.

Formally, the Russian oligarch is the *owner* of that piece of property “given” to him. *Actually*, he is its *possessor* even if he controls a share holding in “his” company. It cannot be any other way in a country where there is no independent judicial system, no civil society able to control the actions of bureaucracies which “sell” pieces of property they supervise (possess) to oligarchs at low cost and which control the punitive organs. And, under the circumstances, the same bureaucracies with the same success at any time can “expropriate” these pieces of property “given” by them to the oligarchs, completely disregarding those pieces of paper called shares. For, the phenomenon of federal (national) oligarchs in Russia is a kind of union, an agreement between the highest (national, federal) bureaucracies, on the one hand, and managers (oligarchs) of large, amorphous (from the point of view of their ownership) corporations: the bureaucrat provides a “cover” for the oligarch, and the oligarch “feeds” the bureaucrat participating in sharing the oligarch’s profits. (The same is also true for regional oligarchs.) For any reason, bureaucracies can always break the contract, so that the oligarch might find himself stripped of at least a part of “his” property. Gusinsky, Berezovsky, Khodorkovsky, Lebedev, and Nevzlin are good examples of this.

On this topics, see, for instance, T. Grishina, “Aleksandr Mamut Smyenil Sovyet Direktorov” [Alexander Mamut Has Replaced the Board of Directors], *Kommersant*, March 10, 2005; “Mikhail Khodorkovsky, Rokfelleru Bylo Namnogo Tyazhelee” [Michael Khodorkovsky: Rockefeller Had a Much Tougher Time], *Kommersant*, June 6, 2005; M. Krasnov, “YUKOS Sdan ‘Rosnefti’” [YUKOS Has Been Handed Over to ‘Rosneft’], *Gazeta.ru*, March 15, 2006; A. Lebedeva, S. Nikonov, “Obzor Rynka General’skoi Nyedvizhimosti” [A Review of the Market of State Real Estate], *Novaya Gazeta*, April 27, 2006.; S. Mikhalych, A. Polukhin, “2008? Nyet Problemy” [2008? There Is No Problem], *Novaya Gazeta*, December 12, 2005; V. Panuyshkin, “Schitayetsya–Pobeg” [Counted As Escape], *Novaya Gazeta*, December 8, 2005; R. Shleynov, “Nye Nado, My Sami” [Don’t Do It, We’ll Do It Ourselves], *Novaya Gazeta*, April 27, 2006.

- 8 Such future re-nationalization in Russia might be guided by the experience of developed countries of the world. On this experience, see, for instance, S. Ognivtsev, “Eto Strashnoye Slovo–Natsionalizatsiya. Pravym Byt’ v Evrope Stanovitsya Neprilichno” [This Terrible Word, Nationalization. It Is Indecent To Belong to the Right in Europe], *Nezavisimaya Gazeta*, August 12, 1998. An opinion in defense of re-nationalization can be seen in M. Dmitriyev, “V Zashchity Natsionalizatsii” [In Defense of Nationalization], *Kommersant*, January 30, 2006.
- 9 The power becomes *totalitarian* when the means of production are owned by the state, that is, by the bureaucracy in its totality.
- 10 From now on, in order to distinguish the 1990s from the 2000s in Russia’s post-Soviet development, names of Russian presidents might be

occasionally used. But again, according to our approach, not as decision-makers but as symbols of each stage.

- 11 A. Tarasov, "Kakoi Nomer u Nashego Prezidenta" [What Number Our President Has], *Novaya Gazeta*, August 14 - 20, 2000, Number 38.
- 12 K. Sergeev, V. Tseplyayev, "Prezident Srednikh Russkikh" [A President of the Middle-Class Russians] *Argumenty i Fakty*, February 2000, Number 6. In this respect, it is worth mentioning that "[m]any observers have noted the increase under Putin in the proportion of government officials who have military or security backgrounds... . The steady increase in the proportion of military and security men in the political elite over time is striking:

1988 (Gorbachev)	4 percent
1993 (early Yeltsin)	11 percent
1999 (late Yeltsin)	17 percent
2003 (Putin)	25 percent"

(See O. Kryzhanovskaya, S. White, "Putin's Militocracy," *Post-Soviet Affairs*, October - December 2003, Volume 19, Number 4, pp. 289 - 306).

- 13 For why we put "his" in quotation marks, see this chapter's footnote #6 about the actual role played by the oligarchs as proprietors.
- 14 A. Yegorova, "V Reiting Forbes Popali 33 Rossiiskikh Milliardera" ["Forbes" Includes 33 Russian Billionaires In Its List], *svobodanews.ru*, October 3, 2006.
- 15 On Russian corruption problems, see, for instance, N. Kopylova, "Fridman Pereotsenil 'Al'fu' i Nedotsenil Syebya" [Fridman Has Overestimated 'Alfa' and Underestimated Himself], *Gazeta.ru*, October 10, 2005; S. Mulin, "Dyeyateli Osobo Krupnykh Razmerov" [Figures of Enormous Proportions], *Novaya Gazeta*, October 31, 2005; S. Myers, "Pervasive Corruption in Russia Is 'Just Called Business'," *The New York Times*, August 13, 2005; T. Netreba, S. Rubtsov, V. Kostikov, "Roskosh'-Vlasti, Nishcheta-Narodu" [Luxury Is to the Power, Misery Is to the People], *Argumenty i Fakty*, May 28, 2005; A. Shapovalov, "Reforma Gosupravleniya v Rossii Stala Zhertvoi Korruptsii" [The Reform of State Management Became a Victim of Corruption], *Kommersant*, October 16, 2006; A. Shapovalov, "Strana Napugannykh Investorov" [A Country of the Frightened Investors], *Kommersant*, June 21, 2005; A. Uglanov, Ye. Yezhov, "Chem Vzoshlo Semya Vauchera" [What Sprouted From the Voucher Seed], *Argumenty i Fakty*, Number 25, 2004.
- 16 "Russian state finances are an expensive fortress, built around something unknown. The first echelon of defense is the stab[ilization] fund which in 2006 will accumulate 2.5 trillion rubles. The second echelon is the budget surplus which for 2006 ... is estimated at 776 billion rubles. The third is gold reserves already exceeding \$160 billion" ("Kuda Pustit' Profitsit Buydzheta? Diskutiruyt Nikolai Vardul' i Aleksandr Velichenkov" [How to Use the Budget Surplus? Nikolai Vardul' And Alexander Velichenkov Are Debating], *svoboda.org*, December 15, 2005). And yet these surpluses, originated in high oil and gas prices, have not been spent on investment, on the creation of new jobs, on raising pensions and wages, on reforms of the housing and communal services, on fixing the increasingly degrading infrastructure. For example, the major purpose of the stabilization fund

has been to fight inflation, for which purpose the fund, not to be spent domestically, has been invested in foreign government securities. But, by and large, the Russian government is not sure what to do with the bags of money now in its coffins.

On the issue of the use of the stabilization fund and budget surplus, see, for instance, Yu. Aleksandrov, "Kak Nam Reorganizovat' Stabfond" [How To Reorganize The Stabilization Fund], *Delovye Ludy*, June 2005, Number 171; O. Dmitriyeva, "Spory o Stabfonye" [Arguments About the Stabilization Fund], *Kommersant*, April 5, 2006; "Fradkov: Pravitel'stvo Nye Znayet, Kak Ispol'zovat' Stabfond" [Fradkov: the Government Does Not Know How To Use the Stabilization Fund], *gazeta.ru*, September 30, 2005; P. Kanayev, A. Gofman, "Stabillion" [The Stabilization Billion], *gazeta.ru*, November 2, 2005; "Rossiya Pribavila v Rezervakh" [Russia Increased Its Reserves], *Kommersant*, November 3, 2006; A. Shapovalov, "Andrei Beyelousov Obosnoval Neobkhodimost' Gosinvestitsiy" [Andrei Byelousov Has Substantiated the Necessity for State Investments], *Kommersant*, March 13, 2006.

On the topic of the deteriorating infrastructure, see, for instance, B. Grozovsky, "Rossiyu Zhdut Tri Krizisa" [Russia Might Expect Three Crises], *Vedomosti*, October 31, 2005; S. Kara-Murza, S. Telegin, *Nepoladki v Russkom Domye* [Defects in the Russian House]. Moscow: Izdatel'stvo "Eksmo," 2004; S. Kara-Murza, S. Telegin, *Tsar'-Kholod. Pochemu Vymerzaiuyt Ruskiye* [The Czar-Cold. Why the Russians Have Been Destroyed by Frost]. Moscow: Izdatel'stvo "Eksmo," 2004.

- 17 We will not discuss here "Just Russia," first because this party is only in the process of creation and, second because there is no *real* difference between it and the "ER." In actuality, they are two wings of the same party with the task of supporting the Russian president, no matter what and how he does.

- 18 There are different, and sometimes curious, causes of "communist" and "anticommunist" views held by former party members in post-Soviet Russia. Some of these people are "anticommunist," because they cannot forgive the leadership of the CPSU for breaking the Soviet system. And it is interesting to note that very often these feelings stem not from ideological sources but because the disintegration of the Soviet system ruined their good life these people considered to last forever.

On the other hand, "communism" of some other former party members is based on their resentment towards the new system which took away their privileges which they enjoyed during the Soviet time (for example, travels abroad, the use of special stores and medical facilities). They cannot forgive the current Russian regime that it granted such possibilities to *anyone* with money in his pocket.

As can be seen, the loss of the same privileges of the Soviet time has made some former "Communists" "communist" and others, "anticommunist."

- 19 See, for instance, D. Kamyshev, V. Khamrayev, "Rossiyanie Isklyuchayut Partii" [The Russians Exclude Parties], *Kommersant*, January 16, 2006.

- 20 See *ibid.*

- 21 See, for instance, *Ruskiye o Russkikh. Mneniya Russkikh o Samikh Syebye* [Russians About Russians. Views of Russians of Themselves], collected by K. Skal'kovsky. St.Petersburg, Russia: Petro-Rif, 1992.

- 22 Where does this slavish behavior of the Russian people come from? There is no place here to discuss this very complicated problem. We can

simply note that the major cause is the very geographic location of Russia: the huge plain, without any natural borders, for centuries has directed the activities of the Russian people not inward, to improve the conditions of their life, but outward, to defend the borders and to conquer other peoples, thus living the “job” of managing the country entirely into the rulers’ hands.

PART IX

AN ATTEMPT TO ANTICIPATE THE FUTURE, OR THE SECOND STAGE IN THE DEVELOPMENT OF THE POST-SOVIET SOCIOECONOMIC SYSTEM

Chapter 2

The National and Regional Forces Behind the Soviet and Post-Soviet Territorial-Administrative Changes¹

Throughout the book we have discussed the *socioeconomic* reasons for the downfall of the Soviet *system* of totalitarian state capitalism, for the emergence of the post-Soviet *system* of authoritarian state capitalism, and for the present-day transformation to the post-Soviet *system* of authoritarian mixed capitalism. We have referred only sporadically to the *national* and *regional* causes of the *territorial-administrative* disintegration of the Soviet Union as a *country*.

The time has now come to tackle this problem. The socioeconomic players analyzed heretofore will no longer appear uniform. They will reflect their national and regional loyalties.

National and regional bureaucracies of totalitarian state capitalism

Both national and regional bureaucracies of the former Soviet Union ran the social, economic, political, cultural, ideological, military, and other affairs of those territorial-administrative parts of the country that were under their supervision. The difference lay in the legal dress they wore.

National bureaucracies

The term “national bureaucracies” refers to the bureaucracies that operated within the formally defined *national*-administrative territories. These entities served as channels through which the central bureaucracy in Moscow administered and controlled the entire country.

The national bureaucracies included bureaucracies of the 15 union republics:² the Russian, Ukrainian, Byelorussian, Uzbek, Kazakh, Georgian, Azerbaijan, Lithuanian, Moldavian, Latvian, Kirghiz, Tadjik, Armenian, Turkmen, and Estonian.³

Within the union republican, there were the bureaucracies of the 38 smaller national entities. That is, there were 20 autonomous republics, eight autonomous regions (*oblasts*), and ten autonomous areas (*okrugs*).

However, only five union republics had smaller entities. Russia was comprised of 16 autonomous republics, five autonomous regions, and all ten autonomous areas; Uzbekistan had one autonomous republic; Georgia had two autonomous republics and one autonomous region; Azerbaijan had one autonomous republic and one autonomous region; and Tajikistan had one autonomous region.

In essence, the former Soviet Union and its bureaucracies were built like a *matryoshka* doll. However, unlike the original *matryoshka* with its “traditional doll within a doll within yet another doll” structure,⁴ the Soviet doll was much more complicated.

The country was one doll with 15 smaller national dolls (union republics) within itself. Some smaller national dolls, in turn, enclosed even smaller national dolls (autonomous republics, autonomous regions, and autonomous areas). However, these smaller national dolls were positioned alongside, but not within each other, even though the mutual relationship existed.

The whole Soviet *matryoshka* consisted of a group of animate dolls, all engaged in a web of very elaborate relations with each other. The relationship between each union republic and its inner autonomous republics, regions and areas was a national replica of the *vertical* links within the socioeconomic and political bureaucratic structure of the country as a whole.

The relationships between the 15 union republics; between each union republic and the inner autonomous entities of other union republics; and between the inner autonomous entities, regardless of their respective union republics, replicated the *horizontal* links within the socioeconomic and political bureaucratic hierarchical pyramid.

The Soviet Union (and its central bureaucracy, located in Moscow) served as the outermost doll. In this capacity, it contained, controlled and governed all the other dolls (and their bureaucracies) of the country.

The central (highest) bureaucracy performed as a socioeconomic and political glue holding the country together. For example, the central *economic* bureaucracy as the most authoritative representative of the entire Soviet bureaucratic class—the owner of the means of production of the entire country, through the ministerial structure, mandatory central planning, the system of appointments from above, the monopoly over the banking system and foreign trade, managed and controlled the allocation of the economic and financial resources throughout the country down to the union republics and, very often, by ignoring the latter, further down to the autonomous entities within the union republics.⁵

The same was true of political, military, trade-union, and other horizontal layers of the bureaucratic structure of the country. But as the country’s socioeconomic and political analysis of Part VII of the book suggested, it was the party bureaucracy, from top to

bottom, which played the role of the nervous system in keeping the entire organism in continuous motion and not allowing its centrifugal forces to tear it apart.

The strength of the system was maintained by the same forces which kept intact the entire socioeconomic structure. These included: the mutually upheld vested interests of the bureaucracy at all its levels; this was combined and intensified by fanaticism, fear and ignorance on the part of the rest of the population.⁶

Using as an example the Uzbek Republic, a Soviet source makes the following observation about the almost feudal nature of the relationship of vassalage between the central bureaucracy and the national bureaucracies of the union republics:

For decades, the Tashkent [capital of Uzbekistan] “emirs with the party-membership cards” had been licking the Moscow boots, knowing very well that they [the Uzbek leaders] themselves will get ... an opportunity to rob, practically without any control, the oppressed and intimidated population.⁷

But the vassalage structure did not stop there. It went down to the autonomous entities as well. Thus, in relations between the national bureaucracies of the union republics and the national bureaucracies of their autonomous regions, the former played the role of the central bureaucracy, with all the ensuing consequences for the autonomous bureaucracies.⁸

Regional bureaucracies

The Soviet outer doll contained not only formally *national* dolls. In addition to the smaller autonomous dolls, its larger inner dolls (union republics) also included smaller, formally *neutral* dolls.⁹

Among them, there were the following non-autonomous entities. On an equal footing, there were six areas (*krais*) and 114 regions (*oblasts*) located within some of the union republics, and 3,217 districts (*rayons*) which were contained within some *krais* and *oblasts*.

There were also 2,200 cities as inner dolls of either union or autonomous or neutral outer dolls. Moreover, some cities were divided into their own *rayons*.

Finally, there existed even smaller territorial inner dolls, such as 4,042 settlements of the city type and 43,095 village soviets.

Thus, the notion of “regional bureaucracies” is used to describe those bureaucracies which functioned within these formally neutral administrative territories. The existence of these regional bureaucracies, with their own vertical and horizontal doll-type relations, further complicated the mosaic structure of the Soviet hierarchical pyramid. Together with the presence of national

bureaucracies, they provided a fertile ground for the would-be dangerous breakdown of the entire Soviet system.

National and regional bureaucracies of early authoritarian state capitalism

In chapters 8 and 9 of Part VII of the book, discussing the causes and players in the Soviet drama, we emphasized that the socioeconomic and political fragmentation of the system had taken place because of the breaking down of the four pillars of the Stalinist model: vested interests, fanaticism, fear, and ignorance.

In this process, the national bureaucracies dressed the socioeconomic and political forces of disintegration in national costumes. The “neutral” regional bureaucracies strengthened these forces in their centrifugal movement. Thus, the national and regional bureaucracies, without changing the character of the socioeconomic and political dissolution, imparted to it a localized flavor.

We would argue that the desires of the emerging national and regional forces to better their position within and even outside the Soviet outermost doll were largely a localized cover for the ambitions for social, economic and political power of the national and regional bureaucracies. That is, within the seemingly well-established and entrenched *matryoshka*, the local bureaucracies wanted to take into their hands an increasing share of the socioeconomic and political affairs of their own inner dolls, with a little, if any, supervision and control from the bureaucracies of the outer dolls.

This is not to downgrade the importance of some other centrifugal elements which were doing their job as well. Among them, the most powerful was the rise of national and ethnical self-consciousness against a background of the growing standardization of all aspects of life.¹⁰

These forces are, however, very broad and can be equally applied to any circumstances where national, ethnic or racial tensions exist. Hence, national and ethnic processes might serve only as a *general* background for the tendencies of fragmentation of the present-day world.

But, in our opinion, the *particularities* of the territorial-administrative disintegration of the former Soviet Union may be best understood in the framework of the struggle between various vertical and horizontal layers of the country's bureaucracy.¹¹

This approach does not exclude the importance of cultural, religious, linguistic, traditional, historical, ethnical and other elements that made the disintegration of the former Soviet Union possible.

But this method of analysis emphasizes that the predominant role in the Soviet breakdown was played by the national and

regional *bureaucracies* camouflaging their own social, economic, and political interests by draping them in national and regional garments. These bureaucracies simply exploited the situation in which formerly hidden and suppressed animosities and antagonisms of the peoples of the Soviet provinces towards the center came to the surface.¹²

The bureaucratic use of the explosive circumstances was made possible by the breakdown of the pillars of the Stalinist model, of the "Soviet way of life," with its illusions of harmony among peoples of various nationalities and regions. It was further exacerbated by the shortages and rising unemployment and prices.

As in the case of the socioeconomic disintegration, the boiling-over point came in August 1991. Since then, the outermost center had been dying away, the dolls within the dolls had been opened, and the inner dolls had begun flying out of the *matryoshka*. With the *legal* dissolution of the country in January 1992, the Soviet-type *matryoshka* no longer exists.

But again, in our view, these national and regional centrifugal processes were in essence socioeconomic and political processes. The local bureaucracies, while waiving their national and regional flags and hiding behind national and regional slogans, were promoting the agenda of the lower-level (lower than the central) bureaucracies in general.

Their program was simple and straightforward. They wanted to own *legally* the productive resources of their national and regional territories.

Thus, vertically, the bureaucracies of the inner dolls wanted to get out of their respective outer dolls, but, at the same time, to keep their own inner dolls. But having achieved this, having become independent, they immediately found themselves in extremely peculiar, delicate and even hazardous positions, first *vis-a-vis* each other¹³ and, second against their own autonomous entities.

Having usurped power from the center, the bureaucracies of the former union republics were in no mood to allow the same move by the autonomous and regional bureaucracies of their inner dolls. As a result, many of the 15 outer dolls were facing the same problems as the former Soviet Union and its central bureaucracy faced. This is in addition to the fact that the threat from the union republics' inner dolls complicated the already deteriorated relations among some of the union republics.

But it must be pointed out that challenges of the autonomous and regional bodies to the union republics were more complicated and less solvable than that the union republics presented to the old center. The reason is that the autonomous and regional entities and their bureaucracies have operated under very dissimilar conditions and, therefore, unlike the union republics, aspired to a variety of goals.

Several examples will help to clarify this point. We, first, will look at the struggle for sovereignty by the autonomous entities. We then will discuss the same issue with regard to the regions.

The struggle for sovereignty by the autonomous entities

Since the autonomous entities are inner dolls in their relations to the union republics, there have been two tendencies in their movement and in the ambitions of their bureaucracies. The first was the desire to become union republics.

Thus, in the Fall of 1991 (that is, during the transformation of totalitarian into authoritarian state capitalism), the former Chechen-Ingush Republic unilaterally proclaimed itself a sovereign state, the Chechen Republic, independent from Russia, and elevated its status from "autonomous" to "union." Similarly, a referendum in the former Tatar Republic actually raised its position from "autonomous" within Russia to "union" within the CIS.¹⁴

The second tendency in the movement by the bureaucracies of the autonomous republics was to divide those which included more than one nation. This was the case of the former Chechen-Ingush Autonomous Republic. It was comprised of two indigenous nationalities, Chechen and Ingush. They are now formally independent from each other.

The tendency to uplift their position has not been confined to the bureaucracies of the autonomous republics only. The bureaucracies of the lower autonomous entities have been following the suit.

In addition to this trend, some of the bureaucracies of other lower autonomous entities have embarked on an even more difficult route. They have chosen to maintain the autonomous status of their republic, however, not within the same union republic but rather within a different one. The major reason for such a movement has been the desire of the national bureaucracies to reunite their people, forced to live in different autonomous republics previously located within different union republics.

For instance, the former South Ossetic Autonomous Region has, for some time, been trying to secede from Georgia and to join the former North Ossetic Autonomous Region within the Russian Republic.

The prolonged confrontation, often bloody, between Armenia and Azerbaijan for the former autonomous region of Nagorno-Karabakh, located on the territory of Azerbaijan but populated mostly by the Armenian people whose bureaucratic "representatives" want it to become a part of Armenia, has the same roots.

The struggle for independence by the “neutral” entities

In many respects, the bureaucracies of these bodies have attempted to emulate their national “colleagues.” In the European part of Russia, the Kaliningrad region, for some time there has been a flirting with an idea of creating an independent Kaliningrad Republic. In the Asian part of Russia, there has been a talk of forming a Ural Republic, a Siberian Republic, and a Far East Republic.¹⁵

The Russians and Ukrainians in the predominantly Romanian-speaking Moldova Republic have organized their own republic, called “Pridnyestrovie,” and proclaimed its independence from Moldova. With such a move, the formerly “neutral” region became a national autonomous entity.¹⁶

The last word

In the process of the socioeconomic and political disintegration of the country, many former bureaucrats, especially party bureaucrats, suddenly became transformed from “communists” into “democrats.” In the process of the territorial-administrative disintegration of the country, the same bureaucracies overnight changed from “internationalists” into nationalists.¹⁷

A good answer to the question of the causes of the high “adaptability” of the national and regional bureaucracies of the former “communists” and “internationalists” is provided below. It refers to the case of the bureaucracy in Soviet Central Asia prior to Gorbachev’s reforms. But in reality it can be applied to bureaucracies anywhere in the former Soviet Union:

Throughout the Stalinist era, the party elite of each community was given the responsibility of insuring the political conformity of its own people ... The natives, aware of the situation, felt no hostility toward the native party members. On the contrary, they regarded them as allies ... and protectors against the hardships imposed by the regime ... Most of the native Muslims who joined the party after the great Purge were members of the socioeconomic elite. They were chairmen of collective farms, brigadiers, factory directors, office managers, local party officials, administrators, and people of similar status. These people had living standards far higher than the average and enjoyed priorities and advantages commensurate to their position. No idealists, they had a vested interest in the smooth functioning of the regime ... they owed the positions they occupied to the regime in power ... Consequently, the native party members who had joined the party after the demise of the old members knew little about communism and cared even less. In any case they valued leadership for its own sake and enjoyed the pleasure of command in a truly Oriental way.

What is striking is that forty years later [that is, in the 1970s], the much better educated modern Muslim party cadres have inherited the same indifference to dogma, the same opportunism, and the same nationalist feelings that affected their predecessors. The gap between the theory and the practice of communist ideology, so marked in Moscow, remained most pronounced in the Muslim republics.¹⁸

No wonder that the national (as well as “neutral”) cadres needed no hard persuasion to change their ideology from “communist” to “anticommunist,” from “totalitarian” to “democratic,” and from “internationalist” to “nationalist.”

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Notes to Chapter 2: The National and Regional Forces Behind the Soviet and Post-Soviet Territorial-Administrative Changes

- 1 Based on E. Raiklin, "The Disintegration of the Soviet Union," *International Journal of Social Economics*, Volume 20, Numbers 3/4, 1993, pp. 63 - 83.
- 2 The 15 union republics were national in the sense that
 "[e]xcept for the Russian Soviet Federal Socialist Republic, which, as its name implies, consist[ed] not only of the Russian nation but also of other ethnic-territorial entities, each constituent Union republic comprise[d] a territorially based nation and carri[ed] its national name. Although in some republics the nation may not [have] constitute[d] the majority of inhabitants, the predominance of national elements, such as language, custom, and cultural peculiarities, [was] an observable fact in most of them and [was] generally a matter of great pride" (M. Trofimenko, "Legal Aspects of Economic Centralization," in U. Bandera and Z. Mel'nyk, eds., *The Soviet Economy in Regional Perspective*. New York, N.Y.: Praeger Publishers, 1973, p. 335).
- 3 Here and below the data on the national-administrative territories are from Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The

National Economy of the USSR in 1989]. Moscow: "Finansy i Statistika," 1990, p. 5.

- 4 On this, see A. Toffler, "Moscow's Dark Colonel," *World Monitor*, 1991, pp. 33 - 34.

- 5 A Soviet academician remarks:

"We have created a ... *nomenklatura* economy with enterprises under union jurisdiction [that is, directly subordinate to the USSR ministries in Moscow], union-republican jurisdiction [those which take orders from both the Moscow ministries and the ministries of the republic where they are located], republican jurisdiction [those which report to their republic's ministries only], etc. [As a result] ... all republics are hampered by enterprises under union jurisdiction" (S. Shatalin, "The Risk of Going Over to a Market Economy Is Less Than the Cost of Marking Time," in I. Tarasulo, *Perils of Perestroika. Viewpoints from the Soviet Press, 1989 - 1991*. Wilmington, DL: Scholarly Resources, Inc., 1992, p. 206).

A Western source elaborates on the same issue:

"Although republics have their own planning organs, and a number of industrial ministries, they have only limited powers. In the case of enterprises subordinated to all-union ministries, orders flow direct from Moscow without even passing through the republican capitals. Union-republican ministries exist both at the center and in the republics, the latter being under 'dual subordination'—under both the republican government and the analogous central ministry. This in practice means that Moscow's will predominates, particularly since the planning and supply organs at the republican level are in the same position as the union-republican ministries. Furthermore, since all important material resources are centrally located, the existence of republic or provincial budgets does not of itself give power to decide on spending, except within narrow limits. Money is not enough: to acquire material means for action requires the consent of those who allocate—usually at the center, in Moscow" (A. Nove, "Overview," in I. Koropecj and G. Schroeder, eds., *Economics of Soviet Regions*. New York, N.Y.: Praeger Publishers, 1981, pp. 3 - 4).

- 6 See Chapter 8 of Part VII of the book.

- 7 B. Khurgin, "Sryednyia Aziya Bez Moskovskogo Khozyaina" [Central Asia Without the Moscow Boss], *Novoye Russkoye Slovo*, October 11, 1991.

- 8 For a detailed analysis of the national relations and policies in the former Soviet Union prior to its disintegration, see, for instance, G. Smith, *Soviet Politics. Struggling with Change*, 2nd ed. New York, N.Y.: St. Martin's Press, 1992, pp. 155 -181.

- 9 But the administrative-territorial structure of the former Soviet Union was further complicated by the fact that some autonomous entities of the Russian Republic (*oblasts* and *okrugs*), were, in turn, a part (the inner dolls) of these *neutral* entities. The latter, therefore, served as the outer dolls of the former.

- 10 About this strange phenomenon, which is labeled the "ethnic paradox," a Soviet politician writes:

"Is our situation exceptional as compared to other countries? Yes, and no. The ethnic processes are being violently revealed all around the world. They have to do, on the one hand, with the appearance in the arena of the world history of unique cultures of peoples who earlier were considered to be backward and who achieved their independence

relatively recently. On the other hand, the splash of ethnical self-awareness in peoples living in 'post-industrial society' has probably been caused by the unconscious resistance to the leveling influence of modern technologies and models of the way of life, which threaten the very preservation of the cultural tradition and national originality" (G. Starovoitova, "Gosudarstvo, Obshchestvo, Natsiya" [The State, Society, the Nation], in A. Protashchik, ed., *Perestroika: Glasnost', Demokratiya, Sotsializm. Cherez Ternii* [Perestroika, Glasnost, Democracy, Socialism. By the Way of Thorns]. Moscow: "Progress," 1990, pp. 362 - 363).

- 11 By utilizing such an approach, we continue to hold the line of seeing socioeconomic roots in national, ethnical and racial relations, the line which was adopted in E. Raiklin, "The Colors and Dresses of Racism in America," *International Journal of Social Economics*, 1990. The same framework is used, for instance, by a Soviet student of racial relations: G. Aksyonova, "Protiv Rasizma i Natsional'nogo Ugnetyeniya. Kritika Biologicheskikh Aspektov Rasizma" [Against Racism and National Oppression. A Critique of the Biological Aspects of Racism], in *Rasy i Narody. Sovremennyye Etnicheskiye i Rasovyye Problemy. Ezhegodnik* [Races and Peoples. The Contemporary Ethnical and Racial Problems. An Annual], Number 21. Moscow: "Nauka," 1991, p. 46.
- 12 The following description of the mood of peoples of the national and regional provinces, and of their resentment of the center, vividly illustrates that such feelings were very easy to capitalize on:

"The departure from the Center [is] unwillingness [of the provinces] to serve as a backyard, as a second-rate people in the *economic* sense as well. The [country] ... could live without the 'backyards,' without Brezhnev's generosity in GDR and Angola, without the monstrous poverty of the Khanty and Mansi [people], suppressed by Tyumen oil and by the 170 bln. Kremlin oil dollars. [There were] the *geographic* differences in the standard of living, in the well-being simply based on closeness to the Kremlin (on the right of permanent residence in Leningrad, Kiev) ... [The peoples of the provinces] had been accumulating a deep resentment of the center—and very often it was taking a form of the national hatred, of the 'struggle for revival' ... A seeming solution [was] to declare Yerevan the chief capital, to proclaim Kishinev to be independent from all and everything" (Yu. Chernichenko, "Peizazh Posle Bitvy" [The Scenery After the Battle], *Dyelovyye Lyudi*, Number 11, 1991, p. 16).
- 13 See, for instance, S. Bokov, "Soiuz Razbilsia, Kak Zerkalo" [The Union Has Been Broken As a Mirror], *Smyena*, January 10, 1992; N. Kiskin, "SNG: Problems Bol'she, Chem Obretenii" [The CIS: There Are More Problems Than Gains], *Trud*, January 9, 1992; A. Lazarev, "Mir za Nyedyeliyu. Novyye Beiruty i Belfast" [The World for the Week. The New Beirut and Belfasts], *Novoye Russkoye Slovo*, March 7 - 8, 1992; A. Yemelyanov, "Gorech' Pobedy" [The Bitterness of the Victory], *Literaturnaya Gazeta*, October 23, 1991.
- 14 On this, see, for instance, A. Lazarev, "Mir za Nyedyeliyu. Novyye Beiruty i Belfast" [The World for the Week. The New Beirut and Belfasts]; and R. Khamatayev, "Dudayev i Gamsakhurdia" [Dudayev and Gamsakhurdia], *Novoye Russkoye Slovo*, February 29 - March 1, 1992.
- 15 On the latter, see, for instance, V. Sharov, "Bunt na Sakhalinye: Svezhiy Vyeter Ili Buryia?" [The Rebellion on Sakhalin: A Fresh Wind or a Storm?], *Literaturnaya Gazeta*, October 23, 1991. It must be added that,

since the late 1990s - early 2000s, with the consolidation of the oligarchic authoritarianism in Russia, these sentiments have become much less loud.

- 16 There were other events of the same type. See, for instance, "Ekspress-Khronika" [The Express-Chronicle], *Novoye Russkoye Slovo*, March 13, 1992.
- 17 See, for instance, J. Carlson, "Republic Needs Technology, Ukrainian Leader Says," *Des Moines Sunday Register*, November 10, 1991; L. Hays, "Going It Alone. As He Builds a Nation, Ukrain Chief Becomes Thorn In Yeltsin's Side," *The Wall Street Journal*, March 17, 1992; A. Margulyev, "'Ptitsa-troika i 'Tormoz Vestingauza': k Polozheniyu *Terra Incognita*" [The "Bird-Troika" and the "Hindrance of the Westinghouse:" to the Situation of *Terra Incognita*, *Novoye Russkoye Slovo*, March 24, 1992; V. Torchilin, "Kogda Zhye Detki Nashalyatsya?" [When Will the Kinds Finally Stop Being Naughty?], *Novoye Russkoye Slovo*, March 16, 1992; E. Zeinalov, "Azerbaijan Byez Kompartii. Chto Dyelat' Antikommunistam?" [Azerbaijan Without the Communist Party. What Should the Anticommunists Do?], *Novoye Russkoye Slovo*, November 6, 1991.
- 18 M. Rywkin, *Moscow's Muslim Challenge. Soviet Central Asia*. Armonk, N.Y.: M.E. Sharpe, 1982, pp. 113 - 114.

PART IX
AN ATTEMPT TO ANTICIPATE THE FUTURE, OR
THE SECOND STAGE IN THE DEVELOPMENT OF
THE POST-SOVIET SOCIOECONOMIC SYSTEM

Chapter 3
On the Imperial Character of the Former Soviet Union
and Its Implications for Post-Soviet Russia

The goal of this chapter is threefold: first, to define the term “empire;” second, to examine the problem of the imperial nature of the former Soviet Union within the framework of the accepted major elements of the modern notion of “empire;” third, on the basis of the conclusion, to attempt to sketch the territorial future of post-Soviet Russia.

Preliminary remarks

It has become axiomatic to call the former Soviet Union an empire. The argument goes as follows.

It is a common sign of our time that the age of empires has gone. Being the last empire on earth, the USSR has been an exception to this rule for long enough. The country, however, could not be expected to stick to such a position forever. Hence, because of its imperial character, its territorial-administrative disintegration was inevitable. Furthermore, it was desirable to help (by any means) to speed up the process of its dying, because holding an empire in the twentieth century was immoral.²

Prior to the end of 1989, the conventional wisdom held that the Soviet empire had involved

... three different empires: the empire “at home”—that is, the empire that lies within the geographical boundaries of the Soviet state; the geographically contiguous part of the empire, that is, Eastern Europe, and ... Afghanistan; and the empire “abroad.”... [The latter] comprise[d] such diverse types and degrees of Soviet influence as those exemplified by Cuba, Vietnam, Angola ... Ethiopia, Syria ... Lybia, and North Korea.³

But since the end of 1989, centrifugal forces have carried the two external parts a long distance down the road, leading to the breaking of their ties to the Soviet empire. Thus, the latter, at least by now, had definitely lost its external parts.

But within a short span of time, union Soviet republics also left the union. So the country lost all of its internal parts (except Russia) as well.

Here we will be dealing with the problem of the Soviet Union as the empire “at home” only. For this purpose, we, first, will explore the very meaning of the term “empire.”

The major characteristics of an empire

The word empire originates from the Latin *imperium*, implying “absolute authority.” Denoting a political entity, the concept has evolved historically. The term, therefore, has various meanings. As a result, it is rather ambiguous in its current content.

*Webster's Dictionary*⁴ defines “empire” as “(1) a major political unit having a territory of great extent or a number of territories or peoples under a single sovereign authority; (2) the territory of such a political unit.”

*The Oxford English Dictionary*⁵ is more elaborate in its classification of the concept:

1. Supreme and extensive political dominion ... exercised by ... a sovereign state over its dependencies ...
5. An extensive territory (*esp.* an aggregate of many separate states) under the sway of ... [a] supreme ruler; also an aggregate of subject territories ruled over by a sovereign state ...
7. A country of which the sovereign owes no allegiance to any foreign superior.

Some authors add additional elements to the concept, comparing the modern definition of the term with its definition in the past:

[Prior to the middle of the eighteenth century,] [i]n theory each empire was a single unit, administered from Europe. From the Europeans' point of view, the overseas segments of these empires existed for the benefit of the mother countries and must be and remain subservient to the metropolises. From about the middle of the eighteenth century onward, however, a new concept of these empires was emerging—a concept that saw them as entities, to be sure, but also as *de facto* federal empires ruled over by strong monarchies in which colonies were coming to occupy a position of much greater recognition and status than that of mere “factories-at-a-distance.” Many European thinkers were beginning to rationalize the federal nature of the empires ...

It is also apparent that, in the course of their development, the colonies had grown politically, as well as economically and socially, along lines different from those of the mother countries.⁶

Let us summarize the basic features of the term “empire” which are *explicitly* expressed in the above definitions and which are applicable to the present-day world:

- (1) An empire as a whole is:
 - * A political unit. As such, it is important (“major”) in at least one of two main fields: in terms of its territory: it has a large territory, or it has a number of territories; or in terms of its population, it comprises a number of different peoples;
 - * Held together by an authority which: possesses a supreme power over its territory and people(s); is the only power, and as such takes *one* of two forms:
 - a single *ruler*;
 - a single *state*;
 - knows no power over itself.
- (2) *An empire in its parts*:
 - * has a federal nature according to which:
 - the metropolis is that part of the empire where the sole supreme authority resides;
 - the colonies are those parts of the empire which are ruled by this sole supreme authority;
 - * in the process of its development, differentiates colonies from the metropolis along the political, social and economic lines.

One additional remark should be made. It refers to the fact that some aspects cannot be included in the concept of “empire,” since none of the official definitions treats them as such. Among these elements are:

- (1) The way (by force, voluntarily or by some other means) in which the colonies of the empires were:
 - * put together by their metropolises;
 - * consequently, held together by their metropolises.
- (2) The type of the political sovereign authority under which the colonies were:
 - * formed;
 - * consequently, ruled.
- (3) The form of the socioeconomic system of the metropolises and their colonies.
- (4) The closeness (the proximity) of the colonies to their metropolises.

On the imperial character of the former Soviet Union

The major aspects of the term “empire” have been sorted out and classified. This classification will now be used to examine whether the former Soviet Union met the requirements of the conceptual elements in order to be defined as an empire.

But since, as was pointed out, the notion “empire” is not unequivocal, the theoretical framework ought to be supplemented by a comparative investigation. For this reason, the analysis will also employ, when it is necessary, comparisons between the former Soviet Union and those countries of the world which also appear to have the elements of empire.

The former Soviet Union as a whole

As a political unit, the former Soviet Union was a major country of the world. It was very important in terms of the size of its territory and the number of its different peoples.

At the same time, “although large in extent, [the country] was territorially continuous and reasonably compact.”⁷ In other words, the Soviet “empire at home” covered only one territory.

But its territorial magnitude and the scores of different peoples it had could hardly have placed the country alone in the category of empires. Consistency requires that the imperial list include, at least, some countries with equal or even more impressive characteristics of the same type. These countries, however, have not been considered to be empires.

To see that this was indeed the case let us employ Table 3.1:

Table 3.1
*Territories and Peoples of Six Countries: Comparative Characteristics*⁸

Countries	Territories			Number of different peoples	
	Size		Number	Races	Ethnic groups
	Area, mln. sq. kms	World ranking			
USSR	22,402	1	1	3	more than 100
Canada	9,976	2	1	4	more than 20
China	9,561	3	1	1	56
USA	9,373	4	18	4	more than 100
Brazil	8,512	5	1	3	at least 6
Australia	7,687	6	7	3	at least 13

Problems and qualifications. The choice of the six countries is based on the fact that the definition of “empire” as a political unit starts with the size of the territory of a would-be candidate for the imperial position, and the above-mentioned countries are the largest in this respect.

Moreover, the size of the territory appears to be the easiest element of empire to specify. This is because the *entire* territory of a

country as a whole has, by and large, clearly defined territorial borders.

But, while the size of the territory presents no problem for the researcher, this cannot be said about the number of territories and the number of different peoples, the two major remaining aspects of the concept of “empire” as a whole. Both terms are very ambiguous because a partial territory of a country considered to be an empire and the differences between people have no clear demarcation. Hence, the number of them is not easy to designate.

The problems of defining “territories.” They are as follows:

- (1) The former Soviet Union included several islands which were located in close proximity to its compact mainland. However, these islands were not recognized as separate territories.⁹
- (2) Canada resembles the former Soviet Union in the compactness of its territory and in the existence of various islands close to the mainland. But, as in the ambiguous Soviet case, the islands are not identified as separate territories either.¹⁰
- (3) China is defined without Taiwan, which is at present an actually independent country located on an island. However, “China considers Taiwan its 23rd province.”¹¹
- (4) Alaska is kept apart from mainland USA by the territory of Canada. It is, nevertheless, is not regarded as a separate territory of the United States.¹²
- (5) Tasmania is an island. However, it is not considered and, therefore, not counted as a separate territory of Australia.¹³

The problems of defining “different peoples.” In what sense and by what criteria are they said to be different? According to their race? But there are many classifications of race.¹⁴ Which definition of “race” should be employed? Given the multiplicity of the meaning of the concept and the availability of statistical information, we have chosen to define the concept of “race” as a mixture of the one used in the United States and Australia.¹⁵ Hence, four major races are recognized: “black,” “white,” “American Indian” and “Asian.”

But why race? Why not nationality and ethnicity? Again, each of these aspects of what makes peoples different are very vague. Besides, very often they are employed interchangeably, both with each other and with the concept of “race.”¹⁶

We will use ethnicity, together with race, to differentiate people. The concept of “ethnicity” will absorb the elements common to its various notions and to the notion of “nationality.” That is, “ethnicity” will be viewed as commonality of people in accordance with their origin, with their ancestry. It is the way the concept is treated by the United States census.¹⁷ Such a view of ethnicity will enable us to make analytical comparisons across the board of the six countries.

Analysis within the qualifying constraints. Bearing the above qualifications in mind, let us now examine Table 3.1.

The former Soviet Union was the major country in the world in terms of its territory, being in size 2.25 times bigger than the second largest country in the world, Canada. At the same time, the USSR was behind the USA and Australia in terms of the number of territories. The country had fewer racial groups than Canada and the United States. It was probably on an equal footing with the United States in the number of different ethnic groups.

The overall evaluation of the imperial character of the former soviet Union as a whole in comparison to other five countries can be seen from table below. Table 3.2 ranks each characteristic of Table 3.1 according to the principle that the more a country has of a characteristic the higher its position in the ranking order:

Table 3.2
Ranking Amongst the Six Countries

Countries	Territories		Number of different peoples		Overall ranking position
	Size	Number	Races	Ethnic groups	
USSR	1	3	2	1	7
Canada	2	3	1	3	9
China	3	3	3	2	11
USA	4	1	1	1	7
Brazil	5	3	2	5	15
Australia	6	2	2	4	14

Table 3.2 shows the ranking position of each country with respect to the summing of its rankings for individual characteristics. The result is read as follows: the higher the overall position (i.e., the lower the number in the final column of the table), the more the country conforms to the status of “empire” as a whole.

The conclusion is unambiguous: the former Soviet Union *as a whole political unit* was an empire. But so was, and still is, the United States.

Canada is very close in its overall ranking to the former Soviet Union and the United States. There is little reason not to include Canada in the category of empires, the more so if the reader recalls all the restrictive assumptions which were made with regard to the number of ethnic groups living in the country.

China is not very far from Canada in its overall ranking. As a whole political unit, China, therefore, can be included in the list of modern-day empires.

The former Soviet Union as a whole authoritatively held together

But an empire is not simply a major political unit. According to the second definition of an empire, it is a major political unit with an authority strong enough to hold together its territory and its people(s). The authority emanates from either a single ruler or a single state. While either has no authority over itself, the power each exercises in holding the country together is supreme.

Thus, the definition is not concerned with *the socioeconomic and political environment within which a single ruler or a single state operates and with the way the goal of holding the country together is achieved*. Rather, its emphasis is on *the degree of political power or the single state which does that*.

The distinction is very important. If it is not recognized, confusion follows.

Confusion one. The first mix-up stems from equating the totalitarian state nature of the Soviet authority with the magnitude of the latter's power in holding the former Soviet Union together. Since the source of the strength of the Soviet authority came from the very totalitarian state character of the Soviet system, it is this socioeconomic and political structure which is erroneously identified with the imperial nature of the former Soviet Union.

For instance, such a confusion runs through an entire book, devoted exclusively to the subject of the Soviet Union as an empire.¹⁸ In the book, published when the forces of state totalitarianism were strong, and appeared to be in existence forever, and when the inspiration of the respective national bureaucracies were very weak, the author explains to the reader that

[w]hat the national minorities demand in diverse ways is not the destruction of the existing system, but the broadening within this system of their national privileges and the advantages that may be derived from them. The goal of every nation is the strict application of federalism, real autonomy of power within each republic and equal participation for all the republics in the decision-making at the federal level.

What this passage implies is that the more totalitarian and state the Soviet system was in essence, the more imperial it was. Hence, to make it less imperial is to weaken the elements of its state totalitarianism. Thus, implicitly, it is pointed out that the best way to liquidate the Soviet empire altogether is to destroy the socioeconomic and political structure of state totalitarianism.

From this it can be inferred that, had the former Soviet Union been a political democracy based on mixed economy with greater rights and privileges given to its peoples at all levels of its socioeconomic and political structure, it would not then have been considered to be an empire. If this implies just that, then (in order

to be consistent and objective) the British, French and Belgian empires of the twentieth century (to name a few) were not empires, even abroad, because each was a political democracy grounded in the strong elements of a mixed capitalist economy with a variety of autonomous rights of self-rule given to the subordinated peoples.¹⁹

Even less imperial has been Great Britain at home, in its relations with Scotland and Wales. The same can be said about modern Canada, as a whole, with its very peculiar relation with the predominantly French-speaking province of Quebec.

But if this is actually the case, then the multiethnic, multinational major political unit, such as China, with its close to totalitarian state socioeconomic and political system, and its relations with Tibet, Inner Mongolia and other national provinces, is a perfect candidate for a position as an empire.

Thus, a predominance of the authority of the major political unit has nothing to do with the mode of society within which the authority is exercised. The supreme authority may or may not be totalitarian and state in its nature. The supreme authority may or may not be able (the Soviet case) to retain or shape the forms of society within its major political unit. These points are irrelevant to the definition of an empire.

Confusion two. The second mix-up originates in the designation of the supreme authority. Recall that it must take one of two forms: a single ruler or a single state. But before we discuss the confusion related to the form of the supreme authority of the former Soviet Union, it would be helpful to recall the following.

The Stalinist model of totalitarian state capitalism was built in the former Soviet Union in 1928. As the reader remembers, the essence of this model of socioeconomic development was the rule of the bureaucracy for the *objective* purpose of industrializing and modernizing the country.

The reader also recalls that the bureaucratic class was highly differentiated along vertical and horizontal lines. As a consequence, at first, the major decisions within the bureaucracy were made at the level of the highest bureaucracy located in Moscow.

The reader keeps in mind as well that, in the process of the Soviet development, the lower levels of the bureaucracy were increasingly gaining a larger proportion of a real socioeconomic power, first in terms of possession and, second in terms of the ownership of the pieces of the national wealth assigned to them by the higher levels of the bureaucratic class. As a result, the supreme authority, which was able to hold intact the major political unit, called the Soviet Union, went through the following two consecutive stages.

A single-ruler stage. Until 1953, the supreme authority of the ruling highest bureaucracy was expressed through the will of one

person, Stalin. But this does not automatically follow that, since Stalin was the absolute ruler of the major multinational, multiethnic and multiracial political unit, such a country then had to be classified as an empire.

For, an empire must have a core which is called its metropolis, or mother country. However, there was no mother country in the former Soviet Union.

It might be argued that the Russian Soviet Federative Socialist Republic (RSFSR, or Russia) fulfilled this role. But Russia lacked authority over party, political, economic, social and military institutions located on its territory. While the power over these institutions resided in Moscow, it was not Russian but Soviet in its character.

Moreover, as we already know, during the single-ruler stage, millions of people of all strata of Soviet society, among them the numerous and *predominantly Russian* people who were the majority of the population, either died of starvation or were liquidated during collectivization, industrialization, and the great purges, not to mention the other millions who were killed during the Second World War.²⁰

A major political unit, whose highest bureaucratic layer through its supreme ruler devotes such an energy to the destruction of the very people, who constitute the core of its country and who it depends on, can hardly be called an empire. This is because, for the single sovereigns of the actual empires, the core political entities were mother countries. They, therefore, were treated appropriately by their rulers.

The matter is not helped by the title of the “elder brother” which Stalin gave to the Russian people after WWII,²¹ thus implicitly proclaiming Russia as the mother country of the Soviet Union. But this was simply a hypocritical tribute to the majority of the Soviet people who, by enormous sacrifice, saved the Stalinist regime.

A group-of-rulers stage. Stalin has been dead for more than 50 years. No single ruler emerged in the country after him. Unlike Stalin, who was the country’s highest bureaucrat, each of those who followed him was the first among the highest bureaucratic equals.

That the reign of the post-Stalin Soviet leaders, like that of Stalin, was *not* based on a single state but was rooted in the structure and organization of the party can be seen in the fate of Gorbachev after August 1991 aborted putsch. A single-state rule presupposes a mother country. Not having such a base and with the collapse of the party, the Gorbachev regime fell into pieces like a house of cards.

Thus, with no single ruler and with no single state as the sole authority, the country of the post-Stalin period could no more be characterized as an empire than the country of the Stalinist period.

The former Soviet Union in its parts

In this section of the chapter we will elaborate the previous argument that there was no mother country in the former Soviet Union. But where there is no metropolis, there could be no colonies. And if there are no colonies, there is no empire.

Legality versus reality. We should not confuse legality with reality. *Legally*, the former Soviet Union was a federation of national states, called the union republics. *Formally*, it was Russia which was the core of the country. It is in the *Russian* city Moscow that the central bureaucracy was located.²² It was *predominantly* from the people of the *Russian* ethnic group, that the higher levels of the bureaucracy, including its highest level, was formed.²³

Legally, however, Russia itself was also a federation of national states, called the autonomous republics and other autonomous entities. Thus, if one considers Russia the mother country of the former Soviet Union, then it is unclear *which* Russia was its metropolis.

Besides, within Russia there were cosmopolitan populations of Moscow and Leningrad which had the privileged position in the supply of consumer goods, in cultural and medical provision, in the development of the infrastructure, etc.

And there was the Russia of provinces, the Russia of small towns and villages, the Russia of the indigenous Russian population. This Russia was neglected, exploited and, finally, devastated, through orders from the capital. But it would be incorrect to regard the city of Moscow (and, probably, Leningrad as well) as the metropolis (mother country) and the rest of *Russia* as the colonies.

But enough words. Let us use some hard statistical data to examine whether Russia was the mother country and the other territorial-administrative entities were the colonies of the former Soviet Union.

If Russia was the mother country, then which Russia? Russia as one of the 15 union republics occupied 76 percent of the territory of the former Soviet Union. Its share of the population of the entire country was 51 percent.²⁴

But Russia proper within the RSFSR was a much smaller entity. Table 3.3 presents a corresponding data on January 1, 1990.²⁵

Table 3.3
Russia Proper Within the RSFSR

Indicators	Territory		Population	
	Area, th. sq. kms	Percentage to total	Number of people, th.	Percentage to total
Total RSFSR	17,075.4	100	148,041	100
Autonomous entities	9,106.4	53	26,009	18
Russia proper	7,969.0	47	122,032	82

Admittedly, given the mixed nature of the population, the autonomous entities on the territory of the RSFSR were not completely non-Russian. But the same can be said about Russia proper, which, without its autonomous regions, was not homogeneous either ethnically or racially.

All this shows how complicated the problem of Russia as the mother country is. Thus, an additional information is required to solve the problem.

If Russia was the mother country, where is the statistical evidence? Assume that the entire RSFSR was reduced to Russia proper. Russia could qualify for the status of the metropolis of the former Soviet Union if it can be proved that in some major aspects it held a dominant position among the other union republics. Then the latter would undoubtedly be considered Russia's colonies.

Among the main characteristics of the supremacy of a mother country over its colonies the following might be listed:

- (1) "[t]he rapid expansion of the productive forces of the dominant countr[y]," more rapid than in the dominated country;²⁶
- (2) exploitation of the colonies through unequal exchange by "transferring wealth from [colonies] to [the mother country];"²⁷
- (3) "economic inequality between nations" in favor of the mother country and at the expense of its colonies.²⁸

Let us test these criteria by examining the relations between the RSFSR and other union republics.

The development of the productive forces. There are many indicators for this criterion. Depending on the data available, we will use several of those considered to be the most important.

The first measure is *the per capita level of national income*²⁹ of the union republics in 1988.³⁰ On the Soviet scale, the union republics might be classified as follows: four of them (Russia, Latvia, Estonia and Byelorussia) belonged to the high-income economies; one of them (Lithuania), to the upper-middle-income economies; five of them (Kazakhstan, Armenia, Moldavia, Georgia and Ukraine), to the middle-income economies; and the rest (Tajikistan, Uzbekistan, Kirghizia, Turkmenistan and Azerbaijan), to the lower-middle-income and low-income economies.³¹

Hence, Russia did not have a privileged position relative to the other union republics of the former Soviet Union in its per capita production of national income. Russia was, of course, much better off than two-thirds of the union republics. But it was only one of four union republics that comprised the better-off one-third.

In this measure, metropolises must be better off than their colonies. But it is hard to imagine to have *four* mother countries in one empire.³²

The second measure is *the rate of growth of produced national income over time*. If we calculate the ranking-order position occupied by each union republic in its rate of growth for 1970 - 1989, then the following can be inferred.³³

During the 19-year period Russia had been treated far from favorably by the Soviet socioeconomic system of state ownership and mandatory central planning. Russia shared the sixth - seventh places with Moldavia in *total* and the fifth place in *per capita* growth of national income produced.

In the subsequent years, Russia slipped even further in its development. It was eleventh in *total* and tenth in *per capita* growth of national income produced in 1985 - 1989.

Thus, during the period, Russia did not progress more rapidly than other union republics. In the Soviet system of priorities for the allocation of productive resources, it was not on the top of the list. Hence, at least, by this index, Russia could not be treated as the mother country of the former Soviet Union.

The third measure is *the rate of growth of the productivity of social labor over time*. In this respect, there was nothing remarkable in the Russian performance. In 1970 - 1986 and 1985 - 1989, Russia was somewhere in the middle of the union republics.³⁴

The fourth indicator is *the level of industrialization*. A supremacy in this measure is a necessary feature for the dominance. The indicator is measured here in one of the following ways.

In 1988, in terms of per capita national income produced in industry as a percentage of that of the USSR, Russia was well above the national average. But the country was not alone, being one of the four union republics in that achievement. Moreover, its 20 percent edge was matched by Estonia.

In terms of per capita national income produced in agriculture as a percentage of that of the USSR, Russia was only a third of that of the Soviet Union. It was the lowest among the fifteen republics.³⁵

Two conclusions are in order. First, the Soviet leadership made a deliberate decision to sacrifice agricultural production in Russia for the benefits of industrial development. Second, by demanding a high achievement from the Russian industrial sector, the center tied Russia to other republics in terms of Russia's needs for additional agricultural products.

This, however, does not mean that in the end Russia played the role of the dominant (mother) country within the former Soviet Union by selling to other republics finished industrial goods and by purchasing from them raw materials and foodstuffs. As the reader finds in the next section, which tests the “metropolis” character of Russia with respect to its relations with other union republics (“unequal exchange”), if the former Soviet Union was an empire, then it “reversed the patterns of empires past: rather than import raw material and cheap labor, [Russia] exported both.”³⁶

In other words, to satisfy its needs for additional agricultural produce, Russia primarily had to sell the republics not its industrial products but its rich non-agricultural raw materials, especially energy materials, and also send some “extra” people “abroad.” As far as Russian industrial products are concerned, they were of no use to other republics, because to a large extent they had a military destination.³⁷

Russia was one of the least rural³⁸ and the most urban³⁹ republics within the former Soviet Union. This illustrates the consequences of collectivization, industrialization and militarization which were predominantly experimented by Russia. This speaks about the forced exodus of millions of Russians to the industrial centers either of their or of other republics. This cries out about the fate of the village of the “dominant” republic, where, very often, only the old, the sick, the women and the children were left.⁴⁰

Exchange relations between the union republics. Let us now see whether Russia exploited other union republics and, if it did, then it was indeed the metropolis, and then the former USSR was an empire. For this purpose, we will examine the pattern of the inter-republican relations. First, we will look at inter-republican trade in 1988, for which data is available. Second, we will analyze income transfers from donor republics to recipient republics for the 1970 - 1988 period. In all this, we will elaborate on the point made in the previous section that Russia was engaged in “strange” dealings with other union republics.

With regard to inter-republican trade in 1988,⁴¹ Russia was among five union republics (in addition to Russia, these were Ukraine, Byelorussia, Georgia, and Azerbaijan), with a positive inter-republican balance of trade. However, while its trade position was much better than that of the other ten union republics, it was not the best. In the absolute and relative (in relation to the total volume of inter-republican trade of each union republic) it was the smallest as compared to the other four union republics with the positive trade balance.

The balance of inter-republican trade is estimated here in *domestic* prices. If calculations were made in world prices, then it would become clear that Russia was *subsidizing* other republics in

their mutual trade by running a huge trade deficit. But had Russia switched from its trade with union republics to actual international trade (again, in world prices), this would have been an extremely beneficial for Russia, which then would have run a big trade surplus.⁴²

The balance of national income transfers refers to the difference between national income *produced* and that which was *used* by the union republics. In the 1970 - 1988 period, Russia was one of the ten donor republics.⁴³ While income transferred from Russia in relative terms (as a share of her national income produced) was not big, in absolute terms Russia was the largest donor republic.

Obviously, mother countries of empires do not behave this way. For, in the case of Russia, a portion of its wealth was given away to other union republics, not taken from them.

Economic inequality between the union republics. An attempt to determine this will be made by comparing the levels of the standard of living among the Soviet republics. The following aspects of the standard of living are included.

First, infant mortality and life expectancy at birth for each union republic.⁴⁴ In 1989, Russia occupied only the sixth place in infant mortality, behind more successful (less infant mortality) Baltic republics, Ukraine and Byelorussia.

Russia also did not have a very impressive record in life expectancy at birth. In 1989, for instance, it was in the ninth place, leaving behind (having a worse record) only the Central Asian republics and Moldavia.

Second, the durable goods consumption.⁴⁵ While clearly indicating the relative poverty of the peoples of Soviet Central Asia, the data for 1989 point out that Russia was not best off in the consumption of durable goods. This was the lot of the Baltic republics.

Moreover, in the item which was (and still is) the most prestigious and valuable in the country (after housing), the automobile, the population of Russia was at the very bottom of the scale. Even the republics of Central Asia were ahead of Russia.

Third, housing, health care, and education.⁴⁶ On average, in housing, medical and educational services the regular resident of Russia of 1989 was better off than his Central Asian counterparts, equal to or a worse off than residents of some other union republics.

On the territorial future of post-Soviet Russia

We can conclude that the former Soviet Union was in *reality* a unitary country, not a federation and not an empire. It was an empire to its outward satellites only.

It can be also added that when pre-Bolshevik Russia was conquering new territories, the country was becoming an empire. However, collectivization, industrialization and cultural revolution have changed this, absorbing its national territories and integrating them socially, economically and politically.

But this major political unit has disintegrated because of the breakdown of its socioeconomic and political system which was transformed from strong centralization to anarchic decentralization. This has resulted in the impotence of the authority, in its inability to remain supreme and, hence, to hold the country together.

But, since the former Soviet Union, as we endeavored to argue, was not an empire, then the disintegration, in our opinion, does not have to be forever. The new authoritarian mixed capitalist stage of the development, whose elements, as was emphasized throughout the book, are being formed within the womb of present authoritarian state capitalism, will eventually (one way or another) bring the former republics back into the new Soviet Union (whatever its name might be) as a unified socioeconomic, political, military and geographic single whole. The basis, on which the reintegration will occur, will be the country's compactness of the territory, the high level of integration of its economy, and the intermixed population.

For Russia, its reintegration with the former Soviet republics would become a major factor for stopping the process of declining and ageing of its population.⁴⁷ But the reunification with Russia would be in the interests of the population of the former Soviet republics as well. For, the rebirth of integrally intra-economic and demographic relations, created during hundreds of years of their life together, would allow former republics of the former Soviet Union: to lower costs of production and distribution (by removing customs and border barriers); to redistribute military and diplomatic burdens on the country as a whole, and, as a result, to spend a greater portion of their budgets on social needs; to ease tensions and hostilities, existing now; etc.

Thus, at the end of the day, the recreation of the great and proud economic and military superpower would benefit all⁴⁸ the peoples of the former Soviet Union, Russian and non-Russian alike.

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Notes to Chapter 3: On the Imperial Character of the Former Soviet Union and Its Implications for Post-Soviet Russia

- 1 Based on E. Raiklin, "The Disintegration of the Soviet Union," *International Journal of Social Economics*, Volume 20, Numbers 3/4, 1993, pp. 84 - 132.
- 2 "For various reasons, the word empire today conveys to many people an idea of injustice, of the oppression of weak nations by those physically

- more powerful" (J. Glubb, *The Empire of the Arabs*. Englewood Cliffs, N.J.: Prentice-Hall, 1963, p. 5).
- 3 C. Wolf et al., *The Costs of the Soviet Empire*. Santa Monica, CA: The Rand Corporation, September 1983, pp. 3 - 4.
 - 4 *Webster's New Collegiate Dictionary*. Springfield, MA: G&C Merriam Company, 1979, p. 370.
 - 5 *The Oxford English Dictionary*, 1989, 2nd ed., Volume V. Oxford: Clarendon Press, pp. 187 - 188.
 - 6 M. Savelle, *Empires to Nations: Expansion in America 1713 - 1824*, in B. Shafer, ed., *Europe and the World in the Age of Expansion*, Volume 5. Minneapolis: University of Minnesota Press, 1974, p. 46.
 - 7 J. Cole, *Geography of the Soviet Union*. London: Butterworths, 1984, p. 7.
 - 8 "Area:" *The World Factbook 1991*. Washington, D.C.: The Central Intelligence Agency, 1991, p. 286, for the USSR; *World Development Report 1991. The Challenge of Development*, published for the World Bank. Oxford: Oxford University Press, 1991, pp. 204 - 205), for the other countries (for 1989).
 "Number of territories:" *The World Factbook 1991*: p. 286, for the USSR; pp. 53 - 54, for Canada; pp. 62 - 63, for China; p. 324, for the USA (mainland USA plus 13 dependent areas plus areas of some special states); pp. 39 - 40, for Brazil; p. 18, for Australia (mainland Australia plus six dependent areas).
 "Number of races:"
 * USSR, for 1979: calculated indirectly for Russians, Ukrainians, Byelorussians, Armenians, Georgians, Lithuanians, etc., who are white; for Uzbeks, Kazakhs, Tajiks, Turkmens, Kirghizs, etc., who are Asians, from Goskomstat, SSSR, *Naseleniye SSSR 1987* [The Population of the USSR 1987]. Moscow: "Finansy i Statistika," 1988, pp. 98 - 100; for Aleuts, Chukchi, Eskimos, etc., who are closely related to each other and who represent the Asian branch of American Indians, from R. Wixman, *The Peoples of the USSR. An Ethnographic Handbook*. Armonk, N.Y.: M.E. Sharpe, 1988, pp. 9, 48, 63, 64.
 * Canada, for 1971: calculated indirectly for European people, who are predominantly white; Chinese, Japanese, and others, who are Asians, from *New Canadian Oxford Atlas*. Don Mills, Ontario: Oxford University Press, 1977, tabl. 9. The source does not state it explicitly, but, being a country of immigrants, Canada must have black people from Africa in the line called "Other and Not Stated" (ibid., tabl. 8).
 * China, for 1982: Asians only. Calculated based on two considerations: first, "[m]any of the minority nationalities live in the border regions, and so have affinities with the peoples of their neighboring countries, including Korea, Mongolia, the [former] Soviet Union, and Burma [who are all Asians]" (*Contemporary Atlas of China*. Boston, MA: Houghton Mifflin Company, 1988, p. 100); second, the net migration rate to China is 0 migrants /1,000 population (*The World Factbook 1991*, p. 63).
 * USA, for 1980: *Atlas of the United States*. New York, N.Y.: Macmillan Publishing Company, 1986, p. 18.
 * Brazil, for 1991: estimated from *The World Factbook 1991*, p. 39. The number of races must actually be at least three, since there is a great probability that "other" include also those who descended from Asia.

* Australia, for 1991: from *The World Factbook 1991*, p. 18. It is doubtful that there is any meaningful number, if at all, of American Indians in Australia.

"Number of ethnic groups:"

* USSR, for 1979: calculated from *Naseleniye SSSR 1987* [The Population of the USSR 1987], pp. 98 - 100.

* Canada, for 1971: calculated very roughly from *New Canadian Oxford Atlas*, 1977, tabl. 8.

* China, for 1982: from *Contemporary Atlas of China*, 1988, p. 100.

* USA, for 1980: "Because of the history of immigration into the United States from all over the world" (*Atlas of the United States*, 1986, p. 18), it would be safe to assume that the number of ethnic groups in the country is at least not less and in reality must more than in the former Soviet Union.

* Brazil, for 1991: calculated as one Portuguese, one Italian, one German, one Japanese; at least, one Black African; at least one Amerindian.

* Australia, for 1977: estimated from *Reader's Digest Atlas of Australia*, 1st ed. Sydney, Australia: Reader's Digest Services, 1977, pp. 176, 178 as follows: three groups of the British origin, one Irish, one Italian, one Greek, at least one Yugoslav, one Dutch, one Arab, one German, one Maltese, at least one Indian, at least one Aboriginal. The total is 13. But there must be many more ethnic groups, because "[t]he emphasis on immigrants from Britain is now fading and the [end of the twentieth - the beginning of the twenty-first centuries] may see the arrival of large numbers of professional people from South America and South-East Asia" (*ibid.*, p. 178).

9 *The World Factbook*, 1991, p. 286.

10 *Ibid.*, pp. 53, 54.

11 *Ibid.*, p. 63.

12 *Ibid.*, p. 324.

13 *Ibid.*, pp. 18, 19.

14 See, for instance, *The Atlas of Mankind*. Chicago, IL: Rand McNally & Company, 1982, p.14, which differentiates four racial groups: Mongoloid, Negroid, Caucasoid and Australoid; *Atlas of the United States*, 1986, p. 18, which racially divides people "into 'white', 'black', 'American Indian', several different Asian groups—Chinese, Filipino, Asian Indian, Korean, and Vietnamese—and 'all other races';" *Webster's New Collegiate Dictionary*, 1979, p. 943, which defines race as

"2 a: a family, tribe, people, or nation belonging to the same stock ... b: a class or kind of people unified by community of interests, habits, or characteristics ... 3 a: an actually or potentially interbreeding group within a species ... c: a division of mankind possessing traits that are transmissible by descent and sufficient to characterize it as a distinct human type."

15 See *The World Factbook*, 1991, p. 18; and also *Reader's Digest Atlas of Australia*, 1977, pp. 176 - 177. In both sources, the native people of Australia, Australoid, are called the Aborigines. However, the latter source is more specific and refers to the Aborigines as "*Blacks*" (p. 176). The last two terms are used, therefore, interchangeably.

16 Thus, *Webster's New Collegiate Dictionary*, 1979, provides the following definitions of "ethnicity" and "nationality:"

"1 *ethnic*: of or relating to races or large groups of people classed according to common traits and customs.

2 *ethnic*: a member of an ethnic group; *esp.*: a member of a minority group who retains the customs, language, or social views of his group (p. 389).

Nationality: 5a: a people having a common origin, tradition, and language and capable of forming or actually constituting a nation-state ... b: an ethnic group constituting one element of a larger unit (p. 758).

17 See *Atlas of the United States*, 1986, p. 18.

18 H. d'Encausse, *Decline of an Empire. The Soviet Socialist Republics in Revolt*, trans. by M. Sokolinsky and H. La Farge. New York, N.Y.: Newsweek Books, 1979, p. 268.

19 With respect to the British rule in India, B. Fuller, *The Empire of India*. Boston, MA: Little, Brown, and Company, 1913, gives a good account of how India was administered by England. In addition to the state of affairs in India, on the various degrees of self-government within such territories of the British empire, as the colonies, the protectorates and the mandated territories, see also M. Nathan, *Empire Government. An Outline of the System Prevailing in the British Commonwealth of Nations*. Cambridge, MA: Harvard University Press, 1929.

20 See, for instance, A. Nove, *Stalinism and After. The Road to Gorbachev*, 3rd ed. Boston, MA: Unwin Hyman, 1989, pp. 54 - 57; *Political Archives of the Soviet Union*, Volume 1, Number 3. Commack, New York: Nova Science Publishers, 1990, pp. 219 - 252; and G. Starovoitova, "Gosudarstvo, Obshchestvo, Natsiya" [The State, Society, the Nation], in A. Protashchik, ed.. *Perestroika: Glasnost', Demokratiya, Sotsializm. Cherez Ternii* [Perestroika, Glasnost, Democracy, Socialism. By the Way of Thorns]. Moscow: "Progress," 1990, pp. 376 - 377.

21 See, for instance, H. d'Encausse, *Decline of an Empire. The Soviet Socialist Republics in Revolt*, p. 34.

22 But Russia did not have its own capital.

23 See, for instance, G. Starovoitova, "Gosudarstvo, Obshchestvo, Natsiya" [The State, Society, the Nation], in A. Protashchik, ed.. *Perestroika: Glasnost', Demokratiya, Sotsializm. Cherez Ternii* [Perestroika, Glasnost, Democracy, Socialism. By the Way of Thorns], p. 374. And it is worth noting that Russia had no own party organization, military, KGB, and etc.

24 Calculated from Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989]. Moscow: "Finansy i Statistika," 1990, p. 19.

25 Calculated from *ibid.*, pp. 19 - 21.

26 A. Emmanuel, *Unequal Exchange: A Study of the Imperialism of Trade*, with additional comments by C. Bettelheim. New York, N.Y.: Monthly Review Press, 1972, p. 303.

27 *Ibid.*, p. 338.

28 *Ibid.*, p. 271.

29 From Chapter 1, Part VII of the book, the reader remembers that national income in the USSR was measured as NMP (Net Material Product). The reader must be warned that, due to the peculiar character of Soviet statistics and to the fact that a little attention was paid to statistics of the republics, "[Soviet] national income produced is not a good measure of economic activity in the republic ... However, under current circumstances ... [it] is the only available measure" (M. Belkindas and M. Sagers, "A Preliminary Analysis of Economic Relations

Among Union Republics of the USSR: 1970 - 1988," *Soviet Geography*, Volume XXXI, Number 9, November 1990, pp. 631 - 632). But the same can be said about many other Soviet statistical indices.

- 30 Calculated from Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], p. 17: population; and M. Belkindas and M. Sagers, "A Preliminary Analysis of Economic Relations Among Union Republics of the USSR: 1970 - 1988," p. 634: national income produced.
- 31 In such a classification, we rather arbitrarily followed the World Bank division of the countries of the world (see *World Development Report 1991. The Challenge of Development*, 1991, p. x).
- 32 Comparisons could be made with the country which had the same "imperial" ranking as the former Soviet Union: the United States of America. The numbers for per capita gross product between the divisions and the states of the USA can be calculated from *Statistical Abstract of the United States 1991. The National Data Book*, 111th ed. Washington, D.C.: US Department of Commerce, Bureau of the Census, 1991, p. 427 (population); *ibid.*, p. 439 (gross state product). The numbers will reveal that at the *lower* end of the scale of per capita gross economic activity, the states in the United States were much more equitably situated than the union republics of the former Soviet Union in terms of per capita net economic activities. But the divergence of the higher levels of per capita economic activities among the states was much higher in the USA than among the union republics in the former Soviet Union.

In general, there are two great similarities between the two countries. First, the further one moves south of Dixieland in the United States, or to the Central Asian republics in the former Soviet Union, the less the production level per capita one finds. Second, roughly 33 percent of the Soviet republics are above and 67 percent below the per capita national average. This corresponds to 36 percent above and 64 percent below the per capita national average in the USA.

The reader is invited to make corresponding conclusions about the "imperial" nature of the two countries with respect to the economic index. We, in our turn, must add, if, from the point of view of per capita income, the Russian Federation was the mother country of the former Soviet Union, then the District of Columbia, with the highest per capita income, had many credentials for receiving the same honor.

- 33 Calculated from: Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR za 70 Lyet* [The National Economy of the USSR for 70 Years]. Moscow: "Finansy i Statistika," 1987, p. 123 (1986 to 1970); Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], p. 13 (1989 to 1985).
- 34 Calculated from: Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR za 70 Lyet* [The National Economy of the USSR for 70 Years], p. 124 (1986 to 1970); Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], p. 14 (1989 to 1985).
- 35 Calculated as follows: from A. Pollard, ed., *USSR Facts and Figures Annual*, Volume 15. Gulf Breeze, FL: Academic International Press, 1991, p. 507.
- 36 B. Newman, "Colonial Refugees. Soviet Union's Demise Strands Many Russians In Hostile Republics, *Wall Street Journal*, February 4, 1992. As I. Rotar, "Tyekraticheskiye Gosudarstva v Srednei Azii: Utopia?

Ryeal'nost'?" [The Theocratic States In Central Asia: A Utopia? A Reality?], *Nezavisimaya Gazeta*, January 31, 1992, elaborates, the former Soviet Union

"... was a peculiar formation different from the classical colonial powers of the West. Those who [came to provinces] from the metropolis remained the same ordinary inmates of the 'prison of nations' as the population of the colonial provinces. Moreover, the key positions in the republics were occupied by the representatives of the indigenous population. The 'advantages' of Soviet colonialism were most strikingly revealed in the Central Asian region [of the country] ..."

- 37 This is not to say that Russia was alone in carrying on its shoulders the heavy burden of militarization of the economy of the former Soviet Union. A Ukrainian minister estimates that, for instance, "38 percent of Ukraine's total industrial production was strictly military. [But] Russia has an even larger storehouse of military factories ..." (See R. Keatley, "Ukraine Arms Makers Seek Civilian Pursuits," *Wall Street Journal*, April 20, 1992). See also S. Kraiyukhin, "Sankt-Peterburg: Ot Pushek i Tankov-k Fotoapparatam i Videotekhnike" [St.Petersburg: From Cannons and Tanks to Cameras and Vide Equipment, *Dyelovye Lyudi*, Number 11, November 1991, p. 18.
- 38 Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], p. 14.
- 39 I. Koropec'kyj and G. Schroeder, eds., *Economics of Soviet Regions*. New York, N.Y.: Praeger Publishers, 1981, pp. 63 - 78.
- 40 On the plight of the Russian peasant, see, for instance, G. Podlesskikh, "Finding a Steward for the Land," in I. Tarasulo, ed., *Perils of Perestroika. Viewpoints from the Soviet Press, 1989 - 1991*. Wilmington, DE: Scholarly Resources, 1992, p. 186.
- 41 Calculated from Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], p. 634.
- 42 See M. Belkindas and M. Sagers, "A Preliminary Analysis of Economic Relations Among Union Republics of the USSR: 1970 - 1988," p. 651. They cite as a major reason higher prices for oil and gas sold by Russia on the world market and lower prices for manufacturing goods (which because of their lower quality) would not be able to solve sold by many union republics on the world market.
- 43 Calculated from *ibid.*, pp. 634, 635, 636.
- 44 See Goskomstat SSSR, *Narodnoye Khoziaistvo SSSR v 1989 g.* [The National Economy of the USSR in 1989], pp. 41 (infant mortality) and 43 (life expectancy).
- 45 See *ibid.*, p. 119.
- 46 See *ibid.*, pp. 170 (housing), 230 (health care), 188 (education).
- 47 On the worsening Russian demographics and also on the socioeconomic problems associated with it, see, for instance, A. Akopyan, 'Istoriya s Demographiyei' [A Story About Demography], *Itogi*, May 23, 2000, Number 21; A. Makryashina, "Rossiya Unirayet" [Russia Is Dying Out], *gazeta.ru*, December 8, 2005; L. Stolyarenko, Mify Demographii: Migratsiya" [Demographic Myths: Migration], *Novaya Gazeta*, Number 68, November 30 - December 3, 2000; "Sverkhnyezasyelyennaya Derzhava" [An Extremely Unpopulated Country], *Kommersant*, March 15, 2006; O. Yablokova, "Russian Population Takes Its Biggest Plunge Yet," *The St.Petersburg Times*, January 28, 2000; P. Zaidfudim, "Na Krayu

Zemli. Esli Rossiya Vovryemya Nye Opomnitsya, To Sever Nachnut Osvaivat' Inostrantsy" [If Russia Does Not Come to Its Senses on Time, Then the (Russian) North Will Be Developed by Foreigners], *Novaya Gazeta-Regiony*, December 8, 1998; B. Zhukov, Samyie Novyie Russkie, V Rossii Uzhe Nikogda Nye Budyet Vysokoi Rozhdaemosti, Zato Budyet Mnogo Immigrantov" [Russia Will Never Have a High Birth Rate, But There Will Be Many Immigrants], *Itogi*, Number 21, May 23, 2000.

- 48 By "all" we really mean "all," that is, including the former Baltic republics. They, probably, will join the new union on the territory of the former Soviet Union *later* than all others. But eventually, when Russia and the new union dress their mixed capitalism in *democratic* clothes, the forces of reintegration (former extremely beneficial and stable economic ties: supplies of the inexpensive energy and raw materials from Russia and other territories of the new union to the Baltic republics; the market favorable to goods and services sold by the Baltic republics to Russia and other territories of the new union; etc.) will prevail.

Besides, for Estonia, Latvia and Lithuania, "it is better to be the first in the village [as members of the new union on the territory of the former Soviet Union] than the last in the city [as members of the EU and the NATO]." In the final analysis, it is the "stomach" and the "pride" which will seal the fate of the former Soviet Baltic republics in the favor of the new union.

Afterword

We have finished the book on two predictions for the post-post Soviet Russian future: one is optimistic, and another is pessimistic.

According to the *optimistic* scenario, the 15 independent states on the territory of the former Soviet Union will not be able to sustain themselves as such for a historically long time. In our opinion, the non-imperial character of the former Soviet Union, sooner or later, will allow the assimilating forces of the economy, of the intermarriages, of culture, and of the centuries-old-life-together to reverse the pattern of disintegration and eventually reintegrate with each other.

But the *pessimistic* scenario states that this could happen only *after* a certain period of post-Soviet anti-oligarchic authoritarianism in Russia. Only when the Russian anti-oligarchic authoritarians have created enough conditions for the transformation of *authoritarian state* into *authoritarian mixed* capitalism; only when the latter has emerged and been entrenched; only when the development has originated the Russian middle class; only when the latter has demanded and achieved a *democratic* form of *mixed* capitalism,—only then, we believe, a free and prosperous Russia would serve as a magnet for its neighbors formerly comprising the Soviet Union.

While the switch from oligarchic to anti-oligarchic *authoritarianism* presumes a military takeover of Russia, we think that the conversion of the country from anti-oligarchic authoritarianism to democracy might take an unexpected turn. With the power structures having fulfilled their major tasks, with the pressure from the Russian middle class for political relaxations mounting, the cost for the anti-oligarchic authoritarians to hold the power would become too high to sustain.

Under the circumstances, a compromise might be found: a constitutional monarchy of the Spanish type, that is, with the monarch as the commander-in-chief of the armed forces of the country.

The monarchy then will serve as a political form of the post-post-Soviet system of democratic mixed capitalism. For, after all, democracy, not in formality but in reality, is a non-violent struggle of “elites” for a short-term political power within the long-term constraints of the expectations of the majority of peoples of a democratic country.

The departure of the anti-oligarchic authoritarians from the Russian political scene, the replacement of the presidential republic by the constitutional monarchy would help to alleviate two problems.

First, the problem of relations between nations within Russia and also between Russia and former union republics within the future united state. The preservation of the presidential form of government in the multinational country would mean the

conservation of the political system where a president of the country would always be a Russian as a representative of the most numerous nationality. This would, without doubt, provoke strong negative feelings in non-Russian peoples of the country and would not favor the reintegration of the former union republics.

But with the introduction of the constitutional monarchy the problem would lose its importance, for the Russian court of the reigning but not ruling monarchy would include aristocratic representatives of all the inhabitants of the unified state on the territory of the former Soviet Union, be it a Georgian prince, an Estonian baron, a Kazakh bai, etc. Hence, the nationality of the prime-minister of the country would be of a minor importance, especially since the government itself would be formed by the party which receives the majority of votes in the country's legislative body under the condition that parties organized along purely national lines are prohibited.

Second, the problem of manipulating elections and their results in elections, and, first of all, of the highest country's elected official, the president. Here, every current president either appoints his own successor or himself is reelected numerous times, using for this purpose the so-called "administrative resource," or the power of incumbency.

But under the conditions of constitutional monarchy of the Spanish type the role of the head of state is reduced to a minimum, while his "administrative resource" of the commander-in-chief becomes an obstacle on the way of anyone (including the prime-minister) who would attempt, through illegal means, to usurp the country's political power.

In this way, the transformation to constitutional monarchy which began after the abolition of serfdom in 1861 and which was interrupted by the tragic circumstances of WWI in 1917 - 1918, will, finally, be completed.

Postscript

By the time the book had been finished, some new statistical materials have been published, in particular, in Russia. The new data covers the years of 2003 – 2005 and, partially, of 2006. The data for these years was, by and large, not available to the author during the time of the book's writing. Believing that incorporating the new statistical information would have been an enormous technical task, the author had grudgingly decided to leave things as they were. The reader who is interested in the Russian socioeconomic indicators of this late period and who is not burdened by the author's problems, might find satisfactory answers in, for instance, some of the following statistical sources:

- (1) Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskiy Ezhegodnik 2005* [The Russian Statistical Annual, 2005]. Moscow: Rosstat, 2005;
- (2) Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskiy Ezhegodnik 2006* [The Russian Statistical Annual, 2006]. Moscow: Rosstat, 2006;
- (3) Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiiskiy Statisticheskiy Ezhegodnik 2007* [The Russian Statistical Annual, 2007]. Moscow: Rosstat, 2007;
- (4) Federal'naya Sluzhba Gosudarstvennoi Statistiki, *Rossiya, 2007* [Russia, 2007]. Moscow: Rosstat, 2007;
- (5) Interstate Statistical Committee of the Commonwealth of Independent States, *Commonwealth of Independent States in 2006 (digest of preliminary statistical results)*. Moscow: CIS Stat, 2007;
- (6) Federal State Statistics Service, Current Statistical Survey. *Quarterly Magazine*, Number 1 (60). Moscow: 2007.