A balance sheet of capitalist restoration in Russia

Yury G. Bobrov
2 May 1998

The following article has been translated from the Russian. It first appeared in the November 1997 issue of Social Equality, a newsjournal published in Russia by supporters of the International Committee of the Fourth International.

The parliamentary debates over Yeltsin's health in January 1997 overshadowed the occasion of the fifth anniversary of the Yeltsin/Gaidar reforms. They were proclaimed at the Fifth Congress of People's Deputies in October 1991, and the first step in their implementation, "the liberalisation of prices and methods of drawing income," was taken on 2 January 1992.

It was decided to:

• Instantly deregulate prices to reach an equilibrium on the consumer market;

• Privatise the state-owned enterprises and convert them into private companies in order to create a "healthy mixed economy with a powerful private sector";

• Reduce public spending (in particular, to halt aid and credits for foreign countries);

• Reorganise the tax system ("taxes will not strangle, but stimulate manufacturers, entrepreneurs and, first of all, those who manufacture consumer goods");

• Limit sharply the issuing of money;

• Lift "all restrictions on the growth of personal incomes and opportunities for earning money honestly."

Having adopted the programme of reforms, the Fifth Congress sanctioned the end of economic reforms along socialist lines and the transition to "the building of capitalism." The "70 years of the communist experiment" were anathematised. The liberal democratic public saluted the country's return to the road of "normal development."

Politically, this radical bourgeois democratic reform followed:

• The suppression of the attempt by the conservative part of the bureaucracy to restore the "status quo" in August 1991, which led to the collapse of the "party autocracy;"[1]

• The displacement of the liberal part of the bureaucracy, headed by Gorbachev, in December 1991 (the Belovezhsky agreement), and the subsequent disintegration of the Union;

• The lack of confidence of the overwhelming majority of workers in the ability of the former "communist" leadership to overcome the crisis;

• A large-scale anticommunist campaign aimed at discrediting socialism by asserting that the Stalinist regime represented its very essence.

Workers were induced to give up their faith in communism and place their faith in the future capitalist kingdom of "liberty and prosperity." Here is how the prospects for reform were assessed by the chief "reformer":

"The instant transition to market prices is a hard, forced but necessary measure. Life will become worse for everyone for approximately half a year. But then prices will decline, consumer goods will be plentiful and, by the autumn of 1992, the economy will stabilise and the life of people will gradually improve." (Boris Yeltsin's speech at the Fifth Congress of People's Deputies, 28 October 1991)

It cannot be said that obvious difficulties were ignored at that time: "A high degree of monopolisation is characteristic of the Russian economy. A considerable portion of products is manufactured by gigantic enterprises, concerns which have no rivals." This problem was to be dealt with by a "package of measures aimed at reducing monopoly and enhancing competition."

The main reserve for economic development was deemed to be the civil conversion of defence enterprises, involving a reduction of the armed forces with "social benefits for servicemen and retired officers." These were the intentions.

Given that last January marked five years since the beginning of the reform process, it is appropriate to compare the results with the stated intentions.

Instead of a predicted decrease in prices after approximately half a year, by April 1992 the consumer price index had soared to 740 percent, according to the State Statistics Committee. By 1995 prices had, on the average, risen 10,000 times over.

The new monopolists, over whom there were no controls, amassed profits not by increasing output, but by raising prices. This process went on until the end of 1995, when Chernomyrdin's government invented a simple and original way of restraining inflation. It stopped paying wages (which had risen only 1,500 times by 1995) on time.

The government's default on payments caused an epidemic of non-payment by contractor enterprises. During 1995-96 the total of non-payments rose from 30 to 40 trillion rubles, and reached a record 50 trillion rubles by the beginning of 1997.

Naturally, the artificial limitation of demand on consumer markets restricted the rise in prices. But such a situation is very remote from genuine financial stabilisation. The International Monetary Fund understands this and periodically delays its dollar disbursements.

Walkouts, hunger strikes and mass protest actions against non-payment of wages became part and parcel of the country's political life in 1997. Chernomyrdin-style financial stabilisation has meant the impoverishment of the population.

The privatisation of state-owned enterprises was impossible without people rich enough to pay. Such people did not exist when the reform was launched. They came into being as a result of the policy of "liberalisation of methods of drawing income."

There were several methods. In an interview published in *Playboy* magazine (Russian edition), a pillar of Russian capitalism, B. Berezovsky, said he became a businessmen "at the moment when what was formerly called 'speculation' became 'business.'"

It was speculation (in goods and currency) that engendered the post-Soviet bourgeoisie. A very important role in this process was played by the vouchers (invented by Chubais) which were issued to all Russian citizens. The large-scale purchase of such vouchers enabled the purchaser to acquire shares in companies, i.e., property. The tainted money obtained through various rackets—drug traffic, prostitution—also contributed to the creation of a class of post-Soviet proprietors.

Yet it was the "nomenclatura" (i.e., the network of former Soviet officials) that was in the best position to acquire property. Financial concerns run by former ministerial officials became "authorised" commercial banks. Former Soviet administrators obtained the licenses needed for the export of strategically important raw materials. These are only two of the varied forms assumed by the process of nomenclatura privatisation.

This process was not open, but it fully corresponded to the perspective of the reforms: to use all possible means to bring "inefficient" state-owned property to ruin. Chaired by Chubais, the State Property Committee sold off state property to the nomenclatura and up-and-coming criminals at fire sale prices. Eventually, the process resulted in the creation of seven to eleven powerful financial and industrial groups controlling the key sectors of the Russian economy. Private monopolism replaced state monopolism, but there was neither a "free market" nor "competition"[2].

Beginning in the autumn of 1995 auctions were held for shares in privatised enterprises. This was aimed at effecting a further concentration of former public property in the hands of the major financial and industrial groups. The auctions were held without any real competition. Property was given to the banks that supported Yeltsin's 1996 election campaign. The chairman of Oneximbank, Potanin, was made a gift of a ministerial post as well as the Severonickel nickel plant. The Most group received a TV channel. Mr. Berezovsky became deputy chairman of the Security Council, without interrupting his commercial activity. Thus the privatisation of property has led to the "privatisation" of power.

One question naturally arises: what has been the economic effect of "financial stabilisation" and "privatisation?" Did the government's policy lead to economic growth, as promised?

The answer is: just the opposite. The government's policy led to economic collapse and the destruction of the most advanced industries.

Overall output fell to 40 to 50 percent of the Soviet level (20 to 30 percent in the case of light and food industries). Industrial equipment has not been replaced. Expenditures on science have been reduced to a paltry 0.37 percent of total budgetary expenditures (less than in Finland).

Trade in natural resources accounts for 70 percent of budget revenues. But it is not profitable to expand production when the monopolists overprice raw materials, power and semi-finished products, and the demand is low because of mass impoverishment. The agrarian sector suffered more than others (e.g., in the Leningrad region the output of pork and beef fell 7 and 5 times respectively).

Domestic products have been replaced by imports. Foreign firms dominate not only the computer and electric appliances market, but also the food market. This is typical of a colonial economy.

The export of metals, gas and oil brings extremely high profits, but even these industries lack investment for the modernisation of equipment. The new owners of the means of production prefer to export their profits rather than invest them in the technological modernisation of domestic industry (some 22 billion dollars were exported in 1996, according to G. Yavlinsky's estimate). Like its ancestors at the turn of the century, the post-Soviet Russian bourgeoisie dodges the historical task of modernising the country. At that time, the Bolsheviks had to fulfil this mission.

The government expected that the privatisation of state-owned property would bring high revenues: firstly, the proceeds from their sale, and, secondly, the taxes on the profits of the new owners. However, the semi-criminal owners made every effort to "minimise" these incomes. They bribed officials in order to undervalue the property put on sale. Among the new businessmen, tax evasion was considered "good manners." (In the first months of 1997, only 53 percent of taxes were collected.)

This resulted in the virtual bankruptcy of the state. It was unable to meet its obligations to public-sector employees. As sole owner, the former state had developed science, education and defence. It maintained an army as mighty as that of the US, provided its citizens with practically free medical care, and helped many other countries.

Having sold off the "inefficient" state-owned property, the "reformers" failed to create anything better. The multi-billion-dollar incomes of the new owners bypassed industry, science, education, culture. During the years of "reform" the total wealth of the country was extremely unequally redistributed among various layers of society. Having handed over the national wealth to assorted crooks, the state lost the means to finance industry, the army, social services. To date, the much hoped-for foreign investment has not arrived.

To sum up:

• Instead of millions of owners, mass impoverishment and the deprivation of millions of citizens of their savings;

• Instead of "fair competition between free manufacturers," a monopolist-dominated, corrupt economy;

• Instead of "a government of laws," the unchecked power of a bureaucracy and rampant crime;

• In exchange for the privileges of party bosses, the private villas of government officials in Switzerland and the Canaries;

• Instead of increased production, a tax system that engenders the illegal outflow of capital;

• Instead of financial stabilisation, a revival of barter, large-scale circulation of foreign currency and ersatz money, and defaults totalling trillions of rubles;

• Instead of military reform, the moral and material degradation of the army, as revealed in the Chechen war.

The diagnosis is clear: a full-scale collapse of "liberal" reform. Under conditions of a monopolised economy, free prices did not help restructure industry; the artificial reduction of inflation did not lead to an investment boom. The new owners of the former state enterprises proved incapable of developing a sensible industrial policy.

The prospects: by the beginning of 1997 the disastrous results of the economic reform had become evident. In his April 17, 1997 address to the Federation Council, Chubais acknowledged the "monstrous budgetary crisis."

In keeping with the traditions of totalitarian rule which he absorbed during his 30-year membership in the Communist Party, President Yeltsin again shuffled his cabinet (for the sixth time since 1992) without changing the "reform" policy. He formed a new "hybrid" government in which major representatives of the old party officials (led by Chernomyrdin) worked together with Gaidar-style young ultra-liberals (Chubais, Nemtsov, Koch). His objective was to put the budget in the black without touching the monopolists' profits.

This meant that the poor would have to pay. Housing reform: the poor become homeless. Pension reform: the government abandons its responsibility for paying pensions. Tax reform: the tax burden on ordinary people increases. Closure and privatisation of "unprofitable" enterprises: further science, education and health cuts. The same package of "liberal" reforms must produce the same result: an increase in poverty, ignorance and crime.

Meanwhile, the situation develops according to the 1917 scenario. As in that year, the present "democratic" elite came to power with the slogans of "freedom" and "human rights." More than five years down the road, it is clear that these slogans were little more than a cover for the aspirations of those who would rob their fellow citizens of their wealth, and call it "people's privatisation." The policies of the present "reformers" are even more anti-social than those of the Russian liberals in the early twentieth century.

The present regime hopes it will achieve stability because: the upper layer of society has a high living standard thanks to the export of raw materials and external loans; as a result of decades of totalitarian rule the workers have little experience of defending their interests; the “free” mass media are constantly at work attempting to brainwash the population; in contrast to the regular army, special police and riot forces are well equipped and funded.

Such factors, however, cannot suffice for long. The state that has allowed the new capitalists to rob the people and now defends their tainted capital cannot hold the people’s trust. It would be naive to expect that the ‘new Russians’ will ever create human conditions for their economic slaves. The property must be returned to the people. The capital created by many-years’ labour of the people must work for the people, not the ring of ex-Soviet bosses.

Another power is required to carry out such a change—a power that says “no money” as long as corrupt officials, thieves and crooks live in luxury, while old people have to wait for months for their starvation pensions, i.e., the power of the people.

“It is not the class of capitalists that should control the workers, but vice versa—that is the point. Not to trust the ‘state’ but to demand that it be led by proletarians and semi-proletarians—that is how the economic ruin must be dealt with. Any other solution is mere words and deceit” (V.I. Lenin, *Pravda*, no. 73, June 17, 1917).

Nothing suits the current situation in Russia better than this quotation from Lenin.

Also in German

Notes:

1. The author is not quite correct in his assessment of the events of August 1991. The GKChP (Emergency State Committee) did not seek “to restore the status quo.” In the documents issued in the name of the putchists there were no declarations about re-establishing Soviet society or restoring its social foundations. The GKChP sought only to keep the process of capitalist restoration in the hands of the more conservative layers of the soviet bureaucracy.

2. Its necessary to bear in mind that monopolism does not exclude competition. On the contrary, it intensifies it. The arguments for some abstract norm of competition belong entirely to the mode of thinking of liberal philistines. In all periods of its development, capitalism has been bound up with the most bitter competition. The new Russian businessmen know this very well from their personal experiences.