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Is Russia Becoming Capitalist?*

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ABSTRACT: Contrary to the common assumption and to the intentions of Russia's post-Soviet rulers, Russia does not appear to be in transition to capitalism. While some features of a capitalist mode of production have appeared in post-Soviet Russia, the working population is not being transformed into a wage-laboring class generating surplus value for a capitalist class. The new propertied class is not a capitalist class but receives the overwhelming bulk of its revenue from non-capitalist relations. The explanation for this unexpected development is found in the Western-inspired neoliberal transition strategy, which has produced, not a process of primitive accumulation, but the emergence of a non-capitalist predatory/extractive system from the former state socialist system. Russia's emerging predatory/extractive system promises continuing technological regress, demographic disaster, authoritarian rule, and possible disintegration of the Russian state.

“This way of life doesn't have a name. . . . What we're headed for isn't capitalism.”

— Tatyana A. Maslova, switchboard operator at the
Biryulinskaya mine in the west Siberian
town of Beryozovsky.¹

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¹ Quoted in *The New York Times*, September 17, 1998, A6.

SINCE THE DEMISE OF THE SOVIET UNION at the end of 1991, the political leadership of post-Soviet Russia has been seeking to replace the former state socialist system by a capitalist system. Russia's political and economic elite — drawn mainly from the former Soviet elite, with some infusion of individuals from the former Soviet shadow economy and the intelligentsia — has overwhelmingly supported a transition to capitalism (Kotz and Weir, 1997). Despite the unpopularity of capitalism among ordinary people in Russia, the project of capitalist transition has faced little effective opposition from the demoralized Russian population. The Communist Party of the Russian Federation, which is by far the largest political party in Russia, and which has, at least rhetorically, maintained an anti-capitalist stance, has been unable to significantly hinder the regime's drive to build capitalism.

Capitalist transition in Russia has had strong support from abroad. The Western capitalist powers, particularly the United States, have given aid and encouragement for Russia's capitalist transition. The International Monetary Fund has provided advice and financial support.

Despite these favorable conditions for carrying out a capitalist transition, the road to capitalism in Russia has been remarkably rocky. It is difficult not to notice the severe distortions in Russia's socioeconomic system, including an eight-year-long depression, rampant criminality, the rise of a bold and violent financial oligarchy, widespread corruption, and lengthy delays in the payment of wages, pensions, and other obligations. Russia's new system is sometimes called by such names as "nomenklatura capitalism," "criminalized capitalism," or "oligarchic capitalism." However, most observers believe that the new system developing in Russia is, despite severe distortions, a form of capitalism (Hanson, 1997; Menshikov, 1999).

This paper challenges the assumption that capitalism is developing in Russia. More precisely, it will be argued that a capitalist mode of production is not assuming the dominant position in the evolving Russian social formation. Such a major social transition must take time, and one should not expect a fully formed capitalist system to appear in Russia immediately after the demise of the Soviet system. However, it does not appear that the direction of development in Russia is toward a social formation in which a capitalist mode of pro-

duction plays the dominant role.² Despite the development of some of the superficial features of a capitalist system — such as private ownership of businesses and banks, the opening of securities markets, and the replacement of central planning by a sort of market system — some of the key defining characteristics of capitalism have not emerged and show no sign of doing so.

The issue being raised here is not just a matter of definitions and words. The many negative features that have arisen in Russian society since 1992 are commonly attributed to the inevitable difficulties of building capitalism on the ashes of the former system. It is assumed that, as the transition progresses, the negative features will gradually disappear, and Russia will emerge with a “normal civilization” — that is, an advanced capitalist “democracy” like that found in Western Europe or North America. Of course, contrary to the bourgeois ideological picture of capitalism, this “normal civilization” would be based on exploitation of labor and would have its share of poverty, unemployment, and environmental destruction. However, it is expected that the retrograde features of Russia’s “oligarchic capitalism” would disappear once the transition is completed. If Russia is not in transition to capitalism, its future may be bleaker than would otherwise be supposed. It will be argued here that the most retrograde features of contemporary Russian society are not results of a transition to capitalism but rather outgrowths of a new, non-capitalist system that has developed there.

The analysis has the following four parts. First, I will review what a capitalist mode of production is. Second, I will present a case that the developing social formation in Russia is not capitalist but rather a non-capitalist “predatory/extractive system.” Third, I will trace the cause of Russia’s non-capitalist path of development to the particular transition strategy urged on Russia by Western advisers and enthusiastically adopted by the Russian leadership, known as the neo-liberal transition strategy. While this strategy was intended to rapidly build capitalism, even the best of intentions do not guarantee success. Fourth, and last, I will consider the implications of Russia’s predatory/extractive system for the development of Russian society.

2 Actual societies typically have several different modes of production within them. The term “capitalist social formation” can be applied to a society in which a capitalist mode of production plays the dominant role.

The entire argument of this paper presupposes that the former Soviet system, whatever its specific character, was a non-capitalist system. Most analysts, both Marxist and mainstream, regard the former Soviet Union as having had some kind of non-capitalist system. In my view, the former Soviet Union had a “state socialist” system that was a mixed social system with important socialist features which, however, coexisted with non-socialist institutions (Kotz and Weir, 1997, 26–33). The non-socialist institutions were primarily semi-feudal rather than capitalist.³

However, some analysts, including some within the Marxist tradition, regard the former Soviet Union as having had a variant of capitalism, usually called state capitalism (Bettelheim, 1976; Resnick and Wolff, 1994). If the former Soviet Union was capitalist, no issue of transition to capitalism in Russia even arises. Based upon such an interpretation, the problems of contemporary Russia tend to be seen as just temporary difficulties, as Russia adjusts its capitalist system from state capitalism to the private-property-based variant.

There is not space here to enter into this debate. I have made the case elsewhere that the Soviet Union was not capitalist (Kotz, 2000). Were Russia simply shifting from one variant of capitalism to another, it would be difficult to understand the depth of the crisis produced in Russian society by this process. Major reformulations of capitalism have in the past been associated with a serious economic crisis, as, it can be argued, was the case with the Great Depression of the 1930s. However, no capitalist reformulation crisis has ever reached the depth and destructiveness of the process that has gripped Russia since 1991.

What is Capitalism?

Capitalism is a type of market system, in which goods are produced for the purpose of exchange, rather than another purpose such as for self-use, for the use of specific others (such as relatives or neighbors), or to fulfill a central economic plan. But Marx, who popularized the term “capitalism,” insisted, for good reason, that capitalism

3 Use of the term “state socialist” should not be understood to suggest that a fully socialist system would be “non-state socialism.” Rather, it is a reference to the view that the most important non-socialist feature of the Soviet system was the character of the Soviet state.

is more than just a market system (Marx, 1967, Volume I, chs. 6–7). The good reason is that a number of rather different market systems have existed in history, including communities of peasants and artisans and market-oriented slave systems.

Capitalism is a market system in which production is based on the wage labor relation. That is, a distinct class of capitalists owns the means of production and hires wage laborers to produce products which the capitalists compete to sell in the market. Wage laborers are a class “doubly” free. They are free of any specific labor obligations, unlike serfs or slaves. They are also free of any means of support other than by selling their ability to engage in labor, unlike independent peasants or artisans who possess both means of production and skills that enable them to survive by themselves producing commodities for sale and/or for self-use. Being free in that double sense, wage workers can, and must, sell their ability to work to the owners of the means of production in exchange for the material means of their economic survival. In order for the wage labor relation to be the basis of a system that is reproducible over time, the capitalist must pay a wage that provides “subsistence” for the worker, meaning that it is sufficient to enable the workers to survive (and hence continue working the next day) at the socially accepted standard of living for workers at that time and place. The profits which capitalists receive have their source in surplus value created through the wage labor relation. This surplus value is the difference between the (net) value of the products of the worker’s labor and the “subsistence” (*i.e.*, reproduction) wage.

The above defining features of capitalism underlie the key social benefit that Marx ascribed to capitalism: its powerful propensity to develop the forces of production through accumulation of capital and innovation. From the above analysis one can distill three characteristics of capitalism relevant to this outcome: 1) capitalists preside over enterprises which *produce* commodities; 2) to produce commodities capitalists must pay a subsistence wage to workers who do the actual producing; and 3) capitalists compete with one another to sell those commodities in the market. Competition compels capitalists to continually cheapen their commodities if they are to survive, and control over the production process gives them the means to do so. The fact that the commodities are produced by wage laborers who must be paid the subsistence wage implies that the capitalists can

cheapen commodities, over the long run, only by accumulation and innovation (which raise the productivity of labor).⁴

This “revolutionary” role of capitalists differs from the relatively conservative tendencies of earlier appropriators of surplus labor, such as slaveowners and feudal lords. It also differs from the behavior of other types of property owners that both predate and coexist with capitalism, specifically landowners, money lenders, and merchants. The latter three social actors may be attached to various modes of production, including slave, feudal, and capitalist systems. When attached to a capitalist system, these three actors, like capitalists, may be forced to engage in competition, but they neither preside over the production of commodities nor are their incomes derived directly from the appropriation of surplus value from wage labor.⁵ Hence, they do not have the capitalist’s compulsory drive to develop the forces of production through accumulation and transformation of production methods. Landowners get rent through control over nature’s gifts, which the capitalists must use in order to produce commodities. Money lenders control access to financial capital and demand interest for lending it. Merchants buy cheap and sell dear. Thus, the property incomes of these actors derive from a monopolistic control over key inputs and from sharp dealing, not from the transformation of a production system which they do not even control.⁶

Russia’s Emerging Social Formation

With the abolition of central planning, the lifting of price controls, and the privatization of state enterprises in Russia, a sort of market system emerged. Goods produced by newly formed private firms and by privatized former state enterprises are sold to other enterprises or to household consumers. However, Russia has a very

4 In the short run, capitalists can cut costs and increase profits in other ways, including lowering wages and speeding up the work. However, such means have natural limits. Only accumulation and innovation permit a continual increase in labor productivity and an associated reduction of costs.

5 The incomes of landlords, money lenders, and merchants do indirectly come from surplus value, via the relations between these three groups and the capitalist appropriators of surplus value.

6 When associated with a well-developed capitalist system, some of these auxiliary proprietary classes may be influenced by the capitalist-induced drive toward innovation. This applies to both merchants and bankers at certain stages of capitalist development.

partial and distorted market. Half or more of transactions in the domestic economy have been based on barter or money surrogates in recent years.⁷ In many cases goods are delivered without payment of any sort, yet deliveries continue, as evidenced by the recurrent buildup of enormous unpaid trade debt.⁸ Workers are retained, and keep working and producing some output, despite the absence of much effective demand for the product (Russia's economic output has fallen approximately in half since 1990, yet unemployment is still relatively low).⁹ In some cases the goods that workers produce are handed back to them as wages in kind.¹⁰ It appears that enterprises produce and keep their workers on staff at least partly for reasons other than market calculations.

One can argue that, to a significant extent, the Russian economy is characterized by production, not for sale, but to keep workers employed and to provide products for other enterprises based on traditional inter-enterprise relationships dating from the days of the Soviet planned economy. The "normal market economy" that Russian neoliberal economic policymakers promised does not yet look very normal in Russia. Yet it must be admitted that, although different in certain respects from the kind of market relations found in Western capitalism, Russia does have a variant of a market economy. The most important difference between Russia's economy and a capitalist system has to do with the relation between Russia's new rich and its workers.

A distinct class has come to own and control the newly privatized means of production in Russia. A substantial proportion of the non-financial enterprises ended up under the effective ownership and control of their former top managers (with a nominal share of own-

7 The non-money share of transactions in 1999 was estimated by a Russian researcher at about 50% (interview with Andrei Klepach, economist at the Institute of National Economic Forecasting in Moscow, November 10, 1999).

8 Overdue bills were one-third of enterprise accounts payable in Russia at year-end 1996 (*The New York Times*, August 7, 1998, A3).

9 Russia's real gross domestic product fell by 52% from 1990 to 1998, while the unemployment rate rose to only 12.3% of the labor force at the end of 1998 (Kotz and Weir, 1997, 174; Goskomstat of Russia, 1999, 31, 79). By contrast, during the Great Depression in the U. S., real gross national product fell by 31% during 1929-33 and the unemployment rate rose to 25% of the labor force (*Economic Report of the President*, 1974, 250, 276).

10 Outside certain metro stations in Moscow, one sees textile workers desperately seeking to sell the goods with which they have been paid.

ership for the workers in many cases).¹¹ These private owners employ workers who have the appearance of wage laborers.

However, it is not clear that the employees of Russian enterprises can be described as wage laborers in the Marxian sense. First, they are not paid regularly. A distinctive feature of the new Russian economy is that only a minority of Russian workers are paid on time and in full at any one time.¹² Second, it appears that the actual pay received by workers does not cover even the majority of their material reproduction. If Russian workers had to rely on their wages to survive, they would have largely died off by now. Workers' living standards have sunk below what had been considered the normal level, and even the newly depressed level is not covered by actual wage payments. A substantial part of workers' reproduction comes from other sources, such as food grown in workers' own small plots and after-hours petty production and trade.¹³ Russia's workers have not yet become doubly free, in that they retain significant sources of material support other than what would come from their ability to create profits for a capitalist employer. Apart from their self-provisioning from their individual plots and petty production, workers remain at jobs that only infrequently pay money wages because they still receive substantial fringe benefits, such as subsidized housing, schools and daycare centers, health clinics, etc. These fringe benefits, and even the occasional money wage payments, are more of a residual claim dating from the former Soviet system than a payment as a condition for workers creating profits for the owners.

Most significant for our purposes is that the income of Russia's new wealthy class is not mainly derived directly from capitalist appropriation of surplus value — that is, it does not come from employing wage labor to produce products for sale in the market whose net value

11 As of July 1, 1994, 74% of the privatizations of joint-stock corporations had taken place through distribution of the shares to employees (International Monetary Fund, 1995, 128). There is general agreement that this method of privatization, rather than bringing about worker control of enterprises, typically placed a large ownership share, and effective control, in the hands of the enterprise's top managers. However, in the natural resource sector, much of the formerly state property ended up, not in the hands of the former enterprise directors, but under the control of other influential individuals, as is discussed below.

12 One study estimated that, in 1996, 30% of Russian workers were paid in full and on time, 31% had delays in their pay, and 39% were not paid at all.

13 One survey found 55% of Russian households depended on the produce of their own small garden plots for half or more of their food consumption (RFE/RL Newswire, volume 3, no. 28, Part 1, February 10, 1999).

exceeds the wage cost. The main sources of high incomes in Russia are the following: 1) export of oil and gas; 2) ownership/control of urban land and buildings; 3) lending money to the state; 4) trade; 5) speculation; 6) skimming revenue from enterprises; 7) theft of public funds; 8) extortion. Let us consider each of these in turn.¹⁴

Oil and Gas Revenue

Much of the enormous income of Russia's new rich flows directly or indirectly from the export of oil and gas. Since oil and gas are Russia's main export to the world capitalist market, they are the major source of the hard currency earnings that Russia's new rich seek above all else. In 1997 exports of mineral products amounted to \$32.5 billion, constituting 46% of the total value of Russia's exports (Goskomstat of Russia, 1999, 386).

Russia's rich oil and gas reserves fell into the hands of former top Soviet ministry officials, Komsomol activists, state bank officials, and shadow economy operators. Former Prime Minister Viktor Chernomyrdin is a symbol of this process. Previously the Minister of Natural Gas in the Soviet days, he ended up as reportedly the largest shareholder in Gazprom, the privatized natural gas monopoly, which is estimated to hold between 20% and 35% of the world's natural gas reserves.¹⁵

In a capitalist system the profit received by an enterprise that produces crude oil and gas can be divided into three parts, in the Marxian view. First, the enterprise appropriates surplus value from its wage laborers. However, an enterprise extracting oil and gas requires little expenditure for current labor-power compared to the investment in equipment and the past expense of drilling wells and laying pipelines. As a result, only a small amount of surplus value is

¹⁴ We are concerned here with the ongoing flow of income of Russia's new rich, not the methods by which they initially became rich. The emergence of a wealthy class in a system that previously had no legitimate class of property owners is bound to involve various forms of theft, insider influence, violence, and other unsavory processes. Those who favored turning Russia's state property into private property should not have been surprised at this.

¹⁵ *Russian Petroleum Investor Market Intelligence Report*, 1995, and *The New York Times*, September 9, 1995, 3. The versatile Chernomyrdin, after being pushed out of the Prime Minister position he had occupied from December 1992 until March 1998, re-emerged in early 2000 as the leader of a new faction in the Russian Duma called "Energy of Russia," representing oil and gas interests (RFE/RL *Newsline*, vol. 4, no. 38, Part I, February 23, 2000).

created by the direct labor expended each year in oil and gas production. The very high ratio of constant capital (invested in means of production) to variable capital (invested in labor-power) means that the competitive price of production for oil and gas will be substantially higher than the labor value of those commodities. The pricing mechanism reallocates surplus value created in other industries, that use relatively larger amounts of labor-power, into the pockets of the oil and gas producers.¹⁶ This reallocation process is the second source of profit for oil and gas production, and it greatly exceeds the surplus value generated by direct labor in that industry.¹⁷

The status of crude oil and gas as natural materials also plays a role in the flow of profit. Crude oil and gas enterprises are selling natural materials that are taken out of the ground and sold with little processing at this stage. The owner of oil and gas in the ground, like the owner of unimproved land, receives a rent.¹⁸ If the producing company does not own the land, it pays the rent to the landowner, the payment being called a royalty in the case of oil and gas production. If the oil and gas producing company owns the land, it receives the rent, which would appear as part of its profit. Rent on company-owned land makes up the third source of the profits of an oil and gas producer.¹⁹ As Marx notes, a natural input “is not the source of

16 In Marxian theory the tendency toward an equal rate of profit in all industries results in “prices of production” for each commodity that differ from the labor values of commodities. In an industry with a high ratio of constant capital (means of production) to variable capital (labor-power), sale of the product at its labor value would result in a below average rate of profit, since surplus value comes only from the labor power. The movement of capital out of such a low-profit industry will raise the price of production of its product above its labor value. The resulting set of prices of production reallocates surplus value among industries so that each capitalist tends to receive an amount proportional to the total capital invested.

17 According to the 1992 Census of Mineral Industries for the United States, employee compensation for production workers in crude oil and natural gas amounted to only 4.1% of total value added, and employee compensation for all employees was 14.2% of value added (U. S. Department of Commerce, 1992, Table 2, 13A–5 and Table 10, 13A–2). By contrast, for the U. S. nonfinancial corporate business sector as a whole that year, employee compensation was 65.8% of gross product (*Economic Report of the President 2000*, Table B–12, 322).

18 In Marxian theory there are two types of rent. One is differential rent, which, in the case of minerals such as oil and gas, is rent accruing to the owner of a property for which extraction of the minerals requires relatively little expense due to favorable natural conditions. The second type of rent is absolute rent, which is claimed even by the owner of the least naturally favorable mineral deposit, based on the monopoly power of landowners. See Marx, 1967, volume III, chs. 37, 38, 45.

19 A fourth source of profit may exist in oil and gas production if the producers have monopoly power, via a cartel or other means.

surplus-profit, but only its natural basis” (Marx, 1967, Vol. III, 647). The source of the rent income is surplus value created in capitalist production, which is redistributed to the landowner.

Even in the capitalist West, a crude oil and gas producer is only partially a capitalist. The part of profit coming from its own laborers is directly appropriated surplus value, and the part that is reallocated based on the high cost of fixed capital represents a “sharing” of the total pool of surplus value created by wage labor as a whole so as to maintain the average rate of profit on the large total capital that must be invested in the oil and gas industry. However, the part of income that is rent, which can be large in oil and gas production, is not capitalist income.²⁰ In the United States, even when royalties are paid by oil companies to private or state landowners, the economic and political power of oil companies may enable them to appropriate part of the rental income by imposing low royalty rates. For this reason, part of the profits on oil and gas produced from land not owned by the producing company is likely to be hidden rent.

Russia’s new private oil and gas producers have a unique situation. They obtained oil and gas wells, pipelines, etc., that had been created, not by capitalist investment, but by investments made under the previous state socialist system. The new oil and gas barons got these assets for free, or for a small fraction of their real value, yet they sell the oil and gas at capitalist world market prices. Just as the oil and gas are a free gift of nature, the oil wells and pipelines are a practically free gift from the labor of the population under the former Soviet state socialist system — a gift that is not even being maintained, much less replaced, modernized, or augmented, under current conditions. One can consider the part of the profit flowing to the Russian oil and gas barons, which derives from reallocation of surplus value to maintain an average rate of profit on the high fixed capital required in the oil and gas industry, to constitute a non-capitalist income flow. Since this reallocation of surplus value is a return, not to an investment by the oil barons, but to a (practically) free gift from the old regime to the new oil barons, it can be considered a species of rent.

²⁰ Royalty payments represented 12.1% of value added in crude oil and natural gas in the United States in 1992 (U. S. Department of Commerce, 1992, Table 2, 13A–5 and Table 10, 13A–12).

Furthermore, while the Russian oil and gas barons technically do not own the land, which still officially belongs to the state, it is likely that they have been capturing most of the land rent on oil and gas producing land, given the subservience of the Russian government to the financial oligarchy.²¹ Only the relatively small contribution to profits from the labor of the current workers in the industry is capitalist income, the remainder being based on the gifts of nature plus the Soviet inheritance. (Where the reallocated surplus value flows come from in this case will be considered below.)

Other Sources of Income of Russia's New Propertied Class

Real estate in and around Moscow and St. Petersburg has become very valuable, and rents for many properties are at the levels found in other major world cities. The demand for space by various foreign companies and individuals hoping to make some money in Russia is a major factor behind the high rents. Those who managed to gain control of the land and buildings in these two metropolises became very rich. They are recipients of land rent, along with a rent-like return to the Soviet-era investment in buildings and infrastructure (as in the oil case), rather than capitalist profits.

Among the five men named as Russia's richest and most powerful in 1994, four were bankers.²² The banks controlled by Russia's new oligarchs do not perform the traditional banking role of lending to private business. Among their most lucrative activities has been lending to the Russian government, via purchase of government bonds. Russian government bonds have paid remarkably high interest rates, even relative to the rate of inflation. The average annual real rate of interest on Russian government bonds has been estimated at 77% in 1995, 44% in 1996, and 11% in 1997 (Menshikov, 1998). These huge interest flows, financed from the government budget

21 It has not been possible to get data on royalty payments by Russian oil and gas producers. On paper the state collects a 20% value added tax on exported oil and gas, which can be viewed as a way to capture some of the rent on those products for public use. However, the oil barons evade much of the tax owed, by such methods as selling the oil to an offshore company at below-market prices. The offshore company then resells it to foreign refiners. In 1997 nearly half of Russia's crude oil exports were sent to offshore companies in tax havens such as Gibraltar and Lichtenstein, which lack oil refineries (*The New York Times*, October 7, 1999, A6).

22 From a study by the journal *Nezavisimaya Gazeta*, published in *Business World of Russia Weekly*, vol. 3 no. 48/141, December 17-23, 1994, 2.

(and to some extent from IMF and other Western sources of financing for the Russian government), have formed a major part of the high incomes of Russia's new propertied class.²³

Another part of the income of Russia's new rich takes the form of merchant profits from trade. The fortune of Boris Berezovsky, the most politically powerful of Russia's new oligarchs in recent years, began from a car dealership selling Russian cars. Importing luxury cars and other expensive Western consumer goods into Russia has become a lucrative business. Retail prices for such goods are often far above their levels in Bonn or New York.

Speculation is a distinct mode of gaining an income, entailing the purchase of an asset in the hope of being able to sell it after its market price has risen. Along with lending to the state, speculation has been a major source of the income of Russia's new bankers. Especially in the early 1990s, speculation in foreign currencies, precious metals, and securities produced much of the bankers' income flow.

The depression and economic chaos that took hold of Russia in 1992, and has still not let go, has left much of Russia's nonfinancial enterprise sector, outside of energy and metals, unprofitable and even technically bankrupt. It is difficult to get reliable data on profitability in the Russian economy. The Russian industrial economy is divided into ten sectors, one of which, electric power, is still state-owned. According to official data (Goskomstat of Russia, 1999, 186–197), of the nine other industrial sectors, only fuel and nonferrous metals had positive profits in 1998, the year Russia underwent a financial crisis. In 1996 and 1997, the reported profits of the fuel sector exceeded the total reported profits of the entire remainder of the industrial economy (excluding the state-owned electric power sector).²⁴ Official statistics show 50.6% of all enterprises losing money in 1996,

23 In August–September 1998 this system collapsed when the Russian government became unable any longer to cover the escalating monthly interest payments, which by early July of that year had come to exceed monthly government revenues by 40%. The result was a default on the debt, which instantly rendered most of the big Russian banks insolvent. The oligarchs who controlled the big banks managed to escape with relatively minor losses, the bulk of which fell on the small new middle class, which had kept its savings in the banks. Most Russians, having no savings to put in a bank, escaped direct harm, although the burst of inflation which followed further lowered their already low real incomes.

24 In 1996 the profits of the fuel sector were 52.5% of the total profits of the nine sectors, while profits of nonferrous metals were another 8.4%, for a total of 60.9%. In 1997 fuel profits were 56.2% and nonferrous metals 9.9%, for a total of nearly two-thirds of the profits of the nine sectors (Goskomstat, 1999, 186–197).

50.1% in 1997, and 55.2% in 1998 (Goskomstat of Russia, 1999, 318). A former Vice-President of Mozbusinessbank, one of Russia's leading banks (prior to the financial crisis), estimated that only 15–30% of Russian enterprises were making profits in 1999, a relatively good year for the economy (interview with Anatoly Miliukov, November 10, 1999).

No surplus value is realized in most of Russia's nonfinancial enterprises; the workers cannot even be paid what they are due. Despite these conditions, those who control these enterprises have found ways to extract a large revenue flow even from unprofitable enterprises. A common way of doing this is to set up a company, secretly controlled by the heads of the enterprise, to sell inputs to the enterprise. That supplier buys inputs and resells them to the enterprise at a large markup, or it may receive large payments for consulting or other services of dubious value. Thus, a sizeable income is skimmed from the enterprise's revenues despite its unprofitability.²⁵ The skimming of enterprise revenues by such methods, even though engaged in by those who control the enterprise and may even own part of its shares, is a form of merchant profit rather than capitalist profit.

Controls over public funds in Russia are so lax that huge sums regularly disappear into the hands of unscrupulous and well-connected operators. A director of Russia's equivalent of the Congressional General Accounting Office described two such incidents. In one, \$1 billion appropriated by the Parliament for reconstruction in Chechnya after the 1994–96 war there simply disappeared. In another, one-third of a \$90 million World Bank loan to Russia was diverted to unknown persons (Sokolov, 1998).

A major part of Russia's new rich consists of members of organized criminal groups. Some of their means of gaining income fall under the above categories, such as renting out buildings, lending money, and engaging in trade. In such cases they are differentiated from non-criminal operators by the illegal and usually violent methods they employ to collect debts. Peculiar to organized crime, however, is the practice of extorting large sums from private businesses

25 A large-scale example of this practice came to light in the Russian money laundering scandal. In the fall of 1999, Swiss investigators released evidence that top Russian oligarch Boris Berezovsky had siphoned off \$600 million in hard currency revenues from the Russian airline Aeroflot. He did this by diverting the revenues to two Swiss companies he controlled, allegedly to pay for financial services such as cash management. Berezovsky also controls Aeroflot. See *The New York Times*, October 16, 1999, A12, and September 15, 1999, A8.

under threat of violence, in return for no service whatsoever. A 1994 study estimated that 70% to 80% of private banks and businesses in major Russian cities were forced to make “protection” payments of 10% to 20% of their revenues (*The New York Times*, January 30, 1994, 1, reporting on a study done for the Russian President).

The point is not that capitalist profit-making is completely absent in Russia. Some enterprises do manage to make a profit from their employees’ labor, despite the severe depression and social chaos.²⁶ The point is that capitalist profit-making does not form a major part of the incomes of Russia’s new class of wealthy property owners. Instead, their incomes flow predominantly from non-capitalist relations.

If Russia’s new socioeconomic system is not capitalist, then what is it? There is a dissociation between the productive activities of the majority of the population and the property incomes of the new dominant class. Most of the population is engaged in a combination of self-provision, petty production and trade, and limited labor in formerly state institutions in return for irregular wages and some fringe benefits. The propertied class does not derive its income mainly as a surplus appropriated from the current labor of the population. The main property incomes have a two-sided origin. To use a slightly modified version of Marx’s terminology cited above, the “basis” of this income consists of nature’s riches (land and deposits of valuable raw materials) plus the remains of the productive mechanism built under Soviet state socialism — an infrastructure (transportation, communication, and power facilities), oil wells, pipelines, mines, factories, office buildings, large cities, and patterns of inter-enterprise supply independent of profit considerations. The “source” of these large property incomes is surplus value created by wage labor outside of Russia in the world capitalist system.

There are two primary processes through which this surplus value, created outside of Russia, is transferred into the hands of Russia’s propertied class. One is via the export of natural materials to the capitalist world market, which generates huge hard currency rev-

26 For example, the giant steel producing complex in Magnitogorsk has been profitable for much of the 1990s, due to its ability to sell moderate quality steel at low prices in world markets. It has even attracted several hundred million dollars in investment from Germany, enabling it to build new cold-rolled mills and electric furnaces. Some food processing enterprises have been successful in the domestic market, such as pasta makers that produce cheap food for the impoverished population. However, such success stories represent a small part of the productive sector of Russian industry.

enues. The second is a political, rather than an economic, flow of hard currency into Russia. This is the loans and grants provided by the IMF, World Bank, and Western governments.²⁷ While the economic flow arises from the thirst for Russia's raw materials, the political flow is intended to prevent a reappearance of state socialism in Russia and to assure Russia's acceptance of NATO (and U. S.) dominance in the world. These two inflows into Russia have their counterpart in two outflows. One is capital flight, estimated at \$140 billion from 1992–98, as Russia's propertied class sends its capital abroad for safe-keeping (Institute of International Finance, 1999, 10). The second is payment for luxury consumption goods imported from the West, to satisfy the garish lifestyle of Russia's new rich. Investment in Russia's economy does not form a significant use of the financial inflows; since 1990 capital investment in Russia has fallen by 78% (Goskomstat of Russia, 1999, 341).

It is difficult to find an appropriate term for such a social formation. Russia's new role as a supplier of raw materials to the world capitalist market and importer of manufactured goods (and food) from world capitalist production centers suggests that it resembles the extractive systems in such places as Kuwait or Saudi Arabia. However, unlike Third World extractive systems, it was not created by the penetration of world capitalism into what had been a traditional peasant and artisan economy, with transnational corporations investing to create the infrastructure for extracting raw materials. The central role played by the Soviet inheritance suggests that Russia has an unusual kind of predatory social formation, in which the basis of the property income of the dominant class is not the present labor of the population, as is normally the case in a class system, but rather, indirectly, their past labor under the former Soviet state socialist system. This past labor, together with the gifts of nature, enables this class to derive a large income out of surplus value created in world capitalism. Perhaps the best term for this system is a predatory/extractive system, whose property-owning class is a mixture of landlords, merchants, money-

27 A total of \$55 billion in international assistance flowed into Russia during 1992–97, of which \$23 billion came from multilateral institutions (U. S. Central Intelligence Agency, 1998, Table 77, and 1996, Table 128).

lenders, speculators, revenue-skimmers, misappropriators of public funds, and extortionists, along with some capitalists.²⁸

One might object that the above analysis places undue importance on certain unsavory transitional features of Russia's system while undervaluing the shoots of capitalist development there. The robber baron analogy is sometimes brought up to suggest that, while many unproductive and retrograde activities do go on in Russia, this is similar to the robber baron era in the United States. After all, the U. S. post-Civil War decades saw enrichment via speculation, theft of public and private property, private violence to attain and protect wealth, and other practices similar to those found in present day Russia; yet this same era laid the foundations of U. S. industrial might. Russian apologists for the new oligarchs, schooled in Marxist theory in the Soviet days, often defend the criminality of the contemporary Russian elite by pointing to a "necessary," if distasteful, stage of primitive accumulation that will soon usher in an advanced capitalist system in Russia, with all of its supposed virtues.

This analogy has a fatal flaw. Collis Huntington and his associates grabbed huge tracts of public land, but they used them to lace the United States with railroads. Some unfortunate rivals of John D. Rockefeller had their facilities blown up, but Rockefeller did build a modern, efficient oil refining company. The American robber baron era combined theft with economic progress. In Russia we see the former without the latter.

America's robber baron era was not the birth of U. S. capitalism. That had been solidly achieved prior to the Civil War. The robber baron era marked the transition from small-scale, family business capitalism to large-scale, corporate capitalism. The rise of a market in financial securities together with the drive to achieve monopoly power produced great opportunities for unproductive and predatory practices. However, this was a side-show to the real process of build-

28 Marx indicted capitalism for what he considered the "vampire-like" practice of capital "sucking blood" from living labor, but Russia's new propertied class has found a way to "suck blood" from dead labor (Marx's term for past labor). There is a temptation to call this system a *necrophagous mode of production*, from the term for drawing sustenance from a dead organism. However, the practice of unnecessarily introducing obscure terminology in contemporary social science is one of its most lamentable features, and so this temptation will be resisted here.

ing giant productive enterprises in railroading, long-distance communication, steel, meatpacking, and so forth. J. P. Morgan did not concentrate on speculating in securities or lending to the government but financed the creation of AT&T and U. S. Steel, both giant productive enterprises. By contrast, Russia's propertied class hastens the demise of the country's productive mechanism, while managing to draw high incomes out of the process.

Why Capitalism Is not Emerging in Russia

The recent history of China has demonstrated that it is possible to make a transition from state socialism to capitalism. Following a strategy very different from the neoliberal strategy, China since the late 1970s has been in transition to a capitalist system.²⁹ China today has all the key features of capitalism, including a market economy and a large private sector with a well-developed wage labor relation forming the basis of appropriation of surplus value by a new capitalist class. The forms of private ownership are still ill-defined, but this has not held back the development of the key outcomes associated with capitalism, including rapid accumulation and innovation.³⁰

The failure of capitalist development in Russia stems from the neoliberal transition strategy. The appropriateness of this strategy for Russia has been widely criticized (Goldman, 1994; Kotz and Weir, 1997; Millar, 1994; Murrell, 1993; Weisskopf, 1992). One can criticize each element of the neoliberal strategy: the immediate lifting of price controls, the contractionary fiscal and monetary policy, the hasty privatization of state enterprises, the immediate opening to the world capitalist market. One can show how these policies, individually and in concert, were bound to produce an unprecedented depression in Russia. Most of the criticisms emphasize the huge social costs imposed by this strategy, in the impoverishment of much of the population, the collapse of public health, etc. What is being asserted here is that, not only does the neoliberal strategy produce bad macroeconomic outcomes and entail huge social costs, it is also preventing the capitalist development sought by its advocates. It is ironic that those who most strongly wanted capitalism for Russia, both Western advisers and

29 See Meisner, 1996, for a detailed description of this process.

30 Along with the good outcomes have come the bad, including rapidly rising inequality, ruthless exploitation of wage laborers, environmental devastation, and rising unemployment.

the new Russian leadership, succeeded in imposing a transition strategy that has blocked the attainment of their ardently desired goal.

History shows that successful transitions to capitalism have been built upon a functioning, pre-existing mode of production. In its original emergence, capitalism depended upon the pre-existing peasant and artisan economy of Britain and northwestern Europe, and also upon the slave-based production of key inputs to capitalist development in the Americas. The peasant and artisan economy produced the food and key primary inputs, supplied the new wage labor force, and for some time constituted the main market for the new capitalist products. Capitalist development in the United States in the early 19th century proceeded with a similar dependence on its own small farmer and artisan economy, as well as on the Southern slave system which supplied key inputs.

The contemporary Chinese transition to capitalism follows that same principle, although in a historically new setting. The first step in China's capitalist development was the re-creation of a peasant agriculture. However, equally important has been the role played by China's state-owned, state-controlled non-agricultural sector. China's state socialist system supplied manufactured inputs to the new non-state enterprises at low prices, served as a major market for its products, provided cheap credit through its state banking system, maintained a favorable macroeconomic environment through its central planning mechanism (including the retention of price controls through the early 1990s), controlled the international movements of goods and capital in ways that were beneficial for domestic capitalist development, and undertook the large publicly funded infrastructure investments that are a prerequisite for capitalist development. Ignoring the advice of Western experts, China rejected every element of the neoliberal strategy, instead keeping its state socialist system largely intact while a capitalist sector rapidly developed alongside it. This provided a basis for a capitalist development more rapid than any hitherto recorded.

The ultimate reason that capitalism has failed to develop in Russia is that, following the neoliberal program, Russia rapidly dismantled its previously existing state socialist system.³¹ It was left with no plat-

31 Furthermore, reconstructing a peasant agriculture was probably impossible in Russia in 1992. Support for privatized agriculture was very strong in Russia's cities in 1991, but not among those in the countryside who would have had to carry it out. As it turned out, urban dwellers unexpectedly got the chance to become part-time farmers themselves when they were deprived of any alternative means of feeding themselves and their families.

form upon which to build a new capitalist system. The idea of trying to turn Russia's giant state socialist enterprises, created as parts of an integrated, monopolistic, paternalistic, centrally planned economic mechanism, into capitalist firms by simply privatizing them and eliminating central planning was absurd from the start. The effort to do so has led to the present vulture-like devouring of what had been built under state socialism. Following profit incentives as they are supposed to do, Russia's new propertied class realizes that it is simply not profitable to try to operate the pre-existing productive institutions as normal capitalist firms. The neoliberal strategy has created conditions that include a depression without end, very tight money and credit conditions, criminal gangs waiting to siphon off any profits that might arise, and domination of what domestic market exists by powerful foreign producers — conditions that make most kinds of domestic productive activity unprofitable. What cannot be profitably operated is scavenged for whatever of value might be found in it, and a productive system that had sustained a moderate living standard for some 150 million people lies largely unused while the great majority are left to tend their garden plots in the hope of avoiding starvation.

Implications of the Failure of Capitalist Development in Russia

The question of whether Russia's new system is capitalist is not just a matter of terminology; it has substantive implications for Russia's development. One can identify four such implications, involving economic progress, demographic trends, democracy, and the stability of the Russian state.

Capitalism was promised to be the way for Russia to resume economic progress, which had faltered in the last decades of the Soviet system. Instead, what had been a slow economic progress has given way to economic regress. As was noted above, real investment in the Russian economy fell by 78% from 1990 to 1998; investment has apparently been below the level of depreciation since the mid-1990s (Menshikov, 1999, 82, 94–5). Our analysis suggests that this is not just a macroeconomic cost of a transition “shock.”

In the Soviet days there was an entire system aimed at producing economic growth and innovation. It included a high rate of investment, the training of a large number of scientists and engineers, special institutes devoted to the development of new products and

processes, and incentives for enterprises to introduce new technologies. This system worked imperfectly, and less well in the last decades of the system than earlier, but it did produce significant economic progress over time (Kotz and Weir, 1997, ch. 3). The old system for generating economic progress dissolved when the state socialist system was dismantled. With capitalism failing to develop, there is no longer any source of a drive to grow and innovate in the Russian economy. The state no longer makes large investments or supports a system of innovation, and the new propertied class has no need for such activities. Innovation is not needed to extract and export oil and gas, to rent out urban buildings, to collect interest from the government, to sell Mercedes automobiles to the new rich, or to skim or extort money from enterprises. There is no prospect for a recovery of economic progress in Russia within the confines of the new predatory/extractive system.

Perhaps the most severe of the social costs of Russia's economic transition has been the public health crisis. Among the public health consequences has been a skyrocketing death rate, particularly among middle-aged males, driven by increased alcoholism, violence, and both infectious and noninfectious diseases (Field, Kotz, and Bukhman, 2000). The elevated death rate after 1991 yielded an estimated 2.8 million premature deaths by the end of 1998 (Goskomstat of Russia, 1999, 73).³² At the same time, the birth rate has plummeted, producing an unprecedented peacetime natural decline in population averaging more than 5 per thousand annually during 1993–98.³³ A strong case can be made that Russia's public health crisis and its demographic catastrophe are a result of the neoliberal transition strategy and the immediate economic and social effects it has produced, such as the impoverishment of a large part of the population, rising unemployment, sharply reduced access to health care, a collapse of the public health system, and a breakdown in public order (Field, Kotz, and Bukhman, 2000).

³² The calculation of premature deaths due to the conditions of the transition since 1991 is based on the increase in the death rate after 1991, which rose from 11.4 per thousand in 1991 to a high of 15.7 in 1994, before falling gradually to 13.6 in 1998.

³³ The rate of population growth or decline is also affected by migration into and out of a country. The natural rate of population change refers to the change due solely to the birth and death rates. Russia's population has declined over this period from 148.3 million in 1991 to 146.3 million in 1998 (Goskomstat of Russia, 1999, 70).

The analysis presented here suggests that the natural decline in population should be viewed in the context of the requirements of Russia's newly developing predatory/extractive system. Russia's population of 146 million is largely urban and well-educated, but the new system does not require such a population. The new rich do not need large numbers of well-educated urban dwellers to extract their rents, interest, merchant profits, and so forth. There are of course some roles available in the new order providing various services to the sectors exporting raw materials and importing manufactured goods, and directly to Russia's new rich. However, there is no room for most of Russia's population in this new system. The catastrophic population decline in Russia can be seen as a "readjustment" to the economic requirements of Russia's new predatory/extractive system.

Russia was also promised democracy along with a market economy. There is indeed a historical association between capitalism and parliamentary democracy. Even if capitalism were developing in Russia, democracy would not be convenient at first. The early stages of such a process necessarily entail the transformation of Russia's previously relatively secure working population into "free" wage laborers and the handing over of valuable state property to new owners who had not earned it. Too much democracy would tend to hinder such processes. However, capitalist development would promise at least the eventual development of parliamentary democracy, as the new system became well established.

Russia's new predatory/extractive system holds no promise of democracy even in the future. Since 1992–3 Russia has experienced an increasingly authoritarian government and the rapid development of an openly oligarchic political system. Some attribute these trends to a holdover of "Soviet mentality" or to an unfortunate authoritarian streak in former President Yeltsin. They can be more plausibly explained as the appropriate political accompaniment of Russia's new predatory/extractive system. A system which does not even have a place for the majority of its population cannot tolerate democracy if it is to survive.

The most significant movement toward democracy in the history of Russia came in the last three years of the Soviet system. Soviet President Mikhail Gorbachev introduced important new democratic institutions, in his campaign to reform state socialism, based on the

belief that reforming the economy required public participation. The trajectory of Russian socioeconomic development since 1992 has largely snuffed out the shoots of democracy from the late 1980s.

Russia's current predatory/extractive system threatens the survival of the Russian state itself. Russia occupies a vast and varied territory, with many ethnic and linguistic groups. While large empires were viable in earlier historical periods, in the contemporary era large multinational states have been held together only by one of two socioeconomic systems. One is capitalism, which, by linking together a large region through market-based economic interdependence, can hold such a state together. The second is state socialism, under which central planning serves to tie together a large region and population through a planned division of labor and specialization.

Russia no longer has state socialism, and capitalism is nowhere in sight. Its current socioeconomic system cannot form a durable basis for holding together its large multinational state. In many regions local elites are pondering what advantage they gain from staying in the Russian Federation, as opposed to striking their own deal with world capitalism. The wealthiest part of Russia's new propertied class is based in Moscow, and regional elites resent the monopolization of wealth in one city. If the current direction of Russia's development continues, Russia may disintegrate into a large number of smaller states, having a variety of social systems.

Our analysis suggests that capitalism, with its virtues as well as its flaws, is not developing in Russia. Instead, a predatory/extractive system has emerged from the former state socialist system. The sustainability of this system over the long run is uncertain. The incomes of its dominant class depend upon the infrastructure created by Soviet state socialism, yet the operation of this new system depletes the Soviet inheritance. The predatory/extractive system also appears to be dependent on the continuation of the neoliberal strategy. It is possible that the neoliberal strategy might be abandoned at some point, replaced by an alternative, and potentially effective, strategy for transition to capitalism, or even an effort to build some kind of socialist system.

However, the neoliberal strategy has shown remarkable staying power in Russia, despite its disastrous impact on Russian society. The current predatory/extractive system, with its supporting neoliberal

strategy, may well remain in place for some time. If it does, Russia's future is likely to be one of continuing deindustrialization, depopulation, de-democratization, and disintegration.

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