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## **The Splendor and Poverty of the Russian Bourgeoisie**

*Today's Russian entrepreneurs are appreciably inferior in their managerial competence not only to Western ones but even to Soviet managers. Only in 1994 did the better entrepreneurs of Russia, having suffered serious financial and sales problems, begin to instill rudimentary order in their firms in the areas of strategic planning, marketing, and accounting. But the overwhelming majority of the managers of private firms have not yet instilled such order.*

### **We have capitalism but no capitalists**

Russian capitalism arose under conditions of legislative and financial chaos. Precisely this guaranteed ideal conditions for enrichment. Given their inability to manage their property effectively, Russian entrepreneurs have a vested interest in the further preservation of that chaos. They are inventively turning all of the outwardly market financial institutions and instruments into total appearance and illusion, while at the same time preserving absolutely anti-market institutions and instruments.

The role of the latter is even growing as Russian capitalism develops. As early as 1992, owing to the discrepancies between the increased money supply and the gross national product, settlements in barter and nonpayments of

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mutual debts by enterprises that greatly exceeded tolerable amounts of commercial credit arose.

Then the collection of taxes dropped sharply, and the state was not able to provide the minimum financing for many of its needs. There was a catastrophic weakening of the financial system needed to service the market, instead of its strengthening. It became clear even then to the most skilled economists that we were talking not about a temporary phenomenon, but rather a long-term and extremely destructive one that was incompatible with the development of genuine market relations.

The financial, economic, and professional decline is forcing Russian entrepreneurs, sooner or later, to swallow their ambitions and national pride and to seek the patronage of the West. *A significant portion of the Russian economy in 1998 was directly or indirectly controlled by foreign capital.* The ownership of the shares of many Russian enterprises is not the most important manifestation of this situation.

The banking system of the Russian Federation sustained its quite modest levels of activity in 1997–98 only because of enormous—by Russian standards—loans from Western banks. Almost the entire market for Russian securities is controlled by Western capital, and is organized by and large by Western investment banks. This most skilled and important segment of the credit system has been created primarily by Western businessmen, of whom Boris Jordan is the most visible.

But Western firms, after a certain euphoria, are becoming increasingly convinced that Russian firms are not suitable, even for the role of junior partner.

This has resulted in the flight of Western capital from Russia and the collapse of many joint ventures, for example, the selling of shares in Rosneft'. Western capital does not want to and cannot assume the role of the direct organizer of the Russian economy, owing to the lack of the necessary political, economic, and legal preconditions.

### **Who gains from financial chaos?**

The appearance of capitalism around the world has always been accompanied by the creation of an efficient financial, monetary, and credit system. The process of its creation in Western Europe in the seventeenth and eighteenth centuries has been called a financial revolution. It lasted many decades, but the process was a purposeful one—from chaos in the financial system to order. The financial system in the third world countries has also developed in the same direction.

The American economist M. Bernshtam made a very exact diagnosis of the grave illness of the Russian economy:

Fiscal, budget, and revenue and expenditure authority across the current ruble expanse does not belong to a single government, or even to fifteen governments. Monetary authority is not concentrated with the Central Bank. Fiscal and monetary authority has been usurped by 150,000 governments and 150,000 central banks. These are the 46,000 industrial enterprises, 51,000 kolkhozes and sovkhozes, 32,000 construction organizations, 2,000 wholesale centers and transport systems. . . . Russia today essentially has no money per se as a means of universal exchange . . . There is no state in Russia today in the economic sense of the word, except for a small remainder. That "remainder" is social security, the tax inspectorate, and the cash remittance of payment vouchers of the state and the printing press. In relation to the rest, it may be said that the government has retired, since it has left the economy without a monetary system and thereby doomed it to physical collapse.\*

The apparent financial stabilization with minimal price increases in 1997-98 reflected, on the one hand, a continuing decline in production, and on the other, a failure of the state to make good on its obligations. The nonpayments by enterprises to each other increased significantly, bartering increased in economic relations, and state indebtedness grew catastrophically.

However, we should also give some thought as to just why these mistakes and shortcomings persist so stubbornly in the activity of the governments of Russia and the other post-communist states. *Is it not because the weak bourgeoisie can provide for its own interests only under conditions of economic and monetary chaos?*

The bartering, mutual offsets, and financial and bank promissory notes with nothing in common with normal notes except the name are a source of enormous profit for industrial, trading, financial, and banking operators. As a result of ten years of transformations and "market" reforms, the financial system of Russia has proved to be much weaker and less effective than that of the USSR.

### Capital starts with thievery

A very high degree of criminality is characteristic of the new Russian bourgeoisie. We can single out several manifestations of the criminal nature of the economy and economic subjects, first, the criminal origin of the capital. Any unregistered private entrepreneurial activity was persecuted in the Soviet Union. There were, at the same time, quite a few Soviet "shadow operators" who would today be called criminals. They were not at all de-

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\*Here and below, the original Russian article did not specify the sources of quotations.—Ed.

fenseless, and did not become the victims of law enforcement bodies wishing to demonstrate their vigor. The “shadow operators” were often victims of a settlement of accounts between criminal groups.

Other Soviet “entrepreneurs” were not “exposed,” but controlled many commercial structures without holding any official positions. They designated people loyal to them to head these structures. Such “shadow operators” legalized their most significant capital, the amounts of which we can only guess.

One of the first “new Russians,” the well-known cooperative owner A. Fedorov, openly said, “You can’t tell today what is mafia, what is business, and what are power structures—it’s all tangled up. Today you can’t even tell who the real owner of the firm is.” The latter statement is particularly important. The real owners, who may not be on any bank or company boards, stand behind many front people, who often hold academic degrees.

One can judge the criminal nature of Russian business from the enormous number of private security forces. The principal portion of the employees of the Imperial Bank at the beginning of the 1990s, for example, were employees of that service. But there were nevertheless dozens of murders of well-known bankers and thousands of murders of other Russian businessmen in 1992–94.

To a question from *Kommersant Daily* put to prominent Russian businessmen regarding whether any of their acquaintances had been killed over money, S. Kibaev, the general director of the Kvant plant, answered, “They have almost all been killed. Say, one out of two.” The well-known entrepreneur G. Sterligov put it succinctly: “Many.”

The “shadow” economy in Soviet times was sustained by and large through the plundering of state property.

The union between the rotten party and state nomenklatura, a significant portion of the law enforcement bodies, and the criminal world arose back then. People from various segments could head this criminal association—nomenklatura employees, law enforcement officers, criminal bosses. The activity of each participant and the leader of such groups was criminal.

Under the conditions of a command economy, this criminal activity was restrained and curtailed to a certain extent through the efforts of law enforcement bodies, albeit not sufficiently determined. But most economic crimes obviously remained unexposed. *When the economic reforms were pursued, “shadow,” largely criminal, capital was able to be legalized, and the money accumulated in Soviet times gave many commercial structures a “head start” in our time.*

### **The commercial insolvency of criminals**

The economic harm from the criminality of the Russian economy is varied and enormous. First, criminal capital, with rare exceptions, is not able to cre-

ate viable economic structures. The behavior of the thief and the true businessman are contrary: the thief does not create new goods or services, but rather takes them for his own benefit. The businessman is a creator: he creates new and efficient forms of business activity.

Criminals compensate for their commercial insolvency through the elimination of rivals by force. This is the reason for the large number of murders in the commercial milieu. The protection racket, one of the most widespread types of economic crime, is essentially a very heavy tax that criminal societies impose on businessmen.

The host of requisitions and artificial restrictions "invented" by state bureaucrats, some of whom are connected with criminal societies, could also be called taxes. Bureaucrats frequently impede the appearance of new, independent entrepreneurs able to offer competition to the old criminal structures.

The criminality of the Russian economy is making its international economic ties extremely difficult. As far back as 1991, a colleague of mine at a Stockholm economics institute, who had many contacts in Swedish business circles, answered a question about what he thought of Russian entrepreneurs: "Gangsters." And after a slight pause, he added very reluctantly, "But sometimes you meet decent ones, too."

The vulgar behavior of most Russian entrepreneurs, throwing money around left and right, is also strengthening the negative attitude toward them. At the beginning of 1998, V. Potanin was forced to admit with sadness that the attitude of Western business toward Russian business was wary.

It is understandably hard to expect that major agreements can be reached for joint activity with businessmen of this kind. One cannot help noticing their unprofessional and simply uncivilized nature immediately. The buying of domestic enterprises in their entirety by foreigners and the replacement of management personnel run into fierce, including armed, resistance.

### **They did not kill competitors in the West**

It is not easy to determine the exact dimensions of the criminalized economy. It is not registered with the RF State Committee on Statistics or the tax offices. Law enforcement bodies also have no precise information, and they could moreover be exaggerating the dimensions of this portion of the economy in order to increase their own role in the state apparatus.

According to an estimate by a specialist in this field, Major General A. Gurov, about 85 percent of commercial structures are under the control of the mafia. According to his data, the mafia controls 60 percent of commercial banks. According to CIA data, by the way, the Russian mafia controls ten of the twenty-five largest commercial banks.

The high degree of corruption of the state apparatus also testifies to the high criminality of Russian business. According to data from an independent international agency that has studied this problem around the world, in 1996, Russia was fourth from the bottom among the fifty-five major countries of the world that were studied, surpassing highly corrupted countries such as Mexico, Pakistan, and Indonesia.

Crime played a definite role in the formation of the initial capital in the West as well. Recall piracy, the slave trade, the delivery of unsuitable items during wartime, even the blowing up of the railroad lines of competitors. But these were all more in the nature of exceptions. Commercial practice was not always fair, but criminals did not head up major commercial firms. I do not know a single Western businessman who would be imprisoned for criminal acts. And they do not kill their competitors in the West.

Business in the most backward countries of Asia, Africa, and Latin America (Colombia, Bolivia, Haiti, Burma) has a much greater similarity to Russian business in the extent of its criminality. The business of Guomindang China was very highly corrupted. It is precisely these countries that have demonstrated extreme economic and political inefficiency and instability.

But crime in these countries was less than in Russia. A quite powerful sector of foreign capital existed there that was not very susceptible to criminalization. The noncriminal domestic entrepreneurial sector was also much stronger.

The book *Post-Perestroika* by S. Kurginian and his colleagues, published in 1990, noted that "nowhere in the whole world does the criminal element pose such a serious danger, or is it such a dark and malevolent force, as in our country. . . . Any reform plans that do not take this factor into account will be destroyed, and any humanitarian model that does not include it in its initial parameters could be doomed to enormous evil and irremediable disaster."

Since that time, the influence of organized crime on all aspects of the economy and society in Russia has become many times greater. Criminal relations have permeated all aspects of the life of the country and all levels of state administration, including the very highest. Campaigns have often been announced to fight organized crime, and some measures have been undertaken for show, but as soon as the discussion has touched on the serious criminal activity of highly placed individuals, the culprits evaded responsibility.

### **"Running wild" on the way to civilization**

The complete nonviability of the major portion of Russian entrepreneurship is discernible in an objective assessment of the results of the economic development of Russia since 1991. Over this period, the gross national product of

Russia has dropped by more than 50 percent. In only a few post-socialist countries has there been an analogous or even greater drop in GNP. But for the sake of objective comparison, we must take into account that these countries do not have such rich natural resources as Russia.

The economic decline in Russia has not ended in nine years, while almost all post-socialist countries have started an economic expansion in recent years. An enormous decline has occurred, according to our calculations, in all basic indicators of production efficiency—labor productivity, return on assets, the materials intensiveness of products. The greatest declines have moreover occurred in those areas where a large private sector has appeared (the intermediary sphere).

An unprecedented drop has occurred in the dynamic of production capital. It has declined by almost 40 percent over this period. The decline in GNP and the production capital of Russia is greater than in the USSR during the war with Germany. The worst social result has been enormous demographic losses, equal to 8 million people (the difference between the actual and the expected population of Russia given the pre-reform trends and subtracting the migrations of the population). They are comparable to the population losses of the USSR during the first five-year plan, including the famine of 1933.

Grave harm was inflicted on all spheres of everyday activity. Appropriations for the maintenance of health care institutions, education, science and culture, and defense have all been cut back many times over. As a result, according to many indicators, Russia has moved into the ranks of the developing countries.

The colossal degradation of the Russian economy in 1990–98 can be seen not only through summary indicators, but through structural changes as well. The greatest harm was inflicted on the most science-intensive sectors—electronics, the aviation and space industry. The sphere and scope of scientific research, design and survey work, and geological exploration have been cut back to an enormous extent.

Despite the assurances of the reformers that Russia would move closer to the “civilized countries” as a result of the reforms, it has quickly moved closer to the poorly developed countries in the structure of its economy, and has lost the gains that were won at the price of enormous sacrifices during the Soviet period. This intrinsically pertains not only to the economy but also to the social sphere.

### **The economy is still being revived**

The culmination of the bankruptcy of the economic system that has been created was the financial crisis of 1997–98. It revealed the insolvency of the



entire financial system of Russia, and the artificial nature of the stabilization of some economic indicators in recent years (the slower rise of prices, in particular). The state avoided bankruptcy in the summer of 1998 only because of hastily extended foreign financial assistance.

But interest rates established in the money market (more than 50 percent annually) make it impossible for the real sector to borrow, and foretell future economic decline. Of course, the very acute financial crisis was worsened by some unfavorable external circumstances (the large drop in oil prices), but the enormous dependence of the economy on prices for oil is a reflection of the unfavorable structural changes.

The financial crisis in Russia is much greater in dimension than the monetary crises well known to world economic history. Share prices have dropped by almost three-fourths in less than a year, and real interest rates in the money market (with an orientation toward the Central Bank refinancing rate) are several times higher than all known rates, and have been for a quite long time.

Can we expect the current economic crisis to lead to a revival of the Russian economy, having "purged" it of nonviable enterprises and forced the viable ones to impose an economy regimen and to improve management, as has happened in other countries? This will, of course, happen for individual enterprises. Undoubtedly, say, the interbank credit crisis of 1995 led to a slight improvement in bank operations.

But we should not expect this for the economy as a whole. The professional, intellectual, and moral level of Russia's enterprise managers, the perverse nature of its organizational and financial institutions, and the depravity of the state apparatus are such that we cannot hope for it.

### **Bankruptcy starts from the cradle**

The social fragility of the socioeconomic system that has been created is expressed in the enormous decline in the level of real incomes of the majority of the population. Precise values of this indicator are difficult to obtain, since information on the income of the population (including its poorest segments) has not been accessible to the public either before or after 1990.

In 1997 the staffers of the Institute of Socioeconomic Problems of the Population of the Russian Academy of Sciences conducted an extensive, anonymous study of the level of savings of the population in various regions of the country. It turned out that 71 percent of the population have an income under \$100 a month, that is, below the poverty level for Russian conditions. The majority of the population of Russia as a whole receives monetary income half that of the wealthiest 2 percent (with monthly incomes of more than \$3,000 a month). We would note, it is true, that the technique of this study encom-



passes only the monetary income of the population. But in-kind incomes from private plots frequently comprises a third or even a half of the income of the poorest segments. The concealment of some income by the poorest segments of the population also cannot be ruled out.

Calculations by the All-Russian Center of the Standard of Living of the Population in the first quarter of 1998 showed that 51 percent of Russia's population lives in regions where the average monetary incomes of the population are half the minimum subsistence level, which includes only the basic consumer goods.

Tentative calculations show that the income level of 70 percent of the population of Russia dropped by 2.0 to 2.5 times in 1991–97.

It is true that the bourgeois revolutions in the West did not lead to an appreciable rise in the standard of living of the workers for a long time either, and that sometimes they resulted in a decline in this standard. But according to a host of statistical data, there has never been a drop in the real incomes of the population in peacetime of 2.0–2.5 half times; the maximum was 20 percent, as occurred, for example, in England in the seventeenth and eighteenth centuries.

It is another matter that the initial standard was at the poverty level in the West at the time, and even a small reduction in it was excruciating and put the population at the brink of survival. However, the poor in Russia with monthly monetary incomes of less than \$50 a month also make up half the population.

The ten years of economic management by the Russian bourgeoisie have thus led to the collapse of the country's economy. The new Russian bourgeoisie was bankrupted as an economic force while still being, strictly speaking, in the cradle compared to the world bourgeoisie.

### **The tax return—a coming of age**

Matters are no better with the activity of the Russian bourgeoisie in the sphere of politics, and the formation of a new society to replace the communist one. We should begin our assessment of their activity in this area with the collection of taxes. It is precisely here that the success of the state activity of any ruling segment, on the one hand, and its social self-awareness, on the other, are manifested.

I made a very rough comparison (a more precise one would require enormous and long calculations, for which sufficient information is lacking) of the potential tax receipts given the tax rates that have been adopted in Russia with the actual budget tax receipts in 1992–97. In this case, only the basic taxes were used for the calculations—value-added tax, profits tax, customs duties, and income tax on individuals. I did not take tax concessions into account, since they are granted primarily without economic substantiation.

This comparison made it possible to draw two conclusions: (1) the potential collection of taxes is 2–3 times greater than the actual; and (2) this ratio worsens from year to year.

The financial revolution in the capitalist world began with the reform of the tax system. Here the bourgeoisie as a ruling class demonstrated its effectiveness compared to the feudal state. The bourgeoisie in Russia has always artfully evaded the payment of taxes. But it has thereby undermined its political supremacy and demonstrated its social insolvency. After all, the preservation and strengthening of the new state is in the interests of the bourgeoisie—the collapse of that state would essentially signify the end of the existence of the bourgeoisie itself.

### **Will a Roosevelt or a Deng Xiaoping be found in Russia?**

The decline of the Russian bourgeoisie is also manifested in its neglect of the country's position in the world. Russia has lost a host of its allies in a very short time, first among the former socialist countries, then among the developing countries, and now among the republics of the former Soviet Union. Other examples cannot be found in world history of such a rapid foreign-policy collapse by a country that had not suffered a military defeat as has happened to Russia since 1991.

*A country that was until quite recently the second most influential in the world has turned into an economic and political pygmy. Only the nuclear missile complex inherited from the USSR still forces anyone to give Russia a glance.*

The Russian state has managed to pull apart once-mighty armed forces in a historically short time. The complete military powerlessness of Russia was demonstrated by the war in Chechnya, when a small country with a population of about half a million people successfully resisted and more than once defeated the Russian army. It is difficult to imagine a greater humiliation for a state and a people than such a shameful defeat, whatever one's attitude may be toward the Chechen war itself. Recall, as an example, the brilliant military victories of the first bourgeois regimes in the Netherlands, England, France, and Germany, and even the successes of the communist regime in the USSR, which triumphed in the Civil War and the [Great] Patriotic War. A regime with such military and political failures cannot enjoy the respect of its fellow citizens.

Many nations around the world began their development from an extremely low starting point, and had no strong economy, no science and culture, and no organized or trained armed forces. And, of course, such nations were very dependent on their neighbors, near and far. Under the leadership of the bour-

geoisie, many of these countries won and consolidated national independence, created their own statehood, and strengthened their foreign policy positions. These countries were often politically, economically, and militarily highly dependent on major countries, but they used this dependence to strengthen their economies and to form their own intelligentsia and educational and health-care systems.

Russia started at an incomparably higher initial level, having a well-developed economy, science and culture, and powerful armed forces. But it squandered the legacy, albeit an imperfect one, that it had inherited in a very short time.

Our country has replaced the foreign-economic isolation of the communist regime with an integration into the world economy virtually exclusively as a supplier of raw and other materials, that is, as a poorly developed country. In relation to the outside world, it is in the humiliating position of beggar, while, at the same time, supplying it with enormous resources that are shipped out both legally and illegally.

It is thereby demonstrating its complete powerlessness as a state formation. What was and still is for many developing countries a forced necessity has been for Russia the result of the extreme ineffectiveness of its state and economic mechanism. It is not even suitable as an object of neocolonialism, which testifies to the exceedingly low amount of direct foreign investment in the Russian economy and the flight of foreign capital from Russia in 1998.

True, foreign capital makes too much income from the existence of the current regime in Russia not to support it at all. This is the reason for the credit from the International Monetary Fund and other international financial organizations that has rescued the Russian budget for a time. This is the reason for the political support of the current authorities by the leading capitalist countries.

The Russian bourgeoisie has proved completely incapable of building a state. The Russian state is proving to be the same kind of "soap bubble" as Russian economic structures. Over the nine years of existence of Russian statehood, they have not once been able to define the state goals of Russia in domestic and foreign policy, organize a viable state apparatus, or put forward talented men of state. Much has also been written about the incompetence, muddled talk, passion for alcohol and lordly caprices in our corridors of power. The nomenklatura bourgeoisie and other ruling segments could have looked for other leaders, but whom? The question has not even come up in our political establishment.

A system of mass and prestigious political parties has also not taken shape in Russia. Most of the parties do not have a well-formed system of lower-level party organizations, mass membership, or workable regional structures. Other

public organizations—the trade unions, public associations, cooperatives, and the church—are extremely ineffective as well.

Throughout the years of reform the authorities have been unable to create serious mass support for themselves or to find any social bulwark. It was expected to be the middle class. In reality, that class has actually shrunk as a consequence of the impoverishment of the intelligentsia and skilled workers and peasants. If one considers economic status alone, the authorities can count on the support of a maximum of 15 percent of the population. And, as many public polls show, the ratio between supporters of socialism and capitalism has been shifting continuously in favor of socialism since 1991.

### **A nation without a national purpose**

The social shortsightedness of the contemporary Russian bourgeoisie is striking. Even now, when the ground is literally burning under their feet, it has not occurred to them to sacrifice even part of their wealth to reduce tensions in the country and to avert a social explosion and the loss of all of their positions.

The English bourgeoisie in the middle of the eighteenth century instituted a tax on (rather, for) the poor, which made it possible to maintain a minimal standard of living for the poorest segments of hired workers. But even in the summer of 1998, when the workers were close to a general strike, it did not occur to even one of the political parties to submit draft legislation imposing a tax on the real property of the bourgeoisie, which would have made it possible to fund the budget.

The Russian bourgeoisie has proved incapable of exercising control even over the power agencies, which have not been paid in months. Such things are permitted in the army only in the poorly developed African countries, and have provoked revolutions.

The authorities and the new Russian bourgeoisie have managed to debunk the old ideology, but they have been unable to devise an alternative national aim, ensure the supremacy of bourgeois values in society, or provide for at least the proper existence, if not the flourishing, of culture. Since the collapse of communism an ideological vacuum has formed in Russia.

Many public opinion polls show that individualistic values are accepted by a clear minority of the population, while collectivist values continue to enjoy the greatest prestige and recognition.

### **What does Russia have today—socialism or capitalism?**

The advocates of radical economic reforms in Russia say that the changes have already become irreversible, since the private sector in the economy has

surpassed the collective sector according to the principal indicators (volume of GDP, number of employed workers, amount of production capital).

Even from a purely quantitative standpoint, the assertions of the supremacy of the private sector are dubious. They are valid only for paid services and trade. But they create no more than 20–25 percent of the gross national product. In industry, in its entirety, the private sector (which is clearly understood to mean the absence of any state participation) encompasses no more than 20 percent of the products and numbers of employees.

The principal sector in industry is the mixed sector. This pertains to sectors such as electric power and the gas industry, and the defense industry (here some of the enterprises are entirely state-owned). The statistics do not single out the share of state ownership in the mixed sector; according to indirect calculations, it is roughly 30 percent. Considering this share, the magnitude of the public sector in industry is now about 40 percent of product output volume.

The public sector predominates in transport, where the largest sector—rail transport—belongs to it. It also predominates in agriculture, where the joint-stock companies and limited partnerships prove, upon closer inspection, to be more collective than private enterprises. However, the same could also be said for industry, where most enterprises have their own employees as shareholders, and, consequently, they cannot be called private.

If you count ownership by the employees of enterprises as collective ownership, then the private sector in the material production of Russia is much smaller than the public. With regard to the private sector in trade and the services sphere (by the way, also partially public at many privatized enterprises), *collective rather than private ownership, based on product volume and number of employees, predominates to this day in Russia.*

The ownership of material wealth must be considered more important. From this standpoint, the necessity of the predominance of collective ownership becomes entirely obvious. Remaining under state ownership to this day are important components of national wealth such as land, timber, and subsurface mineral resources, as well as the property of state bodies—among which the holdings of the Ministry of Defense are especially large.

If we estimate (which is more correct) the share of private ownership of property, then even counting the personal property of the population, the greater portion of property is under public ownership. The well-known economist S.M. Men'shikov feels that 50–60 percent of material assets in Russia belong to the state, or are under its control.

Therefore, Russia remains more a socialist than a capitalist country, although the share of private ownership, of course, increases with every year. But given the increasing bankruptcies of enterprises, this property according to Western practice is returned to the state, albeit temporarily. Most of

the enterprises in Russia could be considered insolvent and effectively bankrupt.

### **The private enterprise—full face and profile**

But there is something more important in the nature of the Russian economy than the legal affiliations of enterprises. There are several attributes that are characteristic of a private enterprise, and if they are not present for a prolonged period, then that enterprise does not have the right to exist as a private one.

I would include among those attributes solvency, profitability, the payment of dividends, and economic growth. An insolvent enterprise, regardless of the form of ownership, is bankrupt. An unprofitable enterprise should eat through its own capital, and will most likely become insolvent. The sense of shares of stock is lost without the payment of dividends, and the role of shareholders is completely incomprehensible. And, finally, if an enterprise is unable to grow and declines instead, who needs it?

We will consider how Russian enterprises look from the standpoint of these attributes. The overwhelming majority of them (some even cite a figure of 90 percent) are insolvent. Even giants in the Russian economy such as Gazprom, the Unified Energy System of Russia joint-stock company, and major energy systems and oil companies could easily be bankrupt.

The fact that this is caused partly by the faulty economic policies of the state does not change anything; the economy is interested in results, after all, and not the reasons behind them. If the entrepreneurial community has been unable to achieve economic policies more suitable to them, then it's not worth a thing.

According to official data, about half of industrial enterprises are unprofitable. Using existing techniques for determining profitability, the unprofitability of some of them is illusory, to avoid the profits tax. But some of them also have unfeigned unprofitability.

Most Russian joint-stock companies have not been paying dividends for several years now, and the few who do pay distribute paltry amounts. Such a situation is absurd for a market economy. In a true capitalist economy dividends are paid under even worse circumstances, since the trading value of the shares depends on it, and the shareholders will simply not allow themselves to be robbed either.

Thus, during the Great Depression of 1929–32 in the United States, even unprofitable companies were paying dividends at the expense of fixed capital. True, the principal portion of the shareholders of Russian enterprises received their shares for nothing, as a gift, so to speak, but this circumstance has no significance for the real financing of the securities market.



### **There is economic coercion, too**

There undoubtedly exists a quite sizable class of petty bourgeoisie—the successful owners of the multitude of trading and service enterprises. They make up 20–30 percent of the owners of all small private enterprises, and number several hundred thousand people. Their aggregate capital, of course, is small. The number of medium-level entrepreneurs is extremely small. And, finally, there are virtually no large-scale entrepreneurs in Russia.

The capitalist order really does occupy quite a large share of the country. But there is no confidence that this share will grow. No one really knows the dynamic of the numbers of petty bourgeoisie. It cannot be ruled out that they will start to decline once the era of easy money has passed.

The theory of the transition from state enterprises to a capitalist firm through the survival mode seems superficial to me, at least under the conditions of contemporary Russia. In Russian reality it is difficult to find convincing proof that such a transition is occurring. Yes, certain aspects of the activity of the former state enterprises are gradually changing, and becoming more like the market. But are those aspects the most important?

Why then is the share of nonmonetary settlements increasing, why are the numbers of unprofitable enterprises and the instances of nonpayment of dividends growing? Why are the rights of shareholders ignored? In short, when we look at the principal indicators of truly market and capitalist behavior of Russian enterprises, we cannot discern any trend toward their capitalist evolution.

The classical model of the trilateral economy, when various institutions coexist but the most dynamic and progressive ones gradually gain the upper hand, does not fit Russian reality. *The capitalist order in Russia has not proved its relative progressiveness, and thus we cannot count on its triumph on purely economic grounds.*

The situation resembles that at the end of the 1920s in Soviet Russia, when the state order could not prove its advantages, and the Communist Party decided the problem of “who does what to whom” by violent collectivization and the strangling of any private capital, despite the enormous material and human costs to the country. Strictly speaking, that is how the contemporary Russian leadership is acting as well, by forcing privatization despite the economic nonviability of the greater portion of the private sector.

### **Capitalism à la Bangladesh**

The mechanism of natural selection, which forces enterprises to become efficient and rejects those that are clearly unable to do so, is very weak in the



Russian economy. Of course, quite a few that were patently not suited to entrepreneurial activity have been thrown overboard in recent years.

But can we say that the worst have been "chased out," and the better ones remain? Less able ones with connections to the state apparatus and organized crime have remained as well. Tens of thousands of entrepreneurs have been forced to curtail their activity, because the necessary conditions for it did not exist.

Many economists, including those from the anti-Communist camp, have been saying that the economic mechanism taking shape in Russia is little reminiscent of capitalism. The first to make this conjecture was G.Kh. Popov as far back as 1989. He predicted that we would have Bangladeshi-type capitalism, which, by the way, did not stop him from vigorously assisting the emergence of precisely that form of "capitalism." Z[bigniew] Brzezinski spoke very negatively of the order that had been created in Russia: "The lamentable fact is that the new economic elite is almost entirely parasitic and invests nothing in the future of Russia, but rather just squanders its wealth, accumulates capital, and hides it in the West."

It seems to me, however, that bandit capitalism, oligarchical capitalism, and parasitical capitalism are oxymorons all the same.

But if there is no capitalist order in Russia, then perhaps it is socialist? Of course not: after all, it lacks a planned economy and the political supremacy of the Communist Party.

A brilliant definition of the Russian economy is contained in articles by S. Kara-Murza:

What is capitalization? It is the creation of capital. . . . In Russia, there is a rapid "decapitalization" under way—the dissipation, destruction, and export of capital. . . . A bourgeois class has not appeared, the new owners have wrecked production, many have even plundered "their own" plants, and sold off raw materials and equipment. . . . Bourgeois thinking is completely alien to our "masters" of the plants. The attempt to create capitalism here "according to plan" has failed. A bourgeoisie has not appeared, so a bourgeois state has not appeared either.

Kara-Murza further demonstrates very convincingly that the state formed in Russia cannot in any way be called bourgeois, since it possesses neither legitimacy nor its own ideology. He concludes that in the alliance of the criminal world, the *nomenklatura*, and the liberal portion of the intelligentsia that brought down the USSR and created the new system, the criminal world is the most vigorous and cohesive force. Kara-Murza feels, at the same time, that "criminal statehood can exist only for a brief historical time. The clans and groups inevitably begin to squabble, like spiders in a jar."

What, then, is the economic order in Russia, if it is not capitalist and not socialist?

An American scholar of Russian history and a virulent anti-Communist, R[ichard] Pipes, expressed a very apt idea. Back at the beginning of the 1990s, he called it “booty,” from the word *duvan*. This is what the raids of the Crimean Tatars on Russia for booty were called. He compared the plundering of Russia by the Russian wealthy with such raids.

It seems to many that the current order in Russia is more reminiscent of a feudal order, that it has much in common with the Latin American countries in the 1950s and 1960s and the bureaucratic capitalism of a number of Asian and Latin American countries.

It seems to me that even though these comparisons are largely valid, they nevertheless prettify the real system of social relations in Russia.

Multiple institutions and transitionality are very widely known in and of themselves. Such systems can exist for many decades, even centuries, without detriment to the fate of the country. This is explained by the fact that all of the prevailing institutions are more or less viable, albeit not identically efficient. In fact, is a manorial or peasant economy not really viable? Even Asian despots are viable, since they maintain conditions for the existence of their citizens.

The same cannot be said for the contemporary Russian economy. With minor exceptions, it is the sum of nonviable components. And even viable components cannot function for long successfully in a nonviable environment. I therefore consider valid the widespread claim that *the Russian economic system combines within itself all the drawbacks of capitalism and socialism (and feudalism, and the Asian method), without any of their merits*. And, consequently, it cannot be considered viable.

One can hardly speak in general today of the existence of the bourgeoisie as a class in Russia. There are a certain number of rich people, some of whom could be called capitalists according to the nature of their activity, but there is no serious social segment that would have common positions on the most important issues of the social development of Russia. It is doubtful whether this layer has any interest at all in such general questions. And, most important, its behavior is by and large not bourgeois.

### **When will the left agree with the right?**

Can it be imagined that the Russian bourgeoisie will continue to grow stronger with time, gain experience, and become more or less effective and viable? The Russian bourgeoisie simply has no time to form and consolidate over a prolonged period, as happened in the past with its predecessors in more viable societies with transitional economies.

The sole hope of salvation is incomparably more powerful and experienced international capital. It could become the organizing force for the Russian economy. The price would, of course, be the loss of some of the political and economic independence of Russia. Incidentally, not so much of it remains by this time.

The actions of international capital in Russia thus far, however, have been characterized by their poor efficacy, both from the standpoint of the direct economic impact of the investments and from the standpoint of the organization of new forms of economic management. The proposals of the overwhelming majority of foreign "advisers" have moreover had more destructive consequences.

On the other hand, foreign capital still has neither sufficient levers of influence on the Russian economy, nor the desire to assume direct responsibility for its fate. The small number of positive results in the Russian economy in recent years is, for the most part, associated with the activity of foreign capital. It is understandable that its broad attraction and the more effective creation of a capitalist order in Russia under its guidance will require very serious changes in the social and spiritual structure of a Russian society that took shape over centuries, and that, as Kara-Murza justly writes, remains in essence largely socialist and preserves many features of traditional Russian society that took shape over centuries. The discussion thus concerns, in the expression of the well-known philosopher A. Rakitov, cracking the genetic code of the Russian people.

Another possible option for the preservation of the bourgeoisie is to reform the current social order into "market socialism." A portion of the petty bourgeoisie could find itself to be entirely viable under a market socialist system. The leaders of the leftist forces agree with this. They seem to be aware of the impossibility and inexpediency of total state control over the economy. However, in the extreme economic situation that is taking shape in Russia today, even this wholly sincere intention could fail to be realized.

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P.S. The article was completed before the August [1998] peak of the financial crisis in Russia.

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