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Perestroika and the Redistribution of Property in the Soviet Union: Political Perspectives and Historical Evidence

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It is well-known that state property has deep, centuries-old roots in Russian history. In the late 19th and early 20th centuries, Kluchevski and Kovaleski, Milyukov and Pavlov-Silvanski, Plekhanov and Lenin, Mashlov and Trotsky all examined the phenomenon from their own particular perspectives. However, today the subject cannot be ignored either.¹ Modern historiography², emphasises the decisive role played by state property in the development of Russian industry and agriculture, from Ivan IV to Stalin via Peter the Great. Of course, if we are to avoid semantic and simplistic explanations, the ‘particular characteristics’ of Russia’s development need to be interpreted in relation to changing and structurally diverse historical conditions. Nevertheless, an examination of these developmental attributes cannot avoid a brief discussion of some common ideas.

It is important to recognise that geostrategic-power needs resulting from the acquisition, retention, unification and direction of the vast territories of the Russian Empire prescribed an essential role for the state and for state property. The interest of rulers in the expropriation of the labour of a population scattered across vast territories tended towards the concentration of property in the hands of the state. In a parallel development, the novel, though pre-modern, structure of village communities (*obcsina*) was consolidated during the reign of Peter the Great, and which inspired Marx in developing his ideas about the future of collectively owned property. The survival of village communities was dependent on Russia's place on the semi-periphery of the ‘modern global system’, for which the industrial states of the ‘centre’ allocated Russian agriculture the role of grain supplier in the European ‘division of labour’.

With the advance of modern capitalism, ideas such as ‘catching up with the West’ and ‘modernisation’ emerged in Russia. Competition with the West promoted the power of the state and the concentration of property in the hands of the state since the economic and military tasks of the state could not be fulfilled without an exceptional role being played by various forms and structures of state property. Of course, there were other factors at play too. For example, in Russia, the original accumulation of capital was not completed and the bourgeoisie remained weak and subservient to the autocracy - the autocratic state, and the productive-economic functions of the state had to be strong to ‘substitute’ for the lack of an all-Russian national market.

State property in the Soviet Union was not exceptional, but was assigned a ‘primordial’ status under Stalin. The ‘socialist’ state completely eliminated private capitalist ownership and very few believed that state property could be transformed into private property within a short period of time (though Trotsky warned back in 1936 that, if it felt its exalted position threatened, the ‘class’ of privileged state bureaucrats would not hesitate to convert state property - i.e. the property of the workers - into inheritable private property). Nevertheless, precisely such a dramatic transformation did actually take

¹ A quarter of a century ago we attempted to give a historical perspective to these views, but did not imagine that the same issues would later resurface as a lived historical experience. After one hundred years, the question of the relationship between property and the state re-emerged as a result of changes in political and social forms (see Pártviták és történettudomány. Akadémiai Kiadó, Budapest, 1989.)

² The historical writings on the subject cannot be abridged within the confines of a short monograph. Considerable efforts have been made by Russian researchers to examine the literature on the property question, most recently in the volume marking the 80th birthday of the scholar Vinogradov: *Sobzhenmosti v XX stoltyi*. Moskva, ROSZSZPEN, 2001.

place, the groundwork for which was laid by *perestroika*. Today there still remain some forms of state property but it functions in the same way as capitalist private property. On 1st January 2000, only 4.8% of factories and enterprises were owned by the Russian state, through such a rapid changeover in ownership was not possible in respect of agricultural land due to the strength of the traditions of the multi-layered peasant community³.

Therefore, it is worth analysing some of the most interesting aspects of the change of system in the Soviet Union from the perspective of the relationship between *perestroika* and state property, and which can clearly demonstrate that the definitive problem of the 'transition' period was the property question. Uncovering the history of the vigorous debates concerning state property is not just of significance for the professional historian, but of relevance for all the social sciences⁴.

Perestroika's Place in Soviet History

During the seven decades of the Soviet Union's existence, the relationship between power and property underwent a series of changes, though these are not usually referred to as 'changes of system'. These changes always occurred when, alongside the domestic problems of the Soviet state, there was a need to respond to changing global conditions. The October Revolution that swept the ruling class from power did not possess a Russia-specific concept of economic policy for the post-revolutionary era. The first economic system, War Communism, emerged largely spontaneously, but was also partly based on a seed of (directly socialised) self-organisation and self-management, that had developed, both in theory and in practice, before the October Revolution, and of workers' economic control. The basic operative units of the revolutionary 'system' were the factory/plant councils which gave organisational form to the unification of local power and property.

However, from the start, the combination of the external military threat and domestic political constraints and aspirations quickly indicated the significance of the organisational capacity of centralised power, the bureaucratisation of 'workers' power'. War Communism was conditioned by the fact of civil war, a Soviet version of Germany's war economy. From the beginning of 1919, the emergence of War Communism (the nationalisation of the economy for military purposes) saw financial and market relations reduced to a minimum and private trade prohibited. At the same time the process began of developing an ideological basis for the economic system. It seemed that *communism*, the creation of a natural economy without money that could produce to directly satisfy needs, could actually be brought about. This idea was reflected in the well known work of Bukharin and Preobrazhensky, the *ABC of Communism* and, for a time, this euphoric mindset influenced even Lenin himself. Industries which had been suddenly nationalised came under the confused and bureaucratic direction of administrative departments, trustees and people's councils in a way which no one had planned, but which bore the hallmarks of an authoritarian system 'appropriate' to both the conditions of civil war and certain Russian traditions.

³ Vo. Sz. N. Lapina-D.L. Leljuhina: Goszudarsztvennaja szobsztvennoszty Rossii: nyeketoriye isztoricskije." In *Szobsztvennoszty v XX i. M. 216-223.o and I Je.Koznova: Kreztyjanszkije predsztaavlennyija o zemelnoj szobsztvennosztyi: isztoria I szovremennoszty*" In op cit, pp..667-685.

⁴ *Property* is a sum of human relationships that arise from production and, more generally, the reproduction of human life, including the process of appropriation. No manifestation of property was ever simply economic, but always included power (politico-legal) relationships and determined society's hierarchical structure. This point needs to be emphasised in the interest of methodology. For ideological reasons, some sociologists attempt to divide the economic and power dimensions of property, even to juxtapose the two. Often they attribute to (capitalist) private ownership the status of a 'pure economy' and endow it with economic rationality, while state property is regarded as irrational, driven only by a logic of political power. Despite many centuries' experience, communal property is rejected as utopian or seen as a distorted form of state property.

With the end of the civil war and under pressure from peasant uprisings, War Communism lost its basis for existence. In order to maintain Soviet power, in the spring of 1920 the Xth Party Congress restored many features of a capitalist economy within the framework of the 'New Economic Policy' (NEP). Private trade, a general market and a monetary economy were revived, even the privatisation of some state assets was mooted. Not only did private capital reappear, but there were also changes in the forms taken by state property (such as rental agreements, concessions, trading by state enterprises and decentralisation in their management). It is another matter that for political reasons Lenin's policy of granting concessions was not received favourably in the international arena and with the abatement of Europe's revolutionary movements the international isolation of the Soviet Union became unambiguous.

The 'partial restoration' of capitalism did not render the dictatorship of the Communist Party superfluous to those exercising political authority. On the contrary, they sought to strengthen their authority. The Bolsheviks were ever conscious of the threat posed by the new state capitalism fearing that the 'instinctive power' of the market might sweep them from the places they had secured for themselves in the structure of the state 'through blood and steel'. Living as they were in a sea of 25 million peasant smallholdings, Bolsheviks were most afraid of the 'privatisation' of state property, which they regarded (not without cause) as prone to the spontaneous emergence of capitalist relations.

The Soviet Union's experiment with a 'mixed economy' ended with the 'great breakthrough' of 1929, which coincided with the start of the global Great Depression. There were two objectives (determined by political considerations) to the policy of rapid and concurrent *industrialisation* and *collectivisation*. The first was to eliminate all traces of any 'spontaneous capitalist restoration' and its adherents, i.e. to extend and consolidate the power of the Soviet state in the villages. The other was to extract and accumulate capital from agriculture to serve the needs of industrial production (original socialist accumulation). To achieve these aims required the employment of violent methods and the introduction of a command based planned state economy.

The result of this well known process was to establish the dominance of institutionalised forms of state property and a corresponding social structure. The approach even towards collective farms (kolhoz) tended towards total nationalisation. Not only did private property disappear, but also forms of collective property, including those with deeper historical roots in the agricultural sector. At the same time, the dictatorship of the Party became 'sublimated' to Stalin's personal dictatorship and ossified into a centralised bureaucratic polity. Underlying each of these transitions, war communism, the NEP and Stalin's industrialisation/collectivisation, were various facts, fears and geopolitical challenges stemming from the Soviet Union's international isolation and the desire to maintain a firm grip on power at both the central and local levels. Therefore, it comes as no surprise that the most recent transformation of property in Russia was also contingent on international events and an operational crisis of the domestic machinery of power.

After Stalin's death (though partly instigated by Stalin himself) a reform of the state-bureaucratic management of the economy was begun that is usually associated with Khrushchev. As if returning to the NEP, the debate explored the possibility of developing a decentralised 'mixed economy' or 'market socialism' in contrast to the bureaucratic management of the planned economy. However, bureaucratic resistance and a lack of material incentives eventually proved insurmountable problems. It is significant that even where reforms to a planned economy were implemented, such as the new economic mechanism introduced in Hungary in 1968, the question of property was not addressed. In the Soviet Union, the two main camps, the 'marketeers' and the 'planners', reached a theoretical compromise at the XXIIInd Party Congress in 1961. The practical contradictions between the 'planned' and the 'market' economy were reconciled by the intellectual device of *producer autonomy*,

a return to the Marxist theoretical tradition advocated by Lenin. In the struggle over economic policy – and in the interests of retaining power - the two ‘camps’ could amicably co-exist while the socialisation of property remained simply an intellectual curiosity.

Following the Great Patriotic War, the military-industrial complex acquired a powerful economic position and resolutely opposed any serious attempt to alter the role of the state. Post-war reconstruction using the Soviet Union’s own resources, exclusion from the Marshall Plan, and the onset of the Cold War conserved an ‘imperial’ mindset. The Western Powers political expectations of the Soviet Union always exceed the bounds of comfort for the latter, though this did not preclude periods of economic and commercial co-operation between the West and the Soviet Union, occasionally of considerable intensity, such as during the ‘thaw’ of the 1970’s⁵. Contrary to popular belief the *isolation of state socialism* from the rest of the world was not the product of a deliberate decision by the Soviet elite that had been planned well in advance, but was really an adaptation to circumstances, a means of survival. During the second half of the 1920s the culture of isolation was created, the ideological expression of which became the concept of ‘socialism in one country’.⁶ The collapse of the Soviet Union and of the other East-European state socialisms must be understood in terms of the abandonment of this culture.

The extension of the arms race into space appeared the logical consequence of a bi-polar global order and lead to attempts at domestic reform to founder amid the conditions of the Cold War, while also arousing the opposition of both the bureaucracy and the workers, most of who had been socialised during Stalin’s regime. Khrushchev’s pragmatic political style meant little could be achieved in respect of the creation of voluntary productive enterprises, workers’ control of the factories or the socialisation of state property. The command economy system remained intact with only the slightest nod to small scale market adjustments, some bureaucratic reorganisation and *ad hoc* attempts at decentralisation. The Cuban missile crisis and the Sino-Soviet conflict showed that stability could not be counted on in terms of the easing of international tensions. In other words, political challenges both at home and abroad proved far stronger than any aspiration to promote the socialisation of public property.

Another factor was a gradual advance in living standards that enhanced the state's position and prestige, even in the eyes of the rural population. Internal supporters of socialisation could not organise themselves as was seen, for example, by the suppression of the Novochoerkask workers' uprising in 1962. *Socialisation* would have made the majority of state and Party officials, as well as management bureaucrats, superfluous and called into question their privileged social position. The defeat of Khrushchev's ‘perestroika’ sounded the death knell for even the possibility of such an attempt. Henceforth, reform of state property in Eastern-Europe was reduced to the spread of market relations and the Hungarian workers' councils of 1956 and the Polish ‘workers self-management’ of the 1980s were burned in the struggle for power.

Under Brezhnev the bureaucracy was strengthened again to accommodate new conditions for a more expansive foreign policy. Together with the less favourable international climate this contributed to the slow down in economic growth. Liberman's, and later Kosigin's attempts at reform by ‘supplementing’ state socialism with markets while leaving state property untouched proved a failure.

⁵ During the decades of the arms race a *European orientation* entered the consciousness of the Soviet elite and the political bureaucracy. Though an illusion, amidst the euphoria of *perestroika* the idea of the ‘common European home’ encouraged the Soviet and then Russian political elite to dream of the possibility of ‘European integration’. Jerry Hough: *Russia and the West. Gorbachev and the politics of reform.* (2nd Ed.) N.Y. Sidney, et. alia. A Touchstone book by Simon and Schuster Inc. 1999, pp 232

⁶ See our monograph: Front M-Szvák Gy.-Niederhauser E.-Krausz T.: *Oroszország Története.* Budapest, 1997, V chapter

When Brezhnev came to power in October 1964 the global economy was still expanding and it was confidently felt that the Soviet Union had every chance to ‘catch up’ and narrow the gap in economic and social development with the West.⁷ However, from the mid-1970’s the gap began to widen again and with the economic slow-down the Soviet people experienced the hitherto unknown phenomenon of ‘stagnation’, though it was still some time before the root causes of the problem were identified

In the second half of the 1980’s, the crisis of the Soviet regime rendered unavoidable the utilisation of all accumulated experiences. The property question had not arisen as a serious issue in either the Hungarian or Czechoslovak economic reforms of 1968, but remained a low key idea lurking in the background of every idea of reform throughout the decades. Yet, by the late 1980s the crisis in the Soviet Union had grown to such intensity that the question of private and public property could no longer be avoided, either intellectually or in practice. The world had changed a lot since the 1960’s, but the foundations of the Soviet state, industry and agriculture, as well as property relations, had been laid in the 1930’s amidst completely different global economic conditions. In contrast to the 1960s when the global economy was growing quickly and the Soviet economy effectively narrowed the developmental gap with the West, neo-liberal globalisation of the 1980s forced the Soviet Union into a downward spiral and any hope of ‘catching up’ was lost. The detente of the 1970s was based on relative military parity, but over the following decade the Soviet Union was not able to sustain this parity with the result that nothing could remain the same.

Perestroika began in 1985 with the aim of reforming the state socialist system, and ended with the collapse of the system, indeed of the Soviet Union itself, and the restoration of capitalism. The initial mood of euphoria that initially greeted Gorbachev’s initiative did not take account of the fact that by the late 1980s the central (capitalist) countries had completed a cycle of development started many decades earlier with the creation of the Keynesian ‘welfare state’. At the time few perceived the global significance of this development, but looking back on the six-year history of *perestroika*, we can see the components, characteristics and causes of its failure ever more clearly.

In preparation for the XXVIIth Party Congress a revised draft of the Party’s programme was published on 26 October 1985 which abandoned the doctrine ‘mature socialism’ and called for some sort of return, under the aegis of *perestroika* to the long-term perspective of a ‘self-governing socialism’. It was as if *perestroika* had found its antecedents in Khrushchev era.⁸ At the outset there was not much disagreement regarding the legacy of the past, however, over the first two-three years of *perestroika* two main approaches emerged within the CPSU, though in fact there was much movement between an increasingly complex constellation of political groupings. One of these could be called the ‘conservatives’ (thus, right wing) whose starting point was the maintenance of state socialism and was starkly opposed to the so-called ‘democrats’ (and others who were critical of the structure) who were referred to as ‘left-wing’ and who advocated radical reform initially calling for a democratic self-management based socialism.

⁷ The nature of state socialist development has been debated in numerous Hungarian language publications, most recently in the journal *Eszmélet*. A substantial monograph by Peter Szigeti represents the start of the latest intellectual debate: "Experiences of state socialism and historical lessons." *Eszmélet*, No.58 (2003) pp 37-73

⁸ Western literature often, and with some justice, associates the origins of *perestroika* with the Khrushchev era, but also as having some kind of continuity with the NEP. *Perestroika: The Historical Perspective*. Ed. C. Merridale, King's College, Edward Arnold, London-N.Y. 1991, mainly, chapter 4: The New Economic Policy and Contemporary Economic Reform. The history of *perestroika* is treated very competently by M. Maliya: *Szovjetszkaja tragegyija*. Moszkva, ROSZPEN, 2000. Reference should also be made to several monographs dealing with the pre-history of *perestroika*: *Reform in Modern Russian History, Progress or Cycle*. Woodrow Wilson Center Press and Cambridge University Press, Ed. Theodor Taranovski, 1995.; Thomas C. Owen: *Russian Corporate Capitalism from Peter the Great to Perestroika*. New York, Oxford, Oxford University Press, 1995. Jerry Hough *Russia and the West. Gorbachev and the Politics of Reform*. 2nd Ed. Simon and Schuster Inc. N.Y., London, Sydney, etc.1990.

Over the years considerable changes occurred within both camps. The ‘conservatives’ moved towards the establishment of a nationalistic, etatist restoration, while the ‘democrats’ moved away from the left to advocate a liberal ‘civil society’ that included the introduction of a multiparty system and a plurality of property forms. Some even adopted, what can be called a right-wing position backing a policy to restore capitalist relations. Internally, however, the ‘two camps’ presented a confused picture and represented a wide range of intellectual and political positions.

The contradictions among those who were against the restoration of capitalism, i.e. the ‘socialist camp’, were expressed ideologically. On the one hand, radical leftists, anarchists, Trotskyites etc. saw ‘Stalinism’ as the primary cause behind the return of capitalism. On the other, in a letter published in *Sovietskaya Rossiya* on 13 March 1988, the Nina Andreyeva group (representing those who wanted to maintain the state socialist system with minimal modification) argued that it was those who attacked the bureaucracy and the command system who were the ‘agents of capitalism’.

Behind these political disagreements lay many different views about how the country’s economy could be restructured and property relations reordered in a process full of practical considerations and internal contradictions. 1988 became a watershed year when, on 1 January, the new Law on Companies came into force placing around 60% of industrial enterprises on a system of self-accounting (*hozraschot*). This was followed in June when the Soviet Union established working relations with the International Monetary Fund (IMF) and the World Bank. It was perhaps not a coincidence that the same year also saw the rehabilitation of Bukharin, the father of ‘market socialism’, on the 100th anniversary of his birth. However, 1988 was also a low point for the economy as, according to one CIA study, GNP grew by only by 1.5% and agricultural production fell by 2.5%.⁹

In May 1988 the Supreme Soviet approved the Law on Co-operatives, which gave co-operatives the same rights as those enjoyed by state enterprises. The year also saw the appearance of an officially endorsed theory of producer self-management which allowed for a market economy only to the extent of income derived from personal labour. In respect of property relations, the idea was to place representative bodies of workers’ collectives into a position of power vis-à-vis the bureaucracy and technical management. However, in reality, it was private capital that was able to set down roots through the existence of the shadow economy.

In June 1988, in the interests of strengthening societal control over the Party apparatus, Gorbachev proposed uniting the offices of Party secretary and President of the Soviet Union. After a gap of seventy years and in the name of democracy, the old slogan of ‘all power to the Soviets’ was heard once again. Yet, in resurrecting the revolutionary past, the one-party system became holed below the waterline. Over the course of the year the Soviet Union stopped jamming broadcasts by Radio Free Europe and Freedom Radio. Though 300,000 members left the CPSU more than 18 million remained.

A situation which appeared to promise everything and nothing obfuscated the fundamental problem which defined the behaviour of the Soviet leadership: *the output of the economic system was insufficient to sustain the Soviet Union global position or to preserve domestic welfare*. There was no objective basis for the realisation of any of the promises of reform and the idea of increased ‘democracy’ had little appeal for the vast majority of Soviet citizens in the face of deteriorating economic conditions.

⁹ *Oroszország és a Szovjetunió XX, századiki képes történeti kronológiája*. Budapest, Akadémiai Kiadó, 1992, pp 266

In 1988 it was still unclear whether the national and local political elites and the manager-bureaucrats would accept the country's integration into the world economy and the total restoration of a market economy as the way out of the crisis as this would mean renouncing superpower status and becoming subservient to the West. Property itself was now becoming a key issue, though no official document advocated the privatisation of public property. On the contrary, the main trend was towards converting those assets into social property. In order to further examine the process of transition and the domestic cataclysm of the Soviet Union, we must consider the fundamental political and ideological divisions between the period's two most notable protagonists.

The Gorbachev–Yeltsin Confrontation

At the Soviet Communist Party's XXVIIth congress in late February/early March 1986, Gorbachev and Yeltsin worked together for the 'renewal of a socialism for the 21st century' and for 'accelerating' the struggle against 'bureaucratic conservatism', 'privileges' and 'communist arrogance'. Referring to Lenin, both believed in the possibility of reforming the bureaucratic edifice of state socialism but differences of opinion swiftly surfaced reflecting a complex relationship based on personal and political struggles.¹¹

The profound tension between the two men became to national and international attention following Yeltsin's letter to Gorbachev of 12 September 1987 announcing his resignation as Party Secretary in Moscow. There were clearly huge political differences between the two though neither of the protagonists was probably fully aware of the precise reasons for their disagreement. In the name of speeding up *perestroika*, Yeltsin threw down the gauntlet for a practical and ideological struggle against the bureaucracy by urging a change of personnel in the Politburo, notably the removal of Igor Ligachev.

Already that year Yeltsin had sought out Gorbachev's weakest point by strenuously attacking bureaucratic privileges, thus making the more moderate Gorbachev appear as the defender of the old nomenclatura. At the plenary session of the Central Committee in February 1988 Yeltsin proposed his own definition of socialism through the rhetorical question 'where are we heading'? Yeltsin assured his audience that he was not talking about abandoning socialism but, on the contrary, its redefinition, the protection of its achievements and the extension of workers' democracy. In this he was following Gorbachev who, in a speech given in the Palace of Congress on 2 November 1987, had himself claimed that the aim of *perestroika* was nothing less than a return to the theory and practice of Lenin's concept of socialism.

During February-March 1989 Yeltsin combined the *historical opportunity to construct a multi party system* with a concept of socialism that would prevent 'social divisions based on wealth'. In an election speech he also called for the 'intensification of the struggle for social and ethical justice'.¹² At the first session of the Congress of Peoples' Deputies on 30 May 1989, Gorbachev again aligned himself with the call to redefine socialism, but also imposed limits within which socialism could be understood. Gorbachev referred to "competition between all forms of property"¹³ and, at the same time called for "all power to the Soviets". However, he was silent on the practical question of reconciling *Soviet democracy with the existence of independent economic units operating different forms of property*. By then Yeltsin was singing another tune. As part of the intensifying struggle for power, over the course of 1989 Yeltsin gradually abandoned the idea of a self-managing, anti-

¹¹ The antagonism between the two was illustrated in a contemporary document: Gorbachev-Yeltsin: *1500 dneij politiyicseszkogo prtyivosztojanyija*. Edited by L.N. Dobrohotov-M.K.Gorskov, Moskva, 1992, Terra, vo. pp 9-13

¹² *ibid* pp. 116-117

¹³ M. Sz. Gorbachov: *Oktyabr I peresztrojka: revoljucia prodozsatejsztja*. Moskva, 1987 pp 31-32

bureaucratic socialism for that of an unqualified market economy. Gorbachev continued to label Yeltsin as 'leftwing', not appearing to notice the radical change in latter's position.¹⁴ The General Secretary was unwilling to concede to Yeltsin the title of 'radical reformer' that had earned him such prestige in the West (although not in his own country).

Gorbachev was fighting on 'two fronts', against the conservatives and against the "loud mouth leftist" Yeltsin.¹⁵ However, he was increasingly forced on the defensive and attacks upon him from a variety of different directions became even more intense after 1989. In an interview with *The Guardian* on 15 March 1990 Gorbachev (still) insisted he was a Communist even though he had handed some of the Party's power to the Congress of People's Deputies, which had responded by raising him to the position of President of the Soviet Union, a development in which he claimed to see as an opportunity for the revitalisation of democracy. Gorbachev's first public acknowledgement of the severity of the crisis came in May 1990 when he accused Yeltsin's faction of 'endangering socialism'. Yet, at the same time, he also identified 'conservatism' as the main enemy of 'socialist reforms'.

Clearly Gorbachev did not draw the right conclusion from the political differences at the heart of the conflict and failed to realise how far the 'left-wing' Yeltsin had moved towards a 'right-wing market' position. Instead, he preferred to put disagreements down to a straightforward struggle for power. Gorbachev still seemed unable to assess the situation when, as President of the Soviet Union, he confronted Yeltsin over the issue of Russian independence. Either because he did not understand the theory, or maybe just for tactical reasons, he never indicated any awareness that 'modernisation' and 'socialism' were actually two separate paths of development. While the theory underpinning 'modernisation' essentially reflects the values of *central capitalism*, according to the original vision of *perestroika* which he himself had advocated, the theoretical expression of socialism is synonymous with societal self-management.

Finally, despite Gorbachev's formal victory in the referendum of 17 March 1991 on the preservation of the Soviet Union, in reality the state's dissolution was accelerating as local elites fought for survival and tensions between the centre and the regions deepened. Political disintegration was hastened by Gorbachev's need for allies among both the central and the regional party elites who subsequently embroiled him in their own political manoeuvring. Federal powers became the subject of political horse trading and the General Secretary-President received support from neither the elite of the centre, nor those in the regions and the elites at both levels were dissatisfied with him.

As Gorbachev principal rival, Yeltsin deliberately sought to speed up the disintegration of the Soviet Union in his capacity as President of Russia. Gorbachev found himself bereft of convincing arguments because he approached the question of the structure of the state purely in legal-political terms *thus separating the organisation of the state from the structure of society*.¹⁶ This suited Yeltsin who, in 1990, without compunction allied himself with the local-regional elite. For decades the formal federal structure of the Soviet state had made the sovereignty of its constituent republics a fiction. It was well understood that the accumulation of capital at the centre and its role as a welfare provider promoted a centralised state structure. However, *perestroika* could not ignore the way that the Soviet state had been constructed. In defence of the republics and the regions, ethnic identity was proclaimed a value

¹⁴ In his discussions with Hungarian leaders, that Gorbachev only spoke of Yeltsin as a 'leftist' was confirmed by Károly Grósz in July 1988. In March 1989, when talking with Miklós Németh, Gorbachev referred to Yeltsin as a "typical left winger", and in the same month introduced Yeltsin to Grósz as a 'leftist. *Gorbachev tárgyalásai magyar vezetőkkel. Dokumentumok az egykori SZKP es MSZMP archívumából*. Bp. 1956-os Intézet, 2000 pp. 156 and 181

¹⁵ Ibid pp 129-130, 181

¹⁶ V.A. Mironov: *Ruszkij szkoje goszudasztennoje sztroityelsztva v poszt-szojuzni period (1991-1994)*. *Kentavr Isztoriko-politologicseszkiy szurnal* 1994, 3, pp. 3- 4.

in itself within the Russian Federation, of which the local elites naturally claimed to be the authentic representatives. The central authorities of the Russian Federation also proclaimed a nationalist defence of 'Russian values'.

On 12 June 1990 the *Declaration of Sovereignty of the Russian Federation* proclaimed the precedence of local-republican laws over those of the Federation. Thus began a transformation of the centralised state which heralded not its 'modernisation', but its abolition. The Russian 'declaration of independence' effectively announced the 'dissolution' of the Soviet Union's and strengthened the conviction that breaking up the Soviet monolith along the lines of nation states would ease integration into the global economy. Gorbachev found himself increasingly isolated within the Party. However, in a secret document of August 1990, drawn up at a time when the various platforms within the CPSU were diverging, the Deputy-General Secretary, Vladimir Ivashko, warned of the danger of the Party's disintegration.¹⁷ Gorbachev had always tried to position himself on the centre ground, in both the Party and the country, but the 'centre' no longer existed. He distanced himself from 'sentimental' communists in the Party while also clashing with the 'democrats'.

At the plenary session of the Central Committee in December 1989, Gorbachev further reduced his base of support by dismissing as 'conservative' a grassroots critique of the structural problems of the state. The First Secretary of the Party in Kemerov Oblast, A.G Melnikov expressed doubts about the direction in which *perestroika* was heading and argued that the process of reform was becoming discredited just at the point when it was starting to win over the some sections of the masses.¹⁸ He warned against the Party turning its back on the population at a time when conflicts were being deliberately generated within the Party between the apparatchiks and the membership, national and central Party organisations, Party committees and the Party press, Communists and People's Deputies. He urged the members of the Central Committee "to note that because of the critical situation in our country [consumer goods had disappeared from the shops, in many places production had ceased altogether, strikes, nationality conflicts, economic slowdown etc. - author's note] we are now praised by the whole bourgeois world, by all our past and present enemies and even the Pope offers us his blessing. The Central Committee should reflect deeply on these matters ...".¹⁹

This was the only speech during the meeting to prompt Gorbachev to rush to the podium and deliver a long riposte to the effect that the Kemerov Party Secretary's view was 'dangerous' because it questioned the correctness of where *perestroika* was heading, and to insist that "I will never agree with the view that we are making a gift to the bourgeoisie! So the Pope is satisfied and approves! This attitude, I am telling you, demonstrates a provincialism in both theory and practice which I emphatically denounce. It does not answer the substance of the question! You should understand that this is an attempt to sow seeds of doubt in the Central Committee about the decision we have made to go forward with *perestroika*! Gorbachev continued to denounce Melnikov even in his final sentence at the end of the plenary²⁰

Interestingly, in a newspaper article a few days before the 'Operetta-Putsch of August 1991 Gorbachev insisted that he should not be considered a traitor as "those who regard recent events as a betrayal of socialism reflect a post-Stalinist legacy that is still far from being exhausted". Those still stuck thinking in the ways of the past have to understand that "the revolution in people's minds is a

¹⁷ RGANI F. 89.op. 8 d. 69. 1-5.

¹⁸ At the time the district of Kemerov was a focal point of workers' discontent.

¹⁹ Minutes of the 9th December 1989 plenary session of the Central Committee. In *Ivsesztyija CK KPSzSz*, 1990, no.4, pp 58-59.

²⁰ *ibid* p.122

slow and difficult process."²¹ However, in respect of slow thinking, Gorbachev never really thought through the possible negative consequences of his own policies, despite the many warning signs that came from across the whole territory of the Soviet Union and which were publicised in numerous articles in the Central Committee's own journal.²² In the struggle for power Gorbachev paid more attention to international opinion than to the 'sensitivities' of the Communists in his own party. Gorbachev's obsession with 'devolving' power led to him making concessions even when this was against his better judgement, including on the key issue of the relationship between property and the survival of the Soviet Union. Of course, Gorbachev was not only feted by Western politicians and the Pope, but many Western Marxist intellectuals also overestimated the opportunities for socialist progress. Even the eminent Marxist economist and Trotskyite theoretician Ernest Mandel expressed great optimism at the prospect of the socialisation of state property as part of the process of democratisation, although he modified his views in light of later developments.²³

Property and System

Behind the struggle for political power lay the fundamental question of the regime change: what will become of the state's property? Within the CPSU debate took place on three distinct but related levels. The first dealt with the permissibility of including large-scale private property in a 'social market economy'. The second revolved around the question of whether privatisation and the redistribution of property would allow local republican elites to increase their independence, undermine central authority and may ultimately lead to the collapse of the Soviet Union. Finally, the ultimate issue for the Soviet leadership in respect of changes in the ownership and forms of property were the implications of this for the future social and economic status of the higher state and Party officials. Recently opened archive sources clearly show that even as late as the spring 1990 the leadership did not fully appreciate the social, political and economic consequences of their 'revolution' and that, despite their initial intention, *perestroika* was fast becoming the means of an anti-socialist 'change of system'.

The sharpest exchange of views took place prior to the CPSU's XVIIIth congress (though the Congress itself was of little significance and in fact accelerated the process of dissolution). The Central Committee sat in plenary session 5-7 February 1990 to prepare for the Congress and to draft the platform of the Central Committee. Documents from this meeting show that the Central Committee's vision of the future, as outlined in its platform - A Humane and Democratic Socialism (which was adopted only after a long debate prompting more than 100 interventions) - was unable to appreciate, either from theoretical or practical points of view, that the Soviet Union was not developing towards socialism, but was actually on the verge of a restoration of capitalism.

²¹ Michael Gorbachev *The August Coup*, (Harper & Collins, Ipswich, 1991) pp 47 & 107

²² Many who had devoted their lives to the Party sincerely felt it to be in 'mortal danger'. One example of this feeling was reflected in an application to rejoin the Party membership sent to Gorbachev on 28 September. Roza Mihailovna Gluskova, a secondary school graduate who had spent three years studying Marxism-Leninism at university and who worked as a locksmith in a factory in Kalinin, stated her reasons for reinstatement as a Party member as follows: "...the main reason that continues to worry me and has made me think of why I left the Party is that Lenin, who founded the Soviet state, is being attacked in a most despicable manner and is subjected to a campaign of denigration....some of the 'democrats' would like to see the end to all things begun by Stalin, in other words to destroy everything that V I Lenin and the Bolsheviks initiated. In our town of Kemerov, L Balasov - a people's deputy - wrote an article in the local paper entitled 'Lenin - the peoples' executioner'. This is not a matter of differing opinions but, in my view, a real counter revolution... This is the reason that I feel I must rejoin the Communist Party of the Soviet Union, because the situation has taken a bad turn... This prompts me, Mikhail Sergeievich, to ask to be given back my membership of the Party in order that I may defend Lenin's name and so that the Communist Party of the Soviet Union can again become the genuine defender of the true interests of workers and peasants. *Izvestia CK. KPSzSz, 1990, no.3.p. 149.*

²³ Ernest Mandel: *Beyond Perestroika. The Future Gorbachev's USSR*. Verso, London- N.Y. 1989

It is significant that during the debate the only time the systematic problem of socialism was raised in the Central Committee was by the 'lead reformer' Stanislav Shatalin, but even then only on an emotional and semantic level. In respect of the property question, G. Razumovski read the following statement from the draft document: "The Communist Party of the Soviet Union considers that the current state of the country's economic development does not exclude the ownership of property, including the means of production, by individual workers or by groups [of workers]. Irrespective of what form property takes, the exploitation of human beings cannot be countenanced".²⁴ Gorbachev's reaction to this passage was to reject the idea of private property because "many comrades from workers' collectives, secretaries of Party committees and those working with them will raise the question of whether such a move will lead to a negative reaction among the, people, among the masses". Nevertheless, Gorbachev expressed his approval of the text as "it expresses the Party's position to be against the exploitation of labour" and called upon the Supreme Soviet to assert this position in the framework of a societal debate.

Gorbachev's legendary naivety and inexperience in economic issues (noticed also by US President Bush²⁵) was revealed by Shatalin's response. As a 'democrat' and the chief author of the document setting out the programme of regime change he was able to rub Gorbachev's nose in it. Shatalin observed that all the terms for collective property used in the Central Committee's document, such as group-, co-operative-, communal- and civic property were "completely undefined". Shatalin the academic also noted that "there is even the mention of share ownership. And if Comrade Gorbachev and I were to suddenly acquire shares, stocks in a company, begging your pardon Mikhail Sergejevich, you and I and anyone indeed else who buys shares will establish the exploitation of one man by another".

To his credit Shatalin was the only one who spoke unambiguously about what was happening in the Soviet Union. He also expressed an opinion about what should be included in the document regarding the concept of private property. In his opinion, this question had already been debated by the country's leading economists at the Central Committee in October and November 1989 – "We had some disagreement with Mikhail Sergejevich but we reached a consensus according to which private property was not held to be monstrous, but also that there was no need to produce a programme document on the subject. Am I right Mikhail Sergejevich?" Gorbachev agreed that this was correct and Shatalin continued with his almost scandalous but crystal clear analysis: "At my place of work I am not exploiting anybody, except my fellow workers. However, if I buy shares, I exploit labour. If I receive a dividend on my investment, likewise, I am a private owner."²⁶

Eventually the meeting became hostile towards Shatalin when he pointed out the direct relationship between private property and share ownership and the exploitation of labour, thus 'exposing' the capitalist nature of the 'socialist market economy'. Amid the uproar the academic economist Leonid Ivanovich Abalkin was called on to speak by Gorbachev and argued that "I think we should exclude from the draft any reference to private property ... and use the concept of the property of the

²⁴ Szyengrammi Plenumov CK partyii CK KPSzSz - 5-7 fevralja 1990 goda" *Izvestiya CK KPSzSz no.190 3, p.46*

²⁵ During an unofficial conversation at the Malta summit Gorbachev, with his customary self confidence, told President Bush that the Soviet Union was moving away from nationalised property towards socialised property. According to American experts who overheard Gorbachev's remarks, the latter referred to the Swedish model opining that property owned by more than one person is not private property. In his reply, President Bush drew Gorbachev's attention to fact that "in Sweden it is private property that makes money." Gorbachev replied that in the USA there was practically no private property. "How can that be?" asked Gorbachev "because in your country many firms exist which have more than twenty thousand shareholders?" in Michael R. Beschloss-Strobe Talbott: *At the Highest Levels. The Inside Story of the End of the Cold War*. London, Warnes Books, 1994.

²⁶ *Izvestiya CK KPSzSz, 1990 no. 3, p. 48.*

individual worker". However, Abalkin himself further added to the confusion by listing 'co-operative, rental and share ownership' as forms of collective property. "In this way" Abalakin summed up, "we shall have a three tier system: individual, collective and state forms [of property]. I believe, we must draw a definite line under the thesis that the exploitation of one human being by another must not be allowed". Although Abalkin noted that "bureaucratized property is not socialist property", he also agreed that the exclusion of all forms of private property was a question of definition.²⁷ It is debatable whether Gorbachev or Abalakin laboured under the greater misapprehensions, though Shatalin certainly enjoyed the meeting.

We have focussed on this discussion as it illustrated the extent to which Party meetings had no real influence on the course of events and showed how little the thoughts of the General Secretary or of a leading academic economist counted in the debate.²⁸ As 'personal property' or 'share ownership' could be understood as either collective or private property, the decisive factor determining what that 'understanding' would be depended on the nature of the system itself, but about this there was no debate.

Eventually the document approved by the plenary was written to reassure the public without actually explaining the true nature of affairs. It endorsed the principle of different forms of property - the leading role of public property, the 'de-bureaucratization' or socialisation of state property and support for workers' and collectively owned group property alongside the harmonious regulation of both a planned and a market economy. At the same time it sought the Soviet Union's integration with the global economy, the convertibility of the rubel and the development of market incentives.²⁹ In other words, it packed together items which could not be made compatible, either in theory or in practice.

An insight into why this should be can be gleaned from the meetings already referred to between Gorbachev and the leaders of Hungary. In July 1988 a Party delegation led Károly Grósz came to Moscow for talks with Gorbachev who considered developments in Hungary as a model that could be followed elsewhere. Both at the time and later, Gorbachev asserted that the aim of *perestroika* was to 'strengthen socialism' and saw the similarity and the socialist tendency of the reforms in both Hungary and the Soviet Union: "today among all the socialist countries the Hungarian experience is the most approximate to the efforts of the Communist Party of the Soviet Union."³⁰

Neither Gorbachev nor the Hungarian leaders - in accordance with their role as *standard bearers* of reform - questioned the correctness of the 'direction of travel'. During the visit of Miklós Németh to Moscow in March 1989 the General Secretary mentioned more than once that "the most important task for us all is to be people-centred, it is the renewal of socialism". These secret documents (who would have imagined that a decade later they would be in the public domain?) leave no doubt about the sincerity of Gorbachev's convictions. However, they also reveal Gorbachev's surprisingly limited understanding of economic ideas, especially those relating to the ownership of property. When advising the Soviet General Secretary of the Companies Law passed in Hungary in October 1988, Németh pointed out a provision that permitted private sector companies to employ up to 500 people,

²⁷ *ibid.* pp.48-49. Gorbachev's position on the establishment of the Russian Communist Party displayed similar half-baked thinking. Those who pointed out that the establishment of a Russian Communist Party would mean the end of the Communist Party of the Soviet Union were regarded as meddlers and nuisances who could not understand that "the non-establishment of the Communist Party of Russia would be an affront to the people of Russia." *ibid.* pp.66-69

²⁸ The plenary also discussed property ownership in relation to agrarian developments and reached much the same conclusion as above. See Ponomarev and Gorbachev exchanges, *ibid.* pp.80-81

²⁹ *ibid.* pp.100-101

³⁰ Report of the HSWP Political Committee on the visit to Moscow of Károly Grósz on 4-5 July 1988 in Magdolna Baráth & János Rainer (eds.) *Gorbacsov tárgylásai magyar vezetőkkel. Dokumentumok az egykori SZKP és MSZMP archivumaiból.* Budapest, 1996 Intézet, 2000, pp 149 & 153

though he noted that "such enterprises do not yet exist". Gorbachev responded with a surprising question - "is the employer a private proprietor?" He received an unambiguous answer from the Hungarian Prime Minister who, despite referring to employee ownership, emphasised the opportunity being created for the 'democratic' accumulation of capital. Gorbachev then went on to refer to the renting out of state farmland as a 'cooperative of cooperatives', (in the Soviet Union at that time all small private enterprises operating on rental arrangements (from state enterprises) were called co-operatives) and so completely overlooking the economic and social problems and consequences of capital accumulation particular to this sector.³¹

Three weeks later on 23-24 March 1989, Károly Grósz visited Gorbachev again and, as revealed in a strictly confidential document, Grósz 's naivety matched that of Gorbachev's. "Comrade Grósz regarded the development of a long-term programme to be the primary task" and added that "the debate is not about socialism about the definition of which there are already many different opinions"! In discussing the different paths to socialism, Grósz assured Gorbachev that in the struggle for power "we wish to retain power only by political means, to find solutions to our problems and avoid armed conflict."³² It appears never to have occurred to either of them how the danger of 'armed conflict' could even enter into a debate which was merely about altering the form of socialism. Instead, Gorbachev informed the Hungarian Party leader that the CPSU had placed "the question of the theoretical and philosophical renewal of socialism" on the agenda of the Central Committee's autumn meeting, though by then the one-party system in Hungary had all but disintegrated. While Gorbachev considered it important to handle theoretical questions in a 'flexible' manner so as to not prejudice practical developments, he did seek to define the main criteria for socialism: "socialism addresses the interests of the people, its aim is to improve the people's living standards, eliminate all forms of injustice and exploitation. It guarantees participation by the people in the making, monitoring and implementation of decisions".³³ It is worth noting that the 'leftist' Yeltsin had arrived at a similar conclusion even before he became an advocate of the market.

Later that year on 24-25 July, Rezső Nyers and Károly Grósz visited Gorbachev in Moscow. Though Nyers argued that property reform was the most important element of the whole reform programme and stressed the Hungarian intention to "democratise publicly owned property", he also explained to Gorbachev that "we are thinking of a system that uses existing capital more efficiently. We are planning to increase the role of private capital and to attract foreign capital too."³⁴ Gorbachev's reaction mirrored the thinking of Hungary's leaders in respect of both protecting the system of public property and the need for integration into world markets. Again, there seems no recognition of the essential contradiction between the two. At best there was only a concern regarding the implications for maintaining political power of an increase in Western influence. Indeed, by securing acceptance of the Law on Self-Accounting and Self-Management by the 2nd Congress of Peoples' Deputies in March 1990 Gorbachev hoped to agree a definitive position on property reform.³⁵

On 7 March 1990 the President of the Supreme Soviet, A. Lukyanov, sent to the CPSU Central Committee for approval draft amendments to the country's constitution relating to property which were to be endorsed by the 3rd Congress of People's Deputies.³⁶ It is significant that the concept of private property did not appear among these amendments which sought to move the economic system

³¹ *ibid.* Minutes of meetings between Mikhail Gorbachev and Miklós Németh on 3rd March 1989 in Moscow,

³² *ibid.* pp 178-179

³³ *ibid* pp 185

³⁴ *ibid* p. 190

³⁵ *ibid* pp 191-193

³⁶ Constitutional amendments 'Economic Structure', Chapter 2. Articles 10, 11, 12 and 13 in *Posztanovlenyjje Verhovnogo Szovjeta SzSzSzR*. RGANI f. 89 op 30 d. 28. pp.1-4

towards the ‘socialisation’ of state property: “The economic system of the Soviet Union is based on the collective and state property of the citizens of the Soviet Union”. The notion of ‘civil property’ allowed for “the pursuit of independent economic activity not prohibited by law”. However, there was no mention of surplus value or capital income, only of “income derived from labour” and “other legal sources”. With hindsight this formulation provided the loophole for income to be derived from the ownership of capital. The proposed Article 12 provided an interesting definition of what was meant by the term ‘collective property’ and reflected Gorbachev and Abalkin’s confusion on the issue as well as that of Bogomolov and Shmelyov from an earlier period.³⁷ Alongside various association, societies and communities of workers and citizens, ‘joint stock companies’ were also listed among the forms of collective property without any mention of income that would accrue from the ownership of capital in such a company. Collective property would materialise as part of the “transformation of state property” through the “voluntary amalgamation of the assets of citizens and organisations”.³⁸ Accordingly, *privatisation* (i.e. the private appropriation of state property) had no place in the amended Soviet constitution. In reality, privatisation did not come about through the ‘voluntary amalgamation’ of citizens/workers’ assets, but through administrative ‘marketisation’ or direct political order, as well as to a lesser degree through foreign investment.

In the final analysis, the real drivers for change were the elites of the constituent republics, in particular the Russia power brokers’ aspiration for independence. In the second half of 1990 many groups of experts, intellectuals and politicians that had formed the core of centralised Soviet power, gradually abandoned Gorbachev for service in the new Russian centre of power led by Yeltsin. Ideologues of *perestroika* such as Aganbegyan and Zaslavskaya ditched the original language of *perestroika*, suddenly ‘realising’ that economic self-management and the democratisation of a self-regulating society were incompatible with a market economy. According to the custom of ‘realpolitik’, they too became champions of the so-called ‘unconditional’ market economy. One political consequence of this realignment was that on 15 November 1991 many of Gorbachev's closet advisers and supporters, such as Yuri Afanasyev, Pavel Bunich, Tatyana. Zaslavskaya and the film director, Elem Klimov called for the discredited President's resignation.

Starting in September 1990 Yeltsin adopted Shatalin's programme, which provided him with important organisational weapon since Gorbachev had opposed its acceptance because it would have meant the immediate dissolution of the Soviet Union, not to mention the certainty that “the programme for socialist renewal would have resulted in the very opposite.”³⁹ In doing this the political initiative passed to Yeltsin. Anatoli Chernayev, one of Gorbachev's advisers, wrote about Gorbachev and the situation in his diary as the process of regime change unfolded day by day.

1st September 1990

³⁷ This misunderstanding of what constitutes collective property has older roots that can be appraised from the ‘strictly confidential’ document prepared by Géza Kótai for the HSWP Central Committee's International Relations Bureau for the December 1988 Moscow visit: “Comrades Bogomolov and Shmelyov emphasised that we are already experiencing the convergence of two systems.. In this regard we should note that for the moment we have no answer to what socialism is or what socialist property relations are. We know that we must transcend the Stalinist and post-Stalinist models, but not how. This convergence does not mean that the Soviet Union, USA, or Hungary will become like Sweden... One can imagine that joint stock companies in the USA contain the seeds of socialism. In many respects, according to Comrade Bogomolov, Sweden today is more ‘socialist’ than the socialist states themselves. We should also begin – as an experiment – to make changes to the forms property can take by using opportunities such family businesses, rental arrangements and joint stock companies... The situation is made more difficult by the fact that at times it can seem as if the elimination of the Stalinist legacy is an attempt to eliminate socialism.” *Gorbachev Papers...* op.cit. pp 238

³⁸ RGANI f. 89. Op 30 D. 28

³⁹ Need reference to section in this volume

At the press conference today Yeltsin forgave Gorbachev, but said that Rizkov must stand on his own feet, and if he doesn't "we will have to stand him up". He lavished praise on Shatalin's programme and promised to make it the basis for the reforms in Russia.

The programme (which I read through) is not a for European Common Market but some kind of EFTA. Not much will be left of the Union... The people standing in the queues are criticising and cursing Gorbachev. Letters in today's Pravda overflow with hatred of perestroika and Gorbachev. Truly, here we are on the road to Calvary.

Yeltsin is secure for at least two years but Gorbachev's prospects are diminishing daily and will soon be zero. Yeltsin has embraced principles and objectives, and takes advantage of Gorbachev's inconsistencies. Everything that Yeltsin now so loudly proclaims was said by Mikhail Sergeevich at some time or other over the last five years of perestroika. He made no impression then because he was held back by ideology and still is. This summer in the Crimea he started on an article to prove the he is standing up for socialism. At the same time he supported Shatalin's programme which contains not one word about socialism, socialist decisions, ideology, etc.

Ultimately he was the one who drove away all those with whom he had begun perestroika, with the exception of Yakovlev and Medvedyev. They all left his camp and became Gorbachev's sworn enemies with certain groups and classes lining up behind them. This process has been drawn out over three years. This revolution should have been done in the traditional manner.

2nd September 1990

What will happen to Rizkov? What will happen to the economic programme? What will happen to the Union? By New Year we won't have a country. Will we still have Gorbachev? I hope so...

4th September 1990

Izvestia published Shatalin's programme. The Russian parliament is debating it and will accept it. At the same time, according to the Communist Party of Russia this is a betrayal of the Soviet Union, of socialism and will hand the country over to capitalists. Meanwhile, the shortages are worse than ever (only rioting can follow). There is no bread and where there is thousands stand in line to buy it. Something unheard of is happening in Russia. Is it possible that we are on the threshold of a bloody catastrophe?

Gorbachev appears confused. His power is slipping away before our eyes. From morning 'till night he discusses the economic programme and the Union Treaty with all manner of representatives instead of putting them to parliament. He wastes half his day at the Congress of the Russian Communist Party. What does he expect from them? He is dithering, he doesn't know where and how far to go. He doesn't know what to do."⁴⁰

With the XXVIIIth Party Congress the history of *perestroika* came to an end and a new process began which can be called the 'peaceful change of system'. This process included the dramatic declaration of independence by Russia (the Russian Soviet Federative Socialist Republic - RSFSR) led by Yeltsin. Less attention was paid to the significance of Russia's economic independence proclaimed by two laws signed by Yeltsin at the end of December which, in effect, transformed Soviet assets into 'Russian property' in the interests of privatisation. This immediately moved the question of property

⁴⁰ A. S. Chernayev: 1991 god. Dnyevnyik pomoscsnyikaprezgyenta SzSzSzR. Moscow, 1997 pp 44-52.

relations to the fore⁴¹ as it finally dawned on the majority of Soviet leaders that the existence of the Soviet Union, and thus their own political positions, were now in imminent danger.

The Central Committee, or rather its Secretariat, raised the alarm in two documents. Deep concern was expressed at a meeting held at the beginning of January 1991, conventionally known in Party circles as the 'Ministers' meeting', which Baklanov, Vlasov and Senyin reported to the General Secretary, members of the Political Committee and the Central Committee Secretariat. Their report⁴², dated 5 January 1991, reveals that at the meeting, which included the ministers for industry, construction, transport and the army, it was emphasised that an 'extraordinary' situation had arisen in many branches of industry which needed to be addressed immediately and decisively. Reading between the lines, the document was an unambiguous warning to Gorbachev that the dissolution of the Soviet Union would be unavoidable without a concentration of power. In light of the events of August 1991 there can be no doubt that what those who took part in the meeting meant by 'extraordinary methods' to concentrate power and 'special measures' which could reverse the train of events. As it can be seen as possibly the first documented step along the path that led to the August putsch, the report is worth quoting:

"The participants in the meeting believe that the way out of the current situation is for the country's leadership to take determined and active measures against those destructive forces that seek to undermine the sovereignty and economic independence of the republics, destroy the Soviet Union and wreck its economy. Within the wide authority exercised by the President of the Soviet Union, survival demands special measures to restore and strengthen the power of the state, defeat extremism and separatism and defend the territorial integrity of the country and the economy. At the same time, great concern was voiced about the deepening economic crisis which, in many republics, is aggravating separatist tendencies and the destructive activities of certain parties and movements, fuelling anti-Soviet agitation and attacks upon the CPSU... The participants in the meeting consider that a decline in social and political stability is leading to a significant weakening of economic control, the breaking of economic relationships, falls in productivity and increasing social tension in workers' collectives. They agreed that measures taken to date to overcome the crisis have led to no appreciable improvement... Echoing the views from workers' collectives, the ministers expressed their indignation at the activities of certain leaders of republican Soviets and Governments. Time has run out for calls for constructive co-operation. Tough and decisive steps are needed to counter the adventurism of certain political figures who have risen to prominence on the back of public meetings... in many regions the situation demands the introduction of presidential rule and for a state of emergency to be declared in the energy and transport sectors, as well as in other important branches of the economy".⁴³

A few weeks later, a document with the somewhat mischievous title of "Report to the Communist Party of the Soviet Union on the economic and social consequences of questions of property law and legal activity relating to privatisation in the Russian Soviet Federative Socialist Republic" dated 19th February 1991, was presented to the Party leadership by Luchinski, a member of the Political Committee, Baklanov, Gorbachev's adviser on defence and Secretary of the Central Committee and Alexander Vlasov. This document outlined the historic problem even more clearly and comprehensively.⁴⁴ It seems that this was the first document to recognise in relation to Yeltsin's

⁴¹ Signed into law by Yeltsin in early January 1991

⁴² RGANI f. 89 Op.D 1, 1-4 *O.Szovescsanyii minyströv.*

⁴³ *ibid* RGANI

⁴⁴ *RGANI F. 89 op 4 d 20.1.2-9.* The authors and original title of this 'secret' typewritten document: P.Luchinski, O. Baklanov, A. Vlasov: *O Szocialmo-ekonomiczeszkih poszledsztvijah zakonodatyelnoj gyejatyelnyosztvi po voproszam*

legislation that what at stake was the very survival of the social system and thus the survival of the Soviet Union itself

The authors stated that at the end of December 1990, under the flag of an independent Russia, Yeltsin and his group had *ad acta* set aside Soviet laws. Luchinski and Baklanov effectively argued that this meant either Soviet or Russian law was illegitimate: "The Supreme Soviet of the RSFSR has accepted and caused to come into force from 1 January 1991 a law 'On property in the RSFSR' whose object is to alter the socio-economic basis of the social structure in Russia, ignoring and damaging the interests of the Soviet Union... The Supreme Soviet of the RSFSR has repealed the laws 'On property in the Soviet Union' and 'On enterprises in the Soviet Union'...The RSFSR's legislative activities have unambiguously introduced private property, the appearance of which is not restricted by sector or by scale. The right to take into private ownership land, capital and means of production has been recognised and the creation of private companies are allowed to engage in a wide range of activities with no restriction on their size. Entrepreneurs have been given the right to employ an unrestricted number of workers. Class differentiation within society and the creation of a class of wage labourers is inevitable. The law 'On property in the RSFSR' does not include the right of workers to collectively-owned property and the law 'On enterprises in the RSFSR' does not include a category of company based on collective or popularly owned property. In light of the fact that the RSFSR Supreme Soviet has declared the relevant federal laws void throughout the country, we consider that the RSFSR legislation does not recognise companies based on workers collective property or the property of the people. The transformation of state property, privatisation and the establishment of new enterprises are heading towards capitalist property relations and bourgeois business. There is no possibility of equality of rights in respect of forms of property... In this way, the Russian legislation serves two main aims. On one hand, it has acquired all the means of production within its territory by withdrawing them from the Soviet Union. On the other hand, it has initiated an irreversible social transformation in order to assist the limitless expansion of private capitalism ...".

As the decision of 22 January of the Council of Ministers of the RSFSR transferred the ownership of all industrial enterprises on Russian territory to the Republic, there was no longer an economic basis for the Soviet Union (nor for the CPSU's order of 24 December 1990 regarding the validity of the law 'On property in the RSFSR'). Though Luchinski and Baklanov pointed out that "these [Russian] laws conflict with the interests of tens of millions people, with many thousands of workers' collectives and decisively affect the process of *perestroika* and the fate of the country", Gorbachev placed all his hopes on the March referendum that was to decide the Soviet Union's future.

It is worth noting Luchinski and Baklanov's observation that "the real and indivisible assets of the Soviet Union, produced by the labour of many generations, are being alienated by dictatorial methods and being distributed along state and territorial lines, which means providing a basis, in respect of property relations for contradictions and conflicts – including between nationalities – within the whole edifice". Despite the use of such antiquated language, the document clearly identified the main interests and interest groups, begging the question for Gorbachev - which side are you on? He could not decide at the time, and this led to his downfall. Neither those who had believed in him and in maintaining the state socialist system, many of whom later became involved in the putsch supported him any longer, nor the Yeltsinites who had embraced capitalism. Those who sought a 'third way' between state socialism and capitalism had lost faith in Gorbachev even earlier. The practical incompatibility of fundamental tenets of *democratic socialism* (multiparty system, workers'

szobsztvénnosztyi I privatizacii v RSzFSzR. The document was sent to the Central Committees of the Communist Party in the republics and signed by V. Ivashko.

democracy, pluralist property forms, social self-organisation, market economic incentives) had ensured they remained empty ideological poses.

In the final analysis, even the document's authors (including Balkanov, who became one of the leading figures in the putsch, the deputy chairman of the National Defence Council - *Soviet Oborini*) were not able to offer effective counter measures. One of their suggestions was to "order the Central Committee of the Communist Party of the Russian Federation to begin working with workers' collectives to nullify the Russian Federation's law illegitimately transferring federal assets to the Republic and to raise awareness of the social and economic consequences of the legislation. Another suggestion proposed a more 'authoritarian' solution by asking Gorbachev, in his capacity as President, to order an inquiry (based on paragraph 124 of the Constitution relating to the defence of the Soviet Union and the Soviet people) into the constitutionality and compatibility with Soviet legislation of the RSFSR's law 'On property in the RSFSR' and law 'On enterprises in the RSFSR'. In addition, they urged the publication of a presidential decree repealing Article 3 of the decision of the Supreme Soviet of the RSFSR of 24 December 1990 (which, from 1 January 1991, declared the law 'On property in the Soviet Union' invalid on Russian territory). Finally, they also advocated using the Communist parties in the republics throughout the Soviet Union to obstruct the export of potentially productive assets from the territory of the Soviet Union. However, as local leaders were naturally more concerned with protecting their own positions their interests no longer – to put it mildly - coincided with the maintenance of the Soviet Unions' state-economic structure. The situation deteriorated so far that even the August putsch was a dysfunctional event because there could be no military solution to either the domestic or the external dimensions of the crisis.

At the same time as struggling to defend federal property, the CPSU was incapable of protecting or even democratically nationalising its own assets. Pressure came from 'below' from the Democratic Forum of the CPSU, which hoped to turn itself into an independent political party, as well as from the now 'opposition' politicians who wished to achieve the division of the Party's property in a referendum.⁴⁵ In the event, the division of the Party's property was initiated from 'above' when Party leaders began distributing assets, such as educational institutions.⁴⁶ In this way the 'nationalisation' and privatisation of Soviet state property became irredeemably linked with the very existence or otherwise of the Soviet Union and the CPSU. A few weeks before the putsch the Party attempted to escape the crisis through wholehearted embracing of the spirit of the market economy by using manufacturing-trading activities to balance the Party's books, expanding its publishing business and even considering involvement in charitable activities.⁴⁷

Even when it became apparent that state and Party property was being passed into the hands of groups over which control could not be exercised⁴⁸, the theoretical debates regarding property did not die down. On the contrary, thanks to *glasnost* an atmosphere of inquiry materialised which many thought could result in a more intellectually grounded programme. However, the most well thought through proposals identified a fundamental contradiction in the attempt to balance a *market and a social economy*. In truth, as discussed below, this was the key issue and the one which meant *perestroika* resulted in a change of regime.

⁴⁵ RGANI f. 89 Op 11. D 86. 1-3 and *O provogyimoy oppozicionimi KPSzSz partiyjami kampanyii po szboru podpiszej grazdan o nanzacsnyii referendum po natiozaccii szobsztvennosztyi KPSzSz..*

⁴⁶ RGANI. Copies of the original document without special archival number: *Ob obrascenyijah v CK KPSzSz po ispolzovanyiju matyrialnoj bazi partiyjnih ucsbnilt zavagyenyii I drugih objectov szobsztveeosztyi KPSzSz.*

⁴⁷ RGANI E 89 op 12. D.28 *O prozvodszevno-hozjajsztenno gyejatyelnosztyi partiyjnih komiyetov partucsrezsgyenyii.* pp. 1-3.

⁴⁸ Among others, Shatalin actively participated in the 'distribution' of the Party's educational institutions, not neglecting the interests of his own institutions. *Protokoli zaszedanyija Goszudarsztvennoj Komisszi Minystrov SzSzR pro ekonomicseszkoj reforme.* No. 11. 12 Oct. 1990 1-9 especially 1-5 p. 9-10 In RGANI

Programmes of Regime Change

A. *The market – against self-management and workers’ property*

The first concrete programme for the introduction of a market economy was the so called ‘Shatalin Plan’ of May 1990, which sought to set up a market economy in the Soviet Union in 500 days. In other words, the aim of the programme was to transform "a totalitarian socio-political structure into a market economy" in less than half of the time it took to accomplish Stalin's programme of collectivisation.⁴⁹ The plan was named after Shatalin's name, an academic mathematician who was considered one of the economic ‘geniuses’ of the age.

With hindsight, Shatalin's plan was an extraordinary mixture of populist demagoguery and political programme built on a dichotomy of state and market: in the name of the people the state was to implement a transformation against itself. The preamble of the programme was addressed directly ‘to the people’ instead of the state while, at the same time, it began with the declaration that, compared to all previous reforms, “the most distinctive innovation [of the programme] is that its principals are based on a new economic doctrine. Movement towards a market economy is *first and foremost the task of the state, not that of ordinary people... The programme's aim is that everything possible should be taken from the state and given to the people* (author's italics). There are good grounds to believe that if the greatest amount of goods and resources can be returned to the people through appropriate means this will result in their far better economic usage and make it possible to avoid many of the negative consequences of transition to a market economy”.

In the introduction to the programme - Concept and Programme – privatisation was defined as the giving back of state property to ‘people’ and to ‘the people’. With only slight exaggeration, the language and tone in which the introduction of a system of capitalist private property was discussed made it seem as if it was actually about introducing societal self-management: "Through denationalisation and privatisation, the right to property is realised by the transfer of state goods into the hands of citizens. It is precisely the transfer of property to the people that primarily demonstrates the social orientation of the economy. This is not an act of revisionism, but of restoring social justice, strengthening the human right to receive a proportion of national wealth”.⁵⁰

In reality, the Shatalin programme, which was to be introduced in August, meant that some in the Soviet leadership were prepared to disregard the original economic concept of *perestroika*, (a programme for producers’ self-management) as developed by Abel Gezevich Aganbegyan. One of Gorbachev's chief economic advisers, Aganbegyan had produced an entire theoretical framework for *perestroika*. The significance of his book was shown by its speedy publication in English in 1988 with a foreword written by Alec Nove, the best known theoretician of ‘market socialism’.⁵¹ The most optimistic left-wing socialists had hoped that it signalled the start of the transformation from ‘state socialism’ to socialist self-management. However, this analysis did not take into account (or naively

⁴⁹ *Prehod k rinku. Konceptija i programma*. Moscow, 1990. It was indicative of the hurry to publish that the programme was put out by the *Children Books (Gyetszkaja knyiga)* publishing house with the process of collating the manuscript beginning on 9 April and going into print exactly one month later. The editorial committee was composed of Shatalin, N, Petrakov, G. Yavlinsky, S. Aleksashenko, A. Vavilov, L. Grigoryev, M. Zadarnov, V. Maschits, A. Mihailov, B. Fyodorov, Y. Yasin. Individuals representing some of the republics participated in the production of the book, if not its writing, and gave their names to enhance the book's pan-federal prestige. The work of many famous (or subsequently well-known) scholars was drawn upon including N. Shmelyov, V. Musatov, Ye. Gaidar, T. Zaslavskaya, A. Aganbegyan and many others.

⁵⁰ *ibid*

⁵¹ A G Aganbegyan :*The Challenge Economies of Perestroika*. London -Sydney-Hutchinson, 1988

ignored the reality) that an even greater priority than *catching-up* swiftly emerged as the driving political force in the Soviet Union, one that was diametrically opposed to the anti-bureaucratic/self-management based reform of socialism.

The idea of self-management had appeared earlier outside of the Soviet Union. In Hungary the practical basis for self-management was weak following the dissolution of the workers' councils set up in 1956. However, at a theoretical level it remained a powerful idea. Relatively well developed theories existed both as philosophy and in terms of economic science. Even before the change of system and the return to a market economy (understood as capitalist private property), the majority of the original theoreticians of self-management in Hungary pointed to three main issues: 1) the Yugoslav model of self-management had failed, 2) during the 1980s in Poland those advocating self-management in Solidarity and been defeated, 3) international conditions had changed in favour of multinational capital and centres of international finance (globalisation). We should also emphasise a fourth factor, that the rejection of self-management reflected a change in the interests of economic and political elites and managers (something which the former advocates of self-management were not keen to mention). After 1985, neither the intellectual concept of self-management, nor its political representation was regarded as 'realistic' because the state socialist elites had become aware of new options for survival. In Hungary, the majority of George Lukács disciples from 1968 - contrary to their teacher's views - came to espouse liberal economics justified by the need to integrate into global processes..

A similar intellectual journey was made in the Soviet Union too, though over a somewhat shorter time frame. The main outline of an concept of self-management first surfaced publicly in 1988 and was defeated during the course of 1990 precisely when Workers Committees of Employee Collectives emerged to oppose the alliances of both the democrats (i.e. liberals) and state apparatchiks, as well as the forces of conservative restoration.⁵² From the summer of 1990, the proponents of 'self-management' were represented in the Central Committee of the CPSU by the so-called Marxist Platform, led by the young economics professor Alexander Buzgalin. This group was the first to perceive one of the fundamental characteristics of the situation: that *perestroika* would ultimately open the way for a neo-liberal solution to the problems of the economy. The Marxist Platform believed that only by encouraging workers' self-management could the Party gain support from the masses that would not lead back to pre-*perestroika* days, but to a new economic system in which many millions of workers would have a direct interest.

The 'free marketers' also advocated that people have a 'stake in the system', but from the quite different perspective of monetary relations and exchange. Though not said in so many words, unambiguously by their actions they enabled the top layers of society, the managers, significant groups among the nomenclatura, financial bureaucrats etc. to secure advantageous positions from which to pursue their interests at the expense of 'the productive classes'. The entire 'transition', the privatisation of state property (as distinct from socialist self-management or other kind of collective solution) was to be carried out in accordance with international commercial norms. The supporters of self-management had no cogent answer to this demand since the majority of the population (including many of the CPSU's almost 19 million members) were not 'ready' for a non-market model of genuine self-management. From one day to the next, it was simply not possible to abandon the centuries old

⁵² Left wing economists and theoreticians also provided an intellectual basis to this emerging movement (Buzgalin, A.Kolganov and Boris Kagarlitsky, who had been imprisoned during the Brezhnev period.) On the organisation of the platform, see A Buzgalin: *Belaja vorona. Poslednyj god zisznyi CK KPSzSz: vzgljad iznutri*, Moscow, 1993, pp 57-76. D. Mandel's critique at end of 1990: *Perestroika and the Struggle for Power in the Soviet Economy: A New Phase in the Labour Movement*. 1991, pp 117-154

link, or at least the belief in it, between capital (market) and state power, even though there was traditionally strong antipathy towards private property in the Soviet Union.⁵³

Emotional rejection of private property was one thing, but an even bigger problem for the advocates of self-management was that society's capacity had hardly developed due to the overbearing power of the Soviet state. It was no accident that the workers did not defend state property. Stalin's Constitution had proclaimed the 'property of the working people', however the form which the 'property of all the people' (Kruschev) took meant that it was under the supervision and control of a variety of bureaucrats (management bureaucracy, state and Party bureaucracies, military bureaucracy etc.) and guaranteed these groups privileged social status.⁵⁴ Even when *perestroika* was unravelling, the leaders of the CPSU did not incite strikes or mass movements to 'save' Soviet property by taking direct control over it. In fact Gorbachev and his followers were more afraid of mass movements than they were of Yeltsin's 'change of system', clearly calculating that a genuine revolution would be more risky than a regime change executed by the elite. Yeltsin had shown that it was possible to address the masses over the heads the bureaucracy, but to incite a genuine mass movement would have entailed enormous risks even if this could have been achieved through the old elitist methods. It only remains to point that the imposition of self-management from above is a contradiction in terms.

As is well known, the *bureaucracy* erected a monumental institutional structure for itself over the decades. In 1987 the Soviet economy supported 38 state commissions, 33 federal ministries and more than 300 regional ministries and authorities.⁵⁵ Drawing on the authority of Aganbegyan, the literature emphasises that each of these 400 odd bodies possessed its own bureaucracy: departments, directorates, offices and other units. Many millions were employed by some 1.3 million productive units (43 thousand state enterprises, 26 thousand construction companies, 47 thousand in agricultural organisations, 260, 000 services providers and over one million retail units). All these bodies employed some 17 million people, around 15% of the total workforce. Top management itself accounted for up to 3 million people.

The initiators of *perestroika* hoped to lay siege to this bureaucratic bunker with the mutually fortifying movements of workers' self-management and *glasnost*. Aganbegyan reported a degree of success in the election of factory directors by workers (in accordance with the government's policy and vision of economic development). As a result, workers' cooperatives were no longer the employees of the directors, but the other way around, or at least the two enjoyed a complimentary relationship. Such developments seem to ensure the socialist direction of economic reform as management could not emerge as an independent force in opposition to the workers and limits were placed on arbitrary and excessive state interference in the economy.

For a short while it appeared that *perestroika's* tendency towards self-management was being built on solid foundations. Already in 1983 Andropov⁵⁶ (whose experiences in Hungary meant he was familiar with the subject) had made some allowance for producer self-management to contain and counterbalance both the bureaucracy and the consequences of market reforms. However, it became apparent that the leasing out of small-scale, state-owned enterprises resulted in consumer goods

⁵³ Self-management initiatives that were already operating failed because of unforeseen problem of 'shortages', bureaucratic resistance, the collapse of links between producers and because international conditions contributed to the discrediting the collective enterprises.

⁵⁴ T. Krausz: "A sztalini szocializmus." In *Lenintol Putyining*. I M pp 87-106

⁵⁵ Paul R. Gregory: *Restructuring the Soviet Economic Bureaucracy*. Cambridge University Press, NY.Melbourne, Sydney 1990, pp 2

⁵⁶ Y. V. Andropov: "Karl Markszi nyeketorije voproszi szocialisztycseszkogo sztroityelsztva v SZSZSZR" *Kommunyiszt* 1983/3

migrating to the private, ‘capitalist’ sector – initially accompanied by a three-fold rise in prices - which Andropov sought to control through discipline and ‘social vigilance’.

From 1988, *perestroika* provided the framework for attempts to weaken central control through the embrace of the market and market mechanisms, central to which was the *hozraschot* system of independent enterprise accounting that was invoked by both the ‘free marketeers’ and the advocates of self-management (though using different meanings of the term). This key element of ‘market socialism’ entailed the replacement of central planning directives by policies of local prices and incentives, extensive autonomy for individual enterprises and decentralisation in general. We have already seen that from 1988 the problem of property pluralism arose in respect of permission to operate ‘co-operatives’. These new forms of economic organisation were naturally small (potentially) private enterprises and, from 1988, were able to employ (along the lines of the Hungarian experience) workers who were not members of the co-operative itself. This development belongs to the pre-history of privatisation in as much as the sole aim of the co-operatives was *market profit*.

The chief anxiety of officialdom was the type of consumer goods which could be freely traded. In December 1988 co-operatives were forbidden from selling videos or manufacturing alcohol, and prohibitions were created in other areas too. There was no intention for the state to give way to private capital and the new ‘private’ sphere was limited to around 3.1 million employees, approximately 2.4% of the total workforce, producing some 3.4% of the country’s GNP.⁵⁷ ‘Self-financing’ gave considerable autonomy to enterprise directors over the use of profits and was the antithesis of producers’ self-management because managers had no interest in sharing power with workers’ collectives. *Management had to engage in a ‘war on two fronts’ against both central and local bureaucracies, as well as against the councils and organisations of the workers (enterprise councils, trade unions etc.). To counter state centralisation they allied with their employees, while relying on market mechanisms and counting on the support of the authorities to oppose the aspirations of the workers.* As we have emphasised, the crucial unresolved question of the whole self-management concept was how it could conform to, integrate with or disengage from the global economy, or even accomplish all three at the same time. The liberals (neo-liberals) felt secure on this point because the Marxists had no adequate answers to the ‘challenge of globalisation’.

Influenced by Michael Ellman and János Kornai among others, one of the leading liberal figures, Grigory Yavlinsky formed his own concept of property drawing on notions of socialism and ‘state capitalism’ and which were in close accord with the practice of the time.⁵⁸ Yavlinsky did not accept the neo-liberal approach to state property, and considered ‘spontaneous privatisation’ unconstrained theft. Yet, in seeking to find a place in the reform process for the ‘management-bureaucracy’ he failed to appreciate that in the Soviet Union, and more generally in Eastern Europe, only a semi-peripheral form of capitalism was possible. Allowing management to ‘opt out from state control’, which Yavlinsky opposed, resulted in the culture of operating ‘two sets of books’ becoming widespread in state enterprises as this enabled the sale of illegally appropriated goods on the black market and for premium payments to be made for non-existent products. An informal corporative network developed among enterprise directors and managers that flourished under *perestroika*. The network, which survived *perestroika*, grew to embrace middle-ranking officials and, by 1987, directors and managers had openly turned against the proprietor of their enterprises, the weakened state. Following two directives of 7 April 1989, practical property reform essentially meant the leasing system within which state enterprises and assets were rented out to private individuals, but not to state companies. Following the collapse of the former owner (the Soviet state) after August 1991 managers took the

⁵⁷ D. Dyker: *Restructuring the Soviet Economy* Routledge, 1992, pp 94-97.

⁵⁸ G. Yavlinsky: *Uroki ekonomiceszkoj reformi*. EPIcenter, Moscow, 1993

place of the state taking both the authority to direct and the assets themselves into their own hands.⁵⁹ While in the past they had had to act illegally to line their own pockets, now they could enrich themselves within the law.

The 'rebel' Yavlinsky condemned this system as 'mafia capitalism' and not part of the liberal reform programme. Yavlinsky and the liberals had in mind 'real' property owners, not those who privatise for their own benefit but those who purchase shares (no doubt thinking of domestic 'investment institutions', foreign capital or banks as who else had access to capital?). However, enterprise directors and local state entities together acquired the majority of shares, thus these denationalised enterprises became neither state owned nor classical private companies. The 'new' state did not even attempt to exercise control as is 'new' officials were too untrained, uneducated and corrupt for the task, a problem that was probably even greater in the non-Slavic republics. The introduction of 'shock therapy' in the early 1990s arrived like manna from heaven for the enterprise directors who became the most enthusiastic supporters and beneficiaries of de-regulation.

According to Yavlinsky's belated - though correct - interpretation, the essence of the problem with management ownership was the lack of a market structure that could guarantee regular business activity. The system that emerged resembled a peculiar lottery where the game only needed to be played once. Since "there was no developed market structure, huge profits could be made without constraint that had no relation to the economic activity or profitability of an enterprise". He concluded that the black market had not been eliminated, as was shown by the prevalence of tax avoidance, various forms of money laundering and the continuation of the 'two set of books' culture. Here we must also include the well known East European practice of privatising the most profitable parts of an enterprise and driving the remainder into bankruptcy. In Russia it was not possible to base the economy on exports alone. For Yavlinsky an 'effective proprietor' was not one who carried off state property and then left it to the next owner to sort out the problems. He pointed out the enormous chasm between theory and practice in the Russian market. "Property" he urged "must be passed to those who have vision". In this respect Yavlinsky was the acolyte of international capital, aiming to restore the responsibilities of management towards the 'true' owner.⁶⁰

Yavlinsky's 'sterile' position failed to take account of the fact that employee ownership could have offered a genuine solution to this problem. On the one hand and not without reason, the Russian liberals/neo-liberals were genuinely afraid of all forms of employee ownership even if it operated on a capitalist basis. At the same time, they were also obsessed with a utopian vision of the essential compatibility of privatisation, 'justice' and 'community'. There was enormous intellectual and moral resistance to the idea of privatisation in Soviet society, though, when later couched in terms of anti-communism, it proceeded relatively smoothly in practise (the explanation for which deserves a separate study in itself).

Though they appear so naïve today, ideas relating to social control of privatisation and the priority of social and producer collectives were included in Gorbachev's presidential decree of 1 March 1990 and the Soviet parliament's property legislation. Alongside the desire to preserve a substantial part of state property (as discussed earlier), preference for communal and collective forms of property was emphasised by the CPSU Central Committee and KEB (?) order of 24 April 1991, which prescribed

⁵⁹ Original analysis of the problem and its understanding has been greatly assisted by the works of István Szelényi and Erzsébet Szalai who have explored the role of economic elite: Szelényi, I, Gyl, E, Townsley, E, 'A posztkommunista gazdasági vezetés (menedzserizmus). A gazdasági intézmények atformálása és a társadalom szerkezetében végbemenő változások a posztkommunista átmenet idején', in Krausz, T (ed.) Rendszerváltás és társadalomkritika, Napvilág 1988 pp.153-193; Szalai, E, Gazdasági elit és társadalom a magyarországi újkapitalizmusban, Aula Kiadó, Budapest, 2001.

⁶⁰ Yavlinsky, op.cit. p. 60

the "extensive participation of workplace collectives and trade unions" in the privatisation process. It is illustrative of the strength of the demand in society for the socialisation of state property that the way privatisation was described made it seem as if it meant the creation of socialised, popularly owned property. At the founding congress the anticommunist opposition movement Democratic Russia on 20-21 October 1990 the problem of privatisation and the protection the welfare of workers was discussed as if the two were not incompatible (reminiscent of the moralising populism of Shatalin programme). Subsequent accounts of this period of economic history do not interpret such popular sentiments as the legacy of certain historical experiences of social self-regulation,⁶¹ but rather as the remnants of an irrational attachment to state socialism and collective property and in stark contrast to the economic rationality of 'pure' private property.⁶²

Based on the later experience of privatisation in the Soviet Union, a more objective assessment of employee ownership that examined the role of small shareholders in relation to production would conclude that privatisation was fundamentally about *power* and sought not only to abolish state property, but also to destroy any meaningful 'employee ownership'. Under the new system, employee ownership could only have existed as a form of private property and, being alienated from the producers themselves, excluded workers from involvement in the affairs of the enterprise and even from partaking of its profits. Some more partisan analysts have insisted that without directly participating in the direction of the enterprise and the control of management the worker-owner cannot exercise the functions of a proprietor, although 'popular share ownership' may itself be a significant factor in protecting employment. In the final analysis, in a market economy "the 'formal' proprietor becomes the 'real' owner when the owner's interests supersede those of the producer".

This irresolvable contradiction within the system meant that the owner-producer could not play the same function in the factory as had the workers' councils in Russia in 1917 or in Hungary in 1956 when, as the representatives of the community of workers, they were in charge of property (i.e. the production process) and factory management operated under the workers' collective control.⁶³ Large-scale 'employee ownership' itself represents a danger in capitalist conditions since, in times of crisis, the demand for self-management may arise and threaten the system of private property. Thus, property and power are intimately related. Ultimately, the fate of collective property in the Soviet Union was sealed, but this process cannot be fully understood without reference to the international context which had a decisive influence over the change of system in the Soviet Union and, in particular, over how property was to be reallocated

B./ The IMF's Solution

December 1990 saw the publication in the USA of a "non official" and "non binding" study, the preparation of which had been initiated by the leaders of the great powers in July 1990 at the suggestion of the Group of Seven (G7) at the Houston Summit. Accordingly, staff at the IMF, the World Bank and the OECD, as well as advisers to the President of the EBRD prepared a voluminous

⁶¹ Under Yeltsin's presidency in the early 1990s Chubais' voucher privatisation was introduced in order to manipulate society's mood and ideology under the slogan of the people's dividend, but which in fact defrauded the workers. The author has personal experience of being offered such a voucher in a public house in exchange for a glass of beer. In the end, the voucher scheme was one of the methods by which society was deprived of its assets.

⁶² From a similar ideological perspective see. Y. Alexandrov: "Privatizacija obcsesztvennoj szobsztvennosztyi v Rossii ekonomicseszakaja teorija." In *Szobsztvennoszty v XX-om szeptolyii. K 80 -letyiju akademika V.A. Vinogradova*. Moscow, ROSZPEN, 2000, pp. 490-506. The prevailing neo-liberal orthodoxy led the author to effectively adopt the Stalinist logic that there is essentially no difference between state property and social-communal property. Collective property simply disappears into the realms of utopia.

⁶³ T.V. Gavrilova: "Akcioneronoje szobsztvennosztyi I korporacionnoje upravlenyije." In *Szobsztvennoszty v XX szeptolyii*. I., pp 628-631 and D.O. Csurkov: *Russzkaja revofluciai rabicsyje szamoupravlenyije*. Moscow, AIRO - XX, 1988

document that, in light of subsequent events, effectively became the programme for regime change in the Soviet Union.⁶⁴ Following the publication of this document Shatalin's populist programme was no longer of unique interest because the Soviet leadership and the international community had now found a *modus vivendi*. By then power had passed from Gorbachev to Yeltsin, which had removed all remaining practical barriers to a change of system. Carefully written so as to be largely free of ideological formulations, the IMF study was promoted as a 'model' and a 'resource' for the economic concepts and policies for the Soviet change of system.

Not forgetting the importance of external factors, the collapse of the Soviet Union and the failure of the state socialist system would not have happened without the decisive role played by domestic economic and political crises and the active co-operation of the Soviet state elite. There can no longer be any doubt that the disintegration of the Soviet Union and state socialism was bound up with the unreserved embrace of the global economy by those in power in order to preserve their own positions, maintain their luxury lifestyle, and to ensure their control over state property in perpetuity. Fearful for their social position, the elite was open to any solution which would consolidate their status. The most powerful groups in the Soviet Union joined an obvious and *open* alliance with the international centres of power and money. The idea that the change of system arose from an external 'conspiracy' (still popular in some circles) is untenable since the IMF study quite openly stated its intentions, including collaboration with the leading organs of the Soviet state in what it called a "*secret alliance*".

The IMF study "undertook a detailed analysis of the Soviet economy so as to propose reforms and define those criteria against which Western economic assistance may most effectively support those reforms". Such a considerable research initiative and collection of data could not have been accomplished without the active co-operation of the Soviet authorities, a fact indicative of the true agenda. The study (which included only the 'main conclusions' of the research) expressed particular thanks to Soviet federal and republican institutions for their "comprehensive and substantial support and assistance". It also thanked, by name, particular 'sponsors' including the Ministry for Foreign Affairs, the Foreign Trade Committee of the Council of Ministers (which had organised many of the discussions), the State Bank, the State Committee on Education, the State Planning Committee, the Finance Ministry, the Ministry of Foreign Trade, the State Reform Committee of the Council of Ministers and many other leading institutions. It also referred to many meetings held in Moscow, Brussels, Paris and Washington.⁶⁵

By the summer of 1990 reputable American politicians and businessmen were already talking openly about how the Soviet Union could no longer get itself out of trouble and the need for direct international intervention. The correspondence between George Soros and Boris Yeltsin at this time is particularly revealing. Writing shortly before the meeting of the G7, Soros made two important points: "In the interest of the whole world we must avoid a chaotic collapse. *Contrary to normal practice, far reaching intervention in the internal affairs of the Soviet Union is essential* (author's italics). The only way in which this intervention can be both effective and acceptable is if its directed towards establishing a monetary system which transform the Soviet Union into a federation of independent republics and, in the case of the Baltic republics, independent states... success or failure depends on whether a monetary system can integrate the economy, determine the method for reviving the collapsing economy... *The Soviet leadership is well aware that it would be impossible to establish such a currency without outside help. Not only is credit needed, but also the creditworthiness to be derived by commitment from the West. If the G7 indicates its willingness to support a monetary system which can revive the Soviet Union the offer should be enthusiastically accepted...* (author's italics).

⁶⁴ *The Economy of the USSR: a study undertaken in response to a request by Houston Summit: summary and recommendations*. IMF, World Bank, etc. Washington, 1990

⁶⁵ *ibid.*

Assistance must be provided for defined programmes and given to new people. The way out for the whole country lies through Russia."⁶⁶

Yeltsin replied the same day. His imagination was not fired by the suggestion of a monetary system and rather disliked the idea. However, as the principal 'Regime Changer' Yeltsin asked for Soros' support, pointing out that he was the right man, the 'new person', who was worth giving money to because, to put in crudely, he was the one who could realise the independence of the republics. Furthermore, he expressed anxiety about the President of the Soviet Union receiving financial assistance as its ineffective use would, as he put it, discredit Gorbachev.⁶⁷

In contrast to Soros, the G7's study focussed its attention not on the financial system, but on the ideological starting point of getting rid of the planned economy. The programme advocated a rapid *breakthrough*, echoing the slogans of *perestroika's* leaders for 'speeding up' and 'breaking through'. However, the difference lay in the unambiguous aim to proclaim a capitalist market economy. though the term 'capitalism' itself was hardly used in the document itself.

Similar to Shatalin and Yavlinsky proposals, the IMF study envisioned a 'democratic capitalism' based on a market economy (as if utopian capitalism would displace utopian (developed) socialism, though no more than was the case in Shatalin's programme). In terms of its implementation one could be forgiven for seeing a parallel with Stalin's 'great leap forward'. Shatalin's programme was the first to outline the now well-known methods for 'reconstruction': swift and radical change, breakthrough. The IMF's programme outlined the criteria for the creation of a 'market economy' as: the liberalisation of prices in accordance with conditions for both domestic and foreign competition, the encouragement of private property and the privatisation of state enterprises.

The principles for the regulation of enterprises, which were contained in the planned basic law of the Soviet Union in October 1990, had already provided of the possibility for a private sector on the basis of property pluralism since "the establishment of market relations" presupposes "free enterprise", including the entrepreneurial operation of state property, and even prescribed the abolition of the crime of "private business activities" from the Soviet legal code. The preamble of the draft law, which was drawn up by a commission led by Abalkin, declared "freedom of choice in forms of property and economic activity" as well as "free and healthy competition". It continued that "within the framework of a market economy, the leaders (directors) of state companies appointed by the state (or chosen by workers' collective) fulfil the functions of an entrepreneur in accordance with the activities and limits assigned to them in respect of trade, innovation and risk taking". At the same time, the document made only a quantitative distinction between private and collective enterprises.⁶⁸ As a result it becomes hard to distinguish between the 'socialist' Soviet legislation and the Russian law.

It was no accident that the IMF's programme praised the principles outlined by Gorbachev (the authors of which were also among those who wrote the draft legislation discussed above) as heading in the direction of establishing a market economy. Nevertheless, it still sought to draw the attention of the Soviet leadership to certain "specific actions to ensure that the transition is successful".

First and foremost it promised "technical assistance" from the West by which was meant the rapid creation of the institutional infrastructure of a market economy. However, there were sharp and deep

⁶⁶ For the correspondence (in Hungarian) see, Soros György, A lehetetlen megkísértése. A kelet-európai forradalmak és a Soros Alapítvány, Budapest 1991, pp.117-120

⁶⁷ *ibid.*

⁶⁸ RGANI, *ibid.*

differences between the establishment of such an institutional structure in Russia and the way developed capitalism operates according to the structures found in the central capitalist economies. These differences reflected the fact that integration into the global economy and becoming part of the capitalist centre represent two entirely different sets of problems.⁶⁹ The experts from the IMF believed that “the private sector could play a substantial role” even in respect of this ‘technical assistance’.⁷⁰ A ‘market economy’, ‘balance of payments’, ‘systematic reforms’ would all contribute to the ultimate solution – the closer integration of the Soviet Union with the global economy. The Central Committee concurred with this aim and in December extended an invitation, in accordance with ancient custom, to an American businessman of Russia origin, a descendant of a former Czarist minister, in order to demonstrate the Party leadership’s commitment to new forms of international economic cooperation. The account of this meeting (signed by V Ivasko) served as a declaration of the transition to a market economy. The document also emphasised that the principle aim was for foreign and American capital to “support the radical measures taken by President Gorbachev which are aimed at stabilising economic, social and political conditions in the country”.⁷¹

The IMF study only objected to and strongly rejected one matter in respect of the redistribution of property: employee ownership and communal property in general. It devoted considerable space to criticism of the practice of allowing employees to own property (and of all forms of collective property), which had been tried in the Soviet Union (and in other Eastern European countries). With no little cynicism, the ‘G7 study’ noted the disappointing experiences of other countries, even though by that time it would have been known that the Hungarian government and political parties brought all their power to bear on restricting and paralysing the acquisition of communal-employee property meaning that in fact it was the workers’ experiences that were disappointing. The essential parts of the IMF’s concept were realised in the former Soviet Union in so much as a new power was established to oppose workers and employees becoming property owners, at whose expense profited the managers and directors, those who had run state enterprises in the Soviet times, the nomenklatura’s people.

Later experiences of privatisation showed that where there is a shortage of capital privatisation can only take place through raw expropriation. This fraud was most clearly demonstrated by the ‘voucher’ scheme or ‘popular privatisation’, which accorded with spirit of Shatalin’s programme but which was at odds with the more cautious IMF programme. The preferred method for privatisation was ‘management privatisation’, which involved an alliance of bankers, managers and state functionaries. With state approval being given on the grounds of it being to ‘everyone’s benefit’, officials at the state bank would authorise the maximum amount of credit at the lowest possible price for the ‘purchase’ of the most profitable parts of enterprises.⁷² It would seem that the IMF’s advisers - to use the old Marxist-Leninist terminology – wished to establish the ‘social basis’ for the realisation of their programme by promoting a class of ‘influential men’. In practice, these people were handed state enterprises, which was justified in ‘scientific’ language as “placing large scale enterprises on a commercial footing and ensuring they function as such while they remain in public ownership.” According to the programme, enterprises should function as a kind of joint stock company “free from state control, with state holding companies following the model of private sector holding companies”.⁷³ As is now well known, due to the lack of capital in the system, the end result was that

⁶⁹ Historical and intellectual analysis of this phenomenon was undertaken in the 1970s by Immanuel Wallerstein: *The Modern World-System. Capitalist Agriculture and the Origins of European World-Economy in the Sixteenth Century*, Academic Press New York, 1974.

⁷⁰ *The economy of the USSR, op cit.*

⁷¹ RGANI, F.89. op.11. d 67. pp.1-3. *O vsztrecse sz Dmitrijen fon Vitte*. 3 December 1990.

⁷² See for more detail in “Privatisation in Russia” in *Socialist Economic Bulletin*, December 1997

⁷³ *The Economy of USSR*, *ibid* pp 27

the rapid ‘emancipation’ of state property descended into a frenzy of division and acquisition by the elite (which Russian called ‘*prihvatizatsya*’).

We recall that Yavlinsky, the head of the liberals, had wished to see ‘real’ owners who had bought shares on the open market (domestic investment institutions and foreign capital and banks - who else had the capital?) not the nomenclatura and management bureaucrats privatising to themselves with state support. “Property” said Yavlinsky - “must be passed to those who have vision”. In this respect Yavlinsky was the acolyte of international capital, aiming to restore the responsibility of managers towards the ‘true’ owners. However, it is not clear why the new proprietors should have ‘withdrawn’ in favour of foreign capitalists as this would have undermined the social basis of the system. Once more it can be seen that property and power relationships were one and the same and Yavlinsky’s “good capitalism” foundered on the absence of objective conditions.

Yavlinsky’s analysis, written after the transformation, was even more divorced from reality than even Shatalin’s plan. Yavlinsky wrote that there had not been (and still isn’t today) a market structure which would guarantee normal business processes. Instead, a system emerged which resembled a peculiar gamble, one where the ‘game’ only had to be played once since “there was no developed market structure, huge profits could be made without constraints that had no relation to the economic activity or profitability of an enterprise”.⁷⁴ The black market and the shadow economy were not eliminated and capital was characterised by tax avoidance, various forms of money laundering, innumerable types of fraudulent privatisation, etc. The hallmark of the new system was a lack of clear boundaries between legitimacy and criminality.⁷⁵ It is no surprise that none of what Shatalin’s programme anticipated came to fruition other than the fact of the ‘redistribution of property’. The consequence of all this has been that to this day privatisation has not attained social legitimacy in the successor states of the Soviet Union because the new regimes were unable to observe basic moral or even legal standards in their expropriation of state property. In the wake of the catastrophic experiences that have accompanied the change of system, Yavlinsky has sought to justify himself by condemning the leaders of *perestroika* as ‘stupid’ and messing up the property question, as if the theory itself was good and only the practice at fault.⁷⁶

In essence *perestroika* came to an end with the private expropriation of state property. Instead of a new ‘democratic capitalism’, a ‘Russian capitalism’ reminiscent of the early 20th century emerged⁷⁷, the political framework for which was symbolically provided by the ‘Operetta-Putsch of August 1991 and Boris Yeltsin’s ‘18th Brumaire’ of 4 October 1993. The first represented the end of the state socialist system, the latter the victory of the Russian market economy. The ‘putsch’ was carried out by those members the power elite who did not want to abandon the old system, while the latter was financed by international capital against those groups who had been left out of the ‘redistribution’ of property.⁷⁸ The *state* remains the strict guarantor of property relations defining both the ‘state dependency’ of the new Russian bourgeoisie and the political-institutional conditions for the emerging class society.

⁷⁴ G. Yavlinsky: *Uroki ekonomiceszkoj reformi*. EPIcentr. Moscow, 1993, 10-18, 58-62.

⁷⁵ P. Klebnikov: *Godfather of the Kremlin: Boris Berezovsky and the Looting of Russia*. Harcourt,, N.Y. 2000. V.Radayev: *Tyenyevaja ekonomika v Rossii: izmenyenyije kontorov. Pro Izima 1999*, 5-23. The entire issue is taken up by the shadow economy. The problem is examined from a different angle in *Eszmélet*, No 56 (2002/winter) 79-89: I. Borsz Kagarlitsky: “Political Capitalism and Corruption in Russia.”

⁷⁶ Not surprisingly Yavlinsky has attempted to position himself as critic of the emerging situation and blame the politicians. In Hungary László Csaba represents the naïve assessment of the IMF’s approach that the neoliberal plans were fine, it was just that ‘Russians’ made a mess of the things.

⁷⁷ See “Putyin és az orosz kapitalizmus. Utószó a jecinizmus kérdéséhez” in *Lenintol Putyinig*. Ibid.

⁷⁸ See J W Moses: Borisz Jelcin Brumaire 18^{thm} *Eszmélet (1996/spring) 29 pp.165-182*