

where they found a security which is now endangered by the introduction of market economy.

Loss of securities, the feeling of vulnerability and the fear to fail are the feelings that move the workers of the modernized workshops of the Peugeot factory that Michel Pialoux presents in his paper. Pialoux analyses the failed attempt by management to introduce a Japanese model of work organization into modernized workshops with high technology and to promote a new culture of work. The attempts fail because the workers refuse to be separated from their established workteams and to adapt to a new code of behaviour. However, the fear of an uncertain future remains and the workers oscillate between two temptations: to play the game of the enterprise and to accept the new competitive individualized identity or to fall back on the old models of workers resistance and to turn back to the tradeunion delegates who have lost much of their symbolique authority since the 1980s.

In the papers presented here not much is to be felt of the optimism that the political changes of 1989 arose in East and West. The changes in Eastern Europe that should bring about a new era of wealth and prosperity recall on the shopfloor the industrial decline in the West. The problems encountered by managers and workers in Eastern Europe are not the problems of transition but the problems of liberal market economy itself. It is the strength of the social anthropological approach to be able to question the idea of unilinear economic and social progress by resituating the economic in its cultural and social context.

Birgit Müller

*Industrial Involution: the Russian Road to Capitalism**

Michael Burawoy

For the second time this century Russia is being subjected to utopian experiment. Compared to the conditions for the transition to socialism after the October Revolution which could not have been more unfavorable — a raging civil war in a largely peasant society, encircled by enemies from a hostile capitalist world — the conditions for the transition to capitalism seventy four years later are auspicious. The majority of Soviet citizens have been happy to leave socialism behind, the capitalist world embraced Russia in its new garb of democracy and markets, and the economy was much more developed. Nevertheless, the first three years of the post-Soviet era have witnessed a precipitous decline in GNP, industrial output, and investment. Inflation although it has fallen remains high (table 1). How can we explain this headlong descent and will it continue?

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TABLE I: MACRO-ECONOMIC DATA FOR RUSSIA*

	1989	1990	1991	1992	1993	1994**
%CHANGE IN GNP	3.0	-2.1	-12.9	-18.5	-12.0	-17.0
%CHANGE IN INDUSTRIAL OUTPUT	2.0	-2.2	-8.0	-18.8	-16.2	-21.0
%INFLATION IN CONSUMER PRICES	4.0	5.0	92.6	1,354	880	180
%CHANGE IN FIXED INVESTMENT	4.0	0.1	-15.5	-39.7	-15	-25

*Sources: The Economist Intelligence Unit, Country Report, Russia, 3rd.Quarter, 1994; Economic Survey of Europe, 1993-94 (Secretariat of the Economic Commission);Izvestia

**Data for 1994 estimated

There are, in fact, quite a number of theories that purport to explain these figures. For political theorists who regard the collapse of the Soviet Union as the collapse of a totalitarian order, the disintegration had to be total and the destruction of the economy inevitable. Only out of the rubble could a new order be created. Neo-liberal economists, who prescribed shock therapy to destroy the old economy, are rubbing their hands in self-congratulation. In their view recovery depended on the rapid, surgical removal of all its cancerous organs. The figures suggest that the operation was successful even if the patient is barely surviving. Where totalitarian theory conspires with neo-liberal orthodoxy to celebrate revolutionary rejection of the past, evolutionary theory looks askance at the attempt to demolish everything Soviet. For these more cautious pundits the economic nose dive is the product of

irresponsible policies. Finally, for those who instead of total collapse see institutional legacies, decline is the result of rearguard resistance from unextinguished forces in civil society.

For all their differences, and we shall examine them in greater detail below, these four theories share two assumptions: a faith in the virtues of a market economy and the attribution of present malaise to defects of the Soviet order. The theory I propose in this paper takes the opposite view: that markets can, and in Russia do, accelerate the decline of an economy by siphoning resources from the sphere of production into the sphere of exchange, leaving the former structurally unchanged and quantitatively diminished. Therefore, instead of revolution or evolution I propose a theory of industrial *involution*¹ — an economic “regression” which is not preparatory for a future resurgence but is chronic and persistent. We are not witnessing a “transformational recession” (Kornai, 1994), that is an interlude of anomie between socialism and capitalism, but systemic underdevelopment.

The economic indicators are consistent with the euphoric view that the quicker the Russian economy “bottoms out” the better, as well as with the pessimistic view that sustained recovery will be problematic. Macro statistics cannot discriminate between these two views since economic indicators conceal the variegated and uneven processes of which they are the effects. Nor can we distill these underlying processes from political crisis and economic propaganda, which again are only the tip of the iceberg. Instead, we must leave the helter skelter of Moscow and St. Petersburg and venture into the regions, studying the noisy sphere of trade and finance but also entering the hidden abode of production. I do not apologize, therefore, for taking industrial case material from one of the most northerly regions of European Russia — the Komi Republic — where together with Pavel Krotov I have been conducting research since 1991.

With the land size of California and a population of two million, Komi is known for its raw materials and for its long history of labor

camps that stretches back into the last century. I propose to focus on the fortunes of two of Komi's main industries: the timber industry which spreads throughout the territory but has its headquarters in Syktyvkar and the coal industry which is concentrated in the most northerly part of the Republic, beyond the Arctic Circle in and around the city of Vorkuta. Any theory of transition must not only explain the macro indicators but also the combined and uneven character of the transition as, for example, displayed in these two industries.

1. Combined Involution. The effects of market forces cannot be understood outside the pre-existing social and economic relations that receive them. The result is a transition that so far can be divided into three successive phases: disintegration of the party state when barter flourishes; economic reform when inter-enterprise relations are monetized; further regression when barter is restored.

2. Uneven Involution. Economic decline works itself out differently in different sectors. Although the demand for timber is much greater than the demand for coal, and the costs of timber production less than those of coal, the timber industry has collapsed much more rapidly than coal. Moreover, the collapse occurs not with the disintegration of the party state but with the onset of economic reforms.

I shall argue that these features of the transition can only be comprehended by (1) viewing the transition as a path dependent process in the sense that one phase sets limits on the possibilities of the next; (2) comparing both the political implications of economic differences and the economic implications of political differences between sectors and (3) examining the relationship between exchange and production. In the next part of the paper I consider the failure of conventional models to fulfil these three requirements while in the second part I develop an alternative theory of industrial involution.

I: Models of Transition

When Hungarians joke that the worst thing about communism is post-communism, they are, of course, not joking. They are saying that the communist past has an iron grip on the present, choking off the radiant future. This is particularly surprising since, of all the former communist countries, Hungary was the best equipped, institutionally, to take off into capitalism. During the thirty years before the collapse of communism Hungarians dismantled physical planning, promoted a thriving and legal second economy, lifted price controls and opened up a market in consumer goods. They are now mocking their immediate post-communist illusions that the past can be wiped out and a Western market economy installed overnight. With their eyes rivetted on the capitalist peaks that seemed so close, they didn't realize they were already stumbling into the valley of post-communist depression. Still, they have no doubt that Hungary's present malaise is due to the legacies of communism and not to the defects of an already arrived capitalism. As they wade through the undergrowth, they retain their faith in a capitalist utopia, at present, beyond their reach.

Theories of the transition from socialism to capitalism diverge in many respects but they are all caught on the horns of the Hungarian dilemma — between visions of a capitalist future that cannot be realized and of a socialist past that cannot be overcome. In approaching the transition either from the standpoint of its origins or from the standpoint of its futures they cannot comprehend the transition as *sui generis* process that takes off in one direction, reverses and takes off in another direction. Nor can they explain the unevenness of changes as between regions or within regions between sectors of the economy.

Moreover, appearances to the contrary, debates about the future are not about feasible scenarios but about the virtues of capitalism just as debates about the past concentrate on the political defects of the former Soviet Union. Russia is measured against stereotypes of Western liberal capitalism. Instead of empirically examining what it is and where

it might be going, instead of endowing it with theoretical and analytical integrity of its own, too often Russia becomes "Other" — a mirror to celebrate our own imagined distinction.

Thus, capitalism by design has two models. The first is based on a neoclassical model of markets in which state socialism becomes an irrational system cursed by allocational inefficiency. The appropriate recipe, therefore, is a sufficiently big shock that shatters the remnants of the old order. Into the vacuum would rush new market institutions. The second model is based on the new evolutionary economics which criticizes neoclassical representations of capitalism for their static character. Instead of allocational inefficiency the real shortcoming of the Soviet economy was its dynamic inefficiency, its inability to continually reconstitute itself. In this view stable external institutions are necessary to create the framework for dynamic capitalism and the appropriate recipe for transition is not shock therapy but piecemeal social engineering.

Arguments about the hold of the past also revolve around two models of political liberalism. In the first model of "polyarchy" the virtues of the West are reduced to electoral democracy so that the Soviet Union is condemned as totalitarian. The second model challenges the totalitarian perspective by arguing that the stability of any political order — Soviet or capitalist — depends on an autonomous civil society. In this view the domination of the party state was far from complete — it both created and depended on spontaneous organization outside its control. The collapse of the party state left behind institutions of society. Instead of "aftermath" and "collapse" we have "legacies" of the past.

We can present these four approaches to the transition as dominant and challenger theories within origin and destination driven perspectives, but they can also be distinguished by their understanding of the relation between politics and economics. In rejecting the past and embracing the future, totalitarian and neoliberal models separate

politics from economics whereas the challenger models focus on continuity with the past or evolution into the future and therefore tend not to differentiate between politics and economics.

TABLE II: MODELS OF TRANSITION

		Orientation	
		<u>Origins</u>	<u>Destination</u>
		Political/Societal Models of Communism	Economic Models of Capitalism
Relation of Politics to Economics	<u>Separation</u>	TOTALITARIAN Collapse	NEOLIBERAL Shock Therapy
	<u>Inter- Penetration</u>	SOCIETY CENTERED Legacies	EVOLUTIONARY Two tracks

While all these theories can explain Russia's unilinear decline to-date they have much greater difficulty grasping the combined and uneven character of the transition. Crude political theories of total collapse are all thumbs, while neo-liberal economic theories of shock therapy are handicapped by unexplicated relations between markets and production as well as a primitive understanding of politics as *deus ex machina*. Evolutionary theories are better because in condemning shock therapy they give credence to the peculiarities of the old regime

but they too concentrate on equally untenable prescriptions at the expense of understanding the rhythm of change and variation. Only the society centered models which eschew normative solutions and have a sufficiently nuanced grasp of the old order come near to regarding the transition as a *sui generis* process. But in succumbing to the burdens of the past, they overlook the simultaneous constitution of the new. It is the distinctive combination of old and new that gives rise to the ziz-zags of successive phases and to the divergent paths of different sectors of the economy. For this we need a model of involution.

1. *Totalitarian Models*

In the unrevised totalitarian model the party state or what Martin Malia (1994) calls the "ideocratic partocracy" swallowed up the entire life of the nation and when it disappeared the entire social order turned to rubble. The trajectory of the Soviet Union began with the original sin of the Bolshevik seizure of power. It was an attempt to coerce history into the impossible task of "building socialism". From the beginning communism was inscribed with a genetic code that entailed its inevitable demise. "If in the end Communism collapsed like a house of cards, it was because it had always been a house of cards" (p.496). "After the Soviet deluge there was only a void." (p.497).

No less sweeping in his indictment of communism, Richard Pipes (1994) is nevertheless more optimistic about the future. Whereas the Bolsheviks exploited the past — "the country's patrimonial culture with its acceptance of unlimited state powers, animosity to private property ... and disrespect for the law" — postcommunist Russia shows signs of renouncing the past — its claims to uniqueness, its missionary zeal, its resort to violent solutions of political crises and above all its patrimonial heritage (Pipes, 1994: 19; 49-52). Their differences notwithstanding, for both Malia and Pipes, there is no transition —

only a thick line between the collapse of the old and the construction of the new.²

Writing in the same genre Ken Jowitt (1992) also dispenses with "transition" in favor of the biological metaphors of extinction and genesis. The Leninist extinction creates chaos and disorder on the one side and possibilities for something entirely new on the other. "The truly remarkable feature of turbulent, dislocating, traumatic Genesis environments is the dissolution of boundaries and related identities and the corresponding potential to generate novel ways of life" (p.266). Pulling back from radical discontinuity, however, Jowitt appeals to a Leninist legacy, "understood as the impact of Party organization, practice, and ethos, and the initial charismatic ethical opposition to it [which] favor an authoritarian, not a liberal democratic capitalist, way of life" (p.293). In short, the collapse of the old order created an institutional vacuum bridged by cultural legacies. Such a perspective explains discontinuity and continuity separately but not in that complicated combination that lends distinctiveness to the transition.

For these commentators "collapse of communism" is a platform for their philosophies of history. None of them pay much attention to what is going on in Russia today. Bunce and Csanadi (1993) are different. They give more substance to the state of flux and fluidity that engulfs communist societies caught between the aftermath of collapse and aspirations for revolutionary transition to capitalism and liberal democracy. They operate with a Western accounting system — the economic and political monopoly of the party creates "deficits" in private property, a bourgeoisie, organized interest groups, political parties, unions, and informal associations and organizations (pp.246-7). The transition, therefore, is replete with "contradictions, weak and partial institutions, poorly defined interests and considerable levels of uncertainty" (p.242). We need a special social science of liminality in which "idiosyncratic factors" play a powerful role, "everyone feels bereft of defenses and therefore bombarded by the environment," and "strategic behavior" is difficult. Simply put, there can be no logic to

the transition because the old order has collapsed and the new one has yet to be born. These societies are in a state of anomie.³

As scholars follow transitions over time, as they examine the regions as well as the center, subordinate as well as dominant groups, it becomes obvious that the party did not hold the central place political scientists accorded to it. The continuity of social order points to realms beyond the party or only weakly controlled by the party — realms which at least partially shape trajectories into the future. As we shall see these moves toward a societal perspective, like the “totalitarian” models to which they are a response, overlook the specificity of the economic. Let us turn, then, to economic formulations of the transition.

2. Neoliberal Theory

On the face of it, totalitarian theory’s account of total collapse is the natural bedfellow of neoliberal theory’s promise of immediate reconstruction through shock therapy. The miracle of the market turns ashes to gold. According to totalitarian theory, “it was only to be expected that a total system should collapse totally, and hence leave behind a total problem ... to climb out from under this universal ‘rubble,’ to use Solzhenitsyn’s metaphor, everything would have to be done at once, thus creating an impossible situation where everything, logically, had to be done first” (Malia, p.506). Neoliberals take over the baton of history: “Both economic logic and political situation argue for a rapid and comprehensive process of transition. History in Eastern Europe has taught the profound shortcomings of a piecemeal approach, and economic logic suggests the feasibility of a rapid transition.” (Lipton and Sachs, 1990: 99. Emphasis added.)

What is this compelling economic logic? Lipton and Sachs itemize the Stalinist legacies which have to be superseded — state ownership of economic enterprises; state regulation of prices, taxes, investment, and interest rates; restricted private sector; distorted prices;

over-investment in heavy industry, absence of small to medium sized firms; central regulation of entry and exit of enterprises; excess demand which creates barriers to private enterprise and leads to backward integration into supply. These defects are the product of the shortage economy whose source is soft budget constraints and whose remedy lies in deregulating prices, tightening credit and monetary supply, introducing bankruptcy laws, privatizing state enterprises and liberalizing trade. It must all happen at once, “the transition process is a seamless web”(99).

If economic logic calls for comprehensive and radical change, why does the political situation require it? Here Lipton and Sachs identify two barriers to the transition: populist upheaval against inevitable economic deterioration of standards of living and bureaucratic inertia from officials who were accustomed to running the old command economy. So new governments should cash in on their legitimacy by undertaking as much as possible as quickly as possible. In this way political dissent, whether from bureaucrats or populists, will mount their challenge only when it is too late.

According to Lipton and Sach’s analysis of 1992, the prospects for the Russian reforms depends on the balance between on the one side ex-communists and the industrial lobby (as organized political forces) and on the other side the government’s will and capacity to introduce reforms despite resistance. Anders Aslund extends this manichean view of the political world by scripting all actors as carriers either of good or of evil, favoring or obstructing progress. The forces of light are “...the bright young Russian economists who have assumed major government responsibilities and Western economists anxious to support the development of democracy, market economy and private ownership in Russia, that will eventually lead to the kind of social and economic welfare that we are used to in the West” (Aslund and Layard, 1993: xiii). Arrayed against them are the forces of darkness: “...the Russian state directors seem to have all the characteristics that we would like to avoid: they have little knowledge of economics; they are firmly

molded by the old Soviet command economy; they know nothing of the outside world; their purpose for coming to power is to gain wealth for themselves and their narrow constituency. It is difficult to imagine any grouping that would be less suitable for governing a country in transition, and it is strange that these obvious arguments have not won the Russian debate" (Aslund, 1993:33).⁴

This Moscow-centric caricature of the field of political forces reflects the moment of extrication from the past, the struggle between defenders of the old order and protagonists of the new. It does not tap the complex set of interests that emerge once opposition to the old order no longer binds actors together. Adam Przeworski (1991: chapter 4) offers a more nuanced analysis of the political dynamics of the transition. He defends shock therapy on the grounds that it will advance further than gradual strategies, given the opposition that mounts with the reforms' negative effects. Tracing the trajectory of popular opinion as the reforms in Poland unfolded, Przeworski (1993: chapter 3) concludes that the transition to a market economy will be a protracted process, easily threatened by fears of unemployment, particularly when social services are crumbling. Support for the reforms was eroded not only by the social dislocation they create but also by the aggressive, anti-democratic manner in which they were pushed through parliament. The reforms were designed with insufficient attention to political factors. "Economic blueprints that treat politics as nothing but an extraneous nuisance are just bad economics" (p.134).

For all his interest in political dynamics his is still a limited purview, confined to the strategic interplay of technocrats, politicians in power and the population. He ignores the formation of actors and interests within the economy itself — the fluctuating and intricate constellation of forces among conglomerates, enterprises, trade unions, and local government as well as their relation to the central state. Not only does he view politics as external to economics, he also has an abstract notion of the economy. In both respects he is like the neo-liberals he criticizes (Przeworski, 1992). If he is more modest than

neo-liberals when it comes to predicting economic recovery, this only underlines his failure to study the real effects of markets rather than than their refracted effects in public opinion. We need an analysis of the political constitution of markets and the conditions under which they promote growth. We need to go beyond neo-liberal economics.

3. *Evolutionary Theory*

Neoliberal calls for radical and incisive surgery conjure up the communist blue-prints for change, its attempt to fashion society anew and from above. They conceive of the transition as a sequence of programmatic stages and ignore the real consequences of one stage for the realization of the next. Theorists of shock therapy stand accused of a utopianism that pays too little attention to real political forces. Their practitioners end up forcing reforms through the Congress of Deputies or the State Duma, or circumventing the democratic process altogether. They come up against a contradiction. As they celebrate the eclipse of the communist order and the disintegration of the party state, they are also losing the administrative levers necessary to impose their will on a recalcitrant society. As their policies shipwreck on the sands of a weak state, they give ammunition to those who propose a more piecemeal approach to reform which would forge compromises with society and the economy. Evolutionary theory paints shock therapists in the same colors as the Bolsheviks. They stand guilty of trying to do the impossible — redesigning society from above. While evolutionary theory is as committed to capitalism as the neoliberals, it pursues the same end by different and more gentle means.

Such strategic and philosophical divergences between evolutionists and neoliberals are based in profound theoretical differences. Evolutionists join the mounting chorus of criticism of neoclassical economics (the theoretical foundation of shock therapy) for its assumptions of complete information, frictionless transactions, unambiguous property rights, profit maximizing actors, and market

equilibria. Real markets don't guarantee static or allocational efficiency, let alone promote dynamic or adaptive efficiency. If neoclassical assumptions are not operative under normal conditions of capitalism, they are all the more irrelevant in transitional economies. According to Douglass North (1990) improving economic performance depends on learning and accumulating knowledge over time and on the growth of institutions that structure incentives. Indeed, in his Nobel Laureate lecture North (1994) concludes that Russia's economic growth depends more on building appropriate political institutions than on privatization. In a similar vein, Nelson and Winter (1982) replace static neoclassical economics with evolutionary economics based on firms that follow "routines," while "searching" for new strategies in a "selective environment."

Neo-classical equilibrium theory cannot see economies as evolving dynamically. It rests on diminishing returns to scale whereas recent theories of path dependency (Arthur, 1990, Arthur et al., 1987) and endogenous growth (Romer, 1986, 1994) demonstrate the importance of positive feedback and increasing returns to knowledge. In this view there is no guarantee that the particular economic outcome will be the "best." Once an economy is locked into a particular trajectory there may be no way of escaping regardless of the benefits of alternatives. Path dependency opens up the possibility of involution as opposed to evolution.

These debates are not merely academic. They are struggles over the source of capitalism's "success" with very different implications for countries seeking to emulate that success. How economists understand the dynamism of capitalism has implications for how they understand the failure of state socialism. Lipton and Sachs focus on the distributional irrationalities of the shortage economy that would be repaired by market forces. But Peter Murrell (1991) argues from empirical data that state socialism was no less efficient in allocating resources than capitalist societies. Where it lagged was not in allocational efficiency but in dynamic efficiency, in its capacity to

promote innovation and technical change. What becomes important, therefore, is an institutional environment that encourages risk taking, that guarantees contracts, that promotes stability and confidence in the future. Murrell (1993) claims that the success of "shock therapy" in Poland was due to reformers' willingness to forge compromises with society. In this way they elicited the support of key actors, namely Solidarity and the Church. In Russia, by contrast, the reformers confronted society as their enemy and sought to wipe out Stalinist legacies. There, they generated stern resistance to their surgery to the point of being forced out of office.

Evolutionary theory, therefore, proposes to compromise with the old while creating the new. This two track strategy, whose leading advocates are Kornai (1990, 1992), Poznanski (1993) and Murrell (1991, 1992a, 1992b, 1993), Goldman (1994) involves channelling resources into an emergent private sector while trying to harden the budget constraints of the state sector. It is better to promote independent entrepreneurship than rapid privatization of the state sector. However, the two are not so independent. On the one hand, the state sector shapes and impedes the expansion of the private sector in the transitional economy no less than under the shortage economy. On the other hand, those private sectors that are expanding, namely commerce and finance, sap industrial enterprises of resources, driving down the economy as a whole. Instead of evolutionary theory we need involutionary theory.⁵

Advocates of evolutionary change often take China as their exemplary success case where decollectivization led to a booming small scale industry alongside the state sector (Murrell, 1992b; McKinnon, 1994; Goldman, 1994). Sachs and Woo (1994) retort that such a strategy can only work in an underdeveloped agrarian society that has still to undergo industrialization. It could not work in an industrialized society like Russia where restructuring sclerotic state enterprises requires much tougher medicine. This may be true but shock therapy comes up against its own limits when it destroys the very institutions that are necessary to apply the medicine. Thus, McKinnon (1992) shows how financial

deregulation and decentralization disable the very central controls, necessary for the transition to a market economy.

Given that in Hungary guarded reforms has led to poor performance, China's lesson is not so much one of gradualism but of the necessity of the party state to engineer the socialist transition to a market economy (Shirk, 1993). As studies of the development of capitalism within socialist Hungary (Szelenyi, 1988; Lampland, forthcoming) and Poland (Salameh, forthcoming; Nagengast, 1991; Poznanski, 1993), the party state can decentralize property rights, promote competition and create markets. In China the party state has orchestrated "local corporatism" (Oi, 1994; Nee, 1992; Nee and Su, 1993) which advanced economic growth through "flexible budget constraints" (Cui, 1994a, 1994b; Walder, 1994a, 1994b) or what Evans (1995) has called "embedded autonomy." The local state is a residual claimant and has an incentive to maximize local economic growth rather than bargain with the center for more resources (Nolan and Xiaofeng, 1992; Walder, 1994b). All of which suggests that evolutionary theory should pay more attention to the political organization of the local economy and its relation to the center (Bates, 1989). By invoking institutions, evolutionary theory moves toward an analysis of the actual processes of transition, but in dwelling on the form of those processes, namely their gradualism, it directs attention away from their political and economic content.

4. *Society Centered Models*

Neoclassical economics deals in the currency of equilibria. It therefore thinks of the transition in terms of a leap from an old equilibrium to a new one. When the experiments don't work, they invoke an arbitrary list of obstructions — from Stalinist legacies to the IMF. History is an afterthought, conjured up to explain failure. By contrast evolutionary theory builds history directly into its models of

path dependency. Even if there is no space for theorizing economic transitions as a *sui generis* process, they do at least recognize the lasting impact of origins. In this respect they are similar to the theories of social legacies which emerge from the critique of totalitarian theory.

The reigning totalitarian modes of Soviet history have long been challenged by social historians who insisted on the limits of the party state. Influenced by the political struggles of the 1920s, both Stephen Cohen (1985) and Moshe Lewin (1985, 1991, 1994) drew broader conclusions that the Soviet order not only created a realm of spontaneous social organization but required such society for its effective functioning. The illegal, second economy, informal bartering, self-organization on the shop floor and the like were simultaneously modes of resistance and incorporation into party rule. When the Soviet state collapsed these social legacies would lend historical continuity to a process which totalitarian theory saw only as collapse and vacuum.

These legacies of the old order come in different stripes. As in the case of failed modernization projects in the Third World, there is a strong temptation to invoke cultural legacies to explain continuing backwardness. It is in this vein that Marshal Goldman concludes his study of failed economic reforms: "Centuries of czarism and seventy years of communism have created a combination of obstacles that makes Russia a special case and its reform effort unusually difficult. They have also created a citizenry conditioned to wait for action initiated at the center, not at the periphery by individuals" (1994: 256). Cultural stereotypes, such as *Homo Sovieticus* who is bereft of initiative, dependent on the state, resents inequality, and is hostile to private property and private enterprise are regularly and arbitrarily deployed to explain deformations of the market economy.

More serious are the attempts to establish the continuity of attitudes based on opinion poll research. Thus, for example, James Millar (1994) compares the results of emigre and more recent surveys to conclude that among the legacies of communism are belief that the

government is responsible for assuring prosperity, employment and welfare, that public institutions are officials are not to be trusted, that crime is part of daily life. Even if we accept the dubious practice of comparing results from very different survey contexts, it is not clear that continuity is a legacy rather than rational evaluation of an unchanging situation. Would US citizens respond any differently? To take a case in point, in their 1990 survey of attitudes toward markets among New Yorkers and Muscovites, Shiller, Boycko and Korobov (1991) did find Russians to be somewhat more hostile to private business and monetization of relations but they were no more concerned than Americans with fairness of prices, or with income inequality and they showed an even stronger support for economic incentives. Although surveys of attitudes are notoriously difficult to interpret, this study shows how easily we stereotype others on the basis of false presumptions about ourselves. It warns against identifying attitudes with cultural legacies, when they can be readily explained as rational responses to situational constraints.

A second legacy is that of personnel. Much has been written about the reproduction of elites through the transformation of political into economic capital (Stark, 1990; Hankiss, 1990; Staniszkis, 1991) — how party bosses reappear as economic managers, or how in the Russian case the legislature is made up of “ex-communists.” Szelenyi, Szelenyi and Kovacs (1994) have examined these claims empirically for Hungary and conclude that whereas political elites have changed, economic and cultural elites have remained the same. Interestingly, their results are at odds with Szelenyi's (1988) thesis that socialism was an interlude of interrupted embourgeoisement. His prediction of the re-emergence of the pre-socialist bourgeoisie in the post-socialist phase is belied by the continuity of economic elites. These studies of the circulation or reproduction of elites often miss the economic and political processes that give rise to the outcomes.

A third legacy is institutional. If under the umbrella of the party state different countries developed different institutional

complexes, then once the party state disintegrates their divergent paths should become transparent. This is the argument behind David Stark's (1992) attribution of different privatization strategies (how assets are valued, which actors are targeted to acquire assets, what resources are used to acquire assets) to their different paths of extrication in Poland (compromise), Czechoslovakia (capitulation), Hungary (electoral competition) and Germany (unification). Stark claims to formulate the emergence of outcomes as a process, contingent on its origins. Unfortunately, he promises more than he delivers. He fails to delineate the processes that connect the patterns of extrication backwards to their antecedent “social structure and political organization” or forwards to privatization strategies. His rejection of “transition” as a teleological construct in favor of the “transformation” turns out to be an arbitrary reduction of outcomes to origins. Such a descriptive account of “transformation” is not a substitute for an analysis of the process of transition. That would require going beyond formulating the transformation in more than negative terms — it is not collapse, it is not designer capitalism — and building a positive theory of combined and uneven change. It would, for example, involve delving beneath formal privatization programs to the concrete struggles over ownership, or discovering the new forms of market embeddedness.

Not surprisingly, when it comes to such analyses of micro processes anthropologists are leading the way. Caroline Humphrey (1991) describes the maize of new relations around local suzerainties, barter and mafia that engulfed Russia even before the formal collapse of the Soviet Union. Developing these ideas and applying them to Romania, Katherine Verdery (1992) analogizes the transition from state socialism as a transition to “feudalism,” understood as the parcellization of sovereignty. As she says this is only a metaphor designed to emphasize the inadequacy of such concepts as “democracy” and “capitalism” to capture the unique processes of decomposition and reconstitution of politics and economics in the post-socialist order. More recently, in her analysis of the rise and fall of the Romanian pyramid

scheme, Caritas, Verdery (1994) shows how political interests masquerade behind the expanding money economy, drawing a desperate population into a vortex of speculation.

Just as evolutionary economics is a powerful antidote to neoliberal theory, so refocusing on society provides a corrective to totalitarian models. These challenging perspectives, particularly those informed by ethnographic accounts, lay the basis for theories of transition, understood as a delimited, *sui generis*, politically constituted process. What they still fail to do, however, is to turn their insights into a theory of economic trajectories, and how markets do or do not promote economic growth.

II: Combined and Uneven Involution

The transformation of the state socialist economy is conventionally understood as a transition from plan to market. The conventional view, therefore, leaves out any explicit consideration of "production" and focuses on "exchange." Indeed, economists assume that once market institutions are in place, together with private property, then the transformation of production will follow automatically. The debate between neoliberals and evolutionists is about the speed and manner of establishing market institutions. It is not a dispute about the effects of markets.

The thesis of "industrial involution," on the other hand, claims that market exchange does not necessarily promote the expansion or transformation of production. To put it crudely, history suggests two alternatives.

First, and this is a unique feature of modern capitalism, markets promote production. Through competition they stimulate the pursuit of profit by transforming work, incorporating technical progress. Markets and production are locked in a virtuous cycle.

Second, and more usually, markets leave production structurally unchanged. Profit is pursued through the expansion of trade, through selling dear and buying cheap. When market institutions are growing they deflect resources from production but even when they are stable they do not impart any dynamism to production. Production and exchange partake in vicious rather than a virtuous cycle. This is merchant capital.

I have already tried to demonstrate the weakness of the theories that depend on the first alternative and my intent now is to defend the second alternative and specifically the theory of combined and uneven involution. I will pursue three theses.

I. State socialism is the incubator of capitalism of a more or less primitive character depending on the length of incubation. In the Soviet Union markets were slow to develop but nevertheless the disintegration of the party state released tendencies toward merchant capital (section 1 below).

II. The particular form of capitalism that is liberated by the disintegration of the party state, shapes its subsequent trajectory. Industrial involution results from the combination of market forces with existing institutions. Each phase of the transition sets limits on the next phase and in this sense development is path dependent (sections 2,3,4,5).

III. This combined involution entails uneven involution as specific economic and political attributes of different sectors combine with market forces to produce divergent outcomes (section 6).

1. Administered Economy

State socialism is based on the central appropriation and redistribution of surplus (Konrad and Szelenyi, 1979). The party state

which runs the central planning apparatus seeks to maximize what it appropriates from and minimize what it redistributes to economic units. Enterprises have the opposite set of interests, maximizing what is redistributed to them and minimizing what they give up. The relations of appropriation and redistribution work through a system of bargaining — more or less coercive — conducted in the idiom of planning. Three features of this administered economy are important for our discussion.

In order for planning to work at all, centrally devised goals become specified through a system of delegation to ministries, then to conglomerates and finally to enterprises. This gives the economy a monopolistic character since production of the same goods and services by many different enterprises is more difficult to coordinate. Duplication is viewed as wasteful. Monopolies are further consolidated by the emergent system of hierarchical bargaining over targets, success indicators, and resources. Enterprises seek to increase their power with the center through expansion and the monopoly of the production of scarce goods and services.⁶

In the absence of hard budget constraints defining economic failure, the compulsion to expand leads to an insatiable appetite for resources and thus a shortage economy. Each enterprise faces constraints from the side of supply rather than, as is usually the case with a capitalist enterprise, from the side of demand. Enterprises, therefore, seek to incorporate the production of inputs into their structure and circumvent the command economy by entering into informal relations with their suppliers. This semi-legal system of lateral barter relations is organized by party and *tolkachi*.

Within the framework of an administered economy workers exercise considerable control over the shop floor for two reasons. On the one hand, under a regime of shortage effective work organization requires flexible adaptation to uncertainty of inputs, of machinery and of raw materials. On the other hand, together with policies of full employment, shortages of labor give workers the power to resist

managerial encroachments on their autonomy. The result is a compromise in which workers try to realize the plan so long as managers provide the conditions for its fulfillment and a minimal standard of living. The enterprise presents a united front in bargaining for the loosest plan.

2. Phase I: *Unfettering Merchant Capital*

What happens to an administered economy when the party disintegrates and the center no longer commands? Far from collapsing, preexisting monopolies are strengthened. No longer subject to control either from the party or ministries, their monopolistic tendencies are unfettered. Based on interviews with managers in 1990 and 1991, Simon Johnson and Heidi Kroll (1991) note that many enterprises responded to being cut off from ministries by creating “new vertical organizations [of their own] from below,” and by consolidating or even extending their monopolistic positions. Local conglomerates which protect the interests of enterprises in a given industry act like huge trading companies with a monopoly over specific resources and products.

At the same time the break-down of the command economy led to an increase in lateral exchanges which previously had been strictly controlled by ministry and party. In a shortage economy where money is of limited value trade between enterprises increasingly took the form of barter. A given enterprise was, therefore, the stronger the more universally desired and therefore the more barterable were its products (Burawoy and Krotov, 1992). Johnson and Kroll also observed backward integration into the production of supplies — the extension of an old strategy that dealt with shortages created by the command economy.

The third dimension of our model of state socialism concerns the political regime of the firm. The decomposition of central planning

gives enterprises considerable autonomy to deal with an increasingly uncertain environment. The common interest which bound together different groups within the enterprise against the central planning apparatus evaporates and in its stead different fractions of management enter into battles over economic strategies. In this process workers continue to be¹ without effective representation, but each managerial group presents its strategy in terms of the interests of all employees (Burawoy and Hendley, 1992). Seeking the support of workers is more than a tactic in a political struggle, it is a particularly pressing need since workers assume even greater control of the shop floor. Under the Soviet order workers already possessed considerable control over the production process due to social guarantees which gave them power, due to the autonomous work organization necessary for adapting to shortages, and due to management's interest in plan bargaining and obtaining supplies rather than regulating work. With the collapse of the party, supervision at the workplace became even weaker and managers even more attentive to problems of supply and barter. The result was the expansion of worker control over production.

On the one hand, these three sets of changes can be seen as deepening distinctive features of the old order. On the other hand, they can be seen as the rise of merchant capital, since the driving force behind the strategies of enterprises and conglomerates is the maximization of profit through trade, by selling dear and buying cheap. Merchant capital does not have its own distinctive system of production but grafts itself onto preexisting systems without altering them. Work is "put out" to the shop floor where reward is based on meeting monthly and annual planning targets. Directors use their inherited ties to governmental organs to protect their subsidies, credits, export licenses and at the same time stifle independent capital accumulation.

In this first phase of the transition managers are challenged neither from below by workers nor from the competition of other modes of production. However, what happens to monopoly, barter and worker control when the government introduces its economic reforms? This is the question of the next section.

3. Phase II: Monetization?

In January 1992 the Russian government launched its shock therapy with price liberalization. After the initial sharp increase in prices, inflation levelled off at between 20% and 30% a month. According to the reform program stabilization would follow hardening budget constraints and forcing enterprises to compete or dissolve. But the political instruments for such regulation simply did not exist: the state had disintegrated at the same time that the economy assumed greater autonomy. The only way the state could maintain any directive economic role was to extend credits — effectively undermining the program of shock therapy. The state's fiscal levers were being used to uphold political control and thereby reproduced soft budget constraints.

Nevertheless, important changes were afoot and none more important than the monetization of the economy. Although high inflation retarded the move away from barter, still enterprises increasingly paid their bills in rubles, beginning in the second half of 1992. This gave a new role to financial intermediaries, particularly the banking industry which took off with extraordinary vigor. Following the reforms of 1988, the old mono-banking system was divided into five specialist banks and then as part of Russia's political strategy to break away from the Soviet union, it decreed the independence of all banks in 1991 (Hellman, 1993, chs.3-5). Banks had either to dissolve or reconstitute themselves as private entities. Most pursued the latter alternative in the only way feasible, that is by transforming a bank's major clients into its shareholders. At the same time conglomerates and enterprise alliances spun off new "pocket" banks. Resources — personnel, material as well as financial — poured into the banking sector. Rather than sink funds into their declining enterprises, directors channelled surplus into banks where returns were quicker and often personal.⁸ The banking sector's dramatic expansion came at the cost of industrial involution.

As industrial enterprises reproduced themselves at a lower scale, the banks transformed their operation. Under the Soviet regime banks had been passive registers of material transactions. When an enterprise needed resources of whatever kind it did not consult its bank account but bargained with its conglomerate or if it was particularly large it might appeal directly to the ministry. It might use party connections to strike a barter deal with a supplying enterprise. As the economy became monetized so banks exercised much greater control over enterprises by limiting the withdrawal of cash and monitoring non-cash transactions.⁹ Where before party, conglomerates and ministries regulated inter-enterprise transactions, now this function was increasingly assumed by banks.

Of course, banks were not independent actors. They were owned by their clients who were often desperate for short term loans to cover working capital, and in particular wages. Struggles ensued between the interests of the owners as agents of their failing enterprises and their interest in the success of the bank based on profitable investment. The resolution of this dilemma depended upon the alliances among the owners, and between the owners and the bank managers. Often, but by no means always, owners of the bank would get preferential treatment, whether in the form of cheap credits or aid in bargaining for credits from the Central Bank. For that reason enterprises tried to become a major shareholder in a number of banks.

Insofar as banks were able to pursue independent strategies, they were cautious in extending credits to their industrial owners. When inflation is running at 20% a month and interest rates are very high but nevertheless still negative, then banks lend money for only short periods (maximum of three months). They can only issue credits to enterprises with rapid turnover, namely those operating in the sphere of trade — an interesting case of adverse selection (Stiglitz and Weiss, 1981). The ascendancy of banks, therefore, once more fuelled the expansion of merchant capital again at the expense of industrial capital.

In these circumstances how do industrial enterprises survive? First, and most obviously, enterprises simply don't pay their bills and chalk up enormous inter-enterprise arrears. In their superb study, Ickes and Ryterman (1992 and 1993) estimate that by the summer of 1992 inter-enterprise debt amounted to between 25% and 40% of GDP. They were reduced to a seventh by the mutual cancellation of debts in the summer of 1992 and have grown back to previous proportions since then. In this way enterprises obtain (almost) interest free loans; they avoid the control of the banks which becomes particularly severe under insolvency; they mystify their actual financial state which can be important when it comes to privatization or government attempts at hardening budget constraints. In this way enterprises reproduce one another's soft budget constraints and make it next to impossible for the state to force closure through bankruptcy.

However, inter-enterprise debt does not solve the critical problem of wages or even problems posed by suppliers who refuse to accept credit and instead insist on prepayment. So a second strategy is to seek loans from government or the Central Bank. However, all such central credit has to be channelled through the recipient's bank which has to guarantee the credit. When enterprises default on their loan it is the bank that assumes the repayment obligation. In return for this service it receives a meager rate of return ("spread") of 3%. Not surprisingly, banks are often less than enthusiastic to accept even low interest preferential loans on behalf of a client, even if the client is also an owner. Still, there are always banks, themselves desperately short of resources, that will accept such loans on behalf of clients. Other banks risk sanctions from the Central Bank by reissuing targeted central credits at much higher interest rates.¹⁰

Banks are placed under contradictory pressures by the Central Bank. On the one hand, they are expected to guarantee state credits to insolvent enterprises. On the other hand they are held to hard budget constraints by the intensive supervision from the Central Bank. First, each bank has to be registered with and receive a license from the

Central Bank. Second, there are static measures of a bank's activities based on prudential norms. But third, there is also the more important dynamic control of a bank's liquidity. Each bank has to hold a correspondent account, carefully monitored by the Central Bank for suspicious activity and to assure overall solvency. Violation of acceptable practices can incur fines, or increases in the reserve ratio above 20% (the proportion of its deposits each bank has to hold in the Central Bank) or, in some cases, the Central Bank can close down a bank.

In short, during 1993, the Central Bank strove to impose hard budget constraints on commercial banks which in turn tried to transfer those constraints to their clients. But the impact was a drop in the ocean, given the escalating inter-enterprise debt and the credits issued by the Central Bank itself. Instead of party, conglomerate and ministry involved in a complex exchange of material goods and services, now the government and the Central Bank handed out financial credits to those with the political influence to obtain them. Paradoxically, monetization of the economy simply rationalized the system of soft budget constraints.

4. Phase II: Privatization

Economic reforms introduced a money economy, promoted the expansion of banking which drew off resources from industry but without subjecting enterprises to hard budget constraints. While monetization and banking were accelerating industrial involution, how was privatization affecting the internal organization of enterprises? As Kabalina et al. (1994) and Poznanski (1993: 417) argue, privatization has conventionally followed restructuring while in Russia the order is reversed. According to neoliberal theory privatization was expected to turn loss making enterprises into profitable ones.¹¹ What have been the actual effects of privatization?

Learning from Eastern Europe, reformers quickly realized that finding outside buyers for Soviet enterprises would be impossible. If privatization was to occur, enterprises would have to be given away. But to whom? Beginning in August 1992, all citizens of Russia were given privatization vouchers worth 10,000 rubles. These were to be used to purchase shares of companies directly or invested in some mutual investment fund. Enterprises had to draw up privatization plans based on one of three variants. By far the most popular was the second variant in which employees purchased 51% of their enterprise, with the remainder reverting to the state and to be auctioned off at a later date. There was no realistic way of evaluating enterprises. They were often given a price that the employees together could afford if each used four vouchers. Employees assumed 51% ownership at little cost to themselves. Shares were distributed in a relatively egalitarian manner, usually in relation to seniority and income. However, top managers often secured a disproportionate number of shares.

The effect of this voucher privatization was to give juridical status to a process of prior decentralization. We noted earlier that the disintegration of the party state had already given enterprises the autonomy to pursue their own strategies in an increasingly uncertain political and economic environment. As the economic recession deepened, as working capital became unobtainable except by going even further into debt, managers' time horizons became even shorter and they began stripping their enterprises of assets, often for personal gain. This occurred irrespective of whether the enterprise was "efficient" or "inefficient," potentially "profitable" or not. Privatization accelerated an indiscriminate industrial involution.

If public bodies do not have the capacity or the interest to halt the destruction of the economy, the labor collective can still restrain cannibalization when it comes out of workers' pockets. If privatization gives managers the opportunity to channel investment into commercial and speculative ventures, at the same time they become increasingly beholden to their employees. First, as they become embroiled in the

search for materials and credits, managers become increasingly dependent on workers who control the shop floor. Given the idiosyncratic character of socialist production workers monopolize enterprise specific skills and knowledge and they are not easily replaced.

Second, directors know that so long as they don't have a controlling package of shares, employees can always remove them. When the furniture factory, where I worked in 1991, was privatized (end of 1992) the labor collective ejected the incumbent managerial team. It had been one of the highest paying factories in Syktyvkar but at the time of privatization wages were already slipping behind other enterprises. Employees used the occasion of privatization to elect a new director. Conscious of his precarious position the new director did everything he could to appease the labor collective but in the process drove the enterprise further into debt, so much so that it became effectively bankrupt. So he too was ejected at a shareholders' meeting a year and half into his tenure when the factory was virtually at a standstill. Privatization was the lightning rod for struggles in other enterprises, including the largest and richest mine in Vorkuta. Workers may be able to limit managerial pillaging, but they cannot compel managers to adopt longer time horizons, particularly as the very existence of enterprises is hanging by a thin thread.

Managers seek the support of their labor collective for a third reason. When it comes to extracting government credits, wielding the labor collective as a threat can still be a powerful bargaining chip. In the coal industry, for example, management frequently used, and therefore encouraged, strikes to wring material concessions from government. The director of the Russian Central Bank in Komi is inundated with telegrams, phone calls, delegations from enterprise directors appealing for funds that would save an entire community from destitution.

We see, therefore, that privatization along with market forces, far from transforming enterprises, have been an effective vehicle for

their conservation, for cementing the old alliance between managers and workers. On occasion workers can act as a restraint on managerial pillaging because they have interests in the survival of the enterprise and because they have the capacity to enforce their will. More usually, workers rapidly become disillusioned with their bosses and turn to their own form of pillage, stealing raw materials, finished products, and tools from "their" factory. Each side becomes trapped in a downward spiral of ever shorter time horizons. Privatization has proven to be the very opposite of an elixir — indeed has spread the malignancy of industrial involution.

5. Phase III: Mafia and the Restoration of Barter

The second phase of monetization and privatization can be regarded as period of easy credits that are dispensed on the basis of political influence to now independent enterprises. In the third phase, which begins in 1994 inflation falls, interest rates become positive and central credits are increasingly scarce. In other words budget constraints become harder but rather than leading to capital accumulation and investment, rather than promoting efficiency and productivity, the economy is driven backwards to barter and forwards into the claws of the mafia.

Enterprises continue to chalk up increasing debts with each other. Since most monetary transactions between enterprises are conducted in the non-cash form (*beznalichny*) which is not convertible into cash (*nalichny*), since any non-cash transaction has to pass through banks, and since banks are effectively monitored and forced to operate under hard budget constraints, the result is that bank accounts are frozen or impounded. Enterprises have no interest in monetary transactions since any money entering their accounts is immediately siphoned off to the state in taxes or utility bills. Increasingly, enterprises operate outside the banking circuit through barter or, if they are lucky, through

direct cash transactions. An increasing proportion of the economy moves into the shadows.

The restoration of barter and of the second economy more generally is not a legacy of the past but created anew by centralized attempts to impose hard budget constraints. This also has the consequence of increasing the operations of the mafia. When the state is neither able to enforce contracts nor able to compensate non-compliance with credits, creditors seek other extra-legal means of appropriating what is their's. When the political weakness of the state is compounded by fiscal restraint, then enterprises increasingly enlist criminal gangs to enforce contracts. This tendency is reinforcing since refusal to fulfil obligations can also be sustained by access to extra-legal force. The survival of any enterprise depends upon engaging an effective security service which further eats away at productive investment. Protection rackets spread uncontrollably to form the basis of a shadow, privatized state which employs soldiers, police, secret police, security police from the official state but now in second higher paying jobs. Again the greatest profits are to be found in the sphere of circulation and come at the expense of production.

How is the timber industry affected by this third phase? Since wood has multiple purposes and is always in wide demand, the disintegration of industry has spurred the increase of barter. But now it is the barter of bankruptcy rather than the barter of success. In 1991, the furniture factory we studied was bartering its wall units for all sorts of scarce goods, from sugar to places in children's summer camp, from mirrors to textile paper. Today it is bankrupt, indebted to the tune of a million dollars, bereft of working capital, and unable to sell its products. The only way it can maintain any production at all is to barter its wall units for raw materials, pay the few employees that still work at low wages, on an irregular basis and often in kind. Its second new director is hoping to find some foreign investor or somehow obtain a credit from a bank or government. Both strategies are long shots.

The coal industry has not experienced such a precipitous decline. In 1992 foreign barter was at its height and Western consumer goods flooded into the make-shift kiosks that lined the streets. Since then export of coal has fallen from over 17% to 10% of output. Increasing costs, particularly freight charges but also the chain of pay-offs to trading enterprises have cut profit margins so that export is barely worthwhile. Although the mines are heavily in debt, still there is more room for manoeuvre because the conglomerate jointly controls their accounts. The conglomerate acts on behalf of all the mines to extract payments from the steel industry. Still, the mining industry is only too aware of the rapid fall in its bargaining power with the Russian government. It is, therefore, beginning to turn to the regional Komi government which can more effectively use its regional monopoly over scarce resources to blackmail the center.

David Woodruff (1994) has studied analogous moves around electric power companies in three very different regions — Krasnoyarsk, Vladivostok and Samara. In each region barter has been restored as a mode of exchange as enterprises are forced to operate outside the monetary sphere controlled by banks. Even more interesting, however, is the way inter-enterprise arrears have migrated to the electricity generating companies because they have the greatest influence and leverage with Moscow. Tightening credit supplies is consolidating bargaining with the center.

The resurrection of barter and the escalation of freight charges threatens to balkanize Russia into more cohesive regional units. Trade relations intensify within regions and diminish between regions. What holds Russia together is no longer any political force or relations in economic interdependence but the fraying thread of financial transactions between center and region. As the cheap central credits of the second phase dry up so regions exhibit declining allegiance to the center.

6. *Uneven Involution: Timber versus Coal*

So far I have argued that the three phases — disintegration, monetization and privatization and regression — have combined to accelerate economic involution. Rather than the absence of market forces it is their presence which has propelled Russia into an economic quagmire. One might expect, therefore, that involution is less or more rapid depending on the capacity of economic sector or region to resist market forces. This is born out in the comparison of timber and coal industries within Komi. While both industries have declined, the collapse has been much more rapid in timber than in coal. Thus coal output has fallen by only 25% between 1990 and 1994 whereas the production of raw timber fell by 44% between 1990 and 1993 and a further 42% in the first six months of 1994. Why? The answer is tied to the survival of the conglomerate: in the timber industry it has disintegrated while in the coal industry it continues to be effective.

The timber industry lost the coordinating center which controlled the commodity chain linking lumber camps to the timber farms and from their to the processing plants, furniture factories and paper mill. The conglomerate organized the distribution of timber; it provided transportation, professional and technical services; it was responsible for allocating supplies — from machinery to food. It disintegrated because lumber camps and timber enterprises resented the directing arm of the conglomerate which unilaterally dictated the terms of exchange between their timber on the side and supplies, wages, machinery etc. on the other side. The lumber camps saw themselves as subsidizing the factories further up-stream — the processing plants, the furniture factories, the paper mill. While they were immersed in a shortage economy it appeared that the demand for timber was inexhaustible. Only the iron grip of the conglomerate lay between them and riches. Therefore, with the price liberalization and privatization, they declared independence and sought out their own buyers and suppliers.

Freed from the monopsony of the conglomerate they assumed they could sell their wood for higher prices. However, they quickly discovered first, that they were not the only ones to increase prices. Their own suppliers were doing the same. Second, their customers, the processing plants, further up the timber chain could not pay their bills, not least because they no longer received their customary subsidies from the conglomerate. They turned to other buyers outside the territory but the rising cost of freight made their timber prohibitively expensive. As a result the timber industry took a nose dive.

The situation in the coal industry was very different. The mines were not links in an interdependent chain. The conglomerate was not involved in organizing relations of economic dependence among the mines. It was a center for dispensing services, defining prices, and most important for distributing quotas for exports and subsidies from the state. By contrast the timber conglomerate had no monopoly over export quotas nor did it have access to subsidies whether from republican or federal governments. It had to rely on internal redistribution — taking from the lumber camps and giving to the processing and manufacturing plants. The centrifugal forces were much greater in timber than in coal.

So long as the coal conglomerate had monopoly access to enormous resources from the state, mines had every interest in belonging to the conglomerate. However, even here the richest mine defected at the end of 1991 to avoid subsidizing the poorer mines. It struck up its own relation to the Ministry of Fuel and Energy. Its defection encouraged other mines to plan their own break away and form a conglomerate of their own — one that would not be weighed down by costs of running the social sphere. Defection rumors were at their height in 1992 but by 1994 all the mines had regrouped behind the conglomerate as their only hope for survival. In the face of falling subsidies, escalating freight charges and impending closures the mines had lost any illusions that life would be better outside the conglomerate.

In other words, the hierarchical chain of the timber industry fostered fantasies of independence. Each calculated the benefits of defection without taking into account the effects of other defections.¹² Universal defection led to the conglomerate's disintegration precisely in an industry where such a coordinating center was essential. Where the timber conglomerate was necessary for economic integration, the coal conglomerate was necessary for political unity in bargaining for concessions from the federal government. To this end it was able to take advantage of the concentration of the coal industry in two neighboring cities, particularly the city of Vorkuta, as well as of the political influence of miners. In 1989 and again in 1991 the miners of Vorkuta had been the most militant and radical in demanding the transformation of the old order. On their shoulders and those of the miners of the Kuzbass and Donbass, Yeltsin had come to power in 1991 in what was then the Russian Republic of the Soviet Union. At least in 1992 and 1993 this legacy and the threat of further disruption gave the conglomerate greater bargaining power with Moscow. By 1994 the political power of the miners had waned as the government began to ignore striking miners. Increasingly defenseless against government plans for drastic cuts in coal production, they could only benefit from rallying behind the conglomerate (Burawoy and Krotov, 1993, 1995).

This comparison shows how the politics of a given industry, shaped by ownership relations on the one side and economic structure on the other, determine its fate. It also suggests that hanging on to institutions from the past may be the most rational strategy for survival during the transition to a market economy. In the above portrait the timber industry suffered from its short sighted embrace of individualistic strategies while the resuscitated coal conglomerate attempts to cut losses by a rational coordination of the industry in face of market challenges.

III: Overdeveloped Markets and Underdeveloped Economy

Contrast the analysis above with Aslund's:

The Russia emerging today is very different from what pessimists have prophesied. It is not falling apart but coming together. The new political institutions function. Strikes are rare, and no serious social unrest is on the horizon. Incredibly, most of the Russian economy, measured by either employment or output, has been privatized in just two years. Russia has already become a market economy, but one in the midst of a long-overdue and massive restructuring. In short, Russia has undergone fundamental changes and appears to be on the right track. (Aslund, 1994:58).

One does not have to disagree with the facts in order to come to very different conclusions. Russia may not be falling apart as the pessimists prophesied but it is held together by an ever more slender thread. The new political institutions do function but they are impotent and largely irrelevant. There may be no serious unrest but individual survival strategies are making it more difficult for the majority to survive — now and in the future. Most of Russian industry is indeed privatized but that has only accelerated industrial decline. Finally, Russia has become a market economy but one that devours its material base as it expands. According to Aslund the quicker production falls the sooner it will "bottom out" and therefore, the closer the arrival of the radiant future. Neoliberals are giving new meaning to an old socialist slogan: "the worse the better."

Aslund is optimistic because the Russian government has followed his advice. The elements of shock therapy are all in place: price liberalization and privatization followed by stabilization. By definition this must spell success just as the propagandists of state ownership claimed that planning ipso facto would spell the success of socialism. Aslund is living in a never never world. Capitalism was not allowed to incubate within the socialist economy, and a series of path

dependent paradoxes emerged. In phase I, disintegration of the party state led to the strengthening of features of the old Soviet order — monopolies, barter and worker control. A market appeared but one in which enterprises sought profits from trade. In phase II price liberalization and privatization led to the monetization of the economy. Resources were channelled from industry into banking where returns were greater and more rapid. With ever shorter time horizons bank credits fuelled the expansion of trade at the expense of industry. On the other hand, in order to maintain national political integrity, state loans were distributed on the basis of need and influence. Economic reform rationalized soft budget constraints rather than abolishing them. Phase III saw the hardening of budget constraints but instead of promoting economic growth it now led to regression. Transactions moved back from the monetary sphere to barter while the mafia took over regulation from the state. Exchange continued to sap production of what little energy it retained. Those industries which successfully clung to old relations were able to limit involution.

It is a premise of the neo-classical faith that markets lead to economic development. When they don't it is because the markets are "abnormal." In this case the downward economic spiral is a function of a "transformational recession" — a problem of transition that will give way to economic expansion once markets have settled down. Alternatively, the markets themselves are deformed, "backward" or "primitive," and so they have pathological consequences. I have tried to show that it is not the abnormal features of the market but their true essence that generates involution. Rather than the underdevelopment of markets it is their overdevelopment that has bled the productive economy of resources, capital, investment. There is no market road to a modern market economy.

This is an old story. Studying the transition to modern capitalism Marx and Weber agree on one point, that the real revolution comes not with the rise of markets but with what Weber calls "the rational organization of formally free labor." This is what distinguishes

modern capitalism from the capitalism of promoters, speculators, adventurers, concession hunters, in short, merchant capitalism. There is nothing automatic or necessary about the transition from this merchant capital to what Weber calls modern, Western, rational bourgeois capitalism. Just as in Europe merchant capital most usually reinforced pre-capitalist production, so in Russia the expansion of trade and commerce has conserved rather than transformed the Soviet enterprise (Clarke et al., 1993). The only difference is that the world context has changed. Whereas merchant capital was once the leading edge of economic development now it is associated with underdevelopment (Kay, 1975). Reproduction without technical progress is much more costly in a world dominated by advanced capitalism than in a world dominated by trading companies.

The administered economy had its defects but to reduce the failure of reform to the "legacies" of communism is to assume that once the past is cleared away Russia will return to "normality" and its economy expand. This ignores the dynamics of the transition itself as well as the international context of advanced capitalism. Once these factors are taken into account, involution rather than revolution or evolution is Russia's destiny for the foreseeable future. Social scientists have demonstrated many negative features about communism, but they have overlooked one of the most menacing — the illusions it creates about capitalism.

Notes

¹I take the idea of involution from Clifford Geertz, *Agrarian Involution*. There is involution when "the economy functions much less effectively but (or more exactly, because) it is the same economy" (Geertz, 1963: 125).

²Pipes (1994: 49) does acknowledge that Russia continues to suffer from the absence of public spirit and from weakness of patriotic sentiments — cultural-psychological problems lodged in the nation's collective memory.

³Bunce (1993) denies the relevance to post-Soviet states of the literature on the transition from bureaucratic authoritarianism in Latin America and Southern Europe. She writes that O'Donnell and Schmitter's (1986) framework is future oriented and belittles the importance of the socialist past. Still Bunce and Csanadi follow O'Donnell and Schmitter in two important respects: first, they take the standpoint of elites and second, they focus on the uncertainty of the transition to democracy. If they do differ from O'Donnell and Schmitter it is in regarding elite actors as hapless victims of liminality rather than strategic players in a "multi-layered chess game." Recent writings by Schmitter (1994) and O'Donnell (1993) go beyond their early interest in transition to the study of the consolidation and institutionalization of democracy. Here they explicitly seek to incorporate the experience of Eastern Europe and the former Soviet Union and meet some of Bunce's criticisms. From a focus on strategic elites, acting without reference to the previous order, they emphasize social legacies inherited from earlier regimes and in this way give credence to the Soviet past.

⁴In a curious about turn Aslund (1994) embraces the replacement of "bright young economists" (Gaidar and Fyodorov) by gray apparatchiks (Chernomyrdin) in 1994 as a sign of the success of the reforms. Russia has entered "the stage of ordinary politics, when interests are more important than ideas" (1994: 70). Visionaries have fulfilled their mission and they must hand over power to pragmatic, consensus building politicians. All this is supposed to have happened within a year.

⁵Reflecting on Hungary's poor economic performance, including falling productivity, declining output and rates of investment, Kornai (1994) begins to question whether spontaneous market forces will lead to economic growth. Departing from his life-long opposition to state involvement in the economy, he now makes a half U-turn advocating state led investment. To be sure the

"transformational recession" is an artifact of the uncertainty and fluidity in which market institutions have not developed. There is no suggestion of any permanent industrial involution. It is ironic that while Hungary's Minister of Finance in the new socialist government is a devotee of neo-liberalism, Kornai, Hungary's leading neoliberal economist, should be turning back to the state.

⁶In a fascinating comparative study of industrial concentration, Brown, Ickes, and Ryterman (1993), conclude that the Soviet economy possessed neither the very small but also neither the very large enterprises found in the US. Monopoly emerged from segmented and regionally defined markets.

⁷This section is based on research into banking in Komi from January to July, 1993.

⁸Hellman (1993) presents the best analysis of the evolution of the commercial banks in Russia, showing how pocket banks grow out of their pockets to challenge their owners.

⁹One of the legacies of Soviet banking is the non convertability between cash (nalichny) and non-cash (beznalichny) money.

¹⁰There are also banks that are essentially pocket banks of the regional governments which are forced to assume bad loans.

¹¹Cui (1994a) has argued that neoclassical economics is an economics of barter and, ironically enough, underestimates the significance of money. Including money as a factor in its own right, he shows how privatization in the conditions of economic recession in postsocialism cannot have the intended consequences of hardening budget constraints. His theoretical analysis dovetails well with my empirical observations.

¹²This is an example of what Elster calls the fallacy of composition in which: "...economic agents tend to generalize locally valid views into invalid global statements, because of a failure to perceive that causal relations that obtain *ceteris paribus* may not hold unrestrictedly" (1985:19; 487-490). Or more succinctly: "the belief that causal mechanism valid for any particular member of a set in isolation must also be valid for all members taken as a whole" (1983:143)

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