

# Transition without Transformation: Russia's Involuntary Road to Capitalism

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The messianic reformers of the Soviet transition, whether western or Russian, considered the socialist economy so moribund, so inefficient, and so obsolete that it was an article of faith that markets could only bring economic improvement. But conditions have only grown worse, much worse. Over the last 10 years Russia's gross domestic product (GDP) has fallen by more than half; living standards for most have plummeted along with increased material insecurity; and the population continues to shrink with a falling birth rate and declining life expectancy. The decade of market reform has been a decade of unprecedented economic decline.

The advocates of shock therapy have their pet explanations for degeneration—Jeffrey Sachs writes of the betrayal of the IMF, Anders Aslund of the sabotage of ex-Stalinist managers, and Clifford Gaddy and Barry Ickes of a collective collusion to support hidden subsidies for loss-making enterprises.<sup>1</sup> In their views this was an incomplete application of shock therapy—the political will, whether domestic or foreign, for economic restructuring was missing. Evolutionary economists (Murrell, Poznanski, and Stiglitz), on the other hand, were critical of shock therapy from the beginning.<sup>2</sup> They argued that a dynamic capitalist economy required

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1. Jeffrey Sachs, "Toward Glasnost in the IMF," *Challenge* 47:3 (1994): 4–11; Anders Aslund, *How Russia Became a Market Economy* (Washington, D.C.: Brookings Institution, 1995); Clifford Gaddy and Barry Ickes, "Russia's Virtual Economy," *Foreign Affairs* (September–October 1998): 53–67.
2. Peter Murrell, "Can Neoclassical Economics Underpin the Reform of Centrally Planned Economies," *Journal of Economic Perspectives* 5:4 (1991) 35–54; id., "Evolution in Economics and in the Economic Reform of the Centrally Planned Economies,"

institutions that cannot be created overnight. Markets do not spontaneously generate a banking system, rule of law, stock exchange, etc. These have to be nurtured. Tearing down the old without erecting the new was a recipe for disaster. While neoliberals and evolutionary economists argue about why Russia has failed to travel the road to a modern capitalist economy, or why Russia has lagged behind Poland, Hungary, and the Czech Republic, these commentators have a limited grasp of what has actually happened in Russia. Theirs are deficit models of failure to realize a particular western goal—either bad prescription or bad execution—rather than accounts and explanations of where Russia is heading.

Instead of the anticipated neoliberal *revolutionary* break with the past or the neo-institutional aspiration to *evolutionary* ascent to a future capitalism, Russia has experienced what I call an *involutionary* degeneration, brought about by the expansion of the sphere of exchange at the expense of production.<sup>3</sup> Economic and political reform has spawned a retreat to old forms of production, an inward turn of society, and the recomposition of the party-state into a neo-feudal polity. There has indeed been a market transition but without the anticipated economic, social, and political transformation, that is without the accumulation of capital, the expansion of society, or the rise of a developmental state. This “transition without transformation” is the terrain to be excavated, the puzzle to be explored.

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in Christopher Clague and Gordon C. Rausser, eds., *The Emergence of Market Economies in Eastern Europe* (Oxford: Basil Blackwell, 1992), 35–54; Kazimierz Z. Poznanski, *Poland's Protracted Transition: Institutional Change and Economic Growth, 1970–1994* (Cambridge: Cambridge University Press, 1996); Joseph Stiglitz, “Whither Reform? Ten Years of the Transition” (keynote address at the World Bank Annual Conference on Development Economics, Washington, D.C., April 28–30, 1999).

3. I have borrowed the concept of involution from Clifford Geertz's description of the Javanese peasant's response to the expansion of the Dutch sugar, agro-export industry. Involution is economic change without transformation, or as Geertz puts it “the overdriving of an established form in such a way that it becomes rigid through overelaboration of detail” (Clifford Geertz, *Agrarian Involution* [Berkeley: University of California Press, 1963], 63). I have tried to give involution a more dynamic meaning by connecting the degeneration of production, society, and state to the expansion of the sphere of exchange. See also Michael Burawoy, “The State and Economic Involution: Russia through a Chinese Lens,” *World Development* 24 (1996): 1105–17; Michael Burawoy, Pavel Krotov, and Tatyana Lytkina, “Involution and Destitution in Capitalist Russia,” *Ethnography* 1:1 (2000): 43–65.

## Bringing Polanyi to Russia

Like others, I turn to Karl Polanyi's *The Great Transformation* to elucidate the character and the causes of this peculiar market transition, Russia's "Great Involution."<sup>4</sup> Many, especially the evolutionary economists referred to above, have adopted Polanyi's framework to understand what has gone wrong in Russia: his critique of market utopianism, and his insistence on the centrality of the state in any transition to a market economy. They have pointed to the institutional framework necessary for markets to work efficiently and dynamically. Critics have also drawn on Polanyi's depiction of multiple historical trajectories, thereby replacing a teleological notion of transition with the more agnostic concept of postsocialist transformation.<sup>5</sup> In other words, they argue that there is no market road to a market economy just as there is no singular and inevitable end point to economic reform.

These are important lessons to draw from Polanyi, but I propose to adopt his broader historical vision that encompasses one and a half centuries from the end of the eighteenth century to the middle of the twentieth century—a history of the dynamic processes that led first to the expansion of and then to the reaction against the market. This double movement I argue has been telescoped into 10 years in Russia, although its form and effects have been profoundly different because it has occurred at such a different tempo and in such a different context. To make the case that Polanyi's account of England is relevant to Russia today, I divide the historical account of England's Great Transformation into phases that parallel Russia's Great Involution.

First, Polanyi devotes almost a third of his book to the genesis of the market and the breakdown of the Speenhamland welfare system in which the livelihood of the indigent was supplemented with cash payments rising and falling with the price of bread. As

4. Karl Polanyi, *The Great Transformation: The Political and Economic Origins of our Time* (Boston: Beacon Press, 1957 [1944]).

5. David Stark and Lazslo Bruszt, *Postsocialist Pathways: Transforming Politics and Property in East Central Europe* (Cambridge: Cambridge University Press, 1998); Christopher Bryant and Edmund Mokrzycki, "Theorizing the Changes in East-Central Europe," introduction to *The New Great Transformation*, edited by Bryant and Mokrzycki (London: Routledge, 1994), 1–14.

an obstacle to a national labor market, Speenhamland was, in Polanyi's view, a form of "reactionary paternalism" which demoralized and degraded laborers while stifling entrepreneurial energies of employers. As Maurice Glasman has argued, Polanyi's hostility to the "totalitarian" Speenhamland conjures up the liberal wrath against communism—its despotism, its paternalism, its stifling of freedom.<sup>6</sup> There are limits to the analogy—Speenhamland was not a comprehensive planned economy but the last bulwark against the market society. Nonetheless, the invective Polanyi deploys against Speenhamland's stifling administrative order makes the parallel with communism worth pursuing.

The second phase began when Speenhamland was finally rescinded with the New Poor Law Act of 1834 which abolished outdoor poor relief. With the last obstacle to the self-regulating market vanquished, the working class was left to fend for itself against the ravages of the market society. The equivalent breakthrough to the market is played out in Russia with the "great liberal reforms" of 1992—freeing of prices, opening the economy to market forces, and voucher privatization of state enterprises, all of which threw the population into turmoil and back onto its private resources. As in England, in the face of economic devastation, Russia's neoliberal utopians trumpeted the supernatural, redemptive powers of the market, what Polanyi calls the "liberal creed."

Polanyi's third phase is the reaction to the self-regulating market. Here lies his most original contribution: society's movement against the commodification of land, labor, and money that took place in the second half of the nineteenth century. Russia presents its own distinctive response to the commodification of these three pillars of social and economic life which, as we shall see, was less an active regulation and more a self-protective retreat.

Finally, in Polanyi's fourth phase, the reaction against the self-regulating market assumed international proportions in the 1930s, when countries abandoned the gold standard, undermined the international balance of power, and adopted statist solutions to economic problems—communism's collectivization and planning, fas-

6. Maurice Glasman, "The Great Deformation: Polanyi, Poland and the Terrors of Planned Spontaneity," in Bryant and Mokrzycki, eds., *New Great Transformation*, 191–217; id., *Unnecessary Suffering* (London: Verso, 1996).

**Table 1:** *The Market Transition in England and Russia*

|   | Polanyi's England transformation       | Post-Soviet Russia involution                |
|---|--|--|
| Antecedents:<br>Authoritarian<br>Paternalism  | Speenhamland                           | Communism                                    |
| Ideology: Market<br>Utopianism                | Liberal Creed                          | Neoliberalism                                |
| Reaction to the Market:<br>Decommodification  | Regulation<br>of the Market            | Retreat from<br>the Market                   |
| Global Effects on State-<br>Society Relations | Statism: State-<br>Society Interaction | Neo-Feudalism:<br>State-Society<br>Repulsion |

cism, social democracy, and the New Deal. We will have to consider whether Russia today might be moving toward a similar protectionism and restoration of statism or alternatively to a form of neo-feudalism. Table 1 summarizes the two accounts of market transition.

Using Polanyi's account of England as our analytical template compels us to recognize discrete phases and dynamic processes in the postcommunist market transition, and it also facilitates comparisons among countries facing the transition from socialism. In order to avoid yet another deficit reading of Russia, however, we need to uncover the unstated assumptions of *The Great Transformation*, assumptions that make England's transition historically specific and thereby provide the grounds for alternative assumptions that fit the Russian case.

### **Problematizing the Great Transformation**

To what historical event or complex of events does the Great Transformation refer? In the conventional reading, *The Great Transformation* refers to the *rise of the self-regulating market* or what Polanyi also calls "market society" in nineteenth-century Europe. Yet this singular *market transition* is accompanied by three equally

important transformations that Polanyi assumes but does not explain: namely first, an *economic transformation* of the means of production; second, a *social transformation* that involves the expansion of society to counter the commodification of labor; and third, a *political transformation* required for the national consolidation of a money economy. The Russian transition to a market economy highlights just how problematic are each of these unremarked, taken-for-granted transformations.

First, Polanyi deliberately pushes aside how the market promotes the accumulation of capital through the transformation of production. Whereas both Marx and Weber placed accumulation at the center of their analysis of modern capitalism, Polanyi deliberately relegates it to the sidelines. He takes for granted the enormous economic expansion of the nineteenth century. To focus on it, he argues, is to create the basis of a dangerous ideological justification for overlooking the enormous human suffering and the devastation of community. Yet that economic expansion also provided resources for the phenomena he highlights: for containing the market, for compelling capital to restrain its exploitative tendencies, for building up the regulatory apparatus of the state, and for ameliorating the conditions of existence for large sections of the working class. Without economic expansion, protection and regulation would not have been possible. From the standpoint of Russia, and many other countries, the expansion of production is precisely what is absent, what seems beyond their grasp. This is the first distinguishing feature: *transition without economic transformation*—a transition to a market without the transformation of production.<sup>7</sup>

Polanyi's second assumption concerns the transformation of society. As we have seen, Polanyi focuses on exchange—how the commodification of labor brings about cultural degradation and human demoralization. This leads to a spontaneous reaction against the market that in England took the form of the rise of

7. Thane Gustafson's account of Russian capitalism juxtaposes market transition on the one side and collapse, legacy, and take-over by oligarchy on the other as competing forces whose relative strengths will determine Russia's fate. He talks of Russia's as yet indeterminate revolution. An involutory framework argues that Russia's market transition has *produced* economic, social, and political degeneration (see Thane Gustafson, *Capitalism Russian-Style* [Cambridge: Cambridge University Press, 1999])

trade unions, the factory movement for the restriction of working hours, the Chartist movement for the expansion of working class political rights, and new economic forms such as the self-regulating cooperatives. He describes but does not explain the rise of civil society in the second half of the nineteenth century.<sup>8</sup> For Polanyi, survival dictated the necessity of aggressive social regulation, but he does not ask how it comes about. The Russian transition to the market suggests that nineteenth-century English societal reaction is by no means universal and that it presupposes already existing resources and capacities. In Russia the communist society of institutions gave way to a world of social networks, deployed around the strategic manipulation of resources. Thus, the second distinguishing mark is a *transition without social transformation*, a transition to the market without the rise of a vibrant society.<sup>9</sup>

The third transformation that Polanyi assumes without explanation is the rise of a sovereign state. David Woodruff makes this argument explicitly in his explanation of barter relations.<sup>10</sup> Monetary consolidation cannot be secured through a package of liberal economic reforms if there is no prior consolidation of the state. Polanyi takes for granted the subordination of regions to the English state when the market reforms are introduced in the nineteenth century. In Russia, on the other hand, the break-up of the Soviet Union gave autonomy to regions that, so far, have not been effectively subjugated to the nation-state. The result was strate-

8. In Polanyi's account, the working class spontaneously rises up against the degrading effects of the market as soon as Speenhamland is dissolved. The Poor Law Reform Act marked the birth of the working class. The historical record shows, however, that the working class appeared in the north of England, where there was no legacy of Speenhamland, and in the south, where Speenhamland did exist, there was no working class (Fred Block and Margaret Somers, "Speenhamland, Perversity, and Naturalism: Ideational Embeddedness in Welfare Reform" (unpublished mss., 1999); Margaret Somers, "Citizenship and the Place of the Public Sphere: Law, Community and Political Culture in the Transition to Democracy," *American Sociological Review* 58:5 [1993] 587–620). Polanyi's explanation—that the rise of society was a spontaneous reaction to the market—is patently inadequate.

9. Maurice Glasman makes a similar point for Eastern Europe, asking why the postsocialist transition, especially the unrealized potential of the Polish Solidarity movement, did not result in a vibrant, self-regulating society. He lays the blame at the doorstep of the market utopian reaction to communism—the market experiment corroded society (see Maurice Glasman, "Great Deformation"; id., *Unnecessary Suffering*).

10. David Woodruff, *Money Unmade: Barter and the Fate of Russian Capitalism* (Ithaca, N.Y.: Cornell University Press, 1999).

gies of regional self-protection in which local states helped to promote their own forms of money and encouraged enterprises to avoid bankruptcy by constituting systems of barter exchange and avoiding the punitive national monetary system. Thus, the third distinguishing mark of the Russian *market transition is the absence of political transformation*, a transition to the market without an effective nation-state, thus preventing monetary consolidation.

In other words, contemporary Russia is remarkable not for the rise and fall of the market but for the absence of these three alternative significations of the nineteenth-century's great transformation—the transformation of production, of society, and of the state. The economy undergoes neither a neoliberal revolution nor an institutional evolution but rather an economic involution, a market that sucks resources out of production, sending it into a spiraling contraction. Instead of a vibrant synergy between civil society and the state, we find their mutual repulsion in which society turns in on itself—societal involution—and the federal state turns outwards to the global economy, unable to contain the tendency toward regional autonomy—political involution. We need to ask, therefore, why a great involution rather than a second great transformation?

### **Economic Involution: The Expansion of the Market**

Although Polanyi intends his work to be a radical critique of the liberal creed of market dogmatism, in one respect he recapitulates that account, namely in divorcing the *genesis of the market*, the breakdown of barriers to the free exchange of the factors of production, from the subsequent *dynamics of the market economy*. Once the corrosive welfare system of Speenhamland, the last dam holding back the onrushing market society, is defeated, its traces cannot be discovered in the new order. Once the self-regulating economy is established, its logic preempts any legacies from the past, obliterates vestiges of its genesis. According to Polanyi, therefore, the magic and indeed devastation of the market will work itself out irrespective of origins, irrespective of the particular path to the market economy. This too was the anticipation of Russia's neoliberal reformers (and their western advisors). They assumed



that the market logic would sweep the calumniated communism into the dustbin of history. A thick line could be drawn between the past and the present, opening up a future with all capitalism's blessings. Instead it turned out that Russia's market economy was infused with, one might say even dominated by, its past.

When Speenhamland was struck down, and the New Poor Law introduced in 1834 brought about a national market in labor, England had been developing a market economy for centuries. In Russia's case the programmatic introduction of the market economy took place overnight, and, in the rush, features of the old order were consolidated rather than obliterated.

In order to understand just how the past has taken revenge on the new order, we need first to characterize the old order. It was an administered economy in which goods and services were centrally appropriated and then redistributed. This established a bargaining relation between the administrative center and enterprise production, conducted on the terrain of planning targets and indices. For our purposes, three features of this order are important.

First, the system of planning gave the economy a *monopolistic character* as targets were assigned to specific enterprises and duplication was regarded as wasteful. Within each region, industries were organized into conglomerates that in turn organized each sector. Enterprises for their part sought to increase their power with their supervisory centers through expansion and further monopolization of the production of goods and services.

Second, in the absence of hard budget constraints, the compulsion to expand led to an insatiable appetite for expansion at all costs which not only deepened monopolistic tendencies but also generated a *shortage economy*. Enterprises faced constraints from the side of supply, which led them to incorporate the production of inputs into their organization or circumvent the command economy by entering into informal relations with their suppliers. The semi-legal system of lateral barter relations was organized by regional party officials and by a class of intermediaries, or pushers, known as *tolkachi*.

Third, the administered economy enhanced *worker control over production* for two reasons. First, full employment gave workers leverage because they, like everything else, were in short sup-

ply. It was difficult and counterproductive for managers to get rid of workers, which gave them the power to resist managerial encroachments on their autonomy. Second, that autonomy was also necessary because the shortage economy required flexible adaptation to unreliable machinery and unpredictable flows of raw material. In the resulting compromise, workers sought to realize the plan so long as managers provided the conditions for its fulfillment and a minimal standard of living.

When the party-state disintegrated in the period of late *perestroika* and the center no longer commanded, the preexisting monopolies were not weakened but strengthened. No longer subject to control from either party or ministries, their monopolistic tendencies were unfettered. Local conglomerates begin to act like enormous trading companies with a monopoly over specific resources and products. At the same time, the breakdown of the redistributive economy led to an increase in lateral exchanges which, in the absence of cash flows and an effective banking system, initially took the form of barter. Finally, with the collapse of the party, workers assumed even greater control over production, especially as managers were absorbed in organizing barter transactions—for themselves as well as the enterprise.

One can regard the new order as the deepening of distinctive features of the old one or alternatively as the emergence of a new order of merchant capital. With the disintegration of the administered economy, each unit seeks to maximize profit but not through investing in or regulating production but through exploiting its monopoly position within a system of trade. Directors use their inherited ties to government organs to protect their subsidies, credits, and export licenses and, at the same time, to stifle independent capital accumulation. Workers control production, so managers seek compromises with workers that give them a cut in the proceeds of barter operations, but surplus is not used to reinvest in or transform production. Indeed, productive activity is parallel to an output system, one where managers organize the supply of materials and the exchange of products while workers are paid for what they deliver. Preexisting monopolies and effective worker control of production combined to lead Russia down the road to merchant capitalism and economic involution.

The disintegration of the party-state was the terrain onto which reforms were introduced. Price liberalization came first at the beginning of 1992, fueling inflation and further lubricating the appetite for profits from trade. Instead of begging for resources, enterprises now pleaded for financial credits. The old system of plan bargaining was made easier, and soft budget constraints were merely monetized. Independent banks mushroomed and flourished as conduits of government credits on the one side and as converters of enterprise assets into managerial profiteering on the other. Inter-enterprise arrears and non-payment of wages spiraled out of control as bills were left outstanding. Voucher privatization in the summer of 1992 turned enterprise assets over to de facto managerial control while workers were left hanging onto the leaky bag of production.

In other words, every reform took Russia further down the path of merchant capital, making more difficult the transition to a “bourgeois capitalism” based on accumulation and self-transformation. This was a dynamic economy, but dynamic in the sphere of exchange—a dynamics that came at the cost of production. The market opened up trade, barter, banking and, at the same time, gave new meaning and place to a “mafia”—a shadow state that enforced transactions in the absence of an effective state. Productive activity shrunk, inter-enterprise arrears expanded even further, and wages were not paid or only paid in kind. This was a “pre-bourgeois” pursuit of profit, what Weber called speculative, adventure, booty capitalism, a form of mercantilism, and not his “rational capitalistic organization of (formally) free labor”<sup>11</sup> that powered dynamic accumulation. Instead it impelled economic involution in which exchange leeches production without offering means of resuscitation.

The Russian Great Transformation never happened. The neoliberal reformers waited every year for signs of market revivalism, for the start of the market revolution. The reforms were radical but skin-deep. From the beginning they were plagued with unanticipated consequences, because they only peeled off the

11. Max Weber, *The Protestant Ethic and the Spirit of Capitalism* (New York: Scribner, 1958), 21.

outer layer of the Soviet order, revealing a resilient substratum that resisted the reorganization of the economy and its institutions. The evolutionary economists diagnosed the errors of shock therapy but lacked the conceptual tools to understand Russia's actual abortive trajectory: economic involution followed by societal involution.

### **Societal and Political Involution: The Retreat from the Market**

The advance of the market into the Russian hinterland along the tributaries of the Soviet economy forced in its wake a reaction to the market. Economic involution gave rise to *societal and political involution*. To explore the contrast with Polanyi's societal and political transformation, we draw on his most original insight, namely the analysis of fictitious commodities. When labor, land, and money are subject to open purchase and sale, Polanyi argues that they lose their essential nature. When one is hired and fired at will, labor is dehumanized; when land is commodified, the environment is destroyed, and agriculture becomes precarious; when money is the object of speculation, the survival of business is threatened.

The self-regulating market, therefore, destroys the social order upon which it rests. Polanyi shows, therefore, how in England the commodification of land, labor, and money came to be hedged with restriction and protection. Labor organized itself into trade unions, cooperatives, the factory movement for the restriction of the length of the working day and the abolition of child labor, and the Chartist Movement for the extension of political rights to working people. Society emerged to protect labor from the extremes of immiseration, degradation, and subjugation. The commercialization of land threatened to shatter the agrarian community, but it was the landed gentry, in their position as ruling class, who tamed the market with land laws and tariffs. Finally, a national monetary system with its central bank guaranteed stability in the value of money, controlling inflation as well as exchange rates, creating that certainty in the environment without which businesses flounder. In Polanyi's scheme, the state protects the fictitious commodities by negotiating the compromise between market and society.

Facing the commodification of labor, land, and money, Russia

in the 1990s arrived at a fundamentally different solution. Whereas in England the market spawned, in reaction, a vibrant society that was aided and abetted by a regulatory state, in Russia society retreated headlong from the market to more primitive economic forms. By the same token, the state, rather than forging a synergistic alliance with society, hooked itself into the global economy and became enmeshed in the organization of transnational flows of natural resources, finance, and information. At the same time, it became detached from the local economy, raiding it for immediate riches without concern for its reproduction, let alone expansion. What does involution mean in the case of each of our fictitious commodities? We will deal in turn with labor, land, and money.

*The Decommodification of Labor and the Turn to Subsistence and Petty Commodity Production.* Labor has been decommodified by not being paid a cash wage. Workers still go to work because there they find all sorts of non-monetary resources. They can use enterprise equipment and materials to work for themselves or directly for others on a contract basis. Work is a place where information about economic opportunities circulates, where workers can pick up unofficial “work on the side” or “second jobs.” Just as managers began to strip enterprises of their assets, so workers intensified their own petty stealing. Finally, without a job, workers are denied benefits from the state—supplementary benefits for low-income families, child allowances, and, in the future, unemployment compensation and various pensions.

While the enterprise acts as an informal welfare order, working-class families increasingly produce the means of their livelihood outside work. Most notoriously, there are the dachas with adjoining plots of land where some half of Russian families spend their weekends and holidays, looking after children and cultivating crops. Even without dachas, families grow basic food, especially potatoes, on allotments that are usually not too far from their homes. Self-maintenance extends beyond subsistence agriculture to include making clothes or furniture, home repair, and much sharing of scarce commodities such as books and toys. In short, decommodifying labor does not take the form of hedging the labor market with protection but retreating from the labor market into more primitive self-maintaining communities.

*The Decommodification of Land and the Re-peasantization of Agriculture.* In the area of agriculture we observe similar processes.<sup>12</sup> Despite pressure from the World Bank and the International Monetary Fund (IMF), the Duma has so far refused to privatize land. Members of collective farms can sell their share of the land, but only to other members of the same collective and not to outsiders. The collective farm itself has not disappeared, but like the industrial enterprise, its function has changed. It, too, acts like a welfare order of last resort, but its economic function has turned from a center of agricultural production increasingly into a service center for the independent agriculture of its members. As the collective farm has little money to pay wages, members spend more time on their own plots of land. The collective farm thus becomes a service center that lends machinery, distributes fertilizer, offers limited credit, and provides transportation to markets, among other functions. More and more agricultural produce is consumed by its producers as cheap foreign food floods the urban markets and as urbanites themselves reduce their levels of consumption or grow their own food. Along with the rest of society, there is a move toward subsistence. Effectively, agriculture is being re-peasantized.

*The Decommodification of Money and the Rise of Barter.* Finally, we come to the third fictitious commodity, money. The argument here is that enterprises cannot survive when the value of money fluctuates. The medium of exchange has to have a certain stability, which is secured by the creation of a national monetary system regulated by a central bank. Russia has its Central Bank but has not managed to sustain the regulation of the ruble exchange rate. In the first two years of the reforms, the bank fueled inflation by extending liberal credits to enterprises to keep them afloat. Then 1994 ushered in the period of stabilization when the exchange rate of the ruble to the dollar held firm and inflation slowed. But in August 1998, the value of the ruble again plummeted from 6 to 25 rubles to the dollar.

The availability of cheap credit, the expansion of an independ-

12. Gavin Kitching, "The Development of Agrarian Capitalism in Russia 1991–99: Some Observations from Fieldwork," *Journal of Peasant Studies* 25:3 (April 1998): 1–30; id., "The Revenge of the Peasant: The Collapse of Large-Scale Russian Agriculture and the Role of the Peasant 'Private Plot' in That Collapse," *ibid.* 26:1 (1998): 43–81.

ent banking system, and the possibility of increasing prices to counter inflation led to the expansion of cash transactions in the first two years of the transition. With tightening credit, central regulation of banking, and the freezing of overdrawn accounts, enterprises began to circumvent the money economy by engaging in barter. This had the advantage of making revenues less visible and enforcement of taxation more difficult. According to most estimates, around 70 percent of economic transactions between enterprises are conducted through barter.<sup>13</sup> Market prices provide the baseline for the terms of exchange with a supplement depending on the fungibility of the commodity being exchanged. Thus, if oil is bartered for apartments, the exchange rate will favor oil, just as bricks will be favored over timber.<sup>14</sup>

Economic transactions take place through extensive “barter chains” in which an initiating enterprise has to organize a series of material exchanges that secure needed goods in exchange for its own products. For example, a factory manufacturing concrete blocks for housing construction requires steel. The director or his agent goes to the steel plant to see what it needs. It needs coal, so the director now goes to the coal managers to see what they need. They are interested in apartments to relocate their employees. Finally, the director can see light at the end of the tunnel since he knows the construction company needs concrete panels. The chain is closed: concrete blocks go to the construction company, apartments go to the coal industry, coal goes to the metallurgical plant, and steel goes to the concrete factory. Such barter chains might be organized by the originating manager or by intermediaries who specialize in building the network. To facilitate these chains, all sorts of pseudo-currencies emerge. Thus, large enterprises that produce basic commodities, such as oil or steel com-

13. In 1999, things began to change again as money became more important and replaced many of the barter transactions. This does not signify any permanent change any more than it did in 1992–93. Nor does it mean that the power of intermediaries has declined, since they now exploit monopolistic pricing structures.

14. By far, the best and most detailed account of the double movement in the sphere of exchange is to be found in Woodruff, *Money Unmade*. In the first reform phase, the monetization takes off, while in the second phase, bankruptcy is avoided through exiting the national ruble economy by engaging in barter and creating surrogate monies, promoted by the local state. In a third phase, the central authorities are also drawn into supporting regional barter economies.

panies, or the regional Ministry of Finance issue their own IOUs, known as *vekselia*, which are traded at discounted prices. Often the originating company will not recognize the nominal value of their own *vekselia*. Regional taxes are often paid in kind so that the government recreates its own clearinghouse, a center for the redistribution of resources—what one might call a return to a rudimentary and hidden planning system.

Barter is not an enduring legacy of the Soviet planning, since the latter was dissolved, and, in 1992–93, the economy was monetized. Only after stabilization and the effective bankruptcy of most enterprises did barter return as a means of survival outside the monetary sphere. As David Woodruff has shown, barter relations are a reaction against the anarchy of the market, insulating regional economies from destructive fluctuations in the value of money provoked by international speculators and by a state absorbed in transnational circuits of finance.<sup>15</sup> If the chains of barter recreate the network of relations established under the Soviet economy, they are impelled by and represent a creative response to the exigencies of a weak national regulation of the commodification of money.

So instead of a great transformation, we have a great involution; instead of a self-expanding market society hedged in and propelled by a vibrant society working together with a regulatory state, we have a society in headlong retreat from the market, a state dancing to the tune of global financial markets, and an economy conjoined by networks of barter. Although in England and Europe the market produced a resilient civil society connected to the state, in Russia there is little associational life outside the emptying shell of the multifunctional enterprise on the one side and the local state on the other. Instead of a civil society, we have a *network society*, the thin strands of reciprocity connecting households of subsistence but without the institutional knots that characterize advanced capitalism.

### **The Class Basis of Involution**

We come now to the question of the relation between economic involution on the one hand and societal and political involution

15. Woodruff, *ibid.*



on the other? Does economic involution necessarily lead to societal and political involution? Does societal and political involution deepen economic involution? What causal mechanisms link the two?

Certainly, economic transformation provides the material basis of an expansive state and a vibrant society, for the resources for protecting and re-embedding labor, land, and money. Without economic transformation there cannot be enduring state-society synergy. But Polanyi is more concerned with the reverse causality from state-society synergy to economic transformation.<sup>16</sup> Why do some states become effective regulators whereas other states fail abysmally? Polanyi himself seems to have two types of argument. On the one hand, he claims that states spontaneously manifest that regulatory intervention necessary to balance market and society. On the other hand, he argues that classes are the vehicle of the general interest and are able to transmit it to the state. In England's case a manufacturing bourgeoisie emerged as a hegemonic force both nationally and globally and, in Russia's, a merchant-financial bourgeoisie, dependent on its close ties to the state and an appendage of international capital.

For Polanyi ideology played an important role in shaping the development of England in the nineteenth century. The liberal creed of the political economists galvanized not just the bourgeoisie but seeped into the lived experience of subordinate classes, most importantly the working class. Market utopianism captured the popular imagination because the manufacturing class could indeed begin to present its interests as the interests of all, because it was possible to coordinate the material advance of capital and labor, and also because workers' power was real. Capital depended on labor. The development of working-class organization through the nineteenth century together with state restrictions on the deployment of labor drove manufacturing capital toward new strate-

16. The political and social conditions of economic transformation have been the focus of much recent work. See, for example, Peter Evans, *Embedded Autonomy* (Princeton, N.J.: Princeton University Press, 1995); id., ed., *State-Society Synergy: Government and Social Capital in Development* (Berkeley: University of California Press, 1997); Kazimierz Z. Poznanski, "The Postcommunist Transition as an Institutional Disintegration: Explaining the Regional Economic Recession" (unpublished ms., University of Washington, Seattle, 1999).

gies of accumulation, moving from simply sweating labor to new-fangled techniques of production.

In Russia the transition is in the opposite direction. Under the Soviet order, the working class was a central player in the political economy not just in ideology but also in practice. For, as outlined above, under the shortage economy of state socialism workers were especially powerful thanks to the control they necessarily exercised over production. It was essential, then, for the party-state not only to justify and maintain its domination but also to elicit the active consent of its working class, thereby giving the latter considerable leverage. Thus, the proletariat's prominence in ideology was not merely a cynical ploy but had a material basis. With the disintegration of the administered economy and the transition from a *nomenklatura* to a merchant financial bourgeoisie, centered on banks, trading, mafia, and exploitation of natural resources, industry collapsed and the working class became mere residue of the past.

The liberal creed of the New Russians, on the other hand, far from being a hegemonic ideology that sought the active consent of the masses, became a thin veil of justification and legitimation for pursuing narrow economic interests. Perhaps consumerism had a mass appeal in the beginning, but as expectations were dashed and labor grew poorer, it generated hostility, opposition, or cynicism combined with nostalgia for the radiant past. The evisceration of production and the retreat of the state destroyed the ground beneath the working class, so that it no longer possessed the collective will to organize effective opposition. Apart from occasional local outbreaks, only the coal miners were able to mount nationwide strikes, demanding that the state pay its wage arrears. But even the miners found their position hopeless as, one after the other, the mines closed following the government-backed deindustrialization program of the World Bank.

Just as with ideology so with the state, it became the transparent arm of the new merchant-finance capital. In Polanyi's analysis of England, the state represents the "collective interest," negotiating a balance between market and society. It does this not because it spontaneously rises above society but because it acts at the behest of the landed aristocracy—the ruling class that consti-

tutes hegemony on behalf of the dominant capitalist class. In Russia, on the other hand, the state has been hijacked by the emergent financial-natural resource-media oligarchy that bankrolled the crucial 1996 Yeltsin election campaign in return for shares (at discounted rates) in the most profitable Russian enterprises. They orchestrated—or a fraction of them orchestrated—Yeltsin's cabinet reshuffles and more or less dictated the policy of the executive branch. In line with the financial oligarchy's speculative interests, the executive of the Russian state has pursued short-term borrowing from western banks and collaborated with the World Bank and IMF conditions for loans. Although the Duma is more firmly rooted in the national economy, it is too weak to counter the collusion between the relatively powerful executive and the financial oligarchy.

Finally, the class basis of involution explains the different modes of incorporation into the world economy. England in the nineteenth century and Russia at the end of the twentieth occupy opposite positions in the global economy of their time. For the former, foreign explorations offered new markets and cheap resources that drove domestic accumulation, while for the latter, foreign connections propel domestic disaccumulation, draining its human and natural resources. The two nations may occupy different places, but the global order has itself changed. Transnational processes are more important now than they were, driving a wedge between Russia's global city, Moscow, and its retarding hinterland. Russia is polarized between two worlds, the hypermodern world of currency exchange and international commodity flows and the premodern world of barter, trade, petty commodity production, and peasant subsistence.<sup>17</sup>

As the center is integrating into the most advanced circuits of the global information society, the hinterland is hurtling in the other direction toward a neo-feudalism. The parceled sovereignty of feudalism is recapitulated in Russia's regional suzerainties. Their local economies are organized through extra-economic force, the racketeering mafias, connected to the local patrimonial state. On

17. Manuel Castells and Emma Kiselyova, "Russia and the Network Society: An Analytical Exploration" (paper presented at the conference on "Russia at the End of the Twentieth Century," Stanford University, 5–7 November 1998).

the ground, the working classes turn increasingly to subsistence production, small-scale trade, and familial exchange while relying on a cash economy for basic goods that they cannot produce. Their unpaid “wage-labor” becomes a rent for minimal social protection, health care, child care, disability and old-age pensions, unemployment compensation, wage supplements, housing subsidies, and child support. Society is primordial and gelatinous, increasingly cut off from the *sturm und drang* of Moscow politics.

### **Russia in Comparative Perspective**

In trying to make sense of Russia’s experience since 1991, I have taken the broadest comparative canvas. I have drawn on Karl Polanyi’s account of the fall of reactionary paternalism in nineteenth-century England, its replacement by a market society, followed by a statist reaction that countered the unregulated market. Taking a broad view, we can say that this century-long transition and reaction was telescoped into a decade of Russian history. But what Polanyi took for granted, namely economic, social, and political transformation, has proved an elusive outcome for those entering the world market today.

In Russia, the consequences of the market transition have been especially destructive. Did the Russian transition have to proceed as it did? Was Russia destined to take its own road to economic and societal involution? It is all too easy to deem the process inevitable, because Russia’s history shows it to be inimical to capitalist development. Here, comparative analysis suggests alternative explanations. Comparing the trajectories of Russia with Central European countries, Poland, Hungary, and the Czech Republic, suggests that both antecedent conditions and alternative strategies of transition are important.

First, let us consider antecedent conditions. The market economy had advanced much further in these countries, especially in Hungary and Poland, than in Russia. Indeed the physical planning that had dominated the Soviet economy was left behind in the 1970s with the rise of fiscal planning, the marketization of trade and retail, and greater autonomy for agriculture. When the party-

state disintegrated in Hungary and Poland, it revealed a flourishing entrepreneurial economy, whereas in Russia it augmented the power of the large monopolistic conglomerates that continued to dominate the economy.

Second, we observe alternative strategies of transition. Precisely because Russia was so backward with respect to the development of a market economy, it tried to catch up overnight with radical and dramatic plans, beginning with Shatalin's famous 500-day transition to capitalism. But the very speed of the attempted transition effectively shattered the administrative system and reconcentrated power in the hands of the conglomerates. While the Czech government talked up the virtues of the market and the importance of radical transformation, in practice it took a slow and evolutionary road, with protective trade policies, controlled liberalization of prices, and a gradual privatization scheme. Hungary had always taken an evolutionary road. In Poland, the Solidarity government's attempt at shock therapy had mixed results until the Social Democrats were returned to office and introduced more state-centered, evolutionary policies.

The contrast with China is perhaps the most remarkable. Since 1990 the Chinese economy has expanded at a rate equal to the rate of the Russian economy's collapse. The state has nurtured the development of an expanding private sector while seeking to enforce tighter budget constraints on its own monopolies.<sup>18</sup> The state and party bureaucracy continues to direct the economy, coordinating public and private sectors, combining administered and market enterprises. Its entry into the global economy has been on the terms of a developmental state bureaucracy rather than a merchant financial oligarchy. We might say that in contrast to Russia's involuntary *transition without transformation*, China has accomplished a developmental *transformation but without a transition* to a market society.

18. Jean C. Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform* (Berkeley: University of California Press), 1999; Andrew Walder, "Corporate Organization and Local Government Property Rights in China," in Vedat Milor, ed., *Changing Political Economies* (Boulder, Colo.: Lynne Rienner, 1994), 53–66; Thomas Rawski, "Progress without Privatization," in Vedat Milor, ed., *ibid.*, 27–52; Barry Naughton, *Growing out of the Plan: Chinese Economic Reform, 1978–1993* (New York: Cambridge University Press, 1995).

Like the neoliberals who inspired Russia's exit from communism, Polanyi assumed that transition meant transformation. Today the experience of many Third World countries, as well as of Russia, testifies that transition not only does not lead to transformation, but it also stimulates its opposite, what in the case of Russia I have called involution. The Chinese case suggests, however, that state socialism can supply the foundations for a thriving market economy, by incubating the state-society synergy that Polanyi took for granted. Russia lost this opportunity because it fell victim to a programmatic destruction of the state-administered economy, as if destruction itself were sufficient for genesis. China took the reformist road to transition and created a transformation, while Russia took the revolutionary road and produced involution.