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The Economic Basis of Russia's Political Crisis

The struggle between the Russian executive and legislature seems unhinged from the world around and dancing to its own tune.* Each side accuses the other of betraying democracy and plotting the restoration of totalitarian rule. The population looks on, bored by political brinkmanship as it tries to survive spiralling prices in a shortage economy. When characterized as more than a struggle for power, the stand-off between the President and the Supreme Soviet is presented as a struggle over economic reform, with Yeltsin seeking the rapid advance of a market economy and the legislature cautious or outright hostile. In this Moscow-centric view the state, now as before, appears as a centre of autonomous initiative. However, the state's autonomy actually reflects its weakness, its remoteness from regional realities and above all its impotence to transform a resilient Soviet economy still dominated by huge powerful conglomerates including, of course, the military-industrial complex.

It is not that the economic reforms failed because the state was divided, but rather the state became divided because the economic reforms failed. They failed because in spring 1992 economic directors threatened to bring the entire economy to a standstill if credits were not issued that would save them from bankruptcy. The credits were issued not once but many times by the Central Bank, creating an economic crisis marked by hyper-inflation, falling standards of living, and tumbling output. At the same time the enterprises somehow survive, irrespective of economic performance, violating the basic principle of Western prescriptions for shock therapy.

Desperate to demonstrate to the World Bank and IMF that the reforms were proceeding according to plan and to his erstwhile supporters that there were some benefits to be obtained from such reforms, Yeltsin began issuing privatization decrees, culminating in the August 1992 distribution of privatization vouchers. Designed as a popular move, privatization, where it has taken place, has in practice most usually enriched directors and managers rather than workers, while failing to provide incentives for transforming production.[1] As before, the Russian government and its Western advisors assumed

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[1] See Simon Clarke, 'The Quagmire of Privatization', *NLR* 196, Nov–Dec 1992.

that the withering away of the party-state had cleared the ground for a market economy to be built by decree, as though it were a target for a five year plan. Why this was not possible can only be understood by forsaking political spectacle and turning to the more hidden processes of the economy, in particular the operation of conglomerates and their member enterprises.

The Paradoxes of Vorkuta

'It's like the French say,' mused Alexander Sergeyevich, 'The more things change, the more they stay the same.' It was our last meeting with the chair of the Association of Northern Cities, head of Vorkuta's heating and sewerage works and most important for us, chair of the soviet of directors of the huge conglomerate Vorkuta Ugol' (Vorkuta Coal), comprising the major fifty enterprises in Vorkuta, including twelve of the thirteen mines. With the disappearance of the party apparatus, Vorkuta Ugol' is the dominant political force in the city. A long-time resident of Vorkuta, Alexander Sergeyevich knows everyone and everyone knows him. Even his enemies respect him. He wields his power with patience and self-confidence. He knows how important he is, he doesn't have to boast about meetings in the White House, about businesses he runs or the influence he exercises in all walks of city life.

He has been trying to explain how the soviet distributes subsidies among enterprises when one of the mine directors, who had treated us to an unusually brief and uninformative interview, trundles in and leans his huge body over the desk. He asks Alexander Sergeyevich what he should do about the latest Presidential decree on privatization—the decree of 1 July 1992 which declares all state enterprises, with a few exceptions, to be joint stock companies. Every enterprise had to submit a transformation plan to the state property agency by 1 November. The director was visibly embarrassed by our presence since, only two days before, he had said he knew all about the privatization decree. Even then, it was obvious he did not have the vaguest notion. Alexander Sergeyevich tried to console him, 'Don't worry about privatization, just relax'. The director continued, saying that another director had rung him up from the Black Sea, asking him what to do and whether he should return immediately. Alexander Sergeyevich replied, 'Just tell him to enjoy his holiday'.

The director left, not completely reassured, and Alexander Sergeyevich turned to us. 'Just look at this decree', he said in exasperation, shaking the newspaper *Rossiyskaya Gazeta*, where it ran for two long pages. Not for the first time he would say that the decree and others like it were 'nonsense'—enunciating the English word for emphasis. 'Who is going to buy these shares?' he asked us rhetorically, 'Would you?' and supplied the answer, 'No, obviously not. No one is going to buy these shares. It's all a bluff'. He ran his fingers over passages he had already underlined in the newspaper and began ridiculing the internal contradictions of the decree. 'So what will happen?', we ask. The answer came back quick and sure, 'Nothing. Nothing will change.' Smiling benignly, he accentuated another of his favourite words: 'That is the *paradoks*'.

It is indeed a paradox when one reflects on the history of Vorkuta. With a population of 200,000, as close to the Arctic Circle as any city in Russia, it is cut out of the open, frozen tundra, incapable of supporting vegetation beyond berries. Its only reason for existence has been its coal, first mined by prisoners of labour camps in the 1930s. Vorkuta coal became particularly important during the Second World War, when supplies from the Ukraine were cut off due to the German occupation. In 1942 prison labour was dragooned into extending the railroad north to Vorkuta to secure coal for the Soviet steel industry. They say that you can still feel the bones of dead bodies under the railroad as the train rattles north through the Komi Republic on its two-day journey from Moscow. After the war, Vorkuta became infamous as a centre for political prisoners, so much so that in the 1912s and 1960s its theatre was the boast of the local nomenclatura. It was a prison city, so remote that escape was impossible.

Even though the labour camps were formally dissolved in the Krushchev and Brezhnev periods, the stark coercive labour regime continued. In the spring and autumn of 1989 and then again in 1991, the miners of Vorkuta, together with those in the Kuzbass and the Donbass, went out on unprecedented strikes that first shook the fabric of Soviet society, and then heralded the end of Communist Party rule. Not surprisingly, the most radical demands came from Vorkuta reflecting its brutal history of labour camps and repressed revolts.[2] In 1989 the city strike committee demanded sweeping changes in working conditions, economy and political order. They demanded the restoration of the Northern and regional coefficients (monetary compensation for living and working in the far North), improved and earlier pensions, longer vacations, Sunday a holiday for all, better housing and guaranteed supplies of basic foodstuffs. They demanded the termination of the feudal disciplinary code (*krepnestoye pravo*) which held miners in bondage to a single mine. The second set of demands called for independence of the mines, the right to dispose of 25 per cent of their foreign exchange earnings, and the introduction of a market economy. Indeed one of their demands was to bring the famous economist Leontiev back to Russia to explain how a market economy works! The third set of demands were political—the dismantling of the bureaucratic command economy and the revoking of Article 6 of the constitution that guaranteed the party's monopoly of power. They called for free elections to all positions of power, the right to form independent trade unions and parties, press freedom, and recognition of the strike committee.[3]

Workers were striking for revolutionary demands: for the end of Communism, and the installation of a market economy and liberal democracy. Their demands have been realized: the party has dissolved, the command economy has been dismantled, liberal democracy has been installed and markets have sprung up on every street corner. So

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[2] The famous revolt of 1953. See the works of ex-prisoners, Edward Buca, *Vorkuta*, London 1976, Joseph Scholmer, *The Story of a Slave City in the Soviet Arctic*, London 1954.
[3] For the miners' strikes and their demands see Theodore Friedgut and Lewis Siegelbaum, 'Perestroika from Below: The Soviet Miners' Strike and Its Aftermath', *New Left Review* 181 (1990).

how can Alexander Sergeyevich say that 'nothing has changed'? Our answer operates on two levels. First, at the level of the economy changes have indeed been dramatic but confined to the realm of exchange, that is to the noisy sphere of commerce. While economic transactions are increasingly governed by the pursuit of profit through trade, they leave production more or less unchanged. Second, the persistence of the Soviet system of production sets limits on politics—a frail liberal democracy in Moscow coexists with a regional mercantilist politics which regulates the distribution of supplies, investment, export quotas, and subsidies.

In order to understand this paradoxical situation in which everything and nothing changes, we develop a model of the functioning of a command economy and how its disintegration gives rise to merchant capital. We then apply the model to Vorkuta's coal industry, showing how monopolies, barter and new forms of enterprise politics establish themselves. In the conclusion we ask under what conditions merchant capital might be transformed into modern capitalism—a capitalism that continually revolutionizes both products and their production. Ironically, the workers' movement set out to introduce a market economy but ended up being absorbed into a transmuted form of the old order. If Vorkuta marked the front line of a battle for a market economy, the limited character of that transition has wider lessons.

From State Socialism to Merchant Capital

Our analysis of the transition begins with a simple model of the state socialist economy as one based on the central appropriation and redistribution of surplus. 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.

1. In order for planning to work at all, centrally devised goals are 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 vis-à-vis the centre through expansion and the monopoly production of scarce goods and services.

2. 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 contacts and *tolkachi*.

3. 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 raw materials. On the other hand, together with policies of full employment, shortages of labour 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 fulfilment and a minimal standard of living. The enterprise presents a united front in bargaining upstairs for the loosest plan.

What happens to a command economy when the party disintegrates and the centre 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 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.[4] 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 breakdown of the command economy leads to an *increase in lateral exchanges* which previously had been strictly controlled by ministry and party. Trading relations between enterprises in a shortage economy where money is of limited value increasingly take the form of barter. A given enterprise is, therefore, the stronger the more universally desired and therefore the more barterable are its products. Johnson and Kroll also observed backward integration into the production of supplies—the restoration of an old strategy that dealt with shortages created by the command economy.

The third dimension of our model 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 be without effective representation, but each managerial group presents its strategy in terms of the interests of all employees.[5] Seeking the support of workers is more than a tactic in a political struggle, it is a particularly pressing

[4] 'Managerial Strategies for Spontaneous Privatization', *Soviet Economy*, vol. 7, no. 4 (1991), p. 293. See also Heidi Kroll, 'Monopoly and Transition to the Market', *Soviet Economy*, vol. 7, no. 2 (1991).

[5] See Michael Burawoy and Kathryn Hendley, 'Between Perestroika and Privatization: Divided Strategies and Political Crisis in a Soviet Enterprise', *Soviet Studies*, vol. 44, no. 3 (1992).

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 fulfilment 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 is 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 of production without necessarily altering them.[6] Just as historically merchant capital tended to reinforce feudal forms of production, so we argue similarly that in Russia the expansion of trade has conserved rather than dissolved the Soviet enterprise. In effect, managers of enterprises and conglomerates 'put out' work, not to families, but to work collectives within the enterprise. Rather than seeking to transform production managers struggle to maximize returns on the products produced. That is to say industrial production is subordinated to merchant capital rather than the other way round. Again like merchants of the early modern cities, Russian top managers advance their profits from trade through political regulation. Managers use close ties with governmental organs inherited from the Soviet order to protect their subsidies, credits, export licences and at the same time stifle independent capital accumulation.

For Max Weber the hallmark of modern capitalism is 'the rational organization of formally free labour', which calls for continual innovation in the process of production. This depends, first, on competition among capitalists which compels innovation on pain of extinction. Of course, as we know from studies of different capitalist economies including those of East Asia, competition can be organized in very different ways, but nevertheless there is still competition. Second, competition leads to innovation if and only if capitalists control the process of production, that is the formal subsumption of

[6] While our concept of 'merchant capital' is similar to Jadwiga Staniszkis' notion of 'political capitalism' (*The Dynamics of the Breakthrough in Eastern Europe*, Berkeley 1991), we differ in emphasis. First, we do not believe that there has been as much change in the arena of production as in the arena of redistribution. Second, we stress the subordination of production to trade. Third, the idea of 'political capitalism' still exaggerates the 'political' and overlooks the autonomous dynamics of the economic as such. We would also like to distance ourselves from our own earlier use of the concept 'merchant *capitalism*' to describe an interlocking system of exchange *and* production. See Michael Burawoy and Pavel Krotov, 'The Soviet Transition from Socialism to Capitalism: Worker Control and Economic Bargaining in the Wood Industry', *American Sociological Review*, vol. 57, no. 1 (1992). We have now adopted the more conventional term 'merchant *capital*' which refers only to the mode of exchange without any implications for the form of production. We are grateful to Simon Clarke and Oleg Kharkhordin for forcing us to clarify our position.

labour must give way to its real subsumption in which capital dictates to workers how, when and with what they should work. Again, the literature on work organization demonstrates that there is no one way to organize managerial control but managerial control there has to be. Finally, managerial control presupposes some form of market in factors of production, in particular labour and capital. In short, a Russian transition to modern capitalism would require turning monopolies into competing enterprises, barter into market exchange, and worker control into managerial control. Now, that would be a real revolution!

In the following sections we examine each element of this theory of transition as it applies to the Vorkuta coal industry. During six weeks in June and July 1992, we spent one, two and sometimes three days at eight of the thirteen mines, underground as well as on the surface. We interviewed and reinterviewed managers, official and independent trade unionists, past and present members of strike committees, workers, bankers, city officials and local politicians. Out of these discussions we pieced together the following analysis.

The Conglomerate and the Competition for Subsidies

The command economy began to unravel in 1988 when physical planning was replaced by state orders. Enterprises could distribute production over and above state orders as they wished. Since January 1992 conglomerates and their member enterprises have been given even greater autonomy to distribute their produce but equally they have to fend for themselves in obtaining supplies. Not surprisingly the old conglomerates are still in place, often under a new name, even where presidential decrees have officially disbanded them. They remain essential to the distribution of supplies and products.

The Russian government, concerned to maintain control over the distribution of coal to the metallurgical complexes, continues to operate a system of state orders through the conglomerates. Vorkuta Ugol' has delegated part of its autonomy so that each mine supplies 83 per cent of its product as state orders while selling 17 per cent as it wishes. From the proceeds of the 17 per cent, the conglomerate retains 7 per cent, leaving the mine with 10 per cent.

At the same time that the conglomerate has assumed greater autonomy to distribute its coal, the state has also been releasing its control over prices. The discretionary 17 per cent can be sold at whatever price the mine can obtain. But the 83 per cent, composed of state orders, has to be sold at an artificially low official *optovyi* (wholesale) price. At the end of July 1992, this *optovyi* price was lower than the cost price and the difference was made up by subsidies, distributed by Vorkuta Ugol'. Granting more autonomy to the conglomerate has decentralized the planning apparatus so that the struggle between the conglomerate and the state is now eclipsed by a struggle within the conglomerate among the enterprises over the distribution of subsidies.

This struggle within the conglomerate is informed by two forms of cost price, the cost to the mine, known as the *short price*, and the cost to the conglomerate, known as the *long price*. The long price includes additions to the short price based on the cost of the social infrastructure (collective farms, milk producers, kindergartens, the sewerage and water department, and so forth), and of the apparatus of the conglomerate itself. The long price is the cost charged to the state, that is the price received by the conglomerate. Although the ratio of the short price to the long price is a carefully guarded secret, mine directors we spoke to estimated it at 40 per cent. That leaves 60 per cent of the income received from the state to be distributed as subsidies for the social sphere and as a means of maintaining the apparatus of the conglomerate itself. Some of the mine directors complained that a significant proportion of the subsidies, they did not know exactly how much, goes back upstairs to the association Rossiya Ugol' (Russian Coal), a political interest group in Moscow which bargains on behalf of the mines with the Ministry of Fuel.

It is in the interest of the individual mine to increase its short price and eat its way into the long, price but the conglomerate demands careful documentation of any claim about increases in costs. Its interest is to bring the short price down and keep as much of the long price as possible for itself. However, mines whose production is more cost effective, due to rich coal deposits or modern equipment receive less subsidies than the poorer, old mines with thinner seams. In the context of market ideology and self-financing the richer mines resent the fact that they have to subsidize the poorer mines. Thus, in autumn 1989 miners at the most profitable, largest and newest mine—Number One—struck for the independence of their mine.[7] It had little need for the conglomerate since its community is relatively well endowed with amenities and housing. As a result of the strike, Number One succeeded in seceding from Vorkuta Ugol' but they now find themselves subordinated directly to the Ministry of Fuel and Energy. It suits the ministry to take a direct cut out of the mine's profits without having to work through the conglomerate. At least, the chief engineer sighed, 'Our bosses are far away in Moscow and not next door.'

Not only the richest mines oppose the conglomerate. The director of Number Two, one of the poorest mines and slated for closure, was the leader of a campaign to reorganize the conglomerate to represent only the mines. The idea was to exclude the non-mining infrastructural enterprises on the assumption that these were dragging down the economic efficiency of the mines. If, as a result, the prices of food products, for example, were to increase ten times, the director argued, so be it. He was firmly committed to a market economy, although he assumed that the state would still provide subsidies for coal.

The specific production profile of Number Two provided additional reasons for the director's pursuit of independence. The state had been increasing the wholesale (state) price of the low-grade heating coal which the mine produced so that it was rapidly approaching the short price (cost price to the mine). He gave us some illustrative figures. At the beginning of 1992 the wholesale price for his coal was 35 rubles a

[7] To hide the identity of the mines we have altered their names to numbers. This is consistent with usage during the era of the prison camps when the mines were also referred to by numbers.

ton, whereas six months later it was already 800 rubles a ton but the short price (cost price) had only increased from 935 rubles a ton to 1,175 rubles. This meant that the subsidy had fallen from 900 rubles to 375 rubles a ton. Other prices remaining the same, which they would not, an increase in the wholesale price to 1,300 rubles would make him independent of subsidy. He thought that being independent of the conglomerate would allow him to pursue more enterprising and innovative strategies.[8]

Not only was Number Two less dependent on subsidies, it was losing out in the struggle for those subsidies. Since there is no externally guaranteed accounting system, each mine makes its case for increasing costs privately with the *spets apparat*—the executive organ of the conglomerate. The struggle for subsidies is a political struggle and here the director of Number Two was at a disadvantage. He had a history of political independence which placed him at odds with the administrators in the *spets apparat.* In 1990 he was elected as a deputy to the Komi Supreme Soviet and in June 1991 he openly encouraged the dissolution of the party at his mine to the chagrin of the city party secretary. Earlier, he had been the only director to immediately and openly support the workers' strikes, even defending them in court. Of course, there were economic advantages to be gained from such support—when the striking miners went to Moscow to bargain with the government, they could include his demands for new technology. But there were costs, too. He was marginalized by the conglomerate from the beginning. The *spets apparat* spurned him.

As subsidies from the Russian government to cover costs of production are no longer assured, so Vorkuta Ugol' has an interest in shutting down those operations which are most costly and which are unable to defend themselves politically. Mine Number Three is a case in point. Appropriately enough its actual name means 'Valley of Death' in the local language. It lies some 60 kilometres north of Vorkuta in an even more desolate zone at the foothills of the polar Urals. The only connection to the south is via the single-gauge railroad. Wooden crosses for the dead and watchtowers still mark remnants of the labour camps, long since removed in Vorkuta itself. Apart from the mine there is no other source of employment for the four thousand inhabitants, many of whom migrated from the Donetsk mining region of the Ukraine in search of higher wages. The run-down community would simply die if the mine were closed. The cost of coal production is higher than any of the other mines and its weak management is politically defenceless against threatened closure. At the time of our research Vorkuta Ugol' was planning to wash its hands of Number Three and turn it over to the ministry and the Russian state property agency.

As long as the state wants to assure the delivery of coal to its metallurgical complexes, it will continue to subsidize the production of coal and it will work through Vorkuta Ugol'. But the effect is to decentralize the bargaining system that characterized the old planning order to

[8] The director had already shown initiative. He had cut costs by employing his own engineers as a maintenance crew. He was also a founding member of a local bank that held the accounts of several mines.

the local level, where each mine struggles to maximize what it obtains from the conglomerate and minimize what it gives up to it. These hierarchical relations set the parameters within which individual mines obtain necessary supplies and distribute their coal.

Combining Barter with State Orders

The Soviet economy was a shortage economy. Central ownership of the means of production and central direction of the economy gave rise to bargaining in which political power took precedence over economic effectiveness, that is budget constraints were soft. Enterprises sought to increase their power, often by increasing their size or through the monopoly production of goods and services. This led to an insatiable appetite for the supply of material and human resources. Shortage led to hoarding which led to greater shortage. The economy was constrained from the side of supply, so that management's first task was not to find a consumer, since they were plentiful, but to find sources of the factors of production. In our study of a rubber factory and then of a furniture factory in 1991, we found the problem of supply still paramount, if anything exacerbated.[9]

What was striking about our interviews with managers in Vorkuta was their relative lack of interest in supply problems. One reason was that the industry requires only simple materials, such as steel and wood. The one shortage we did hear about was the shortage of labour. The Pechora basin is being depleted of manpower as many try to leave for a more congenial habitat. Despite the very high wages, the mines can no longer meet the planned targets for manpower levels. The situation appears very serious with as much as a 20 per cent shortfall in the labour force at some mines. Just as important as the shortfall itself, is the fact that it is the younger people who are leaving. Those who have accustomed themselves to Vorkuta or who simply cannot afford to leave are the ones who remain. Some envisage Vorkuta's future as a town of pensioners and contract workers. We talked to the chair of the Ukrainian friendship society who had himself lived most of his adult life in Vorkuta, a victim of repression. He said that now about 13 per cent of Vorkuta's population is Ukrainian of which, he estimates, only about a third can afford to return to the Ukraine. Finding a place to live on inadequate pensions becomes more serious by the day. Ukrainian independence has added complications of citizenship since the government in Kiev will not help pensioners from Russia.

We also learned about competitive struggles for coal reserves. At mine Number Four the chief engineer took us to a new work face which was a full three metres high, quite out of keeping with the general state of the rest of the mine. The director of the mine had managed to appropriate reserves from a much younger mine by going over the head of Vorkuta Ugol' and using his influence in Moscow. Now the chief engineer was trying to convince us that a fortune was to be made from investment in his mine. Needless to say he had his eye on Western investment.

[9] Burawoy and Hendley, op. cit; Burawoy and Krotoc, op. cit. See also Kathryn Hendley's study of Saratov's large aviation conglomerate, 'Legal Development and Privatization in Russia: A Case Study', *Soviet Economy*, vol. 8, no. 2 (1992).

While managers were concerned about the long-term prospects of the Vorkuta coal industry and thus of the city, they were much more absorbed with the immediate problems of realization, how to sell their coal. On the one hand, the mines were becoming increasingly concerned about the prospects of the internal market, namely the 83 per cent of production that was state-ordered. How long will the state guarantee the sale of this coal? Two-thirds of the coal produced in Vorkuta goes to the Cherepovets steel complex and a further 10 per cent goes to the complex in Lipiets.[10] While we were there, Cherepovets failed to pay for the coal it was accepting. It was part of a chain of debts in which it, too, was owed a great deal of money by the purchasers of steel. The situation deteriorated to the point where Vorkuta Ugol' decided to halt all shipments to Cherepovets.[11] At Number One they were trying to work out deals that would circumvent the problem by directly taking machinery produced by Cherepovets' debtors as payment of the steel complex's debts to the mine.

The problem is not simply one of cash flow, but a secular decline in the demand for coal. A general change in energy policy has given greater priority to gas and oil over coal.[12] There will be a further fall in the demand for coal as the military industrial complex declines. There certainly has been a fall in the production of coal over the last few years, occasioned in part by the lengthy strikes, particularly in 1991.

The most immediate concern of mine managers, egged on by the trade union, the soviets and the STK (Council of the Labour Collective) was how to maximize the return on their '17 per cent' of production plus any overproduction of the plan. They can sell the coal to other countries in CIS, particularly the Baltic republics which urgently need coal, and make handsome ruble profits together with possibly some barter. This was the strategy of mine Number Two since it produced only low-grade coal. But it required an elaborate negotiation with customs officials and a string of connections that only someone with strong political ties could execute.

Most of the mines produce higher-grade coal that could be turned into coke for steel production. They bartered their coal in the European market in exchange for Western consumer goods or even (though very rarely) new machinery for the mine. A chain of intermediaries, trading companies, link Vorkuta to Moscow or St Petersburg and from there to outlets in Europe (often in Germany). Barter is big business and some mines have an elaborate system of distribution among their employees. At mine Number Six, for example, 5,600 rubles buys workers goods worth up to $10,000, i.e. at an exchange rate of one ruble for almost two dollars,[13] including televisions, videos, mixers, fridges, shoes and even cars. Not only have miners won huge wage

[10] In 1991, 7.8 million tons of coal went to metallurgical plants, of which Cherepovets received 6.1 million tons and Lipiets 0.9 million tons. The 1.3 million tons of energy coal went to the Vorkuta power stations. *Figures on the Activities of the Conglomerate Vorkuta Coal, 1991*, p. 64.

[11] Although we also heard that Cherepovets' demand for coal had fallen during the summer because one or more blast furnaces were being overhauled.

[12] Friedgut and Siegelbaum, op. cit.; Rutland, op. cit.

[13] At the time the exchange rate was around 125 rubles to the dollar.

increases but they are now able to obtain Western consumer goods. They were even thinking of extending the system, by giving workers special accounts in *valuta* (foreign exchange). These were not managerial fairy tales. When we spoke to workers that was often the only thing they were interested in talking about—usually the injustices of the system of distribution and the long delays. Workers were continually coming into the offices of the trade union or the soviet to ask what was available through 'barter'.

If they are going to export coal for barter, mines have to obtain a licence which is distributed by the state, usually through Vorkuta Ugol'. These licences or quotas, as they are called, are precious rights. Those mines that can't sell their coal. abroad may do an exchange with mines that can. Mine Number Eight, for example, which produces low quality coal, obtained a quota for mine Number Five to export high quality coal on its behalf and in return assumed Number Five's state order for the supply of basic coal. Once they obtained consumer goods mines would then distribute them to employees and beyond. Barter from coal exports underwrites commerce in the streets, the bazaar and the cooperatives.

Mines bargain for quotas with the conglomerate although some mine directors go directly to Syktyvkar (the capital of Komi) and Moscow where they bribe officials if necessary. As with subsidies the distribution is organized through political processes that operate preeminently at the level of the conglomerate. Like the merchant companies of the fourteenth- and fifteenth-century city, the conglomerate organizes a system of market regulation and urban monopoly, while restricting the trade of independent producers. Nor is it surprising to discover that the old Communist elite has managed to place itself at the centre of this network of bargaining and regulation. For example, the ex-party secretary for the city is now running a commercial operation within Vorkuta Ugol' that organizes the barter of coal. As we found in Syktyvkar, emissaries from the party occupied positions of political and economic power within the city even before the coup of August, 1991. From these positions they continue to run the city in the same way as before.

This leaves us with a puzzle. How is this continuity with the old order possible given the demands of the workers' movement to end Communist rule and install a market economy, and given that the strike committee was virtually running the city for long periods during 1989 and 1991? Surely, in Vorkuta at least, things should be different?

From a Strike Movement to Enterprise Politics

When we arrived in Vorkuta in June 1992, the workers' movement was at a low ebb. The city strike committee remained a symbol of great victories that had been won—from enormous increases in remuneration and changes in the disciplinary code, to the removal of the Communist Party, the establishment of independent trade unions, and the installation of 'their' leader Yeltsin in place of Gorbachev. But the strike committee was no longer the fulcrum of political activity.

Its power had diminished for a number of reasons. First, the Independent Trade Union of Mineworkers (NPG), formed in August 1990 and representing underground miners to the first level of supervision, had taken over some of the strike committee's functions. Second, the strike committee's eight representatives were in the pay, if not the pocket, of the mines, which perhaps constrained their independence. Third, many of the more popular leaders of the strike committee had taken up political posts in Moscow as well as in Vorkuta, or had set themselves up in business.[14] Fourth, the strike committee was ambivalent about calling strikes for fear that it would destabilize 'its' government. They did not want to jeopardize Yeltsin's position for he was, in their view, their 'last hope'.

All these forces came to a head during the summer 1992 crisis of 'cash' (*nalichnaya*). Since the beginning of the year, the tenfold increase in miners' wages barely kept up with the galloping inflation. This resulted in a drastic shortage of cash—the shortage that could put an end to all other shortages. The government had simply not printed enough money to supply a population with escalating incomes. All over the country workers were being denied their full income. In Vorkuta, the supply of cash varied from mine to mine, depending on the influence of managers with banks and other reserves. Employees could only draw a few thousand rubles a day from the 'bank' and even then had to spend considerable amounts of time in line. Within Vorkuta shops were instructed to introduce a system of credit so that the population might still have access to basic food supplies. The cash crisis came at a particularly crucial moment—in summer when families were preparing to go south for their customary summer holidays. Vorkuta miners regard it as their right to send their children to camps or relatives in the south. This year many families either could not afford it or had difficulty in finding sufficient cash.

Meetings were organized to prepare for strikes. The city strike committee proposed a one-day warning strike for 22 June and supported the Russian Federation of Independent Trade Unions' call for a strike beginning 1 July. However, in the event both strike calls were widely ignored. Miners may not have been too enthusiastic to broadcast the fact that their wages were now ten times the average wage in the country but, more important, they were disillusioned with the results of their strikes in 1989 and 1991. Inflation was eroding wage gains, the party had collapsed but the city was run by the same power elite, supplies in the shops and housing were no better, parliament proved to be no more than a 'talking shop', and the collapse of the command economy had brought uncertainty and insecurity.[15]

[14] One of the most successful and controversial of the ex-leaders bragged to us about his 'lemons' (the term for a million rubles) and how he now employs 1,000 workers but with only seven managers. He saw no contradiction in proudly proclaiming his virtues as a 'business' man and at the same time complaining about the bureaucratization of the strike committee or how its leaders were no longer interested in promoting the welfare of workers. He had washed his hands of the workers' movement and without batting an eyelid embraced business as the only worthwhile way of promoting the welfare of all.

[15] Expressing their frustration miners did organize a few isolated wildcat strikes against their unions and the strike committee.

Sensitive to the despondency of their members, the Independent Trade Union of Mineworkers (NPG) came out against striking. It argued that there was no point to strikes since they would not miraculously create more cash. Moreover, the government would not be threatened by a strike. Coal was already stockpiling in Vorkuta because buyers were unable to pay for their orders. Some even claimed that the government was trying to provoke a strike and a showdown with the miners. Apart from strategic concerns about the success of the strike, NPG had interests of its own. The union was headquartered in the same building as Vorkuta Ugol' and generally supported the conglomerate's policies. The Russian government had given NPG 40 million rubles to establish itself. Head offices subsidized a full paid official at each mine and allowed the mine local to retain all membership dues (1 per cent of wages), so that financial solvency did not depend on any militant defence of their members' interests. Indeed, the leading officials seemed as devoted to NPG's commercial operations as to defending the interests of its workers, or rather they did not distinguish between the two.[16]

If vested interests and disillusionment sapped away at the strike *commitment* of miners and their representative organs, the extension of mine autonomy, particularly the discretionary 17 per cent of output, had the effect of undermining working-class *solidarity*. The decentralization of planning to the conglomerate led, as we have seen, to struggles between mines over quotas and subsidies. The specific conditions of each mine—the type of coal it produced, the age of the mine, its coal reserves as well as the influence of its director—effectively divided one mine from another. As the strategies of mine management became more important so worker organizations focused their efforts on controlling management.

The basis for such control was already laid in the elections for the mine directors in 1989 and 1990. Even though the candidates were all locally-renowned managers who moved from one mine to the next in a game of musical chairs, this was still an effective exercise of power by workers. Managers did have to appeal to workers and make promises about what they would do if elected. At each mine either the official or the independent trade union, either the STK or an enterprise soviet or some combination of these, played important roles in representing employees vis-à-vis management. They were particularly active in distributing benefits and barter and in strategies for selling

[14] Interestingly, the strike committee itself has managed to resist open commercial activities. True, in 1989, the strike committee accepted the support of the USSR Union of Amalgamated Cooperatives, but this was a political alliance based on common opposition to the existing regime. See Anthony Jones and William Moskoff, *Ko-Ops*, Bloomington 1991, p. 116. At the beginning of 1992 there was an open struggle for the control of the strike committee. TAN—a renowned and controversial cooperative which had spread its wings through the country—had persuaded (some say bribed) a few members of the strike committee to support its plan for a trading network that would bypass the conglomerate by forging direct links between the mines and the Cherepovets steel complex. They promised the miners a new order of abundance. The majority on the strike committee in alliance with the conglomerate successfully fought against TAN and its plans, finally ejecting TAN's defenders from the strike committee. See *Zapolarnaya*, 12 December 1991; *Vorkuta, Chas-Pik*, 25 January 1992.

coal. They carefully monitored top management's attempts to secure privileged access to barter. Management had to live with this constant surveillance under threat of dismissal by the workers' collective.

Indeed, at one mine this is precisely what happened. Number Seven is the richest mine save Number One. It is the home of the most radical workers who in March 1989 struck before any of the mines not only in Vorkuta but in the other regions of the Soviet Union. The mine has continued its tradition of radicalism. The director, who was elected in 1990, soon created much dissatisfaction with the NPG and Soviet by being unresponsive to their demands. Three attempts were made to get rid of him. In 1991 the director was accused of being in the pocket of the conglomerate, cutting deals which were only to his private benefit. A conference of the labour collective, called to oust the director, failed because, in the view of the leaders of the Soviet and NPG, the director used the meeting to distribute cars and fridges to key people. The second attempt was early in 1992 in connection with the director's refusal to work with TAN.[17] According to the chair of the soviet, joining TAN would have secured for employees basic food supplies and consumer goods. However, at the conference of the work collective called to dismiss the director, he managed to discredit the soviet's proposal by claiming the irresponsibility of TAN's representative on the strike committee. Finally, a third conference was called in May when the director was accused of failing to improve conditions at the mine—the changing rooms and the canteen. There was a vote of no confidence in the director whose retention was not even supported by the conglomerate.

The pattern of struggle plays itself out very differently in different mines. The age of the mine, the coal reserves, and the quality of the coal set limits within which the type of management and the history of industrial relations shape the specific form of enterprise politics. In their study of the Donetsk miners, Siegelbaum and Crowley also note considerable divergences between mines. They compare one mine where 'miners remain thoroughly dependent on their enterprise and its management' with another 'where activists have pursued an approach to labour relations that is at least partly syndicalist'.[18] For all the differences between mines both within and between Vorkuta and Donetsk, all the evidence points to the devolution of the workers' movement towards enterprise politics. This tendency will be intensified as enterprises develop their own plans for privatization.[19]

In this new pattern of industrial relations what happens to production? Under the Soviet order, as we have already explained, endemic shortages gave managers an interest in delegating control to the workplace while employment guarantees and labour shortage limited the capacity of managers to exercise control over production. Uncertainty and danger as well as the need, for close cooperation underground

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[17] See footnote 20.

[18] Lewis Siegelbaum and Stephen Crowley, 'Survival Strategies: The Miners of Donetsk in the Post-Soviet Era', unpublished manuscript, 1992, p. 13.

[19] For example, Kathryn Hendley shows how Saratov's aviation conglomerate had to create its own legal-political regime because existing laws were so uncertain, ambiguous, inappropriate and without enforcement mechanisms. Hendley, op. cit.

made worker autonomy even more important. Yet, the boundaries of that autonomy were heavily policed through a draconian disciplinary code, known as *krepnestoye pravo*, whose violation could mean loss of all benefits, premiums, vacations, access to social services such as kindergartens and the possibility of transferring to another place of employment.

We could not discover how strictly this feudal regime was enforced prior to the strikes of 1989 but certainly its formal termination was one of the early victories of the workers' movement. Given the number of times managers at all levels referred to the deterioration of discipline we can only assume that workers now exercise even more control over production than before. Managerial control already weakened fifteen years ago when the *gorny master* (the first level of supervisor) was stripped of the power to grant and withdraw bonuses. Since then his main responsibility has been to ensure the safety of the workplace—exceedingly difficult given the poor state of equipment. The *nachal'nik*, that is the second-level supervisor, became responsible for distributing bonuses. But, since the strikes, even his discretion has been limited by egalitarian pressures. It is not only a matter of managerial power but also of opportunities and interests. The future is so uncertain, and interest rates so high, that managers are even less concerned about productive investment and instead pursue subsidies, quotas and barter.

'The more things change, the more they remain the same.' Now we can better understand Alexander Sergeyevich. Underlying the rhetoric of revolution and alongside democracy and market the Soviet world continues. On the one hand, the relations of exchange and distribution have changed dramatically, marked by the liberalization of prices, the rise of barter, the development of cooperatives, and the advent of a consumer culture. All this is entailed in the development of *commercial structures*. On the other hand the old relations of production persist. Production is still organized along the lines of a *redistributive economy*. Monopolies retain their grip on the supply of crucial commodities, and workers continue to retain their hold on production. We must now turn to two obvious questions: how typical is the coal industry and is this just a transition stage en route to modern capitalism?

From Merchant Capital to Modern Capitalism?

Concepts are not innocent, they sensitize us to specific problems. In our case, to adopt the concept of merchant capital is not to argue that Russia is returning to the past but to problematize Russia's road to a radiant (capitalist) future. It thematizes a view, shared by both Marx and Weber, that a revolutionary divide separates merchant capital from modern capitalism. Specifically, historical analogy suggests three propositions: the first, which we have already discussed, concerns the rise of merchant capital while the second and third concern the transition from merchant capital to industrial capitalism.

1. *The disintegration of state socialism gives rise to merchant capital rather*

than modern capitalism. Historically merchant capital emerged within the interstices of feudalism and was parasitical upon feudal dominant classes. It is a form of capital that is dependent upon the state for its existence and expansion, and therefore has an elective affinity to societies of parcellized sovereignty, such as feudalism and state socialism, where the political and economic are intimately fused, where production already depends upon forms of extra-economic force. Just like the absolutist state, the post-Soviet state provides an environment conducive to the development of merchant capital.

2. *Merchant capital does not spontaneously evolve into modern capitalism.* Merchant capital throws up a barrier to its self-transformation. It tends to preserve rather than dissolve existing systems of production. Most usually, the pursuit of profit based on trade grafted itself on to and reinforced pre-capitalist forms of production, just as it now preserves the Soviet system of production.

3. *Merchant capital inhibits the independent development of modern capitalism.* Not only does merchant capital tend to conserve existing forms of production upon which it depends, it attempts to stifle the growth of a rival industrial capitalism. Except under unusual circumstances, the alliance of merchant capital with feudal dominant classes and the absolutist state hampered the rise of a self-sustaining modern capitalism. Similarly, the clientelistic links between Russian managers and organs of political power prevent the growth of an autonomous bourgeoisie.

These propositions can be applied to our study of the coal industry. Embedded in networks of trade, managers devote themselves to cheapening the costs of inputs and maximizing the returns on outputs. This regime of merchant capital revolves around the conglomerate which retains a monopoly over the disposal of subsidies and quotas coming from the Russian government. On the one hand, the government works through the conglomerate to assure supplies of coal to the steel industry. On the other hand, conglomerates, and here we are not just talking of Vorkuta Ugol' but the military-industrial complex in general, develop powerful political lobbies, such as Civic Union, to uphold the system of subsidies and credits. In other words, merchant capital gives rise to mercantilist politics, seeking protection, favourable terms of trade, taxation and so on.

Is modern capitalism, therefore, more likely to develop in those state industries outside or on the periphery of the military-industrial complex? Certainly, such industries are more likely to be 'liberated' from central control. In June we returned to the wood industry we had studied a year before to discover that the Russian government had cut many of its ties to the conglomerate. The conglomerate had lost control over the price of logs which it had previously dictated to the lumber camps—prices that were much lower than their own selling prices. The conglomerate was trying to reconstitute itself by building a new corporation out of the most profitable wood enterprises and, with this as bait, trying to induce French capital to invest. Is there any reason to believe that this reconstituted conglomerate will behave any differently from the old one?

What are the chances that the enterprises left out of the reconstituted conglomerate, or those which have defected, will become competitors through more efficient production? Will they have access to supplies and to capital now that they are cut off from the conglomerate? Can one survive beyond merchant capital as an independent private enterprise, usually referred to as a cooperative? Again the picture is far from auspicious because state enterprises have not allowed cooperatives the autonomy to grow as independent productive organizations. With the exception of the construction industry, where there are indeed private small-scale entrepreneurs, cooperatives either organize themselves within state enterprises or they are trading companies which mediate between state enterprises as a political substitute for an effective market.[20] Obviously, one cannot be surprised that cooperatives have not flowered in the coal industry where production requires huge investments. But even in the wood industry, where the opportunities for small-scale investment are plentiful in such areas as furniture, the old enterprises still maintain a monopoly of production by controlling resources, credit and distribution.

Thus, just as in the transition from feudalism, so now in the transition from state socialism, merchant capital creates obstacles to the rise of industrial capitalism. However, it might be argued that the appeal to history is misleading. It is one thing to talk of the genesis of modern capitalism in the seventeenth, eighteenth and even nineteenth centuries, but quite another matter to consider its development in the twentieth century when capitalism has already established itself as a world system. Indeed, according to modernization theory, capitalism will swarm over the trenches of the command economy as the totalitarian state crumbles.[21]

However, the actual history of capitalist development in the second half of the twentieth century offers a more pessimistic scenario. Once the barriers are down, international capital becomes predatory on new entrants into the capitalist world, plundering those countries for their resources without making commensurate investment. When international capital assumes the form of merchant capital it creates underdevelopment not only through exploitation but also through incomplete exploitation, that is by leaving intact indigenous systems of production.[22] The problem is compounded when foreign capital

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[20] 'In 1989, about 80 per cent of all cooperatives were physically located within state enterprises or operated under the umbrella of one. In addition, they leased most of their capital and bought most of their raw materials from the state.' Anthony Jones and William Moskoff, *Ko-Ops*, Bloomington 1991, p. 40.

[21] See Michael Burawoy, 'The End of Sovietology and the Renaissance of Modernization Theory', *Contemporary Sociology*, vol. 21, no. 6 (1992).

[22] For the tendency of merchant capital to preserve existing systems of production see, for example, Elizabeth Fox-Genovese and Eugene D. Genovese, *Fruits of Merchant Capital*, Oxford 1983; Geoffrey Kay, *Development and Underdevelopment*, New York 1975; Maurice Dobb, *Studies in the Development of Capitalism*, New York 1947. For the *locus classicus* of the debate as to whether merchant capital dissolved feudalism and whether

finds itself unable to invest except in partnership with domestic conglomerates of merchant capital.[23]

More generally, theories of underdevelopment argue that the genesis of capitalism is indeed very different when there already exists a world capitalist system, but not in the way anticipated by modernization theory. The later a society launches into capitalism the more its surplus is drained away to the more advanced surrounding economies.[24] The development of capitalism in the metropolis entails the underdevelopment of the periphery. In this view, plunging into the international economy is the wrong way to make the transition from state socialism to capitalism. 'Shock therapy' becomes all shock and no therapy.

Logically enough, those who subscribe to the thesis of underdevelopment also recommend an arm's-length relationship with the world economy. Thus, the protective shield of 'Communism' might better foster economic development than the Western-inspired Russian strategy of casting aside all trade barriers. The success of economic reforms in China is a case in point. Victor Nee, for example, shows how regional and local government in China has promoted new marketized state enterprises and private firms, propelling China toward a mixed economy.[25] How different from the localism of Russia which consolidates monopolistic state conglomerates! By retaining its Communist shell, China is moving toward a market economy more rapidly than Russia. The Hungarian case is equally instructive. Under the umbrella of state socialism twenty years of economic reform replaced physical planning with fiscal planning, created consumer markets and a relatively stable currency with rudimentary banking and credit organizations as well as a healthy second economy of independent entrepreneurship.[26] Ironically, the Soviet Union subsidized the development of this mixed economy. But with the evaporation of 'Communism' even Hungary is finding it difficult to navigate the gales of

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[22] (*cont.*)
it gave rise to capitalism, see Rodney Hilton *et al.*, *The Transition from Feudalism to Capitalism*, London 1976.

[23] Many of these foreign transactions work through a chain of intermediaries that obviously includes Western as well as Russian firms. See, for example, the many articles in both the Russian and Western press on the spoils from Russian oil and aluminium deals that flowed to the infamous international commodities trader, Marc Rich, who is wanted by the US Justice Department on a 51-count indictment for fraud, racketeering and tax evasion. ('Rich, Influential and Very Dangerous', *Izvestia*, 2 June 1992; 'Artem Tarasov, Marc Rich and Others', *Izvestia*, 8 July 1992; 'Again on the Mysteries of "Big Business" ', *Izvestia*, 3 August 1992; 'How the USW Hit Marc Rich Where It Hurts', *Business Week*, 11 May 1992; 'How Rich got Rich', *Forbes*, 22 June 1992.)

[24] The classic formulations are: Paul Baran, *The Political Economy of Growth*, New York 1957; Andre Gunder Frank, *Latin America: Underdevelopment and Revolution*, New York 1969; Samir Amin, *Unequal Development*, New York 1976; Immanuel Wallerstein, *The Modern World System*, New York 1974.

[25] Victor Nee, 'Organizational Dynamics of Market Transition: Hybrid Forms, Property Rights, and Mixed Economy in China', *Administrative Science Quarterly*, 37 (1992).

[26] See, for example, Alec Nove, *The Economy of Feasible Socialism*, London 1983; David Stark, 'Coexisting Organizational Forms in Hungary's Economy', in Victor Nee and David Stark (eds), *Remaking the Economic Institutions of Socialism*, Stanford 1989; Nigel Swain, *Hungary: The Rise and Fall of Feasible Socialism*, London 1992.

international competition. So how much more difficult must be the transition in Russia which is trying to establish the same institutions overnight and without any protective shield?

Underdevelopment theory has been criticized for economic reductionism and determinism, for inverting rather than correcting the optimistic teleology of modernization theory, and for ignoring such exceptions as the newly-industrializing countries. Underdevelopment becomes dependent development when, instead of autarky, states take advantage of their position in the world order by constructing alliances between domestic and international capital.[27] Recent theorizing, for example, argues that capitalist accumulation in less developed countries requires a state that is both sufficiently strong and sufficiently autonomous.[28] How well equipped is the Russian state to engineer such a transition to modern capitalism? First, the state continues to be prey to political forces that erode its autonomy. Second, it has lost what capacity it had to regulate the economy. From studies of the local economy, such as our own, it is clear that state policy has been singularly ineffective in implementing its goals.[29] Third, at an ideological level, the rejection of the command economy, and the embrace of the free market, are ill suited to a prominent role for the state in forging a road to modern capitalism.

Theories of dependent development regard the global division of labour as an opportunity and not just an external constraint on the economic strategies states can pursue. If it is difficult to talk of the strategies of a state so weak and incoherent as the Russian state, we have to turn to a second alternative to the teleology of underdevelopment—one that focuses more on the way locally embedded class forces shape economic growth.[30] The variegated picture of development

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[27] See Fernando Cardoso and Enzo Falletto, *Dependency and Development in Latin America*, Berkeley 1979; Peter Evans, *Dependent Development: The Alliance of Multinational, State and Local Capital*, Princeton 1979.

[28] See, for example, Dietrich Rueschmeyer and Peter Evans, 'The State and Economic Transformation: Toward an Analysis of the Conditions Underlying Effective Intervention', in Dietrich Rueschmeyer, Peter Evans and Theda Skocpol, *Bringing the State Back In*, Cambridge 1985; Peter Evans, 'The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change', in Stephan Haggard and Robert Kaufman (eds.), *The Politics of Economic Adjustment*, Princeton 1992; Vedat Milor, *The Comparative Study of Planning and Economic Development in Turkey and France*, Madison forthcoming; Gary Hamilton and Nicole Biggart, 'Market, Culture, and Authority: A Comparative Analysis of Management and Organization in the Far East', supplement to *American Journal of Sociology*, 1988; Frederic Deyo (ed.), *The Political Economy of the New Asian Industrialism*, Ithaca 1987.

[29] Mary McAuley's study, for example, shows how the old political elites of Arkhangel'sk, Perm' and St Petersburg have managed to maintain their local dominance with the result that, 'Very little changed in the economic sphere, except for a decline in living standards'. ('Politics, Economics, and Elite Realignment in Russia: A Regional Perspective', *Soviet Economy*, vol. 8, no. 1 (1992), p. 68.)

[30] See, for example, Robert Brenner, 'Agrarian Class Structure and Economic Development in Pre-Industrial Europe', *Past and Present*, no. 70 (1976) and 'The Origins of Capitalist Development: A Critique of Neo-Smithian Marxism', *New Left Review* 104 (1977); Colin Leys, *Underdevelopment in Kenya*, Berkeley 1975. More recently Robert Bates, *Beyond the Miracle of the Market*, Cambridge 1989 and Joel Migdal, *Strong Societies and Weak States*, Princeton 1988, have both underlined the importance of local economic organization in determining both the direction and the unintended effects of state policies.

that emerges from such an approach explains, for example, why the Soviet order has broken down further in wood than in coal. Working-class mobilization in coal has been a major factor in preserving state protection whereas workers in the wood industry have not been able to exercise any such influence. Even within the coal industry there are big differences. Mine Number Two's isolation within the conglomerate and its precarious future weakens labour and compels productive innovation whereas a different balance of forces at the relatively rich mine Number Seven goes along with the search for new forms of trade.

More generally, economic reforms and foreign capital combine with existing forms of production to create uneven effects. A furniture factory well placed in trading networks faced fewer pressures to innovate than a rubber factory which was unable to orchestrate the vast array of supplies and products. Whereas the former continued to rely on old productive arrangements, the latter was continually experimenting with new organizational forms. But where the pressures to innovate are strong, it is also usually the case that resources are meagre and thus innovation is less likely to succeed.[31] Nevertheless, such a theoretical approach that pays attention to institutional differences between sectors, within sectors between enterprises and even within enterprises between departments, illuminates different possible trajectories of development.

If the diversity of responses gives ground for hope the overall situation looks more desperate. For all the unevenness of its economic development, the legacy of the past conspires with the international context to give merchant capital its powerful presence. No matter how the current contest between different branches of the state evolves, the task of moving from an economy that seeks profit from trade to one that seeks profit through the transformation of production will be daunting. We therefore have to entertain the bleak hypothesis that Russia is once more attempting a utopian transition. We are forced to ask whether the transition from socialism to capitalism will be any easier than the transition in the reverse direction? Or, more specifically, are the conditions for the transition from merchant capital to modern capitalism any more propitious than the transition from state socialism to democratic socialism? And does market ideology play the same role as its predecessor, socialist ideology, obscuring the chasm between the grim reality of today and the promise of a radiant future?

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[31] See Burawoy and Hendley, *op. cit.* and Burawoy and Krotov, *op. cit.*