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NEOLIBERAL PITFALLS:
SOUTH AFRICA THROUGH A RUSSIAN LENS

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- 1) Class Based Neoliberalism in SA?? Ideological vacuum??
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For seventy years the Bolshevik Revolution was a beacon for liberation movements in Africa and elsewhere. There are few countries for which this was more true than South Africa where the Communist Party played a historic role in the struggle against colonialism and where the ANC and the SACP were inseparable bedfellows. Within liberation circles it became an article of faith that the postcolonial world would be built on socialist principles, drawn from the Soviet model.

Two world historical events threw this vision into disarray. On the one hand, the collapse of party states in Eastern Europe, and then of the Soviet Union itself, discredited socialism and left the aspirant liberation movement ideologically rudderless. On the other hand, and at the same time, apartheid disintegrated with startling rapidity, throwing the ANC and the SACP into a power sharing arrangement with their erstwhile enemies. At the very time it lost its ideological bearings, the ANC was catapulted into power.

The transition from liberation movement to nation building is difficult in the best of circumstances. In the case of the ANC it was further handicapped because, together with the Communist Party, it had taken a largely uncritical stance toward the Soviet Union. To be sure there were critiques of the gap between ideology and practice, but this was the fault of bad practice, Stalinist excesses. The ideology had for too long remained a sacred shibboleth. Within the ranks there were vigorous debates over "colonialism of a special type" but not over "socialism of a special type"; over the number of stages to the revolution but not over the stages of socialism; over the class and racial character of the liberation struggle but not the class and racial character of South African socialism, over the periodization of history but not the abiding legacies of history. It could interrogate the uniqueness of the terrain to be conquered but not the uniqueness of South Africa's futures. It was as if the revolution would dissolve the past and out of the debris would spring a pristine new order.

All this is quite understandable, since to investigate the meaning of socialism would be to bite the hand that feeds one. The Soviet Union had been ANC's firm and powerful ally, when it was outlawed in the West as a terrorist organization. The vagueness of the Freedom Charter was also an advantage to the liberation struggle itself since it could appeal to diverse African classes. There was something in it for all. If suspension of critique was understandable it nonetheless had unfortunate consequences. Without a critical stance toward the Soviet socialism, having never partaken in the debates about the meaning of socialism -- real and imaginary -- the liberation movement in power found itself without a cognitive map to navigate the enormous problems of national reconstruction. An "exodus without a map," as Adler and Webster call it, became vulnerable to a neoliberal redemption, especially when the entire globe is spell bound by the magic of the market.

The Government of National Unity is, therefore, not unique. Democratization has

swept over the globe turning country after country toward structural adjustment, the package of privatization, balanced budgets and the minimalist state. Democratization has often been the trojan horse for the international agencies of market euphoria. Among the new democracies Russia is once more at the head of the pack, leading the race for the market. Erstwhile Soviet apparatchiki swept aside socialism as they decked themselves out in new clothes. From the panacea of the plan and the party they turned to the panacea of the market and democracy.

So far South Africa lags behind. The Reconstruction and Development Program (RDP) contained the seeds of neoliberalism which have flourished in its successor -- the government's plan for Growth, Employment and Redistribution (GEAR). Still implementation has been far more cautious than the dramatic shock therapy that greeted the Russian people on the day of their liberation. But that is no ground for complacency. Marx warned Germans, who shrugged their shoulders at the plight of the English working class: "De Te Fabula Narratur." If we didn't scrutinize the Soviet experience, we can at least mine Russia's plight today for South African lessons. *We should examine the unprecedented disintegration of the postSoviet economy at the hands of a neoliberal program and ask whether this has any relevance for South Africa?*

In order to answer this question I have divided the paper in two. The first part argues that South Africa and the Soviet Union are indeed comparable. Using the analytical and theoretical tools bequeathed to us by Harold Wolpe I try to show that the two countries followed similar trajectories of development during the twentieth century. Stripping away the veils of ideology, similar economic forces propelled South Africa and Russia first to the constitution and then toward the dissolution of the Apartheid regime on the one side and the Stalinist regime on the other. Differences notwithstanding, therefore, the two societies faced similar dilemmas with the demise of those regimes.

The second part of the paper extends a Wolpian analysis to the path that the Soviet Union has taken since the fall the regime. Here I reflect on research I have been conducting in Russia since 1991, most intensely in Komi -- a Republic located in the Arctic Circle, a third the size of South Africa with a population of 1.2 million. Like South Africa it is rich in natural resources, including oil, coal and timber. There I have studied the transition to a market economy at the level of region, economic sector, enterprise and household. In this paper I focus on the following questions. First, how did political forces contribute to the catastrophic outcome of shock therapy? Second, how have socialist enterprises responded to the transformation of the mode of exchange? Third, how have households responded to the dissolution of the formal economy? Fourth, are there other models of market reform in a society that has inherited a strong, overarching state?

The paper is organized as follows. First, I briefly recapitulate Wolpe's theory of South Africa (I) before turning to a parallel treatment of Soviet history (II). This establishes the ground for drawing lessons from the postSoviet experience with

Russia & SA lens

Russia class
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SA and Russia lens

neoliberalism. This, in turn, requires extending Wolpe's theoretical framework (III), which I use to elaborate three features of "shock therapy": the politics of implementation (IV); the dissolution-conservation of the socialist economy (V); and the retreat to a primitive informal economy (VI). The Russian approach to market reform provides a negative model, whereas China offers a more positive model (VII). I end by asking how these two models might be relevant to South Africa (VIII).

A: RUSSIA THIRD S A lens.

I: WOLPE'S ANALYSIS OF SOUTH AFRICA

It is no exaggeration to say that Harold Wolpe's 1972 article, "Capitalism and Cheap Labor Power in South Africa: From Segregation to Apartheid," transformed the study of South African history. His work became the basis for emulation, critique and development. It also prompted out right rejection. It shaped the divide between theoretical historiography and social history, mirroring debates that were then taking place in England and Europe. Wolpe's subsequent work had its own trajectory that shadowed ongoing changes in South Africa itself. Here, I want to reconstruct and condense his contributions into a few simple postulates, so as to provide a Wolpe tool kit for studying Soviet history.

Wolpe sets out from a critique of *modernization theory*, the theory that industrialization promotes universalism, that markets dissolve particularism. Rather than being inimicable, Wolpe shows how (South African) capitalism had thrived on racism. If Wolpe begins with a critique of convergence, he ends with a critique of divergence. He does not subscribe to an *historical essentialism* that South Africa is marked by an indelible racial code that was implanted when the Dutch arrived in 1652 or when the British arrived in 1795. *Wolpe was the first to take seriously the periodization of modern South Africa, problematizing its trajectory as a contingent passage from phase to phase.*

How does South African capitalism turn racism to its advantage? Marxists, most notably Jack and Ray Simons, had shown how racism might promote capitalism by dividing the working class. However, that argument was premised on the assumption that inter-racial working class unity posed a challenge to capitalism. Wolpe's contribution was theoretically more profound. He argued from economic rather than political grounds that racism promoted capitalism, that the material basis of South Africa's racial order lay in its supplies of cheap labor power. Racism, in the first place, was founded in superstructural arrangements that reproduced precapitalist modes of production as labor reservoirs for the capitalist sector. Instead of dissolving subsistence agriculture, South Africa had preserved it, herding Africans into ever smaller reserves but never fully expropriating them from the land. This was the period of segregation. With population pressure, soil erosion, and differentiation within the reserves so they became less and less capable of subsidizing wage labor. A new basis of cheap labor had to be discovered, one founded on political repression which defined the period of apartheid.

For Wolpe apartheid was not simply the deepening of the racial order, it was a fundamentally new order. In this period, marked by the watershed year of 1948, a panoply

of old laws was reconfigured and new ones emerged to regulate the reproduction of labor -- group areas act, pass laws, influx control and forced removals, and along with these the creation of Bantustans. At the same time job reservation and the color bar reaffirmed what I call a colonial despotism at the point of production. From being the vehicle for reproducing reserves of cheap labor power racism became an organizing principle of the capitalist economy itself.

At this point, we turn to Wolpe's 1988 book, *Race, Class and the Apartheid State*. As so many others had done during the previous decade, Wolpe turned to the analysis of the state. But rather than viewing it as an "object" wielded by a "hegemonic bloc" of dominant classes or as an autonomous "subject," he saw it as an arena of struggle. On the one side, in its accommodation to industry, the apartheid state had fostered trade unions and urban insiders, increasing the capacity of the African working class. On the other side, class interests in apartheid had dwindled as the white working class disappeared, as manufacturing capital desired greater flexibility in its use of African labor and agriculture was better able to compete in a national labor market. The regime of cheap labor had sown the seeds of its own destruction and so its political manifestation -- the apartheid state -- dissolved.

I want to take Wolpe's work one step forward into the post-apartheid world. As Mamdani reminds us democratization and power-sharing may reshape the executive and even cause changes to occur in other branches of the state but it leaves untouched the racial order in society and in particular within production. Changes in state politics does not necessarily presage changes in production politics. Racial legacies built into technologies of work, internal labor markets and even the machinery of industrial relations do not evaporate overnight. They pose profound dilemmas for any postapartheid government. The Russian government unleashed market forces to crush similar legacies but succeeded only in reproducing them. China has had more success in reshaping those legacies directly. Can there be a Chinese road for South Africa, moreover one that does not entail enormous human costs?

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II: APPLYING WOLPE TO THE SOVIET UNION

Similar theories of convergence and divergence that conventionalize the history of South Africa can be found for the Soviet Union. Just as economic development would erode the racial order, so it was also expected to bring the Soviet Union into line with the great capitalist powers. The imperatives of industrialization would dissolve the economic irrationalities and political excesses of Stalinism. Arguments for convergence found their antithesis in arguments for divergence. As in South Africa, so in the case of the Soviet Union, others saw these countries indelibly marked by their history. If in South Africa they saw only the deepening of racism, traceable to early colonialism and carried forward by Afrikaner nationalism, so in the Russian case they saw the seeds sown by Marxism. The original sin lay with Marx's utopianism, translated by Lenin into Bolshevism, leading

inexorably to Stalinism and totalitarianism. As long as Russia was poisoned by Marxism it's destiny was repression. (Others simply saw Marxism-Leninism as reflecting and feeding Russia's long preSoviet history of despotic rule.)

There is, however, another school of thought, associated with such social historians as Stephen Cohen and Moshe Lewin that rejects essentialism. Instead it seeks to periodize Soviet history, arguing that the movement from one period to the next was not inexorable. At critical junctures there were alternatives which belie any grand narrative of convergence or divergence. If in South Africa 1948 was such a decisive moment, the equivalent turning point in Soviet history was 1927-1928 with the turn to collectivization and the five year plan. Moreover, the crisis was the same, over rural subsidies for industrial labor. Debates about Africans in South Africa paralleled debates about the peasantry in the Soviet Union. Colonial vocabulary was applied to both.

From the beginning the Bolsheviks faced a problem of what to do with the overwhelming proportion of the population -- the peasantry. The peasantry had supported the revolution against the Old Regime but were less enthusiastic about sacrificing themselves on the altar of Soviet socialism. After War Communism, the Bolsheviks created the New Economic Program which allowed markets to flourish. But still the state controlled the prices of requisitions from the peasantry, so as to provide cheap food for industrial workers. As industrial prices rose in the 1920s so the peasantry was caught in the famous scissor's crisis -- the cost of inputs rose faster than the prices for agricultural products. Production fell while black marketeers thrived, bringing about the procurement crisis of 1928.

In the run up to collectivization the Right and the Left debated the fate of the peasantry. The Right argued for market incentives to encourage the growth of production and maintain the alliance between peasantry and proletariat whereas the Left argued that this would restore capitalism and class divisions in the countryside. The Left proposed a policy to force the peasantry to produce cheap food. Preobrazhensky, the leading left economist, even developed the idea of "internal colonialism" to conceptualize such a strategy of subordination. A struggle within the party ensued with Stalin first siding with the Right in order to vanquish the Left and then adopting the ideas of the Left to destroy the Right. He would then pursue the Left's "Transitional Program" to much greater lengths than anyone had heretofore imagined. Before 1928 no one was planning the massive repression and starvation of peasantry that would mark the period of collectivization. Stalinism was not prefigured by Lenin or Trotsky. It was an innovative and radical response to market failure -- state led project of break neck industrialization on the basis of cheap labor subsidized by a colonized peasantry.

The parallels with Apartheid are clear. Just as in 1927-1928 the debate was between market and state intervention, so in 1948 manufacturing capital and its political agent the United Party embraced market forces to forge a stable African urban labor force, whereas

agriculture capital, the Afrikaner petty bourgeoisie and a white working class supported the reconstitution of cheap labor through racially targeted state repression. Just as the solutions were similar, so was their unravelling. In both countries coercion sowed the seeds of its own demise. The expansion of industry led to a thirst for more skilled labor, the amassing of urban populations and the thickening of civil society. The policy of cheap labor generated its own opposition at the same time that it became anachronistic.

Once the peasantry had been destroyed and the Soviet population had become overwhelmingly urban, the economic pressures for despotism evaporated. Perestroika was the political reflex of the enormous economic transformation that collectivization and forced industrialization had already brought about. Just as the spontaneous Durban strikes of 1974 signalled the dawn of a new era of civil strife -- Soweto, the Civics and the UDF - - so the strikes of the miners across the Soviet Union in 1989 challenged the regime in the name of markets and democracy. Class warfare was much more threatening to the Soviet regime which collapsed like a pack of cards within two years. Both regimes disintegrated with a whimper rather than a bang.

III:EXTENDING WOLPE: MODE OF PRODUCTION VS. MODE OF EXCHANGE

The purpose of drawing parallels between South African and the Soviet history is to justify drawing lessons from Russia's post-Soviet trajectory. In the remainder of this paper I analyse Russia's descent into capitalism before turning back to South Africa in the conclusion.

In the debates about Russia's economic destiny we once more find two opposed ideological currents -- *neoliberalism and neo-institutionalism*. Both, I shall argue, disguise what is actually taking place in Russia today. Those who saw Russia as distinct form of totalitarian rule rejoiced at its demise. They held hands with the growing band of neoliberals who inaugurated "shock therapy" to destroy the past for a "radiant future" that would be capitalism. The argument was simple, the old order was irrational and repressive, it had to be replaced swiftly in a revolutionary leap forward by the instantaneous creation of a market economy. While the shock therapists prevailed among the levers of power, there was always a neoinstitutionalist opposition which argued that revolutions don't produce market economies. They argued for compromise with the legacies of the Soviet past, especially those forces that were already converging with capitalism. Rather than concentrating on destroying the old, it was more important to foster the new.

Behind this clash of philosophies and prescriptions lay opposed visions of capitalism. For the neoliberals capitalism was marked by an *allocational efficiency* based on the balancing of supply and demand. Instead of market equilibria, the state administered economy produced imbalances in which demand always exceeds supply, in short a shortage economy. The task at hand is therefore the most rapid introduction of markets. For the

neoinstitutionalists, on the other hand, capitalism's strength lies in its *dynamic efficiency*, its powers of "creative destruction." The problem with socialism was not the irrational allocation of resources but technological stagnation. However, dynamic innovation, so the institutionalists argue, requires a stable political, economic and social infrastructure to establish and enforce rules of the game. They propose to promote capitalism within the confines of the existing order. China becomes the prototype of evolutionary transition.

Each side sees the unfolding tragedy of the Russian economy through their own prescriptive lens. The neoliberals complain about Stalinist managers, intransigent apparatchiki, cultural legacies and dependent workers who are holding up the revolution, while neoinstitutionalists complain about wanton destruction brought about by shock therapy. Both focus on the impediments to achieving the teleologically given goal of capitalism, but neither have an analysis of what is actually taking place.

The official figures, indeed, show a gloomy picture of economic degeneration. Such prolonged and unabated decline of a

| | Annual Percentage Change | | | | |
|------------------------|--------------------------|------|------|------|------|
| | 1991 | 1992 | 1993 | 1994 | 1995 |
| Gross Domestic Product | -13 | -19 | -12 | -5 | -6 |
| Consumer Prices | 93 | 1353 | 896 | 190 | 20 |

major economy is unprecedented. The original Bolshevik Revolution, despite Civil War and encirclement, did not cause such a precipitous decline in national output. One has to be surprised, therefore, by two phenomena.

--First, there are vibrant sections of the economy with new housing developments, a burgeoning retail sector, and banks transforming the face of a number of cities, most obviously Moscow.

--Second, while I don't want to belittle the actual suffering and hardship, one would expect much greater poverty than is actually to be found. (Officially 25% of the population is below the poverty level.)

The neoliberal policy of shock therapy has successfully created a market economy. The disintegration of the old redistributive order has been replaced by vibrant systems of exchange -- trade, barter, finance, mafia. Profits made in the sphere of exchange do not make their way back into the productive sphere but are either invested in new modes of exchange or flow out of the country. The result, as we shall see, is the degeneration of the productive sectors and the regeneration of the household economy. Markets proliferate but at the cost of production. The mode of exchange strangles the mode of production.

This is not an altogether new phenomenon. The rise of merchant capital in Europe tended to reproduce rather than transform existing economic forms. The transition to capitalism took place only where it coincided with the "spirit of capitalism" (Weber) or

where agrarian class forces were in balance (Brenner). There are more contemporary examples of the conserving tendencies of merchant capital, such as the preservation of slavery in the (US) South (Genovese). More relevant are the analyses of merchant capital in Africa that has reproduced precapitalist production, encouraging the development of the predatory state (Kay, Boone).

Wolpe's analysis of the articulation of capitalist and pre-capitalist modes of production must be extended to include the mode of exchange. Just as in South Africa the capitalist mode of production was parasitical on and led to the conservation-dissolution of pre-capitalist modes of production, so in Russia today the mode of exchange is the dynamic force, leading to the "conservation-dissolution" of "socialist" industrial and agricultural production. Exploiting new market opportunities, the proliferation of the household economy, compensates for the degeneration of industry and agriculture. This capitalism has been called "gangster" capitalism, "Kremlin" capitalism but I will call it *merchant capitalism*, marked by profit from exchange.

As SA's 'Russian hands'

Max.
booby
capitalism

IV: THE RUSSIAN STATE AND THE POLITICS OF IMPLEMENTATION

In one of his last essays, written in 1995, Wolpe analyzed the Reconstruction and Development Program, calling into question its portrait of harmonious development. The state, he argued, is a "contradictory unity" which has to contend with legacies from the past as well as competing interests in the present. Economic programs cannot be emptied of politics.

The Russian neoliberals, like their Bolshevik ancestors, also treated the state as an homogeneous instrument for implementing their programs. Behind the false unity of democratization, however, an intense struggle erupted between the legislature, the executive and the Central Bank -- a struggle over the direction of the economy. It was a struggle that did not emerge from nowhere but from the Soviet order. To understand the consequences of the reforms one cannot ignore the terrain they were supposed to conquer.

A state socialist economy is defined by central appropriation and redistribution of goods and services. Enterprises seek to maximize what they receive and minimize what they render to the state. In order to facilitate this bargaining process enterprises were made compulsory members of conglomerates that organized sectors of the regional economy. These conglomerates monopolized production in a particular sphere, such as timber or coal. Unlimited by hard budget constraints each conglomerate and within each conglomerate each enterprise sought to increase its bargaining power by maximizing the production of as many scarce goods as possible. The more critical the production the more powerful the sector and the more resources it could amass. The result was a shortage economy in which every unit had an insatiable desire for resources. Queuing, waiting, searching and hoarding became the norm.

The regional party apparatus permeated the economy to contain the pathologies of shortage -- restricting monopoly rents, organizing lateral exchanges and directing the autonomy of the shop floor. The disintegration of the party apparatus, therefore, increased the power of monopolies, expanded lateral barter transactions and deepened shop floor control of production. *Instead of heralding the disintegration of the Soviet economy, party exodus led to its conservation. The arteries of socialist production were strengthened as the state was weakened.*

Flush with victory against the old order the first Yeltsin government had no difficulty promulgating the reform package at the beginning of 1992. The first reform was to free prices on all but a few staple products. Monopolies made super-profits as they absorbed the monetary overhang at the expense of consumers. Life-time savings were wiped out in months. In the summer of 1992 voucher privatization legalized de facto managerial control of enterprises. Decapitalization and asset stripping began in earnest. In those first two years of reform the economy was monetized and inflation spiralled out of control. Enterprises managed to stay afloat through the rapid expansion of inter-enterprise arrears and cheap credits funnelled by the Central Bank through the burgeoning independent banking sphere. A market had been created, monetary transactions proliferated but soft budget constraints remained. The Central Bank, backed by an industrial lobby and a restless legislature, was keeping the socialist economy afloat. The reforms had stalled.

Trying to recover the momentum of economic reform Yeltsin began threatening parliament. When it refused to capitulate in October 1993, Yeltsin ordered a military assault on the White House -- the same White House he had valiantly defended against communist putchists two years earlier. The executive reasserted its control over all levers of government, and the legislature was suspended, pending elections. The government directed the Central Bank to inaugurate a stabilization program. Interest rates became positive and credit scarcer. The market was flooded with cheap Western consumer goods, from food to fridges, from cosmetics to cars, from vodka to videos, from flowers to furniture. Russian industry was decimated. Enterprises heavily in debt had their bank accounts frozen, forcing many out of the monetary circuit and back into barter relations. As the government withdrew from paternalistic support of enterprises, so private protection (the "mafia") stepped in to enforce contracts. A proto-state or shadow state mushroomed, organized around criminal organizations that drew on personnel from the security and police apparatuses. Once more the reform process was stalled.

If the first phase was liberalization and the second stabilization, the third phase was concentration, reflected in the creation of "financial industrial groups," concentrated around energy exports (especially gas and oil), banking oligopolies and the control of television. This financial industrial oligarchy consolidated its political power with the successful bank rolling of Yeltsin's 1996 election campaign. As I write this paper their representatives are entering the new Yeltsin Cabinet and rumored to be to preparing a second round of shock

40% sales
in barter
19/3/97
RFL/RL

therapy. The class interests behind the neoliberal program were transparent.

Neoliberal ideology refuses to recognize the "contradictory unity" of the state, even when apparatuses engage in armed conflict. Neoliberal theory treats politics as an exogenous variable. It has no theory of politics, except that it should be minimized. It, therefore, cannot comprehend either contestation over policies or over their consequences. It cannot imagine the reception of its policies nor how that reception can subvert those same policies. We need to leave the center for the regions to appreciate just how self-defeating is the neoliberal package.

V: CONSERVATION-DISSOLUTION OF SOCIALIST PRODUCTION

Incorporation into the world economy has turned Moscow into a global city (Sassen) -- a center for transnational corporations, corporate services, huge banks, expensive retail outlets for Western goods, luxury hotels, a thriving construction industry, an expanding expatriate community, and a burgeoning in-person service sector that caters to the new wealth. If one didn't step beyond Moscow and remained encamped in hotels or strolled along its bustling boulevards one might imagine this to be the neoliberal success story, Mayor Luzhkov claims it is.

How does the neoliberal strategy look from the regions? How do enterprises or conglomerates, outside the financial industrial groups, respond to the new market environment? Over the last six years I have been studying the timber and coal industries in Komi, a Republic of Northern Russia, situated to the West of the Ural Mountains. Consistent with the macro statistics both industries have suffered considerable but uneven decline. While the coal industry's output has fallen by about 25%, the timber industry has declined by more than 60%. In studying the reasons for their divergence one learns much about the transformation of Russian economy.

The timber industry was organized into compulsory hierarchical chain, starting with the lumber camps, connected to collection and sorting centers, which in turn pass the wood on to Komi's huge paper mill and to the processing plants and some finally reached furniture factories. All the region's timber enterprises were members of the Komi Timber Conglomerate which organized production and distribution in the industry. The conglomerate tended to put more resources in the plants that added more value so that the lumber camps found themselves subsidizing investment and higher wages in the furniture and processing plants. When liberalization came in 1992, the conglomerate could not prevent the enterprises at the bottom of the chain from seeking their own buyers. They privatized and left the conglomerate. In a shortage economy the possibilities of an open market looked very attractive, especially compared to the compulsory coordination of the conglomerate. Indeed, if only one enterprise exited then it would have done very well but when they all began to exit the entire timber chain collapsed, and the conglomerate was absorbed into the Komi regional government. Facing declining demand

(because of falling purchasing power), escalating transportation costs and competition from other regions of Russia the Komi timber industry decomposed. Within the space of two years its declining fortunes, and those of the rural communities that depended upon it, were hitched to the fluctuating international price of timber and paper. After foreign investors had come and gone, the government sought to use its remaining share-ownership to rebuild the timber chain around six regional centers. But so far it has failed to counter the centrifugal forces released and sustained by the market.

Where the timber enterprises *exited* from the Soviet structures, the coal industry adopted the opposite strategy of *voice*. Concentrated around the city of Vorkuta, beyond the Arctic Circle, thirteen mines were organized by the local coal conglomerate. In 1989 and again in 1991 Vorkuta was a center of militant and radical, nation-wide coal strikes against the Soviet regime. Miners demanded a market economy with a democratically elected government. If they were the dynamite that brought down the old regime, the miners were also among the first victims of the new regime. As they lost their status as a labor aristocracy, they regrouped behind the conglomerate to keep the industry together, refusing to privatize, demanding subsidies and cheap credits from the government, and threatening to break off supplies of coal to the metallurgical plants. They could not stop the closure of five mines, the degradation of Vorkuta's infrastructure or stem a slow exodus from the city. Still, the mining industry has managed to prevent the dramatic decomposition of the timber industry. The strategy of voice, working through the channels of the old order, has proven far more successful than one of exit into the wilderness of the market.

Of course, one must be cautious to generalize from these cases. First, the strategy of voice was more feasible for the mining industry because it is not organized in a hierarchical chain of exploitation. To the contrary the richer mines subsidize the poorer ones. Furthermore, the industry is concentrated in a small area. Workers and managers, for all their antagonism, are bound together in a community of fate. The timber industry, scattered over an area the size of the Transvaal and Orange Free State, was held together by its command center. Not only could it not galvanize a defensive community but its product, though it had been the basis of the Republic's economy, no longer elicited subsidies. Whereas Vorkuta's coal was considered a scarce national resource, timber was plentiful. In short, different industries are in a better position to pursue strategies of voice and exit. Indeed, many try to combine strategies -- resources garnered from the state are made the basis of entrepreneurial activities in the market.

I do not want, therefore, to give the impression that enterprises are simply bound by tradition or obdurate Stalinist managers. To the contrary, managers are continually innovating, maximizing opportunities to pursue profit, but the context leads to the pursuit of profit through exchange rather than through production. Because the state cannot enforce contracts, collect taxes, uphold stable interest rates, guarantee debt payments or wages and so forth, time horizons become so short as to preclude investment. Managers

and workers strategize their survival and the survival of their firms for the next day or week or possibly month. The simultaneous conservation and dissolution of Soviet industry is not the result of anti-market "resistance" or cultural "legacies" but of strategic action taken in a context of ruinous shock therapy.

VI: INTENSIFICATION-DISSOLUTION OF THE HOUSEHOLD ECONOMY

We have tackled the first puzzle -- uneven development, brought on by an advanced capitalist mode of exchange leeching a degenerating Soviet industry. We must now turn to the second puzzle -- the absence of widespread poverty and destitution to be expected when an economy collapses by half.

One of the more curious phenomena in contemporary Russia is the low level of official unemployment (9%), which coincides with escalating wage arrears. As of the beginning of 1997 the national wage debt was estimated at 46 trillion rubles or 8.2 million dollars and increasing faster than the rate of inflation. In order to save their enterprises from closure and maintain some level of production, managers stop paying their workers altogether or pay them sporadically. But why do workers continue to show up? One answer is that they simply hope that managers have found wages to dispense. Another reason is that the enterprise may still offer services, such as kindergartens, or make consumer items available in the company store in lieu of wages. A third possibility is that they are waiting to be laid off, hoping to receive the three months wages to which they are entitled. Or, if there has not been any work, they may turn up in the hope that some has been found and remuneration will follow. Finally, many enterprises offer their employees the chance to use the premises for work "on the side." In a furniture or garment factory shop brigades might take in contract work, analogous to the old putting out system. By its nature such informal activity is not registered and therefore we have little sense of how widespread it is nor the different forms it assumes. In short, there are many side benefits to work without wages but only rarely do they compensate for a very real shortfall in income. We have to look elsewhere for strategies of survival. The most obvious port of call is the household.

A centrally administered economy is a shortage economy in which informal activity can assume two compensatory forms. Either it can be devoted to production of goods in short supply OR it can be devoted to working the channels of distribution. In Hungary, for example, following the economic reforms of 1968, a second economy opened up that was indeed a productive economy based on cooperatives that filled the functional gaps left by the administered economy. In the Soviet Union without such economic reforms households spent less time in productive activity which was restricted and more in exchange activity. Households utilized their kin and friendship ties to obtain access to goods and services. They would use whatever resources they possessed to exchange them for what they needed. The informal economy was largely a barter economy, but it laid the basis for defense against the dissolution of socialist production.

20% → 25%
of GDP
assumed to be
"unregistered"
or "black economy"
Rusko 3/18/97.

With the transformation and expansion of the official mode of exchange and the collapse of the industrial economy, households have now responded with the intensification of their productive activity. *As the center of gravity in the national economy has moved from production to exchange, so the household economy has moved in the opposite direction from exchange to production.* In a market economy, where money can fetch goods and services, households try to maximize their earning power with some members pursuing multiple jobs while others return to a more primitive subsistence existence. Dachas and plots of land assume even more importance. If the industrial collective had once been a major center of economic planning and exchange, now it is the family and increasingly women who are at the fulcrum of economic strategizing. This is the positive side. There are also families that disintegrate in the face of the new challenges, in which men and sometimes women have poured what resources they have into alcohol or have vented their degradation in violence. Strategic responses span the range from dissolution to intensification of the household economy. Unfortunately, this is the part of my research that I am, only now beginning to explore.

The rise of capitalist modes of exchange can be usefully contrasted to the Stalinist era of primitive accumulation. Under a reign of terror, collectivization and forced industrialization dispossessed the peasantry of access to the means of subsistence, starving many, forcing others onto collective farms but directing the majority to cities where they learnt new skills as wage laborers. The movement today from state to market, from central redistribution to the domination of merchant and finance capital takes the reverse direction. It has caused industrial workers and engineers to lose their skills and retreat back into the informal economy and subsistence existence if they cannot find employment in commerce or service sectors. *Instead of proletarianization we observe deproletarianization, instead of primitive accumulation, we find primitive disaccumulation.* Household production and redistribution is the shock absorber of industrial dissolution caused by the expansion of trade, finance and the shadow state.

VII:RUSSIAN INVOLUTION VERSUS CHINESE ACCUMULATION

Neither revolution nor evolution capture Russia's economic transformation -- the transformation of the mode of exchange, the atrophy of socialist production and the intensification of domestic production. Instead I propose the concept of *involution* to describe the regressive adaptation of the preexisting economy to external market pressures.

Clifford Geertz used the concept of involution to describe the effects of the colonial subjugation of indigenous Javanese economies to sugar cane export production. For him involution entailed the intensification and complexification of subsistence production under pressure of population increase. It depicts the same process that Wolpe described for the pre-capitalist modes of production in South Africa but with important provisos. First, Wolpe emphasized the *political reconstitution* of pre-capitalist modes to create reservoirs

of cheap labor power where Geertz invoked cultural patterns of Javanese peasantry to explain continuity. Second, Wolpe gave the reproduction of pre-capitalism a *dynamic of erosion and expanding inequality* where Geertz saw only a sharing of poverty, which remained essentially unchanged since the Dutch began agro-industrial export of sugar.

Notwithstanding the torrents of criticism levelled against Geertz, as long as we incorporate these two Wolpian provisos, "involution" captures the Russian transformation. If we transpose the global and historical context from a world economy organized around trade in raw materials to one organized around finance, and if we turn from a legacy of colonialism to one of state socialism -- then we discover broad parallels that make involution appropriate to both cases. In Russia as in Java, global capitalism induces local capitalisms which conserve indigenous economies. Global capitalism in the era of finance has brought an advanced mode of exchange into contact with socialist production to create a two-fold involution: dissolution of the state enterprises and intensification of the domestic economy.

Just as Geertz contrasted Java with Japan, so now we can contrast Russian involution with Chinese accumulation. The Russian economy declines at the rate the Chinese economy grows. Russian reformers regarded the Soviet state as antithetical to the market. Price liberalization and then privatization were intended to disarm the state. In so doing it strengthened monopolistic tendencies as well as merchant and finance capital which then wielded the state in their interest. The Chinese reformers, by contrast, introduced economic reforms under the umbrella of the party state. Their strategy was to reenergize the state economy by first, devolving responsibility downwards, making regions and localities residual claimants on the economic resources produced in their territory (Shirk). That is, they retained what was left after delivering fixed appropriations to the center. Second, decollectivization released supplies of labor and skills that were channelled into entrepreneurial activity, typified by the township and village enterprises. Third, property relations were decentralized but remained social so that states and governments at all levels never lost control of the economy (Walder, Oi). The energy released from below was not an adaptive response to declining incomes as it was in Russia, but gave impetus to new patterns of accumulation.

In the neoliberal vision, there are only two types of economy -- market capitalism which combines private property and hard budget constraints and state socialism which combines public property and soft budget constraints. *Therefore*, market led privatization of the Soviet economy must lead to capitalism with hard budget constraints while state led marketization in China can only reproduce socialism with soft budget constraints. So far at any rate these conclusions have proven erroneous. Russia shows how privatization works with soft budget constraints under a regime of disaccumulation, while China demonstrates how combining hard budget constraints and decentralized property relations can produce accumulation. In Russia, where the Soviet state was supposed to be destroyed, it was only softened so that every level of the economy seeks to expand its control over surpluses by

bargaining upwards. By contrast, Chinese reforms hardened the party state compelling each level to search for surplus by encouraging accumulation at a lower level.

In other words, in addition to market capitalism and state socialism there are two other economic systems: Russia's merchant capitalism characterized by involution and China's market socialism characterized by accumulation. The jury is still out on the destiny of these two alternate economic systems but the failure to recognize their possibility underlies the fallacies of neoliberalism. If market socialism and merchant capitalism had been considered possible then shock therapy would have appeared neither so necessary nor so salutary.

VIII: LESSONS FOR SOUTH AFRICA?

What can we learn from Russia? Is Russia so unique that its experience with neoliberalism cannot be made relevant to other countries? I think not. The research that I outlined above does suggest a number of conclusions. Perhaps the most general conclusion is that the consequences of marketization are specific to the context in which they are introduced. There is nothing universal about the effects of the market, and even less that those effects are beneficial. We have seen the divergence of Russia and China - - involution versus accumulation. Markets can lead to the conservation-dissolution of the old order or they can lead to its dynamic transformation. A hard state, I have argued, separates China from Russia.

Russia's incorporation into a global economy has gone hand in hand with neoliberal policies. Price liberalization and privatization lead to the monetization rather than eradication of soft budget constraints. Attempts to harden budget constraints with higher interest rates and the suspension of cheap loans leads to the restoration of barter and the ascendancy of a shadow state. Finally, the economy concentrated around a financial industrial oligarchy, creating an ever widening gap between different sectors, between center and periphery and between classes. Whether intended or not, these consequences are the product of contestation. Although neoliberal ideology looks upon the state as a transmission belt of the inevitable and natural expansion of market, in fact the state is an arena of struggle which shapes its specific rhythm of intervention. There's nothing inevitable or natural about involution, nor is it the product of misguided and reactionary forces in civil society. Bereft of a theory of politics, neoliberal economics cannot explain the consequences and indeed the failure of its own program. In the final analysis, like Marxism-Leninism before it, neoliberalism cannot even recognize its own failure.

Are there similarities between Russia and South Africa that warrant more specific lessons? Is South Africa in danger of following Russia's descent into capitalism? Can one draw parallels between a deceased world power with a population of 150 million and a semi-peripheral economy of 40 million. Can one compare an African country with one that connects Asia and Europe? Do Apartheid and Soviet rule have anything in common? Are

the histories of the two so divergent that nothing can be said about Russia that is relevant to South Africa?

Ideological differences notwithstanding I suggested that the two countries have indeed followed similar patterns of development and underdevelopment. Beneath divergent ideologies can be discovered similar patterns of economic transformation. Segregation and the New Economic Policy were market oriented attempts to stimulate a peasantry into subsidizing cheap wage labor for industry. The market solution failed and after intense political struggles in both countries, Leviathan states were constructed to coercively produce reservoirs of cheap labor. The success of these solutions led to new types of labor -- stable, skilled and educated -- which congregated in cities. Servicing and reproducing this new urban labor force created an ever thicker civil society, a counterweight to and bulwark against the despotic state. Under siege the Apartheid state and the Soviet state compromised themselves out of existence. Neither the white ruling elite nor the party nomenclatura disappeared but rather painted themselves in new colours -- democratization and non-racialism on the one side and democratization and anti-communism on the other. In both societies the state recomposed itself while the economy continued to be dominated by monopolistic interests.

In one crucial way, however, the countries diverge, namely in the character of the civil society that brought about the demise of the Soviet and Apartheid regimes. In the one case, civil society was passive and reactive, gelatinous as Gramsci would say. It operated as a power of constraint, strangling the state. In the other case civil society was proactive, demanding and mobilized against the state. In the one case financial and monopolistic interests could forge a close relation to the state under the banner of neoliberalism, with only weak and ephemeral resistance from society and its parliamentary mouthpiece. In the other case, the strength of the civics, the labor movement and the communist party gave teeth to the legislature, restraining the neoliberal temptation. Here there was a proper relation, as Gramsci would say, between state and civil society, a synergy that could promote the strength of each (Evans).

Should neoliberalism acquire the upper-hand, for want of an alternative, it would weaken the state and demobilize civil society. The way would be open for market led reconstitution from above and the Russian Road to involution. Alternatively, there may be space in South Africa for a Chinese Road, a state led reconstitution from below. Can the state release and channel market enthusiasm toward economic growth, galvanize energies for deracialization as China galvanized energies for decollectivization?

← But following
Mandarin/Hard
has recognise
bifurcation of
the economy.