

The Emergence of Capitalist Class in Russia: 1991-2002

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Preface

The unique features of human society lie in its structures and processes. These structures and processes are in turn dictated by the mode of social production and the relationship between various social classes, to the means of production. In a capitalist society, the social class is the fundamental motivating force and the relation between contending social classes determines the nature and character of the societal structure and process. In every historical conjuncture, the fundamental social relations between different social forces are finally determined by the power-relations between different social classes. In the capitalist epoch, the power relation in the production process, between the capitalist class and the wage labour ultimately determine the multiple forms of power relation exist in that society.

In every historical conjuncture, a contradictory movement happens. In every society the structures and processes are shaped and functioned in accordance with the mode of production and dominant ideology. The dominant ideology and the institutional materiality of its structures and processes have the capacity to reproduce the existing system and its values. But in a similar way, a contradictory trend is also operating within the same structure and process. This contradictory tendency tries to alter the existing structures and processes. These tendencies are emanating from the contradiction between various social classes in production relations, which exists in every society. In fact, these two tendencies - the tendency to reproduce the system, and the tendency, which is trying to alter the nature of the system- are, manifested through the social classes.

The conflict between the dominant class and the oppressed class, finally, determines the nature of the social change. Marx observes:

Society is not primarily a smoothly functioning order of the form of a social organism, a social system or, a static social fabric. Its dominant characteristics is rather, the continuous change of not only its elements, but also its very structural form. This change is in turn bears witness to the presence of conflicts as an essential feature of every society conflicts are not random; they are a systematic product of the structure of society itself. According to this image, there is no order except in the regularity of change, 'without conflict no progress; this is the law which civilization has followed to, the present day. ¹

In short, the contradiction between the dominant ideology and the oppressed class reach its antagonistic stage and the structures and processes are undergoing radical changes.

In fact, the Marxian interpretation of social change is the most suitable analytical tool in analysing the systemic transition in Post-Soviet Russia. Thus, the material contradiction existed in the Soviet Union between ruling elites and different social classes and the subsequent conflict resulted in the disintegration Soviet Union and systemic transition in post-Soviet Russia.

The disintegration of Soviet Union and succeeding changes in post-Soviet Russia radically transformed the very nature and character of the Russian state and society. The post-Soviet Russian state adopted the neo-liberal model of development as the most suitable path for Russia's transition towards liberal market economy. The neo-liberal policy practiced in Russia was known as economic shock therapy. The basic task of the new policy was the complete abolition of state owned enterprises and other remnants of Soviet system through the process of privatisation. It intended to create a new group of capitalist class in Russia through the massive transferring of state owned enterprises to a group of people who were able to buy it. Due to the specific feature of Soviet system, a domestic capitalist class hardly existed there in its classical sense. However, the unprecedented speed in which the privatisation policy practiced in Russia resulted into the

¹ Karl Marx, "Das Elend der Philosophie", cited in Ralf Dahrendorf, *Class and Class Conflict In an Industrial Society* (London:Routledge,1959),p. 27.

manifestation of former Soviet elites especially its technocratic segments along with people from former Soviet shadow economy into a new propertied class.

The new capitalist class, which emerged in Russia, reflects many contradictory tendencies. Due to its illegitimate creation by the neo-liberal policies, it is parasitic in nature and comprador in its character. The new capitalist class in Russia is hardly engaged in any productive business in the country. Rather it had played a crucial role in exporting capital from Russia to various tax heavens in western capitalist countries. However, the new policy created massive upheavals and tensions in Russian society. In the past one decade of Russia's neo-liberal policy, virtually pushed the large sections of Russian citizens in to deep social crisis and unemployment. Besides, this policy virtually transformed Russian state into a powerless non-entity. Black economy and mafia constitute the main source of income of the Russia's new capitalist class. The complete privatisation of state-owned enterprises and collective farms along with sharp decline in industrial production pushed the Russian economy into a pre-industrial era.

In such a conjuncture, it is very relevant to analyse post-Soviet socio-economic transition that is underway in Russia. It is also relevant in the context of past one decade of neo-liberal experiment in Russia, which virtually dragged the country's political economy into a most peripheral status in the world capitalist economy.

The present study mainly focuses on the post-Soviet class formation and its impacts on Russian society. It reveals the nature and character of emerging capitalist class in Russia from the vantage point of Marxian class analysis. It is relevant because the post-Soviet transition literature hardly employed a class analysis and it is concentrated on the economic dimension of the transition from a pure neo-classical framework.

The present study is divided into five chapters. The first chapter discusses the various aspects of class formation and social stratification from a historical perspective. It also focuses on various theories on class and social stratification in capitalist society. It analyses the recent contribution to class theory provided by the later Marxian scholars and it further reveals the reason for the adaptability of class analysis in contemporary capitalist societies in general and post Soviet Russia in particular.

The second chapter deals with the classes and social stratification, which existed in the Soviet society. It traces the origin of the post-revolutionary class formation in Stalinist strategy of industrialisation. The chapter also analyses the nature of relations of production existed in the Soviet society. This chapter also discusses the diverse views of the Marxian and other socialist scholars on Soviet society and state.

The third chapter is divided into two parts. In the first part, it discusses the nature and character of the neo-liberal strategy and its impacts on the transitional economy of Russian Federation. In the second part of the chapter an analysis of the impacts of neo-liberal policy in post Soviet Russian social structure is made. It also reveals the various aspects of the social crisis confronting by the post Soviet Russia.

In the fourth chapter we discuss the nature and character of the capitalist class that emerged in Russia in the past one decade. It tries to locate the political economy of the new capitalist class and analyses its role in the Russian economy. The chapter also looks at the relation between new capitalist class, state and other social classes in Russia. Finally, it reviews the various views on capitalist development in the context of severe weakness of the new capitalist class in Russia. In the last chapter, the issues discussed in the previous chapters are summed up.

The present study is set in Historical analytical method. The study is mainly based on secondary sources.

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George Varghese

1 **Classes and Social Stratification**

Human beings have long dreamt of an egalitarian society, a society in which all members are equal. In such a society men will no longer be ranked in terms of prestige, none will experience the satisfaction of occupying high social status, and no one will suffer the indignity of being relegated to a position, which commands little respect. No longer will high status evoke difference and admiration or envy and resentment from those in less worthy positions. In an egalitarian society, the phrase 'Power to the People' will become a reality. No longer will some have power over others.¹ Many philosophers and writers nurtured and promoted these ideals in various ways in different historical epoch.

The above description of an ideal society also found in the writings of Karl Marx. Especially in his early works like *The German Ideology* and *The Communist Manifesto*, which he co-authored with Frederick Engels, where they outlined the character of the future 'Communist Society'. They considered it as the advanced stage of human societal transformation. According to Marx and Engles:

In communist society, where nobody has one exclusive sphere of activity but each can become accomplished in any branch he wishes, society regulate the general production and thus make it possible for me to do one thing today another tomorrow, to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticise after dinner, just as I have mind, without ever becoming hunter fisherman, shepherd, or critic.²

Despite this egalitarianism of the Marxian and other egalitarian philosophies, the concrete realities of the capitalist system across the globe qualify that it had gone far ahead of any previous social systems in terms of institutionalisation of social disparities among different social classes across the globe. A major structural characteristic of capitalist society was its inherent capacity to reproduce asymmetrical power relations, which emanate from the social relations of production, which leads to the subjugations of

¹ M. Haralambos and R. M. Heald, *Sociology: Themes and Perspectives* (New Delhi: Oxford University Press, 1981), p.24.

² Karl Marx and Frederick Engels, *The German Ideology* (Moscow: Progress Publishers, 1964), p.45.

labour to the Capital. Power and prestige are unequally distributed between individuals and social groups in stratified societies. In many societies, there are marked differences in the distribution of wealth and power. Power refers to the degree to which individuals or groups can impose their will on others with or without the consent of others.³ Prestige relates to the amount of esteem or honour associated with social positions, qualities of individuals and style of life. Wealth refers to material possessions defined as valuable in particular societies.

In this context the present chapter try to analyse Classes and Social Stratification from a historical perspective. It begins with the discussions on the evolution of the concept of class and how it emerged as an analytical category, in understanding social stratification in capitalist societies. It also looks at the various definitions of class and social stratification, explained from different theoretical and ideological positions and the inter-relations between classes and social stratification. It also deals with various theories on class and social stratification, however major focus of the study is on the Marxian debate on the subject. It concerned with the question of universal validity of these concepts and its relevance in analysing the Russian transition from Soviet Socialism to Capitalist Market Economy.

Concept of Class in Historical Perspective

The concept 'class' is a central one in the study of social stratification. It is used in western and soviet sociology with differing nuances to describe groups whose members are united on the basis of similar economic and social status and common interest.⁴ The concept of class has never remained a harmless concept for very long time particularly when applied to human beings and their social conditions. It has invariably displayed a peculiar explosiveness. The logician runs no risk in distinguishing 'classes' of judgment or categories, the biologist need not worry about classifying the organisms with which he/she is concerned, if the sociologist uses the concept of class, he/she not only must carefully explain in which of its many

³ Haralambos and Heald, n.1, p. 24.

⁴ Von Beyome "Class, Class Struggle" in C.D. Kerning ed., *Marxism, Communism and Western Society: A Comparative Encyclopedia*, vol.2 (New York: Herder and Herder, 1972), p. 1.

meanings he/she wants to be understood, but also must expect objections that are dictated less by scientific insight than by political prejudice.⁵ Dahrendorf's comments hardly took in to account the subjectivity of the researcher that tends play a crucial role in a class society.

Class, as a description of social groups, began to be used in eighteenth century. There does not appear to have been any recourse to the social meaning of the Latin word *Classis* (The Roman sensors used this concept when dividing the population into tax groups). It is more likely that it was derived from a concept used in the natural sciences particularly in biology.⁶ Because of these reasons Ralph Dahrendorf says that the evaluative shift of meaning have accompanied the concept of class throughout its history.⁷ The industrial revolution and the consolidation of capitalism resulted in the radical advancement in social sciences that led to the emergence of diverse interpretation on social class.

The analogy with the scientific meaning became clearly apparent in Adam Ferguson's reference of the year 1767, "the works of fancy like the subject of natural history are distinguished into classes and species, the rules of every particular kind are distinctly collected, and the library is stored, like warehouse with the finished manufacture of different arts..."⁸ Here 'class' was used as a natural description for categorizing intellectual and social phenomena and had not been established as a concept of social stratification. In so far as English social philosophers of eighteenth century used 'class' to mean social group, it was employed largely as a synonym for 'estate' or 'rank'. Even in the nineteenth century, class and status were not sharply discriminated. Even during the French Revolution, when for the first time wide social strata became aware of class differences, no clear differentiation between the two concepts had made.⁹ Jean Paul Marat himself, whom Marxist credit with being extremely open minded on the class struggles of the period after 1789, confused with these concepts: on one

⁵ Ralf Dahrendorf, *Classes and Class Conflict in an Industrial Society* (London: Routledge, 1959), p. 3.

⁶ C.D. Kerning, n. 4, p. 1.

⁷ Dahrendorf, n. 5, p. 3.

⁸ Adam Ferguson, *Essay on The History of Civil Society, New edition* (London: Mac Millan Press, 1967), p. 189.

⁹ Kerning, n. 4, p. 1.

hand, he wanted to organize *le peuple* as a class, on the other he still spoke of less classes *du tiers etat* and does allowed the newly acquired socio-economic class concept to deteriorate into a description for the sub-group of an estate.¹⁰ The class as a social analytical category acquired wider attention with the emergence of radical politics in Western Europe.

In nineteenth century, the concept of class gradually took on a more definite colouring. Adam Smith had already spoken of the 'poor' or 'labouring class'. In the works of Ricardo and Saint Simon, Fourier and in those of Engles and Marx, the 'class of capitalists' makes its appearance beside the 'labouring class', the 'rich' beside the 'poor class', the 'bourgeoisie' beside the 'proletariat'.¹¹ Since this particular concept of social class was first applied in the middle of nineteenth century, its history has been as eventful as that of the society for which it was designed.

Application of the class concept, particularly to the two most important strata of capitalist society, suggests that the origin of classes is inextricably linked with industrialization. The idea of class society replacing estate-ordered society can be found in Marx's earlier works. It was not until later that he interpreted the whole of history as the chronicle of class antagonisms and he thus made parallel use of the two concepts 'estate' and 'class'.

Even in his introduction to '*Contribution to the Critique of Hegel's Philosophy of Right*' (1844), Marx still answered of how a German emancipation might possibly occur with the words "in the formation of a class with radical chains, a class of civil society which is not a class of civil society, an estate which is the dissolution of the all estate".¹² This was the turning point in the history of social classes.

According to Marx, the possibility of social class division arose as a consequence of the developing productivity of social labour. Once the productivity of labour had developed to a certain stage, it becomes possible

¹⁰ Ibid, p. 1.

¹¹ Dahrendorf, n. 5 p. 4.

¹² Karl Marx and Frederick Engles, *On Religion* (Moscow: Progress Publishers, 1962), p. 56.

to produce a social surplus product over and above that necessary to maintain the direct producers and their offspring. The appropriation of the social surplus product by a category of agents distinct from the 'direct producers' is seen as the origin and continuing foundation of the class division of the society. The historic originality of Marx's theory, however, does not simply consist in the recognition of the existence of social classes and class antagonisms. One of the central propositions of his theory is that the form in which class division and class struggle take in the particular epoch is fundamentally determined by the mode of exploitation or mode of extraction of the surplus product, which characterizes the successive course of production, which arise in the course of historical development.¹³ It provides a radically different outlook in the functioning of modern society.

Class as a discretion of the social relation as well as an analytical category acquired its present status with the publication of the *Manifesto of the Communist Party* jointly by Marx and Engles. They observed in the manifesto, "the modern bourgeoisie society that has sprouted from the ruins of the feudal society has not done away with class antagonisms. It has but established new classes, new conditions of oppressions, new forms of struggles in place of old ones".¹⁴ They further argue that our epoch of the bourgeoisie possess, however, this distinctive feature, it has simplified the class antagonisms. Society as a whole is more and more splitting up into two great hostile camps, into two great classes directly facing each other: bourgeoisie and proletariat.¹⁵ This profound analysis captures the internal contradictions of the capitalist society. They further observed:

Each step in the development of the bourgeoisie was accompanied by a corresponding political advance of that class. An oppressed class under the sway of the feudal nobility, an armed and self growing association in the medieval commune, here independent urban republic (as in Italy and Germany), their taxable 'third estate' of the monarchy (as in France), afterwards in the period of manufacture, proper, serving either the semi-feudal or the absolute monarchy as a counterpoise against the nobility, and, in fact the cornerstone of the great monarchies in general. The bourgeoisie has at last, since the

¹³ Allin Cottrell, *Social Classes in Marxist theory* (London; Rutledge, 1985), p.6.

¹⁴ Karl Marx and Frederick Engles, *Manifesto to the Communist party* (Moscow: Progress Publishers 1975), p. 41.

¹⁵ Ibid.

establishment of Modern industry and of the world market, conquered for itself, in the modern representative State, exclusive political sway.¹⁶

Thus through Marx's systematic formulation of class as an analytical category in theorising social relations within capitalist society, and it provided new vistas in understanding social stratification in modern class divided societies.

Defining Social Stratification

The term stratification in sociology is usually applied to the studies of structured social inequality, that is, studies of any systematic inequalities between groups of people, which arise as the unintended consequence of social process and relationships.¹⁷ Social stratification is thus at the heart of macro-sociology – the study of whole societies in the comparative perspective, in an attempt to understand process of social stability and change. Social stratification begins from Weber's limiting cases of the more traditional status-based society, for instance societies based on ascriptive categories, such as estate and castes or where there is slavery so that inequalities are legally sanctioned, and the polarized but more fluid class based society, where there is greater element of achievement, where economic differences are paramount and inequality is more impersonal.¹⁸ In fact there were radical differences in the nature and character of social stratification in various societies.

However, there are hardly any unanimous views on social stratification among sociologists. The term social inequality simply refers to the existence of socially created inequalities. Social stratification is a particular form of social inequality. It refers to the presence of social group, which are ranked one above the other usually in terms of amount of power, prestige and wealth their members possess. Those who belong to a particular group or stratum will have some awareness of common interest and common identity. They will share a similar lifestyle, which to some degree will distinguish

¹⁶ Ibid. pp. 43-44.

¹⁷ Gordon Marshall, *Oxford Dictionary of Sociology* (New York: Oxford University Press, 1994), p. 642.

¹⁸ Ibid.

them from members of other social strata¹⁹. The Indian caste system provides an example of social stratification system

Social stratification involves a hierarchy of social groups. Members of particular stratum have a common identity, common interest and a similarity in life style. They enjoy or suffer the unequal distribution of rewards in society as members of different social groups.

In the light of modern historiography, it is explicitly clear that diverse forms of social inequalities and stratifications were the product of successive mode of production in different historic epoch. Despite this fact, there is an increasing tendency among Anglo-American social scientist to underestimate and altogether reject the historical evolution of these social hierarchies. They had introduced new variables and categories to explain social stratification in contemporary capitalist societies. The main features of these new theories are its total negation of the structural aspects of the problem.

Many stratification systems are accompanied by the belief that social inequalities are biologically based. The French philosopher Jean-Jacques Rousseau provided one of the earliest explanations for this question. He refers to biologically based inequality as natural or physical, because it has established by nature, and consists in a difference of age, health, bodily strength, and the qualities of the mind or the soul. By comparison of socially created inequality, consist of the different privileges, which some persons enjoy to the prejudice of the others such as that of being richer, more honoured, more powerful or even in a position into exact obedience.²⁰ Rousseau believed that biologically based inequalities between human being were small and relatively unimportant, whereas socially created inequalities provide the major bases for system of social stratification.

However, most sociologists would argue that systems of racial stratification have a social rather than biological basis. They would maintain that systematic discrimination against Blacks made possible by the power of the dominant stratum, accounts for the system of racial stratification in the

¹⁹ Haralambos, n.1, pp. 24-25.

²⁰ Jean Jacques Rousseau quoted in Tom Bottomore, *Classes in Modern Society* (London: George Allan and Unwin, 1965), pp.15-16.

USA. The Blacks have been excluded from high status occupations because of lack of power rather than the quality of their genes. The evidence from the late 1960's and '70's provides support for this view. During the mid 1960's, in the USA, laws were passed banning racial discrimination in areas such as employment, politics and education. Blacks are now moving out of the lowest stratum in ever increasing number.²¹ The behavioural social scientist's argument that Blacks are intellectually inferior to the Whites was refuted by many recent sociological researches. On the question of the relationship between intelligence and social inequality, sociologists argued that, intelligence is based on both genetic and environmental factors and the two are inseparable. Secondly many researchers opine that intelligence are based on White middle class knowledge and skills and are therefore based against Blacks.²² Most sociologists would therefore conclude that social status of Blacks in the USA is the result of a social rather than a biological mechanism.

Among sociologist there were diverse views prevailing on the question of classes and social stratification. Many social scientists consider social classes as the structural basis of stratification in capitalist societies. However, most of the American sociologists with functionalist perspective treat both these concepts separately and give more importance to the categories like 'social status' and 'prestige' in analysing social stratification.

Social classes and social stratification are the two distinguishing features of contemporary capitalist society. Both denote the existence of the structural social hierarchies in the societies. Despite these similarities sociologists often treat the two categories separately. However, theorization of these concepts are often deeply influenced by the researcher's own ideological and value orientations. Many sociologists consider social stratification as essential functional requirement of the society. They argued that in certain stratified societies the polarization and social hierarchies are based not purely on class lines, but rather on caste, race, social status etc.²³ In these cases, there were tendencies of each stratum to develop their own

²¹ Haralambos, n.1, p.28.

²² Ibid, p.29.

²³ Ibid, p.26.

subculture, that is certain norms attitudes and values, which are distinctive to them as a social group.

Ralf Dahrendorf considers social stratum as a category of persons, who occupy a similar position on a hierarchical scale of certain situational characteristics such as income, prestige and life style.²⁴ When some members of society experience similar circumstances and problem, which are not common to all members, a subculture tends to develop. Members of the lowest stratum in stratification systems, which provide little opportunity for mobility in status, tend to have fatalistic attitude towards life. This attitude becomes part of their subculture and is transmitted from generation to generation. Members of social group, who share similar circumstances and common subculture, will be likely to develop a group identity. They tend to have consciousness of kind, a feeling of cohesiveness with other group members.²⁵ They will, therefore, tend to identify with their particular stratum and regard themselves, for example, middle class or working class etc.

Strata subcultures tend to be particularly distinctive when there is little opportunity to move from one stratum to another. This movement is known as social mobility. Stratification systems, which provide little opportunity for social mobility can be described as closed systems and those with a relatively high rate of social mobility as open. In closed systems, an individual's position is largely ascribed. Often it is fixed at birth and there is little s/he can do to change his/her status. Caste provides an example of closed stratification system. By comparison social class based stratification in capitalist industrial societies provides an example of an open system.²⁶ Sociologists increasingly tend to take a view that in western capitalist societies, individual's class position would depend on his/her ability and other personal qualities. They underestimate the exploitative social structures and relation of social production, which constitute the material basis of capitalist society.

²⁴ Dahrendorf, n. 5, p. 9.

²⁵ Haralambos, n. 1, p.26.

²⁶ Ibid, p. 26.

It is argued in this chapter that classes and social stratification are synonyms and stratification other than classes are the main features of pre-capitalist era. In the contemporary capitalist society, social classes constitute the material basis for social stratification. The structural dimension of the social stratification shows that the initial stages of stratification were determined by the material social conditions and role of these social groups in the social relation of production. This was even find from the caste system in India in which the lowest groups like untouchables and dalits who constitute majority of the population but remained in the peripheral position in the caste hierarchy due to their subordinate position in the means of production. Thus, social relation of production and the relation of the social classes to the means of production determine the social relations in society. This view is illustrated by Karl Marx in his often quoted passage in the preface to *Contribution to the critique of the Political economy of 1859*.

In the social production of their life, men enter in to definite relations that are indispensable and independent of their will, the relation of production, which correspond to definite stage of development of their material productive forces. The sum total of these relations of production constitute the economic structure of society, the real foundation on which rises legal and political superstructure and to which correspond definite form of consciousness the mode of production of material life conditions the social, political and intellectual process in general. It is not the consciousness of men that determinants their consciousness. At a certain stage of their development, the material productive forces of societies came in conflict with the existing relation of production, or what is but legal expression for the same thing- with the property relations within which they have been at work hitherto. From forms of development of the productive forces these relations turn into their fetters then begins an epoch of social revolution.²⁷

Therefore, classes and social stratification are interchangeable and synonymous in capitalist societies. Usually class is considered as an analytical category and social stratification as a descriptive category. However, both categories are reproducing each other through the institutional materiality of capitalist society. In spite of prevailing consensus among many sociologists on the question of social mobility, in capitalist

²⁷ Karl Marx and Frederick Engles, *Selected Works in One Volume*, (London: Lawrence and Wishert, 1968), pp. 181-82.

society, Ralph Miliband argues, “elite recruitments in these societies has a distinctly hereditary character. Assess from the working classes into the middle and upper classes are generally low”.²⁸ This view was also supported by John Westergaard, who observes “a good deal of movement of individuals between the different strata, but much of these movement covers fairly short distances in social space involves shift within either the manual or the non-manual group, far more often than between them, and is characterized by sharp and persistent inequalities in the distribution of opportunities”.²⁹ This clearly revealed the hereditary nature of class stratification prevailing in the modern capitalist societies,

Westergaard and Resler in their well-researched work on the class structure on the post- war Britain argues that,

Extra ordinary privilege is concentrated in a very small group. They have wealth and near total security in life, the latitude of choices, the ease in every day management and manipulation of people and things around them, which all go with wealth. They are power less because they actively direct affairs- though many of them do that- than because of the anonymous regulation of affairs by principles of property, profit and market is in tune with their interest. And they are well placed to pass on their privileges to their children. The core of this group is those, who own and those who control on a large scale, whether top business executives or renters makes no difference in this context. Whatever divergence of interest there may be among them on this score and others, latent as well as manifest they have a common stake in one overriding cause, to keep the working rules of the society capitalist.³⁰

In short one could find unequal power relations among social classes, which function as basis of social stratification in capitalistic society. In contrast to the general notion, social mobility in capitalist society is very much restricted.

²⁸Ralph Miliband, *State in Capitalist Society*, (London: Weidenfeld and Nicholson, 1969), p. 38.

²⁹ John Westergaard quoted in Ralf Miliband, *State in Capitalist Society* (London: Weidenfeld and Nicholson, 1969), p. 39.

³⁰ John Westergaard and Henrietta Resler, *Classes in Capitalist Society: A study of Contemporary Britain* (London: Pelican Books, 1976), pp. 346-47.

Defining Classes and Social Stratification

There were hardly any definition on classes and stratification that are acceptable to all social scientists. Thus there are varieties of definitions existing on this concept. The main reason for the lack of any unanimous view among researchers is the absence of commonly accepted criterion for defining it. This is the reason by Dahrendorf observes “the history of the concept of class in sociology is surely one of the most extreme illustrations of the inability of sociologists to achieve a minimum consensus even in the modest business of terminological decisions.³¹ Despite this, it was one of the most widely debated areas in social science in the immediate post Second World War decades. In order to highlight the diverse views and theoretical premises, we shall quote a few definitions of the much-debated concept of class:

“Classes are social conflict groups the determinant of which can be found in the participation in or exclusion from the exercise of authority” (Dahrendorf)

³²

“Class is defined as plurality of kinship units which, in those respect were status in a hierarchical context, is shared by their members, have approximately equal status” (Talcott Parson)³³

Class “is a force that unite into groups of people who differ from one another, by overriding the difference between them” (Marshall)³⁴

“Class, as distinguished from stratum, can well be regarded as a psychological phenomenon in the fullest sense of the term that is, a man’s class is a part of his ego, a feeling on his part of belongingness to some thing, an identification with something larger than himself”(Centers)³⁵

³¹ Dahrendorf, n.5, p. 74.

³² Ibid, p. 138

³³ Talcott Parsons, *Social Classes and Class Conflict in the Light of Recent Social Theory* (New York: The Free Press, 1959), p. 328.

³⁴T. H.Marshall, (ed.), *Class conflict and Social Stratification* (London: Penguin, 1936), p. 117.

³⁵ Richard Centers, *The Psychology of Social Class* (Princeton, Princeton University Press 1979), p. 27.

“We shall then mean by a social class any portion of a community which is marked off from the rest, not by limitations arising out of language, locality function, or specialisation but primarily by social status” (MacIver)³⁶

“According to the point of view here advanced, social classes ...are social groups determined by three factors, namely similar social conditions similar social status, similar values”(Corner)³⁷

“By class is meant two or more orders of people who are believed to be, and are accordingly ranked by the members of the community, in socially superior and inferior position”(Warner and Lunt)³⁸

“A class as all the people who in the same class situation. The class situation is define on the basis of material provisions, external social position, and inner life, which is based on the control the individual has over material things or performance capability and how this control can result in income in a given economic order”(Manson)³⁹.

From the above definitions one could find that the general tendency of the conventional sociologist to underestimate and even altogether neglect the structural characteristics of capitalist society in defining classes. Commenting on the Non-Marxist conception of classes, Erik Olin Wrights observes, “Non-Marxist concepts of class typically take one of two forms, either they are structured around categories of distribution without reference to domination, or they are structured around categories of domination without reference to distribution. In the first of these tendencies, class is defined either directly in terms of distributional outcomes (incomes) or in terms of the proximate determinants of those outcomes (occupation or ‘market capacity’-the Weberian approach). In either case relations of domination are either absent from or incidental to the discussion. The tendency, most explicitly found in the work of Ralf Dahrendorf, defines classes solely in terms of power or authority relations. There are ‘command

³⁶ R.M. MacIver, *Society*, (New York: Free Press, 1937), p. 167.

³⁷ Fritz Croner quoted in Ralf Dahrendorf, *Class and Class Conflict in an Industrial Society*, (London: Rout ledge, 1959), p. 75.

³⁸ W.L. Warner and P.S. Lunt, *The Social Life in a Modern Community*, (New Heaven: St.Martin Press, 1941), p. 82.

³⁹ Per Manson, “Max Weber”, in Heine Anderson and Lars Bo Kasper, ed., *Classical and Modern Social Theory*, (Oxford: Basil Blackwell, 2000), p. 84.

classes' and 'obey classes' in every institutional sphere of the society, with no special status being given to economic institutions.⁴⁰ Thus the non-Marxian theories of class hardly took into account the structural characteristics of capitalist society, which continue to act as the major basis of social stratification in society.

Marxian Definition of Class

While attempts to give an account of Marx's views on classes, one immediately encounters a paradox. In one sense, almost everything, which Marx wrote is concerned in one way or another with classes and class struggle, yet equally Marx nowhere gives a systematic definition of the concept of social class or a systematic account of the relationships between class and political forces.⁴¹ Thus Dahrendorf observes "Marx postponed the systematic presentations of his theory of class until death took the pen from his hand. The irony has often been noted that the last {52nd} chapter of the last {third} volume of *Capital*, which bears the title *The Classes*, has remained unfinished. After title more than one page the texts ends with the lapidary remarks of its editor, Engles "here the manuscript break off".⁴²

Despite this we can reconstruct Marx's view of classes in capitalist society based on a number of other analysis he made. The most important point is that Marx defines classes on the basis of their relationship to production and their source of income, and this (objective) relationship means that they have different interests for which to fight-under capitalism. According to Marx, the bourgeoisie (capital owner) and the proletariat (wage worker) are the most important classes.⁴³

However, the Marxian definition of class differed from all earlier theories of class in particular aspects. Marx was not concerned with describing an existing state of society; he was concerned, rather with the analysis of certain laws of social developments and of the forces involved in this

⁴⁰ Erick Olin Wright, "The Status of the Political in the Concept of Class Structure", *Politics and Society*, vol. 2, no. 3, 1982, pp. 332-333.

⁴¹ Cottrell, n. 13, p. 2.

⁴² Dahrendorf, n.5, pp. 8-9

⁴³ Per Manson, "Karl Marx" in Heine Andersen and Lars Bo Kaspersen ed. *Classical and Modern Social Theory* (Oxford, Basil Blackwell, 2000), pp. 28-29.

development.⁴⁴ Marxian definition of classes have enriched by the interpretation of many theorists after Marx. Among them Lenin's definition received wide attention within Marxist theorists and practitioners. According to Lenin,

Classes are large group of people differing from each other by the place they occupy in a historically determined system of social production by their relation (in most cases fixed and formulated in law) to the means of production by their role in the social organisation of labour, and consequently by the dimension of the share of social wealth of which they disposed and the mode of acquiring it, (and as) groups of people one of which can appropriate the labour of another owing to the different places they occupy in a definite system of social economy.⁴⁵

The traditional Marxian view of classes, as illustrated by Marx, Engles and subsequent interpretation by Lenin as well as many others, stressed the priority of the relation of production and ownership of the means of production as the criteria for defining social classes in capitalist society. However, the economic reductionist view of the traditional Marxian definition of classes faced wide criticism from different streams within Marxian tradition, especially after the post-Stalinist period, as a critique to the economic-mechanical definition of social classes provided by the Soviet leadership. Among these new interpretations of classes, one provided by Nicos Poulantzas⁴⁶ received wider attention. Subsequent contribution by John Romer⁴⁷ and Erick Ollin Wright⁴⁸ provided new dimensions to the Marxian debate on social classes.

The present study identifies with Lenin's definition of social classes and at the same time argued that the new interpretation provided by Poulantzas and his followers are very relevant in analysing the contemporary capitalist society.

⁴⁴ Dahrendorf, n.5, p.19.

⁴⁵ Lenin, *Collected Works*, (Moscow: Progress Publishers, 1949), vol. 29, p. 421.

⁴⁶ See for details, Nicos Poulantzas, *Political Power and Social Classes*, (London: New Left Books, 1973). Also see the same author, *Classes in Contemporary Capitalism*, (London: New Left Books, 1975). Also the same author, *State Power Socialism*, trans by Patrick Camiller, (London: New Left Books, 1979).

⁴⁷ John Romer, "New Directions in the Marxian Theory of Exploitation and Class", *Politics and Society*, vol.2. no.3, 1982, pp.253-87.

⁴⁸ See for details Erik Olin Wright, *Class, Crisis, and The State*, (London: New Left Books, 1978). Also see the same author, *Classes*, (London: Verso,1985).

Non Marxian Theories on Classes and Social Stratification

We have carried out the division of different theories on classes and social stratification on the basis of its approach to the society. The conventional theories on classes and social stratification put forward by the two major approaches within western sociology, namely Weberian approach and functionalist framework. Both consider social stratification as essential and inevitable feature of modern society. On the other hand, Marxian theory argues that neither it was essential nor unavoidable, but rather it was historically constituted and based on the structural specificities of capitalist society.

Functionalist Theory on Social Stratification

Functionalist theories of social stratification must be seen in the context of functionalist theories of society. When functionalist attempts to explain systems of social stratification, they set their explanations in the framework of larger theories, which seek to explain the operation of society as a whole. They assume that there are certain basic needs or functional prerequisites, which must be met if society is to be survived. They therefore look into social stratification to see how far it meets these functional prerequisites. They assume that part of the society form an integrated whole, and thus examine the ways in which the social stratification system is integrated with other parts of the society. Functionalists maintain that a certain degree of order and stability are essential for the operation of social systems. They will, therefore, consider how stratification systems help to maintain order and stability in society.⁴⁹ In summary, functionalists are primarily concerned with the function of social stratification with its contribution to the maintenance and well being of society.

Talcott Parson was regarded as the most prominent exponent of functionalist approach. In his long forty years of intellectual and theoretical career he had laid the foundation of the functionalist approach. By developing functionalist approach, he rationalised and justified the asymmetrical social hierarchies existed in the USA and other western capitalist countries.⁵⁰ The impacts of

⁴⁹ Haralabos, n. 1 p.30.

⁵⁰ Ibid.

his theorisation were evident from the fact that within his lifetime the functionalist approach emerged as the major theoretical tool in sociology, particularly in USA.

Functionalist believes that order, stability, and cooperation in society are based on value consensus and there is a general agreement by members of society concerning what is good and worthwhile. Parson argues that stratification systems derive from common values. It follows from the existence of values that individual will be evaluated and therefore placed in some form of rank and order. In his words “stratification, in its valuation aspects, then is the ranking of unit in a social system in accordance with the common value system”.⁵¹ Thus those who perform successfully in terms of society’s values will be ranked highly and they will likely to be received a variety of rewards. At a minimum they will be accorded high prestige since they exemplify and personify common values.

Functionalist argues that different societies have different value systems; the ways of attaining a high position will vary from society to society. Parsons opined that American society values individual achievement, efficiency and puts primary emphasis on productive activity within the economy. Parsons’ argument suggests that stratification is an inevitable part of all human societies. If value consensus is an essential component of all societies, then it follows that some form of stratification will result from the ranking of the individuals in terms of common values.⁵² It follows from the functionalist views that there is general belief that stratification system are just, right and proper, since they are basically an expression of shared values.

Functionalist tends to see the relationship between social groups in society as one of cooperation and interdependence. Particularly in complex industrial societies, different groups specialise in particular activities. As one group is self-sufficient, it cannot meet the needs of its members. It must therefore exchange goods and services with other groups, and so the relationship between social groups is one of reciprocity. In societies with a highly specialised division of labour such as industrial societies, some

⁵¹ Ibid, p.31.

⁵²Heine Andersen, “Functionalism” in Heine Andersen and Lars Bo Kaspersen (ed.), *Classical and Modern Social Theory*, (Oxford: Basil Black well, 2000), p.223.

members will specialise in organisation and planning, others will follow their directives. Talcott Parsons argues that this inevitably tend to inequality in terms of power and prestige. Referring to western society, he states that organisation and prestige on an increasing scale is a fundamental feature of such system.⁵³ Such organisation naturally involves centralisation and differentiation of leadership and authority, so that those who take responsibility for coordinating the actions of many others must have different statuses in important respects from those who are essentially in the role of carrying out specification laid down by others.

As with prestige differentials, Parsons argues that inequalities of power are based on shared values. Functionalist sees social stratification as both inevitable and functional for societies. It is inevitable because it derives from shared values, which are necessary part of all social systems. It is functional because it serves to integrate various groups in society. Power and prestige differentials are essential for coordination and integration of a specialised division of labour. Without social inequality, functionalist finds it difficult to see how members of society could effectively cooperate and work together.⁵⁴ They argue that inequalities in power and prestige benefit all members of society since they serve to further collective goals, which are based on shared values.

Functionalist theorists like Davis and Moore argues that major function of stratification is to match the most able people with the functionally most important position. It does this by attaining high rewards to these positions. The desire for such rewards motivates people to compete for them and in theory; the most talented will win through. They conclude that social stratification is a device by which societies ensure that the most important positions are consciously filled by the most qualified persons.⁵⁵ The Marxian theorists challenged functionalist theory of social stratification from many angles within sociology besides its outright rejection.

⁵³ Haralambos, n. 1, p. 29.

⁵⁴ Ibid, p.32.

⁵⁵ Ibid.

Max Weber's Theory on Social Stratification

The works of Max Weber represent one of the most important developments in stratification theory since Marx. There are similarities between Marx and Weber on many issues, but there were radical differences, which emanate from the diverse theoretical premises, Weber theorises class in economic terms. He argues that classes developed in market economies in which individuals, who share a similar position in market economy and by virtue of that fact, receive similar economic rewards. Thus in Weber's terminology, a person's class situation basically is his/her market situation. Those who share similar class situation also share similar life chances. Their economic position will directly affect their chances of attaining those things defined as desirable in their society, for example, access to higher education and good housing.⁵⁶ Weber distinguished the following class groupings in capitalist society as, (1) the propertied upper class (2) propertied white-collar worker (3) the petty bourgeoisie and (4) the manual working class.⁵⁷

According to him, factors other than the ownership or non-ownership of property are significant in the formation of classes. In particular, the market value of the skills of the property-less varies and the resulting differences in economical relations are sufficient to produce different social classes. Weber argues:

Greater is the degree of withdrawal of legitimacy from political authority, the more likely is conflict between super-ordinates and sub-ordinates. The greater is the correlation of membership in class, status group, and party, the more intense is the level of resentment among those denied membership and hence, the more likely they are to withdraw legitimacy. The greater is the discontinuity in social hierarchies, the more intense is the level of resentment among those low in the hierarchies, and hence, the more likely are they to withdraw legitimacy. The lower are the rates of mobility up social hierarchies of power, prestige and wealth, the more intense in the level of resentment among those denied opportunities and hence, the more likely are they withdraw legitimacy.⁵⁸

⁵⁶ Ibid.

⁵⁷ Ibid, p.33.

⁵⁸Max Weber, cited in Jonathan H.Turner, *The Structure of Sociological Theory*, (Jaipur, Rawat Publishers, 1987), p. 148.

Weberian view accurately reflected the multiple aspects of the relation between ruling class and subordinate class in modern capitalist societies.

In contrast to the Marx's view, Weber sees no evidence to support the idea of the polarisation of classes. Although he sees some decline in the numbers of the petty bourgeoisie and the small property owners due to the competition from the large companies, he argue that they enter white-collar skilled manual trades rather than being depressed into the ranks of unskilled manual workers. More importantly, Weber argues that the white-collar middle class expands rather than contracts as capitalism develops. He maintains that capitalist enterprises and the modern nation state requires a 'rational bureaucratic administration', which involves large numbers of administrators and clerical staff. Thus, Weber sees a diversification of classes and an expansion of the white-collar middle class rather than a polarisation.

A class forms, according to Weberian view, one among many possible basis for group formation. He considers occupation diversification, and bureaucratic hierarchies are the logical necessities of industrial societies. Thus he altogether neglects the basic fact that, material structure of the capitalist society and the social relations within it enormously influence the social positions of individual. Nevertheless Weber's view on interplay of class, status, prestige, and political parties in the formation of social groups in capitalist societies received wider scholarly attention among sociologists.

Marxian Theory on Classes and Social Stratification

Marxian theory provides a radical alternative to the conventional theories on social stratification. Marxian theory regards stratification as a divisive rather than an integrative structure. They regard social stratification as a mechanism where by some exploit others rather than a means of furthering collective goals. They focus on social strata rather than social inequality in general. Functionalist such as Talcott Parsons and Davis and Moore say little about social stratification in the sense of clearly

defined social strata whose members have shared interests.⁵⁹ However this view of social stratification is central to Marxian theory.

Without going to the basic premises of Marxian theory and its explanation of the whole social process, one cannot comprehend the Marxian theory on social classes. Theories are distinguished by the particular understanding it brings to the world. This understanding depends on what questions are asked during the process of enquiry, the substantive issues that are focalised, the substantial concerns that govern the kind of questions and interrogations and how the task of theory are conceptualised. The task of theory sets for itself is particularly crucial in the definitions of the theory. As a theory, Marxism emphasises intellectual and political engagement. Marxian view conceived that the world has to be changed, but it also means that the world cannot be changed unless it is understood.⁶⁰ Understanding involves the demystification of the social world and its mythologies through critiquing the categories that purport to give us understanding of the world.

Marxism is able to change the frontier of debate, because it has very specific notions of the way the social world is constituted. Conventional social science perspectives view the world as divided between spheres of action and knowledge. To the Marxist, the world is a single integrated, interdependent unit. In the words of Lukacs', the essence of Marxism is not any idea of economic base, but the idea of totality. It holds that elements of this social totality cannot be studied in isolation from each other, because one aspect constitutes the other.⁶¹ Comprehensiveness of the Marxian approach and its views that social phenomena cannot be grasped without going to the totality of the whole social process rather than looking from the prism of a particular subject.

Marxian view of the society argues, in a capitalist society, the wants of the individual and his/her ability to satisfy them, depend upon his/her location in the system of production. It is obvious that the owner of the means of production has different needs from the owner of labour power. Both are

⁵⁹Haralambos, n. 1 p. 39.

⁶⁰ Neera Chandoke, "Marxian Political Economy as Method: How Political is Political Economy", *Economic and Political Weekly*, vol.29, no. 4, January 1994, p. 19.

⁶¹ Ibid, p.19.

owners of property, is an apparently equal transaction to satisfy their need, but commonsense inform us that the needs of the capitalist are different because s/he buys labour power to enhance the value of the commodities owned by him/her. On the other hand, the owner of labour power sells his/her labour in order to gain access to the means of life itself.⁶² The difference that the capitalist possesses, access his/her means of subsistence, and thus of his/her own reproduction, the worker does not. Obviously the needs of the two are not independent of their situation but are constituted by that fact.

While observing into the nature of the capitalist system a Marxist scholar remarks:

The central feature of capitalism is that surplus value is extracted by economic means, that exchange value dominates over use value, and that the commodity form governs all transactions. Such a picture of capitalism can be an adequate description of the system, but it is agentless. It does not capture the human dimensions of the system, which has gone through about unprecedented changes in the way individuals live and work. This dimension can only be captured, if we conceptualise capitalism as a coercive social relation resting on exploitation and domination. Such exploitation and domination is made possible because control over the means of production, and control over the ways these means are deployed, is vested in a private class of property owners. Whatever the form it is the private ownership of the capital in the hands of a class - the class of capitalist to the exclusion of the mass of population - which is a central feature of capitalism as a mode of production.⁶³

In fact, this analysis of capitalism provides a profound insight into the internal dynamics of capitalist system.

The core of the Marx's views on class is centred around the notion that the structural specificities of capitalist system created two contending classes, the capitalist who owns the means of production and the labourers, who sell their labour power. The expansion and material prospects of the capitalists depend upon the exploitation of the working class and the freedom and liberation of the labour is depending upon the dissolution of

⁶² Ibid.

⁶³ Desai quoted in Neera Chandoke, "Marxian Political Economy as Method: How Political is Political Economy", *Economic and Political Weekly*, vol. 29, no. 4, January 1994, p. 23.

the capitalist system itself. The contradictory relation between the capitalist and the proletariat is directly depends on the relation between these class to the means of production. In capitalist society, the virtual control of the means of production by the capitalist, which forces the direct producer into a relation of production, their labour power is exploited for the reproduction of the capitalist system itself. Thus, Marx wrote in the volume Three of the Capital:

The specific economic form in which un-paid surplus labour is pumped out of the direct producer, determines the relationship of rulers and ruled, as it grows directly out of production itself and in turn reacts upon it as a determining element, upon this however, it funded the entire formation of economic community, which grows up out of the production-relations themselves, thereby its specific political form. It is always the direct producers –a relation always naturally corresponding to a definite stage in the development of the methods of labour, and thereby its social productivity-which reveals the inner-most secret, the hidden basis of the entire social structure, and with it the political form of the relation of sovereignty and dependence in short, the corresponding specific form of the state.⁶⁴

Marx argues that the process of capitalist development would lead to a situation in which contradictions between handful of capitalist class and the majority of the working class entered into an antagonistic form and it would result to the transformations of proletariat into a political force. Thus the political class struggle is the centre of Marxian theory of class. The polarisations would lead to strengthening of the working class because of its common oppressive conditions. According to the Marxian theory, the reproductions or the transformations of a determinate structure of social relations is the outcome of specific class struggles {political, ideological, and economic} conducted under certain definite conditions.⁶⁵ This view accurately reflects the contradictory class relation prevails in the modern capitalist social structure.

While analysing on the impacts of Capitalist development, Marx and Engles observe in the Manifesto that:

⁶⁴ Karl Marx, *Das Capital*, vol. 3 (London: Lawrence and Wishart, 1972), pp. 791-792.

⁶⁵ Barry Hindess and Paul Hirst, *Pre-Capitalist Mode of Production*, (London: Routledge, 1975), p. 9.

All the preceding classes that got the upper-hand, sought to fortify their already acquired status by subjecting society at large to their conditions of appropriation. The proletarians cannot become the masters of the productive forces of society, except by abolishing their own previous mode of appropriations, and thereby also every other previous mode of appropriations. They have nothing of their own to secure and to fortify, their mission is to destroy all previous securities for and, insurances of, individual property. All the previous historical movement were movement of minorities, or in the interest of minorities. The proletarian movement is the self-conscious, independent movement of the immense majority, in the interest of the immense majority.⁶⁶

Similar view also can be found in the *Capital* volume one, chapter 32 entitled 'The Historical Tendency of the Capitalist Accumulation' where he argues,

Along with the constant decrease in the number of the capitalist magnates...the mass of misery, oppressions, slavery, and degradation grows, but with this there is also grows the revolt of the working class, a class constantly increasing in numbers, and trained, united and organised by the very mechanism of the capitalist process of production. The monopoly of capital becomes a fetter up on the mode of production, which has flourished alongside and under it. The centralisation of the means of production and the socialisation of labour reach a point at which they become incompatible with their capitalist integument. This integument is burst asunder the knell of private property sounds. The expropriators are expropriated.⁶⁷

Thus for Marxism the concept of class is the kernel of Marxian theory of society. However in Marxian view, the proletariat would only attain 'classhood' when they occupy particular place within the structure of property relations through which they form themselves into an organised body in accordance with their historic mission or 'class interests' defined within Marx's theory.⁶⁸ In short the Marxian theory on class is based on the notion that the inherent structural contradictions of the capitalist system and the antagonistic relations between capitalist and the working class is the source of social inequality and social stratification in capitalist society.

⁶⁶ Marx and Engles, n.14, pp. 58-59.

⁶⁷ Karl Marx quoted in Allin Cottrell, *Social Classes in Marxian Theory* (London, 1985), pp. 42-43.

⁶⁸ *Ibid*, p. 43.

Recent Trends in Marxian Class Theory

The traditional Marxian theory of class, which remained unchallenged in almost a centenary, faced series challenges in the late 1960s. Scholars who identify themselves with broader Marxian framework made most of the criticisms against the conventional Marxian theory of class. The first major challenge to the traditional view was from the work of George Lukacs' work entitled *The History and Class Consciousness*,⁶⁹ which was published in late 1920s. Although his work challenged the objectivist and economic reductionist conception of the traditional Marxian approach, its immediate impacts were very marginal. He stressed the importance of subjective elements in the analysis of class. The most important development in Marxism occurred in the 1960s. The single most influential school of western Marxism in recent years has been a theoretical current that derives its principle inspiration from Luis Althusser. The innovations of Althusser himself have been located by Perry Anderson⁷⁰ in the general tendency of Western Marxism toward the 'rupture of political unity between Marxist theory Mass practice' occasioned by both 'the deficit of mass revolutionary practice in the West and the repression of Stalinism.

Althusser developed a structuralist interpretation of Marxism. He uses the term 'Structural Causality' to denote the particular practices, which appear in history, are to be conceived as effects of the structure of the social formation,⁷¹ which is made up of one or more modes of production.⁷² The Althusserian doctrine of structural causality clarifies the conception of determination in the last instances by the economy. The last 'instances' is not a temporal limit, the matrix of the mode of production is always determined by the economic level, but within this matrix other levels may be promoted to dominance.⁷³

⁶⁹ See for details Georg Lukacs, *History and Class Consciousness: Studies in Marxist Dialectics* (London: Merlin Press, 1971).

⁷⁰ Perry Anderson, *Consideration on Western Marxism*, (London: New Left Books, 1976), p. 167; Luis Althusser, *For Mar* (London :New Left Books, 1978).

⁷¹ See for details Luis Althusser and E. Balibar, *Reading Capital*, (London: New Left Books, 1979).

⁷² Cottrell, n. 13, p. 14.

⁷³ Ibid, p. 15.

Althusser designed the concept of structural causality to distance Marxism from the subjectivist conception of history. According to him the subjectivist conception of history treats it as the product of the will and consciousness of historical actors {subjects}, whether there be 'individual' or 'classes'. He first developed conception of structural causality in his attack on what he called 'theoretical humanism' i.e. the interpretation of all Marx's work on the model of the concept alienated human subjectivity contained in his early works, against what he argued was an overemphasis on the role of human subjectivity.⁷⁴ Althusser stressed the simultaneous theoretical and political 'break' between the humanism of young Marx's and mature Marx's scientific investigation into the objective laws governing the development of capitalism.

Nicos Poulantzas can be considered as the most prominent theorist whose contribution to the Marxian theory on classes had enormously influenced on the post second world war Marxian political theorisation on state and class. Poulantzas who was a close disciple and associate of Althusser expanded the latter's view on structural Marxism.

The major theoretical task before the Marxist theorist in the second half of 20th century was to explain and analyse the internal transformation of capitalist society and to explain the middle stratum in society. There were increasing number of scholars especially sociologist, who argued that with the internal transformation of capitalist ownership, which is marked by the rise of joint stock companies along with the upward mobility of the middle strata of the working class, refuted the Marxian theory of polarisation of classes in capitalist society. Poulantzas wrote his major theoretical work, *Political power and social classes* published in 1968, where he expanded the Marxian concept of class. He challenged the 'economic reductionist' approach and by using Althusserian notion of structural causality, introduced 'political' and 'ideological' factors into the concept of class.⁷⁵ He employs two basic dichotomies in his development of theory of social classes in contemporary capitalism - where he made the distinction between productive and unproductive labour, and mental and manual labour. He

⁷⁴ Ibid.

⁷⁵ Nicos Poulantzas, *Political Power and Social Classes*, trans. by Timothy O' Hagan, (London: NLB, 1973), p. 29.

argues that social classes are determined by the global structure of social relations, and within this determination economic relations play a primary role, but political and ideological relations also have relatively autonomous effectiveness.⁷⁶ Thus Poulantzas incorporation of political and ideological factors into the analytical framework class resulted to the radical shift from its earlier economic reductionist, orthodox Marxist interpretation of social class.

Poulantzas, in his second major work entitled *Classes in Contemporary Capitalism*, where he deals with complex of problems associated with the 'middle classes' of capitalism, how is the working class to be delimited. According to Poulantzas the new middle groups created by advancing capitalism constitute major fractions of a genuine class, the peti-bourgeoisie and are labelled by him as new peti-bourgeoisie.⁷⁷ To begin with, they all share certain structural characteristics as opposed either to the working class or the bourgeoisie. They do not own their means of production or those of the society, yet at the same time, they do not engage in labour, which directly produces surplus value. They derive their income from services rendered from surplus value already extracted by capitalism from the productive workers. The new peti-bourgeoisie's position in the technical division of labour does not, in itself establish its class position, beyond this lies its position in the total social division of labour. In the main, new peti-bourgeoisie do intellectual (v/s manual) work. The primary importance of this however lies not in the realm of production but rather in the ideological and political spheres.⁷⁸ Put simply, the new peti-bourgeoisie plays a critical if subaltern, role in the sub-ordination of the working class to capital.

According to Poulantzas' view, the working class is defined by the intersection of productive labour (economic determination) and manual labour (political and ideological determination) and thus the non-proletarian wage workers are to be grouped as a 'new peti-bourgeoisie', by virtue of the

⁷⁶ Ibid, p. 32.

⁷⁷ Nicos Poulantzas, *Classes in Contemporary Capitalism*, (London: NLB, 1975), p. 245; also see for details George Ross, "Marxism and New Middle Class: A French Critique", *Theory and Society*, vol. 3, n. 2, March, 1978, pp. 165-91.

⁷⁸ Cottrell, n.13, p. 69.

effects of their intermediate position with respect to the antagonism between bourgeoisie and proletariat.⁷⁹

Poulantzas challenged the notion that the new wage earning group being increasingly part of the working class and he rather treats them as a new class. According to him the refusal to identify the class situation of the wage earning strata by the Marxist theorist is as an example of an abdication to bourgeoisie stratification theory and is inconsistent with the fundamental Marxist proposition that focalised at the division in to class forms is the frame of reference for every social stratification. The principle that 'classes are the basic group in the historic process' is incompatible with the possibility that other groups exist parallel and external to classes.⁸⁰ Poulantzas argues that thus assimilating new wage earning group into the working class, this view promotes reformist and social democratic tendencies.⁸¹ To identify the interest of the intermediate strata with those of the working class is to distort working class interest, accommodating them to more backward, and less revolutionary elements.

Poulantzas views were criticized and challenged many theorists within Marxist tradition. Erick Olin Wright points out that while Poulantzas maintains that the economic determination of social classes is the primary determination, in practice he lays much more weight on the political and ideological criterion, both in excluding 'mental' productive workers from the working class and establishing the unity of peti-bourgeoisie.⁸² Secondly Wright argues that Poulantzas maintains that even if productive and unproductive labourers are generally distinct, there is as good reasons to believe that unproductive workers by virtue of their unproductive nature alone will have a class interest, which is distinct from that of productive workers.⁸³

Ellen Meiksins Wood criticized the attempt of Poulantzas to separate the mental and manual labourers and argues that 'the class interest of both groups are determined by the fact that they are directly exploited through

⁷⁹ Poulantzas, n.77, p. 199.

⁸⁰ Ibid, p.204.

⁸¹ Ibid.

⁸² Cottrell, n.13, p. 71.

⁸³ Ibid, p. 72.

the sale of their labour power, their interest have to do in the first instance with the terms and conditions of that sale, and in the last with the elimination of the capitalist relation of production altogether, both 'formal' and the 'real' subjection of labour to capital. "The different functions of the workers in the labour process may create division among them, based in some cases on differences in their responsibilities, education, income and so on, but these differences cannot be regarded as class divisions by any standard having to do with relations of production and exploitation and in any case the organisation of production in contemporary capitalism has increasingly tended to homogenise workers in the labour process by subjecting them to the same principles of 'rationalisation' and 'productivity'".⁸⁴ Even with radical changes within the capitalist production processes the fundamental nature of relation between capital and labour remained intact as Meiksins Wood, rightly revealed.

Besides Poulantzas, many sociologists within traditional Marxian frame work challenged the wide spread notion that the process of em-bourgeoisment was occurring, where by increasing number of skilled workers were entering into the middle strata and becoming middle class. In *Labour And Monopoly Capital*, Harry Braverman⁸⁵ examines the changing nature of class in the USA over the last hundred years. He argues that classes are not fixed entities, but rather ongoing process, rich in change, transition and variation. From this point of view, classes in capitalist societies are constantly developing and thus therefore make little sense to attempt to place this population into neatly defined strata at one point of time. He argues that this process is largely directed by changes in the nature of work in capitalist society. The relation of production in capitalist societies is those dominance and subordination of labourers to the capital and workers are subject to the authority of employers and their work is controlled from above.⁸⁶ Braverman sees this as the hallmark of the proletarian condition and from this viewpoint, claims that there has been a progressive proletarianisation of workforce in the USA.

⁸⁴ Ellen Meiksins Wood, "Marxism Without Class Struggle", in Ralph Milliband and John Sabille, (ed.), *Socialist Register: 1982* (London: Merlin Press, 1982), p. 26.

Studies by Westergaard and Resler on post war Britain also found the same trend, occurring in Great Britain. Recently a sociologist argued that there are increasing movements of labourers from middle class position to the proletarian conditions. He argues that what distinguishes the new middle class from the working class is the formers performance of some degree of work of supervision and management, that is the global function of capital.⁸⁷ It is the loss by the new middle class of the work of supervision and management contents of their positions, which constitute the essence of their proletarianisation.

Recent contributions of Erick Oillin Wright, John Romer and Philippe Van-Parijs have a profound impact on current Marxian debate on social classes. Wright, who shares Althusserian structuralist position with Poulantzas and expanded the latter's theory on classes, particularly on middle strata of capitalist societies by introducing the term 'contradictory class location'⁸⁸ to demarcate it from bourgeoisie and proletarian class location. Romer provides an exploitation centred theory' on classes by blending Marxian theory with neo-classical economic theory and game theory.⁸⁹ Parijs tries to incorporate the views of Wright and Romer thereby expanding the class theory to provide an illuminating critical analysis of social relations in contemporary capitalist societies. His work aimed at the radical extension of class theory by incorporating categories like Sex and Race⁹⁰ to the expanded analytical framework of class.

⁸⁵ See for details Harry Braverman, *Labour and Monopoly Capitalism: The Degradation of Work in Twentieth Century* (New York: Monthly Review Press, 1974).

⁸⁶ Haralambos, n.1, p.80.

⁸⁷ Michael, Kelly, "Proletarianisation, "The Division of Labour and The Labour Process", *International Journal of Sociology and Social Policy*, vol. 8, n. 6, 1988, p.53.

⁸⁸ Erick Oillin Wright, "Class Boundaries in Advanced Capitalist Countries", *New Left Review*, n.97, May- June 1976, p.19.

⁸⁹ John. E. Romer, "New Directions in The Marxian Theory of Exploitation and Class", *Politics and Society*, vol. 2, n.3, 1982, p. 259. Also see David. B. Houston, "Romer on Exploitation and Class", *Review of Radical Political Economics*, vol.21, n. 12, 1987, pp. 175- 87.

⁹⁰ Philippe Van Parijs, "A Revolution in Class Theory", *Politics and Society*, vol.15, n.4, 1986- 87, p. 460. Also see for a related view , Harriet Bradley, Breaking the Silence: The Need to Re-articulate Class, *International Journal of Sociology and Social Policy*, vol.19, nos 9-11, 1999, pp.187-215.

Thus by incorporating multiple dimensions of contradictions existing in capitalist societies, besides the principle contradiction between capital and labour, resulted to the extension of Marxian theory of classes from its traditional economic reductionist approach to a more complex, inclusive and dynamic conception of class and thereby preserving it as a most viable analytical tool in studying contemporary capitalist society. The present phase of world history is marked by the unprecedented dominances of capitalist social relations across the globe. It is also marked by virtual hegemony of trans national finance capital in the global capitalist economy. This process is marked by unprecedented accumulation of capital and absolute subjugation of working class to the capitalist relations of production. This process can be found in every capitalist society by which socio-economic disparity emanating from capitalist relation of production left to massive social hierarchies between social classes in the societies. By looking to the process of capitalist development, Miliband observes “the common economic characteristics of advanced capitalism provide the countries concern with a broadly similar economic base. But the ‘economic base’ also helps to bring about and is indeed mainly responsible for bringing about very notable similarities in their social structure and class distribution Thus there is to be found in all these countries a relatively small number of people who own a markedly disproportionate share of personal wealth, and whose income is largely derived from that ownership”.⁹¹ This was general feature capitalist development across the globe.

The process of capitalist development in developing countries result to a situation in which vast majority of the population are pushed to a perpetual poverty and relatively narrow segments of the ruling elite who emerged mainly from the remnants of the feudal past control the entire resources of these societies. Thus the unique nature of the capitalist development was its inherent tendency to promote the interest of the few and the virtual exclusion of the majority. Therefore, class analysis is the most useful analytical tool in understanding the structural characteristics of the capitalist society, which reproduce these inequalities.

⁹¹ Ralph Milliband, n.28, p.15.

The Significance of Class Analysis in Understanding of Social Stratification in Post Soviet Russia

Post-Soviet Russian society has been undergoing a process of massive socio-economic transition since the disintegration of the Soviet Socialist System. This process is marked by the fundamental restructuring of socio-economic relations, which exists in the Soviet system. This process is initiated by the new ruling class in Russia, who aimed at transforming it into a capitalist society and thereby making a radical break from the socialist past. The new ruling class in Russia, who emerged from the various segments of the earlier socialist system attempts to convert it into a liberal market economy. According to Miliband "the dominant tendency is clearly towards the creations of a economy in which most of the means of industrial, financial and commercial activity would be privatised and come under indigenous or foreign...ownership and control, and this is strongly encouraged by Western government, and the International Monetary Fund, the World Bank reactionary foundations and also the private capitalist institutions, strengthened by an array of pro- capitalist advisers".⁹²

The new ruling elite in Russia, embraced the Western sponsored Neo-liberal model as the countries chosen path for its systemic transitions towards liberal market economy. The essence of the Neo-liberal strategy is the complete withdrawals of the state from the economy and the total deregulations of the market forces.⁹³ The irony of the Russian scenario is that the new ruling class is vigorously promoting the capitalist class formations in the country, which the previous socialist system desperately attempted to demolish.

However, the policy of Neo-liberal capitalist development implemented in Russia by the new ruling class, with the assistance of Western countries, had profound impact on Russian society. According to a Russian sociologist "the social structure of contemporary Russian society is marked by extreme

⁹² Ralph Miliband, "What Comes after Communist Regimes?", in R. Milliband and L Panitch, ed. "Communist Regimes; the Aftermath", *Socialist Register* (London: Merlin Press, 1991), p. 376.

⁹³ See for a detailed analysis Peter Gowan, "Neo-liberal Theory and Practice for Eastern Europe", *New Left Review*, n. 213, Sept. 1995, pp. 5- 65.

social instability in the processes occurring both within and among social groups, as well as in individuals self-awareness of their place in the social hierarchy. An active process of erosion of traditional population group is underway; new type of inter-group integration are emerging based on types of property, income, involvement of power, status, and social self-identification".⁹⁴ This new development resulted to a massive social stratification in Russian society.

An important characteristic of Russian society today is its social polarisation, and its stratification in to rich and poor. The first quarter of 1995 the ratio of the per-capita money income of the 10 percent richest to the percent poorest Russian's was about 15.⁹⁵ Thus the Post-Soviet socio-economic transition led a massive polarisation of people on the basis of class, income, gender, social status etc. The Russian economy is virtually controlled by mafias and currency speculators. Commending on the nature of economic transition in post socialist countries, a scholar observed "in these countries production becomes production for money, production for money becomes accumulation of money and of capital and concomitantly consumption becomes consumption of commodities. The necessary concrete manifestation of a value-form determined system is primarily that it is a monetary economy, and only secondarily that it is reproduced by the market mechanisms".⁹⁶ In fact this is mainly due the particular model of neo-liberal policy that practiced in Russia, which hardly provide any space to the real productive investment in the economy.

The process of the capitalist development pushed Russian society into an unprecedented crisis. Besides, increasing social stratification on the basis of class and gender pushed the vast majority of people into poverty. Social instability and insecurity are the dual features the Russian transition. Most of the Russians also lost whatever social development they had achieved during the soviet period. The increasing death rate and rising infant mortality rate are the realities of contemporary Russia.

⁹⁴ Zinaida. T. Golenkoba and others, "The Formation of Civil Society and Social Stratification", *Sociological Research*, vol. 35, n. 2, March- April 1996, p.20.

⁹⁵ Ibid, p.21.

⁹⁶ Michael Williams and Geert Reuten, "After Rectifying Revolution: the Contradictions of the Mixed Economy", *Capital and Class*, n. 49, spring, 1993, p. 84.

In such a conjuncture it is very relevant to analyse the post soviet socio-economic transition in Russia from a class perspective. The fruitfulness of class analysis is that it is able to locate the structural basis of social stratification in Russia. It also enables us to understand the evolving nature of capitalist social formation and its characteristics.

Conclusion

The social classes and resultant social stratification are the distinguishing character of contemporary capitalist societies. Although there were diverse forms of social hierarchies exist in pre-capitalist societies, however, the nature of stratification were quiet distinct from its present form. In capitalist societies the subjugation of direct producers to the capital in the capitalist production process is the main structural basis of social stratification. The concept class acquired in its present form with the writings of Karl Marx. Marx's theorisation of capitalist society resulted in the manifestation of class from its earlier form as a mere descriptive category to an analytical category as well as the frame of reference of social stratification in capitalist society.

Although the concept of 'class' is the most frequently referred category in social research, despite this, there was hardly any unanimous and mutually agreed criterion among social scientist to theorise it. The conventional western views on social stratification are dominated by the two major theoretical trends in sociology. They are the Weberian approach and the Functionalist approach. The common feature of both these approaches is its uncritical perspective on capitalist society. According to Weberian view class are the one among many factors, which contribute to the stratification in society. For the functionalist approach, they neither treat class as major analytical tool nor treat it as a major factor in identifying social stratification in capitalist society.

In short the conventional sociological approaches mainly tend to rationalise the exploitative capitalist social relations and most of the scholars never addressed the structural characteristics of capitalist system which perpetuate this social stratification in capitalist societies.

Within the Marxian framework the views on social classes provided by the classical Marxian scholars received series criticism and challenges. Most prominent among them was one provided by Poulantzas, who offered a serious critique to the economic reductionist approach of the classical Marxian definition of classes and he introduced political and ideological factors in defining classes. Many recent Marxian theorists on social classes try to expand its analytical framework by their attempts to incorporate various other oppressed categories exists in capitalist societies such as race, gender etc.

The process of capitalist development launched in Russia after the disintegration of soviet socialist system had created far-reaching consequences on its social structure. This process radically altered the social relation in Russia and paved the way for the emergence of capitalist class in the country. The immediate impact of this process of capitalist development was the massive crisis of Russian society and it pushed the majority of people in to virtual poverty. The appropriation and accumulation of society's resources by the narrow segments of capitalist class and the miserable and massive erosion of standard of living of the majority of people were the legacy of Russia's one decade of capitalist development.

2 Classes and Social Stratification in Soviet Society

The historic success of the October Revolution led by the alliance of working classes and peasant-masses under the banner of Bolshevik Party led by Vladimir Lenin paved the way for the emergence of the first socialist country in the world. It was inspired by the revolutionary philosophy of Karl Marx and Engels who offered radically different vision of development to exploitative capitalist system. The core of the new vision was based on the view that by abolishing the capitalist relations of production and private ownership of means of production and thereby the nationalisation of the productive forces under dictatorship of proletariat would gradually lead to the erosion of the material basis of class-division in society.

Thus like an author put it, “the heart and soul of Marxism lies in the proposition that history necessarily led to the stage of development at which workers are able organize and conduct the process of production creating a rational just society”.¹ For the reason that the Soviet Union was the first country in which a revolution with the aim of establishing a communist society succeeded, however the theoretical dilemmas in its later historical development had posed challenges and its dramatic disintegration in early 1990s have been central to the Marxian debate on social change since 1917.

The socialist system that emerged after the October Revolution rather than fulfilling emancipatory socialist promises, gradually deformed it and created a new form of oppression and domination over the working class, which were radically different from capitalist societies. The seeds of the degenerating tendencies lie in the Soviet system from its very inception. This is well evident from the prophetic warning offered by Rosa Luxemburg in early 1919 after observing the anti-democratic orientation of the Leninist regime. Luxemburg in her critic to the Soviet system pleaded for the active untrammelled, energetic political life of the broadest masses of the people and she warned the Bolshevik party that “without general elections, without unrestricted freedom of the press, and assembly, without a free struggle of

¹ Michael Gelb, “The Roots of Soviet Industrial Management 1917-41” *Review of Radical Political Economics*, Vol. 1, No.1, July 29, 1981, P.55.

opinions life dies out in every public institution becomes a mere semblance of life in which only the bureaucracy remains as the active element.² In fact the authoritarian tendencies identified by Rosa Luxemburg were strengthened in the years that followed. Those tendencies and the consolidation of power by Stalin and the resultant formation of the ruling class within Soviet system led to the prevalence of wide spread social stratification in the Soviet society.

In the present chapter an attempt is made to trace the roots of new class formations in Soviet society and it also analyse the impact of classes and social stratification in Soviet society. It also analyses the reason behind the degeneration of socialist project before the final disintegration of Soviet Union.

The October Revolution and the Formation of Socialist System in Russia

The Russian bourgeoisie and landlord classes lost power in October 25th 1917. On that day the armed workers together with soldiers and sailors of Petrograd formed the insurrectionary forces of the Revolution led by the Bolshevik Party went into action. Within few hours, all the important public buildings in the capital had fallen into the hands of the revolutionary forces. In the early mornings of October 26, the Winter Palace, seat of the Kerensky's provisional government was occupied.³ On October 25, the Petrograd Soviet had confirmed the removal of the provisional government that had been decreed that morning by the Soviet Military Revolutionary Committee. In the evening, the Second All Russian Congress of Soviets assembled. During the night of October 25-26, the Congress proclaimed the downfall of the provisional government and also declared that the powers of previous Central Executive Committee of the Soviets had expired and itself took power. In the hours that followed the second All Russia Congress of Soviet decided to form a provisional workers and peasants, government, bearing in the name of Council of People's Commissars and made up of the leaders of the Bolshevik Party. The Congress empowered this government to

² Rosa Luxemburg, *The Russian Revolution and Leninism or Marxism* (Ann Arbor: University of Michigan press, 1961), p.71.

³ Charles Bettelheim, *Class Struggles in the USSR: First Period 1917-21* (New York: Monthly Review Press, 1976), P.65.

'start immediate negotiation for a just and democratic peace and adopted the Decree on Land which abolished the landlord's ownership of land'.⁴ This strengthened the social basis of the Bolshevik power and it got transformed into a legitimate source of authority in post revolutionary Russian society.

The historic victory of the Bolshevik Party was not merely an outcome of tactical manipulation of different social forces during the period between February to revolutionary October, but rather it was the culmination of Russian Social Revolutionary Movement which emerged in the second half of 19th century. The socio-economic conditions of the overwhelming majority of people under the authoritarian rule of the *Romanof dynasty* provided the social basis of the Russian revolutionary movement. The unique features of the *Tzarist* dictatorship was the massive gap between the upper layers of the ruling apparatus and remaining vast majority of people, and it converted Russia into one of the most backward regions of Europe.

The fundamental distinction between the Bolshevik Party and all other previous revolutionary movements was the former's negation of the capitalist path and its advocacy for a radically different form of social development based on Marxian philosophy. However, the successful victory of Bolshevik Party to a large extent owes to Lenin and his innovations of Marxism to the concrete realities of Russia. Under his leadership, Bolshevik Party made alliance between numerically less Proletariat and majority of the peasants, which resulted in the ultimate victory of the revolution. Thus the alliance between working class and peasants were the central character of Russian revolution. For this reason, Herbert Marcuse observes, "the formation of Soviet Marxist theory proceeds on the basis of Lenin's interpretation of Marxism without going back to the original Marxian theory. The characteristic features of emerging Leninism i.e. the shift in the revolutionary agent from the class conscious proletariat to the centralized party as the avant-garde of the proletariat and emphasize on the role of the peasantry as an ally of the proletariat under the impact of the sustained strength of capitalism on the imperialist stage".⁵In fact the major factor

⁴ Ibid, P.65.

⁵ Herbert Marcuse, *Soviet Marxism: A Critical Analysis*, (London: Route ledge, 1965), P.40.

behind the successes of the Bolshevik revolution was the ability of the revolutionary movement to formulate strategies in accordance with the concrete realities existed in the Tzarist Russia.

The years immediately after the revolution became the first practical trial for the socialist idea. An intensive search began for concrete ways to organise society. This is illustrated, first of all by the work of Lenin, starting from his well-known article '*The Immediate Task of the Soviet Government*'.⁶ The expectations and promises of the new regime and concrete realities it encountered immediately after the revolution, resulted in a serious dilemma to the Bolshevik Party.

The post-revolutionary expectations of the people and immediate radical changes in society were evident from the observations of John Reed who witnessed the whole events. According to him,

For the first few months of the new regime, in spite of the confusion incident upon a great revolution, when one hundred and sixty millions of the worlds' most oppressed people suddenly achieved liberty. But the 'honeymoon' was short. The propertied classes wanted a mere political revolution, which would merely take the power from the Tzar and give it to them...on the other hand, the masses of the people wanted real industrial and agrarian democracy.⁷

He further opines that

It is still fashionable after the whole year of the Soviet government, to speak of the Bolshevik insurrection as an 'adventure'. Adventure, it was, and one of the most marvellous mankind ever embarked upon, sweeping into history at the head of the toiling masses, and staking everything on their vast and simple desires. Already the machinery had been set up by which land of the great estates could be distributed among peasants. The factory shop committees and the trade unions were there to put into operation workers' control of industry. In every village, town, city, district and province there were Soviet of workers and soldiers, and peasants deputies prepared to assume the task of local administration.⁸

⁶ Michael Gorbachev, *The Socialist Idea and Revolutionary Perestroika*, (Moscow: Novosti Press, 1989), p.14.

⁷ Jon Reed, *Ten Days that Shook the World*, (Moscow: Progresses Publishers, 1923), P.12.

⁸ Ibid, P.15.

Immediately after the revolution Leninist regime made great leap forward in its pre-revolutionary ideals. However the changes in ownerships and introduction of state control in itself hardly guaranteed the success the post revolutionary transition towards socialism.

The historic role of the dictatorship of the proletariat is not only to change the forms of ownership (and this is in a much more complex and protracted task) but also to transform the social processes of appropriation and thereby destroy the old production relation and build a new one, thus ensuring the transition from capitalist mode of production to the communist mode. The transition to socialism means this transition alone enables the bourgeois social relations and the bourgeoisie as a class to be eliminated.⁹ The early years of Bolshevik rule faced serious challenges both domestic and external class enemies. In his Report at the second All Russia Trade Union Congress (January 10, 1919), Lenin said,

The workers were never separated by a Great Wall of China from the old society. And they have preserved a good deal of the traditional mentality of capitalist society. The workers are building a new society without themselves having become a new people, or cleansed off the filth of the old world, they are still standing up to their knees in that filth. We can only dream of cleaning the filth away. It would be utterly Utopian to think this could be done all at once. It would be so Utopian that in practice it would only postpone socialist kingdom to come. No, that is not the way we intended to build socialism. We are building while still standing on the soil of capitalist society, combating all those weakness and shortcomings which also affect the working people and which tend to drag the proletariat down. There are many old separatist habit and customs of the small holder in the struggle, and we still feel the effects old maxim 'every man for himself, and the devil take the hindmost.'¹⁰

In fact the radical transformations of the social structure in a post revolutionary society's requires the continuation and even further extension of the revolutionary politics in all the aspects of the social life.

⁹ Charles Bettelheim, n. 3, p.22.

¹⁰ Lenin cited in Paul M. Sweezy, Post Revolutionary society, (New York: Monthly Review Press, 1980), P. 52.

Mao also expressed a similar view, almost three decades after Lenin's formulation, even more explicitly when he wrote, as the people's liberation army was about to win its final victories in 1949.

To win countrywide victory is only the first step in a long march of ten thousand *li*. Even if this step is worthy of pride, it is comparatively tiny, what will be more worthy of pride is yet to come. After several decades, the victory of the Chinese people's democratic revolution, viewed in retrospect, will seem like only a brief prologue in long drama. A drama begins with a prologue, but the prologue is not the drama. The Chinese revolution is great but the road after the revolution will be longer, the work greater and more arduous.¹¹

The massive set back and failure of the post revolutionary regimes substantiate the views put forward by Lenin and Mao. Looking in retrospect it was very clear that the failure of the successive regimes to move further in the revolutionary path which resulted in the massive social stratification and the consecutive set back of the socialist project.

Analysing from the point of view of social stratification, the October revolution was intended to create a condition for a just, equal and classless society. In place of a system of stratification determined by class relations and by the forces of the market, it was thought that social relations would be determined by the ideology and goals of the communist party.¹² But in reality in Soviet society similar to the capitalist west, one's social status and role in the relation of production ultimately determined the latter's class position in society.

After the revolution the Bolsheviks' main concern was to abolish the ownership relations on which capitalism rested. Nationalisation of property and the seizure of land and factories helped to destroy the old possessing classes and the middle strata associated with them. However, the immediate emancipatory promise of the revolution was gradually replaced due to the requirements of the sustainability of the system. According to Earnest Mandel,

¹¹ Mao Tse-tung, *Selected Works*, vol: 4 (Beijing: Foreign Language Pres, 1967), p.314.

¹² David Lane, *Soviet Economy and Society* (New York: New York University Press, 1985), P.145.

The historic possibility of the socialist October revolution can only be correctly estimated on an international scale. That revolution was historically necessary because the world had been "ripe" for socialist revolution since the height of the imperialist age and because of the continuance of the rule of the possessing class in Russia would have meant the continuance of its integration into the international imperialist system. However the forces of production in Russia were not sufficiently developed at the national level to make possible the development of a "mature" transitional society between capitalism and socialism, i.e. one in which production is controlled by the associated producers. The isolation of the October revolution in an economically underdeveloped country (with the resulting compulsion to 'primitive socialist accumulation') thereby produced a whole series of distortions from a more mature model of transitional society.¹³

It was undisputable that, the under developed nature of the Russian society along with the complete failure of the revolution in western capitalist countries to a large extent influenced the nature of the post revolutionary change in Russia. However many western Marxist analysis of Russian revolution based on a mechanistic and euro-centric interpretations of Marxism which hardly took in to account the revolutionary potentialities of the peasant masses who played a crucial role in Russian revolution.

Despite the nationalisation of means of production before and during the new economic policy, private ownership and private trade continued. In market terms, separate classes still existed: the proletariat and a property owning class particularly among the peasantry.¹⁴ The task of the new Soviet state then was to change this class system into a classless one.

New Economic Policy and consolidation of Soviet Power

With the end of civil war, the Bolshevik regime was able to relax many of its centralised control over the economy. A limited restoration of the market relations in the countryside and in the small-scale industry went along with greater autonomy for state-run enterprises and middle level organisations such as the trusts. This new programme was known as the new economic policy (NEP). It remained in force from 1921 until the initiation of the first

¹³ Earnest Mandel, "Ten Theses of the Social and Economic Laws Governin.g the Society Transitional Between Capitalism and Socialism", *Critique*, vol. 3, no. 3 Autumn 1974, P.6.

¹⁴ David Lane, n. 12 p.145.

Five-year plan in 1928. Under NEP, the state's policy was to control the 'commanding heights' of the economy such as heavy industry, banking, and foreign trade leaving the rest of industry and agriculture in the market control. Though the greatest number of manufacturing enterprises were in the private hands, in this period, the overwhelming bulk of the employed working class worked in state industry.¹⁵ This strategy made a crucial role in strengthening Bolshevik power and restoring order in society. However looking from the original goal of the revolution it was the first major shift towards a class society.

However the route of NEP and Stalinist Policy of forceful industrialisation rested in the outlook of Bolsheviks since the revolution. According to Bolshevik policy, socialism presupposes capitalism, namely with a high degree of industrialisation, a high productivity of labour and a highly developed, skilled and disciplined labour force. Without the achievement of a fully industrialised and rationalised economy there can be no socialism, no distribution of social product according to the individual needs and faculties. In a backward country, industrialisation has priority over socialisation that is distribution over production and distribution according to individual needs.¹⁶ NEP was based on this principle.

At the meeting of the All Russian Central executive Committee in April, 1918 in his polemic against the 'the left economist' who foresaw the road to state capitalism, Lenin declared that "in reality, state capitalism would be a step forward for us if we were capable of state capitalism in Russia within in short time, this would be a victory ... I said that state capitalism would be our saviour. If we could have it in Russia then the transition to full socialism would be easy and certain. For state capitalism is a system of centralisation, integration, control and socialisation. And this is precisely what we lack".¹⁷ Clearly Lenin believed that Russia did not have the necessary capitalist development.

For the requirements of industrialisation the Bolshevik regime had reintroduced many elements of the capitalist labour process. After the

¹⁵ Michael Gelb, n.1 p.59.

¹⁶ Herbert Marcuse, n.5 pp. 43-44.

¹⁷ Lenin cited in Herbert Marcuse, n.5 p.44.

elimination of worker's self-management, in 1917 and 1918, the Bolsheviks imposed strict hierarchical forms of industrial organisation on the workers. Trotsky and other leading parties and state officials promoted the concept of militarisation of labour; conscription and the use of labour armies came to characterise many branches of the Soviet war economy. In the factory, stern discipline was enforced and the regime made use of Taylor's techniques of management, which was first, initiated and practiced widely in the American corporations.¹⁸ This was clearly reflected in Soviet society, which was marked by complete control and discipline in the factory and it imposed many constraints on the political activities of the working class outside the framework of the party. This also witnessed the increased subordination and dependence of the workers to the managers and other managerial elites.

In 1918, Lenin has been criticised by members of the party's left wing for promoting authoritarian managerial practices. Lenin's response was not to apologise but to generalise autocracy into universal industrial principle and he argues; "any large-scale machine industry - and this is precisely material productive source and basis of socialism- calls for the unconditional and strict unity of will which directs the simultaneous work of hundreds and thousands and tens of thousands of people. Unqualified submission to a single will is unconditionally necessary for the success of the process of labour organised on the pattern of large scale machine industry."¹⁹ In fact looking from the early period of the Soviet regime especially in the context of the over all backwardness of Russia, it had been a necessary option. But the nature of the relation emanating from such relations of production clearly tend to oriented in individualistic and capitalist values.

The period of war communism saw the emergence of a managerial system that was both elitist and authoritarian. In spite of the nationalisation and many other radical measures it was explicitly, clear that the chasm between revolutionary politics of the Bolshevik party and its actual practices were shaped well before the introduction of NEP. If the civil war period had been a time of extreme austerity for the new regime, the relaxation after 1921

¹⁸ Michael Gelb, n.1 p.57.

¹⁹ E. H. Carr, *The Bolshevik Revolution: 1917-1923*, vol.2 (Harmonds worth: Pelican Books, 1966), p.191.

allowed the Bolsheviks to begin to create an extensive administrative structure that could coordinate the governance and the economic development of the Soviet Union. In the words of E. H. Carr, “the comparatively small group of specialists of the days of war communism now swelled into an army of many thousands of former members of administrative, industrial, mercantile or professional classes who made their peace, some grudgingly, some whole-heartedly, with the new order and worked as Soviet officials as ‘red managers’ in economic organisations and institutions, as specialists in innumerable technical posts in industry and in administration.”²⁰ In fact in the absence of the legitimate public space to articulate the concerns of the proletariat along with the dominance of the party elites and bureaucrats in the system resulted in the alienation of the working class from the Soviet system.

The Taylor’s organisational theory borrowed by the Bolshevik regime from USA had a profound impact on shaping the industrial relations in Soviet Union. The main thrust of Taylor’s organisational theory was to shift power within the factory towards mental labour, which in turn was to be enclosed in the planning department, separates from manual process, which were to be reduced to the mere execution of the directives originating in the planning department. Taylor conceived this as the neutral and objective arbiter between the workers and the bosses, more precisely the objective system of scientific management itself, put into place by the engineers was to fulfil that function.²¹ The Soviet saw them as a scientific solution to both individualisation and social stratification.

The census of 1926 returned 47,988 persons as managing personnel in factory and industry and 81,241 as engineering-technical personnel. The latter group not only included engineers and designers, but technicians and foremen as well. It is difficult to say exactly what degree of power the different categories of specialists had at the factory level. Of course managers and foreman had powers to direct workers but while some

²⁰ E. H. Carr, *The Interregnum: 1923-1924*, (London: Macmillan and co. Ltd, 1960), p.116.

²¹ Reinhart Kossler and Maimmo Muchic, “American Dreams and the Soviet Realities: Socialism Taylorism- A Reply to Chris Nyland”, *Capital and Class*, No. 40, spring, 1990, p.65.

specialists did have power over workers, such as chief engineers of the factory's shops, others such as the technicians in the factory's design bureau's had no such powers.²² What is clear, however, is that the technical specialists shared the class privileges and status of the managerial specialists

By mid twenties, after Lenin's death, the policy of wage differentiation has become institutionalised. Between 1925 and 1929 salaries of engineering and technical personnel in factories were almost twice those of workers. Though the disparity narrowed slightly during these years - while those of managers and directors ranged from three to five times those of workers. Salaries for certain personnel in the middle management, i.e. in state economic agencies above the factory level could be significantly higher still.²³ This was a new form of social stratification. It also marked the institutionalisation of social stratification in soviet society.

According to Paul M. Sweezy, "It was not only in the state apparatus that bourgeois relations and bourgeois attitudes continued to prevail after the October revolution. This is obvious in the case of agriculture where the revolution and later, the new economic policy established and strengthened a regime of small peasant ownership which in turn set the stage for a characteristic capitalist accumulation process and the flourishing of a class of rich peasant or *Kulaks*. No less important was the maintenance of essentially capitalist relations in industry, transportation and finance i.e. the branches of the economy were transferred to state ownership".²⁴ In short, the inability of the Bolshevik party to create an alternative social relation through the politicisation of the vast majority of the working class and peasant masses led to the increased social stratification in Soviet society.

Thus it is necessary to insist that what is crucial is not the form of property ownership but the real relations among the groups and individual involved in the process of production and distribution. Public ownership opens the way and is a necessary pre-requisite to the transformation of these relations.

²² Michael Gelb, n. 1, p.58.

²³ E. H. Carr and R.W. Davies, *The Foundation of a Planned Economy: 1926-1929*, (Haemoundworth: Penguin Books, 1974), pp .640-641.

²⁴ Paul M.Sweezy, n.10 p .75,

But taken by itself it neither constitutes nor guarantees such a transformation, which can come about only as the result of a long and difficult struggle. In the Soviet Union not only has this struggle not been carried through, it was never even attempted.²⁵ This was Sweezy's criticism, which appears as an accurate assessment.

Charles Bettelheim also expressed a similar view, "the principles of the absolute authority of the directors, of the privileged role of experts and specialists, and of the need to stress bonuses and material rewards are not confined to current management practice in the Soviet Union. These principles were implemented in Russia under the difficult conditions that prevailed after the October revolution, especially during the period of war Communism. They were maintained under the new economic policy, and received a strong impetus during the period of rapid industrialisation that followed in the wake of the first five year plan."²⁶ One of the most serious failure of the Soviet regime after the revolution was its lack of interest in launching a broad political mass movement, which would have been necessary for countering the increased penetration of individualistic values in Soviet society.

Thus a common feature of NEP period was the increasing gap between the revolutionary promises of the Bolshevik party and the official policy it practiced. The nascent socialist regime even provided legitimacy to the new forms of privileges and prosperity, which emerged in the period. Although by implementing NEP, the new regime was able to consolidate its power in the country even though various dilemmas confronted by the new system was un-addressed. The marked features of those years were the gradual retreat of the post revolutionary regime from its emancipatory priorities. According to Harry Magdoff, during the heyday of revolutionary fervour the ideal of placing the common good above private interest proliferates. But the weight of bourgeoisie and earlier cultures weights heavily as a countervailing force, especially when it comes to coping with day-to-day problems in difficult times. Moreover, pragmatic pressures that arise in the drive to industrialise

²⁵ *ibid*, P. 75.

²⁶ Charles Bettelheim, *Cultural Revolution and Industrial Organisation in China: Changes in Management and the division of Labour*, (New York: Monthly Review Press, 1974), p. 73.

tend to encourage reliance on the bourgeois cultural heritage as a good. In the absence of adequate vigilance and institutional safeguards, opportunism and careerism creep in and with them corruption and retention of the spirit of individual competitiveness.²⁷ The issues identified by Magdoff had made profound impacts in the de-generation of the Soviet system and its succeeding disintegration.

In a post revolutionary society, moving to the direction of socialism the real progress depends on the nature of revolutionary practises and mass struggle, which in turn calls for social conditions that encourage and provide room for involvement of the people. The repressive practices of the post revolutionary societies were surely obstacles to the initiatives by the masses to struggle against corruption of socialist ideals.²⁸ This tendency was reached its zenith in the early 1930s, when the Bolsheviks regime initiated its vigorous campaign for industrialisation. The strategy of Soviet regime in the early 1930s that the policy of rapid industrialisation which had a profound impact on the very nature of the Soviet state and widening social stratification between different groups of people within socialist system.

The Contradictions of Soviet Industrialisation

Throughout the first decades of Bolshevik regime there were intense debate within ruling party between various fractions on the question of possible strategy for the socialist transformation in Russia. However, the common feature of these debates was an increasing consensus within the regime towards the centrality of technocracy and large-scale industrialisation process. With the consolidation of power, Stalin opted for rapid industrialisation regardless of the cost. He justified this choice by pointing out that since the Russian revolution hardly sparked any other revolution as was hoped, the USSR would have to build socialism in one country, at the same time defend itself, from the capitalist who encircled it. Since he could not count on much foreign aid from the hostile outside world, the soviet leader concluded that the only option viable was the immediate

²⁷ Harry Magdoff, "Is There Lessons To Be Learned?" *Monthly Review*, Vol.42, No.9, Feb. 1990, p.6.

²⁸ *ibid* p.7.

industrialisation based on internal resources. Central planning and control fostered the imposition of this *view* on the entire system and also facilitated its implementation.²⁹

The following policies formulated by the Stalinist regime acted as the guiding dogma for the industrialisation process. They are “a system of priorities implemented through the central planning and control of society. A high rate of investment in fixed capital, rapid growth of the labour force in all levels of education and structural change from agriculture to industry etc. were the major priorities.”³⁰ Although the strategy adopted by the Stalinist leadership succeeded in transforming Soviet Union into a mighty industrial society but it also created a culture and values which were against the basic norms of the Soviet society,

Soviet Marxist viewed the development of Soviet society from socialism to communism was to take place as the dialectical process of unfolding internal and external contradictions. The internal contradictions can be solved rationally without ‘explosion’ on the basis of the socialist economy under the control and directions of the Soviet state. The fundamental internal contradictions, which provide the motor power for the transition to Communism, were that between the constantly growing productive forces and the lagging relation of production.³¹ Soviet regime opted for the rational and controlled development of productive forces and thereby makes a gradual and administrative transition to communism.

The distinguishing features of the Stalinist industrialisation strategy were the complete nationalisation of means of production and entire land in the country brought under collectivisation. Thus in the legal sense private property was completely abolished. The methods employed to gain the control especially in the countryside through the force and to maintain it, were often inhuman and violent and this was certainly against the norms of a socialist system. Millions suffered and died especially in the violent years of the 1930s when terror seemed to be the rule of the days.

²⁹Roger Skurski, “ Socialism and the Consumer in the USSR”, *Review of Radical Political Economics*, vol. 13, no. 1, July 29, 1981, p-26.

³⁰ Stanley Cohen cited in *Ibid.* , P-25.

³¹ Herbert Marcuse, n.5 p.80.

According to David Lane “the proletariat was in theory, the political base of the new order. To safeguard the revolution the Bolshevik thought it necessary that the proletariat act initially as the ruling class. During the period up to 1930, the official definition of soviet society was that of ‘the dictatorship of the proletariat’. From the communist view point, the proletariat consist of workers, landless peasants, and employees”³² But in reality proletariat hardly possessed any role in the policy formulations of the Soviet system.

Social hierarchies and stratifications that emerged gradually after the revolution were strengthened and legitimised by the Stalinist rationality of industrialisation. Until the time of Stalin’s leadership the soviet Bolsheviks gave priority to the political task of maintaining the alliance between working class and peasants whom they thought would ensure the dissolution of the capital class. Within the context, they tried to minimise other social differences. They opened up higher education to the children of previously deprived strata, they improved the position of women, and they tried to reduce wage differentials.³³ The old class relation was radically altered.

Under Stalin, however, the subscription to egalitarian goals was replaced by the legitimisation of social, political and economic inequalities under socialism. “Only under full communism”, Stalin argued, “would individuals receive according to needs? Under socialism wages must be paid according to work performed. The Marxist formula of socialism stated from each according to his ability, to each according to his work”.³⁴ The Stalinist period also witnessed the series of distortions of Marxian theory in accordance with the requirements of the Soviet system. This was also due to the fact that since the Soviet system adopted Marxism as its official ideology and guide towards socialist transition which forced Stalin and his successors to provide their own interpretations of Marxism in order to get legitimacy for various policies they formulated.

³² David Lane, n.12 p-145.

³³ Ibid, p.146.

³⁴ J. V. Stalin, ‘Talk With Emil Ludwig’, *Collected works*, Vol: 13, (Moscow: progress Publishers, 1955), p.120.

In 1932 in an interview with Emil Ludwig, Stalin made clear his views on egalitarianism. He argued that

The kind of socialism under which everybody would get the same pay as equal quantity of meat and an equal quantity of bread, would wear the same clothes and receive the same quantities- such a socialism is unknown to Marxism. Egalitarianism owes its origin to the individual peasant type of mentality and psychology of share and share alike, the psychology of primitive communism. Egalitarianism has nothing in common with Marxian socialism. Only people who are unacquainted with Marxism can have the primitive notion that the Russian Bolshevik want to pool all wealth and thus share it out equally. That is the notion of people who have nothing in common with Marxism.³⁵

In fact hardly any Marxian scholars would disagree with the formulation of Stalin on the question of social stratification in the initial years of transition. However hardly anyone would support the view that social stratification was ineradicable and inevitable in a matured socialist society.

In accordance with Stalin's view, a steeper gradation between skills and occupations was introduced and wage ratios increased between the lowest and highest paid.³⁶ Stalin's immediate justification for the change was the need to reduce labour mobility and to introduce incentives for the unskilled to become skilled, a policy vindicated, at least in part, by the most authoritative western writer on this subject.

Commenting on these development Bettelheim observed that, "the capitalist revolution which developed in Russia (Stalinist revolution) tended to eliminate the pre-capitalist forms of production, in particular the small-scale commercial production". But until 1939 most of the Bolshevik leaders envisaged a progressive and 'peaceful' elimination of these types of production. The Stalinist revolution abandoned this prospect. Relaying exclusively one part of Bolshevism's complex and contradictory concepts, it strove for the development of the most undiluted forms of capitalist production, for the mostly radical separation of the direct producers from the means of production and for the destruction of the forms of consciousness

³⁵ Ibid, P.120-121.

³⁶David Lane, n.12 p.142.

and organisation, which would allow the producers to resist exploitation.³⁷ Bethlehem's observation rightly reflected the severe set back of the socialist project in the Stalinist era.

The basic feature of Stalinist revolution was that it imposed on the Russian people an exploitative relationship, which enabled an exceptionally high rate of accumulation to be achieved over a certain period, at the cost of unprecedented oppression.³⁸ The immediate impact of the Stalinist policy was the total alienation of the working class and peasant masses from the party and the complete depoliticisation of the very class whose dictatorship the ruling regime tried to impose.

Stalinist industrialisation led to the breakdown of the working class as a collective historical force (a class for itself) and to its eventual atomisation. In the course of this process, the work force appropriated considerable control over the individual labour process so that workers through their behaviour at the point of production became a major cause of the Soviet elites, imperfect control over the generation, appropriation and disposal of the surplus product. The shop floor relations that thus emerged were neither capitalist nor socialist in character, but specific to a historically unique and perpetually crisis-ridden system of production.³⁹ Initial years of the industrialisation, the bureaucratic strata hardly emerged as homogeneous social force. However in the years followed witnessed realignment of these groups in different Soviet institutions into a new privileged class and it resulted the gradual defeats of the socialist ideals.

The Soviet system succeeded in achieving a major forward leap in industrialisation without the aid of a capitalist economy, and at the same time fulfilling a number of significant social goals including the elimination of unemployment. But it also produced its own contradictions; a bureaucratic structure which operated at a far remove from the masses and was so rigid and entrenched that it could sabotage economic and political reforms designed at the top to improve the efficiency of production and

³⁷Charles Bettelheim, *Class struggles in the USSR: Third Period 1930 1941, Part .1: The Dominated*, (Madras: T.R. Publications, 1994), p.xxxiii.

³⁸ Ibid, p.xxxiii.

³⁹ Donald Filtzer, *Soviet Workers and Stalinist Industrialisation*, (London: Verso Press, 1986), p.1.

distribution. This resulted in wide difference in living conditions among classes, republics, and regions within the Soviet Union and also division between upper and middle social strata. The upper social strata were militantly striving for higher status and a way of life similar to that enjoyed by the capitalist class in the western society.⁴⁰ Thus a new bureaucratic class was emerging, that appeared similar to a new ruling class.

With the consolidation of Stalinist leadership there emerged a massive gap between the elites and bureaucrats who control and possess power and the working classes who were forced to follow the guideline set by the former. In his critique of the Soviet Marxism Herbert Marcuse wrote, "nationalisation, the abolition of private property in the means of production does not by itself constitute an essential distinction as long as production is centralised and controlled over and above the population without initiative and control from below by the immediate producers. Nationalisation is but a technological political device for increasing their productivity of labour, for accelerating the development of the productive forces and for their control from above (central planning) a change in the mode of domination, streamlining of domination rather than prerequisite for its abolition."⁴¹ Marcuse made this observation in the late 1950s, which had clearly reflected the internal contradictions existed in the Soviet society. It also revealed the class nature of the technology, which had hardly remained as a neutral tool, in the production processes and inherently possess a tendency of a domination and subordination of the work force to its internal logic.

He further argues,

The soviet system seems to be another example of a late comer skipping several developmental stages after a long period protracted backwardness and joining and running ruthlessly ahead of a general trend in late industrial society. The skipped stages are those of enlightened absolutism, and liberalism of free competitive enterprise, of matured middleclass culture with its individualistic and humanitarian ideologies. The effort to catch up in record time and from a state of backwardness, with the level of the advanced industrial countries led to the construction and utilisation of large productive apparatus within the system of domination and regimentation

⁴⁰ Harry Magdoff, n.26 p.3.

⁴¹ Herbert Marcuse, n.5 pp .81-82.

incompatible with individualistic rationality and liberalism. Here lies the roots of the relentless struggle of Soviet Marxism against the liberal and idealistic elements of bourgeois ideologies, the struggle reflects the societal organisation of the productive forces as instruments of control rather than liberation".⁴²

This was not only the failure of the Soviet system but the Marxian theory as well in formulating an alternative to the capitalist strategy of development based on large-scale industrialisation. It was not only creating a culture, which subordinate the wage labourer to the logic of capital and technology, but it also had a havoc impacts on the natural environment. In such a context it is unsustainable and ethically unacceptable to any genuine alternative to the capitalist system.

Due to the retreat of the Soviet regime's from its earlier revolutionary programmes, the inequality between occupational strata of other industrial societies became also a characteristic of Soviet Russia. Soviet ruling elites considered that the economic developments depended upon the recruitment and training of people in skilled, clerical and administrative positions and a system of differential social evaluation is therefore a necessary condition for rapid industrialisation.⁴³ This resulted to the legitimisation of social stratification in Soviet society.

Cornelius Castoriadis argues:

The relations of production in Soviet Union are antagonistic one. They divided and opposed managers and operatives. They imply the exploitation of producers, workers, peasants and service employees and their enslavement in a production process that completely escape their control. Nationalisation of the means of production and bureaucratic planning do not entail in the last the abolition of exploitation and have nothing to do with socialism. The elimination of private property leaves entirely open the question concerning who effectively controls the means of production and production itself.⁴⁴

⁴² Ibid. , P-82-3.

⁴³David Lane, n. 12. p. 147.

⁴⁴ Cornelius Castoriadis, "The Social Regime in Russia", *Telos*, no. 38, winter, 1978, pp.32-33.

Thus the way in which Soviet system developed and functioned revealed the internal contradictions emerged in the Soviet society between various groups of people.

In order to attract workers to the industries, which are essential for the industrialisation effort, wages were increased. In 1934 the highest wages were paid in engineering followed by the power industry, ferrous metallurgy, oil, iron ore and coal industries. While it is sometimes thought that Stalin personally created a system of severe social inequality, it is more accurate to view the changes in social stratification and the forces to which determined by the demands of industrialisation and forces to which they give rise.⁴⁵ The underdeveloped nature of the Soviet economy to a large extent forced the system to adopt a strategy that relies on specialists and to create various incentives that intended to promote efficiency in production.

However the Soviet labour system under Stalin was not solely based on financial incentives to stimulate supply. Coercion was also used. Labour camps were organised in the east and north and approximately five million people laboured on construction projects.⁴⁶ One of the characteristic feature of the early thirties is that on the one hand there is increasing gap between working class and ruling elites and on the other hand the institutionalisation of wage differentials and the degeneration of working class as an organised social entity. Bob Arnot was of the view that this is due to a combination of elements. Firstly coercion and overt repression coupled within the punitive use of food and consumer goods shortages as a mechanism of punishment. Secondly, the changing composition of the work force provided an opportunity to break the tradition of collective action, particularly against the background of continuing individualisation of the incentive system. Thirdly this was taking place against the backdrop of considerable shortages of consumer goods and a dramatic reduction in living standards caused by the famine. Finally, a sizable minority of the work force had the possibility of mobility into the bureaucracy and to the elite.⁴⁷ Increasing differentiation

⁴⁵ David Lane, n. 12. p.148

⁴⁶ S. Wheatcroft, "On Assessing the Size of Forced Concentration Camps Labour in the Soviet Union: 1929-56", *Soviet Studies*, vol. 33, no. 2, 1981, p. 286.

⁴⁷ Bob Arnot. , "The Contradiction of Soviet Industrialisation", *Capital and Class*, winter 1987, no. 33, p. 161.

and rising inequality acted to demoralise the Soviet workforce and channelled their response into individualised action.

Nature of the Soviet state

In 1936 the USSR proclaimed itself as a socialist society. In Soviet Marxist terms this implied that no antagonistic class relationship existed. In nationalising the land and large factories the owners of the means of production had been expropriated and Stalin believed that the crash industrialisation programme had created a material basis of socialist system. In 1936 the USSR constitution defined three friendly cooperative groups each with full of civil rights- the workers, the intelligentsia and the collective farm peasantry. The first two groups are the main subdivisions of the working class, which is seemed in a firm friendly union with the collective farm peasantry. Two social classes, therefore, existed differentiated by their relationship to the means of production. Though the government owned the means of production of collective farms, the product of the collective farms belong to the collective farmers; they are sold to the government and the proceeds of the sales were distributed by the collective farms.⁴⁸ In macro level the Soviet state adopted many policies which were intended to reduce social stratification in society. However at micro level it miserably failed in creating an alternative culture and values in accordance with the changes in at macro level.

Despite this claim of the soviet ruling elite, many scholars had raised serious objections on characterising Soviet system as a socialist one. Among the Marxist scholars there were diverse views prevailing on the question of characterisation of the Russian state. According to a radical French scholar who characterise the Soviet regime as

Part of the socio-historical universe of capitalism because of the magma of the social imaginary significations that animate its institutions and are realised through it is the very thing that is brought about in history by capitalism. The core of this magma can be described as the unlimited expansion of 'rational' mastery. It is of course, a question of a mastery that is mostly illusory and of an abstract pseudo -'rationality'. This imaginary signification constitute; the central juncture of ideas

⁴⁸ David Lane, n. 12. p. 148.

that become effective forces and processes dominating the functioning and development of capitalism: the unlimited expansion of the productive forces, the obsessive preoccupation with 'development', pseudo rational 'technical progress; production and the 'economy', 'rationalisation' and control of all activities; the increasingly elaborate division of labour, universal quantification, calculation and 'planning', organisation as an end in itself etc. Its correlatives are the institutional forms of enterprise, the bureaucratic - hierarchical Apparatus, the modern State and Party etc.⁴⁹

Thus the critic made by Cornelius Castoriadis reflects the hegemonic and mutually inclusive role played by the various institutions referred above, in society, which were the product of the modernity. Although various liberating values contributed by the modernity had no parallels in history, but it also created institutions and values, which were hegemonic and inhuman in its nature and orientation and creating challenges to the planetary survival.

Critical Marxism takes as its point of departure the more traditional view that the Soviet Union has transcended capitalism as a mode of production and has entered into the first stage of communism. David Lane had identified four basic components of soviet ideology of socialism. They are, firstly the class relations to the means of production have socialised following the seizure of power by the Bolsheviks and the nationalisation of the means of production. Secondly the state planning has replaced the bourgeois market as a method of coordination of the economy and allocation of resources, competitions between capitalists has been superseded and labour has lost its character as community. Thirdly, following the major socialist industrialisation process the level of productive forces was significant to define the economy as being at socialist stage. And fourthly, given the harmony of the communist party and its control of the major institutional systems, the superstructure is socialist and the remaining incongruities of left-overs from other mode of production will gradually disappear with the maturation of the soviet society.⁵⁰ However many of these formulation were hardly materialised in actual reality. The concrete realities

⁴⁹ Cornelius Castoriadis, n. 44, p. 46.

⁵⁰ David Lane, n. 12. p. 83-4.

of the internal functioning of the system revealed that a reverse trend was dominated in the system.

Within the broader Marxian framework there were serious debates between scholars on the question of the nature and character of soviet socialist system and state. Western scholars unanimously share the view that exploitation and conflict of one form or another continue in Soviet type of states, and that the revolutions have not ushered in a new socialist type of society. While one of the general points they are agreed, there is much dissent as to how such conflict or exploitation should be generalised in a Marxist paradigm of society.⁵¹

The first major critique of the Soviet system was offered by the Milovan Djilas⁵² who himself was a former leading functionary of the Yugoslavian communist party. He argues that those in positions of authority in communist societies used power to further their own interest. He claims that a new ruling class in communist societies has replaced the bourgeoisie of the west. Ownership is nothing other than the right for profit and control. If one defines class benefits by these rights, the communist states have seen in the final analysis, the origin of a new form of ownership or a new ruling and exploiting class. The new class may be set to be made up of those who have special privileges and economic preferences because of the administrative monopoly they hold. Membership in the new party-class or political bureaucracy is reflected in larger economic and material goods and privileges than society should normally grant for such function. In practice the ownership privilege of the new class manifest itself as an exclusive right as a party monopoly or the political bureaucrat to distribute the national income to set wages, direct economic development and dispose of nationalised and other property. The so-called social ownership is a disguise for real ownership by the political bureaucracy.⁵³ The criticism made by Djilas hardly forced the ruling elites in the communist societies to make a self-retrospection in the way it functioned.

⁵¹ David Lane, n. 12. p.84.

⁵² Milovan Djilas, *The New Class: An Analysis of the Communist System*, (New York: Fredrick and Pagyer Publishers), 1957.

⁵³ Ibid. pp. 39-40.

Marxist philosopher Herbert Marcuse also made profound critique of the claims of the soviet state. According to him:

Of the nationalisation and centralisation of the industrial apparatus goes hand-in-hand with counter acting tendencies that is with the subjugation and enforcement of labour as a full-time occupation, progress in industrialisation is tantamount to progress in domination, attendance to the machine, the scientific work process became totalitarian, affecting all spheres of life. The technological perfection of the productive apparatus dominates the rulers and the ruled while sustaining the distinction between them. Autonomy and spontaneity are confined to the level of efficiency and performance within the established pattern. Intellectual effort becomes the business of the engineers and specialists. Privacy and leisure are handled as relaxation from and preparation for labour in conformity with the apparatus. Dissent is a political crime but also technical stupidity, sabotage, and mistreatment of the machine. Reason is nothing but the rationality of the whole; the uninterrupted functioning and growth of the apparatus. The experience of the harmony between the individual and the general interest between the human and social needs remain a mere promise.⁵⁴

These formulations of Marcuse were equally adaptable to all the communist regimes, which emerged after the October revolution. The common features of those regimes were, that they completely failed in creating an alternative development model to the capitalist mode of production.

Western critical Marxist accounts of Soviet type societies may be analysed into four different groups.⁵⁵ First, those who argue that such societies have not transcended the capitalist mode, but are merely special types of capitalist society.⁵⁶ Second, the one which has had the most influence in the west as a critique, is derived from Trotsky's views, of the transitional society of a workers state – albeit a degenerated one. Soviet type societies have the theoretical status, not of a socialist mode of production, but of a social formation transitional to socialism.⁵⁷ Third, those theorists who argue that

⁵⁴ Herbert Marcuse, n. 5. p. 84-5.

⁵⁵ See for details Paul Bellis, *Marxism and the USSR: The theory of Proletarian dictatorships and the Marxist Analysis of Soviet Society*, (London: Macmillan Press, 1979.)

⁵⁶ See for details, Tony Cliff, *Russia: A Marxist Analysis*, (London: Socialist Review Publishing Co., 1963). The State Capitalist Theses was well developed by the Work of Charles Bettelheim. For details see his Three Volume on the Subject.

⁵⁷ Leon Trotsky, *The Revolution Betrayed: The Soviet Union, What It Is and Where It is Going*, (London: New Park Publications, 1945), also see for a related view

these societies are neither socialist nor capitalist, but a mode of production derived from the Asiatic mode of production.⁵⁸ A fourth school, associated with the circle of Hillel Ticktin and the *Journal Critique*. It conceptualises state socialism as a social formation, but, distinct from the Trotskyites denies its dynamic and progressive tendencies, for them state socialism is a 'moribund historical cul-de-sac'.⁵⁹ The socialist transformation was a long and protracted process. The views on it would considerably varies depend on the methodology and political orientation of the scholar.

Instead of focussing on these diverse theoretical positions within Marxian frameworks, we will restrict our focus on the views of Charles Bettelheim, Paul M. Sweezy and Earnest Mandel, which received wider attention. However few occasional references are made on the other positions. Charles Bettelheim can be considered as one of the leading Marxian theorist who made enormous contribution to the Marxist understanding of the Soviet society. His Three Volumes works on the post revolutionary class conflict in USSR provide new insights to the class formation in Post-Revolutionary society. Bettelheim argued in his work that with the successful consolidation of power by the Stalinist leaderships, in the CPSU (Communist Party of Soviet Union), resulted to the defeats of the revolutionary currents within Soviet communist party. He opines that the ideology of Stalinism which laid the foundation of State Capitalism in Russia did not come from a transformation of Bolshevism operating 'in a vacuum', by a kind of 'autogenesis' of concepts and notions. Rather it emerged on the basis of the political and economic relations of the late 1920s and early 1930s. It continued to transform itself until the 1950s, the period when it assumed its most systematic expression. This transformation was produced by the class struggle of that period which made the state bourgeoisie, a class in itself, and consolidated the conditions in which that class exploited and oppressed

Earnest Mandel, "Ten Theses on the social and economic laws governing the society transitional between Capitalism and Socialism, *Critique*, vol. 3, No. 3, Autumn, 1974, pp. 4-27. Also see the same author "On the Nature of the Soviet State", *New Left Review*, no. 108, March-April 1978, pp. 23-45.

⁵⁸A. Carlo, "The Socio-economic Nature of the USSR", *Telos*, no. 21, 1974. Also see for a related view U. Melotti, "Socialism and Bureaucratic Collectivism in the Third World", *Telos*, No. 43, 1980.

⁵⁹See for details, H. H. Ticktin, "Towards the Political Economy of the USSR", *Critique*, vol. 1, no. 1, spring, 1973, pp. 19-41. Also see the same author, "The Class Structure of the USSR and the Elite", *Critique*, vol. 5, no. 9, 1978.

the working masses.⁶⁰ Bettelheim was of the view that in its original form, Stalinist ideology cannot be separated from the Soviet ideological formation as a whole. This latter one designates the system of ideological relations to which all social classes are subjected under differentiated and contradictory forms. The Soviet ideological formations included in particular, the practical ideologies revealed in prevailing mores and lifestyle, which found concrete expression in the functioning of the bodies associated with the ideological apparatus (family, school, administrative apparatus of the state, party, police, army etc.). These practices cannot be separated from the 'habits' and 'traditions' to which those who belongs to these different apparatus are subjected. These habits and traditions are not mere 'left overs', but in effect maintain themselves under the constraints of the reproduction of social relations while transforming themselves under the action of class struggle.⁶¹ We broadly agree with the formulation of Bettelheim that the Soviet system since its inception reflected a tendency, which were acted against the original goal of the Soviet state. Bettelheim argued that in the course of the development of the Soviet society, a new ruling class was emerged from the upper echelons of the system. But the dilemma was that if it happened, then how to explain the defection of the ruling class from the Soviet system in the late 1980s, which played a crucial role in the break up of the Soviet system.

Proponents of state capitalism had given priority to those who control the means of production rather than the nature of ownership. They were of the view that upper strata of the Soviet system who transformed themselves into a state bourgeoisie and who control the nationalised means of production and they decide what should be done with the nationalised means of production. They were of the opinion that essential for progress towards socialism is the domination of the working class in the political system. Instead in Soviet Union, there is domination over the workers; a new form of state bourgeoisie controls the means of production and the distribution. They, therefore, give special stress on the decisive role of power in the transition process⁶² It has become evident in the Soviet Union that power

⁶⁰ Charles Bettelheim and Bernard Chabance, "Stalinism as The Ideology of State Capitalism", *Review of Radical Political Economics*, vol. 13, no. 1, July 1981, p. 58.

⁶¹ *Ibid.* , p. 40.

⁶² Alec Nove, "Is There A Ruling Class in The USSR?", *Soviet Studies*, vol. 28, no. .4, October 1973, pp. 625-6.

resides with what they called the 'new bourgeoisie' that forced them to regard the Soviet Union as a state capitalist system.

Paul M. Sweezy who supports the thesis that there is a ruling class in the USSR and it was of a new type.⁶³ He traced the origin of the new ruling class to the immediate post-revolutionary years and it was strengthened and consolidated under Stalin's leadership. According to him, when conditions were more favourable for a struggle to transform the bourgeoisie social relations which had been inherited from the past and had perforce being maintained and even strengthened in the difficult years of civil war and reconstruction, even the party leadership lost the understanding and will which would have been necessary to launch such a struggle. ⁶⁴ It was in the course of this process that revisionism became not only the day today practice, but also the official ideology of Soviet Union.

Sweezy argues that state ownership and centralised planning do not give rise to any specific 'logic', but are quite compatible with radically differential social formations one of which is class dominated and class exploitative while the other is socialist in the sense of moving towards eliminating precisely the feature, both of which characterised the pre-Revolutionary society and have a strong tendency to reintroduce themselves in new forms after the revolution.⁶⁵ According him to in a socialist state, at the very least, workers would have to be free to learn about and discuss the problems affecting their lives, and to organise economically and politically to bring collective influence to bear on each other and on the organs of the state. Where these freedoms are totally absent, as in the USSR, the state obviously does not belong to the proletariat.⁶⁶ Sweezy's observation clearly reflected the concrete reality existed in the Soviet System. This also qualifies the fact that the alienated working class played a critical role in the initial years of the Gorbachevian reforms, which were based on the hope that it would result in the democratisation of the Soviet system.

⁶³ Paul M. Sweezy, "Is there A Ruling Class In Russia?", *Monthly Review*, vol. 30, no. 5, October 1978, p. 2.

⁶⁴ Paul M. Sweezy, n.10, p. 76.

⁶⁵ Paul M. Sweezy, "Paul M. Sweezy's Reply to Earnest Mandel", *Monthly Review*, vol. 31, no. 3, July- August 1979, p. 8.

⁶⁶ *Ibid.* , p. 9.

Earnest Mandel was one of the leading Marxian economists and Trotskyite who followed the legacy of Leon Trotsky and expanded the latter's interpretations of Soviet state. The frame of reference for Mandel's argument is Trotsky's classic work *'The Revolution Betrayed'* which analysed the Soviet Union and characterised it as degenerated workers' state.⁶⁷ According to Mandel, Trotsky's point of departure - and this is where the strength of his position on the character of the USSR, was the view taken by the entire working class left at the beginning of the Russian revolution of 1917 (and which was subsequently abandoned by one revisionist tendency after another), that it was impossible to examine the origin and development of Russian revolution while isolating Russia from the rest of the world. The paradox that lies at the root of the theory of permanent revolution- that the proletariat could conquer power in the less developed countries before doing so in the most developed ones - has meaning only in the context of a particular analysis of imperialism and class struggle on a world scale.⁶⁸ Mandel thus advanced Trotsky's analysis on the nature of soviet state and society.

Mandel challenges the preposition put forward by Sweezy and Bettelheim and many other Marxists, that Soviet Union was a non socialist state, state capitalist state or variant of it, and argue that it is a degenerated workers' state - dominated by the bureaucracy. His main preposition is that the capitalist mode of production is based on generalised commodity production and of the rule of the law of value, which does not exist in USSR.⁶⁹ Although the Soviet system had a clear socialist orientation in its yearly years, but, these tendencies received a serious set back in the Stalin era.

According to Mandel, one of the main conflict for decades has characterised the Soviet society as a bureaucratically deformed workers' state is precisely between potential optimisation of economic growth and use of economic resources, which flows from planning and expresses the condition of production of socialised property and the actual indifference to such optimisation by the individualised bureaucrats whose aims are only those of

⁶⁷ Earnest Mandel, " On The Nature of The Soviet State", *New Left Review*, no. 108, March-April 1978, p. 23.

⁶⁸ *Ibid*, pp. 23-24.

⁶⁹ *Ibid*, P.17.

maximising their own consumption. It is because of the economic resources are managed exclusively by the bureaucracy, and because of the absence of broad democratic control of the management by workers.⁷⁰ Mandel also questioned the thesis of existence of a new ruling class in Russia. He argues that for the first time in history with a ruling class without the capacity to perpetuate itself through the operation of the socio-economic system they control. There is no guarantee for a bureaucrat that he/ she will remain as a bureaucrat. There is even less guarantee that his/ her sons and daughters will remain as bureaucrats.⁷¹ Thus Mandel kept his optimism throughout his life that the Soviet Union was a degenerated workers' state and there were tendencies within Soviet system to push either to the socialist path or to a full-fledged capitalist state.

Social Basis of the Ruling Elite and Question of Social Mobility in Soviet Union

One of the most important historical facts can be learned from the Soviet experiment with socialism was that in the absence of private property and nationalised means of production by itself did not lead to the erosion of class division and social stratification. Although the means of production in Soviet Union was nationalised and under the complete control of the state' yet the majority of workers' role is virtually restricted to the forceful sale of their labour power on the terms imposed by the state. The Soviet system, despite its egalitarian promises and commitments since its inception, has one way or other promoted various privileges and hierarchy in society. In contrast to their egalitarian promises they also inculcate the previously discredited aristocratic tendencies and habits as desirable and essential for industrialisation and progress. Thus Herbert Marcuse pointed out "the fundamental difference between Western and Soviet societies is paralleled by a strong trend towards assimilation. Both systems show the common features of late industrial civilizations. Centralization and regimentation supersedes individual enterprises and autonomy. Competition is organised and 'rationalised' there, in joint rule of economic and political bureaucracies.

⁷⁰ Ibid. , P. 17.

⁷¹ Earnest Mandel, "Why The Soviet Bureaucracy is not a Ruling Class", *Monthly Review*, vol. 31, No. 3, July-August 1979, p. 68.

The people are coordinated through the 'mass media' of communication, entertainment industry, and education. If these devices proved to be effective democratic rights and institutions might be granted by the constitution and maintained without danger of their abuse in opposition to the system".⁷²Marcuse's profound analysis of the modern industrial societies shows that the internal logic of capitalism possesses a tendency that tend to create a homogeneous culture and value orientation irrespective of differences in the nature of political system.

Thus the social basis of ruling elite in Soviet Union was drawn from the privileged and technical elites who immediately were used by the Socialist system. However, substantial portions of new elites emerged from the policy of the Soviet system, especially its education policy, which contributed to the upward mobility of a large number of people from hitherto backward social conditions. However Tom Bottomore was of the view that the high level of mobility may be regarded as the phenomenon resulting from the needs of industrial development and not any conscious attempt to promote it by the state.⁷³However with all its defects Soviet system provided basic necessities and proper education to all the citizens, which played crucial role in the upward mobility of large number of people, especially, in the first three decades of the Soviet system.

With all its diversities and contradictory interests the Soviet elites, both party and bureaucratic segments shared a common character, which emanate from the modern industrial culture and education like the tendency towards capitalism, and the elite lifestyle keeping distance from popular masses. With these reasons Cornelius Castoriadis observed "the increasingly elaborate division of labour meant to render labour more and more controllable and impersonal and workers more interchangeable, the measurement and control of the workers' notions, piecework rates, the quantification of all aspects of work and workers' very personalities are based on a technology, which far from expressing a neutral rationality, is meant to subject the worker to a rhythm of production independently set, to break up the informal groups among the workers to expropriate all autonomy from living work and to transfer even the most minute type of

⁷² Herbert Marcuse, n. 5, p. 81.

⁷³ Tom Bottomore, *Classes In Modern Society*, (London: George Allen and Unwin, 1965), p. 42.

directing activity to mechanical components and to the bureaucratic apparatus directing the enterprise".⁷⁴ In fact the industrial relations, which existed between workers and management in the Soviet factories hardly, differed from those of the west.

Thus the homogeneous social background and the material privileges they possess, and the access to the higher education these social groups enjoy in relation to the other social classes, there is more chance to transfer the privilege status to their next generation. On these questions Alec Nove opines that higher education has now almost become a necessary condition to get into *nomenklatura* and into senior positions generally. Virtually every party leader or secretary of significance and nearly every industrial manager or minister has a degree, most usually engineering or technology. Consequently access to higher education is vital for advancement. This is difficult for peasants because of the persistent inadequacy of rural schooling and low cultural level prevailing in rural areas and efforts to remedy this, have still borne little fruit. Talented children of workers have better opportunities but the figures show quite clearly that the 'intelligentsia' occupies a disproportionate number of places in higher education.⁷⁵ In Soviet society, people worked in the research institutions and universities had received higher salaries and many other privileges, which were hardly received by those who engaged in industrial sector. Thus the intelligentsia were able to transfer their privileges to next generation due to the relative advantage they enjoy compared to other segments of the population.

Thus in Soviet society, similar to other Western capitalist societies, there exists material conditions conducive for the privileged classes to transfer their same privileges to the next generation. Alec Nove further observes "our own experience demonstrate, children from educated homes have a clear academic advantage in competitions with children from a less cultured environment. We are all familiar with the reasons (books and conversations in the home, parental encouragement, greater motivation, coaching from

⁷⁴ Cornelius Castoriadis, n. 44, p. 34.

⁷⁵ Alec Nove, n. 62, p. 617.

parents or friends, and so on).⁷⁶ This is the common feature of all modern class societies.

In his correspondence with Mandel on the question of new ruling class Sweezy observes, “new ruling class mainly consists of the upper echelons of the party, state, economic and military apparatuses, and they are drawn from a reasonably homogeneous groups with all the essential attributes of a class, including the ability to reproduce itself through the way they socialise their offspring through differential access to education, through networks of ‘connections’ and even through the formal device of the *nomanklatura*”.⁷⁷ Therefore one can find that the ruling elite in Soviet system was mainly drawn from upper sections of the state and bureaucratic apparatus and they share similar material privileges, social status and power.

On the question of social mobility, David Lane identifies two major trends. Firstly, until the 1950s there was a massive inflow of people to the towns from the countryside. Consequently the working class was formed largely from the peasantry and many of the manual workers became non-manuals. The non-manual strata suffered a little downward mobility; sons and daughters largely entered non-manual statuses. There was then both a great deal of upward mobility and inheritance of non-manual positions. Secondly, since the late 1950s the rate of economic growth has become slow. This has led to a reduction in the rate of formation of new occupational statuses. There has been a decrease in the rate of inflow from agriculture to industry and there has been a tendency for greater inheritance of their parents’ status by both non-manual and manual sons and daughters.⁷⁸ Thus in the Soviet system, a ruling class that emerged from the upper echelons of the party and state apparatus along with a marginal co-option from the lower classes.

Besides this, there also existed multiple forms of stratification within Soviet society between privileged and under privileged, intellectuals and skilled labourers and between people living in urban and those living in rural areas etc. There are studies, which show the massive difference between men and women in terms of wages in same occupation. H.H. Ticktin observes, “the

⁷⁶ Ibid, p. 617.

⁷⁷ Paul M. Sweezy, n. 65, p. 10.

⁷⁸ David Lane, n. 12, p. 190.

intelligentsia as indeed in the society, is divided by a sexual exploitation, which performs a similar mediating role to that of the Negroes in United States. The least well paid jobs among the intelligentsia and the working class are performed by women. The employment of women in the Soviet Union is part of what he has called a 'historical survival of the dictatorship of the proletariat'. But it has been undermined and almost turned into its opposite by the overwhelming proportion of women engaged in the least prestigious and least responsible jobs in the least important sectors of the economy. As a result men by and large receive, on an average at least fifty percent more than women in pay. Their larger pay and more responsible position are direct consequences of the exploitation of women in the society. Quota systems and exclusion exist for certain faculties and jobs for women.⁷⁹ These tendencies were in terms with the modern industrial culture, which inherently possesses hegemonic patriarchal values.

Thus the experiences of the Soviet system demonstrate that the classes and social stratification would persist even after the abolition of private property and nationalisation of means of production. The most privileged groups in the system, i.e. party leaders and bureaucratic and administrative elites consolidated their powers through the process of industrialisation. Through such a consolidation of power by the party and bureaucratic elites they transformed themselves into a new class and throughout the post Stalinist period they strengthened their social base and control over system by various ways. By closely observing the internal manifestations of the party-bureaucratic elites, Earnest Mandel wrote, in the early 1980 roughly one decade before the final collapse of the system. According to Earnest Mandel, "inside the bureaucracy, especially its 'managerial' wing there is undoubtedly a tendency towards linking its drive for security of social status, income and privileges to permanent ties with a given enterprise or a group of enterprises. This tendency reflects the general historical experience that without such ties (i.e. private property in the economic sense of the term), no permanent guarantee can be found for the security of material privileges and social status and their transmission to the next generation. This tendency dovetails with the objective trend of the dictatorship to try to

⁷⁹ H. H. Ticktin, "Towards a Political Economy of USSR", *Critique*, Vol. 1, No. 1, spring 1973, p. 40.

find a unifying rationale between the material self-interest of the bureaucrat and the needs to streamline the operation of the system. It likewise dovetails with the pressure of the world market, the trend towards private small-scale primitive capital accumulation, the operation of 'grey' and 'black market' sectors in production etc. If successful it would led by degrees to a disappearance of central planning, a dismantling of the state monopoly of foreign trade and to a growing symbiosis of certain number of soviet enterprises-freed from the iron control of the plan-with their counter parts in imperialist countries."⁸⁰ Thus many of these tendencies, which Mandel observes in the above passage along with many other factors finally contributed to the final disintegration of USSR in 1991.

Conclusions

The historic victory of October socialist revolution in Russia paved the way for the emergence of first socialist society in the world. It was also marked by the fact that the Bolshevik revolution was the first attempt in the human history by the oppressed social classes organised under the banner of a revolutionary party inspired by an egalitarian philosophy, attempting to implement an alternative model of social development to capitalism. However, due to the domestic and external compulsions after an initial leap towards alternative path, it had gradually moved towards opposite direction. As a result of the retreat from revolutionary path, the privileged elements in the past, discredited systems found a new role in the nascent system. The internal contradictions between various tendencies within Soviet Communist party finally resolved with the victory and consolidation of power by Stalin and thereby radical defeats of the revolutionary elements.

The Stalinist theory of constructing socialism in one country in the absence of revolution in major European capitalist countries forced him to follow a path of modernisation based on the primitive accumulation of capital from the peasantry through the policy of forceful collectivisations. This policy immediately resulted in the breakdown of working class peasant alliance, which played crucial role in the success of revolution. The Stalinist policy of forced collectivisation and large scale industrialisation also created a new

⁸⁰ Earnest Mandel, "The Laws of Motion of Soviet Economy", *Review of Radical Political Economics*, vol. 13, no. 1, July 1981, p. 38.

power relations in industry and agriculture by which working class and peasants were subjected to the dictation of the professional managerial elite. The adoption of Taylor's method of industrial management curtailed democratic rights of the proletariat.

As a repercussion of this policy, the consolidation of Soviet system also resulted in the Consolidation of social hierarchies and class divisions. Vast majority of people were excluded from decision-making process and party-bureaucratic elites were increasingly alienated from the proletariat and other basic social classes.

Thus there were a clear class division and stratification existed in Soviet society. There were massive gap between skilled labourers and intellectuals, between skilled labourers and manual labourers and between managerial cadres and proletariats. There were also marked gender discrimination in wages and opportunities. In Soviet society, the chasm between people living in cities and countryside were visible. The industrial culture, norms and values of city life were alien to the peasants and those who lived in the countryside.

In the course of the Soviet system the party and bureaucratic elites developed a culture and life style, which were contradictory to the basic norms of Soviet ideology. The attempts by the post Stalinist leadership to reform the defects of the Soviet system rather than strengthening the system further consolidated this tendency. Thus alienation of the basic social classes from the Soviet system along with stagnation and contradictions of the Soviet economy finally led to the defection of the ruling classes from the systems, which they controls and the final disintegration of Soviet Union.

3 Transitional Economy of Russian Federation and Changes in Social Structure

The disintegration of the Soviet Union and the subsequent radical economic and political changes in post-Soviet Russia altered the very nature and character of Russian society and state. The collapse of the Soviet system resulted in the destruction of the socialist socio-economic structure in Russia. As one political analyst had pointed out, "the unity of the Soviet body politic rested not so much on its military strength and economic ties between the constituent part, but rather on a belief in peculiar Soviet socialist projects".¹ However, the method they adopted for developing the socialist project led to the formation of a new ruling class in Soviet society. This was well reflected in 1959 when Milovan Djilas published his classic work on communist society. Djilas observes that:

The new class becomes stronger and attains a more perceptible physiognomy the role of the party diminishes. The core and the basis of the new class are created in the party and at its top, as well as in the state political organs. The once live, compact party, full of initiative, is disappearing to become transformed into the traditional oligarchy of the new class, irresistibly drawing its ranks those who aspire to join the new class and repressing those who have any ideals. The party makes the class, but the class grows as a result and uses the party as a basis. This class grows stronger while the party grows weaker; this is the inescapable fate of every communist party in power.²

Thus, the way the Soviet socialist project was being practiced over the years in the Soviet Union resulted in the ultimate rejection of that project.

The post Soviet Russian state adopted the western neo-liberal policy popularised in Russia by IMF and other neo-liberal economists as " Shock Therapy"³ as a guide, and pre-requisite for the country's transition towards a

¹ Nikolai Biryukov and Victor Sergeev, *Russian Politics In Transition*, (Brown Town: Ashgat Publishing house, 1997), p. 47.

² Milovan Djilas, *The New Class: An analysis of the communist system*, New York, Frederick A. Fraeger, 1959, p.40.

³ See for details Jeffery Sachs, "*Understanding Shock Therapy*", (Social Market Foundation, 1994), p.86. Also see for a related view Anders Aslund, *Post Communist Economic Revolution: How Big a Bang?* (Washington, DC, Center for Strategic and International Studies, 1992), Also see for a critical appraisal of Neo-liberal Policy for Economic Shock Therapy Peter Gowan, "Neo-liberal Theory and Practice for Eastern Europe" ,*New Left Review*, No.213,Setember,1995,pp.3-65.

liberal market economy. The main thrust of the policy was to create capitalism and a capitalist class in Russia through massive privatisation of existing state owned enterprises.

The main thrust of the western recommendation and the neo-liberal policy was to make a radical shift from the socialist past and to integrate the Russian economy to the world capitalist system. The new policy was initiated on first January 1992 by removing prices and administrative controls and as a result, prices rose by 25 percent over-night and this process continued and the end of 1992, inflation rate estimated at 2000 percent.⁴

The economic development model initiated by the new ruling elites in Russia with the direct assistance of IMF (International Monetary Fund) economists pushed the country's economy into perpetual crisis. Because of the complete withdrawal of the state from the economy and social sectors mafia and black economy had replaced the market.

The rate of unemployment and massive decrease in industrial production etc. pushed the society into a de-industrialisation. Recently, an insider of World Bank and a ruthless critic of economic Shock Therapy model pointed out that "Russia's transition has entailed one of the largest increases in poverty in history in such a short span of time, outside of war and famine".⁵ For the majority of those living in the former Soviet Union, economic life under capitalism has been worse than old communist leaders had said it would be. Prospects for the future are bleak. The middle class has been devastated, a system of crony and mafia capitalism has been created, and the one achievement the creation of a democracy with meaningful freedoms, including a free Press appears at fragile best, particularly as formerly independent T.V. stations are shut down one by one.⁶ Yeltsin regime itself emerged as a critique of the authoritarian rule of the communist party, immediately manifested into a new form of authoritarianism.

The Soviet economy, which was considered as the third largest industrial economy till the late 1980s were pushed into a peripheral position in the

⁴ Anuradha M. Chenoy, *The Russian Transition to Capitalism* (New Delhi: Peoples Publishing House), p.8.

⁵ Joseph E. Stiglitz, *Globalisation and its Discontents*, (London: Penguin Press, 2002), p.182.

The Soviet economy, which was considered as the third largest industrial economy till the late 1980s were pushed into a peripheral position in the world capitalist economy by the reform process. The reform policies dragged the Russian society into a deep crisis. Frequent economic crisis and inflation created deep instability in the society. The large well off middle class existed in the Soviet era were totally marginalised by the reform policies.

In the context of these developments, the present chapter tries to analyse the nature of the transitional economy of the Russian Federation and its impact on Russian social structure. It begins with a discussion on the nature of crisis confronted by the Soviet economy and the impact of Gorbachevian policy in accelerating the crisis and the consequent dissolution of the Soviet system itself. Major focus is given to the nature and character of new reform policies and its impact on the Russian society.

The State of the Soviet Economy and the Nature of Gorbachevian Reforms

The Soviet economy was marked by its over- centralisation and state guided economic developments through centralised planning. The commanding - heights of the economy was controlled by the state and market forces had only a marginal role in the overall functioning of the economy. In the Soviet economy, the Government decided what shall be produced and what proposition of output is devoted to consumption and investment. State was responsible for fixing the price of inputs (raw materials and basic wage rates) and outputs (finished and semi-finished products). The enormous tasks involved in central planning could be illustrated by the fact that from eight to nine million, prices of various commodities had to be fixed by the many price control organs located in the various planning departments.⁷ Due to those features bureaucrats and managerial elites in the factories and other institutions played a crucial role in these processes.

The Soviet centrally planned economy is arranged on four concepts: planning, administration, judicial regulation, and control. The planning department devised the form that economic activity should be taken in the

⁷ David Lane, *Soviet Economy and Society*, (New York: New York University Press, 1985), p.5.

production enterprises e.g., the rate of growth, the price and amounts of inputs and outputs. However, such organisations do not actually run enterprises. The administration is composed of an apparatus, which guides production and distribution units. The methods used are simply coercive; rather enterprises are put in position in which it is their interest to execute the plan. The courts, guided by legislation, regulate the relationship between enterprises and administrative bodies. Lastly, by control refers to the political organisations (such as the party, people's control units and unions), which seek to ensure that the economy is regulated in keeping with the political goals articulated by the state.⁸ However due to the centralised nature of decisions making practised in the planning processes resulted to a situation in which the priorities set by the central authority hardly reflected the requirements in the local levels.

Soviet Union launched economic planning as an alternative to the capitalist market driven logic of production. Its basic goals were to replace capitalist mode of production that is motivated by profit by a new logic of production that is based on the production of use-value for the larger interest of the society. However, it requires some way of determining what production is socially useful. Some way for that information to be communicated to production units and reasonable confidence, that it will respond to it.⁹ The principal technical advantage of planning as a coordinating mechanism arises from this fact that it enables this uncertainty associated with atomised decision making to be overcome.

Maurice Dobb, the most insistent and persuasive advocate of planning has consistently stressed the significance for planning of the distinction between what he calls objective and subjective uncertainty. The former arises from our inability to fully know the future; the latter from the necessary lack of knowledge on this part of atomised decision-makers of this rivals intended actions.¹⁰ Another important advantage of planning as an economic mechanism is that it makes possible the co-ordination of interrelated

⁸ Ibid, pp.5-6.

⁹ Pat Devine, "Self-Governing Socialism" in William K. Tabb (ed.), *The Future of Socialism: Perspectives from the Left*, (New York: Monthly Review Press, 1990), p.188.

¹⁰ Maurice Dobb, *On Economic Theory and Socialism*, (London: Routledge, 1954), p.77.

decisions before they are implemented. It substitutes the conscious planned coordination of decisions *ex-ante* for the blind anarchic coordination of market forces *ex-post* operating through the changing reactions of atomistic decision makers to continuously changing market prices. In a sense, this is the essence of economic planning and constitutes the fundamental differences between a planned and unplanned economy.¹¹ Despite all these advantages that planned economic systems possess vis-à-vis market economy. However the way it practiced in Russia hardly materialised any of these advantages of planned economy. This due to the internal contradictions of the Soviet economy and other long terms accumulated internal and external factors that accumulated since 1970s, it faced serious economic crisis.

The long term slow down of economic growth, massive shortage of consumer goods huge decline in agricultural production, emergence of black and shadow economy. and deep rooted corruption etc. are the main features of the Soviet economy, when Gorbachev was promoted to the post of General Secretary of the CPSU in 1985. As H. Brand noted, "The crisis of the Soviet economy has followed upon a long period of declining economic growth, declining productivity, lessening effectiveness of capital investments in terms of output it produced, lack of innovation, and technological stagnation. It has manifested itself in aggravated shortages- shortages that began greatly to exceed their 'usual' magnitudes. These spread from one product to another, in a sort of chain effect that arose from worsening disruptions in the production and delivery of raw materials, intermediate and end products-disruptions that had been a common occurrence earlier and had been dealt with, but which has become a chronic breaching of accustomed linkages. They led to, as well as resulted from, inter-enterprise barter of materials and products.¹²In fact the policy of economic planning succeeded in transforming the Soviet economy into a mighty industrial economy, however it miserably failed in providing goods and services that the population of a modern industrial society required.

¹¹ Ibid, pp.5-6.

¹² H. Brand, "Reforming the Soviet Economy" *Dissent*, winter, 1992, pp.12-13.

Gorbachev emerged as the General Secretary of the Communist party of the Soviet Union (CPSU) from within the highly unified and hierarchical structure of the Soviet political system in 1985. After Gorbachev came to power another problem was added to the list of economic woes, a growing fiscal crisis. Gorbachev introduced a series of bureaucratic re-organisation as a substitute for the real market reform. These disrupted the work of the CPE, and at the same time, he allowed the wages to rise in a bid to win social support for his reform plans. By 1988 the government was running a budget deficit equal to 7.3 percent of GNP.¹³ The neo-liberal policy virtually destroyed capacity of the Russian state to generate income internally through taxes and similar schemes.

Gorbachev worked out the basis for reform in his first year and formalised it in the 27th Party Congress in 1986. After the initial experiments for improving the economy, he quickly shifted to the more holistic approach of addressing several political, economic and social issues simultaneously under the slogan of '*perestroika*'. In order to get mass support and legitimacy to his reforms from the people and thereby countering the reaction from the party elites to his new initiative, he incorporated '*glasnost*' or openness to this formula.¹⁴ Initially Gorbachev envisaged to reform within the Socialist framework in order to make the system more workable.¹⁵ From the very beginning of the Gorbachevian reforms itself, it was clearly reflected the fact that he had initiated the reform policy without formulating the necessary strategies or any serious analysis of the complexities of the crisis faced by the Soviet economy. *Perestroika* was meant to restructure the economy along the following lines: to encourage co-operatives in services, distribution, and small manufacturing; and to promote farm leaseholds (the letting of farm lands to farmers) for up to fifteen years; leasing was to avoid the question of land ownership. It sought to substitute economic norms (that is costs, prices and profits) for the physical quantities that had been assigned by *Gosplan* (the central planning agency) as output targets to state

¹³. Peter Rutland, 'The Rocky Road from Plan to Market', in Stephen White et.al (eds.), *Development in Russian Politics*, (Basingstoke, Macmillan Press, 1997), p.152.

¹⁴ A.M.Chenoy, *Making of New Russia*, (New Delhi: Har Anand Publications, 2001) pp. 17-19.

¹⁵ Ibid p.19.

enterprises and to shift to them certain responsibilities from the industry branch ministries. It began to realign investment priorities in favour of consumer goods. In general, *perestroika* aimed to diffuse the system of centralised economic power, but it could not overcome the resistance of the bureaucratic hierarchical structure.¹⁶ The major failure of the new policy was its decentralised planning processes and power without creating the basic institutions and infrastructure to monitor it.

Gorbachev visualised *perestroika* as an integral revolutionary process, which is being carried out by democratic methods, by the people and for the people, the party being the people's political vanguard. The party's activity and historic initiatives are a natural manifestation of its vanguard role. Moreover, the party does not claim a monopoly or initiative. *Perestroika* needs all useful initiatives, no matter where they come from as its political validity depends on the development of democracy, whose function is, among other things, to stimulate the people's initiative.¹⁷ Nevertheless, the fact that still in the 28th CPSU Congress in February 1990 overwhelming majority of party leaders supported the Gorbachev's reform initiative. Meanwhile Gorbachev reoriented his reform strategies and goal from revitalising the socialist system to its early democratic and egalitarian projects to a socialist market economy by which the party and government must delink each other and economy was open to the market forces and domestic and foreign capital.¹⁸ Thus the radical shift made by Gorbachev in the course of the reforms had far-reaching impacts on the future directions of the reforms as well as the very survival of the system itself.

Thus, an expert remarks, "between the 27th Congress (of CPSU) and the All Union's 19th Party Conference of June 1988, Gorbachev formulated a critique of the Soviet system under the framework of democratisation. This critique was initially confined to the parameters acceptable to the party elite in 1986, but sharpened by 1988-90, causing division the party elite. Discussions on regeneration of the political system, debates on the problems of

¹⁶ H. Brand, n.12, p.234.

¹⁷ Mikhail Gorbachev, *The Socialist Idea And Revolutionary Perestroika*, (Moscow: Novosti Press Agency, 1989), pp. 17-18.

¹⁸ See for details Mikhail Gorbachev, "Towards a Humane and Democratic Socialist Society." *The Platform of the CPSU Central Committee- A Draft for the 28th Party Congress* (Moscow: Novosti Press Agency, 1990).

bureaucratisation and alienation of ordinary people exposed the flaws in the one party system that had never faced open criticisms or contested politics. Under the *perestroika* regime drastic changes were suggested for the political system and electoral changes made in 1988. Party ideology was criticised as uncreative and de-ideologisation promoted.¹⁹ The 19th party conference and the 28th CPSU Congress witnessed the radical departure from the original reform initiative and a clear tendency towards western liberal ideas and values, which had been dominant in the subsequent reform strategies.

Gorbachev's several innovations, particularly the election of managers and the development of 'Agropron', a bureaucratic body for the control of agriculture and related industries adopted in the first two years were dropped later.²⁰ In the second stage of *perestroika* Gorbachev moved from his earlier initiatives of revitalising the revolutionary ideals of Soviet system and shifted towards western liberalism and market economy. An observer put "it was evident to him and his close aides that it was much easier to implement radical change in politics than in the economy. What is more they believed that essential modification of the Soviet political system would make it possible to revitalise the economy."²¹ Gorbachev's reform policy and the revamping of the party structure also created a scenario in which the people who constitute upper layers of the Gorbachevian ruling circle had hardly any previous experience and many were the new selection made by him. This naturally limited their ability to influence and criticise Gorbachev in the processes of reform.

Thus, Gorbachev began with the attempt to reform the Soviet system in accordance with the socialist ideas and political reforms, were not well formulated and unsuitable to the Soviet system. Many scholars who were experts on the Soviet system had raised serious reservations in the success of the Gorbachev's reform strategy. The multiple dimensions of change unleashed by *perestroika* and *glasnost* and the attempt of Gorbachev to impose all the burdens and defects of the Soviet society on the ruling party

¹⁹ A.M.Chenoy, n. 14, p.20.

²⁰ Vladimir Shlapentokh, *A normal Totalitarian Society: How the Soviet Union Functioned and how it Collapsed* (Armonk: M.E.Sharpe, 2001) p.192.

²¹ Ibid, p.192.

resulted the de-legitimisation of the very political system which he himself heads. Economists like Alec Nove had expressed serious criticisms against the way Gorbachev unleashed various aspects of reforms in the same time. Commenting on the radical political reforms carried out by *perestroika* he observes, "in order to run a country you need a decision making structure, and some way of implementing those reforms. Having eliminated the power of the local party secretaries, where he can find a substitute. Local Soviet is now genuinely elected; they have new standing, and therefore they have some power. They do not represent the central government; they use their power in such a way as to strengthen the centrifugal tendencies in the USSR."²² Thus an outcome of the Gorbachevian policy, in the early 1990, witnessed the emergence of diverse forms of movement in central and regional levels.

But the simultaneous reforms of economic and political structure resulted in the erosion of the control of the traditional Soviet institutions and communist party and thereby creating an institutional vacuum to control these contending social forces emerged in the system. Many of the Gorbachev's reforms are mutually contradictory and it was inappropriate and destructive to the basic logic of the Soviet system. Many people had also raised serious questions about the validity of the capitalist market logic to the Soviet situation and they argued that it is incompatible without huge retreat in the employment front and administered prices.²³ Gorbachev hardly looked for alternative strategies and policies when his first reform attempt faced serious challenges.

With the systematic assault on the Soviet, ideology and institutions and equating socialism with inefficiency and authoritarianism led to the weakening of the Soviet Power. They projected western ideals as the role model for the liberation of the Soviet people from the yoke of socialism and thereby *perestroika* and *glasnost* contributed to the de-legitimisation of the Soviet system within Soviet civil society.

²² "Reforming the Soviet Economy: Interview" with Alec Nove Dissent, Winter, 1991, p.10.

²³ See for detail, Antonio Carlo, "Contradictions of Perestroika", *Telos*, No. 79, spring 1979, pp. 29-47. Also for a related view David Lane, *Rise and Fall of State Socialism*, (Oxford: Polity Press, 1996).

The policy of *Glasnost* and the resultant opening of the Soviet society to the various kinds of information and life style in the capitalist west led the deep self-reflection of many Soviet citizens (especially elites) about their past. A scholar had aptly put it, “*glasnost* result to the identity crisis that engulfed the Soviet Union, particularly the Russia, about the gravity of social problems; the crisis was heightened too, by a growing sense of inferiority when standards of living were compared with those of the west. With much more information about liberal democracies made available, citizens agonised over the ideological lies of the past that had told them life under socialism had been better.²⁴ Thus the reform measures reached its zenith in the early years of 1990s, which is characterised by the massive leap towards capitalist ideals. It resulted in the massive divisions within the communist party on the questions of further reforms led to the major erosions of its social strength, which thereby resulted in the gradual shift of the peoples support in favour of capitalist lobby led by Yeltsin.

The new democratic groups led by Boris Yeltsin made radical departure after de-legitimising the official ideology of the Soviet system and it immediately shifted towards liberal capitalism. A scholar observed on this development, “creating a new mythology, several Russian economists and political scientists in 1989-1991 praised liberal capitalism and predicted economic miracles within two years after economic liberalisation. Belief in economic miracles increased as the economy deteriorated²⁵. However the subsequent developments reflected the severe weakness and the contradictions of the market reforms.

A leading enthusiast of liberal capitalism Larisa Piasheva, promised that within three years the people would “feast and remember the past as a bad dream”. She claimed that “private farmers will assert themselves, new houses will be built, as well as new roads. During this time, normal supplies of all goods ...will be set up” and she argued that these changes would take only one year to get implemented.²⁶ Thus, the reform process unleashed from the above by the Gorbachev's leadership reached its zenith when the

²⁴ Mary Backley, *Redefining Russian Society and Polit y* (Boulder: Westview Press, 1993), p.252.

²⁵ Vladimir Shlapentoh, n. 20 , p.195.

²⁶ Larisa Piasheva, cited in *Ibid.* p.195.

diverse forms of movement emerged from the bottom of the society challenged the critical limits of the reforms finally led to the disintegration of the system.

Commenting on the disintegration of the state socialism in Soviet Union David Lane observes, “the two competing forms of class systems co-existed under state socialism, one linked to the possession of intellectual assets and the other to the administrative system of political controls, the *nomenklatura*. The former defined as an accusation class played a major role in the collapse of state socialism. This class was often organised on a national basis, which gave the insurgents a political identity. The attempt by the reform leadership to create a new form of identity in widening the political participation undermined the party’s penetration into society and had profound destabilising effect. Gorbachev’s political reforms accelerated not only the system of economic management, but seriously weakened the legitimacy of the hitherto dominant ideology of Marxism-Leninism and the communist party. The reform from the ‘top’ under the Gorbachev’s political leadership amplified by the critique of the reform intelligentsia undermined the confidence of the political class. The inadequacies of the bureaucratic system, moral degeneration led to the public lack of confidence”.²⁷ The tendencies observed by David Lane reveals the real nature of contradictions existed in the Soviet system in the late 1980s.

In short, the inability of the Gorbachevian leadership to create an alternative institutional structure to fill the vacuum created by the systematic delegitimisation of the communist party accelerated the process of disintegration of the Soviet system. Gorbachev also miserably failed in grasping the power of various social forces that were emerged as an outcome of his reforms. He also made serious mistake in failing to appeal to the millions of common people who trusted his reforms, with the hope that it would lead to the democratisation of the Soviet system. This naturally resulted in the appropriation of people’s support base by the Yeltsin and other anti-systemic forces, which lead to the final assault on the Soviet power.

²⁷ David Lane, *The Rise and Fall of State Socialism*, (Polity press: Oxford, 1996), pp. 9-10.

Thus, a liberal observer aptly remarks “the failure of Gorbachev’s liberal economic reforms (and not the failure of Soviet planning system as it functioned before 1987) undermined Soviet power and opened the gate for an anti-communist revolution. The failure of Gorbachev’s economic innovations robbed the spirit and confidence of the ruling elites and deprived the masses of their respect for the Kremlin. It is important to note that the ultimate failure of the system was not caused by the intrinsic tendencies of the economic reforms (privatisation and marketisation) but the social context (that is the state’s lack of authority and full disrespect for law), which resulted from the Kremlin’s failed policies in ideology and politics”.²⁸ Within the given social context, the directors of the state-enterprises became almost independent from the state as well as from the market and they freely enriched themselves at the state’s expense.

Whatever might be the initial goal of the Gorbachev’s reforms’ it ultimately accelerated the systematic contradictions, which already existed in the Soviet system. In the final analysis Gorbachevian reforms were an attempt by the dominant groups (westernised technocratic segments) within the ruling class in the Soviet system. The ruling class wanted to part with the degenerated socialist system and self-embrace liberal market structure, and thereby consolidate and legalise their already acquired social privileges and wealth and linking themselves to their counterpart in western capitalist countries.

The formation of Russian Federation and the Nature of New Ruling Class

The collapse and disintegration of Soviet state was followed by the declaration that established the Russian federation. The president of three states of Russia, Ukraine and Belarus signed the disintegration of the Soviet Union and declared independence of Russia, Ukraine and Belarus and bestowed independence on those republics of Soviet Union that were not present during the signing of this accord. The common wealth of independent state was formulated as a body that would associate the former Soviet republic at their will. Since the central Asian states were not consulted or even not present during this agreement of disintegration, a

²⁸ Vladimir Shlapentokh, n.20, p, 206.

second agreement was signed in Alma-Ata on December 1991, that made signatories to their independent status and the founder members of the CIS.

Russian federation emerged as the undisputable successor state of former Soviet Union. It inherited all status and privileges enjoyed by the former in various international forums and organisations. Before the final disintegration of the Soviet Union, on 12th June 1990 the congress of people's deputies adopted a declaration asserting the RSFSR (Russia) was a sovereign republic and its laws had primacy over all union legislations. The first direct presidential elections were held in June 1990. This led to the victory of Yeltsin and his vice-presidential candidate, with 57.3 percent of the votes polled. Direct election as president that gave Yeltsin sufficient popular mandate to challenge the jurisdiction of Gorbachev and the union authorities and also helped him to withstand the August coup (1991). Later the CPSU and the Russian communist party were banned and in November 1991, the congress granted Yeltsin special powers, for a decree with legislative force and to appoint government ministers without parliamentary approval.²⁹ One of the major defects of the nascent democratic system in Russia is the excessive power of the president, which tends to undermine the power of the parliamentary institutions in the country.

After consolidating the power, major agenda of the Yeltsin regime was to make a radical break from the Soviet past and to create a material basis for a liberal market economy. The basic task of the new ruling elite was to abolish all the remnants of the centrally planned economic system and to create a new social structure adaptive to the liberal market economy.

President Boris Yeltsin, together with a cabinet made up of young reform-minded economists carried out extensive measures to eliminate state-owned industry and privatise the entire economic infrastructure, as well as nearly all real estate (industry houses and apartments) and to make Russia an integral part of the worldwide "free market" economic system. In implementing this 'reform' program, Yeltsin and his government had no base

²⁹ Sanjay Kumar Pandey, "Russia's Super Presidentialism: Need of the Time or Threat to Democracy" in S.K. Jha and Bhaswati Sarkar eds. *Amidst Turbulence and Hope: Transition in Russia and Eastern Europe*, (New Delhi: Lancers Books, 2002), pp.108-109.

of support in the form of a political party. They did not even have a politically stated programme. They used exclusively administrative methods, sometimes employing force and violence.³⁰This was well evident from the 1993 political struggle between Yeltsin and the parliament on the question of the second phase of economic reforms in Russia.

The new ruling elite in Russia was mainly drawn from the privileged sections of the Soviet system. As we have discussed in the previous chapter this new ruling class mainly consists of the upper sections of the party, along with other privileged social classes exist in the Soviet system such as top bureaucrats and intellectuals etc.

After the degeneration of the Soviet system, the elite were looking for a way to part with the socialist ideals and to self-embrace liberal capitalism. According to Russian sociologist Ol'ga Kryshtanovskaia, 75 percent of the people in Yeltsin government machinery and 61 percent of those involved in business belonged to the old Soviet *nomenklatura*. More than half of those entered the *nomenklatura* were not under Mikhail Gorbachev but even earlier under Leonid Brezhnev³¹.

In a recent piece, Madhavan Palatt also took a similar position. He argues,

The past that lives in the post Soviet present is a Communist nobility, pejoratively known as the *nomenklatura*. It had already been foreseen during the Gorbachev reforms that largely former Communists would run a post-Communist Soviet Union. They had outlined their reform plan as early as the 60s, as Roy Medvedev's early work on socialist democracy suggests. These groups continued to be active, within the party thereafter, Gorbachev then licensed them fully. Gorbachev pushed through parts of the programme and Yeltsin furthered it. The Communist *nomenklatura* overthrow communism, therefore they are well positioned to reap the reward and co-opt their ideological opponents, the liberals or democrats, as they are known.³²

³⁰ Roy Medvedev, *Post-Soviet Russia: A Journey through Yeltsin Era* trns. George Shriver (New York: Colombia University Press, 2000), p.4.

³¹ Alexander V. Ovoloniskii, 'Post Soviet Officialdom: A quasi bureaucratic ruling class'. *Sociological Research*, Vol.36, No. 6, Nov- Dec 1997 p. 67. See for a related view Ol'ga Kryshtanovskaia and Stephen White "From Power to Property: The *nomenklatura* in Post-communist Russia" in Graeme Gill (ed.), *Elite and Leadership in Russian Politics*, (London: McMillan Press, 1998) pp. 81-105.

³² Madhavan K. Palatt, *Ideological Choices in post-Soviet Russia* (New Delhi :Centre for Policy Research, 1997), pp.24-25.

Thus the defection of the Soviet elites from the system reveals the parasitic relation existed between the ruling class and the Marxist Leninist ideology from which the Soviet state draws its legitimacy. They were politically and ideologically oriented in western liberal values particularly in its latest form of Hayekian ideology that was in total contradiction with the egalitarian philosophy.

Thus, according to a Russian sociologists, “the Communist oligarchy became the gravedigger of its own system, albeit a calculating and selfish gravedigger hoping to enrich itself as its own funeral or, more accurately, to transform the funeral of its own system into its own emancipation from that system and the birth of a new...system, also run by the *nomenklatura*.”³³ One of the main characteristics of the new Russian ruling class was its total apathy to the state and all the values and symbols of the socialist ideals. They had blind faith in the western values and regarded economic liberalisation and market economy as the panacea for all the socio-economic problems of Russia.

In fact, they completely denounced the state without making a distinction between state in a socialist society and in other societies.³⁴ Their ideal economy was driven by the following principles, ‘Investments are shaped as the result of a multitude of private acts of investment and prices flowing from the interaction of supply and demand. For them labour resources are freely flow from unprofitable branches of the economy towards profitable branches, raw materials are sold on the free market, and the wages are shaped through the process of negotiation.’³⁵ In fact, well before the final disintegration of the Soviet Union, Soviet ruling elite was manifested into hardcore proponents of free-market ideology and monetarist economics.

Technocratic- westernised wing of the *nomenklatura* played a crucial role in the direction and implementation of the neo-liberal economic policy in Russia. In 1992, this group gained the upper hand in the government. While looking to the class-nature of this group Boris Kagarlisky aptly put it, “they were successful young people from the elite families, who had worked in

³³ Aleksander V. Obolonski, n.31,p.67.

³⁴ Vladimir Shlapen-okh, n.19, p.195.

³⁵ Ibid., p.195.

prestigious academic institutes travelled to the West, and become adherence of the values of the European style comfort... Unlike western technocrat, the Russian ones had never even headed banks and financial corporations, let alone production complexes. Their technocratism was abstract, idealist not even derived from western textbooks, but for the most part from the conversation with influential Americans in expensive restaurants. Their main similarities to western “yuppies” were in their style of consumption and their careerism. They behave in a way that they knew everything better than anyone else, and were therefore ready to pursue their line whatever the cost. Even when it was obvious that a decision was absurd and impossible to implement, they continued to insist on staying the course.”³⁶ Kagarlitsky’s insider’s observation clearly reflects the nature and character of the new propertied class in Russia.

Thus, Russia’s neo-liberal model of development strategy was very much dictated by the interest of the new ruling class and their self-interest. They intend to consolidate their already acquired social wealth by transforming the state property into their private property and thereby converting themselves into a new capitalist class.

The Shock-Therapy Model for Transition

Russia’s systemic transformation from the centralised planned system to a capitalist market economy was dictated by the neo-liberal dogmatism proposed by the western capitalist states and international financial institutions. The IMF and other western neo-liberal economists like Jeffery Sachs and Anders Aslund prepared the policy of economic shock therapy that made a far-reaching impact on the Russian economy. Rather than strengthening the social basis for a market economy, the economic shock therapy pushed Russian economy into long-term crisis. A brief review of the process of privatisation and the advice of the IMF and World Bank is necessary to reveal cause of the crisis.

The IMF initiated the reform process for the Russian economy even before the collapse of the USSR. During a meeting in July 1990, leaders of the

³⁶ Boris Kagarlitsky, *Restoration in Russia: Why Capitalism Failed* trans. by Renfrey Clarke, (London: Verso, 1995), p.16.

Group of Seven (G-7) industrial nations and the President of the European Community asked the IMF and other International Financial Institutions (IFI) to study the Russian economy and propose a more effective method of reform. The study titled '*a study of the Soviet economy*' was released in December 1990. It made recommendations to both the international community and the Russian government itself.³⁷ Western countries and international financial institutions prescribed the neo-liberal policy as a remedy for domestic economic crisis without properly going into the nature of the crisis confronted by the Russian economy.

The World Bank and the IMF suggested steps for instantly creating a free market in which the people could learn capitalism first hand. This programme was popularised by economists like Jeffery Sachs who states, "The West should reshape the life of the entire East European region."³⁸ The neo-liberal packages imposed in Russia by IMF and western states clearly reflected the fact that it had more to do with their geo political interest in the region than promoting capitalist development in Russia.

The policy for the region was based on the following steps:

1. A total shift to capitalist structures and rooting out completely any institutions or structures evolved during the Soviet period.
2. A break up of the old Council for Mutual Economic Assistance (CMEA) or Comecon region and the old trade and industrial linkages that the states of socialist block had established with each other over the decades.
3. Each state from the former Comecon block was to be linked directly to the West, and not to each other in the region. The precondition of this linkage was its development of capitalism. These states were thus to be gradually absorbed into the Western economy and ultimately unified Europe.

³⁷ See for details UNCTAD, *World Investment Report-1994:Transnational Corporations, Employment and the Workplace* (New York: 1994),p.199.

³⁸Jeffery Sachs cited in Anuradha M. Chenoy, *The Russian Transition to Capitalism*, (New Delhi: Peoples Publishing 1998), p .4.

4. The western states would be leaders and thus guide and control the development of the former Soviet and East European bloc through the multilateral agencies, providing incentives for cooperative governance and constrain for the uncooperative ones.
5. Development was envisaged through trade-led growth, directed towards western countries. Thus, a sudden and complete switch to free trade was considered essential.
6. Financial deregulation; currency convertibility; open trade and freeing prices were to be key policies in the transition.
7. Private ownership was to be the dominant pattern of ownership. De-nationalisation of industry, privatisation of state assets, corporate ownership patterns were to be immediately institutionalised.
8. De-collectivisation of agriculture and break up of the collective farms was a key agenda. Private farming and capitalism in agriculture was advocated.
9. Membership of key international institutions was advocated with complete immediacy.³⁹ Thus the basic task of the new policy was to make a complete shift from the Soviet past and prevent any radical alternative to the neo-liberal model.
10. Openness to foreign investment. The free trade regime and foreign direct investment (FDI) were to be the main engines of change.
11. No alternative or "third way" would be acceptable. This meant that retaining any of the old institutions or a 'mixed system' was ruled out. ⁴⁰ One of the major features of neo-liberal policy was that it hardly took into account the structural characters of the Russian society in determining the nature of economic strategy.

³⁹ Jeffery Sachs quoted in Anuradha M Chenoy, *Making of New Russia*, (Newdelhi: Har Anand Publications Private Limited, 2001), pp.191-192.

⁴⁰ Peter Gowan, *Neo-Liberal Theory and Practice for European Markets*, *New Left Review* no.213, September 195, pp. 3-61.

The above recommendations were based on the neo-classical economic theories. The neo-liberal economists and international financial institutions are prescribing these changes as the pre-requisite for development of liberal market economy.⁴¹ There is neither a historical experience on which one can draw insights nor economic, political or other social theories on which one may rely for guidance and economics have failed miserably as a guide. The transition problem is novel in the sense that the world has never before experienced the transition from one type of highly industrialised economy to a different type of highly industrialised economy.⁴² The past experiences of the capitalist development shows that the policy imposed in Russia were hardly practised in any capitalist country during the course of their development.

Peter Gowan, Alice Amsden and others have shown that the proposal formulated by the IMF inspired economists for east Europe/Russian region were never even used in the development of early capitalism in Western states. There was for instance, no currency convertibility in Western Europe before 1958. Contrary to the IMF proposals the USA had highly protectionist policies during the inter-war period. Further, the newly industrialised countries of Southeast Asia all developed capitalism through high level of state interventionism, which was refuted by the IMF proposals. Not even a single capitalist country ever followed the model proposed for Russia and East European region by the IMF.⁴³ In fact, the neo-liberal policy imposed in Russia by the West clearly intended to prevent the development of a nationalistic capitalistic class in Russia.

Transition Theories

Following the collapse of communism, every formerly communist country in East Europe including Russia, suffered severe recession, de-industrialisation and economic chaos; and by one estimate, recession reduced by one-quarter

⁴¹ For general discussion on Neo-liberalism, see "Stephen Gill, "Globalisation Market Civilisation and Disciplinary Neo-liberalism", *Millennium*, Vol. 24, n. 3, PP 383-423.

⁴² Robert Gilpin and Jean M. Giplin, *Global Political Economy: Understanding the International Economic Order*, (Princeton:Princeton University Press, 2001), p. 334.

⁴³ Anuradha M. Chenoy, *n.14*, pp. 92-193.

the national product of Eastern Europe.⁴⁴ The economic troubles were set back to reforms and in some cases, resulted in a retrenchment of the reform effort. More generally, recession and its aftermath had a profound negative impact. Reform has been recognized as much more complicated and difficult than most economists, public officials and others had anticipated.⁴⁵ This is mainly due to the inherent weakness of liberal theory, which hardly take into account the influences of non-economic factors in economic development.

Scholars and others have set forth different explanations of what went wrong. One explanation is based on the doctrine of neo-liberalism, another is the theory of cultural legacy and yet another emphasizes the crisis of governance.⁴⁶ The neo-liberal convergence explanation is strongly influenced by the neo-liberal ideas and perspectives on structural adjustment and includes a minimal role for the state in the economy. According to this position, the post communist recession was the inevitable consequence of the transition from a command to a free market economy.⁴⁷ In the initial years of neo-liberal reform, the ruling elite and western supporters claimed that it would result to the economic recovery of Russia within a short span of time.

The critique of the neo-liberal model also rightly pointed out that neo-liberal model of capitalist development advocated the views of Adam Smith and other free trade theorists. In contrast to the neo-liberal model, most of the recently industrialised countries of Southeast Asia followed a policy in which developmental state played a major role in the industrialisation process. In East Asian countries, huge investments by the state in social sector along with implementation of land reforms played a crucial role in developmental effort.⁴⁸ Even in present day capitalist countries in the West, state assistance and selective intervention continues to operate.

⁴⁴ Janos Kornai., "Transformational Recession main Causes, *Journal of Comparative Economics*, vol .19,no.1, August 1994, pp39-63.

⁴⁵ Robert Gilpin and Jean M. Giplin, n. 41,p. 335.

⁴⁶ Ibid.

⁴⁷ Ibid, p.335.

⁴⁸ See for details, Alice Amsden, J. Koohaniwica and Lance Taylor, *The Market Meets its Match: Restructuring the Economics of Eastern Europe*, (Cambridge Ma: Harvard University Press, 1994). Also for detailed discussion on Southeast Asian economic development see Prabhat Patnaik, "Global Capitalism: An Asian Survey" *Monthly Review* Vo. 51 No. 1, 1999.

According to the cultural legacy explanation, the bad habits and mentalities of past change slowly. Communism has created passive and dependent people. Communist culture moulded societies characterised by duplicity, disinformation, extreme self-interest, reliance on personal connections, and avoidance of any responsibility for these actions.⁴⁹ According to the crisis of governance view for a number of reasons, the political elites of Eastern Europe engineered the collapse of the states as rapidly as possible and before society was ready for such a change. There had been uncritical acceptance of the neo-liberal doctrine of the minimal state, and the important functions of the state in democratic market-oriented societies were not really understood.⁵⁰ This approach seems to be more realistic and was able to explain many of the post-soviet changes in Russia.

In a recent work, well-known American historian Stephen F. Cohen argues that Russia's difficulties were aggravated by bad western advices and that there were alternatives to the policies prescribed by the West via the IMF.⁵¹

Another cause of the collapse of state was the extraordinary rapacious and corrupt behaviour of public officials. These officials had an interest in elimination of the state and through one means or another they and their allies, including criminal elements in Russia, grabbed state assets for self-enrichment. Political elites in most post-communist societies forsook the common wealth for short-term private advantage.⁵² In fact, in the initial stages of Shock Therapy and massive privatisation, both Western governments and IMF even promoted mafias and other illegal elements and they were one of the major beneficiaries of neo-liberal model.

Shock Therapy in Practice

The way Shock Therapy model was launched in Russia itself shows that reformers were well aware of its destructive effects on society. It was

⁴⁹ Robert Gilpin and Jean Gilpin, n.41, p 335.

⁵⁰ Stephen Homes, "Cultural Legacies on State Collapse? Probing the Post Communist Dilemma" in Michael Mandelbaum (ed), *Post-Communism: Four Perspectives*, (New York: Council on Foreign Relations, 1996), pp22-76.

⁵¹ Stephen F. Cohen, *Failed Crusade: America and The Tragedy of Post-Communist Russia*, (London: W.W. Merton, 2000), p. 317.

⁵² Robert Gilpin and Jean Gilpin, n.41, p .336.

implemented in Russia without any proper public debates, even among the policy makers and without any concrete analysis of the Russian economy and viability of the externally imposed model on Russia's chaotic economic conditions. The basic strategy of the neo-liberal reformers is to prevent any immediate people's resistance to the reform programme. Their conceived economic changes were seen as a precondition to political changes. Fundamental and far-reaching changes to the economy and social system were made through presidential decrees.⁵³ This has also clearly reflected the anti-democratic nature of neo-liberal policy – wherever the neo-liberal policy was imposed, the western states and the funding agencies preferred authoritarian regimes as the ideal institution for implementing it.

It was believed that the entire social and institutional order could be changed through political control. The reformers believed that coercion had to be used for reforms if necessary. Thus, many Russian neo-liberals openly espouse an authoritarian state as the only mechanism capable of managing the violent manifestations of the contradiction during the process of transition. Even where civil society has not collapsed completely, anti-democratic developments abound; executive powers are increased, trade union rights are curbed, military and police powers are increased.⁵⁴ Rather than treating the immediate destructive effects of neo-liberal policy as an outcome of systemic shift, it was more accurate to consider as a product of the very nature of the neo-liberal policy which is impracticable and in its pure form hardly even practised in western capitalist countries.

The new policy officially began on 1st January 1992, a few days after the Soviet disintegration and the establishment of the new regime, President Yeltsin announced the privatisation programme. Prices and administrative controls were lifted. Proposals were made for cutting state subsidies. Price controls on 90 percent of consumer goods were abolished. Prices rose by 25 percent the very day after the introduction of the new policy. This trend continued and by the end of the year, inflation was an estimated 2000 percent. The surge in spending was held down by price hikes and because of

⁵³ Anuradha M. Chenoy, *n.4*, p. 7.

⁵⁴ Michael Williams and Geert Reutern, "After the Rectifying Revolution: The contradictions of the Mixed Economy", *Capital and Class*, No.49, spring 1993, p. 94.

a plunge in real wages. Thus, the consumer spending collapsed with no stimulus from consumer demand, exports decreased. This initiated a slow down and ultimately a virtual stop of capital formation.⁵⁵ At the same time, the driving force from the state and the planning system was halted. The outcome was a drop in output.

Companies were then allowed to buy foreign exchange for imports at floating rates and in exchange sell a share of export earnings to the government at fixed rates. Russia's currency, the rouble, was thrown into a state of intense fluctuation by the transition. In 1989, one US dollar was worth two-third of a Rouble. In 1993, it was close to one thousand and at the end of 1996 it was over 5000. As a manifestation of this development, annual inflation rate was of more than 350 percent. Consequently, the budget had to be drawn up every quarter. This instability of the rouble resulted in the domination of dollar in the Russian domestic economy.⁵⁶ Initially the western neo-liberals and Yeltsin apparatus promised to the public that inflation was a temporary phenomenon. Yeltsin promised to the dissatisfied population who were badly affected by the Shock Therapy that everyone will find life harder for approximately six months, these prices will fall and goods will begin to fill the market.⁵⁷ This itself revealed that Yeltsin regime had hardly understood the complexities of the neo-liberal policy and it even failed in formulating policies which the society desperately required.

The First Phase of Privatisation

The Gaider team initiated privatisation scheme under the Shock Therapy (ST) programme. The Russian privatisation programme has combined a range of privatisation methods from the traditional scale of small enterprises by auction, to the development of a mass privatisation programme similar to that in the Czech Republic, based on issuing of privatisation vouchers to the Russian population.⁵⁸ In Russia there were 28,000 large scale enterprises.

⁵⁵ Anuradha M. Chenoy, n. 4, p. 8.

⁵⁶ Ibid, p. 8.

⁵⁷ Laszlo Andor and Martin Summers, *Market Failure: Eastern Europe's Economic Miracle*, (London: Pluto Press, 1998), p. 37.

⁵⁸ Timothy N. Ash and Paul G. Hare, *Privatisation in the Russian Federation: Changing Enterprise Behaviour in the Transition Period*, Cambridge Journal of Economics, Vol 18, 1994, p. 620.

These comprised over 90 percent of industrial production. In July 1992, all state enterprises with more than 1000 employees or a book value of more than 50 million roubles were ordered to re-organise themselves as joint stock companies. In October that year, the government issued vouchers worth 10,000 roubles to each of Russia's 148.7 million citizens to buy shares in the firms in the first stage of privatisation.⁵⁹ Due to the specific nature of Soviet society, majority of peoples were completely ignorant on various mechanisms of market economy and they hardly benefited from the Voucher Privatisation Programme initiated by Yeltsin regime.

Enterprises had to be privatised by converting the shares of enterprises into joint-stock ownership through options. Workers of joint stock companies can receive a free allocation of non-voting share to a value of 25 percent of the capital value of the enterprises, and up to a maximum of twenty times the maximum salary of each worker at the enterprise. Beyond the free allocation of 25 percent of non-voting shares, workers have the right to purchase shares in their enterprise at 30 percent of the nominal share value, up to a limit of 10 percent of the capital value of enterprise. Managers are able to purchase 50 percent of the shares of the joint stock companies at par value.⁶⁰ This method was to allow some amount of internal privatisation, but workers could not get a controlling stake.

The second option on the approval of two-thirds of the workforce of the enterprise, workers can purchase 51 percent of the shares of the enterprise through a closed subscription. In this case, workers pay a price for the shares 70 percent above the book value. However, workers can use vouchers to pay for 50 percent of the price of shares but with the provision that the full price of the shares must be paid within 90 days. The FARP Development Fund, a concept instituted before the recent reform process can amount to 5 percent of the equity value. The remained of the shares are sold at voucher auction or by tender.⁶¹ In the third option which is limited to enterprises with more than 200 workers and with assets valued at between 1 and 50

⁵⁹ Anuradha M. Chenoy, *n.14*, pp 195-196. Also see Roy Medvedev, *Post-Soviet Russia: A Journey Through the Yeltsin Era*, Colombia University Press, 2000, p. 89.

⁶⁰ Timothy N. Ash and Paul G. Hare, *n.57*, p624.

⁶¹ *Ibid*, p. 624.

million rouble. In this option total restructuring of the enterprises was the viable model.

Eighty percent of the firms opted for the second option, five percent for the first and two percent for the third. This was because inflation was about 2000 percent at this time and the book value of enterprise was reduced to incredibly low and almost ridiculous levels. For instance, from January 1992 to January 1993, prices rose by 2,500 percent. In the nominal values of industrial enterprises remained frozen. Thus municipal property (housing, shops, restaurants, kiosks, etc) were privatised for cash auctions of market value while privatisation of large and medium state enterprises in contrast was restricted for voucher sales.⁶² The way privatisation programmes were carried out in Russia resulted in the emergence of the parasitic capitalistic class in the country.

Since the market value of vouchers was not determined, small shops sold for more than large industrial concerns. For example, the Malysh Baby Food Shop in St. Petersburg sold at 701 million roubles, whereas the famous St. Petersburg Shipyard, Baltisky Zavod fetched 1 million roubles. Unimarsh, the largest machine tool plant in Russia that employed about 100,000 workers was sold for 1.8 billion roubles, which was the equivalent of its wage bill for a fortnight. Similar example was the sale of a huge fishing company in Murmansk Severyryba for 10 million roubles by a holding company, when its actual worth was estimated at 5 billion dollars. In October 1992, the Moscow city government auctioned apartments with bids starting at only 3 roubles. According to one estimate, a purchase of \$1000 of state property at book prices led to investors acquiring real assets valued at \$300,000.⁶³ The main justification of privatisation of state assets provided by the neo-liberal theory was that the economic efficiency and rational prices based on market forces would contribute to promotion of economic development.

Privatisation in Russia had to be decentralised because of the great size of the state sector and because of regional diversity. Enterprises thus had to be auctioned at regional levels by regional authorities. Investment fund were set

⁶² Anuradha M. Chenoy, n.14, p196.

⁶³ Michel Chussudovosky, *The Globalisation of World Poverty: Impacts of IMF and World Bank Reforms*, (Mapusa Goa, The Other Indian Press, 1997), pp. 23-232.

up and by 1993, there were about 300 investment-registered funds with 7000 subsidiary bodies. More than one-third of all state enterprises in the Russian Federation have been privatised. The quickest possible privatisation was necessary to prevent the workers and managers forming an interest group that would control enterprises.⁶⁴ “We need millions of owners, not hundreds of millionaires”, Yeltsin declared in a speech to the Congress of Peoples Deputies on April 7 1992, coining a populist slogan for mass privatisation. The actual outcome was the other direction, towards creating just a few hundred millionaires.⁶⁵ This was a common feature of all the Afro-Asian countries who were early had implemented the neo-liberal policy.

The basic aim of privatisation programme was a Roy Medvedev rightly observed, “to form a class or stratum of property owners who could become a reliable base of support of the new social system being created”. There was no precedent in economic history of this kind of privatisation.⁶⁶ The immediate impact of the new policy was catastrophic to the Russian economy and society. The neo-liberal reformers who initially predicted immediate miracle for Russian economy once the Shock Therapy were initiated. Instead of reviewing the impractical and chaotic nature of the policy, they have pleaded for faster reforms. They also criticised the mass voucher-privatisation policy that on the ground that increasing workers’ participation would lead to inefficiency and higher wages. While analysing the destructive effects of privatisation in East European countries, policy analysts put it this way: “Recommending privatisation for all the sickness of the public sector has been likened to a doctor prescribing the same pink pills for all ailment.”⁶⁷ Even Jeffery Sachs himself admitted the destructive social consequences of the neo-liberal economic shock therapy.

Many modern liberal scholars vehemently criticised the neo-liberal shock model practised in Russia. The legendary liberal philosopher, late Karl Popper, in an interview for Radio Liberty expressed his reaction to the neo-liberal policy. Popper did not believe that the sudden break with the old

⁶⁴ Anuradha M. Chenoy, n. 14, p197.

⁶⁵ David E. Hoffman, *The Oligarchs: Wealth and Power in the New Russia*, Public Affairs, New York 2002, p189.

⁶⁶ Roy Medvedev, n. 30, p94-95.

⁶⁷ Lasslo Andor and Martin Summers, n.56, p. 89.

economic system could be imposed from above and argued for gradualist reform based on public consent. "The will to build a market economy must come from the people, and ... maybe a very slow process. It was useless for politicians and planners to design a theoretical programme and to complain when it misfires".⁶⁸ In spite of taking into account of the sober criticism of Popper and many other liberal scholars, the neo-liberal reformers and Western financial institutions launched the second phases of privatisation.

The Second Stage of Privatisation

The second stage of privatisation was through cash auction of industries. It was characterised by the gradual pace of inflation, the sale of vouchers in the black market and the quick decline of industries. The collapse of many investment schemes led to the growth of secondary trading in vouchers and shares. This policy resulted in the marginalisation of resistance to the policy. The fast pace of privatisation is indicated by the fact that by 1994, 83 percent of employment was in industries with little or no government stakes.⁶⁹ By mid 1993, more than one-third of all state enterprises in the Russian Federation have been privatised.

The only sector that has had comparatively slower rate of decline has been the fuel and energy sector. For instance, in 1995-96, 318 million tonnes of oil were extracted. But it is evident that those sectors that are extraction sectors for natural resources like coal, gas, timber, and oil have not been allowed to slow down. These sectors have had more foreign investment since exploitation of Russia's mineral wealth is of interest to the liberalisation regime, within and outside Russia.⁷⁰ Russia's leading oligarchs like Mikhail Khadorkovsky, Boris Berezovsky and former prime minister Viktor Chernomyrdin etc, who controls the substantial chunk of Russia's oil resources.⁷¹ In most cases, the privatisation policy resulted in the

⁶⁸ Karl Popper quoted in David Wedgwood Benn, "The West's Role in Post-Communist Russia", *Europe-Asia Studies*, Vol.54, n.2, 2002, p. 321.

⁶⁹ Philip Hanson, *What Sort of Capitalism is Developing in Russia*, Communist Economies and Economic Transformation, Vol.9,no.1, pp. 27-42.

⁷⁰ Anuradha M. Chenoy, n. 14, p. 202.

⁷¹ For a detailed account on economic transformation and origin of leading oligarchs in post-Soviet Russia, see David E. Hoffman, n.64.

manifestation of former Soviet elites who become the owners of the property, which they controlled in the eve of privatisation.

Privatisation and Regional Disparities

The process of privatisation in Russia was decentralised because of the great size of the state sector and because of regional diversity. Enterprises were auctioned at the regional levels by local authorities in charge of privatisation. There were massive differences between various regions in Russia in implementing economic reforms. Because of the Gorbachevian reforms, in many regions former party elites manifested themselves into a new regional propertied class.⁷² Privatisation process led to new disparities between regions within Russia. A study of Chelyabinsk region showed for instance, that business from Moscow and Kazan, with “bag full vouchers” bought out shares totalling 6 percent of the start up of capital of enterprises. As a result, 2.5 million residents of the Chelyabinsk defence sector enterprises were cut-off from the voucher-based auctions.⁷³ Recently many studies revealed that the leading oligarchs in Russia dominate the major chunk of the Russian economy.

Impacts on Taxation and Financial Policy

In a normal market economy, banks are the main institutions to mobilize and channelize the savings for investments while lending to real sectors of the economy. There is a link between economic development and market-based financé system in a developed market economy. Banking system fulfils fundamental tasks in providing payments, savings and lending services. But this has not happened in Russia even after many years of economic reforms.⁷⁴ In spite of this fact, the main feature of neo-liberal strategy was to dismantle the institutionalised financial structures in Russia. Neo-liberals are also against well-developed tax regime and they considered it as a disincentive to capital formation.

⁷² See for details, Philip Hanson, *Local Power and Market Reforms in Russia*, Communist Economies and Economic Transformation, Vol.5 , no.1,1995, pp. 45-61.

⁷³ A.M.Chenoy, n .14, p.203.

⁷⁴ R.G. Gidadhubli, “Russia’ Banking Sector: Challenges of Reforms” in S.K. Jha and Baswathi Sarkar (ed), *Amidst Turbulence and Hope: Transition in Russia and Eastern Europe* (New Delhi: Lancers Books, 2002), p.172.

The financial reforms in Russia were left entirely to market forces. The consequences were that the banking system in Russia became highly concentrated and uneven. Seven top banks dominated the Russian economy through their close connection with the ruling elites. By 1992-93, there were about 20,000 banks in Russia. Many of these banks were, however, single branch banks. However, the growth process of the banking sector itself in Russia has been highly uncontrolled, unplanned and unregulated, which has created numerous problems.⁷⁵ Almost 44 percent of the banks are in the Moscow region itself and hold 84 percent of the countries holdings. Large areas like the Northern and Central black soil districts have very few banks. The small banks, especially, in the regions have been winding up.⁷⁶ This was the natural outcome of the free market policy in which the medium and small-scale industries were unable to compete with the giant firms without assistance and protection from the state.

Western Aid and Foreign Direct Investment

Initially reform programmes started with the western supervision and economists from international financial institutions and western universities formulated the strategy and the nature of the neo-liberal policy. Western countries and other funding institutions promised to give huge economic and investment aid to Russia for the capitalist development. In the oil and gas sector negotiations for 4 billions of dollars were made. But *Goskomstat* reports for 1993-94 shows that 1.2 billion flowed into Russia for investment purposes, of which 86% constituted direct investment. A breakdown of this foreign investment shows that 930 million dollar went to the fuel-energy sector and some \$80 million in to commerce.⁷⁷ In fact the fuel and energy sector were operating in profit basis during the time of privatisation and it hardly required any investment in infrastructural development. Due to this reason it received the massive inflow of western capital in order to grab the profits within short span of time.

⁷⁵ R.G. Gidadhubli, *Russia's Banking Sector: Challenges of Reforms*, in S.K. Jha and Bhaswati Sarkar (eds), *Amidst Turbulence and Hope: Transition in Russia and Eastern Europe*, Lancer Books, New Delhi, 2002, p166.

⁷⁶ Anuradha M. Chenoy, n. 14 , p. 206.

⁷⁷ *Ibid*, p.207.

Despite the promises made by the western states and financial institutions, in reality they had not even partially fulfilled these promises. Jeffery Sachs admits this fact. "In 1992 the west promised 24 billion dollars assistance and delivered only a few billion. In 1993 west promised 28 billion dollars and on my calculation, they delivered only 1 billion. I thought that each sign of instability in Russia would prompt the recognition that we ought to be doing more but it do not happen that way".⁷⁸ Thus in short, western advice and their intervention in policy formulation in Russia hardly made any positive impacts on Russian society and economy.

Stephen Cohen recently made an insightful analysis of west's role in the post-communist Russia. He argued that the policy and advice to Russia from the West pushed the country into poverty, decline in GDP and collapse of social and public health facilities.⁷⁹ In short, the role of western aid and foreign direct investment hardly made any positive impact on Russian economy, rather it was destructive and it promoted speculative capital and oligarchic elements in the economy. Most of the western foreign direct investment was short-term capital and it had invested in speculative activities and real estates their profits were regularly flowed to the west. ⁸⁰ This was one of the major factors behind the capital shortages in Russia.

Privatisation and Agrarian Reforms

Privatisation of agriculture was an important agenda of the new Russian Government. President Yeltsin issued a decree on December 27, 1991 "on urgent measures of land reforms in the RSFSR". This decree violated the Russian Constitution, which did not allow for the sale of land. It mandated the re-organisation of all agricultural organisations by the year 1992. Local authorities had to assume responsibility for allowing members of the collective farms to freely start their individual farms. State farms were to transform themselves into joint stock companies to help the process of de-collectivisation.⁸¹ This resulted in the massive social crisis among the

⁷⁸ Cited Sachs in Laszlo Andor and Martin Summers, *Market Failures: East Europe's Economic Miracle* (London: Pluto Press, 1998), p.43.

⁷⁹ Stephen F. Cohen, *Failed Crusade: America and the Tragedy of Post Communist Russia* (New York: W.W. Norton, 2000), p.159.

⁸⁰ See for details Michael Chussudovsky, n. 64.

⁸¹ A.M. Chenoy, n.14, p. 209.

peasantry who were relatively well off during the Soviet period compared to their counterparts in developing countries.

In rural areas, tens of millions of household plots, summer gardens, and lands allotted for usage as orchards, and vegetable gardens became the private property of the citizens who worked that land. Both urban and rural inhabitants acquired ownership of about 40 million hectares, which undeniably resulted in improved economic utilisation of this portion of Russia's arable land. During the period between 1992-93 about 127,000 state and collective farms were converted into joint stock companies managed mainly by the same former chairman of collective farms. Such joint stock holding companies have been the dominant form of land ownership in agriculture. In the form of privatisation, land and land-shares were nominally given to all members of those farms including those managing them. Moreover, Article nine of the 1993 constitution of the Russian federation guaranteed the right of private property on land.⁸² By implementing agrarian reforms Yeltsin regime hardly took into account the requirements and opinions of the peasantry and other allied workers in the countryside.

However, the many social groups and parties in Russia vehemently resisted the private ownership in agricultural land. In July 1995, a new law was passed in the *Duma* supported by the Communist and agrarian party. This law proposed the land ownership being left in the hands of the cooperative and slowed down and stalled the development of private farms. Yeltsin and Liberal parties led by Gaidar opposed this law, but the communist and agrarian block passed it with their majority. Russian experts have argued against the unrestricted free sale of land because they believe that land would then be used for acquisition and speculation, with profit from such deals moving out of the country.⁸³ This would be the most possible outcome if the Russian state succeeds in implementing neo-liberal policy in agrarian sector without creating necessary regulatory institutions to control it .

⁸² R.G . Gidadhubli and Arun Mohanthy, "Farm Land Law of Russia: Changing Course of History" EPW, Vol.38, No.35, August. 2002, pp. 3587.

⁸³ Chinoy, no.14, p. 210.

Despite this resistance by the leftwing parties and many other social groups, finally reformers succeeded in agrarian reform front by passing laws in favour it. On July 28, 2002 Russian president Vladimir Putin signed into law the farm land bill which was earlier adopted by the state *Duma* on June 36, 2002 and by the federation council (Upper House) on July 10, 2002. This law on farm land which legalises private ownership of agricultural land and freedom to buy and sell farmland.⁸⁴ This law might result far-reaching impacts in the Russian countryside.

Many people publicly opposed the new legislation and argued that it would result to the increasing speculative activities in land. For instance as quoted by Fred Weir in the *Christian Science Monitor* on February 8, 2002, according the opinion poll on this issue, about fifty percent of Russians opposed private ownership of agricultural land and twelve million people belonging to the former collective and state farms having nostalgia for communism were totally against the idea of privatisation. Similarly, according too the opinion poll conducted by Soviet Skaya Rossia, on July 13, 2002, ninety percent of the peasants were against farm land sale and eighty percent of the Russian population was decisively against farm land sale to foreigners.⁸⁵

Russia's last one decade of neo-liberal economic policy resulted in the massive retreat of state budgetary allocation to agriculture. It declined from 12 percent in 1991 to 1 percent in 1998.⁸⁶ Despite this fact in the context of over all changes in the Russian economy and social relations in favour of the liberalised market economy, a well-developed and effectively regulated agrarian capitalism was vital for the sustaining of nascent liberal capital economy in Russia.

Impacts of Neo-liberal Policy on Russia's Social Structure

Recently Elliot and Atkinson characterised neo-liberalism "as a hurricane neo-liberalism swept across the political landscape laying all before it waste. In its wake, it left demolished social infrastructure, polarisation, fragmentation, inequality, poverty, rising crime and disorder (personal and

⁸⁴ R.G . Gidadhubli and Arun Mohanthy, n.15, p. 3587.

⁸⁵ *ibid*, p. 3588.

⁸⁶ *ibid.*,p. 3589.

social), collapse of confidence of progressive forces, privatisation and individualisation. Winners and losers were increasingly separated, destroying old political and social alliances. It had offered the possibility of enterprise, innovation, and opportunity to people with initiative who were willing to work hard. It claimed that through trickle-down all would in the end benefit, a seductive argument which just did not work."⁸⁷ This observation on neo-liberalism accurately reflected its destructive impacts on Russia and many other Afro-Asian countries that have practised it.

The neo-liberal economic policy initiated by the post Soviet Russian state played havoc impacts on country's social structure. It immediately altered the social relations that existed in the Soviet period. Neo-liberal policy pushed the Russian society into a pre-industrial era and resulted in the emergence of new classes of property owners at the cost of the vast majority of people. Analysis the destructive effects of neo-liberal ideology revealed that, the basic goal of neo-liberal economic strategy of Shock Therapy was to effectively dismantle the various organs of the states from doing its democratic functions and responsibilities. By adopting the model of economic Shock Therapy, the ruling regime in Russia legitimised the huge quantities of property and other valuable resources grabbed by the new ruling class. This was clearly reflected when an author put it, "the Soviet collapse had less to do with movement politics from below and more with defecting cadres from above."⁸⁸ Thus the disintegration of Soviet union and subsequent radical changes in Russian social structure were the outcome of the conscious policy of the, dominant social classes and party bureaucratic elites who disowned the very socialist system in which they had control and found green pastures for themselves and their spouses in neo-liberal market economy. Russia's legacy of last one decade of neo-liberal development shows despite widening social stratification in society also accelerated the disparity between different regions within Russia.

⁸⁷ Elliot and Atkinson , quoted in Susanne MacGergor, "Neo-liberalism and New Paternalism: Three way for Social policy in Late Capitalist Societies" *Capital and Class* ,n..67, spring, 1993, pp. 93-94.

⁸⁸ Gerald M.Easter "Politics of revenue extraction in Post communist states: Poland and Russia compared" *Politics and Society*, Vol.30, no.4, December 2002, p. 612.

Income Disparity and Poverty

Since the 1990 there was marked increase in poverty and income inequality in Russia. The richest 10 percent received 28 percent of income, while the poorest 10 percent-received only 2 percent of the income. As much as 59 percent of the population was below the poverty line. 90 percent of the workers do not get a minimum subsistence wage.⁸⁹ More than 40 percent of the country has less than \$ 4 a day, according to a survey conducted by the World Bank. Data shows that children in more than 50 percent of families are in absolute poverty.⁹⁰ The proportion of families without any type of property was highest in Russia, where it included roughly one-third of families⁹¹. It revealed that the privatisation programmes and mass voucher schemes had benefited only the elite sections of the Russian population who had power and capacity to purchase it.

Unemployment

As a result of the structural changes in Russian economy and the retreat of the State from the social security measures led to the massive unemployment of population. In Russia, 64,000 people were officially unemployed at the beginning of 1992. In September the figure reached 250,000 and was projected to be 2.5 million by January 1993.⁹² Recently in a Comprehensive study, *The Restructuring of Employment and Formation of a Labour Market in Russia* by Simon Clarke and many other researchers who empirically show the crisis of employment in Russia.⁹³ They show that official statistics in fact hide the reality of unemployment in Russia. The figures exclude millions who receive very low salaries, including those who choose to go on unpaid leave rather than become unemployed, in the hope of eventually receiving a salary and pension.⁹⁴ This explains the gravity of social crises faced by the ordinary people in post-Soviet Russia.

⁸⁹ A.M.Chenoy,n.14, p.229.

⁹⁰ Joseph Stiglitz, n.5, p.153.

⁹¹ Liudmila A. Khakhulina and Milan tuck, property stratification in the transitional period. *Sociological Research*, Vol.36, no.2, p. 73.

⁹² Mary Beckley *Redefining Russian Society and Polity* , (Boulder :Westview Press,1999),p. 320.

⁹³ Olga Speranskaya "Russian Reform Hide the Jobless Millions", *Contemporary Review*, Vol. 279, no.1627, August.2001, p.90.

⁹⁴ *ibid.*, p.90.

In 1995 at any one time about 58 million people were employed and working, including part time and casual employees although only around 20 million of them had received their most recent wage on time and in full. The 27 percent of the population in the countryside are by far worse off, with the subsistence minimum, very substantial wage delays, as alternative employment and a growing rural population as people leave in search of food. Simon Clarke says that many unwaged Russians survive on handouts from friends and relatives, subsistence agriculture, casual labour, petty trading or petty crime.⁹⁵ In the countryside, reforms have not brought about the promised dream of a prosperous society any closer. Industrial production fell more than 50 percent, long-awaited foreign investment did not appear and Russia had been losing up to \$50 billion a year in fleeing capital according to the central bank.⁹⁶ The one of the major factors that resulted to the massive crisis of the Russian society and economy were the inability of the state to formulate laws that effectively control, as well as various defects and failure of the market economy.

Middle Class

Decline of the state's role in society weakened the middle class, driving it to the periphery of society. The belief that the middle class would be automatically developed with market relations proved untrue in Russian society. According to one Russian sociologist the potential social groups who would possibly transform themselves into a new middle class includes; entrepreneurs and managers, highly skilled specialists, highly skilled workers and productive peasants and farmers, and their group will necessarily play an important role in stabilisation and the formation of civil society. According to data from some studies, about 13 percent of the employed population belongs to this stratum today.⁹⁷ A poll in year 1993 by the public opinion foundation revealed that 41 percent of those polled claim to be occupying the middle stratum of the society.

⁹⁵ *ibid.*, p.90. also see for a related view Zinaida T. Golenkova "The transformation of the social structure of Russian society", *Sociological Research*, Vol.35, no.6 november-december 1996, pp20-39.

⁹⁶ *Ibid.*, p. 91.

⁹⁷ Zinaida T. Golenkova, *The Transformation of the Social Structure of Russian Society*. *Sociological Research*, Vol.35, No. 6 Nov.- Dec. 1996, p.34.

Studies by a team of sociologists classify the elite as making up 0.59 percent of the society. The middle classes that in 1997-98 were said to comprise 21 percent; then a 'basic stratum' that is analogous to the west's middle class in terms of size etc., but not in terms of income or well being. This makes up 65 percent of the population and the lower stratum is of 7 percent of the people.⁹⁸ Commenting on the weakened nature of middle strata, Stephen F. Cohen rightly put it "the neo-liberal policy aimed at promoting a capitalist, middle class even failed in its own terms, because the large, highly educated and potentially entrepreneurial middle-classes were decimated by shock therapy in the early 1990s.⁹⁹ Thus, the insightful observation of Cohen well revealed the destructive role of the neo-liberal policy and western states in accelerating social crises in Russia.

Impact on women

Women have been one of the major victims of the post-Soviet changes. The most tragic social threat has emerged in the post socialist period is the threat to life itself. Women's life expectancy declined between 1990 and 1993 from 74.3 to 71.9 years, that is, a 2-4 years decrease. A steady increase in the death rate has been observed in all age group except the youngest (0-10 years) with a steady increase from the younger age groups to the older from one per 10,000 among girls 10-14 years old to 97 per 10,000 among the elderly women 70 years old and older. This is mainly due to older women experience greater pressure from the changing environment compared to the younger groups.¹⁰⁰ This is mainly due to the abolition of many social security measures, which were enjoyed by women in former Soviet Union.

The proportion of women among the total working population in Russia has begun to decrease in recent years owing to the growth of female unemployment. In early 1994, 567,446 unemployed women were registered with the employment services - 69 percent of all unemployed in Russia¹⁰¹. The workload of women was increased by the abolition of the state child-care

⁹⁸ A.M. Chenoy, n.14, p. 230.

⁹⁹ Stephen F. Cohen, *Failed Crusade: America and the Tragedy of Post Communist Russia* (London: W.W.Norton , 2000), pp. 30- 33.

¹⁰⁰ L.V. Korel, Women and the marker: Soviet trend and risk factors. *Sociological Research*; vol. 35 No. May-August 1996, p.28.

¹⁰¹ *Ibid* p. 29.

system, which previously provided daytime care of children under the age of three in Soviet periods. Another striking consequence of marketisation in Russia can be observed in the explosion of prostitution in Russian and Ukrainian, girls were hired and forced to work in Poland and Hungary, while Polish and Hungarian girls went further to the west.¹⁰² This is in terms with the consumerist culture of the neo-liberal capitalist countries that often treat women as a commodity and wherever the neo-liberal policy was implemented, it resulted in the increased degradation of women's dignity in the society.

Commenting on the increasing gender segregation and masculinisation in emerging civil societies of Russia and eastern Europe a scholar observes, "the transition to liberal democracy and market economy based on private property, essentially entails the (re)structuring of opportunity and the creation and institutionalisation of hierarchy based on marked advantage; traditional ideas concerning differences, including gender difference, are playing a key role in shaping such masculinity an exclusionary advantage in the new public sphere."¹⁰³ In short post-Soviet economic reforms and subsequent radical changes in Russian society pushed women in to a marginalized position.

Demographic challenges

The drastic changes in social stratification that led to the decline of living standards of many and impoverishment of others were also accompanied by the withdrawal of the state from the social sectors. Russian citizens had been accustomed to services provided by the state and moreover the withdrawal of state from the social security measures was not replaced by any properly considered alternative.¹⁰⁴ This is in fact the outcome of the free market policy, which vehemently opposes the welfare measures, and it considers social security measures as disincentives and which promote economic inefficiency in society.

¹⁰² Laszlo Andor and Martin Summers, n.57, p.124.

¹⁰³ Peggy Watson, The Rise of Masculinity in Eastern Europe. *New Left Review*, No. 198, March - April 1993. p.72.

¹⁰⁴ A.M. Chenoy, n.14, p.233.

According to UNICEF, the excess mortality in Russia, Ukraine, Bulgaria, Hungary and Poland between 1989 and 1993 was 800,000.¹⁰⁵ Michael Ellman gives the figure for excess death in Russia alone in 1992, was 82,000 and says there were substantially more such deaths in 1993. The crude death rate in Russia rose from 11.4 in 1991 to 14.4 in 1993, and 16.2 in the first quarter of 1994.¹⁰⁶ UNICEF explains that the transitions had generated the health crisis their was: by increasing the levels of stress-related heart and circulatory diseases- this accounted for 3 - 80 percent of the rise in deaths in the region as a whole; by producing dietary deficiencies and by causing socio-psychological tensions which have sharply increased murder and suicide rates.¹⁰⁷ In Russia, the number of murders rose by 42 percent in 1992, and further 27 percent in 1993.¹⁰⁸ In fact the neo-liberal policy pushed the Russian society into the status of many African and Latin American countries where the mafias and other organised criminal groups virtually control the society.

In Russia alone life expectancy fell by 6 years; from 70 in 1989 to 64 in 1995, which represented as estimated 1.3 to 1.7 million premature deaths. These deaths were disproportionately concentrated among prime age men.¹⁰⁹ The reason behind the early deaths of Russian men, the press in the country almost unanimously blames the excessive use of distilled alcoholic drinks, especially Vodka.¹¹⁰ Western experts presented similar explanations in a survey¹¹¹. Indeed, Russia holds first place in the world for annual per capita consumption of pure alcohol i.e. 14.5 liters in 1994.¹¹² It was the reflection of deep tensions and insecurities faced by the population in Russia.

In short, Russia's post Soviet march towards market economy resulted disastrous impacts on Russian social structure. Almost all the segments of

¹⁰⁵ UNICEF report cited in Peter Gowan, *Neoliberal Theory and Practice for Eastern Europe*, *New Left Review*, no. 213, Sept. 1995, p.22.

¹⁰⁶ Michael Ellman, "The Increase in Death and Decrease under Katastroika" , *Cambridge Journal of Economics*, no. 18, 1994, p.349.

¹⁰⁷ Peter Gowan, n.40, p.22.

¹⁰⁸ Michael Ellman, n. 105, p.350.

¹⁰⁹ Charles Becker and David Bloom, *The Demographic Crisis in the former Soviet Union*, *World Development* , vol.26, no.11, 1998, p.1913.

¹¹⁰ Roy Medvedev , n. 30, p.164.

¹¹¹ See for a detailed discussion on various aspects of Russia's demographic transition, *World Development* vol.26, no.11, 1998.

¹¹² Roy Medvedev , n. 30, p.164.

the population were deeply uprooted by the reform process. However the extent of losses varies from group to group and it was most affected by the marginalized groups like workers, peasants, women and old aged people who were hardly find income to preserving their already acquired status in Soviet period.

The 1998 Financial Crisis and Its Aftermath

Since the introduction of neo-liberal reforms and the subsequent collapse of Russia's developed industrial and service sector, the country's economy was mainly sustained with the revenue received from the exports of national resources such as oil and gas. The mid 1990s' hike in oil prices very much helped the Russian economy in stabilising from the havoc effects of economic shock therapy. The weakening of Russia's domestic economy was further accelerated the nature of country's integration with the world capitalist system.

According to a scholar, the pattern of integration with world capitalist economy is primarily through the following process; as a provider of raw materials, primarily oil, natural gas and precious metals; as a debtor state; and an exporter of usually illegally of capital.¹¹³ Because of the integration to the global capitalist system in the era of speculative finance capital, no capitalist country is free from economic crisis. Due to recessions and depressions in Southeast Asian crises, oil demand not only failed to expand as expected but actually contracted resulting in an imbalance between demand and supply of oil prices (down over 40 percent in the first six month of 1998 compared to the average prices in 1997).¹¹⁴ Oil is both a major export commodity and a source of government tax revenue for Russia, and the drop in price had a devastating effect.

In June 1998, spending on imports began to exceed income from exports, so that for the first time since 1992, Russia faced a negative balance in trade. The volume of industrial production in June 1998 was 9.4 percent lower than in June 1997. The real income of the population declined by almost 10

¹¹³ Rick Simon, "Russia's Crisis" *Capital and Class*, No. 68, summer 1999, p.2.

¹¹⁴ Joseph E. Stiglitz, n.5, p.145.

percent.¹¹⁵ Russian government in an attempt to overcome the shortfall in revenue without resorting printing press, instituted a scheme whereby short-term Rouble-Dominated Bonds (GKD) would be issued at attractive rated of interest. These did indeed bring in much needed resources - the value of GKD in August was estimated at \$40 billion, \$11 billion of which came from foreign sources.¹¹⁶ This however created two additional problems; first, it reinforced the shift to barter arrangements by diverting banks' resource away from loans to industry. Second, bonds that had to be paid back with money that the state could only obtain by issuing further bonds at ever-increasing rate of interest.¹¹⁷ This further pushed Russian economy into the viscous circle of debt.

By June 1998, it was clear that Russia would need outside assistance to maintain its exchange rate. Confidence in the currency had eroded. In the belief that devaluation was inevitable, domestic interest rates soared and more money flew out the country as people converted their roubles to dollars.¹¹⁸ Despite this bailout package by the IMF devaluation of rouble was matter of time. In July, the IMF with the World Bank and other institutions put together a \$22.6 billion bailout package. From an exchange rate of around six roubles to the dollar, the rate soared to 12 and beyond. By February 1999, it had reached at level of almost 23:1.¹¹⁹ This further worsened the already existing social crisis in Russia.

In a recent piece, Joseph E. Stiglitz criticised IMF's diagnosis of Russian economy and its bail out package to prevent the devaluation of rouble. He argued that the IMF bail out money was supposed to be used to support the exchange rate. However, if a country's currency is over valued and this cause the country's economy to suffer, maintaining the exchange rate support works, the country suffers. However, in the more likely case that the support does not work, the money is wasted, and the country is in deeper debt.¹²⁰ This already reflected the chasm emerging between IMF and World Bank on

¹¹⁵ Roy Medvedev , n. 30, p.302.

¹¹⁶ Rick Simon, n.113, p.3. Also see Roy Medvedev , n. 30, pp.302.- 310.

¹¹⁷ Ibid p.3.

¹¹⁸ Joseph E. Stiglitz, n.5, p.146.

¹¹⁹ Rick Simon, n.113, p.4.

¹²⁰ Joseph E. Stiglitz, n.5, p.148.

various issues related to the economic transition in Russia and Eastern Europe.

Whatever may be the right theoretical posture within neo-classical framework, the 1998 crisis and subsequent changes in the economy further worsened the living conditions of the majority of Russian people. The real income fell by more than 16 percent.¹²¹ In the economy, the crisis has had a profound impact, promoting the collapse of many smaller banks and the merger of some of the larger ones in a further concentration of economic power.¹²² As a result of the financial crisis, the dollar value of Russia's GDP is estimated to have declined from \$436 billion in 1997 to \$276 billion by the end of 1998. Relatively, the ratio of Russia's foreign debts to dollar GDP increased from 28 percent in January 1998 to nearly 90 percent in 2000.¹²³ In fact the last one-decade of the neo-liberal policy transformed Russia from the position it enjoyed in the Soviet era as a lending states especially to many developing countries in Asia and Africa to a debtor state totally dependent on western states and international institutions.

However, in recent years Russian economy is enormously enriched by the higher prices in oil and natural gas in international market. In the domestic front, with the exit of Yeltsin from the scene and the presidentship of Vladimir Putin, Russian government increasingly asserts its power vis-à-vis various social groups in Russia.

Conclusion

Systemic collapse of the Soviet Union and the subsequent developments in Russia transformed the very nature of Russia's economy and social structure. The attempt of the Gorbachevian leadership to resolve the over accumulated crisis of the Soviet economy and society and the mutual contradiction of the reform process itself finally led to the break up of the Soviet system. The various segments of the party and bureaucratic elites who embraced the values and philosophy of capitalism hardly required the

¹²¹ Rick Simon, n.113, p.6.

¹²² Ibid.

¹²³ Allen C. Lynch, "Roots of Russia's Economic Dilemmas: Liberal Economics and Illiberal Geography", *Europe Asia Studies*, Vol.54, No.1, 2001, p.33.

mask of socialist ideology to further advance their class interests. These groups provided the organisational and ideological basis for the discrediting of Soviet socialist system. Immediately after the final dissolution of the Soviet system these groups embraced the neo-liberal ideology for post Soviet Russia. The neo-liberal model of economic shock therapy implemented in Russia with the direct assistance of western financial institutions played a disastrous impact on Russian economy and social structure. The neo-liberal reformers intended to create a class of capitalists through the massive privatisation of state owned enterprises. The liberalisation and complete opening up of the Russian economy along with total privatisation of state owned enterprises and collective farms pushed the vast majority of Russian people into a virtual poverty.

As a direct outcome of the state is complete withdrawal from the economy along with the deliberate demolition of state owned enterprises, vast majority of Russian people becomes unemployed. The privatisation process resulted in the take over of the giant industrial complex by the new group of mafia and oligarchs, who enrich themselves under the patronage of neo-liberal policy. The absence of new investment in industrial sector, Russia's highly specialised manpower becomes useless asset. This policy also pushed the Russian economy into a de-industrial era.

As a repercussion of the radical changes in the economy, Russia's social structure has undergone fundamental changes. The well-off social classes in Soviet society such as women, workers, peasants and intellectuals etc. were pushed into near poverty. The middle strata of the population were completely vanished by the reform policy. The inability of the state apparatus develops effective regulative mechanism to prevent the tax evasion and the speculative financial deals to accelerate the economic instability in Russia. The balance sheet of ten years of neo-liberal policy was that it converted country's economy into a renter economy.

The reform process pushed Russian economy into a stage in which the very survival of the economy depends on to oil prices in international market. As a result of the complete degeneration of industrial capacity, the major source of Russia's revenue is from the oil and natural gas trade. Thus the dependent nature of Russian economy on these commodities reflected in the

1998 financial crisis that led to a sharp fall in oil and natural gas prices. In short, the disintegration of Soviet Union and subsequent policy changes initiated by the Russian state have destructive impacts on Russian society and economy. The failure of neo-liberal reformers to develop necessary institutional mechanism for regulating the market economy explains the virtual instability and chaos in the society. The formulation of effective regulative mechanism and conscious interventions by the state in the economy in order to prevent the speculative activities are the prerequisites for the development of a functioning market economy in Russia.

4**Emergence of Russian Capitalist Class**

The free market economic reforms initiated by the new Russian state created radical changes in the country's social structure. With the adoption of a new development model focussed on the market forces, necessitated the Russian state to make fundamental shift from the programmes and policy of the previous soviet regime. In accordance with the dogmas of the neo liberal ideology, the Russian state also made a radical departure from a Keynesian interventionist state as followed in the western capitalist countries to its neo liberal model of state as a facilitator of market forces and night watchman in the society. However the irony of Russian transition is that the country embraced the neo liberal model of market economy in the absence of a developed domestic capitalist class in Russia. In the initial stages of neo liberal shock therapy itself many scholars expressed serious reservation about the success of neo liberal designed strategy of capitalist development in Russia.

The prominent liberal scholars like Karl Popper, John Gray, and many others opposed the neo liberal strategy followed in Russia. Karl Popper has made prophetic observations on the chaotic impacts of shock therapy model in May 1991. Karl popper observes:

People in the Soviet Union were disoriented. Having burnt their fingers with the utopia of communism, they imagine that capitalism as an incarnation of heaven on earth. ... If and when the Russians get their capitalism, they will be in for a profound disappointment for it will not be a rich capitalism. ... Of course the temptation to project their dreams on to capitalism is understandable; since communism doesn't produce a world of supermarkets Capitalism does. Why shouldn't we have it? This is a frightful projection, and it will lead to sharp popular reactions when the dream is shattered.¹

The last one decade of the neo-liberal designed strategy of Russia's capitalist development shows that the predictions of late Karl Popper becomes the actual reality of the post-soviet era. The vast majority of Russians were told by the ruling elites and the western medias that with the implementation of

¹ Karl Popper, cited in David Wedwood Benn, "The West Role in Post Communist Russia", *Europe Asia Studies*, vol. 54, no. 2, 2002, p.321.

neo-liberal model of economic shock therapy the country would soon developed in to a capitalist paradise on earth.

The basic intention of the neo liberal policy was to assist in the rapid formation of a new class of property owners and businessmen who could become a solid basis of support for the post soviet system in Russia.² The neo-liberal reformers and the ruling elites in Russia desperately look for a new group of property owners by any means and to systematically root out any alternative threats to the new policy. The ideological underpinnings of neo liberal doctrines were clearly reflected from the very beginning of the new policy. Thus British political scientist John Gray put it “the collapse of communism coincided with market triumphs in the west. The crackpot policies that were foisted on it had little to do with the country’s needs and everything to do with the neo liberal hubris that had gripped western governments. It was clear from the start that the country’s uniquely daunting problems required pragmatic solutions not ideologically driven programmes.³ The very policy of economic shock therapy emanated from the neo-liberal ideology and, the core of the free-market doctrine is based on the notion that state interventions and social security measures are the major constraints to the capitalist development.

Thus the main task of the new policy was firstly to create a domestic capitalist class irrespective of the means and secondly, to prevent any radical alternative to the neo liberal ideology. As a result of this policy the new class of property owners who emerged in Russia were predominantly from the privileged section of the Soviet system. The Soviet elite mainly drawn from the *Komosomol (Communist Youth League)* and such other organisations as Boris Kagarlitky rightly puts it “the groups succeeded in exchanging power for property, while retaining their connections and influence. ⁴ The extent of continuity is evident from the nature of top functionaries of Yeltsin apparatus. If an observer had gone to sleep in Russia at the start of 1990s and then woken up to be shown a list of the

² Roy Medvedev, *Post Soviet Russia: A Journey through the Yeltsin era*, translated by George Shrever.(New York: Colombia University Press, 2000), p. 169

³ John Gray, “Russia’s fall”, *The Guardian*, 22 August 2000.

⁴ Boris Kagarlitsky *Restoration in Russia Why Capitalism failed*, trans. by Renfrey Clarke, (London: Verso, 1995), p. 85.

current Russian government, as a commentator put it, s/he would be bound to conclude that the reformist wing of the communist party headed by Boris Yeltsin had finally come to power.⁵ Thus the former ruling elites in the Soviet era successfully manifested themselves from ardent supporter of the socialist ideals to a most committed disciple of Milton Friedman and Frederick Von Hayek.

In spite of this continuity in ruling circles, fundamental transformation took place in Russia's social structure in the last one decade. The new class of capitalists emerged in Russia as a result of the structural changes in society. However the internal transformation of elites into new class had a profound impact on the nature and character of the new capitalist class. The reformers and various apparatus of the state characterised the new capitalist class as 'new Russian' and projected them as 'country's saviours' who merely involved in the development of free enterprise and market economy in Russia. ⁶ The formation of the new capitalist class is not so much a result of their role in the production process but rather an outcome of their place in the appropriation and consumption.⁷ Thus, since its inception the new capitalist class in Russia displays a parasitic behaviour.

The means and ways in which the new capitalist class was created by the reforms were well reflected in its parasitic nature. The major chunk of the new capitalist class in Russia consists of oligarchs, mafia elements and financial speculators.⁸ An attempt is made in the present chapter to analyse the nature and character of the emerging capitalist class in Russia.

It begins with the brief review of the neo-liberal development strategy initiated by Yeltsin apparatus and his western advisors, which had a profound impact on the nature and character of the new capitalist class in Russia. It also reveals the major economic activities of the new property owning class and the extent of its links with mafias and other illegal

⁵ Olga Kryshfanovskaga and Stephen White "From Power to property: The nomenclature in post communist Russia in Graeme Gill eds, *Elites and leadership in Russian Politics*, (London: Macmillan press, 1988, pp.81-82

⁶ Nahalia, A Shmatko, " The formation of the Russian entrepreneurial system and Bureaucratic capital", *Sociological Research*, vol 35, no.2, March-April, 1996, p. 31.

⁷ Ibid, p. 32.

⁸ Ibid, p. 32.

financial operators. It also briefly analyses the past one decade of legacy of the capitalist class and its impacts on the Russian society.

The neo-liberal reforms and formation of the new capitalist class in Russia

As we had already referred in the preceding part, the basic task of the western neo-liberal reform strategy was to create a new property owning class in Russia. Due to the unique nature of the Soviet system, the privileged classes, who controlled and dominated the soviet system hardly possess any private property. Thus in the absence of a domestic propertied class to provide the social basis for the neo-liberal strategy, the reformers whole heartedly promoted the various segments of the soviet elites and people from the former Soviet shadow economy, which was wide spread since 1980s.

Thus, the major portion of Russia's new ruling class emerged from the same social background. Due to this reason David Kotz remarks "Russia's political and economic elites drawn mainly from the former soviet elites, with some infusion of individuals from the former Soviet shadow economy and the intelligentsia had overwhelmingly supported a transition to capitalism⁹. These groups accumulated various kinds of privileges during the perestroika era, due to their proximity to power. The west has urged that those who managed to accumulate money and capital under communism should form the core of the new classic capitalist class¹⁰. Thus the western states played crucial role in the Russian transition towards neo -liberal market economy.

The leading western proponents of economic shock therapy such as Anders Aslund, and Jeffery Sachs supervise and provide rationalisations for the neo-liberal strategy in Russia and Eastern Europe.¹¹ Leading western journals such as *The Economist* propagated the virtue of neo-liberal model across the regions. It has argued that in the case of Russia, the communists have had an interest in exaggerating the extent of crime and that in any case the

⁹ David, Kotz, "Russia Becoming Capitalist", *Science and Society*, vol 65 (2), November 2002, p. 158.

¹⁰Peter Gowan, "Neo- Liberal theory and practice for eastern Europe", *New left review*, No 213, September 1995, p. 45.

¹¹See for details Laszlo Andor and Martin Summers, *Market Failure: East Europe's Economic Miracle*, (London: Pluto Press, 1998).

entire soviet project had been criminal.¹² It further placed those criminal businessmen, whose methods of operation hover uneasily between those of Alcapone and those of the early American robber barons.... need to be encouraged to go legitimate. To achieve this, it argues, the Russian Government has to show that it is willing to protect property rights, second, the government has to reduce its interferences in the economy.. The government could be deregulating and liberalising the economy much faster than is doing.¹³ In fact, the western media and neo-liberal intellectuals provide the ideological and propagandistic support to the new policy in Russia and Eastern Europe and thereby legitimising the neo-liberal reforms in the civil society.

While looking into the neo-liberal strategy of promoting a new capitalist class in Russia, Roy Medvedev observes that Russia is once again the scene of social experiment unparalleled in history on a large scale. It is not that a capitalist bourgeoisie that taking shape over the course of centuries in the interstices of feudal society is creating a layer of government bureaucrats and officials who were obedient to capitalist class interests, while encouraging ideologues promoting laissez-faire liberalism. On the contrary, it is ideologists and government bureaucrats, trained in the depths of a Socialist society' who are helping a capitalist bourgeoisie to take shape and promoting... to accomplish this in a very short time.¹⁴ Thus the former beneficiaries of the Soviet system who were transformed into a new propertied class, rather than a new capitalist bourgeoisie emerging from the bottom of the society.

Russian sociologist Iyor V Kukolev identifies three stages in the development of the new entrepreneurial class in Russia. The period up to 1986-87, he considered as *proptopeiod*. This period witnesses the emergence of the principal sources for the formation of the entrepreneurial class in these years that followed. At this time the class acquired distinct contours and became more prominent and visible. These sources were the criminal and shadow economy, the party and economic *nomenklatura* and the social

¹² Peter Gowan, no. 10, p. 48.

¹³ *The Economist*, July 9, 1994, pp. 21-22.

¹⁴ Roy Medvedev, n. 2. pp. 169-170.

potential of unrealised individual capabilities. This was the time of first adventurist.¹⁵ There was no business elites emerged during that period.

The romantic period lasted from 1987-88 to 1992-93. This was a time of active formation of the entrepreneurial group as a social stratum and the emergence of the business elite as group of people occupying leading social position. During this period the restrictions on entrepreneurial activity were lifted.¹⁶ An intensive accumulation of primary capital occurred on the basis of difference between quoted prices and state prices, between world prices and domestic prices, and so forth. The first experiments with transforming state structures into joint stock companies took place during this period.¹⁷ Thus this period witnessed the legitimisation of private property in the Russian society.

The third stage was begun after 1992 as period of social political stabilisation. The *nomenklatura* returned and this was accompanied by the expulsion of the romantics from the business, the formation of financial political groupings and consequently the formation of a party in power.¹⁸ In short, the major realignments of various social forces and the social basis of the new Russian state shape root in this period.

Many scholars traced the origin of the new capitalist class in the Gorbachev era. In 1987-'88, the introduction of *Perestroika* paved the way for legal business and large private fortunes in the USSR. A new law "on Individual Labour Activity" which permit the establishment of tens of thousands of small workshops in the Soviet Union. Thousands of co-operatives were soon formed by private individuals as well as the government enterprises and organisations. Commercial and middlemen co-operatives predominated, but quite a few associations were formed to engage in production or construction. Through the co-operatives, it was possible to transform billions of Roubles worth of non-liquid assets into cash.¹⁹ The roots of many of the illegal behaviour of the Russian capitalist class can be found in these years.

¹⁵ Igor V KuKolev, "The Formation of the Business Elite", *Sociological Research*, Vol. 36, no. 1, Jan.-Feb. 1997, p. 26.

¹⁶ Ibid, p. 26.

¹⁷ Ibid.

¹⁸ Ibid, p. 27.

¹⁹ Roy Medvedev, n, 2, pp. 170-71.

Many people who are now part of the Russian business elites made their first million at that time. According to many present day millionaires, the years 1988 and 1989 were the most favourable for their business.²⁰ Ivan Kivilidi who harvested the benefits from the new policy recalled how easily he was able to make money in those years by selling aluminium abroad for dollars, after purchasing it inside the USSR for Roubles, then using the dollars to import computers and fax machines. In three or four months \$ 500 would grow into \$ 50,000 or a million Roubles would become a hundred million.²¹ This shows the corrupt behaviour and greed for money of the new capitalist class.

It has been said that the young aggressive predatory businessmen, who emerged in 1988-'89 were among those who dealt the final blow to *perestroika*, because its deal of social justice interfered with their aims. As Roy Medvedev put it, "the ideals of social justice, however does not necessarily exclude individual initiative, the private enterprise, the private ownership, especially when those are based on the natural, material needs and interest of the population. Restrictions were necessary only in regard to anti social forms and method of enrichments. The business engaged in plundering the wealth of the country and its citizens should not have been permitted. But under *perestroika*, the necessary limits were not set. The leaders of *perestroika* went to an extreme in allowing highly parasitic forms of business to flourish".²² The Gorbachevian period could be treated as the formative years of the new capitalist social shaping in Russia.

The shock therapy model further strengthened these elements and they had consolidated their illegally accumulated wealth. The massive privatisation programme launched by the Yeltsin apparatus led to the take over of these valuable state assets for low prices by these elements. Voucher privatisation was accompanied by a new redistribution of property at the topmost levels of society. Financial speculators and mafia groups had initially served the directorial elite as it enriched itself. Now they emerged as an independent force. It was they who technically controlled the operations with vouchers

²⁰ Ibid, p. 171.

²¹ Ibid.

²² Ibid, p. 173.

while simultaneously developing other forms of commercial activity. Earlier in 1991 these group has been expanded by the arrival of former party and *Komsomol* functionaries whom the collapse of the CPSU had freed from any form of control and who had appropriated vast assets.²³ The way in which the *New Russians* as they were often characterised by media and reformers accumulated wealth and property have had far reaching implications on Russia's capitalist development.

Thus looking to emerging nature of Russia's capitalist formation Boris Kagarlitsky observes:

Everywhere a capitalist economy has been created, the process has been accompanied the weakening or destruction of pre-capitalist structures. It was at the expense of these structures that the primitive accumulation of capital took place. A predatory savage capitalism was a natural phase of development, a normal pattern of behaviour for a young bourgeoisie. But in Europe or North America between 16th and 19th centuries there was unquestionable progress. Technically backward method of production gave way to modern industry. What is unusual about the capitalist reforms in Russia is that for the first time in history the 'old structures' are on technological and organisational levels far higher than the new. For all its weakness, the state sectors in communist countries was generally recognised as being on high ethnological level, and as being able at least in some areas to compete successfully with the west. Now modern productive capacity is being destroyed to allow the flourishing of private enterprises that are on a level no higher than the European entrepreneurship of the 16th century. If the communist state sector needed hired workers with up-to-date qualification and modern personality type, the young capitalism have gave worth to entrepreneur-barbarians who in their intellectual, cultural, ethical and professional levels are whole epoch behind the people they set out to exploit.²⁴

After the transformation of the ruling elites in Russia, the new ruling class attempt to build a capitalist society. They also increasingly look towards integrating themselves with the global capitalist ruling elites.

²³ Boris Kagarlitsky, n. 4, p. 85.

²⁴ Ibid, p. 88.

The Political Economy Basis of Russia's Capitalist Class

The nature and character of the Russia's new capitalist class is deeply influenced by the political economic relations in which they had shaped their class identity.

Thus due to its close link with the soviet past, a major chunk of the new capitalist class has been emerged from the upper echelons of the soviet system. In 1994 after the two years of frantic reform around seventy five percent of Yeltsin's ruling stratum were the former communist elites and about the half of them were from the Brezhnev's day and the other half ennobled by Gorbachev; in addition, some 83 percent of positions in provisional grounds were controlled by them²⁵. It shows that despite the systemic changes there was a clear continuity in ruling elites.

One of the major features of the new capitalist class is its blind faith in liberal market economy. Being the most privileged sections of the Soviet period, mostly Russian entrepreneurs received higher education. An analysis of the education levels shows that the new Russian businessmen are now the most educated in the world²⁶. According to the *Public Opinion Foundation*, the proportion of the persons with a higher education among the entrepreneurs exceeds eighty percent (in one study it even reached 95 percent). Many come from the most prestigious elitist educational institutions such as Moscow State University, the Physical – Technological School, and the Moscow Institute of Physics and Engineering. The proportion of people with a candidate degree among big businessmen is 38 percent, and the proportion of those who attended, but did not finish graduate school is 11.5 percent, 6.5 percent have University degrees.²⁷ It is evident from this fact that, the most educated segments of the Soviet ruling elites who were the main gainer of the Post Soviet changes in Russia. As regards ethnic composition of the new capitalist class in Russia, ethnic Russians constitute

²⁵ Madhavan Palat, *Ideological Choices in Post Soviet Russia*, (New Delhi: Centre for Policy Research, 1997), p. 25.

²⁶ O.V. Peripelkin, "The Russian Entrepreneur For a Social Portrait", *Sociological Research* vol. 35, no.2, 1996, p. 73.

²⁷ *Ibid*, pp. 73-74.

eighty four percent of small and medium sized businessmen and sixty three percent of big businessmen²⁸.

Most of the Russia's new capitalist class thus emerged from the various institutional structures of the soviet system. Due to the specific features of the soviet society thus privileged classes have accesses to power and party bureaucratic apparatus had naturally remained as the main social basis for the nascent capitalist class in Russia. Among these groups those associated with *Komsomol* (Young Communist league) dominated the new capitalist class in Russia. The *Komsmol* the only permitted youth organisation for teenagers and young adults in the USSR, with as many as fifteen million members in the late 1980s, had been the starting point for anyone wishing a successful career in the party state dominated by the CPSU²⁹. It began to emerge in business ventures quite extensively of course with the encouragement from the ruling party during perestroika.

All most half of its members are come from families of white-collar employees and engineering - technical workers, and one-third from families of workers and peasants. Only thirty percent were Moscowites, while thirty percent came from large industrial centres, and forty percent from small villages or cities³⁰. This clearly reveals that the privileged segments of the technocratic elites are the major beneficiaries of these changes.

The *Komsomolers* entered business activities in the first wave of Gorbachevian Reforms (eighty percent began their business activities in 1987-89). The average age of the *Komosomolers* at that time of entry was below thirty-five.³¹ Reforms policies adopted by Gorbachev opened the way for the appropriation of and accumulation of wealth and capital by the *Komosomolers*. During this period government assets were transformed into ready money through the *Komosomol* organisational structure, and through this same structure the first commercial banks and stock exchanges were set up as well as corporatives for the construction of housing especially for

²⁸ Ibid, p. 74.

²⁹ Roy Medvedev, no. .2, p.17.

³⁰ Igor, V. Kukolev, "The Formation of the Russian Elites", *Sociological Research*, vol. 36, January-February, 1997, p. 28.

³¹ Ibid. p. 29.

the young people.³² In fact one of the main failure of the Soviet system was that it miserably failed in promoting values, which might have strengthened the ideals of the Soviet state.

The slogan of the '*Kosomolers*' in the late eighties was speculation in whatever brings maximum profit. At present the '*Kosomolers*' head large holding of companies, (as a result of this vigorous activity earlier). Pragmatism, bordering on lack of cynicism, cruelty, aggressiveness and the tendency to use any means to achieve an end to are the characteristics of them.

Another dominant group of people who were later became members of the new Russian capitalist class are the physicists. This group also share the same socio-economic conditions as that of the '*Kosomolers*'. They are also the products of the mobile middle strata of the Soviet society. Their places of birth were in large industrial centre (more than eighty percent), with more than thirty percent from Moscow and Leningrad. Socially they come from the families of middle-level white-collar employees (forty percent) and middle level nomenklatura families (forty five percent). Thirty percent of them have parents (or one parent) worked in cultural or scientific environment (the professorate).³³ Most of them have technical education (eighty five percent), with more than forty percent in the physical sciences (at Moscow institute of physics and technology, Moscow state university or Moscow institute of physics and engineering) they were previously working in management (thirty percent), and in a scientific research institute (eighty three percent).

Eighty percent of the 'physicists' opted for business in the late eighties. At the time of Physicists entry into the business, their average age was thirty-five.³⁴ Initially both the '*Kosomolers*' and the 'physicist' became involved in the same structure (youth centre for scientific and technical creativity and youth housing corporatives). But, unlike the "*komosomolers*" the "physicists" are actively oriented toward innovative industrial activity: construction, setting up new technologies, and programming development. However, they

³² Roy Medvedev, no.2, p.172.

³³ Ibid, p. 30.

³⁴ O. V. Perepelkin, *The Russian Entrepreneurs; Sketches for a Social Portrait*, *Sociological research*, vol. 35 (1), January- February 1997, p. 79.

have shifted from industrial sector because of the low profitability of “production” there has been natural shift toward pure speculation. After spending some time reorganising cooperatives and various commercial structures, the “physicists” like the “*komosomolers*” have become involved in stock-market activity.³⁵ The large number of specialists and technocrats created by the Soviet system from its very inception showed an individualistic attitude and value orientation.

At present the physicists, sphere of activity in the stock market (recently they have actively reoriented themselves from the commodity market to the mutual fund market), holding companies, (multi-profile concerns), financing and investment companies, and new banking structures.³⁶ One of the main features of the new propertied class in Russia is its concentration on banking and other financial activities.

Another major segment of Russia’s new capitalist class were the “managers” and bankers. The reform of the banking system of the USSR and liberalisation of economic activity generated a new wave in the evolution of entrepreneurial stratum. ‘Managers- industrialists’ (mangers) and, bankers-financiers, (bankers) entered business with this wave in 1998 onwards.³⁷ The managers come from the middle levels of economic management. Their average age was fifty-one at the time of their entry in to the business. Their places of birth were an Oblast centre (forty five per cent) or a district centre and those from the countryside constitute (forty per cent). They come from workers and peasant families (thirty per cent) and middle level white-collar employees (forty five per cent). They have training in technical education. They were previously engaged in production experience (fifty per cent) the middle level of the business management (seventy per cent), the middle level of the industries (fifty per cent), and experience in managing a scientific research institutes (forty per cent).³⁸ They also have experiences in nomenklatura work, (forty per cent) in economic activity, and (twenty five

³⁵ Ibid, p.79.

³⁶Igor V. Kukolev, “The formation of the Business Elite” *Sociological Research*, Vol.36, January-February 1997, p.30.

³⁷Ibid., p. 31.

³⁸Ibid, p. 31.

percent) in the lower levels of party structure. More than (seventy percent) of them were once members of the CPSU.

They have professionally oriented in construction or the extractive industries (oil and natural gas). Less often it is practical work in higher education, commerce, or a higher-level party career. The period of their entry into business were 1988 to 1992. At that point they were aged between forty-six to forty seven. Their industrial activity was associated with new economic forms-leased enterprises, joint ventures, commodity exchanges formed by group of producers. At present these groups holding companies, commercial and industrial houses converted from stock exchanges and dynamic commercial banks³⁹.

This group did not display political encouragement. They propagate the illusion that business is apolitical. Conservatism and traditionalism, tending toward 'nativism', predominates their views. The 'bankers' are the other influential group in the Russian new capitalist class. The 'bankers' are professional financiers who were in the past were white-collar employees in the banking system of the USSR. Ninety-five percent have a higher education in finance and economics. The 'bankers' fall roughly into equal groups of 'old bankers' and 'young bankers'. The 'old bankers' (their average age was fifty-three) mainly head banking structures formed when the specialised state banks were reorganised into the commercial banks but they also head 'sectoral' banks, formed on the basis of the capital from a specific sector of the national economy.⁴⁰ The banking structures they head are the most stable and conservative.

The 'young bankers' (whose average age is thirty- six in 1997) are also professional bankers. However unlike their "older colleagues" in this group they have not had time to achieve prominence in state service. They concentrate their efforts (which are primarily organisational) on the creation of new commercial banks from "scratch".⁴¹ Shortly after attracting a

³⁹ Ibid, p. 32.

⁴⁰ Ibid, p. 33.

⁴¹ Natalia A. shamatko, "The formation of the Russian entrepreneurial system and bureaucratic capital", *Sociological Research*, Vol. 35, No. 2. March- April 1996, p.29.

suitable clientele (through the export of natural resources), the new banks attained equal footing with the reorganized specialised banks.

The other sections of the new business class are the “directress” who was emerged from the privatisation campaign. This was the youngest group (in term of their time of entry into business among the business elite.⁴² New members (the directors of large production complexes that were transformed into joint stock companies as a result of privatisation joined the business elite.

The directors are cadre personal at large enterprises. At their enterprises they followed a path from low-level duties to deputy manger or manager of structural sub-divisions. They have a higher technical education (eighty five percent) frequently acquired through evening school or correspondence courses. As a consequence of the political events of the late’ eighties when both the old economic nomenklatura and the ‘red directors’ were in part set out of the economy, they emerged as head of their enterprises.⁴³ The process of creation of joint stock companies enabled them to gain control of a considerable portion of the shares of their own enterprises, and they became owners of extensive industrial capital almost overnight.

Their status today is the result of circumstances from which they have succeeded in extracting maximum advantages. They have been actively engaged in shady commercial activities since the beginning of political changes (leasing premises, trading products for bribes etc.) and workers at their enterprises are often placed on forced leave and receive no wages for several months, while the management buys property abroad and immerses its self in luxury creating the image of the ‘new Russian’.⁴⁴ Management’s earnings sometimes exceed average wages at the enterprises by forty to sixty times.

Besides these groups there were also people from other privileged segments of the soviet system who also incorporated into the new capitalist class. They were the people from elite families, free artists and former economic

⁴² Ibid. p.31. Also see for details Juliet Johnson, Russia’s emerging financial interest groups, *Post Soviet Affairs*, Vol.13, No. 4, 19997, pp. 333-365.

⁴³ Igor V. Kuklev, n.29, p.34.

⁴⁴ Ibid. p. 34.

dissidents etc of the Soviet society. Children of elite families of the soviet period-diplomats, head of the trade delegations, important ministry officials, academicians etc. were among the early proponents of western values in Russia. Their place of birth is Moscow (ninety five percent) and they are trained in international relations and international finances. A comfortable childhood, education in an elite school, higher education in prestigious institutions, assignment to a cosy spot in elite structures, and early work abroad are the characteristics of them⁴⁵. They were mainly engaged in joint ventures, foreign trade associations, banking etc.

The unusual organisational chart of their business includes moving a considerable amount of state funds by transferring money into a statutory funding either straight forwardly or by employing elements of camouflages, a loan at unjustifiably low interest rates, special terms, licensing of a high income activity and so forth⁴⁶. For example, a bank created in literally in a vacuum, it is allocated premises in a prestigious district, in a building formerly occupied by state institutions and suddenly the most favourable client to it. The bank became authorised representative of state structures (it provide services to budget depended organizations) and in a short time enters to the rank of the largest banks.⁴⁷ In short the new capitalist class that emerged in Russia were mainly drawn from almost similar socio-economic conditions and they were disillusioned with the socialist ideals of the soviet system.

Internal composition of Russian capitalist class

The internal compositions of capitalist social formation have several unique characteristics. The method adopted by the ruling elite in Russia and western neo-liberal theorists, for developing a domestic capitalistic class contributed to the severe inherent weakness in new capitalist formation. The economic shock therapy practiced in Russia with the expertise of IMF economists, rather than supporting and promoting domestic entrepreneurial class in the country, allied themselves with the technocratic segment of the former soviet ruling elites. They grabbed the state's assets and manifested

⁴⁵ Ibid. p. 35.

⁴⁶ Ibid.

⁴⁷ Ibid.

into new oligarchic groups. Thus an expert pointed out “the combination of bureaucratic capital and mafia at the core of the new Russian capitalist class”⁴⁸. Many scholars also expressed similar views. In a book published in 1997 entitled *Stealing the Russian State* Louise Shelley estimates that the mafia controlled about 40 percent of what is left of the Russian economy⁴⁹. In fact the major intention of the neo-liberal reformers was to prevent any radical alternative to the neo-liberal policy in Russia by any means. Thus they have promoted anti-social elements and individuals who were able to transform themselves into a new entrepreneurial class irrespective of the means they follows.

The process of capitalist development resulted in the emergence of vast differences within various segments of the new capitalist class in Russia. In the first face of privatisation Russian Prime Minister Anatoly Chubais mused at one point that “if the problem is only that rich will buy up the property, I am sure that is the way it must be”⁵⁰. This narrow focus of the ruling elite and western advisers contributed to the situation of a handful of oligarchs dominate the new capitalist class and thereby marginalising thousands of small scale entrepreneurs.

One of the distinguishing features of the emerging Russian capitalist class is its lack of concern to the society at large and its quest for promoting self-interest, irrespective of moral or ethical considerations. While looking at the nature of class formation in Russia, Aleksei Ulyukaev remarks,

For a long time, America was the land of opportunity. People there could make something of themselves, rising from pauper to prince. The fastest careers happened there, the biggest fortunes were piled up, and the highest degree of individual freedom was found there, the broadest opportunity for the individual to pursue his happiness and prosperity. Today Russia is this kind of Eldorado does. The fastest career happens here, and the biggest fortunes are made. Real men of affairs, all those orient towards success, toward free and unencumbered creativity in their personal lives are drawn here. For this reason the ideology of practical liberalism, the

⁴⁸ A.M. Chenoy, *The Russian transition to capitalism*, New Delhi, People’s Publishing House, 1998, p. 22.

⁴⁹ Laszlo Andor and Martin Summers, *Market failure: East Europe’s economic miracle*, Pluto Press, London, 1998, p.97.

⁵⁰ David E. Hoffman, *The Oligarchs Wealth and Power in the New Russia*, (New York Public affairs, 2002), p. 203.

concept that 'God loves those who work hard and enrich themselves, not the poor, the downtrodden, the humble, the miserable – these ideas are taking root in Russia and will soon have pride of place here⁵¹.

Most of the new propertied class in Russia shares similar views. They had a blind admiration in western values and most of the new capitalist class prefer to distance themselves from the ordinary Russian in order to demarcate their class identity.

Commenting on the nature of the new capitalist class in Russia, historian Vladimir Iordansky remarks, “ the tense relations within the new class were predetermined by the conditions under which it originated. It is misbegotten and internally disharmonious because its development was an unnatural. Upon it lies the ineradicable mark of the post-perestroika governments' artificial efforts to promote its existence. Given these circumstances, the predominant characteristic of the “new class” is parasitism⁵². Many studies highlighted the parasitic characteristic of the new capitalist class.

Recently, David Kotz argued that Russia's new propertied class accumulates income not directly from capitalist appropriation of surplus value, that is it does not come from employing wage labour to produce products for sale in the market whose net value exceeds the wage cost⁵³. He further argues that the main sources of the incomes of new class are export of oil and gas, ownership or control of urban land and building, lending money to the state, trade, speculation, skimming revenue from enterprises, theft of public funds and extortion⁵⁴. Thus the irony of the Russia's capitalist development is that, the neo-liberal reformers and western experts propagated the complete withdrawal of the state from the economy and thereby promoting a new propertied class in the country. But on the contrary the new capitalist class that emerged in Russia is completely depends on state for furthering their interest.

⁵¹ Aleksei Ukyukaev cited in Roy Medvedev, *Post soviet Russia: A Journey through Yeltsin era*. New York, Colombia University Press, 2000, p. 178.

⁵² Vladimir Iordansky, cited in Ibid. pp. 179-180.

⁵³ David Kotz, Is Russia becoming capitalist? *Science and Society*, Vol. 65, No. 2 summer, 2002, pp. 164-65.

⁵⁴ Ibid. p. 265.

Vadim Kortunov, director of the Humanities Centre at the state academy of management remarks;

The new generation of Russian businessmen has been formed, for the most part on the bases of leftovers. Above all these are people incapable of marketing their own intellectual property incapable of constructive, creative activity consequently they are the people who himself has been left on the sideline by society, in the margins of cultural and spiritual life. They are either former members of the nomenklatura, who were in the right place at the right time when their enterprises were privatised, people who found it easy to exchange their communist convictions for the psychology of monetarism. Or else they are openly criminal elements who shrewdly grasped that under conditions of social, political and legal instability it was more efficient and safer for them to operate by hanging up a commercial sign. Or else they were youthful new comers who had not absorbed what they were taught in school but, to make up for it, were not burdened with any symptoms of the thinking process. This generation of new Russians is united by such characteristic as moral nihilism, a total inability to engage in spiritual or intellectual activity, a monetarist psychology, and consequently a parasitic mode of existence displaying the flag of "free enterprise". It is therefore quite logical that the growing prosperity of today's Russian businessmen takes place against the backdrop of overall decline in production, impoverishment of the population, inflation and the ruination of country's economy as whole.⁵⁵

In fact Russia's new capitalist class inherited and internalised the neo-liberal ideology of pre-market economy and monetarism, through the policies that they have emerged. One of the major feature of the new-liberal ideology is its complete exclusion of all those who were marginalised by the onslaught of market forces.

By 1996-97 a fairly stable leading group of Russian entrepreneurs had emerged. In all the listings of the members of this group the experts generally give Rem Vyakhirev, head of Gazprom, first place in terms of economic power and political influence. Of the fifty most influential entrepreneurs in Russia, five came from the gas, oil and energy sector in 1996. Those who dominate the listings were the bankers-27 of them in 1996 and 26 in 1997.⁵⁶ One can find that there are three visible tendencies within

⁵⁵ Vadim Kortunov, sited in Roy Medvedev, n. 2, p. 180.

⁵⁶ Ibid, pp. 182-83.

Russia's new capitalist class. Firstly a group of oligarchs who grabbed the substantial portion of state assets and became the legal owners of whatever they possess. They have close connection with people in power and they mainly engaged in currency speculation, mafia activities and all kinds of financial dealings. One of their major businesses is grabbing the public money from Russia through their close link with the ruling elites and investing in foreign banks and other financial institutions. According to an expert capital flight, estimated at \$ 140 billion from 1992-98 as Russia's propertied class invested its capital abroad for safekeeping.⁵⁷ This amount is more than sum total of international economic assistance flowed into Russia during 92-97. It comes only around \$ 55 billion during the period between 1992-97.⁵⁸ In short the oligarchic elements of new Russian capitalist class is hardly investing in productive sectors of the Russian economy. Their illegal appropriation of capital to the external sources contributed to the capital shortages in Russian economy.

Another major group within Russia's new capitalist class are those who engaged in the production of consumer goods and capital goods. Roy Medvedev characterised them as the potential real national bourgeoisie class in the country. Productive business people of this kind find it harder than others to evade taxes or register their corporations outside of Russia. Many of them are able to stay afloat only because they themselves advertise and sell the goods they produced. Many of these types of the new capitalist enterprises in Russia had made collaboration with western companies. However, despite their connections with foreign companies, this segment of capitalist class is playing a crucial productive role in the economy.

Thirdly, the formation of a large number of small and medium scale business in Russia on capitalist bases. This group hardly received any support or attention from Russian government or free market reformers. According to one Russian expert "after small business emerged as significant factor, the promises of the Guider government to support their sphere took the form of outright suppression of virtually any free enterprise activity. If the legislation on free enterprise in Gaidar era is compared with that of

⁵⁷ David M. Kotz, n.54, p. 172.

⁵⁸ Ibid.

under Ryzhkov it is easy to see that current legislation blocks virtually any possibility for small business to develop. This applies to the system of registration and taxation as well as the system for monitoring the conduct of operations.”⁵⁹ This was the reflection of the neo liberal policy regime adopted by the Yeltsin apparatus. From the experience of many Afro-Asian countries those were forced to implement neo liberal policy by the western states and other international financial institutions since the early 1970s proved that rather than developing capitalist economy and a domestic capitalist class, it resulted in the perpetual crisis of the economy and complete marginalisation of the vast majority of the population in these countries.

According to Roy Medvedev, “if a class of entrepreneurs to take shape in Russia, its core will consist of people who started their business at their own risk, using their own financial means or the credits they were able to obtain. Thus, far in the upper strata of the Russian business class, such people are few. They are to be found predominantly in small-and medium-sized enterprises. But it is precisely in this sector that many feel obliged to go out of business after two or three years of hard work and trying experiences, because they did not receive the support that small and medium sized business most frequently need in order to last through the first phases of their development⁶⁰. In fact many of these enterprises were sidelined by the equally negligent policy of the governments and banking institutions in Russia. Russia’s banking sector is dominated by the financial interest of its leading oligarchs in the country.

The numbers of enterprises that can be counted as small business are defined in different ways by the different criteria. The Russian Economics Academy estimates that by the end of 1995, there would be about 900,000 small businesses in Russia, employing about nine million people.⁶¹ The largest numbers of small business were in the fields of commerce, science, and the servicing of scientific institutions, public education and several other areas where it was easier to avoid tax pressures.

⁵⁹ A. Neshchanchin, cited in Roy Medvedev, n.2, p. 194.

⁶⁰ Ibid, p.195.

⁶¹ Ibid.,p.195.

Another marked feature of Russia's new capitalist class is its regional character and there are deep variations between region to region on the nature and orientation of the emerging regional bourgeoisie. Due to the way in which privatisation policies being carried out during the Yeltsin era, the regional elites and technocrats who control the various enterprises and factories in different regions became the owners of the property they controlled.⁶² There are significant differences exist within Russia's new capitalist class on the question of power and allocation of federal resources. Many of the regional capitalist class are being alienated from the federal ruling elites due to the dominance of Moscow based elites in state apparatus and their discriminatory policy and passive attitude to the demands of regional elites.

One of the unique features of Russia's capitalist development was the emergence of industrial and financial capitalist class that precedes the agrarian bourgeoisie. Most of the western capitalist countries and even in former Soviet Union the capitalist organisation of agriculture laid the foundation and necessary capital for the industrialisation process. However, in Russia although the substantial portion of previous state owned and collective farms were privatised or given to the management and workers who controls it. In spite of this fact there is hardly any progress in agrarian capitalist development compared to other sectors of the economy.

This is mainly due to the substantial portion of peasants and ordinary people who opposes the agrarian capitalism in Russia. Nevertheless in recent years there are increasing tendency towards agrarian capitalism in Russia.⁶³ Large industrialist and western agro-business lobby are increasingly penetrating in to the Russian countryside.

⁶² See for details, Mary McAuley "Politics, Economics and Elite Realignment in Russia: A regional perspective", *Soviet Economy*, Vol. 8 no. 1, 1992.

⁶³ See for details, Stephen K. Wegren, David J. O'Brien and Valeri V. Patsiorkoski "Winners and Losers in Russian Agrarian Reform", *Journal of Peasant Studies*, Vol.30, no.1, October .2002, pp .1-29. Also see. Stephen K. Wegren "Russian Agrarian Reform and Rural Capitalism Reconsidered", *Journal of Peasant Studies*, Vol 26 no.1, October 1998 pp.82-111, Also for a related view, Gavin Kitching "The Development of Agrarian Capitalism In Russia 1991-1998: Some Observations from Fieldwork", *Journal of Peasant Studies*, Vol.25, no.3, April 1998, pp.1-30.

The major businesses of the new capitalist class in Russia

Russia's new capitalist class acquired wider attention from various segments of the people especially from scholars and social scientist due to its notorious character and its impacts on Russian society. Contrary to the experience of the capitalist class in many western and Asian countries (and in many of these countries capitalist class is the one of the most nationalistic in orientation,) the new capitalist class in Russia since its very inception working like a comprador bourgeoisie. Its parasitic character and export of capital out of the country prevented the successful capitalist development in Russia. The new capitalist class, in Russia, especially the oligarchic elements within it had a close link with the ruling elites in the country. Despite its close link with the ruling class in Russia these segments of the new capitalist class is the most corrupt and illegal and have connections with mafia and financial speculators.

The well organized black economy, mafias, and speculative financial dealings etc are the main source of income of the many new capitalist class in Russia.⁶⁴ Much of the enormous income of Russia's rich flows directly or indirectly from the export of oil and gas. Since oil and gas are the major source of Russia's export to the world capitalist market, they are the major source of the hard currency earnings that Russia's new rich seeks above all else. Russia's rich oil and gas reserves fell into the hands of new oligarchs and former Prime Minister. Vicktor Chernomyrdin is the symbol of this group.⁶⁵ Previously as the minister of natural gas in the Soviet days reportedly, he ended up as the largest Shareholder in Gazprom, the privatised natural gas monopoly, which is estimated to hold between thirty percent and thirty five percent of the world's natural gas reserves.⁶⁶ The new oligarchs dominate many of the crucial sectors of the Russian economy. In most of the industries the oligarchs reaping profits without investing any capital in it. Because many of these industries like oil and natural gas, coal etc were operational and making profits, after its privatisations.

⁶⁴ See for details, David E. Hoffman, *The Oligarchs Wealth and Power in the New Russia*, (New York :Public Affairs ,2002).

⁶⁵David M. Kotz, n.54, p.165.

⁶⁶ Ibid p.165.

Russia's new capitalist class hardly invest in domestic banks and most of them preferring for tax heaven and safe locations in western capitalist countries. Press reports reveals that \$30 billion exported from the country every year by legal means. It also shows that total of \$180 billion foreign accounts of Russians firms and individuals at the end of 1993.⁶⁷ A large segment of the Russia's new capitalist class have hardly any concern to the social institutions and values prevailing in the country and they look towards west especially to U.S A. as an ideal place to live.

Among the five men named, as Russia's richest and most powerful in 1994, four were bankers. The banks controlled by Russia's new oligarchs do not perform the traditional banking role of lending to private business. Their most lucrative activity is to lend the Russian government: via purchase of government bonds. Russian government bonds have paid remarkably high interest rates even relative to the rate of inflation. The average annual real rate of interest on Russian government bonds have been estimated at seventy seven percent in 1995, forty four percent in 1996, and eleven percent in 1997.⁶⁸ The huge interest flows, financed from the government budget and to some extent from IMF and other western source of finance, force the Russian government, have formed a major part of the high incomes of Russia's new propertied class.

The extent of close connection between ruling elites and the oligarchic segments of Russia's new capitalist class was well reflected during the time of 1998 financial crisis. Many studies including those by the IMF and the Russian Government itself admit that the money provided by the IMF as a bail out package for supporting Russian currency was grabbed by the oligarchs with in hours, after the release of the money and they bled the money out of the country.⁶⁹ In fact oligarchs in Russia were enormously benefited from the neo-liberal policy of full convertibility of roubles in to dollars. This enabled them to convert their illegally grabbed wealth into dollars and invest in western banks.

⁶⁷ Boris Kagarlitsky, *Restoration in Russia Why Capitalism Failed*, (London: Verso Press, 1995), p.95.

⁶⁸ Stanislav Menshikov "Russian Capitalism Today" *Monthly Review*, Vol.51, No.3, July-August, 1999, pp. 81-99.

⁶⁹ See for details Joseph E. Stiglitz, *Globalisation and its Discontents*, (London: Penguin Books, 2002), pp .133-199.

Another part of the income of Russia's new rich takes the form of merchant profits from trade. The fortune of Boris Berezovsky, the most politically powerful during Yeltsin era, began from a car dealership in which he was selling Russian cars. Importing luxury cars and other expensive western consumer goods in to Russia has become a lucrative business. Retail prices for such goods are often far above their levels in Bonn or New York⁷⁰. Most of the Russia's new capitalist class becomes millionaires by the similar process. Many of them had utilized their close link with the ruling elites and bribing the state officials, they acquired massive amount of wealth.

Speculation is one of the major activities of the new propertied class in Russia. It is in distinct mode of an income, entailing the purchase of an asset in the hope of being able to sell it after its market price has risen. Along with lending to the state, speculation has been a major source of the income of Russia's new bankers-especially in the early 1990s, speculation in foreign currencies, precious metals, and securities produced much of the bankers income flow.⁷¹ Bankers and financial interest groups are among the most powerful elements in Russia's new capitalist class. Even Russian government and western funding agencies are given more preference to the financial interest groups than industrial segments of the new capitalist class.

There is hardly any surplus value realized in Russia's non-financial enterprises, the workers cannot even be paid what they are due. Despite these conditions, those who control these enterprises had found ways to extract large revenue flow even from unprofitable enterprises. A common way of doing this is, set up a company, secretly controlled by the heads of the enterprise, to sell inputs to the enterprise. That supplier buys inputs and resells them to the enterprise at a large make-up, or it may receive large payments for consulting or other services of dubious value. Thus a sizeable income is skimmed from the enterprises revenues despite its unprofitability.⁷² The skimming of enterprise revenues by such methods,

⁷⁰ David M. Kotz n.54, p.169.

⁷¹ Ibid, p. 169.

⁷² Ibid, p.170.

even though engaged by those who controlled the enterprise and may even part of its shares, in a form of merchant profits rather than capitalist profit.

A major part of Russia's new rich consists of members of organised criminal groups. Some of their means of gaining income fall under the above categories, such as renting out buildings, lending of money and engaging in trade. In such cases they are differentiated from non-criminal operators by the illegal and usually violent methods they employ to collect debts. Peculiar to organised crime however is the practice of extorting large sums from private business under threat of violence in return of no service whatsoever. A 1994 study estimated that seventy percent to eighty percent private banks and business in major Russian cities were forced to make protection payments of ten percent to twenty percent of the revenue.⁷³ In many cases officials of the governments themselves closely associated with the criminalized elements of the capitalist class.

Recently there are increasing tendencies of interest group formations taking place in Russia's new capitalist class. Two most prominent groups among them are industry led financial interest groups and bank led financial group. In fact the Security Council deputy secretary Boris Berrezovskiy, former head of the influential financial interest group (FIG) Logo Vaz, has claimed that the six of these conglomerates control over fifty percent of the Russian economy.⁷⁴ The bank led financial interest group emerged as Russia's biggest bank begun to acquire shares of the privatised companies the bank tended to focus their interest on lucrative exports or consumer industries and succeed in grabbing control over many of Russia's leading enterprises. Industry led financial interest groups on the other hand tempted to be based on old industries or branch ministries, concentrated in depressed industrial sectors (particularly defence) and located in the regions. Banks have joined in these financial interest groups but they have usually been either weak local banks (often so called pocket banks directly controlled by the enterprises involved) or stronger banks that provided little actual support to other financial interest group members.⁷⁵ How ever due to the increasing

⁷³ Ibid, pp.170-171.

⁷⁴ Juliet Johnson, "Russia's Emerging Financial Industrial Groups" *Post-Soviet Affairs*, vol.13, no.5, 1997, p.333.

⁷⁵ Ibid., p.334.

concentration of Russia's new propertied class in financial activities bank led financial interest groups are far more influential and powerful than industry led financial interest group.

The extent of link and influence by the bank led financial interest groups in state apparatus was evident from the 1996 presidential election. Russia's leading oligarchs namely Boris Berezovsky, Vladimir Guissky, Mikhail Khodorkovsky and Yuriluzhkov along with Anatoly Chubais met in Davos in early 1996 to formulate strategies for the re-election of Yeltsin to the presidential post. They were worried about his low public ratings reflected in the polls and opinion surveys. Although Russia's election campaign finance law officially limited each candidate's campaigning finance spending to \$ 3 million, Yeltsin's own team admitted that banks controlled by oligarchs channelled at least \$ 100 million to this presidential campaign. Russian journalists have estimated the amount to be no less than \$500million⁷⁶. Thus alliance between oligarchic elements of Russia's new capitalist class and ruling elites reflected the inability of those in power to implement laws that prohibit the illegal financial dealings and massive corruption in Russia.

Democracy and New Capitalist Class.

The neo liberal reformers and new propertied class in Russia since its inception had a strained relationship with democratic institutions. The neo liberal reformers had expressed their reactions to the representative institutions in many occasion and they consider it as a an obstacle to faster economic reforms in Russia. The supporters of shock therapy regards building a civil society in Russia into the simple notion of ending state interference state funding and state control in society. It seems, would be civil only if there was no political interference. The respect for popular sovereignty, the building of link between public policy and voter preferences or responding positively to expressions of public protests or strike action by desperate employs forms no part of this programmes.

The Polish sociologist Wlodzimierz Weslouski has captured the shock therapy supporter's hostility to democratic will formation when writing of the

⁷⁶ David E.Hoffman *The Oligarchs Wealth and Power in the New Russia* (Network :Public Affairs, 2002), pp.348-349.

stance of the new post 1989 elites in Poland. He argues the unvoiced assumption that people had to be demobilised in order to open the way for economic reforms in parallel, the bossiness of politics should be left to politicians and the emerging class of big capitalists. This was –and still is the position of leader of neo-liberal persuasions as well as many of influential journalists⁷⁷. In spite of the fact that many of the present ruling elites and neo-liberal reformers received wider public legitimacy in the late 1980s and early 1990s due to their earlier association with the democratic movement in the region.

The most direct and brutal test of the relationship between liberal principle and the anti democratic attitude of the new capitalist class occurred in Russia in 1993. The Yeltsin government, which derived its authority from, the new legislation made by the parliament that gave him emergency powers for a year to make necessary economic reforms. However when the reform measures worsened the social condition of the substantial portions of the population in Russia, Parliament blockaded the further economic reforms by the Yeltsin government. Yeltsin first attempted to introduce new constitution to by pass the parliamentary opposition. When the first attempt was defeated, he decided to announce the dissolution of the parliament, which was an act prohibited by the constitution.⁷⁸ When the MPs' sought to resist this act by occupying the parliament building, Yeltsin had then surrounded and cut off, and this led to the ill judged but constitutionally legitimate procedure preferred by the parliament to strip Yeltsin off power. Yeltsin response is to the parliamentary attempt to impeach him shows the autocratic behaviour of the new capitalist class He responded with a military assault on the parliament building, the arrest of parliamentary leaders and the closing down of Russia's supreme court which had properly opposed his attempt to violate the constitution.⁷⁹ Yeltsin also imposed censorship and closed down hostile newspapers. MPs' who had participated in the occupation of the parliament building were thrown out off their flats within

⁷⁷See for details W.Wesolowski, "The Nature Of Social Ties and the Future of Post-Communist Society: Poland After Solidarity" in John A. Hall ed., *Civil Society Theory History Comparison*, (Cambridge: Cambridge University Press, 1995).

⁷⁸Peter Gowan "Neo-liberal Theory and Practice for Eastern Europe", *New Left Review*, no. 213 September 1995, p.50.

⁷⁹ *Ibid.*, p.50.

days of Yeltsin's victory.⁸⁰ Thus the new capitalist class and the ruling elites in Russia hardly respect the democratic institutions from which they draw legitimacy.

The western government and other financial institutions fully supported the Yeltsin's anti-constitutional act of the demolition of the parliament. The influential western journals such as *The Economist*⁸¹ and *Foreign Affairs*⁸² even goes beyond it and argued that the full fledged parliamentary democracy would lead to the return of communist in the power. American scholar Anne Applebaum argues in *Foreign Affairs* "western efforts to thwart the development of right wing nationalism in the region were a mistake. In central Europe the greatest danger to democracy and stability does not and never do comes from the old nationalist right. The danger comes from the old left, from remnants of the communist parties. Former communist parties hold political and economic monopolies, which take year to loose; until they do, politics will not "normal in any western sense in Central Europe or elsewhere.⁸³ This and many other similar events refuted the claims of the western states and the liberal scholars that they are promoting liberal values and democracy around the globe. Thus in Russia and central Europe they publicly supports and promotes the authoritarian tendencies of the former self-proclaimed democrats and their criminalized allies of the new capitalist class when they become the ruling elites.

In the same journal in a piece, a liberal American scholar argues, "all the post communist regimes are normally democratic, but in practice the levers of power have usually remained in the hands of the old nomenklatura. In any case he explains 'formal democracy is not enough. Indeed, democracy will degenerate into authoritarian populism unless new measures are taken by the west. Ingnatieff goes on to spell out how the west must develop what he calls a "civil society strategy" for the region. This should be set of

⁸⁰Ibid pp. 50-51. Also see Roy Medvedev for the first hand account of the whole events. Medvedev who himself was a member of the dissolved parliament and participated in the proceedings against Yeltsin. *Post Soviet Russia: A Journey through the yeltsin era* (Newyork:Colubia University Press, 2000).

⁸¹ See for details *The Economist*, 1: May , 1993,p.14.

⁸² Anne Applebaum "The Fall and Rise of Communist: Guess who's running Central Europe", *Foreign Affairs*, vol. 73, no. 6, November-December 1994, pp .7-13.

⁸³ Ibid, pp. 7-13.

programmes administered by the western states with in the post-communist states, to fund the mass media, opposition parties, the courts, judiciary and police. The strategy, he says starts with the search for partners outside the state, the leading parties, and the bureaucracy.⁸⁴ Such contempts for the “formal democracy” of electoral results and such crude proposals for bureaucratic interference in the social-political life of the region by the western states could only further undermine the already strained politics emerging in the region.

The insecurity and the fear of possible legal actions against the illegal mafia activities of the new propertied class was evident from the crucial role they played in the 1996 presidential election. They presumed that any possible defeats of the Yeltsin would probably lead to a legal proceeding against them. However the political developments in post - Yeltsin era shows that ruling elites and the oligarchic segments of the new capitalist class finally succeeded in protesting their self interest by promoting a candidates who was passionate to their interest. This also reveals the fact that the capitalist class in Russia feared any genuine democratic alternative to the neo-liberal ideology.⁸⁵ Thus the new capitalist class in Russia regards genuine democracy and democratic institutions as a threat to their class interest. .

The Life Style of the New Capitalist Class

Russia’s new capitalist class is well known for their illegal behaviour and mafia connections. They also received wider attention because of their elitist, aristocratic life styles and conspicuous consumptions. Most of the oligarchs have personal guards for their security. The new Russian rode the streets in luxurious brand –new Mercedes and BMW cars. In the west, the firms to meet the needs of their representatives usually buy such cars. More of the top- of –the range prestige models of Mercedes and BMW cars was sold in Moscow alone during 1993 than all of the Western Europe.⁸⁶ The new capitalist class in Russia try to distance themselves from the ordinary people

⁸⁴ See for details, Michael Ignatieff, “On Civil Society”, *Foreign Affairs* Vol. 74, no.3 March-April 1995.

⁸⁵ Roy Medevdev, n.2, pp.343-363.

⁸⁶ Boris Kagarlitsky, n.4, p.20.

in the country by their appearance and consumption pattern. They have also developed a negative attitude to the problems of the other people.

Every month in Moscow three or four thousand apartments in exclusively the new propertied class buys buildings. In recent years thousands of red brick fortress homes have been built for new Russian in the suburban areas near Moscow, and similar construction has been under way on a smaller scale in other regions. Much larger sums have gone for the purchase of real estate out side of Russia.⁸⁷ The new capitalist class is most preferred travel destinations are United States, Spain, Cyprus Portugal, Greece, and Switzerland etc. Besides houses and plots, they are also buying securities in foreign banks and companies. Russian businessmen have invested billions of dollars in American and German banks. Commenting on the lifestyle of the new capitalist class in Russia Boris Kagarlitsky remarks, "they packed out cafes and restaurants in which a cup of coffee cost more than two weeks pay for a worker. They frequented the theatres, but only if the tickets were no cheaper than lunch in an expensive restaurant. They were always ready to help the poor, provided it was reported in the newspapers. Schwarzenegger-style of hair cuts adorn their head, where crew cuts would have been more appropriate or better, still their heads might have been shaven. They wore raspberry coloured jackets, green trousers and unbelievably gaudy ties inevitably in the most expensive shops of Paris and New York".⁸⁸ In fact the luxurious lifestyle and consumption pattern of new capitalist is far ahead of their western counterparts. But infact the western capitalist class following an aristocratic life style by making huge profits from the productive investment they made in various industrial concern. On the contrary Russian ones are imitating the western counter parts with the money they looted from the various government sources.

Experts estimate the total amount spent on personal consumption by the Russian rich at \$45 billion – several times more than Russians annual spending on military and defence needs.⁸⁹ In fact the consumption patterns

⁸⁷ Roy Medevdev, n.2,p 187.

⁸⁸ Boris Kagarlitsky, n.4, p.20.

⁸⁹ Roy Medvedev, n.2, p. 187.

and parasitic nature of the new capitalist class was the major cause for the Russia's capital shortages.

It was always possible to identify the country in which the new Russian's had been doing business by observing the clothes that he or she wore. If a male new Russian were wearing a tight green jacket it meant that his partners were in Germany. A loud tie combined with a solid business suit proclaimed that this man was working with Americans.⁹⁰ In August 1994 Moscow television, which by that time had a special programme in English every week featured short films on new Russian shoppers in London. Shop owners who were interviewed reported that their Russian clients wanted to dress like English gentlemen but that their sizes were not exactly the same. They also bought houses with view to getting as close as possible to the royal family, and what a great deal of jewellery at prizes ranging from 500 thousand to 2 million pounds.⁹¹ The Russian new capitalist class behaviour seems like self-declaration to the west that they have internalised capitalist culture, taste and values similar to western capitalist elites.

An obligatory part of the wardrobe of male new Russian was a cellular radiotelephone that had to be taken along wherever the owner went. This was not because he was expecting an important call; the telephone was simply an adornment, a witness to the success of the owner a proof of status.⁹² In short the life style and behaviour of the new capitalist class clearly reflects the chasm between the new ruling class and vast majority of ordinary people in Russia. The new capitalist class regards western consumption pattern and lavish spending of money as a symbol of their class identity and economic prosperity.

Problems of Russia's new capitalist class

The unique experience of Russia's transformation from the Soviet party-bureaucratic dominated socialist system to a capitalist free-market economy is marked by realignments of social forces and a new wave of class formations on capitalist lines in the country. The strategy adopted by the

⁹⁰ Boris Kagarlitsky, n.4, p.20.

⁹¹ Ibid, pp.20-21.

⁹²Ibid, p. 21.

post Soviet Russian state for the chosen path towards liberal capitalism was guided by the neo-liberal ideology of free-market economy and monetarist philosophy. The western states and international financial institutions recommended the neo-liberal model of economic shock therapy as an ideal strategy for countries transition towards liberal capitalist society.

However, the western designed neo-liberal model of capitalist development forced Russia to fulfil a number of conditionalities. In fact, the ideology of neo-liberalism itself was shaped by a certain tendencies that are inherent in capitalist system that was gained upper -hand after the historic set back of the socialist project. Along with this development, the internal changes within capitalist system that resulted to the triumph of the free-market philosophy. The dominant feature of the neo-liberal ideology was its emphasis on the unencumbered functioning of the market forces and its pleas for the complete withdrawals of the state from the economy.⁹³ It also argued for the total abolition of the social security measures provided by the state. Thus, Russia began its historical transition towards liberal capitalism in such a conjuncture.

Many scholars have blamed the particular model of neo-liberal strategy imposed on Russia by the IMF and other western states as the main factor for the crisis of countries capitalist development. Nevertheless, among the scholars have hardly any unanimous view prevailing on the question of nature and character transition towards a capitalist mode of production from the pre-capitalist social formation. Despite this fact many experts agrees that in the development of early capitalism in the west and many other third world countries were state and public institutions had played a crucial role.

The nature of the neo-liberal ideology and its inability to take into account the diverse structural and cultural factors other than economic ones which deeply influence the outcome of the socio-economic transition underway in

⁹³ See for details Susan Strange *Retreat of the State: Diffusion of power in Global Economy* (Cambridge: Cambridge University Press, 1996) Also see for a detailed analysis on Neo-liberalism Stephen Gill, "Globalisation, Market Civilization and Disciplinary Neo-liberalism, *Millennium*, vol.24, n.3, pp.383-423. See also for a related view, Susanne Mac Gregor "Welfare, Neo-liberalism, and new Paternalism: Three ways of Social Policy in late Capitalist Societies, *Capital and Class*, n. 67, Spring 1999 pp .91 119,

Russia.⁹⁴ Many Scholars argued that this flawed view of the IMF and ruling elites in Russia and its underestimation of the structural factors that influence the process of transition, which led to the miserable failure of capitalist development.

On the question of the failure of the capitalist development in Russia, economists like Chossudovsky, Stiglitz, Nuti, and Portes and many others argue that, those who devise policies and forecast their outcomes simply got the policies wrong.⁹⁵ Economists like Alice Amsden argue that Russia had moved from the pseudo-socialism to pseudo-capitalism and none of the crucial institutions necessary for the capitalist development exist in Russia.

According to modernisation theory, and its later form advocated by the free-market economists, capitalism will swarm over the command economy as the totalitarian states crumble. 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 capitals become 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 under-development not only through exploitation but also through incomplete exploitation that is by leaving intact indigenous systems of production.⁹⁶ The problem is compounded when foreign capital finds itself unable to invest in partnership with domestic conglomerates of merchant capital.

Theorists of underdevelopment like Paul Baran, A.G. Frank, Samir Amin, Immanuel Wallerstein and Paul M. Sweezy argue that the genesis of capitalism is indeed very different when there already exists a world

⁹⁴ See for a detailed discussion on the impacts of various non economic structural factors on economic transition, Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness", *American Journal of Sociology*, Vol.91, no, 3 November 1985, pp .487-510.

⁹⁵ See for details Mario Nuti Richard Portes, "Central Europe the way forward ", in Richard Portes eds., *Economic Transformation in Central Europe :A progress Report*,(London : Centre for policy research for the European Community, 1993).

⁹⁶ Michael Burawoy and Pavel Krotov , "The Economic Basis of Russia's Political Crisis " *New Left Review*, no,198.March-April,1995,p.66. Also see Maurice Dobb, *Studies in the development of Capitalism*, Newyork, 1947. See also for a detailed account on the of transition debate, Rodney Hilton, *Transformation from Feudalism to capitalism* (London: Verso Press, 1978).

capitalist system the way anticipated by the modernization theory. The latter a society launches into capitalism, the more its surplus is drained away to the more advanced surrounding economies. The development of capitalism in the metropolis entails the underdevelopment of the periphery.⁹⁷ Thus looking from the perspective of dependency theory, Russia's plunging into the international economy is the wrong way to make the transition from the state socialism to capitalism. Shock therapy becomes all shock and no therapy. David Stark, Victor Nee and many other economic sociologists argued that in the transition from the state dominated system to a market structure was more complex and protracted process. The former institutions would continue to play a crucial role in the emergence of developed market structures and a combination of private and state property and mixed economy would co-exist in the transition period.⁹⁸ Victor Nee argues by using the empirical findings from the study conducted in selected areas in the Chinese countryside, on the nature of market transition taking place there after the adoption of market reforms. He found that in the initial years of market reforms local people were benefited by the formation of local market structures and after a certain stage the reverse tendencies is taking route. Thus, he argues that, with the integration of local market with the capitalist world market and opening of it to the external forces resulted to the increasing poverty and social stratification in the countryside. By looking the Russian transition from the point of view of Stark and Nee, it is clear that many of the present crises of the country's capitalist development was the direct outcome of the neo-liberal policy.

⁹⁷ See for details Paul Baran, *The Political Economy of Growth* (Newyork : Monthly Review Press,1957). A.G.Frank, *Underdevelopment and Revolution*, (Newyork: Monthly Review Press, 1969). Paul M.Sweezy, *The Theory of Capitalist Development* (Network: Monthly Review Press, 1964). Samir Amin, *Unequal Development*, (Newyork :Mounthly Review Press,1974) and Immauel Wallerstein, *The Modern World System*, (New York: Monthly Review Press, 1974).

⁹⁸ David Stark, "Recombinant property in East European capitalism", *American Journal of Sociology*, vol.10, no. 4, January, 1996, pp. 993-1027. Also see for a detailed account on the pattern of market transition in former socialist societies, Victor Nee "A theory of market transition: from redistribution to markets in state socialism", *American Sociological Review*, vol. 154, October 1989, pp. 663-681, Ivan Szeleni and Eric Kstells "The Market Transition Debate; Toward A Synthesis, *American Journal of Sociology*, volume 65, no. 4, Jan. 1996, pp 1082-97. Also see, Neil Fligstein, "The economic sociology of the transition from the socialism". *American Journal of Sociology*, vol: 101, no. 4, Jan. 1996, pp. 1074-81

Thus it is well-evident from the very inception of the neo-liberal policy that, the western-designed strategy less to do with the domestic capitalist development in Russia and it is more in accordance with the geo-political interest of the western countries, especially USA. Western countries and neo-classical economists formulated the strategy of economic shock therapy in such a way that Russia would not emerge as a successful capitalist state in the near future. The success of capitalism depends upon the emergence of institutions to support long-term investment and risk taking. Karl Polanyi suggests that “double transformation whereby the state learns how to guide, not to replace the market”⁹⁹. Yet, no critical institutions on these lines developed in Russia during this period.

Evgenii Kuznetsov argues, “an imperfect market cannot compensate for an imperfect government. Government and market failure results in the creation of other type of institutions¹⁰⁰.” Neo liberal theorist and ruling elites in Russia argued that with the adoption of market reforms and withdrawal of government intervention in economy would lead to prosperity of Russian economy and there by sustained economic growth in Russia. But in actual reality, the new policies resulted in the massive chaos in society and it miserably failed in creating an alternative mechanism to replace the role played by the state in the economy.

Many recent theories on development argue that capitalist accumulation in less developed countries requires a state that is both sufficiently strong and sufficiently autonomous¹⁰¹. Thus, A.M Chenoy observes, “ by giving up basic control over the economy, the Russian state has lost its capacity to regulate the economy. Now, state policy is ineffectual. The government cannot implement its goals. The state is thus finding it difficult to forge the path to capitalism. Since the power of money was allowed to control the transition,

⁹⁹ See for details, Karl Polanyi, *The Great Transformations; the Political and Economic Origins of Our Times*, (Newyork ; Rinehart ,1957).

¹⁰⁰ Evgenii Kuznetsov ,“How can an Economy adjust to simultaneous Market and Government failure. Lessons from the Soviet Union, the Contemporary Russia and countries of Late –late industrialisation”, *Communist Economics and Economic Transformation*, vol:5, No:4, 1993,pp ,473-497.

¹⁰¹ See for details, Ditrich Reusehmeyer and Peter Evans, “The State and Economic Transformation, Toward an Analysis of the Conditions Underlined Effective Intervention” in Ditrich Reusehmeyer and Peter Evans and Theda Skocpol, eds, *Bringing the State Back In*, (Cambridge: Cambridge University Press, 1985), also see Peter Evans, *The State as Problem and Solution; Prediction, Embedded Autonomy and Structural Change*” in Stephans Haggard and Robert Kaufman (eds.) *The Politics of Economic Adjustment;* (Princeton : Princeton university press, 1992).

vested interests and external agencies managed the government. The state retreated to such an extent that it was lost much of its power and control.¹⁰²

In short, without a major shift from the neo-liberal ideology, Russian state's attempt to develop a full-fledged domestic capitalist system would remain as a futile attempt. This is mainly due to the following reasons. Firstly, the state continues to be prey to the political forces that erode its autonomy. Secondly, it has lost, what capacity it had to regulate the economy. From the studies of the local economy, it is clear that state policy has been singularly ineffective in implementing its goals.¹⁰³ Thirdly, at an ideological level, the rejection of the command economy, and the embrace of the free market, is ill suited to a prominent role for the state in forging a road to modern capitalism.

Conclusion

The neo-liberal economic reforms adopted by the post Soviet Russian state caused radical changes in country's social structure. The main intention of the neo-liberal policy was to create a new domestic capitalist class in the country. The strategy adopted by the neo-liberal policy makers for this purpose is to transfer the massive state owned enterprises and other public assets to a group of people who were able to purchase it through the privatisation process. This policy contributed to a situation in which the privileged segments of the soviet system (especially its technocratic elites) and people from the former soviet shadow economy become the social basis for neo capitalist formation in Russia.

The political economic background of these groups made a far-reaching implication on its nature and orientation. However, it is equally important to note that the very nature and character of the western designed policy of economic shock therapy made a havoc impact on the development of capitalism in Russia. The ideological orientations of neo-liberal policy reflected the fact that, free-market dogma itself contains many tendencies

¹⁰² Anuradha M. Chenoy, *The Making of New Russia* ,(New delhi; Har-Anand Publications,2000), p.215.

¹⁰³ Mary McAuley, n. 64, p. 68.

that act against the successful development of national capitalist class in the peripheral regions of the world capitalist economy.

The past historic experience of the many European, North American, and Asian capitalist countries reveals the fact that in these societies developmentalist state played a crucial role in the initial stages of capitalist development. However in Russia, the neo-liberal reformers and ruling elites completely neglect this fact and they totally cut-off the various organs of the state. It also resulted to the complete withdrawal of the state from the economy. But this policy created a situation in which in the absence of developed market structures to replace the vacuum created by the withdrawal of the state from the economy, mafias and black marketers dominates the economy.

Thus, the way in which the new capitalist class was created in Russia by the neo-liberal reforms had a profound impact on its very nature and character. In fact, the major segments of the new capitalist class have a close relation with mafias and various other kinds of illegal activities. Russia's leading oligarchs' behaviour and business dealings reflected the extent of its link with the criminalised elements in the society. The oligarchic elements are the most powerful segments of the new capitalist class. They also enjoy the support and thrust of the western capitalist countries and international financial institutions.

Many studies on the nature and character of the neo capitalist class in Russia shows that a major chunk of the new class income are not deriving from any productive activity. Rather it is mainly draw from illegal financial dealings, speculation, mafia activities and they are accumulating capital from Russia through their connections with the government officials and investing it in a safe heavens in abroad etc are the main sources of the income of new capitalist class.

The oligarchic elements of the new capitalist class also gained a control over the substantial portion of Russia natural recourses like oil and gas and other mineral resources through the privatisation policy. However, within the new capitalist class, there is a group of large and medium scale entrepreneurs who are producing goods especially consumer goods which

the country desperately needs. But this segments of the capitalist class hardly received any assistance or support from the government.

The marked feature of Russia's new capitalist class is its lavish life style and consumption pattern. Most of this group spending billions of dollars on imported consumer goods. They also travel extensively in various tourist resorts in western countries and frequently visiting various shopping centres in western capitals. They had developed apolitical views on society and have no faith in democratic institutions. It is evident from the many studies that the main reason for the parasitic nature of the new capitalist class and the crisis of the capitalist development in general were the outcome of the particular model of neo-liberal strategy adopted by Russia.

5 **Conclusions**

The class formation and resultant social stratification in society on the basis of income, capital, social status, gender etc, are the inevitable features of capitalist development. The present phase of capitalist development reveals that the inherent logic of capital possesses a tendency towards accumulation and concentration of capital, from those who are in the margin of the capitalist society to the capitalist class who owns and controls the means of production. The extent of accumulation and concentration of capital and resultant marginalisation of those who are in the margin of the capitalist society is influenced by the relationship between the capitalist class and other social class and the nature and character of the state and the nature of the relation of various social classes with the state. The capitalist development and class formation are thus parallel processes and the extent of the class formation depends upon the nature and character of the capitalist development.

The class formation in a capitalist society is dictated by the relationship between various social classes to the capitalist mode of production. In capitalist societies with the control of the means of production by the capitalist class along with the institutional support of the capitalist state, through which capitalist class acquired legitimacy in society. In a capitalist society social stratification emanates primarily from the class relations to the means of production. However, there are other forms of stratifications, which evolved in the pre-capitalist era, and co-existing with the capitalist forms of class based social stratification. Social status, prestige, racialism, caste etc, constitute the pre-capitalist forms of stratification, which continue to co-exist with the capitalist forms social stratification.

The classical Marxist formulation of social class, especially its economic reductionist view had many limitations in analysing the complexities of the modern capitalist society. Similar to the neo-classical economic reductionist approach, that underestimates and rejects the non-economic factors in shaping the development process, Marxian approaches especially the interpretations provided by the Soviet theorists, reduce all the social divisions in society as an outcome of the capitalist mode of production. They

also look at every form of the social hierarchy in society through the prism of class analysis, without expanding it to the requirements of the changing capitalist society. This framework had also many other limitations. By giving excess importance to the nature of ownership rather than its control resulted in the Soviet formulations of class theory and underestimated the social stratification, which existed in the Soviet Union even after the nationalisation of means of production.

In contemporary capitalist societies, it is well evident that the fundamental objective contradictions exist on the basis of class divisions and despite of this, there are differences and variations that exist within social classes, which the classical approach underestimated. The incorporation of political, ideological and cultural factors in the analytical framework of class by Nocos Poulantzas and many other later Marxist scholars resulted in a new wave of theorisations of social class in capitalist society. This new perspective on class developed by the Althussarian structuralist school of Marxist scholars contributed to the radical extension of class theory. Recently Erick Olin Wright, Philip Van Pijiris, Paul Hirst and many other theorists' work resulted in the expansions of the analytical framework of class by incorporating other oppressed social categories existing in the capitalist society such as 'sex' and 'race'.

Another major issue confronted by the Marxist theorist in the second half of the twentieth century was the question of how to theorise the increasing middle strata of population in capitalist society. The studies by the later Marxist scholars prove that this is mainly due to the internal transformations of the capitalist system that began in the late 1970s. With the rapid advancement in science and technology along with the revolutionary changes in information technology replaced the hitherto dominant position of industrial production and it also reduced the strength of the industrial working class in capitalist society. It also witnessed the dominance of the financial capital over the industrial capital in advanced capitalist countries. This also contributed to the expansion of service sector in capitalist societies.

The Soviet socialist system emerged in the second decade of the twentieth century as an alternative and critic to the dominant capitalist organisation of

political economy. It visualised that with the nationalisation of means of production and expropriation of existing capitalist elements in society would necessarily lead to a socialist society. However, the way in which the Soviet system developed over the years in Soviet Union resulted a massive polarisation and stratification in society. Since the adoption of the Stalinist strategy of industrialisation in early 1930s, the system has not provided any space for the legitimate critical voice to the functioning of the system. This gradually resulted in the manifestation of Soviet system on new forms of class society in which the party elites in association with the bureaucratic apparatus in the Soviet system dominate the society. Although the system prohibited the private property and accumulation of capital, those in the higher echelons of Soviet system possessed enormous power, privileges and other advantages vis-à-vis ordinary soviet population. This process reached its zenith in the late '70s and '80s, which was marked by massive polarisation within Soviet Society. The working class and other basic social classes had hardly any role in the decision-making processes and policy formulation in the Soviet society. The Soviet system worked between 1930s and 1990s were marked by deep class divisions in its social structure and there were clear divisions existed between various sections of the Soviet population on the basis of their position in the system. The social privileges and people's influence among the party bureaucratic elite were the factors that determined ones class position and social mobility in the Soviet system. In fact, many studies revealed that there was marked gender discriminations existed in wages and in many other fronts. There were also huge differences between working class and peasantry and between cities and countryside. Contrary to the western capitalist societies the Soviet system imposed constraints on political mobilisations and associations outside the party framework. The opening of the Soviet society as a result of the Gorbachevian reforms resulted in the new wave of democratisation movement in the country in the late 1980s. The inability of the Gorbachevian leadership to effectively handle the movement in accordance with the logic of the Soviet system and the internal contradictions of the reforms itself along with the long-term stagnation of the Soviet economy accelerated the process of Soviet disintegration.

However, in the final analysis the sudden break-up of the Soviet Union in the early 1990s was mainly due to the defection of the Soviet elites from the very system they governed. The large segments of technocratic elites who emerged in the Soviet system in the early 1980s belonged to the privileged social classes and elite families in the soviet society. Many of them had their education in western countries and developed values and life styles in accordance with the norms of capitalist society. This group played a major role in the final disintegration of the Soviet system.

The disintegration of the Soviet system and the subsequent political changes in Post-Soviet Russia made far-reaching impacts on its social structure. Immediately after the dissolutions of the Soviet system, the Russian state adopted the neo-liberal strategy of development based on economic shock therapy as a chosen model for the country's transition towards liberal market economy. The western states and international financial institutions formulated this policy. Economists from the Harvard such as Jeffery Sachs and Anders Aslund provided the expertise and they themselves supervised the initial years of the transition

The initial task of the neo-liberal reformers and ruling elites in Russia was to create a new capitalist class in the country. They conceived the massive privatisation of the state owned enterprises and collective farms were the primary requirements in this direction. The neo-liberal reformers and ruling elites in Russia wanted to create a new capitalist class and thereby making the social basis for the neo-liberal reforms. The Method adopted for them for this goal resulted in a situation in which the former Soviet elites especially the technocratic segments along with the people from the former Soviet shadow economy transformed into new capitalist class. In fact in the early years of economic shock therapy, the central goal of the neo-liberal reformers and the ruling elites in Russia was to destroy the remnants of the Soviet system by any means and thereby preventing any radical policy alternative to the neo-liberal approach. Neo-liberal model itself was the outcome of the radical changes that took place in the world capitalist economy since the 1970s. The world capitalist economy faced serious depression and other internal crisis in the early 1970s. This resulted into a set back for the Keynesian interventionist policy of macro-economic

management of the state in the economy and its welfareist commitments. Neo-liberalism in its pure economic forms i.e. the neo-classical economics became the dominant policy options for the Western capitalist states. The main feature of the neo-liberal model was its advocacy for the complete withdrawals of the state from 'the economy and its pleas for the full autonomy for the market forces and its faith in free-market enterprises. It also stood for the abolition of all state subsidies and other social security measures provided by the state. The neo-classical theory advocates that with the complete withdrawal of the state from the economy along with the opening up of the economy to the interplay of market forces would naturally lead to the economic growth and thereby general economic development of the society.

However, in the initial years of the neo-liberal model it hardly received any wider acceptance. The IMF and other western states initially imposed it on many African and Latin American economies. But it received a new momentum in the yearly 1980s and especially after the end of the Cold War and the subsequent disintegration of the Soviet Union it manifested itself as the possible policy option for those countries that approach international financial institutions and other western states for loans and other economic assistance. IMF and western states forced all the debtor states to domestically impose this policy as the solution to the diverse structural problems faced by these countries.

This was the context in which the Post -Soviet Russian state adopted the new policy. As a result it was forced to withdraw completely from the economy and liberalised and privatised Russia's economy to the market forces. The first major step in this direction was taken on 1st January 1991, when President Yeltsin announced the new policy and the lift of price control, which the soviet economy followed immediately after the final dissolution of the Soviet system.

As a direct outcome of the new policy, prices moved up and inflation rose up to twenty five percent overnight. In the period that followed witnessed a serious crisis of the Russian economy and society. Within few months, inflation shoots up to more than 2500 percent and as a result the Russian rouble became a mere valueless paper. The floating of the Russian currency

in the market and subsequent introduction of the mechanism of full convertibility of rouble to dollar led to the massive outflow of capital from Russia and thereby further devaluation of the currency.

The new policy pushed the majority of the Russian people into virtual poverty and they hardly had the purchasing power to consume the imported consumer goods that flooded the domestic market. Its immediate impact was the rapid rise in unemployment. People who were even employed hardly received wages in time and it significantly restricted their financial accessibility to essential commodities due to high inflation. The initial years of neo-liberal policy also witnessed massive transfer of state owned enterprises into the hands of the former Soviet elites and other beneficiaries of the new policy, who were able to purchase it by prices that were far below the normal value of the enterprises concerned.

The Yeltsin government issued vouchers worth of ten thousand roubles to each of Russia's 148.7 million citizens to buy shares in the privatising enterprises. However, many of the ordinary Russians hardly benefited from this policy. In many studies it is revealed that in many regions the entire voucher based auctions of enterprises were manipulated and grabbed by the businessmen from Moscow and other wealthy regions.

On the economic front, as a result of the new policy, both industrial and agricultural production witnessed massive decline in output that is even unrecoverable in the distant future. As a result of the privatisation of the state owned enterprises and the complete withdrawal of the state from the economy along with the complete cut-off of the state assistance, the enterprises which withstand the first wave of privatisation were forced to close down. In short, within a decade of neo-liberal reforms, the new policy pushed the Russian economy into a pre-industrial era.

Due to the withdrawal of the state from the economy along with the absence of a developed market structure to coordinate the various forces operating in the market resulted in the dominance of a black economy and the intervention of the mafia in the economy. This is also due to the neo-liberal policy, which in the initial years miserably failed in creating any alternative institutional structures to guard and control the various market forces that

operated in the economy. In order to develop a well functioning domestic market structure, it requires institutional support and a legal framework of the state and a developed domestic capitalist class in the initial years.

One of the marked features of the Soviet system was the existence of the large middle strata of the population. The neo-liberal policy totally did away with these segments of the population from their previous social status. In contemporary capitalist societies the middle class constitute the major chunk of the population. The neo-liberal policy in Russia completely destroyed the existing intermediate strata of the population into virtual poverty rather than creating a new middle class of the population. Almost every segment of the Russian population was miserably affected by the neo-liberal policy.

Women in the former Soviet Union had comparatively attained better education and many other social privileges and rights despite of wage discriminations and many other constraints. They had also enjoyed many other privileges and equal footing with men in many sectors. However, after the adoption of the neo-liberal policy, whatever rights and mobility they attained in the Soviet system were completely eroded. As a result of the reform policy even previously well educated becomes unemployed. The ordinary women and housewives were the worst victims of the shock therapy model. The introduction of market culture and western consumerist values also resulted the erosion of the social dignity of women in society. A large segment of the young women were forced to prostitution due to their social conditions and equally by the policy of neo liberal reformers who promote the consumerist culture in Russia.

In the Soviet era pensioners and other elderly population were received many privileges and support from the state. But the new policy resulted in the total abandonment of the past policy. Many of these segments of population become pushed into virtual poverty. The post-Soviet transition also made deep damage on the previously well off social group such as intellectuals, teachers, scientists, and many others who became unemployed. The new policy hardly provides any opportunity to these people in accordance with their training.

The working class and peasants were the worst victims of the new policy. The privatisation and transfer of ownership to the new capitalist class along with the complete withdrawal of the state assistance and sharp decline in budgetary support to the enterprise and factories forced it to lay-off or stop production. In many factories labour worked for months and years without wages. Russia's industrial production declined sharply in the past one decade. Many studies estimate that the Russian economy with a three percent annual growth rate (which is the present growth rate of USA) would take at least fifteen to twenty years to reach the level of industrial production attained in 1989.

In accordance with the experience of many Afro-Asian and Latin American countries, in Russia too the agrarian economy and primary commodity producers were completely marginalised by the new policy. It pushed the peasants and other agricultural workers into the margin of the Russian society. Besides, due to massive decline in agricultural production, many of the previously cultivatable lands became barren due to the dissolution of the collective and state owned farms. As a result of the new policy, budgetary allocation of the state to agricultural sector was fully abolished.

In spite of this fact most of the peasants and former members of the collective farms vehemently opposed the privatisation and opening of the agricultural sector. However, recently Russian government finally passed laws that promote private land holding and opened the farmland to the foreign cultivators and investors. This would create far-reaching impacts on Russian agrarian relations emerging in the countryside. Majority of people in the countryside were against the new legislation. In the context of the country's past experience with privatisation, especially in industrial sectors, it also would possibly result into the increased speculative activities and penetration of global agro-business conglomerate into the Russian countryside. However, it is inevitable in the context of over-all changes in Russian economy in terms with the neo-liberal ideology that a well-developed agriculture oriented on capitalist basis is essential for strengthening the nascent capitalist economy in Russia.

The most disturbing dimension of Russia's emerging social structure is its demographic composition. As a repercussion of the neo-liberal policy and

subsequent crisis in Russian society, a massive decline was observed in the rate of increase of population. There were a sharp rise in death rate and fall in birth rate. The life expectancy of both men and women declined sharply in the past decade. As a result of the social crisis and resulted chaos and tensions, problems such as increasing alcoholic consumption and drug use were reported to be increased among young men. This is evident from many of the recent studies that there was a massive rise in the death rate of young men in Russia. Most of the Russian families became single parent due to this problem.

The major factor, which brought about massive social tensions and chaos in society and economy, was the immediate withdrawal of the state from all the functions it had earlier performed in the economy. This was accelerated by the failure of the neo-liberal policy to develop an alternative institutional and governing mechanism to fill the vacuum created by the state. It also resulted in the frequent economic crisis in Russia.

The way in which the new capitalist class was created by the neo-liberal policy had a far-reaching implication on its nature and class characteristics. The new class since its inception reflects a parasitic behaviour. They are mainly engaged in financial activities, especially speculative financial dealings, currency speculation etc. Due to the inability of the Yeltsin regime and the instability created by the neo-liberal reforms that resulted a situation in which within the new capitalist a handful of people with their close connections with Yeltsin's ruling circle transformed into a powerful oligarchic group.

The oligarchic group within Russia's new capitalist class gained control over the country's vast oil resources and natural gas through the neo-liberal model of privatisation. The concentration of this group in financial activities led to the mushroom growth of banking institutions in the country. However, the oligarchic segments of the new capitalist class hardly engaged in any productive activities in Russia. Tax evasion and smuggling of dollar from the country and investing in western banks and real estate were the usual practices of the Russia's new capitalist class.

However, within Russia's new capitalist class, a sizable segment of people found to be engaged in the production of goods, especially in consumer goods industries. These segments of the capitalist class regularly pay taxes and have hardly any connection with the illegal and mafia elements in the society. In spite of these factors, the Russian government and banking institutions in the country hardly provide any assistance or support to these segments of the capitalist class. Many studies show that these segments of the capitalist class have the potential to transform themselves into a developed national bourgeoisie, if the state provides necessary protection and support.

The marked feature of Russia's new capitalist class is its habit of excessive spending on luxurious imported consumer goods and their lavish life style. They are spending millions of dollars in travelling to various tourist spots and shopping centres in various western capitals. They have developed almost blind faith in western values especially in its consumerist culture. The Ironic aspects of the Russia's new capitalist class in contrast to the experience of capitalist class in many western and many third world countries is its inability and opposition to develop a liberal democratic culture and rule of law in the country.

The oligarchic elements of the new capitalist class control the most of the major banks and other financial institutions in Russia. They hardly invest inside the country. The oligarchs using the banking institutions as a mask for accumulating dollar and capital inside the country and they exporting these capital through legal and illegal means to the safe tax heavens in western capitalist countries. Many studies estimated that the export of capital by the new capitalist class in the country exceeds the total economic assistance and aid by IMF and other western countries aid to the Russia in past one decade.

Another major feature of the Russia's capitalist development is the emergence of the regional bourgeoisie in different regions of the Russian federation. The method adopted by the neo-liberal reformers and Yeltsin elites for transferring the state enterprises in an unprecedented speed especially located in the regions resulted in the grabbing of many of those enterprises by the former Soviet elites and other privileged elements already

existing in the region. In many regions the new regional bourgeoisies who are alienated from the Moscow centric ruling elites and oligarchic elements of the new capitalist class virtually controls and dominates every federal institutions and budgetary allocations to the various regions.

In short the past one-decade of Russia's experiment with the neo-liberal reforms had made profound impacts on country's economy and social structure. Although the neo-liberal reformers and ruling elites in Russia succeeded in creating a domestic capitalist class in the county, it resulted in a number of inherent weaknesses. The past one-decade of its existence shows that it is more parasitic in nature and comprador in character.

The emerging contradictions between the Moscow centric national bourgeoisie and the capitalist class that emerged in the region have far-reaching implication on Russia's future. If the ruling elites and the oligarchic elements of the federal ruling class fail to transform the Russian federation into a genuine liberal democratic state, the centripetal tendencies in the region would acquire new momentum and legitimacy. The new capitalist class, which emerged in the country, reflects the nature and character of a comprador bourgeoisie in the colonial era. This is mainly due to the particular strategy adopted by the neo-liberal reformers in Russia. It was evident from the very beginning that the western states and international financial institutions had hardly any interest in transforming Russia into a full-fledged capitalist state because it would create in the near future serious challenge to the America's geo-political interest around the globe in general and in the European region in particular.

Many scholars also argued that the particular strategy imposed on Russia by the west were hardly practiced anywhere in the history of capitalist development in the present day capitalist countries. In the history of capitalist development in the west and recently in South East Asia shows that in the initial stages of capitalist development in these societies, the state intervention played a crucial role. Many scholars also argued that in the present phase of neo-liberal capitalism, it is impossible for a national economy, which is fully integrated to the world capitalist system to attain a successful capitalist development in the peripheral regions of the world capitalist economy.

In short, the last one decade of Russia's experiment with the neo-liberal market reforms had pushed the country's economy into a pre-Soviet era. It completely uprooted the Russian population and the country was dragged from the position of world's third largest industrial economy to the status of a third world economy. The major balance sheet of the past one decade is the institutionalisation of corruption, social chaos, massive decline in population, virtual collapse of the institutional structures of the state and the formation of a narrow upper layer of population whose income and consumption pattern are comparable to the western capitalist elites.

It is found that the sustainability and the maturity of Russia's capitalist development depend upon the capability of the state to assert its legitimate role in the economy. In order to attain this goal the new propertied class should transform it into a responsible capitalist class from its present comprador character. It also requires the complete shift from the present neo-liberal policy to a Keynesian interventionist policy that would be based on the principle of welfare state and humane market economy.

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