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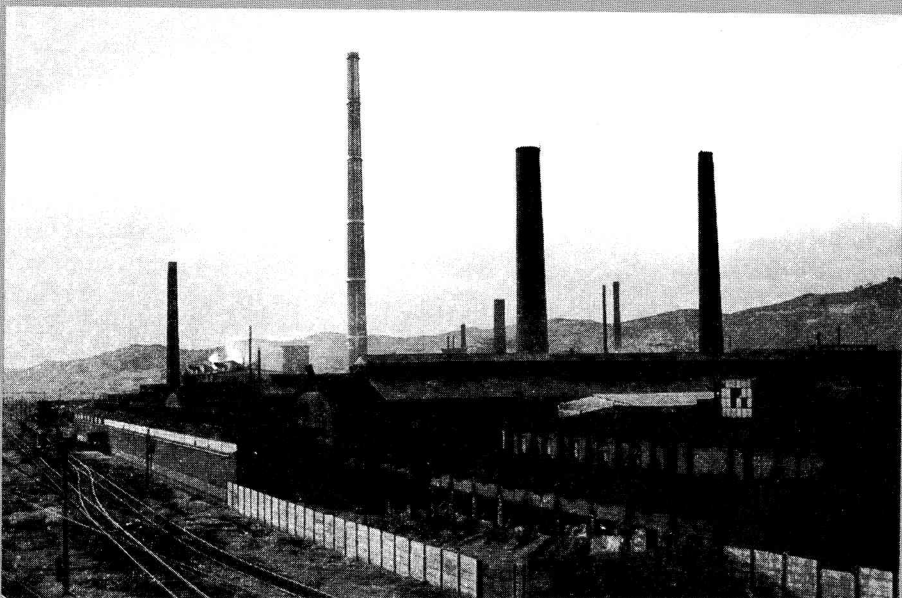
Russia's industry privatised



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Labour Focus on Eastern Europe

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Privatisation of Industry and Agriculture in Russia and Eastern Europe

Bob Arnot

The Russian Economy in 1995

In a recent edition of the IMF *Survey* (23/1/95) the IMF's managing director, Michel Camdessus, argued that considerable progress has been made in Russia with liberalisation, that stabilisation is progressing and that structural reform is impressive, as Russia's privatisation process is in the vanguard in Eastern Europe. This generally positive analysis echoes the line taken over the last two or three years by Yeltsin and his economic advisers, both Russian and Western[1]. According to Camdessus, the prognosis for the future is that with swifter and deeper action the reforms can only progress.

In this paper I want to identify some of the contradictory elements of the present situation and deal with the three related issues that Camdessus sees as central; namely stabilisation, liberalisation and structural change. The central argument of this paper is that the transition process has not gone as far as Western analysts suggest and that for the Russian populace the immediate effects have been almost wholly negative. Furthermore, I will argue that there is little chance of progress through 1995 with further destabilisation and disintegration the likely outcome.

Stabilisation

The Russian economy is in deep crisis. Western economists have argued that in the transition process there is an inevitable initial shock with negative consequences. The argument is that readjustment of the old industrial structure and changes in the composition of demand

1. See for example, Anders Aslund, "Russia's Success Story", *Foreign Affairs*, Vol 73, No 5, September /October 1994, pp 58-71.

lead inevitably to a reduction of output in the short run. Furthermore, as GDP in the past was comprised of much wasteful, useless and unwanted output, there is an inevitable decline as adjustment occurs. This, they suppose, will be overcome in the longer term as structural change allows growth in new sectors in response to market signals. In Russia, the switch from generalised decline to structural change, with evidence of growth in some sectors, simply has not occurred. The old patterns of production have continued in a declining and distorted form and enterprises have adapted to the new circumstances by creating massive inter-enterprise debt, which has grown throughout the past year and in the autumn of 1994 was estimated at 100 trillion rubles (*Nezavisimaya Gazeta*, 6/9/94). Table 1 identifies some of the key dimensions of the recent economic decline.

Table 1: Indications of Decline (per cent)

	GDP	Industrial Output	Capital Investment	Agricultural Output
1993	12	16.2	16	4
1994	15	20.9	27	9

Source: *Interfax*, 17, 25 Jan 1995, *Business World* 17 Jan 95

What is particularly significant is the continued decline in capital investment in the real economy which has been negative over the last two years, as this is the harbinger of further output decline in the future. First Deputy Prime Minister, Chubais, has argued that the domestic economy cannot survive postponement in investment for another year (*Segodnia*, 17/2/95). In the machine building sector output in 1994 was down 44 per cent on the previous year and this reflects low effective demand and low levels of investment activity (*Ekonomicheskaya gazeta*, No 3, 1995). The machine builders trade union believed that output had fallen by as much as 60 per cent in 1994 (*Interfax*, 14/2/95).

The internal dislocation of the Russian economy and the interplay of these problems is exemplified by the energy sector which is of great significance for domestic production and consumption but also critical for foreign currency earnings. A recent report has argued that the debt of fuel and energy consumers to oil, gas and electricity producers rose through 1994 from 12 trillion rubles in January to 43.8 trillion rubles in December 1994 (*Neftanoi Kuryer,* No 1-4, 1995). Furthermore, 60 per cent of fuel producers' profits are taken as either taxes or payments to regional and federal government and all oil exports carry an additional high export duty. There is the further problem of non-payment from former Soviet Republics. Last year, Gazprom received no more than 47 per cent of the costs of gas delivered to 61 regions of the Russian federation; Ukraine, Moldova and Belarus paid no more than 41 per cent and the Baltic republics 68 per cent (*Rossiskaya Gazeta,* Feb 1995).

The combination of internal dislocation, non-payment, high taxes and government failure to provide support has its full impact on the rate of investment. To maintain current production levels, 30-40 new deposits require to be commissioned annually but the dearth of investment funds has reduced this number to 3-4 deposits. In order to compensate for these problems energy producers are encouraged to raise prices which simply increases the non-payment problems, increases inter-enterprise debt, and raises the costs of those enterprises that can pay. One survey in the Moscow region found that energy costs now account for about 30 per cent of production costs (*Ekonomika i zhizn,* No 3, 1995).

The decline in agricultural output suggests that in one area where market signals might have made a rapid impact, because of the nature of agricultural production, the results have been less than impressive. V Starodubtsev, the Chairman of the Agrarian Union, has argued that because of the reforms the output of the agro-industrial sector in 1994 was 45-50 per cent less than in 1986-1990. Since 1991 meat production has declined by 30 per cent, butter production by 33 per cent, and sugar and milk production by 25 per cent (*Nezavisimaya Gazeta,* 8/2/95). Individual food consumption has suffered as a result, so that by 1994, meat consumption had fallen to the level of 1970, milk products consumption was down to the level of the 1960s and butter consumption at the level of the late 1970s.

The president's economic advisor, Yevgeni Yasin, reported to parliament widespread food shortages in grain, meat, butter and vegetable oil, with the prospects of greater shortfalls in the coming months. Yasin pointed out that, on 1 Jan 1995, only 100,000 tons of meat were available as opposed to 300,000 tons a year ago (*Interfax*, 10/2/95). There is also a real possibility of a widespread sugar shortage. The grain harvest has continued to decline as a reflection of the economic dislocation and continued distribution problems.

Table 2. Grain Harvest 1990-1995 (million tonnes)

1990	1993	1994	1995
116.7	99.1	81.3	82

Source: *Goskomstat*, 25 Jan 1995

With regards to production it is difficult to identify any evidence of stabilisation. It has been suggested by Western observers that the state figures underestimate GDP as private sector activity is under-reported. This may be the case but, as much of this activity is parasitic rather than productive, it does not refute the basic proposition that stability has not been achieved. The prognosis for this year from Russian forecasters suggests that, even in an optimistic scenario, GDP and industrial output will continue to decline by 5-10 per cent; their inertia scenario sees decline of 15 per cent in industrial output and 10 per cent decline in GDP; finally, the pessimistic scenario envisages a 25 per cent reduction in output (*VEK*, No 3, 1995). Yasin has argued that an overall decline in production is inevitable again this year (*Rossiiskaya Gazeta*, 16/2/95).

If the real economy is showing few signs of stabilisation, the position in the monetary sphere is, if anything, even worse. Price liberalisation, after years of price distortion, where some prices were unchanged for up to 30 years, was bound to cause inflation. This was exacerbated by the monetary overhang which was a legacy of both the shortage economy[2] and the growth of earnings which occurred in the Gorbachev years[3]. But, once again, Western commentators argued that price inflation would be a short-run phenomenon that could be overcome by increasing production, wage control, and government monetary discipline. However, although the inflation of 1992, which

2. See Janos Kornai, *Economics of Shortage*, (North Holland, Amsterdam, 1980) and *The Socialist Economic System* (Clarendon Press, Oxford, 1992).
3. See W Moskoff, *Hard Times: Impoverishment and Protest in the Perestroika Years* (ME Sharpe, New York, 1993) pp 16-17.

reached 3000 per cent, has been reduced, the problem still remains intractable. During 1994 inflation was reduced to less than 10 per cent per month during the summer period but by the year end was again around 16 per cent per month *(Izvestiia,* 26/1/95). In January 1995 the rate rose to almost 18 per cent *(Interfax,* 3/2/95) and in February was reported to have fallen to 12 per cent. However, even this reduction in the inflation rate has to be interpreted with some care. Firstly, as this report noted, food prices were still rising by over 20 per cent, as too were paid services to the population. Meat, milk and egg prices grew by between 27 per cent and 36 per cent, so the impact on ordinary consumers was harsh (*Goskomstat,* 1/3/95). Secondly, the reduction in inflationary pressure has been achieved at the cost of a massive non-payment crisis, as noted above, and by the simple expedient of not paying workers! Workers in the budget financed sector, which ranges from unskilled manual workers to skilled workers through to senior academicians in the Academy of Sciences, are often unpaid for many months at a time and when they are paid are often not paid the full amount that they are owed. According to Mikhail Shmakov, Chairman of the Federation of Independent Trade Unions, the overall debt exceeded 4 trillion rubles by October 1994 (*TASS,* 19/10/94). Many workers have been paid in kind, for example, some workers have been paid in commodities like sugar. These commodities are then bartered for the necessaries of life and this again will reduce the latent inflationary pressures. However, the reduction in inflationary pressure brought about by the non-payment of wages merely displaces the problems into other areas.

The prognosis for the future is that there are still considerable inflationary pressures in the offing, including the costs of the Chechen War and the costs of rebuilding Grozny etc. Furthermore, price increases will presumably accelerate under privatisation as monopoly producers attempt to utilise their power and as production decline produces further shortages. This combination of problems was evident in Moscow in November when petrol virtually disappeared from the streets (*Komsomolskaya Pravda*, 9/11/94). Future inflationary pressure will arise when the government de-controls those prices it still regulates. In particular domestic fuel prices are still controlled and are approximately 30 per cent of the world price (*Rossiiskaya Gazeta*, 16/2/95). The government intends to liberalise these prices and this will provide a further surge to price inflation.

However, more importantly there are massive budgetary problems. The budget deficit is growing in absolute terms and as a proportion of GDP. The 1995 budget has a projected deficit of 73 trillion rubles or 7.7 per cent of GDP but if the IMF loan of $6.3 billion is not forthcoming the budget deficit will double (*AFP,* 1/3/95). Tax payments are difficult to guarantee as individuals avoid tax and regions continue to withhold payments. In 1994 it was estimated that 33 trillion rubles of tax revenue were unpaid to the Federal budget (*Moscow Business News,* No 2, 1995).

It is however, insufficient to explain the budgetary problems by reference to institutional problems or monetary mechanisms alone. The root of the problem is the degree to which the state budget reflects the contradictory political economy of the system and this is well illustrated by the months of wrangling over the 1995 budget (*FWN/UPI,* 24/2/95). The budget was eventually passed with only the Communist Party, who opposed the austerity nature of the budget, and the Yavlinsky group, who opposed the size of the deficit, voting against. In the earlier phase of negotiations the Duma accepted what was recognised as a harsh budget but immediately raised the minimum wage from 20,500 to 54,100 rubles (i.e. from around $5 to $13). According to Labour Ministry figures the current minimum monthly wage is only 12 per cent of the subsistence minimum which in February 1995 was estimated at 170,000 rubles (*Interfax,* 28/2/95). The significance of the minimum wage is that it is a benchmark for a variety of payments and as a consequence such an increase had significant knock-on effects. Yasin opposed this move, recognising that it would destroy the austerity budget and threatened to resign if it were applied (*Interfax,* 16/2/95). Yeltsin acted to veto the increase but simultaneously raised the pension and student grants (*ITAR-TASS,* 30/1/95). This mirrors his actions during 1993 when he swung from tight monetary and budget policies to populist actions as circumstances dictated (for example, prior to the referendum, prior to the elections etc.). The ruling group is constrained by their desire to win support from the IMF to promulgate and sustain an austerity budget but domestic political pressures continually undermine their attempts.

They have not been willing or able to push the policies to their logical conclusion because they cannot risk the complete alienation of large sections of the population or run the risk of social explosion. This will be returned to in the concluding section of this paper.

It is not surprising that, in conditions of rapid inflation, domestic finance capital finds it impossible to invest in the real economy and, if it does, it will only be with short-term rewards in mind. In the sphere of finance over 95 per cent of deals are short-term (*Finansoviye Izvestiia*, No 6, 1995). This problem is exacerbated by the precipitate decline in the value of the ruble. At the time of writing (May 1995) the ruble has further depreciated to more than 4600 rubles to the dollar (*Interfax*, 9/3/95) with further depreciation anticipated. Table 3 shows the extent of the decline from January 1992 to January of this year.

Table 3. Ruble/Dollar Exchange Rate, 1992-1995

1992	1993	1994	1995
230	568	1700	4004

Source: *Interfax*, 26/1/95

The net impact of inflation, currency depreciation and the uncertainty that follows, has been enormous outflows of capital (for instance, Russians own 30 per cent of the 17,256 offshore companies registered in Cyprus and 10 of the 34 offshore banks, according to *AFP*, 12 Feb 1995). The early estimates suggested that both legal holdings, by banks and enterprises, and illegal holdings of funds overseas amounted to in excess of $50 billion. However, a recent source, an official of the interior ministry's department of economic crimes, suggested that the outflow in 1994 alone was $50 billion and that this was rising by between $1.5 billion and $2 billion per month (*Interfax*, 26/2/95). This outflow of funds has to be seen in the context of the $6.25 billion that Russia is attempting to obtain in the current round of talks with the IMF. This is not an economy which has stabilised but one that continues to decline and disintegrate and the outward flow of funds is symptomatic of the underlying problems.

Liberalisation

The liberalisation of the economy that Camdessus refers to has been achieved, to some extent, but the effects have been far from positive. Firstly, liberalisation has meant the removal of old forms of control and has led to the criminalisation of the economy. The high profile problems of criminal activity such as drugs, prostitution, and the murder of economic targets have been extensively reported in the West but every level of economic activity offers the possibility for criminal activity.[4] The low pay or lack of pay of minor officials has meant that the incentive to abuse bureaucratic power has increased.[5] The privatisation process has offered a wide range of opportunities for criminal activities and official statistics suggest that over 40,000 commercial entities are directly controlled by criminal groups.

At a more mundane level, the combination of inter-enterprise debt and non-payment from government, coupled with the non-payment of wages and the impoverishment of workers, has provided an enormous spur for theft from enterprises.

This can be illustrated by reference to the Tula arms enterprise which for the first time in 300 years of history stood idle for the whole of September 1994. The workforce was laid off for the whole month and paid only at the minimum wage. The plant had done exactly what was expected of it - it had converted 97 per cent of its output from the production of Kalashnikov submachine guns for the defence sector to the production of hunting rifles. Nevertheless, chronic non-payment problems forced the plant to temporarily suspend production. Although it was formally 6 billion rubles in the black, there was only sufficient revenue to pay 40 per cent of the workforce in June and no wages for July and August. The state actually owed the enterprise 15 billion rubles for guns supplied. As a result, the workers argued that they are now in the position where they will have to steal arms to sell on the black market in order to feed their families (*TASS*, 1/9/94).

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4. A report on criminal earnings by the MVD has suggested that at least $16 billion "dirty dollars" are in circulation in Russia and that 40% of the money in circulation was obtained through criminal operations both within and outside the country. (*Interfax*, 4/2/95)

5. State officials figured in 2,700 law suits, over half of which involved bribery. (*Interfax*, 24/2/95). This is undoubtedly an understatement of the problem.

Enterprises do not receive payments either from other enterprises or from government; as a consequence workers do not receive wages and cannot buy commodities; production declines and revenues to the government decline and the vicious circle begins again. This process has been interpreted by some Russian commentators, for example Urinson, as a crisis of overproduction or under-consumption. Like all under-consumptionist approaches to economic crisis, the form of the crisis is misinterpreted as its cause. Under-consumption is part of the process, but not the cause, which lies in the contradictory nature of the disintegrating economy.

Liberalisation has also had an effect on trade flows and capital movements. As noted above, the reform process has led to large scale outflows of funds. The liberalisation of trade has reflected and reinforced the inherent instability and growing dependence of the Russian economy. Exports are dominated by raw materials and in 1994 exports of crude oil and oil products rose by 11.3 per cent and 10.6 per cent (*Interfax*, 8/2/95). Furthermore, 90 per cent of Russia's hard currency revenue is derived from raw material exports (*Finansoviye Izvestiia*, No 6, 1995). In January 1995 for example, while production of oil fell by 8.4 per cent from the previous year to 25 million tonnes, exports of oil outside the former USSR rose by almost 50 per cent, to 7.9 million tonnes (*Segodnia*, 10/2/95). At the same time, imports are dominated by consumer goods and food, which account for more than 50 per cent of total imports (*Interfax*, 18/1/95). The dislocation in agriculture noted above has led to a threefold increase in meat and fish imports in 1994 compared to 1993, a doubling of milk powder imports and a more than fourfold increase in poultry imports (*Interfax*, 3/3/95). The overall impact has been that Russia's external debt has continued to grow, as evidenced by Table 4.

Table 4. Russian External Debt ($bn)

1985	1991	1994	1995
25	80	113	130

Source: *Interfax*, 17/1/95.

Liberalisation is, for the IMF, a key element in the reform process and a precondition for granting loan facilities. However, liberalisation is the mechanism through which Russia and the other republics of the former Soviet Union are tied into a subservient position in the international division of labour. The growth of dependency for the vast mass of the population is offset for the ruling group by the access it provides to Western consumer goods and its integration into international finance capital.

Restructuring and privatisation

The third dimension in Camdessus's analysis referred to the progress made with restructuring and explicitly the privatisation process. But the privatisation process needs to be interpreted with care, as it has resulted in enterprises being placed in the hands of their former management and workforce.[6] The key question that needs to be asked is: has this process led to a restructuring of relationships both between and within enterprises in the direction of the market? There is no doubt that change has occurred from the days of Stalinist planning, but has a dynamic been developed that is beginning to move enterprises towards market forms of interrelationship with one another and have the internal relations between the workforce and management been restructured with a similar dynamic? There are thus two issues to be dealt with; firstly, the question of closure and bankruptcy and secondly, the position of the industrial worker with regard to work, income, employment and unemployment.

Privatised Russian firms are unlike capitalist firms in virtually every respect. According to *Goskomstat,* by the end of 1994 over 39,000 enterprises were in chronic debt and, as noted above, the level of inter-enterprise indebtedness reached over 100 trillion rubles. Debt is not just between enterprises but also between enterprises and banks and federal authorities. Nevertheless, widespread closure, bankruptcy, and consequent restructuring has not occurred nor even begun. Inter-enterprise relations have not been monetised in any meaningful sense if enterprises simply build up mutual debt with no expectation of the debt being paid. The idea that privatisation would lead to monetisation was supposed to enable the unambiguous identification of successes and failures and facilitate the operation of the hard

6. See S. Clarke, "The Quagmire of Privatisation", *New Left Review,* October 1993.

budget constraint. The enterprises have effectively undercut that process and adapted themselves to the new conditions. This is hardly surprising as neither managers nor workers have any interest in seeing their enterprise close. Furthermore, no enterprise has an interest in pursuing its debt if the result were to be that essential suppliers were forced into closure. The highly integrated nature of the Soviet economy has led to a legacy of single enterprises producing particular commodities with little or no chance for intermediate users to seek alternative sources of supply. It is for these reasons that, although bankruptcy legislation exists, there is little evidence of its use. By mid-January 1995, over 1,200 enterprises had been declared insolvent with debts in excess of 11 trillion rubles (*Federal Insolvency Agency*, 16/1/95). It is likely in the early part of this year that a further 4,500 will be declared formally insolvent. However, the bankruptcy procedures are slow and in 1994 the arbitration courts dealt with only 102 cases; examples of closures are difficult to find.

With regards to the position of industrial workers, there are a number of interrelated questions. Firstly, with regard to unemployment it is correct to note that the official rate of unemployment is extremely low, particularly given the decline in production that has occurred over the past five years. Although the official unemployment figures suggest that around two million people are unemployed, with around 1.64 million receiving benefits (*Interfax*, 24/1/95), this requires qualification as it substantially underestimates the true figure. Many people who are laid off simply do not register as unemployed either because they cannot or because the rate of benefit is so derisory that it is not worth the effort. It is estimated that this category includes some 5 million people (*Federal Employment Service*, Feb 1995).

The first to be laid off tended to be employees who were most marginal to production and were drawn into production during the years of intense labour shortage.[7] OAP's, the disabled, schoolchildren and students and part-time women workers were most vulnerable and have simply disappeared from the workforce. Secondly, the position of the worker regarding work and income is critically affected by a

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7. See Bob Arnot, *Controlling Soviet Labour* (London, 1988) pp 88- 94.

number of phenomenon which are again untypical of market economies. Throughout Russian industry in 1994 there was a high level of work stoppages and unavoidable part-time working, as Table 5 illustrates.

Table 5. Enterprise Stoppages in 1994

1st quar	2nd quar	3rd quar	4th quar
12,869	14,849	14,711	14,711

Source: *Glasnost*, No 3-4, 1995.

A recent ILO survey, based on a sample of 400 Russian enterprises, has recalculated the level of employment and unemployment and estimated that of those currently in work 35 per cent could be released without any impact on the level of production.[8] The ILO survey also concludes that in large enterprises employing 1000+ workers the rate increases to 37 per cent but even in those enterprises which can be described as "private", the figure is as high as 22.3 per cent. Furthermore, the rate of surplus workers was found to be highest where management had been formally appointed by the work collective. The reform process and privatisation have not broken the dependency relationship between the worker and the enterprise. The relationship has changed its form and privatisation, in some respects, has actually heightened the dependency relationship. Workers are tied to their enterprises because the non-money wage they still provide (privatised or not) is still immensely important for consumption. Enterprises still provide, although to differing degrees, subsidised canteens, transport, foodstuffs, consumer goods, housing, education and childcare facilities. Payments in kind, as already noted, are increasing and the link to the enterprise is essential even if the worker is temporarily not working.

Disintegration and marketisation

The argument presented thus far is that, in respect of the three dimensions identified by Camdessus, the reform process has not created stabilisation; liberalisation has added to the destabilisation of

8. G Standing, "Enterprise Restructuring in Russian Industry and Mass Unemployment", *Labour Market Papers,* No 1, ILO, Geneva, 1994, p 31.

the economy,; and structural change and privatisation have created no dynamic towards the market. This raises the question what has the reform process actually achieved.

It is undoubtedly the case that the reform process has had a number of negative impacts upon the ordinary Russian. Currently, shortages have not been solved but disguised by attempted marketisation. It may be the case that Moscow stores are full of foreign consumer goods but Moscow homes, never mind those in the provinces, are not. With regard to poverty, any visitor to Moscow will be struck by the apparent paradoxical return of the queue. The queue, so long utilised as a symbol of the failure of the Stalinist version of the planned economy; has returned but in a new guise. The new queues, mainly comprised of women, are attempting to sell or barter their meagre possessions to buy food. Even in the centre of Moscow quite late at night, large queues of people will sell anything from a clove of garlic to a suit of clothes or a pair of shoes.

The governmental statistics on poverty suggest that 30-35 million people were below the poverty line in 1993, in 1994 the figure had fallen to only (sic) 24 million (*Segodnia*, 10/9/94).

Western commentators have argued that wages have increased in real terms over the last year, but although reported wage levels may have increased, the combination of part-time working, administrative leave, and factory shutdowns, noted above, have all served to reduce workers' wages to the minimum wage level for some period of time. For example, over the first 9 months of 1994 the average wage grew by 90 per cent from around 134,000 rubles at the beginning of the year (*TASS*, 12/9/94) to 224,000 rubles in July (*Rossiiskaya Gazeta* 24/8/94) and according to the Russian Ministry of Labour had reached 255,000 rubles by early November. In hard currency terms the average wage was equal to $86 in January and $108 in the late summer. But since then, whilst the average wage has grown in ruble terms every month, the hard currency value has fluctuated with the exchange rate. It peaked in August at $108.22; fell to $98 in September and by late October early November 1994 had dipped by a further $18-20. This process has continued as the ruble's value has collapsed.

However, this average wage data conceals a number of features regarding its distribution, as only about 30 per cent of the workforce receive the average wage and 107.6 million workers are below this level. Workers in the gas industry receive four times the average wage, whilst oil workers receive double the average. In the agricultural sector the average wage is about half the overall average and workers in light industries, culture, and science are only a little better off (*TASS*, 8/11/94). Pensioners with an average pension of 92,600 roubles in 1994 (*Segodnia*, 10/9/94) and the unemployed with dole payments of no more than 40,000 roubles (with all the possible benefits included) (*TASS*, 2/11/94) are clearly in the worst position.

The overall distribution of income has become increasingly unequal and according to the Labour Minister, Melikyan, the richest 10 per cent of the populace have incomes 15 times the poorest 10 per cent (*Interfax*, 28/2/95). In 1991 the differential was a factor of 4 (*Interfax*, 29/1/95). The disparity in incomes, which is officially recognised, probably understates the reality because the Ministry of Labour can only guess at the very highest incomes as many are illegally obtained and are outside their statistics. What is certain is that the disparities are growing. Bunich argued that during 1994 the richest , who receive up to 44 per cent of all income, saw their living standards improve by 44 per cent in the first 6 months of the year whilst the poorest, who receive only 6 per cent of all income, saw their living standards decline by between 3 and 5 per cent (*Trud*, 31/8/94).

According to Melikyan, the economic crisis, as well as causing a lowering of living standards, is also aggravating social problems, causing reductions in the birth rate and increases in the mortality rate. Infant mortality in 1994 was 19.9 per thousand (in the West it is currently between 7 and 9 per thousand). The mortality rate is 1.7 times the birth rate and two thirds of the deaths were due to accidents, crime, and sudden deaths (*ITAR-TASS*, 7/2/95). The reduction in life expectancy, 58 for men (down by 7 years since 1987) and 64 for women (down by 2 years since 1987) can be directly linked to the collapsing social infrastructure and the reappearance of diseases that were thought to have been eradicated. Throughout the summer months of 1994 a cholera epidemic raged throughout parts of Russia. Poor drinking water hygiene and collapsing sewerage systems have provided the basis for serious health problems that underpaid, underfunded, badly co-ordinated health workers have been unable to solve.[9] Short-term government measures are useless, as the problems they seek to address are deeply rooted in the emerging socio-economic system.

A further consequence of the reform process and the resultant economic collapse has been that enterprises are economising on safety.[10] Whilst the West has been concerned about the safety of the old Soviet nuclear plants because of the obvious potential spill-over effects of any disaster, it is the chemical industry that perhaps poses the biggest threat to the domestic population. In the transport sector, apart from the well-publicised disasters on Aeroflot, there have been a threefold increase in "incidents" in the railway system.

Alongside these disasters, there is the problem of industrial accidents. In 1993 7,600 workers died at work, an average of 21 a day and this year the average has increased to 30 a day (*TASS*, 7/9/94). The death rate is twice as high in the newly privatised enterprises as it is in the state owned sector. Furthermore, almost 14,000 people a year become disabled through the fault of their employers. These problems are attributable to poor equipment, low concern for safety, wages linked to output, and the deliberate sabotage of safety features as impoverished workers strive to increase output and wages.

Finally, the economic crisis has exacerbated an old problem and alcoholism has reached, according to a BMA study, "pandemic proportions" (*AFP*, 10/3/95). The authors note that more than 26,000 people per year are dying from alcohol poisoning compared to around 12,000 five years ago. Pure alcohol consumption has increased from 10.7 litres per capita in 1987 to 14 litres in 1992. The problem of alcohol consumption has ironically been accelerated by price distortions in the process of liberalisation and the problems of food shortages. Whilst in 1984 a bottle of Vodka cost the equivalent of 2 kilograms of sausage, today it costs approximately the same as 1/2 kilogram of sausage.

The old economic system is clearly in the process of disintegrating but new economic linkages are not arising in the market

9. See B. Kagarlitsky, "Spread of Cholera Mirrors Social Decay", *KAS-KOR*, Moscow, Summer, 1994.
10. See Renfrey Clarke, "Accidents in Russia: the Cost to Workers and the Environment", *KAS-KOR*, Moscow, Summer, 1994.

form anticipated by Western economic advisors. Production limps on in a mutilated variant of its old form. Privatisation, supposedly a success, has made little difference because the real issues - closure, restructuring, widescale mass unemployment, have not as yet been addressed. The areas where economic activity thrives are exchange, where individuals or enterprises can lay claim to tradable resources (legally or illegally) and earn foreign currency, or finance.

The impoverishment of the population has been cited as a major cause of the decline in domestic production and investment. If wages, when they are paid, are only sufficient to cover foodstuffs and basic services, then any enterprise manufacturing clothing, footwear, white goods or electrical items will be in deep trouble (*Rabochaya Tribuna*, 23/8/94). The decline in domestic production is no problem for the "new wealthy" because the only commodities they wish to purchase are imported Western luxury items.

Nevertheless, for all its negative effects, the disintegrative process has not achieved a number of prerequisite forms necessary for the marketisation of the economy. Labour may have been impoverished, the differentiation of income may be increasing, and there may be widescale financial speculation, but labour power is still not a commodity. Labour is still not "free" in Marx's dual sense. The reform process may have changed the form and nature of the dependency relationship (at the enterprise level) but it has not been broken, neither has a reserve army of labour been created that can function to discipline the employed workforce. The continued decline in production and consequential collapse in productivity illustrates that this has not been achieved. Privatisation, in its cosmetic form, has not been followed by restructuring, and widescale closures have not resulted, hence the old industrial/production structure remains largely intact. The reform process has not led to domestic capital accumulation and an acceleration in the exploitation of labour but to the run-down of past accumulated wealth, accompanied by capital flight, led by the former ruling group, the new entrepreneurs and criminal elements.

Equally important in this regard is the fact that foreign capital has not filled the breech. Recent reports suggest that there are now 5,000 wholly foreign owned firms operating in Russia but their total capitalisation is only $319 million *(Interfax*, 18/2/95). Even if this is extended to joint ventures, the number rises to 16,284 companies with a capitalisation of $1.6 billion. By the autumn of 1994, almost 8,000 joint ventures employed only 290,000 people *(TASS*, 9/9/94). Yasin has suggested that the total of all foreign investments in the Russian economy is no more than $3.5 billion, a figure he describes as negligible (*Commersant*, No 5, 1995) and even this may have negative consequences. Finally, and most importantly for the functioning of a market system, economic relations have not been monetised in the way that the reformers envisaged. Money is still not functioning as the universal equivalent and, as noted above, labour is either unpaid, paid in kind, or is not working, whilst enterprises are not relating through money forms.

The future

As already noted above, Yeltsin and Chernomyrdin see 1995 as a crucial year. The eventual granting of the IMF loan, and the terms upon which it has been given, place a great deal of emphasis on tight monetary and economic control. To this end, Yeltsin, via a series of decrees, has given himself stronger control over the allocation of funds from the state budget. The aim of this move in centralising economic decision making in the hands of the president is to reduce the ability of pressure groups (the agricultural lobby, the military industrial complex etc.) from exerting undue pressure on Duma members and thereby breaching the austerity budget. The ruling group believes, with the backing of the IMF, that if the budget is held, inflation will fall and stabilisation will follow. The key question is will this work? I would suggest that it is highly unlikely, for a number of reasons.

Firstly, the economic policy is still deeply contradictory. The aim is to continue liberalisation of prices but at the same time to control inflation. Unless this is accompanied by massive deflationary pressure, these twin aims are mutually contradictory. Furthermore, control over budget expenditure is to be accompanied by financial assistance to arms producers, hi-tech industries and infrastructure projects (particularly railways and communications) (*Commersant*, No 6, 1995). This selective form of investment may be necessary but it is impossible to identify adequate criteria upon which the enterprises or projects can be chosen. Once again this will be determined politically and will undermine the supposed marketisation of the system.

Secondly, the attempts to impose austerity are against the background of widespread poverty and rising domestic discontent. The food shortage will simply exacerbate the problems of the Russian populace and will create immense pressure for increasing budget allocations to the agro-industrial sector. Furthermore, any attempts to press forward with restructuring have to be viewed against the background of rising strike activity. The position of the miners in the coming period is particularly important. The miners demands were initially economic: non-payment of wages, budget allocations to the industry, and subsidies were the key issues. However, these demands very quickly became political with calls for the removal of the President and government (for example, in Vorkuta in March 1995). The role of the miners in the removal of Gorbachev should not be underestimated and there is a possibility that the move for restructuring and closure could precipitate concerted action by the miners that would have a deeply de-stabilising effect on the Yeltsin government. Finally, a major constraint on the ruling group in 1995 is the onset of the Duma elections scheduled for December. It is inconceivable that the austerity budget will be left intact over the course of this year. This authoritarian alternative cannot be ruled out.

The negative strength of the working population has impeded the reform process from its outset. The fact that there is no class of owners nor a social structure that provides clear and unambiguous support for the marketisation process only exacerbates the problem. Institutionalists would argue that with the right institutional framework a functioning market economy can be created. But institutions reflect the underlying political economy and class interests and if these are only in the process of coming into existence, then the artificially created institutions are merely a shell. Yeltsin's economic policy is trapped between the past and the market. ■

GROUP OF THE PARTY OF EUROPEAN SOCIALISTS

Stan Newens
Member of the European Parliament for Central London

On the 50th Anniversary of the defeat of fascism in Europe, salutes all those who made sacrifices for our freedom and calls for a renewal of the fight against racism and fascism in Europe today.

In April 1995, the European Parliament called for:

- An Anti-Discrimination Directive to be prepared by the European Commission;
- That guarantees of freedom of movement of persons in the European Union should not include the transmission of racist material or the movement of those convicted of making racist propaganda;
- Welcomed the establishment of a European Observatory to monitor incidents of racism and xenophobia in the Union;
- Called upon EuroPol to focus on criminal aspects of international contacts made by racist, xenophobic and anti-semitic organisations;
- Called for the training of social workers, police and judicial officers in racial sensitivity; for new anti-racist initiatives in youth and education policies and upon the media to play a responsible role in combating hatred and racial prejudice and making the public aware of these dangers;
- Called for clear powers to be given to the Union by the revision of the treaties to combat racism on a European Level and for an increase in the budget available to support anti-racist associations and initiatives.

David Mandel

The Russia Working Class, Privatisation, and Labour - Management Relations in the Fourth Year of "Shock Therapy"

I. The Economic Situation of Labour

Employment

The vast decline in Russian GDP (in 1994 it was just over half of that of 1990) and the rapid growth of poverty would normally lead one to expect a major rise in unemployment. Yet, at the end of 1994, the officially unemployed, defined as those actively seeking work and claiming unemployment benefits, were only about two per cent of the economically active population (*Trud*, 15 Feb 1995).

These figures reflect the weak incentive for the unemployed to sign up at state labour exchanges, due to the very low benefits (about $13 U.S. a month) and the stigma attached, as well as the reluctance of exchange officials to register the unemployed. Most unemployed workers avoid labour exchanges, and many of those who go do not

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The present article is the first part - covering the economic situation of labour and worker-management relations under privatisation - of a survey of the situation of Russian workers and of the labour movement in the fourth year of "shock therapy". The final part, to be published in the next issue (no. 52), will focus on the political situation, collective actions and labour politics, and will analyse the perspectives for the labour movement.

register (Standing/Chetvernina, p. 3).

In addition, enterprises have been dismissing their pensioners first, many of whom under the old system continued to work in order to supplement their pensions. For example, almost all of the 4000 jobs lost in 1994 at the giant VAZ auto enterprise were pensioners, the remaining being voluntary departures. In 1995, management plans to dismiss 5000 more workers, again predominantly pensioners (*Trud*, 22 Feb 1995). These workers, who have little chance of finding other work, do not appear in official unemployment statistics.

Another factor keeping official unemployment figures artificially low is the practice of administrative leave, which became widespread in 1993. (By law, workers can take extra leave only at their own request). Sometimes this is paid at two thirds of basic pay (basic pay is ordinarily less than half of normal takehome pay), the amount prescribed by law for work stoppages that are the fault of management. If the enterprise cannot pay but can prove to the state Employment Service that it has a realistic plan to regain solvency, employees with at least one-year seniority and no other singificant familial income may receive from the state the minimum wage (far below the subsistence level) during three months starting from the second month of layoff; or else, the enterprise can borrow the money from the state Employment Service to allow it to pay up to four times the minimum wage - still below subsistence (*Izvestia*, 9 Nov 1993).

There are several factors involved in management's preference for administrative leave rather than permanent layoff. By keeping the enterprise's official workforce high, enterprise management can pay those actually working relatively higher wages while avoiding the heavy taxes that are applied to the part of the total wage bill exceeding an average per worker of six minimum wages. This part is not treated by the state as a cost of production but rather as profit and is taxed at 35-38 per cent. Management may also be motivated by a desire to keep intact, as long as possible, an experienced, skilled work force in the hope that the economic situation will improve or that government policy will change.

Liberal analysts see this latter attitude as a holdover from the Soviet era that has yet to yield before market pressures - this despite the much-vaunted "success" of privatisation (over 50% of the GDP in

1994 was generated by the formally private sector) (*Economist*, 24 Jan 1995, p. 62). For example, in the spring of 1994, when management at a Samara ball-bearing plant debated the issue of giving up its daycare facilities to the municipality, the more traditional, production-oriented managers argued that they were necessary in order to keep young workers at the plant. By contrast, the more market-oriented directors for finance and marketing pointed to mass unemployment as offering a ready supply of labour. (The Soviet system was characterised by an overall chronic shortage of labour.) But the traditionalists argued that new workers would not have the required experience or skills. The decision was postponed, but eventually economic constraints forced management to give up the daycare facilites (Alasheev/Tartakovskaya).

By not formally dismissing workers, management also spares itself the expense of severance pay, at least two months wages. At the same time, the government is not forcing bankruptcy proceedings or pressuring directors to lay off workers permanently, fearing the added economic burden on the state budget and, more importantly, the political threat of open mass unemployment. For the government, administrative leave is a relatively safe and cheap way for enterprises to shed excess labour. But for workers, it results in a weakening of their economic and moral link to the enterprise and to its collective, undermining class identity and the potential for solidary action. Moreover, where the opportunity exists, workers on administrative leave are forced into the shadow economy, where there is no legal protection or social rights, thus pushing down wages and conditions in the legal labour market.

According to an ILO study, one fifth of all industrial workers were on forced leave in the autumn of 1994, while 35 per cent of those officially working were in fact idle (*Financial Times* (*FT*) 1 Nov 1993). For example, in October 1994, in the Siberian city of Omsk, with a population of over a million and only 3000 officially unemployed, one third of all formally employed workers in the city's defence sector, its major employer, were not working (*Trud*, 8 Oct 1994). In the Russian textile sector alone, two-thirds of the workers were not fully employed at the end of 1994. Over forty mills in the Ivanovo area were idle (*Rabochaya Tribuna*, 30 Aug 1994). In the lumber industry, according to one report from the autumn of 1994, half of the work force was idle (*Trud*, 7 Oct 1994).

If all these workers were counted together, the unemployment rate might be as high as 20 per cent (*Economist Intelligence Unit* (*EIU*), first quarter report on Russia 1994, p.25). In 1993, the Russian government statistical office finally began to publish an estimate of what it calls "total unemployment potential" (those without work and looking for it and those involuntarily working part time). It put this at 10.1 million or 13.5 per cent at the end of 1994 (*Trud*, 15 Feb 1995).

The number of jobs in industry shrunk on the average by eight per cent between mid 1993 and mid 1994, according to the above-mentioned ILO survey. In some sectors, particularly the vast Russian defence industry, the losses over the past four years have been much heavier. The following are some illustrative figures: at the Kirov Factory in St. Petersburg, which specialised in tanks and tractors, employment fell from an original 40,000 to 15,000 by the summer of 1994 (Kalachev 1994); at the ZIM defence plant in Samara - from 33,000 to 11,000 by the end of 1994, with 1000 more on involuntary leave (Alasheev 1994); at Moscow's ZIL diesel truck plant - from 116,000 to 70,000 by the summer of 1994 (*Finansovye izvestia*, 23 Aug 1994); at St. Petersburg's Arsenal aeropspace plant - a 40% drop (Prostov 1994); at Samara's Aviacor aircraft plant - from 25,000 to 9,000 (*FT*, 7 Feb 1995). But even the coal industry, with its political clout and government subsidies, lost 80,000 workers in 1994, close to 10 per cent of its work force (*OMRI*, 5 May 1995).

"Voluntary" attrition has played a major role in the elimination of jobs. Workers leave because of the drastic fall in real wages and the poor prospects for their plant. Sometimes management offers severance packages to persuade workers to leave, thus avoiding having to go through the union and a possible appeals process. But permanent layoffs have also been occurring, particularly from 1994, includng among the pre-retirement-age work force. These have affected women disproportionately, some 80 per cent of the officially unemployed (*Finansovye Izvestia* 16-22 June 1994). The other major category is youth, about 40 per cent of the officially unemployed.

Unless there is an upsurge in the labour movement, permanent layoffs can be expected to become much more frequent as privatisation and the continued depression modify management behaviour.

As desperate as the economic situation has become for most enterprises, and despite a presidential decree of the summer of 1994 that was heralded as opening the way for bankruptcies, relatively few have occurred so far, and, according to the *Financial Times*, only one in a large enterprise. This was the Samara Aviacor aircraft plant, which subsequently underwent restructuring under a new court-appointed management, which cut employment by two thirds (*FT* 7 Feb 1995). But in other cases where large plants have defaulted on debts, the courts have at most allowed the seizure of the enterprise's "social assets" (clubs, rest homes, etc.) by the creditors. Assets directly needed for production have not been touched (*Trud* 22 Feb 1995). (Of course, they are also less attractive to banks, from the short-term point of view that currently dominates economic activity.)

Bankruptcy on a large scale poses a major political problem for the Russian government because of the typically huge size of Russian enteprises, often the town's main employer and supporter of its infrastructure (public transport, housing, heating, cultural and health facilities, etc.). This helps to explain, for example, why the Russian government, for now at least, has been cool to the World Bank plan to "restructure" the coal industry through massive closures that would cut over half the work force.

However, one should not rule this out for the future. The head of the Federal Employment Service predicted a sharp rise in unemployed in 1995 (*Trud* 24 Jan 1995). The government is held back only by pragmatic political considerations: how far can it go before an effective opposition finally arises? But some small provincial towns have already lost their main industrial employers.

The sectors that are now actually hiring are trade, finance, and other services used principally by the new bourgeoisie, as well as construction in some areas, this too largely serving the private and business needs of that class. Among the rapidly expanding services is private security. Not surprisingly, Moscow, the main business centre and the entry point for international firms, has the lowest unemployment rate of all Russian towns and regions (*Trud* 24 Jan 1995).

A trend that is beginning to manifest itself is the shift toward "flexibile" employment through short-term, individual contracts. For example, auto plants, whose markets have been relatively stable, now use them to fill vacancies on the assembly line with students and foreign workers. They are also being used in construction. In other industries, management is testing the ground on white-collar personnel. A strike over this issue in March 1995 at the Bolshoy Ballet halted performances there for the first time in almost two centuries.

Thus, for most workers, the de facto job security and the full employment of the Soviet era have become only fond memories. Whereas the old Soviet consitution included the right to a job, the one written by Yeltsin after he crushed the parliament in October 1993 declares only that labour is "free". The threat of losing one's job, something that three years ago few workers took seriously, is now a palpable reality. The appearance of a reserve army of labour has deprived workers of their former power to "vote with their feet". This has strengthened management and dampened labour militancy. Even in Moscow, where unemployment is relatively low, health authorities report that sick workers avoid going for treatment out of fear of losing their jobs (*Rabochaya Tribuna* 25 Feb 1995).

Female employment has suffered disproportionately from "shock therapy". Discrimination against women in hiring and layoffs is sharply on the rise. This has the government's sanction: the Minister of Labour has argued publicly that it is natural for companies to prefer men to women, the former being more reliable, as they are not distracted by family responsibilities and by having babies. The increased economic pressure on women has made them particularly vulnerable to sexual harassment on the job, which is very widespread. Job advertisements, especially in the growing private service sector, openly specify "long-legged blonds," "friendly girls", "good attitudes".

Income and living standards: the wage system

Despite price liberalisation and the official free-market ideology, the state continues to play a central role in regulating the price of labour in the private sector through taxation: as noted earlier, any part of the enterprise consumption fund (wage bill) in excess of six times (before Janaur 1994 - four times) the state minimum wage multiplied by the number of employees is heavily taxed as profit. Some enterprises try to get around this, for example, through life insurance schemes that allow untaxed payments to policy holders, but overall this policy has been achieving its goal of keeping wages low, while other prices reach world levels (*Izvestia* 21 May 1994). The wages of the twenty million public service workers are directly controlled by the state.

When the minimum wage was introduced by the present regime, it was presented as a social guarantee - the bottom rung of the wage scale for public service workers and the basis for calculation of various social allocations for the entire population as well as for judicial fines, and the like. However, in February 1995, the Minister of Labour acknowledged that the minimum wage was less than a tenth of the official subsistence minimum required by a single person. In April it could buy 1 kilogramme of sausage or 400 grammes of cheese.

Another form of wage restriction is the government's regular and illegal practice of delaying payment of wages to public service workers. A similar effect is achieved by delaying payment of subsidies to state-owned enterprises and payment to enterprises for goods sold to the state. These delays can reach up to five months, and when they are finally made there is no compensation for inflation. Inflation in the first half of 1995 was still above ten per cent monthly, and since the start of "shock therapy", consumer prices have risen by 778 times (*OMRI* 14 Feb 1995).

On March 10, 1994 Yeltsin issued a decree attaching legal responsiblity for delayed wages but, for obvious reasons, the law provided no clear enforcement mechanism (*Trud* 16 April 1994). The government's real policy - which comes down to robbing the work force - is to pay its debts selectively to groups of workers whose protest potential presents the greatest political or economic threat. In passing, it should be noted that official wage figures assume that wages are paid on time.

Under the old system, sectorial wage scales were centrally fixed. Enterprise management did have a certain leeway through the bonus system and also through the often arbitrary assignment to workers of higher-than-merited skill categories. Nevertheless, the enterprise's wage bill, as well as the size of the work force, were fixed by the plan which had the force of law (though plans could be, and quite often were, renegotiated).

By contrast, the new wage system is highly decentralised, based upon collective agreements concluded individually by enterprises. At the base of this system is supposed to be the national General Agreement between the national union federations, state and national employers' associations, which is to set the minimum framework for all other agreements, on the sectorial and then enterprise levels. This is the official policy of "social partnership." However, in 1994, the national agreement was signed only after the sectorial or tarrif agreements, so it could hardly play its assigned role. Moreover, the national as well as branch agreements in practice are not legally binding on employers, since the law does not require membership in employers' associations capable of imposing discipline in their ranks. The role of the sectorial agreement in the coal industry is an exception, since this is still a mainly state owned and subsidised sector. But the miners have had constantly to threaten strikes and repeatedly to strike to force the government to live up to the agreement.

Only the wages of public service workers are indexed by law, though, as noted, the government ignores the law. This renders meaningless branch agreements that set the minimum branch wage as a multiple of the state's minimum wage. Generally, regular indexation is enjoyed only by the relatively more prosperous enterprises (e.g. VAZ, whose collective agreement provides for monthly indexation according to price of a consumer basket), by politically relatively powerful groups of workers (e.g. the coalminers, whose tarrif agreement calls for quartlerly indexation) or, finally, by workers in monopoly sectors, like public transport (*Trud* 17 Feb 1995).

The two basic determinants of relative wages are the market situation of the sector and of the individual enterprise and the political clout of the workers. The best paid industrial workers are in sectors with access to foreign markets and/or that are structured along monopolistic lines. At the end of 1994, the highest industrial wages were paid in the fuel sector, especially in gas (six times the average) and oil (2.2 times). Wages in the coal sector, on the other hand, once among the highest in the economy, have fallen significantly relative to the others, though they remain double the industrial average, largely thanks to the exceptional militancy of the miners. Wages in metallurgy are above average, but significantly more so in the non-ferrous sector, which has a strong export market. As a rule, the closer to extraction, the higher the wages. Wages are also above average (1.4 times) in the transport sector, a reflection of its monopoly structure. In construction, which now serves mainly the business and private needs of the new bourgeoisie, wages are 1.3 times the industrial average.

Wages in most processing industries, especially light industry and textiles, metalworking, and machine-construction (much of which was part of the defence complex), are well under the industrial average (half for light industry and 0.8 for metalworking and machine-construction), a consequence of the sharp drop in demand and the rise in costs of energy and raw materials. Over the past four years, production in the machine-construction sector has declined by 60 per cent. (*Rabochaya Tribuna*, 18 Feb 1995) The passenger car and small truck industry is one of the few exceptions, thanks to the relatively stable demand of the nouveaux-riches and to state protectionist measures. In Moscow alone, there was an increase of 350,000 cars in 1994. In the midst of an unprecedented peacetime economic crisis, Moscow, over the past few years, has become the scene of immense traffic jams (*Nezavisimaya Gazeta* 17 Jan 1995).

The average industrial wage in December 1994 was slightly above the overall average for the economy (1.07 per cent). In the service sector, traditionally at the bottom end of the wage scale, public sector wages (in health, education, science, culture) are still among the lowest, from one half the national average in culture and art, to two thirds in health, to three quarter in science. On the other hand, the banking and financial sectors, which were once also at the bottom of the wage scale, are now at the top, with wages 3.6 times the national average. It is into this sector that the accumulated national wealth, as well as that wealth that is still being produced, is being transferred. There have been cases of doctors leaving their jobs in Moscow public health clinics to clean in banks. "At least I'll earn something with which to support my family," explained one former doctor. (*Rabochaya Tribuna* 25 Feb 1995)

Thus, the combined effects of the market "reform", the economic crisis, and weak worker solidarity have put an end to the relatively egalitarian wage system of the Soviet era: the ideology calls for wages to be linked to the enterprise's market situation. In April 1995, the average wage in the gas industry, the highest industrial wage, was ten times higher than the average wage in agriculture and four times the average wage for the economy (*Ekho Moskvy* 5 May 1995). The wage system has also lost its former intra-sector uniformity. For example, within the metallurgical and mining sector, in the summer of 1994, workers' wages varied all the way from 70,000 to 700,000 rubles a month (Ledeneva 1994).

Differentiation has also increased significantly within enterprises between managers and workers. Though managerial salaries have typically become "commercial secrets", selective data show the gap to be growing, reaching up to 20 times and more. And despite the market ideology, managers' salaries are weakly correlated to profitability (Stavnitsky/Solovieva 1994, p. 19).

Apart from wages, workers receive various payments from the enterprise, such as material aid in case of particular need, a food and travel allowance, in some cases a housing allowance. However, these on average correspond to only 8 per cent of the wage and are proportionately higher in the better paid sectors (e.g. 15per cent in the financial sector), so that they tend to increase inequality. Because of the growing sectorial differentiation, the wage gap between regions is also growing, with wages highest in the resource-rich Siberian regions, and in Moscow, and lowest in central Russia, where machine construction and light industry predominate (*Trud* 3 Feb 1995).

Another key dimension of wage differentiation is the growing gap between women's and men's wages. Because of vertical and horizontal segregation in the Soviet period, largely the result of unequal family burdens but also a consequence of direct discrimination, women, who are on the average better educated than men, earned about 70 per cent of men's wages. With the increased economic pressure on women today and the official rejection of gender equality, women's wages have fallen to 40 per cent of men's and continue to fall (*Montreal Gazette* 8 March 1994).

Real income

The immediate effect of price liberalisation at the start of 1992 was to cut real wages by 61.5 per cent. In the following months average real wages climbed back to about 50 per cent of their pre-shock level but have since continued to fall (Stavnitsky/Solovieva, p. 6). In 1994, real income declined on the average by 13.6 per cent, with the average income of the active population declining from 1.69 to 1.46 times the very low minimum subsistence income calculated by the state for one adult person (*Trud* 11 April 1995). In 1995 the situation has continued to deteriorate - in the first quarter, the average salary was one third lower than in the same period in 1994. The percentage of people earning less than the minimal subsistence wage increased during that period from 25 to 30 per cent of the work force (*Izvestia* 11 May 1995). In January 1995, the wages of 90 per cent of public service workers, or 14 million people were below the minimum subsistence wage. That was two and half times more public service workers than at the start of 1994. Half of workers earning less than subsistence could not afford even the minimal consumption basket of 19 basic goods. The minimum pension is just over half the cost of that basket. UNICEF put half of the population of Russia below the poverty line; the government claims one third (*OMRI* 24 April 1995).

The extent of secondary, unreported earnings is difficult to gauge, since people are obviously not eager to reveal them. Scattered evidence as well as logic indicate that the illegal labour market is quite large. This would help to explain how the unemployed and those with jobs receiving below the subsistence minimum survive. Nevertheless, cases of workers fainting from hunger have been reported in the press.

A large part of the population now has garden plots and, in smaller towns, people may keep animals. In many cases, elderly parents are forced to share their meager pensions with their unemployed children. In larger cities, petty commerce, rental of rooms and apartments, construction, handywork, and, not least, pilfering from the enterprise, often supplement wages. Few people have any savings to fall back upon - the inflation following price liberalisation wiped out savings, which the government so far has refused to compensate. Total real household wealth declined 86 per cent as a result of price liberalisation (*FT* 14 Oct 1993).

In a study conducted between November 1993 and March 1994, only 13 per cent of respondents stated that the income from their primary occupation met their basic needs (*World Economic Outlook* Oct 1994, p. 84). Meanwhile, the very concept of "basic needs" itself has been transformed over the past three years. Whatever the real role of income in the informal or illegal sector, there is no doubt that most workers have undergone serious relative and absolute impoverishment and that the main mode of adaptation has been to sharply reduce needs.

The declining social wage

It is estimated that for every ruble earned in wages in 1984, 69 kopeks were distributed in the form of free or subsidised goods and services from public consumption funds (Rutgaizen/Shevnyakov 1987, p.5). Thus, the drastic cutback in the social wage has been a major factor affecting living standards. In 1990, 35 per cent of the state budget was earmarked for social needs, as opposed to only 14 per cent of the Russian government's budget for 1995. Already in 1994, 87 per cent of these expenses had been passed down to local governments that simply do not have the money to pay for them (Chauvier 1995). In 1994, the government, through a presidential decree, even attempted to reduce employers' social security payments from 5.4 to 3.4 per cent of the wage bill, but it retreated under union protest. This move would have wiped out in one blow much of the remaining social wage (*Rabochaya Tribuna* 6 June 1994).

Much of the social wage in the last decades of the Soviet system had been administered not by the state but by the enterprise. The last two years have seen a growing tendency of enterprises and other employers under economic pressure to shed their "social spheres". The most important of these is housing, the largest part of which was traditionally constructed by large enterprises. New construction for workers has almost come to a standstill over the past two years. Ten million people are on lists for housing allocation, and thirteen per cent of these have been waiting ten years or more. The vast majority of young people have no hope of obtaining their own apartment, except through inheritence, since free market rental and purchase prices are well beyond their reach. At the same time, the once nominal rents paid by those who already have housing are gradually rising to cover the costs of maintenance, as enterprises can no longer pay the subsidies.

Enterprises are also attempting to transfer their daycare and health facilities to the municipalities. But the finanical situation of the cities is no better. When the local government does take over these facilities, it cannot keep them in repair. Still other factory-owned facilities, like sanatoria and prophylactic healthcare facilities, are gradually being commercialised and opened to the general public, limiting subsidised access to them for enterprise employees, who are being charged increasingly higher fees. Facilties that cannot be transferred or commercialised, like sports arenas, are simply being destroyed through neglect (Alasheev/Tartakovskaya).

Health

A study by UNICEF covering the period 1989-1993 found abnormally high death rates for males that "parallel or surpass those normally observed in wartime conditions." This, according to the study, is the "real cost of the collapse of communism." (*Montreal Gazette* 11 Feb 1995) It would be more accurate to attribute responsibility to the government's "reform", about which there is nothing inevitable. In 1993 alone, male life expectancy declined by 3.6 years (to 59 years) and female by about two years (72) (*Nezavisimaya Gazeta* 16 July 1995). Among the main causes are: the breakdown of the underfunded public health system (in theory still free, but in practice increasingly based upon user payment), poverty, increased alcohol consumption (a major source of government revenue), the rise in crime, domestic violence and suicide, and the spread of infectious diseases. All these factors are attributable to the the economic crisis and the related loss of economic and psychological security.

The economic crisis has led enterprises to cut spending on health and safety, at the same time as workers have become less demanding and observant of safety norms. A major factor contributing to the decline of health-and-safety standards enforcement was the government's decision in 1993 to take over the technical inspectorate from the unions. The result is reduced state funding and an inspectorate more easily influenced by management. In coal mining, according to the head of the State Technical Inspectorate, the decline in technical levels has been "catastrophic". Occupational illness have increased 2.4 times in the past four years (*Rabochaya Tribuna* 7 Feb 1995).

Popular access to education and culture

The "reform" and the economic crisis have reduced popular access to secondary and higher education. Free and universal complete secondary education, ten years of schooling, was one of the key social reforms of the Khrushchev era. This has ended under a new "reform" that has put admission to the tenth year on a competitive basis, with the decision left to the school administration. University education is also no longer free, though a certain number of free admissions are set aside for exceptional students from poor families. In reality, all but students with rich parents are forced to work to support themselves, since the real value of student stipends - miserly under the old regime - has become almost symbolic.

Even the strongly pro-"reform" *Financial Times* (16 Jan 1993) has lamented the decline in popular access to quality culture. It belatedly acknowledged that under the old regime, despite political controls, high quality cultural services and goods were accessible to the general population. The "free market" and curtailment of state subsidies have put an end to this. The little that remains, primarily through television and cheap publications, is often the worst of what the capitalist, especally American, world has to offer. Russian-made films have practically disappeared from cinemas, whose main fare has become action and sex films. Centres for popular culture and sports are being closed and rented to businesses, and those that maintain their former functions are being priced out of reach of many citizens.

The precipitous decline of Russian science, while not directly affecting workers, is an indication of the type of economic structure and jobs that will emerge if "shock therapy" runs its course. Between 1990 and 1993 alone, 1.2 million scientists, almost a third of the total, left science, mostly for the business sector or to emigrate. Spending on scientific research and development as a percentage of GNP is a quarter of what it was in 1985, while the GNP itself is about half of what it was in 1985 (*OMRI* 28 April 1995).

An increasingly unequal society

While differentiation among workers grows apace, inequality has increased much more rapidly between the mass of the wage-earning population and the "new Russians" or bourgeoisie. The latter are often indistinguishable from the criminal elements inside and outside the state apparatus. Even Yeltsin's Minister of Labour has been moved to describe this level of inequality as "economically and socially unjustified." (*Trud* 10 Feb 1995)

In the first three years of "shock therapy", according to official statistics, the income gap between the best-off ten per cent and the poorest ten per cent grew from 4.5 to 16 times. In 1994, the earnings of the first group were equal to the earnings of the entire lower two thirds of the population. And according to the Ministry of Labour, the gap in reality is much greater. The growing differentiation has occurred against the background of a major decline in total national income during the same years. The effect of the relatively more stable distribution of non-monetary benefits, such as housing subsidies, medicine subsides, and food from plots, has only slightly moderated the gap. According to the government, the incomes of the top 20 per cent grew by over 30 per cent in 1994, while those of the bottom 20 grew by only five per cent. "Behind the overall increase in incomes hides the rapid growth of the well-being of some and the impoverishment of others." (*Trud* 3 Feb 1995) Yet this is hailed by a World Bank publication as bringing Russia into line with market standards, as if this were in itself proof that the change is for the better (*World Economic Outlook* Oct 1994, p. 81).

It is impossible to assess precisely the changes in the distribution of wealth over the past few years, since almost everything but consumption goods were national property under the Soviet system, though managed by the state-party bureaucracy in its own interests, and there is no reliable data on the value or real ownership of the vast part of this economy that has been officially privatised. This will probably not become clear until the transitional period ends and some level of economic and political stability is reached.

What is already clear, however, is that despite the distribution of vouchers to the population for the purchase of stocks, as well as the widespread opting by work collectives for the second form of privatisation, which gives them (including management) up to 51 per cent of the enterprise's shares, privatisation in practice has been one of the biggest, if not the biggest, swindles in human history. Without any pretense of democratic consultation, it was forced upon a population that consistently opposed privatisation of large enterprises. Moreover, even by the state's own legal norms, the process has been rampant with corruption and widespread violence. This is admitted by the government itself. (See *Rabochaya Tribuna*, 24-27 Jan 1995, for a documented series of articles on this.)

II. Privatisation and Worker - Management Relations

"Forced voluntary" privatisation

By the end of 1994, the first, essentially preparatory phase, of the two projected phases of privatisation was completed. Small-scale municipal enterprises have virtually all been privatised. Most were acquired by their work collectives. However, these were often fronts for the directors or outside interests, often mafia-linked. At the same time, majority ownership of most medium and large enterprises has also been transferred to private hands. This was achieved by transforming them into joint-stock companies and then distributing and/or selling shares, while the state retained a minority interest. Employees were given a choice from three modes of privatisation, offering them varying proportions of the shares of their enterprise free of charge or at a discount. Collectives that refused privatisation or tried to carry out a different option risked being left with nothing, since the State Committee on Property could then unilaterally decide the fate of the enterprise. This, and the extremely short time period allowed for these decisions, led the secretary of the Council of FNPR (the main Russian trade union federation) to characterise the process as "forced voluntary" privatisation (Soloviev 1994).

Privatisation vouchers were distributed to every man, woman and child for the purchase of shares directly or for investment in mutual funds and other investment companies. They could also be sold for cash. The government set the value of the vouchers at 10,000 rubles, which at the deadline for their use was the equivalent of two and a half bottles of vodka. One commentator wryly remarked that this was the value the state attributed to the fruit of generations of labour. At the same time, enterprises were assessed at ridiculously low levels, something the government explained by the necessity to attract investment.

It is worth noting that the decision to conduct large-scale privatisation had already been taken by Gorbachev in 1990, when Ryzhkov was Prime Minister. The latter even issued a decree transferring property rights to the enterprises personally to the branch ministers. But Yeltsin, who was then fighting for power as defender of the people against the nomenklatura, could hardly go along with such an open attempt to transform, with one stroke of the pen, the bureaucratic elite into private owners. Besides, he still had to consider the sensibilities of the Supreme Soviet and the labour organiations that had helped him climb to power, as well as the "democrats" who supported him and wanted a chance at the spoils. Therefore, the first phase of privatisation was officially aimed at the creation of a broad stratum of property owners.

Not surprisingly, about three quarters of the collectives opted for the second mode of privatisation, which gave them (that is, all employees - workers and management) the right to acquire for free or at a discount up to 51 per cent of the shares. But the law set restrictions on the ownership of these shares that effectively guaranteed they would not give workers' control of management and that the bulk of worker-owned shares would quickly pass to outside parties.

First of all, employees could not acquire more than 51 per cent of the shares through closed subscription, and, given the poverty of most workers, they have little chance of participating in the open stock auctions of the second phase of privatisation. Moreover, shares acquired for free or at a discount cannot be held collectively nor can their sale be in any way restricted. Finally, employee stockholders, regardless of the actual proportion of total shares they hold, are limited to a maximum of one-third representation on the board of directors (and one of these three is always the director). (Rudyk, pp 79-81) The function of the first phase of privatisation, with its "popular" facade, was thus to defuse potential worker opposition to the dismantling of the nationalised economy in preparation for the reconcentration of ownership in the hands of a small group of "strategic private owners" (the government's term). (Rudyk 1995 p. 78)

A study of the St. Petersburg Generator Blade Factory during 1993 found that a joint U.S.-Dutch firm was buying up workers' shares for four times their market value at a rate of three or four per cent of the enterprise's total shares each month. Having begun with only 4.7 per cent, the company had already acquired 28 per cent at the time the study was conducted. At that rate, it would own a majority share within half a year (Kostyshev 1994, p.7).

Privatisation and the labour movement

Yeltsin's privatisation drive has many parallels with Stalin's collectivisation campaign. Both were forced on an unwilling population; both failed to live up to their proclaimed goal of creating a more productive economy; both were primarily about the redistribution of economic power - in the first case from individuals to the state; in the second from the state to individuals. The relatively low level of state violence today compared to the Great Turn is partly explained by the fact that the peasants were defending land of which they had been the real owners; Soviet workers, for the most part, never felt a real commitment to their enterprises or to the national economy, although they were collectively the de jure owners. Nevertheless, the fact that three quarters of work collectives opted for the second mode of privatisation indicates that workers do not want to be mere hired labour.

In 1990 and 1991 a movement did exist for the transfer of the enterprises to the workers employed in them, either as collective property or in the form of leasing from the state. This movement, which held two national congresses, was based on the work-collective councils, elected self-management bodies created by the Perestroika 1987 Law on the State Enterprise. It arose, ironically, at a time when

Gorbachev was abandoning the "socialist" Perestroika in favour of a capitalist restoration, in which there was no place for self-management. But though the movement counted representatives of work collectives that numbered in the millions of employees, it never acquired an active mass base. Instead, it tied its fate to Yeltsin and his campaign for Russian sovereignty in the struggle for power against Gorbachev. Once he had that power, Yeltsin, like Gorbachev before him, turned his back on the self-management movement. The movement then fell apart, as its activists turned their attention to obtaining the greatest number of individually-held shares for their enterprises' workers (Mandel/Larsen 1994, pp. 271-274).

The work-collective council movement also suffered from a major ideological weakness: most of its activists and leaders had no conception other than the market of how the economy should be organised beyond the self-managed, autonomous enterprises. The role of the state and of other democratic organisations in the economy was an issue never posed concretely. In this way, apart from self-management and worker ownership, the movement essentially accepted the liberal version of the "reform" and was unarmed ideologically to mobilise the rank and file against Yeltsin's privatisation, all the more so as this "reform" seemed to offer workers practically free of charge, if not full ownership, then a significant share in their enterprises.

Another weakness was the absence of union support. Indeed, most union leaders, in both the old and alternative unions, were hostile to the work-collective council movement, seeing the councils as competitors and fearing that worker ownership and self-management would undermine union functions. The close, often collusive, relationship of local union leaders (in the traditional unions) with management, that generally opposed worker collective ownership and self-management, also played a role in this.

On the national level, the leadership of Russia's unions offered no real opposition to the government's privatisation programme. Around 1991, they finally came out with the vague and, in practice, contradictory slogan of "privatisation in the interests of the work collectives," which did not call into question the basic thrust of government policy. Indeed, some union leaders openly propounded the idea that Russian unions would become "real" unions (i.e. like those in the developed capitalist world) only once they faced "real" private owners (Speech by Kuzmenok, then vice-president of FNPR, in June 1991).

All the same, it is worth recalling again the successful efforts of certain Belarussian unions, notably the auto and radio-electronics workers, in at least slowing down privatisation, educating their members to the issues and offering them practical guidance. These unions are rare cases of successful, if still incomplete, transformation of former official branch unions into democratic and militant workers' organisations that are not afraid to decisively oppose the government. In Ukraine, on the other hand, resistance to the government's privatisation programme has come from the Supreme Soviet, with its large Communist and Socialist fractions.

In Russia itself, the lack of visible opposition to privatisation in the early phases of the "reform" was the result of tremendous ideological pressure from the political elite and the media, who were able to exploit the spontaneous and widespread popular disenchantment with what then seemed (things turned out to be relative) the terrible experience of decades of state property. Coming out of the Soviet experience, most workers had no real grasp of the importance of ownership and many even welcomed the prospect of a "real owner", who, so they believed, would at last organise production efficiently and invest in the latest technology. There was no understanding that if these expectations were realised they would lead to massive job cuts.

About the only concrete recommendation coming from national union leaders - but not from all of them - was for local unions to particpate actively in the privatisation process and to try to obtain representation on the newly elected boards of directors of the privatised enterprises. This could be achieved where the local union leadership had good relations with management.

The first stockholders' meetings were prepared and conducted in highly undemocratic fashion. Workers were kept in the dark about management's plans and about its negotiations with future partners. At the meeting at the Kirov Factory, worker shareholders heard for the first time of a signed deal for joint production with Caterpillar.

Documents for these meetings were distributed only a few days before the meeting, and management typically made efforts to dissuade workers from attending, advising them rather to vote by proxy. At the big enterprises, security was ensured by dozens of guards armed with sub-machine guns, though the meetings went off without incident. Almost nowhere, not even in those enterprises that had been at the forefront of the movement for producers' self-management and worker ownership, were worker shareholders able to exert any appreciable influence.

The FNPR-linked paper, *Rabochaya tribuna*, summed up the popular view of the "reform": "It is entirely obvious that the reforms, as a way of improving the economy, failed long ago. All that remains is the cover for the theft and sale of what remains of Russia's national wealth." (24 Feb 1995) There is no doubt that most workers and union organisations today see privatisation in a strongly negative light but they also feel powerless to stop or reverse it.

Worker - management relations

It is difficult to isolate the specific contribution of privatisation to the changes in worker-management relations over the past three and a half years. The economic crisis and the fear of unemployment and the hostile political environment towards labour in which privatisation has been taking place have also played a very significant role.

Russian enterprises are still living through a transitional period, and the nature of worker-management relations in them varies all the way from the traditionally corporatist and paternalistic, still the dominant mode, to what one would expect to find in a nineteenth-century mill. The latter type of relation is especially characteristic of newly-established private enterprises (mostly in the service sector), where wages are often relatively high, but where there are usually no social benefits nor unions and where the labour code, in practice, holds no sway. Here, managerial arbitrariness is rampant: job descriptions and wages scales are non-existent, the workday and vacations are not fixed, sexual harassment is the norm. In one commercial enteprise, the nouveau-riche proprietor periodically beats his employees, considering this a right of ownership (*Trud* 18 Feb 1995). But these "early capitalist" relations, as one union leader put it, can also be found in some coal mines that have fallen into the hand of outside individuals (*Profsoyuznoe obozrenie*, no. 2 1995, p.45).

However, for former state enterprises that have recently undergone privatisation, this is still very much a transitional and contradictory period. Outsiders who have acquired major shares often prefer to remain in the shadows, hesitating to assert their property rights in so unstable a political and economic climate offering little security for stock ownership, especially for outsiders. And when they do try, they are likely to come up against the resistance of the "work collective". There have been cases of angry workers revolting when they woke up to find that the director or some outside party had acquired a majority share of their enterprise, usually illegally, and they were sometimes able to reverse this (See, for example, *Izvestia*, 24 April 1994 and *Profsoyuzy*, no. 10 1994). In other instances, it is the director who is defending his power against the new owners. There have been cases where outside shareholders have simply been erased from company-run registries. The most celebrated incident occurred at the Krasnoyarsk Aluminium Factory, where a foreign firm (that had managed to acquire control of a full two-thirds of Russia's aluminium-producing capacity!) saw its twenty per cent interest disappear with one stroke of the pen (*FT* 15 Feb 1995).

The second phase of privatisation is designed to bring more clarity into the ownership situation, though this may require a qualitiative leap in state repression, something that is not to be ruled out. The banks may well turn out to be the chosen instruments of restructuring of the newly privatised enterprises. Headed by "new Russians", they stand to become major shareholders during the second phase. In May 1995, the State Committee on Property and the head of a consortium of banks reached an agreement whereby the banks would grant long-term bank loans to enterprises and accept as collateral the remaining state-owned shares. In this context, it is worth noting the comment by the Economics Minister, Chubais, that the government will probably reduce the presently heavy tax imposed on enterprise profits (*OMRI* 22 May 1995). That tax has been a main source of the financial troubles. Apparently, the government considers that once the bulk of the shares have fallen into the hands of the "strategic private owners", the plants can at last be given a chance to make money.

Managerial drive for absolute power

In the Soviet system until Gorbachev, workers had no real say in how the enterprise was run. But management itself was subordinate to higher economic and political authorities. As noted, this offered aggrieved workers some limited recourse. Moreover, the shortage of labour in most regions gave workers a significant amount of individual bargaining power. Under Perestroika, with its political liberalisation and self-management legislation (including the election of work-collective councils and of administrators), and the emergence of an independent labour movement, the correlation of forces in the enterprises shifted in the workers' favour. Under "shock therapy", the pendulum has swung back toward management, and with a vengeance. Today, there is little control over management - either from above or below (or from outside shareholders).

This is so, even though workers have become stockholders, often owning the largest bloc of shares. Indeed, one of the reasons they were allowed to become shareholders was precisely to facilitate their exclusion from any say in how the enterprise is run. Nor has this had to await the sale or dilution of worker shares. Even where employees own all the shares (this is possible in enterprises that were originally leased under Soviet law), they are unable to exert effective control over the administration (Kolganov 1995, p. 67). The Pargolov agricultural machinery factory in St. Petersburg, for instance, is entirely employee-owned. But it has gone through a series of elected directors over the last few years - each one quickly showed himself to be a self-willed autocrat, who pursued his own interests at the employees' expense.

Worker share ownership has not increased control over management for a number of reasons. One of these is the legal prohibition on workers' collective, closed (inalienable) share ownership, which means that most shares will soon be sold. Another is the state's support, both active and passive, for management in conflicts with workers. At the Pargolov factory, the director hired thugs to beat up the union chairperson, who was trying to call a shareholders' meeting to put a stop to the director's stealing. When she brought evidence of management's complicity in the attack to the police, she was told to bring in the culprits and then they would open a case. In a recent move, the director banned the union committee, which has been trying to stop illegal layoffs, from the factory and organised new union elections. As noted, recourse through the courts is lengthy and generally ineffective.

But perhaps the most important reason for worker shareholders' inability to exert effective control over management is their lack of solidarity, especially when facing the prospect of being fired or laid off. Management's virtual monopoly of information is also a key source of power. Workers, whether or not shareholders, are kept in the dark about management's financial dealings and negotiations. Privatisation legalised the commercial and financial operations of managers previously conducted through illegal or semi-legal structures. The former state enterprises that have become joint-stock companies often resemble investment trusts more than industrial enterprises (*EIU* 1/1994, p. 24).

The growing gap between managers' and workers' salaries is one of the clearest indicators of the shift in power. Managerial salaries are usually kept hidden behind the screen of "commercial secret" (an illegal practice). But some managers, like the general director of VAZ, feel confident enough to answer on television: "If I told you what I earn, you'd fall down". There is also a clear tendency to increased managerial arbitrariness in layoffs and setting wages. In many plants, management's wage policy boils down to the following: "If we have money, we'll pay you; if we don't, we won't." Even union leaders, let alone ordinary workers, often cannot figure out how the wages are calculated.

Hardening of relations

There is a trend toward increased social distance between workers and management. This is not just a matter of growing salary differentials. Relations are becoming more formal. A department head at the St. Petersburg Turbine Blade Factory explained how things had changed from his point of view. In the old days, management used to try to persuade workers not to leave. But now:

Relations with the workers have become harsher. No one any

> longer stands on ceremony: "You want to leave? Then leave!" We used to cover for workers, but now we say: "You don't like it? There's the gate!"... The union committee doesn't stop me from firing. Nowadays, I dismiss two or three people each month for disciplinary infractions and I get no argument. People aren't as insolent anymore - there's no one to complain to. I have a harsh character, but they didn't let me give it free reign before... I've told the workers: "In a few months, there won't be a single drunk or shirker left in the shop." (Roset 1994)

The "hardening" of relations is also evident in the increasing use of strong-arm tactics by management when its power is challenged. In a whole series of cases, when faced with a union that refused to play dead while management "engaged in personal self-enrichment" or tried to acquire controlling ownership of the enterprise, directors moved to replace the recalcitrant organisation with an in-house union. This happened, for example, at the giant Norilsk nickel complex (*Profsoyuznoe obozrenie* no. 2 1995, p. 51). In light industry, following privatisation, managers sometimes tried, and often succeeded, in persuading their workers to disband the union, arguing that the worker-owners did not need a union to protect them. (However, the same workers asked the branch unions to help them bring the union back as soon as serious conflicts arose, as they inevitably did.)

Management tends to toss aside all pretence of paternalism when directly challenged over issues involving money or ownership. In a report to the Special Congress of the Union of Mining and Metallurgical Workers in April 1994, the union president stated:

> Privatisation has led certain managers to seek possibilities for personal enrichment, to neglect the needs of the workers, to create small and joint enterprises with dubious staffs and incommensurable salaries at the expense of the finances of the basic enterprise. (*Informatsionnyi Byulleten*, p.10)

The conflict at St. Petersburg's Arsenal illustrates many tactics used against unions that try to limit management's freedom to rob their workers. As in the above report, here too management is pursuing personal enrichment at the expense of the workers. Moreover, the union suspects that management's long-term goal is to close down this high-tech aerospace plant and turn its buildings into warehouses. (Much more money can be made with much less trouble today through commercial and financial operations than through production.) The union has been pursuing the case through the courts, but so far with little success. As the union chairperson states, "it is a question of politics".

In the course of this conflict, management illegally cut off the union's telephone and evicted it from its office. With the splitting up of Arsenal into smaller enterprises, management campaigned for workers to assert their "independence" by disaffiliating from the main union, even sending loyal workers on training courses to prepare then to head the new "independent" unions. In December 1994, management barred the union committee from the plant for a month, during which it tried to form an alternative union, even distributing membership cards to workers, who were told that the old union no longer existed.

In 1994, a conflict arose at a Tula factory with 12,000 employees in the automobile and agricultural implement sector. The plant had been idle more often than it operated, with wages down to an almost symbolic level. Meanwhile, management had set up a bank and a series of small businesses, all linked to the plant. While its workers sat idle, a long line of people waited to be hired outside the personnel office, and a brand new Mercedes replaced the director's Russian-made Zhiguli.

When the union began collecting materials to take management to court, management banned the union committee from the plant and issued an order declaring the union a destabilising factor. In desperation, the union chairperson went to the mayor; there he learnt that he was one of the founders of the above-mentioned bank! Management even refused entry to a delegation from the national union - another illegal act. (Interview with T. Akhmetova, July 1994)

The persistence of enterprise corporatism

In the "traditional" unions (those that already existed in one form or another before 1990 and which still include over 85 per cent of the unionised work force), both local and national leaders readily admit that management's traditional way of dealing with unions and workers is destined to change under the "market economy" and that in certain enterprises the change has already occurred. But most feel the time has not come to change their own corporatist practice. For example, at VAZ the leadership of the old union did not support the strike in September and appealed to the workers to consider the general economic situation and how much worse things are in the rest of the country. (It did, however, provide the dismissed workers with legal counsel.)

However, the traditional unions are doing little to prepare their membership for the changes that they say are coming. The claim that the union works in harmony with a management that is open to the union's friendly persuasion tends, in fact, to undermine the importance of the union in the workers' eyes. Moreover, traditional union leaders often hold onto an idealised view of the old system: they explain the absence of union independence and adversarial relations with management in the past by the fact that the enterprises were state-owned and the directors were state employees, just like the workers. Some even go so far as to describe the situation as democratic. The repressive nature of the system - and the need for repression - is somehow forgotten. This selective view of the past casts doubt on the reality of the explanations offered (but which may well be sincere) for the persistence today of corporatist relations. The refusal to make a realistic analysis of what went before does not bode well for the capacity of these leaders to change.

The "alternative" unions that arose after 1989 were created in large part as a response to the traditional unions' refusal to abandon enterprise corporatism. The new unions are much less conducive to management's perennial requests "to consider the situation of the enterprise" and so to show restraint and to make concessions. (On the issue of union reform and the strategy of forming new unions, see Mandel 1994).

However, they have not succeded in attracting more than a small minority of workers. Their main successes have been in the transport sector (pilots, air-traffic controllers, longshoremen, locomotive engineers, municipal transport), a sector where the economic strike can even today be a potent weapon. This is not the case in most of the resource and manufacturing sectors (especially in light industry and most areas of machine-construction), which have suffered drastic declines in production over the last four years. Workers in these sectors feel very insecure about their jobs and about the future of their plants. Moreover, they tend to see the main source of their problems as lying outside the plant, in the state's economic and fiscal policies. These are among the key bases of continued union-management "partnership". In politics, this has taken the form of an alliance between FNPR and associations of enterprise directors. In May 1995 the leaders of FNPR, the Russian United Industrialists Party (ROPP), and the Union of Realists formed a centre-left electoral alliance, the main goal of which is revival of the economy (*OMRI* 16 May 1995).

To some extent, traditional attitudes have been reinforced by the distribution of shares to workers, even though this has not meant power-sharing, nor much extra income for workers. Worker share-ownership has given managers a new basis on which to ask workers to "consider the situation of the enterprise" and forget costly demands for improved wages or the elimination of health and safety hazards. The extent to which workers should "consider the situation of the enterprise" is one of the main issues that divides activists of the alternative unions from dissidents in the traditional unions, who want their union to be more independent of management. Thus, a Moscow autoworker, sympathetic to the alternative union, confided that he would like to see its leader made head of the traditional union, since then he would have to worry about the future of the plant.

These attitudes run deep. Even the alternative unions do not question the linking of wages to enterprise profitability. The idea that unions should strike for wages to be uniform across the sector regardless of the economic situation of the individual enterprises is generally met with blank stares. This is partly a reaction to the old system, where wages were held uniform through "solidarity" imposed by the state. There was no opportunity for workers to develop a genuine sense of solidarity through autonomous collective actions. At the same time, these attitudes are reinforced by the new regime's market ideology, as well as by enterprise managers who find, in the link between wages and profits, a new basis for promoting "partnership", even as the old bases are being eroded by the market reform.

At the same time, the bases of the traditional paternalistic relations are being emptied of real content. The most prominent manifestation of these traditional relations is the relatively low unemployment rate, discussed earlier. Even by the highest estimate, twenty 20 per cent at the end of 1994, unemployment does not come near the level one would expect of a capitalist economy whose GDP has declined by a half. The fifteen per cent decline in productivity in 1994 (a sharper drop than in 1993), indicates that enterprises are holding onto an enormous pool of excess labour (*Trud* 12 Feb 1995). This practice, often explained by the director's concern for maintaining the "integrity of the work collective", also has less altruistic motives. But in any case, few workers feel their jobs are really secure today.

Moreover, although the growth of open unemployment has been restrained, real wages have been severely cut by inflation. Over the past years, the very conception of the socially necessary wage has sharply regressed. The guaranteed wage is a thing of the past. And the tendency to reduce the enterprise's "social" wage can be observed even in enterprises that are doing relatively well and where the fall in real wages has been relatively small. At VAZ, the director announced at the end of 1994 that he intended to cut social spending by half. There has been no talk of compensating this loss with increased monetary wages.

Leaders of the traditional unions in the auto sector often claim that, so far at least, negotiations with management take the form of joint problem-solving. This is reflected in how collective agreements are adopted. In the typical negotiating procedure, the union draws up a draft agreement, after more or less consulting the membership, and then meets with management in commissions to discuss the various sections. Although each side presents arguments to support its positions, these are not backed up by the threat of force. On the union's part, strike votes and mobilisation play no role. (At a seminar in December 1994, when asked to list the sources of the union's strength, no one mentioned their members' solidarity.) According to these officials, agreement is generally reached on all points, though some will admit this is less the case today. On the issues on which agreement has not been reached, both positions are presented to the trade-union conference, whose role is to approve or reject the common points and to choose, by a vote, between management's and the union's position on the outstanding issues. (At that same seminar, when a Canadian trade unionist remarked that the CAW, the Canadian Autoworkers Union, never submits management's positions to its members for their approval or rejection, his colleague from KAMAZ replied: "Why do you want to complicate things? Our director is not the owner and he knows he won't be. Things are moving toward a Canadian situation, but only gradually. For the time being, we sign our own way, according to our traditions and economic reality.") Almost invariably the union's position (which is more favourable to the workers) is chosen.

On the face of it, this is a picture of real partnership. What this account does not tell is how much "consideration of the enterprise's situation" influences the attitude of the union negotiators and helps shape the common position. Moreover, none of the unions in the big auto plants have their own research departments, nor does the national union offer much help. As a result - and union officials admit this - the union simply accepts management's definition of the enterprise's situation.

Another critical issue is the composition of the trade-union conference, at which the collective agreement is accepted or rejected. These are often packed with people favourable to management. In part, this is because workers do not want to be delegates, partly out of lack of interest. But union activists from the production departments also complain that the delegates from office and auxiliary personnel, who are more docile and more dependent on management, tend to shift the balance at the conference in management's favour. Moreover, even delegates who oppose the agreement and might want to speak out against management or the union leadership, are reluctant to do so when management (who are, in most cases, still union members) is sitting in the hall, often with the director a member of the conference's praesidium.

Finally, there is the problem of applying the collective agreement. With very doubtful recourse through the courts and with no practice of mobilising members to put pressure on management, carrying out the agreement is by no means assured, especially in the current economic crisis.

Rank and file demobilisation

The continued corporatist practice of much of the union leadership should not be attributed exclusively to corruption or short-sightedness, though these are important factors. As they themselves argue, most enterprises have not yet completed the process of restructuring (though there is no guarantee this will do away with "partnership"). But another factor is the persistence of corporatist attitudes among rank-and-file workers themselves.

The tendency to "consider the situation of the enterprise", as defined by management, is not merely a legacy of the past. The economic crisis has created a profound sense of insecurity and powerlessness. It has also pushed many of the most active people out of the large, former state enterprises. The first workers to leave the large state-owned enterprise after the start of "shock therapy" were the more skilled and dynamic elements, as well as the younger workers. These people felt more confident about their chances of surviving in the marketplace and/or they had no expectations of social benefits, especially housing, to keep them at an enterprise that could no longer provide them with a decent wage. As a result, the industrial work force has becoming at once older and less skilled. A disproportionate number of those who left were among the active participants in the revival of the labour movement in the last Gorbachev years. Their departure is bitterly lamented by the remaining activists, who find themselves isolated.

More generally, the defeats workers have suffered over the past four years have taken their toll on people's willingness to take collective action. Perestroika saw a rise of worker activism that peaked around 1990 and then dropped sharply in 1991 and especially 1992. The union chairman at Pargolov factory explained why few of her members participated in the October 27 protest organised by FNPR against government economic policy:

> My people were very progressive, but after so many defeats, they've stopped believing. Every time you and I have met over

> the past three years things are worse. You know me, I'm an optimist by nature, but lately even I sometimes feel so depressed.

There is a tendency to retreat into one's private life and the individual struggle for survivial. The same VAZ activist continued:

> I tell them: you have a chance to take care of your problems twice a year at the [trade-union] conference. For God's sake, come and vote, so that the boss will be afraid of you and know that he can be challenged at any conference, even in the shop. Is it such a sacrifice to come to a department conference? I often hold meetings during lunch hour just to have a talk and to tell people about things, and I get more people than I need. But for a conference, I might get 45 out of 700. Yet people know this is a chance to express their lack of confidence in the department chief. And there hasn't been a case where that happened and he remained at his job... If he's a bastard that deserves to be voted against, then what does it cost to remain a half hour after work? They can spend an entire shift cursing him, but if they have to stay half an hour after work, then it's a catastrophe.

An analysis of the role of rank-and-file attitudes and moods always raises the question of the role of leadership: could a more dynamic, independent and far-sighted leadership overcome these very real tendencies among the rank and file? The answer usually depends on the political leanings of the analyst.

There is no doubt that the present union leadership is not up to the enormous tasks that face the Russian labour movement. At the same time, this leadership does reflect where the rank and file is. The failure of the alternative unions to attract more than a small minority of workers (outside of the transport sector) at least in part reflects that fact. But then, the role of leadership is to lead, to show direction, and not merely to register the mood of the members.

24 May 1995

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Joerg Roesler

Privatisation of East German Industry: Its Economic and Social Implications

In July 1990, the Deutschmark (DM) was introduced in East Germany, uniting the West and the East German economy, before formal political unification. East German industry, promised Chancellor Kohl before currency union, having been state owned, state regulated, and isolated from the world market for forty years, would benefit a great deal from the introduction of free trade, following a necessary intensive but short period of painful adjustment that would accompany the transformation from a planned to a market economy and from state to private ownership.

In December 1994 the privatisation process was nearly finished with 95 per cent of industry now in private hands. From the assets sold, 85 per cent went to West Germans, 10 per cent to foreigners and 5 per cent to East Germans - as restitution or by way of management-buy-out (MBO). Why did foreign (above all West German) companies purchase enterprises and invest in East Germany and not in, say the Czech Republic, Poland, Hungary, Russia, Portugal, or Spain?

Why did West Germany invest?

Putting aside the small number of philanthropic or nostalgic purchases, and also the larger number of purchases aimed at getting rid of potential competitors in the German market by getting them in its own hands, five general reasons for buying an East German enterprise have played a role:

1) The first factor was the heavy investment subsidies paid by the German government (both federal and regional governments): this is illustrated by one of the large investments in the East, that undertaken by Siemens in the former Zentrum Mikroelektronik Dresden, the heart of the GDR Robotron electronic combine. The amount of investment in this new Siemens chips producer is 2.7 billion DM. Siemens got 0.8 billion DM from the governments of Saxony (host state) and Bavaria (patron for the state of Saxony and host state of the Siemens corporation headquarters). The additional training of the microelectronics chip workers will cost 34 million DM. It will be paid by the state of Saxony. Siemens gets the site at a reduced price: 70 DM per square meter instead of 100 DM. The federal Ministry of Research takes part in financing the pilot project for flexible chips production - another 300 million DM. Siemens also gets a special depreciation rate for the new equipment - 50 percent up to 1996. The subsidy level - probably one of the most favourable in Europe - is only one reason for investing in East Germany.

2) Another is the striking improvement of the material infrastructure in the new German states. The federal government invested billions in infrastructure, from new pavement of the roads to the creation of the most modern telecommunications structure in all of Germany.

3) A third factor can be derived from the political and social infrastructure of this region. East Germany has, since unification in 1990, become an integrated part of one of the most stable democracies in Western Europe. While investors in the newly established democracies of Eastern Europe may have concerns about the stability of those democracies, in the former GDR they have less to worry about. In Germany they don't have to worry about sudden changes in the privatisation process as in Bulgaria, Poland or Slovakia, the emergence of adverse privatisation laws as in Poland and Hungary, or a questionable future of the whole governmental structure as in

Russia. In addition, West German investors are able to influence the legislation for East Germany directly. Other investment advantages are: no sudden changes in the exchange rate, in the extent of convertibility, or in the fiscal regime. Investors from West Germany do not have to worry about the institutional and legal aspects of market functioning and regulation, e.g., the privatisation process, or about competition policy and price controls. They can acquire the wide range of supplies and services they need for the functioning of firms without having to bother about import controls or export duties.
4) Another reason for investing in the East is the highly qualified workforce of the ex-GDR. Siemens, for instance, chose Dresden for its chips factory because it was the site of Robotron, the so called "socialist IBM" - with a 25 year tradition of computer production. The Siemens managers also had in mind the computer specialists of the Technical University of Dresden, which had co-operated closely with Robotron for many years. The US chips producer, Advanced Micro Devices (AMD), will join Siemens in Dresden in producing microprocessors. The Robotron workforce, which is only partially absorbed by the Siemens plant, was one of the main reasons why AMD chose to invest in East Germany.
5) A fifth reason for investment in East Germany is often underestimated: it is the relatively low wage level compared with that of West Germany. The average income in 1994 was 69 per cent of the level of West Germany. Even if wages, under the contracts agreed between unions and employer associations in 1990, should reach the agreed levels by 1997 - the agreement has been heavily disputed since 1994 - wages in the East will still remain 10 per cent to 15 per cent lower than in the West.

Social implications,

What this restructuring means for the East Germans can be seen if we look to the three main types of enterprises now typical for East German industry, which has been reduced to 43 per cent of its level before the introduction of free trade, employing 22 per cent of the 1989 workforce in manufacturing in the summer of 1994.

The first type is the "technically advanced manufacturing plant" (AMP). It is advanced compared with the technological level of the enterprises before the free trade period. The second type of enterprises could be called "high tech plants" (HTP), because they are advanced even compared with its affiliates in the West. But the most widespread type is the third: those plants that satisfy local demand (LDP) as they had done before free trade. While the latter dominate the food processing industry and the production of building materials, the advanced plants (AMP) are found predominantly in the chemical, metal processing, textile and clothing industries. High tech plants (HTPs) have been started in the car industry on the sites of the former Wartburg (Thuringen) and Trabant (Saxony) car factories. The West German subsidiary of General Motors did this in Thuringen, and Volkswagen did it in Saxony. Other HTPs are in the shipbuilding industry on the Baltic coast, for instance, the Norwegian-based multinational, Kvaerner, and in microelectronics, for instance Siemens in Dresden.

The creation of these high tech plants was accompanied by major layoffs. In the car plant in Eisenach, the number of employed fell from 9,310 (1989) to 2,000, or 22 per cent of the original level. In the Volkswagen car plant during the same period, the reduction was from 10,370 to 2,500 or 24 per cent of the original workforce; in the case of the Kvaerner shipyard, the workforce will shrink from 6,000 (1989) to 1,900 in 1995, when the reconstruction period is over, or to 32 per cent of the pre-free trade level.

One cause of the shrinkage was overstaffing under the conditions of a planned economy, but this accounts at most for a reduction of 30 per cent. The second factor was the jump in labour productivity caused by the introduction of modern machinery. A third element was the concept of lean production, causing a reduction of in-house production and a hiving-off of former departments from the "mother plant". While, in this case, the decrease in the plant's workforce is not identical with the increase of unemployment in the region, it proves that even investments of billions of DM in the "star" HTPs cannot create much additional employment. Unemployment in the region of the General Motors plant is no lower than the average level in Thuringen (18 per cent). In the region of the Volkswagen factory, half of the Trabant workforce laid off in 1990-91 had not found another job by the summer of 1994.

The layoffs have also been numerous in the advanced plants (AMPs) because of the new machinery brought in and because of the general decrease in the diversity of production in the plant, as in the case of the outer-wear plant near Berlin , which was bought by a West German textile producer. At first the production of outer-wear was completely closed down. Then the production facilities were renewed and streamlined for mass production of a rather simple component of outerwear - shoulder pads. All the plant's input materials are now supplied from the head plant in the West, to which the shoulder pads are also sent back for the final assembly of outer-wear.

One would expect employment in local demand plants (LDPs) to be reduced only by the average rate of overstaffing (15- 30 per cent). But, in the case of the big sausage factory near Halle, even minor restructuring, which became necessary after the introduction of common sanitary standards, reduced the workforce from 700 to 332. The LDPs are dependent on their experienced skilled workers and on the traditional local management, which knows the regional markets and the technology and equipment of the plant. In these plants, sometime the original top management remained in leading positions, as in the case of the sausage factory near Halle or the Nestle subsidiaries for the production of baby food, which changed the management "only minimally", as a top manager of the West German Nestle branch explained.

Professional skills

The contribution of the advanced manufacturing plants to qualified jobs will be, in cases such as the textile subsidiary near Berlin, almost non-existent. Due to the lack of any decision-making corporate function, engineering and management jobs will no longer be needed. This "advanced" plant will generate qualified personnel only up to the level of foremen. In contrast to these AMPs, the workforce in the "high tech" plants is expected to be highly qualified, multi-skilled, innovative and enormously flexible. The demand for highly qualified local skills does not apply to management. The General Motors West German headquarters now provides the top management for its East German affiliate. Only medium and low level managers will be recruited from local resources.

The contribution of HTPs to a new East German middle class will be restricted to middle and lower management positions and to routine engineers. Former research and development departments are substantially reduced or their tasks completely transferred to the head plant or to Western affiliates, making engineers with better qualification redundant. Former engineers and foremen (*Meister*) with state diplomas are now working on the assembly lines of the Thuringen car plant.

Differences in technological structure and managerial autonomy of the three types of new enterprises directly influence regional prosperity. For high tech plants, the supply for the assembly lines will not come from the plant's s regional suppliers alone. Volkswagen, like General Motors, relies firstly on its traditional West German suppliers for key components. East German supply firms, often small management buy-outs originally hived off from the former combines, have to offer up to 30 per cent lower prices than their competitors in the West in order to get into the supply networks of the new HTPs.

The problems are similar in the shipbuilding industry. Of all supply orders from Kvaerner, 36 per cent are directed to the region, another 29 per cent are met by West German firms, 35 per cent are shipped from Kvaerner's traditional suppliers, mostly Scandinavian. While the integration of high tech plants into the regions is remarkably low, the advanced plants are usually not integrated at all. These AMPs are the typical "cathedrals in the desert". According to Lothar Späth, the West German politician and business man, who had done much to save the East German ZEISS industrial and R&D capacities in Jena (Thuringen), in 1994 there existed only one large enterprise (with a workforce more than 1,000) in East Germany, where all managerial decisions were made on the spot - Jenoptik, an enterprise which was owned by the state of Thuringen.

The East German *Mittelstand*

Of the non-branch plant enterprises, those of the new East German capitalists - the East German *Mittelstand* (proprietors of small and medium sized firms) - are of special interest. In 1994 there were 480,000 such enterprises, if one includes all non-agricultural self-employed, with an average workforce of six people.

In this paper, I will look only at the industrial Mittelstand. These are only some thousand enterprises with an average workforce of 25 to 100. This group of entrepreneurs includes former "socialist managers", who became owners by way of management buy-out; former owners of enterprises private or semi-private until 1972, to whom the enterprises were handed back; and complete newcomers (often engineers of hived-off R&D departments).

Management buy-outs (MBOs) are predominant. The situation of these entrepreneurs, after four years of the market economy, is an ambivalent one. There is a characteristic lack of equity, due to the fact that large savings could not be made under the egalitarian socialist regime in the GDR. These meagre savings were halved by the "currency union" of 1994. A founders boom in 1990/91 was followed by increasing bankruptcies in the following years, reaching a peak in 1994 with an increase of 40 per cent in January-June, compared with the same period in the year before. One third of the functioning enterprises has problems surviving, sometimes despite being profitable and having orders for this and the next year. The enterprises are often unable to invest in long-term improvements in product and technological development. Innovation activities are thus generally limited to those management buy-outs that originated in the technical departments of the former combines, which had to be much more flexible and innovative than other departments in GDR times.

MBO suppliers face an enormous pressure, from the assembly plants, to reduce their prices. To get into the lists of suppliers, their offers often have to be 30 per cent lower than those of West German firms. The MBOs feel squeezed out between the (West German owned) larger enterprises and the regional bureaucracies that decide about orders for the municipalities. (They are often also of West German origin - the so called *Leihbeamte* or "borrowed civil servants"). These East German capitalists are also disappointed with the West German employers associations (BDI, BDA), which were eager to set up offices in the East and to help their members to penetrate the East German economy, but were hesitant to give assistance to the new East German entrepreneurs.

The economic situation of the East German Mittelstand is therefore different from that of their West German counterparts - financially and also socially. The small entrepreneurs from the East are not only hard working like their West German colleagues, but do not aspire to the higher standard of living typical for this group in the West. Many of the East German entrepreneurs also try to maintain, within their enterprises, the typical manager-personnel relationship of GDR times, characterised by a more cordial atmosphere and equalisation of professional standards than is usual in corresponding enterprises in the West. But they admit that these standards, which they prefer, are difficult to maintain. (The most striking examples of "Manchester capitalism" can also be found in this group of entrepreneurs.)

Branch plant economy

The picture that can be derived from the emerging structure of East German industry, five years after the beginning of transition, is that of a branch plant economy, as far as advanced and high tech production is concerned. The destiny of those regional production complexes is dependent on the strategies of the corporate centre. The plants that supply local demand outnumber the AMPs and HTPs, but, as medium sized firms, are not influential enough to balance the branch plant related influences on the East German economy. The East German *Mittelstand* plants - especially the suppliers among them - are overwhelmingly dependent on the large corporations, especially the HTPs.

This branch plant economy will be only one of the most striking differences, which will characterise the West and East German economy in the future. The German East, which jumped from over-industrialisation (compared with West Germany) to under-industrialisation (with a lower industrialisation degree than Ireland, the country with the lowest degree of industrialisation within the European Union), will also differ from the West in the share of qualified jobs in management and R&D. It will lack the broad strata of small middle class entrepreneurs which, according to West German belief, formed the backbone of the "economic miracle" in the 1950s. ■

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Nigel Swain

Decollectivising Agriculture in the Visegrad Countries of Central Europe

General

Nowhere has the transition to the market and a private ownership-based economy had more direct impact than in the countryside. This is true in both quantitative and qualitative senses. Quantitatively, because Central and Eastern European countries mostly only industrialised after 1945, the majority of the rural population, as well as huge numbers of urban dwellers, retain title to, or have a restitution claim over, agricultural land and equipment. Qualitatively, for those who live in villages, the choices posed by a marketised rural economy are particularly stark. For urban workers still in employment, privatisation means a new, probably more exacting boss, but there is no requirement radically to change one's life strategy. For village-based former commuting workers (the first to be made redundant) and those engaged in farming, privatisation means setting up in business. Being a "better, more disciplined", less demanding employee, is not an option because there are fewer and fewer rural employers. Regular incomes and secure social benefits must be abandoned for the risks of self- employment in agriculture or other branches of the economy, and under severely depressed market conditions.

Yet nowhere was "the transition" more influenced by political rhetoric and less informed by sociological and economic understanding than in agriculture. An unexamined, but understandable (because of its ubiquity) assumption of the superiority of family farming became a belief in the superiority of family owner-occupied farming. This was then clouded by nostalgia for a non-existent golden age of peasant farming. Faith in family, owner-occupied farming became a support for private peasant agriculture, which conveniently coincided with restitution demands to return property to its previous owners. But to advocate a future based on private peasant farming required a collective amnesia of colossal proportions: pre-war agriculture was not based on prosperous peasant producers, for twenty years socialist agriculture had been organised on industrial lines, the economics of agriculture had been completely transformed, the generations involved in farming had changed, and the children of the more prosperous peasants had joined the new socialist middle class. This urban middle class was unlikely to be attracted to farming, and collective farm members were reluctant to give up security and relative affluence. The social actors necessary to embark enthusiastically on private farming, let alone become peasants, simply did not exist.

A concomitant of this collective amnesia was the assumption that agriculture was returning to a more natural state. This "transition" was not perceived as a transformation, which might cost money, but as the mere removal of artificial distortions. Thus, although there was pious talk of the need for restructuring aid, with foreign debt to control and depleted domestic budgets, governments happily cut money for agricultural restructuring because it was assumed that once private agriculture had been created, everything else would solve itself. This romantic attachment to the peasant farmer was also curiously at odds with another pillar of agricultural policy: the rapid liberalisation of the market and reduction, if not abolition, of subsidies. Removal of subsidies on the scale adopted by most Central and Eastern European countries was not required by international treaty, nor was is a necessary requirement of membership of the European Union; nor, indeed, was the transformation of co-operatives into family farms a requirement of the EU's Common Agricultural Policy. Both extreme price liberalisation and the attack on co-operatives appear rather to have been political virility tests - demonstrations of whole-hearted acceptance of the market.

Infected by collective amnesia and inspired by private enterprise political machismo, Central and Eastern European politicians implemented a transition scenario from which the necessary social actors (enthusiastic potential private farmers) and the funds to support them were missing, and created an economic context which deprived domestic agricultural producers of nearly all support. Transition is going ahead. Private farms are being created. But at considerable social cost. It is only a minority that is managing to acquire sufficient land to farm on a scale required by the 1990s. The majority are losers for whom the historic problem of rural overpopulation is being re-created.

Socialism's legacy in the countryside

We have all been brought up to believe that collectivisation does not work. Forced collectivisation ranks in the public imagination with the purges and show trials as one of the historic failures of Soviet Russia; and the inference is drawn that collectivisation must always and everywhere be a failure. The unpalatable truth for Cold War warriors, however, is that from about the 1970s onwards, in those Central and Eastern European countries that moved on from Stalinism to a grey, de-ideologised, compromise-replete neo-Stalinism, collectivised agriculture began to work tolerably well. I documented this in the case of Hungary more than ten years ago[1], but the more I investigate other collectivised agricultures in the region, the clearer it is that what was unique about Hungary was the degree of its success only. In the real world of agricultural support policies, where the free-market ideology is compromised at least as much by, for example, the Common Agricultural Policy, as utopian socialist principles are by "actually existing socialism", collectivised agriculture did not function badly. It provided much needed stability for the regimes and security and affluence for villagers. It was no accident that uncollectivised Poland was uniquely the scene of political strife during the 1980s, nor that it was only in the two countries of the region that remained essentially Stalinist - Albania and Romania - that there was spontaneous widespread popular demand to break up co-operatives. Elsewhere the rural populations remained attached to this historically discredited

1) Nigel Swain, *Collective Farms which Work?*, Cambridge, Cambridge University Press, 1985.

form, not because they believed in the principles of co-operation, but because they did not want to give up the good life.

Neo-Stalinist countryside policy was a success in the sense that villages became working communities, communities where people focused their productive energies. It achieved this in three ways. First, it supported an agriculture based on integrating large-scale, socialist (first economy) with small-scale, private (second economy) farming which achieved the overriding policy goal of agricultural self-sufficiency (near self-sufficiency in the case of Poland). Second, it stimulated non-agricultural production in villages. Third it facilitated working class commuting through subsidised transport.

Agriculture in all four countries was based on a combination of large-scale socialist and small-scale private production. I have described the symbiotic integration of large-scale and small-scale agriculture within co-operative farms in Hungary elsewhere[2]. In the former Czechoslovakia, small-scale agriculture did not have such a public presence, but it played a supplementary, less integrated role. In Poland, the two sectors were separate: the large-scale socialist sector was the State Farm, the small-scale private second economy sector made up the bulk of agriculture. Polish private agriculture was no more market-driven than the Hungarian household plot-based private agriculture, and it was as tightly circumscribed by socialist economic regulation. Polish farms were run as peasant holdings not private businesses. There were limitations on the scale of activity, on the purchase of additional land, and on the acquisition of machinery. Furthermore, the method by which the incorporation of private production was achieved, namely by the promise of improved social provision, paralleled Hungarian incorporation of the agricultural second economy. There was no formal integration, although the extent of "shrinkage" of State Farm equipment, petrol, building materials and so on points to an extensive unofficial integration. Nevertheless, despite self-sufficiency, by the end of the 1980s, neo-Stalinist agriculture was beginning to reach its natural limits. The large-scale socialist farms were over staffed, the small-scale private ones were too small; and neither was under any pressure to respond to consumer demand.

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2) Swain, ibid.

The second pillar of the neo-Stalinist countryside was the encouragement of diversification out of agriculture within large-scale socialist farms. Diversification of this kind was very extensive in all four of the Visegrad countries by the end of the 1980s. Such non-agricultural ancillary units had lower wage costs and could produce more flexibly than the state companies to which they subcontracted. The third pillar was the nexus identified by Ivan Szelenyi[3]: socialist centralised redistribution in society generally and its particular manifestation of "under-urbanisation". Because urban construction did not keep pace with industrial development, huge sections (in Hungary the majority) of the working class continued to live in villages, where they could also engage in second economy agricultural activity and commuted to work. The down side of under-urbanisation was that villages were starved of infrastructural resources and poorly endowed with sewerage, running water and paved roads.

Despite, partly because of the infrastructural failure, neo-Stalinist rural policy created working communities populated by local inhabitants rather than middle class commuting newcomers. Community identity did not develop outside work and the very limited number of cultural organisations approved by the party, but work was the centre of most people's lives. Villagers did not come together in amateur dramatic clubs, but their community identity was kept alive by building houses and killing pigs together.

Recreating privately owned farms

Privatising socialist large-scale agriculture had special problems and procedures because much of it was organised on co-operative principles. With co-operatives, first, a distinction has to be made between the initial contributions made by members (mainly, but not exclusively, land) and co-operative property that was accumulated over time (mainly, but not exclusively, non-land assets). The former is the subject of restitution in cases where title did not remain with the original contributor or his heirs. The latter is the subject of what

3) G. Konrad and I. Szelenyi, "Social conflicts of underurbanisation", in A. Brown et al, *Urban and Social Economics in Market and Planned Economies,* Volume 1, New York, 1974.

is normally called the “naming” process, where all remaining assets are allocated to real human owners on the basis of a variety of formulae designed to reflect the extent to which members contributed to co-operative wealth whether by means of an initial property contribution or a labour contribution over the years.

Restitution as it affected agricultural producer co-operatives in Hungary and the former Czechoslovakia was very similar in principle, but hugely different in practice. The principle was to clear the decks of restitution-type issues relating to the initial contributions to the farm first, and then set about the "naming" process for the rest of the assets. In the former Czechoslovakia (the legislation was passed before the break-up of the federal republic) this meant returning land and assets to those who wanted to take them out of the farm, and settling the restitution claims of those whose property had been wrongly expropriated. Like most countries in Central and Eastern Europe, Czechoslovakia had placed numerous restrictions on de facto land ownership, but, de jure, title to land taken into collective farms remained with the member. Where property was taken illegally, the same land and the same equipment wherever possible had to be returned. In Hungary, where some two thirds of co-operative land was actually owned by the co-operatives (following the Land Act of 1967) and hence its return was a restitution issue, the first stage entailed, mainly, setting land aside for the land auctions by which Hungary's partial, uniform and indirect restitution of land was achieved[4]. Hungarian restitution was partial in that all claims were scaled down by an official formula. It was indirect in that there was no intention ever to return the assets lost: claimants received vouchers instead. And it was uniform in that all vouchers could be used in the same way, including bidding in land auctions, irrespective of the basis on which they had been received. All voucher holders could bid for land, irrespective of whether or not they had lost any.

The process of "naming" was very similar in both Hungary and the former Czechoslovakia, although there were important differences of emphasis. Both were completed by the end of 1992 and in both

4) For a full account of Hungary's restitution land auctions see N. Swain, "Getting land in Central Europe", in Ray Abrahams (ed.) *After Socialism: Land Reform and Rural Social Change in Eastern Europe* (Berghahn, forthcoming).

countries the majority of co-operatives ended up owned primarily not by those currently working in them but by pensioners and "outside owners" - people no longer resident in the village but who had contributed to the co-operative, or were heirs of people who had contributed to the co-operative. In the former Czechoslovakia the government specified the shares that should be distributed on the basis of the land contributed initially (50 per cent) and years worked (20 per cent). In Hungary, determining this ratio was left up to co-operatives themselves. This, in fact, made it harder for Czech and Slovak co-operative managers to acquire assets in their own names, which is part of the reason why they both remained more strongly committed to the co-operative form and are now arguing more loudly for the need to have a "second transformation" converting co-operatives into limited liability companies in order to gain full control of the farm. This demand is less audible in Slovakia, presumably because the potential threat of outside owners acting collectively is less great because of the much smaller acreages any single owner possesses.

The Hungarian "naming" process also differed from that in the former Czechoslovakia in that all members qualified for a "proportionate share" of co-operative land, in addition to a share of its non-land assets and any other land they might have received under restitution. This included members who had not contributed land when they joined. Thus, those who had worked for a long time in the co-operative qualified not only for a reasonable share of its assets, but also for some land on which private farming might be a possibility. The conflict between inside and outside owners in the former Czechoslovakia is a degree or two more stark than in Hungary. Both managers and employees or members who did not contribute land remained existentially more dependent on the co-operative than their Hungarian counterparts, and were more strongly motivated to keep it together.

In Poland, more than five years after system change, restitution laws have not been finally passed, and restitution proposals deal with confiscation and nationalisation but do not address the issue of land sales made legally, but under duress, to State Farms in the 1950s. The issue is not trivial. A very large proportion of all Hungarian restitution claims are based on the fact that land was sold to the co-operative following the 1967 Land Act under duress. Privatisation of State Farms in Poland followed similar lines to that in the other countries. In all four countries, early optimistic ideas of selling farms as going concerns were abandoned and they have been broken up and sold in smaller units, mainly to their managers and workers.

The economics of the post-socialist countryside

Marketisation, the liberalisation of prices, and the abolition of subsidies rapidly destroyed the economic balance that had been the socialist countryside and restitution made matters worse. All three pillars of the socialist countryside came under attack. The phenomenon of the commuting worker was not simply the result of under-urbanisation and subsidised transport costs, it was also the consequence of overmanning in inefficient state industry. When the chill wind of the market hit these enterprises and redundancies had to be made, it was only natural to select those who identified least with the enterprise because they commuted to their workplace everyday. There was even more reason to do this if, as was often the case, the enterprise actually provided the transport, not least because the transport costs themselves increased with price liberalisation. The small village-based industries run by agricultural co-operatives also came under attack. These industries owed their success to their flexibility and adaptability within the bureaucratised economy. But they were always in a relationship of dependence to the large socialist sector companies. When the socialist sector got into financial trouble, the first to suffer, inevitably, were its subcontractors. The ancillary, non-agricultural units of co-operative farms closed down in quick succession, indeed most of the reduction of agricultural employment in the first years of the transition was due to redundancies being made in non- agricultural branches.

The attack from industry on these two pillars of the socialist countryside had the effect of pushing the rural population back towards agriculture. But the economics of agriculture were worsened by liberalisation and further compounded by restitution. First, domestic demand for food products fell. The precipitous decline in living standards that accompanied the transition to the market naturally worked through to the demand for food. Second, the scissors between the costs of inputs from industry and the prices for agricultural outputs widened again. Third, the cost of borrowing increased dramatically. But if the economics of agriculture changed rapidly, the institutional context within which it took place did not. The "upstream" and "downstream" ends of the food chain continued to be dominated by near monopoly companies, even though they were increasingly private rather than public, and local markets for agricultural produce were few in number. Nor is the banking system geared to the requirements of agriculture. Its horizons are too short, its required return too high (especially in the current depressed climate), and there are no mechanisms such as land mortgage schemes for taking land as security.

Restitution exacerbated these problems. The plots that are emerging or have been recreated are far too small to be viable. Farmers can only consider approaching financial institutions for support if they increase their holdings somehow. But in the current context, this can only be done by renting. Restitution has created a curious reverse of what, in the UK at least, was the traditional relationship between landowners and farmers. In the UK, before the 1920s, a few large landowners held vast tracts of land which they rented to a far more numerous body of tenant farmers. In post-collectivised Central Europe, huge numbers of land-owners, each with only a handful of hectares, rent land to a much smaller number of renting (tenant does not seem the appropriate term) farmers. Yet the relationship between land-owner and farmer is not controlled by statute. Not only do the institutions not exist for farmers to raise money with their own land as security, their own land will be too small to act as substantial security, and there are no regulations for bringing rented land into the equation. It is small wonder then that agricultural production has declined alarmingly.

Post socialist private farmers

The effect of marketisation on the rural economy, then, is to force an increasing proportion of the village population back into agriculture, while making agriculture itself decreasingly viable. The remainder of this article considers what is happening to large-scale socialist agriculture in this context and who it is that is capable of engaging in private agriculture on a commercial scale. It goes without saying that the majority of the village populations of Central Europe continue to be engaged in agriculture on a small scale to meet family needs.

Czech Republic

Agricultural co-operatives in the Czech Republic have proved themselves rather resilient to market reform, although this is more because of the absence in that country of strong market pressures than because of any underlying strengths of the co-operatives themselves. For all the free market rhetoric of the Czech government, it has proved reluctant to enforce bankruptcy, and this is as true in agriculture as it is elsewhere.

Agricultural co-operatives are in chronic debt, but they still exist in all the villages studied. The co-operatives operate very much as before, and their management styles have changed little, even where co-operatives, forcibly merged in the 1970s, have separated out into their component village co-operatives again. The number of private farmers who operate on a commercial scale is correspondingly low, and it is only where the co-operative has de facto broken up that really large private sector farms have emerged. The exception to this general rule is those lucky enough to inherit a "residual estate". These estates, manor houses, and immediately surrounding land were the residue of the pre-war land reform and were generally awarded to loyal servants of the First Republic. Their inheritors are unique in gaining holdings extensive enough to be the basis of viable farming under modern conditions.

In the villages of L and K, in south western Bohemia, and H in the economic core of the country, a long commute from Prague, the co- operatives do not plan radical restructuring. There are only three private farmers in L who operate on anything like a commercial scale: a former urban intellectual who married into a former "kulak" family who has restituted 20 hectares and rents a further 10; a former co-operative manager who now works in a local school but withdrew his land from the co-operative and rents most of it to the urban intellectual, although keeps 5 hectares for his own use; and a former driver who also married into a former "kulak" family and farms 24 hectares. In K, some 60 members applied to take land out of the co-operative but took only 60 hectares between them, the largest plot being 8 hectares. There are two individuals who might be termed private farmers in the village, but the long term commitment of both to farming can be questioned. The co-operative's former head of mechanisation rents 200 hectares from the nearby State Farm, but his primary interest is the machinery repair shop that he could only get hold of by renting the land. His main interest is in a machinery repair business. Although the second individuals farms 15 hectares, the bulk restituted by himself, the rest from his wife and his sister and is registered as a private farmer, he farms on a modest scale and subsidises his farming from his pension. In H, there is only one registered private farmer, but he never intended to farm. As soon as he received his assets from the farm he sold them. Within the other villages farmed by the co-operative there are two significant private farms, neither of whom ever worked for the co-operative. One is a 50 hectare farm established by the director of the nearby State Farm, the second is a private company set up by farmers on some 120 hectares. In addition there are eight smaller farms of between four and 18 hectares set up by individuals who withdrew from co-operative after 1989.

The situation is more complex in the nearby village of V. Here, although the co-operative remains on paper, it was increasingly clear as the transformation process developed that the farm was on the verge of bankruptcy. The former co-operative management set about creating four privately owned successor companies to run the business. Since the director of the co-operative is also director of the successor company mainly involved in arable farming, he is well placed to sell co-operative machinery to his own company at prices a fraction of what they would be valued at if a member were making a restitution claim for machinery. In addition to these successor farming companies, there are two other large private farms, each run by two former co-operative middle managers and each with around 500 hectares of land, both owned and rented. There are also two medium- sized private farms, not run by former managers, one of 52 hectares and one of 60 hectares.

In the village of R there was no co-operative but a unit of a State Farm based in a nearby village. The local unit, along with most of the others, was taken over by a farming subsidiary of a Prague-based commercial conglomerate which appears to use agriculture as a tax write-off. It employs roughly a third as many staff as the State Farm used to. Originally the heir of the local "residual estate" planned to farm 70 hectares of his inheritance and rent out the remaining roughly 300 hectares locally, but after a few days farming he gave up and rented it all to the State Farm's successor. The only major private family farm has 120 hectares, 24 hectares owned the rest rented, set up by former employees of the State Farm. The farm is formally owned by the son to qualify for special schemes to help young farmers. There are three other private farmers: two pensioners with 7-8 hectares each, and a pensioner who farms 35 hectares with his son.

Hungary

In Hungary the government was happy to enforce bankruptcy and encouraged co-operative break-up rather than transformation. In our villages we find examples of co-operatives winding themselves up, declaring themselves bankrupt, remaining in place, being declared bankrupt, and "saving their property" by converting into a limited company. But despite the differentiated fate of the co-operatives, the emerging pattern of farming is remarkably consistent. Most people are not interested in farming and rent their land to whomever will cultivate it. From one to ten families per village have farms which cover more than subsistence, and three to four families at most per village are embarking on large-scale commercial farming. These individuals tend to be either former collective farm managers or individuals who were successful household plot producers in Hungary's "second economy". In addition to these family farms, if the co-operative no longer exists, successor companies to the co-operatives have been established which farm roughly the same acreage of land, and look after roughly the same quantity of livestock, but with far fewer staff. The motivating forces behind these successor companies are usually former co-operative middle management.

In the village of K in western Hungary, the co-operative which employed 117 people in agriculture in 1990 was dissolved rather than transformed under the co-operative transformation legislation. Although the individuals concerned deny it, it appears that this was an initiative of the co-operative farm management, who certainly benefited from the break-up of the farm. The dairying activities of the farm, which were not very significant, have been taken over by a small limited liability company employing only four people. The much more significant cropping activities have been taken over by a limited liability company headed by the collective farm manager formerly in charge of crop growing. In addition to crop growing the company is involved in buying, selling and subcontracting production, commercial activities the co-operative was previously involved in and for which the head of the new company used to be responsible. The company, which employs only 12 people, rents a total of 700 hectares from 161 individuals in the village and acquired all the machinery it needed at the time the co-operative was broken up.

The former collective farm president left the farm only after he had acquired enough land, equipment and buildings for his own farm. He has managed to obtain 72-73 hectares in all, around 50 hectares bought from the proportionate share land of 15 other members, and the rest his own proportionate share and land bought with restitution vouchers. He plans to run the farm with his son. Another successful private farmer came up the alternative career path. He used to work as a restaurateur full time and run a successful private dairy farm with a bottling plant (employing 4 in 1988). Now, in addition to building his own hotel in the nearby county town, he is developing the dairy business further. He bought restitution vouchers for 70 per cent of face value to buy more land for the dairy farm and is renting other land from neighbours to make the 50-60 hectares he needs for fodder for the cows. In all, (including these two large private farmers) there are 9 villagers who have bought an acreage of land that exceeds subsistence requirements.

In the village of P in south western Hungary, the co-operative went into voluntary liquidation. Discounting the farm's non-agricultural plant, three successor companies were established which bought the assets they needed from the bankrupt co-operative. Because this was a more controlled process than that in the village of K, the successor companies (a cropping company, a livestock company and an accountancy and administration company) initially planned to employ the majority of the former co-operative staff, although jobs were not found for 18 of the 70 active members in 1992. The cropping company is run by the former collective farm manager in charge of crop protection who started renting land from the co-operative as early as 1990. He had 100 hectares of his own in 1993 and had more than tripled that by 1994. The company rents a total 1000 hectares of land and 400 hectares of forest. Initially it had 21 employees, but by 1994 they had fallen by a half to 10. Here too, the former collective farm president did not do badly. He personally bought buildings from the bankrupt farm, acquired 120 hectares of land, and rents a further 200 hectares. He is one of only two private farmers with significant holdings, the other is also a former co-operative manager, but farms with his father who had never accepted the collective farm system and had been active in the second economy. There are in the village 2-3 other families with 15-20 hectares of land.

In the village of S in western Hungary, the co-operative remains in place, although transformed according to the 1992 law. It plays a powerful role still in village life, disciplining by expulsion those who do not rent their "proportionate share land" back to the co- operative. Here private farmers have emerged from the second economy. A chicken farmer with a long tradition of livestock farming as a subsidiary activity expanded his holding to 38 hectares by means of his restitution vouchers, his proportionate share land, and proportionate share land bought from others. He rents a further 15 hectares. Another private farmer with only 25 hectares was a tractor driver in the co-operative, but always engaged in extensive supplementary private farming. The third agricultural entrepreneur in the village is a former lathe operator in the collective farm machine shop who began to acquire agricultural machinery in 1991 and began a second job as an agricultural contractor. This has become his main business, although he supplements it with an income from fattening pigs and growing cucumbers. He owns 13 hectares and rents a further 14.

In the village of T in north eastern Hungary, the collective farm went bankrupt and three businesses emerged to take its place: a small business run by the former collective farm president and his associates (he already has a variety of businesses in various peoples' names and is head of a discernible business group in the village), a business run by two former tractor drivers on the collective farm who jointly rent and farm some 70 hectares, and a limited liability company created by the agronomist and other managers and administrative workers of the co-operative. Because the farm was bankrupt, the latter group, the biggest of the three, could not acquire machinery under the heading of their property share when leaving but had to buy it from the bankrupt collective. On the other hand, they benefited from the contacts that one of their number (the agronomist's wife) had with the bank. Originally they planned to employ 56 people in the company, virtually all those employed in the equivalent branch of the collective. This work force was gradually reduced to 21, then 13, and finally 8.

The co-operative also remains still in two villages in eastern Hungary. In H, members of 4-5 families, mainly from the layers of middle management, opted to leave, taking the best machinery and equipment with them; some 7-8 farmers have relatively large holdings; and there are 20-25 whose farming covers more than subsistence. In Z, however, the village suffered because the co-operative centre was in a neighbouring village and when the transformation legislation was implemented, the neighbouring villagers took all the best assets for themselves. The villagers of Z were left with the choice of keeping worthless pieces of paper (their property shares), converting them into scrap iron (because no decent machinery was left) or selling their shares. The population of the neighbouring village, including the president and chief agronomist of the collective farm, obligingly bought up the shares of the villagers of Z at 40 per cent of their face value to invest in their new ventures. Partly as a result of this, but partly also because this was formerly a village of landless estate workers with no tradition of independent farming, there is only one private farmer of any substance.

The co-operative in the village of N near Lake Balaton, by contrast, "rescued its property" by converting the whole co-operative into a limited company, or rather by creating a parallel limited company. Because it was a managed transformation, the continuity between collective and successor companies was much clearer, but the resulting structure was little different from cases where the co-operative disappeared; and the impact on land ownership was minimal because the successor company took assets only and left all land in the co-operative. Here, rather than take out co-operative assets to create relatively small private businesses, the core of the collective management resolved to keep themselves and the assets together and use them to generate a commercial company with a national presence. In this they succeeded: the company is listed on the Hungarian stock exchange. The new company has a holding company structure and only a residual interest in farming as the first link in its food industry division. Cropping was transferred to a subsidiary company owned by the holding company and the former managers of the cropping branch of the collective. Dairy farming (the only significant livestock activity) was passed to a different subsidiary company, which was then divested from the group because it saw no profit in dairy farming. The cropping subsidiary rents the majority of village land, although the mayor has built up a considerable private business in competition.

Poland

In Poland, restructuring of this type is not taking place on anything like the same scale. Nevertheless, state farms (the Polish variant of large-scale socialist agriculture) are being privatised and rather similar processes appear to be at work: former management is going into large-scale private farming in an overall context of little interest in private farming. Only, in the Polish case, the lack of interest in private farming reveals itself in a lack of interest in buying additional land rather than beginning to farm from scratch.

In the village of S, for example, in the far East of Poland, on land that was part of the Russian partition in the nineteenth century, the job of privatising the state farm fell to its young deputy director. The farm had in fact been relatively profitable until forcibly merged with two neighbouring farms in the 1970s. Two things were clear immediately: first the farm would have to be broken up because of its high level of debt, second, that because of the highly dispersed plots that made up the farm, it made sense to differentiate between land that could be sold in coherent blocks to a single farmer, and land that could be sold piece-meal in smaller parcels to local farmers. The land was therefore divided into five larger 100-150 hectare farms and 700 hectares to be sold off in units of 1-15 hectares. The former deputy director together with two younger colleagues, also former employees of the state farm, opted for one of the large units which they farm with two full-time employees and some seasonal help. Being in charge of the privatisation he was well placed to apply for the scheme of preferential credits available for the purchase of state farm machinery. A major problem he faces, however, is restitution. Because the land is subject to a potential restitution claim, the land cannot be sold but must be on a 10 year lease. Former state farm managers were not the only buyer. A second large plot of 170 hectares was bought by two local private farmers.

In the village of L, just on the Polish side of the pre-World War II boundary (but in the former Prussian partition in the nineteenth century) and so an area where there also were legitimate restitution claims (no proposed legislation considers giving the former German inhabitants claims over land which was Germany until World War II), the state farm was also privatised in 1993. The farm was on a bigger scale that the one in the village of S and was made up of 8 previously independent state farms. The plan here, devised by the head of the unit of the state farm located in the village of L, was not to retain the whole farm, but to break it down into the component farms and have them transformed into "worker companies" (worker-management buy-outs). Because of possible restitution claims, in only one case could the land be sold, the rest is on a 16 year lease. Although, as in the village of S, sale of the farm was at a public auction, there were no counter bids to seven (including the unit in the village of L) of the eight successor farm proposals. For the eighth unit competition was fierce however, because of the absence of a restitution claim, and the farm was bought by two private farmers, one of whom had been a member of parliament and, more important, had a background as a state farm manager. This new farm is entirely arable, and does not employ a single one of the former state farm employees. Five of the successor farms are now run on a worker company basis, and all are headed by their former management. The remaining two (other than the one run by the former MP) are private farms, bought by women, one of whom had previously worked as a state farm manager. The worker company of the village of L now operates on a much smaller scale than before, 280 hectares rather than 500, and a work force of 12 rather than 46 in 1980. Although it is nominally a worker company, the director owns a colossal 98 per cent of the shares. He speculates that it might be better to buy the farm outright because it would then be easier to transfer funds back and forth between it and the private venture he runs on the side.

Slovakia

In Slovakia the situation is very similar to that in the Czech Republic. There are very few private farmers, and those who are engaged on any significant scale tend to be members for former co-operative management. One difference perhaps lies in the smaller number of small to middle-sized farmers who have taken land back via restitution, which is a function of the very different histories of the Czech and Slovak Republics. In Bohemia and Moravia land was inherited by a single heir: in Slovakia, part of Hungary, land was divided between all heirs. Whilst for a Czech inheriting 20-30 hectares it might be reasonable to attempt to start private farming, an equivalent Slovak inheriting 5-10 hectares would know not to bother.

In the village of T close to the Danube and the Hungarian border, the co-operative remains very much as before, although legally transformed. Only two pensioners and two employees left the co-operative, and only one, a former machinery manager, became a private farmer. In addition to him there are three others whose main source of livelihood is farming, two of them pensioners and one unemployed. Despite 51 officially listed agricultural businesses, no farm covers more than 10 hectares.

In remote, mountainous areas where pre-war farms had been tiny, interest in private farming on a commercial scale is minimal. In the village of Z, the local co-operative manager considered running the dairy unit privately but gave up the idea because he could not see it paying. No one has left the co-operative to farm privately, although some 6 hectares of land were reclaimed to supplement household plots. The same is true of the picturesque village of R and the quintessentially Slovak (in the eyes of an ethnographer of the 1940s) village of P. It is also the case in the village of Ka, less remote but more highly industrialised. It is even the case in the village of SB, although collectivisation was only completed there in 1975. In the latter case, although not a single member has left the co- operative to start private farming, there are two private farming operations in the village. The first is a father and son from outside the village who were already active on a private basis before the fall of socialism and now rent a cow shed and barns from the co-operative. The second is a manager of the state forestry agency who has a hectare of his own land, rents 3 hectares of forest and contract mows 14 hectares of grassland for the horses he needs for his work and a small livestock venture. Eleven individuals are registered as private farmers, but they have only 13 hectares between them and only registered in order to benefit from subsidies to buy tractors and machinery which they could then sell.

Nearer Bratislava and the economic core, the picture is somewhat more differentiated. In the village of V, although the co-operative still exists, most of its top management has left to establish private (non-agricultural) businesses outside the village. Within the village there are only four private farmers, although they have less than a hectare each. The only farmer of significance in the area covered by the co-operative is a man in a neighbouring village who farms 12 hectares of land reclaimed by a neighbour. The others who reclaimed a total of 33 hectares from the co-operative all rent it back to the co-operative. In the village of Ke not a single member has left the co-operative to start farming, although two villagers established a commercial orchard in the village (one of whom gave up). The only commercial farmer in the village is a family run business (with five casual employees) producing medicinal herbs on 0.15 hectares of land.

Developments in the village of C are more in keeping with those in Hungary and the village of V in the Czech Republic. The co-operative still exists and has undergone legal transformation; but it has also radically restructured its internal organisation. By a form of "internal privatisation", the five main agricultural units and four non-agricultural units are rented out to their former management who are entrusted to run them on a commercial basis. In addition, various assets within the co-operative centre are rented out to private entrepreneurs of all types. The central co-operative unit of 6 managers retains the dairy herd and 600 hectares of land, and has recently swapped the debts it holds in the local dairy company for equity and is building the first bricks of vertical integration. The co-operative also supported the entirely private ventures of its former management by the provision of start-up credits and materials. Two very large-scale cropping units are run by former agronomists of the farm and another former member runs a large-scale pig unit. In surrounding villages also farmed by the co-operative there are two more modest farms of around 50 hectares set up by members who left the co-operative. There is also a 300 hectare former residual estate.

The future

One general lesson that is emerging from the transformation in Central and Eastern Europe is that, for all the importance that has been accorded to land in restitution provision, land is of minimal importance in determining who becomes a commercial private farmer. Land does not matter, because everyone has it, and everyone has only a little of it. Longer term, certainly, land ownership will be of greater importance, but in the initial transformation, and in the process which determines who will be wealthy enough to buy land in the future, land is almost irrelevant. Eleven other factors have been identified which play a role in the post-transformation balance of forces:

1) the extent to which management is tied existentially to the co-operative form either because it has no agricultural experience (cadre managers for example) or because it is unable to withdraw land and assets from the farm in its own name; 2) whether or not the village retained the co-operative farm management centre after the 1970s farm mergers. If the co-operative centre was outside the village, interest in it and knowledge about it inevitably declined and villagers were less well placed to counter managerial claims; 3) the extent to which household plot activities were an integral part of the co-operative's economic life or an activity entered into entirely independently, in isolation from co-operative affairs; 4) the extent to which the co-operative was economically successful prior to transformation. Successful managers had the authority and prestige to persuade members to accept their proposals for co-operative transformation; 5) local labour and product market conditions. The worse the local conditions, the less likely the membership is to want to embark on private farming and the more likely to follow management's plans; 6) the social and demographic nature of the membership. Older memberships are more likely to fall in with

management's plans, as are those with no traditions of private farming; 7) the strength of family ties in providing finance (monetary or in the form of restitution vouchers), machinery, buildings, advice and so on; 8) the strength of networks built up through collaboration in the socialist second economy; 9) the extent of networks built up in the socialist first economy; 10) the degree of success and size of venture within the socialist second economy; 11) professional expertise and commercial experience gained in the socialist first economy.

These eleven factors suggest that, for those who want to farm privately, what matters is, first, access to machinery and, second, contacts with markets and sources of finance. Those who gain access to the wherewithal to farm land and who have contacts within the as yet not demonopolised suppliers, purchasers and bankers are those in a position to succeed. Inevitably, except for the relatively few who were commercially successful in the second economy under socialism, it is the management of former large-scale socialist agriculture with their degrees in agricultural science and their business contacts inherited from socialism who are in the necessary position of strength to become commercial private farmers in post socialist villages. ■

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Andy Kilmister

Privatisation in Eastern Europe

Privatisation is clearly central to the project of establishing market economies in Central and Eastern Europe. However, the progress of privatisation in the region has been controversial and fraught with difficulties. This article attempts to examine the development of privatisation programmes, to explore their implications for workers and to suggest some possible issues to be considered by the left when responding to privatisation. The intention is to initiate discussion and debate rather than to provide definitive answers to the questions raised.

There are two facts which are particularly striking about the record of privatisation since 1990. Firstly, despite the difficulties encountered, in many countries in the region there has been a substantial transfer of ownership. To take just one example, Poland is widely regarded as having been relatively unsuccessful in privatising industry. However, by the end of 1993, 977 out of a total of 2521 state enterprises had been privatised (Gomulka and Jasinski p.231). Of these 98 were "individual capital privatisations" which raised about $520 million. This is not as much as the Polish government had hoped for, but it is by no means negligible, and privatisation has proceeded much faster in other countries, notably the Czech Republic and Russia. Secondly, the nature of privatisation (its speed, organisation, and the resulting structure of ownership) has differed significantly in the various countries in the region. It is important then, both to analyse the effects of such rapid transfers of ownership, and to explain why the nature of the transfers has been so different in each case.

The question of ownership

The first problem in carrying out such an analysis is that orthodox economic theory is not at all well equipped to examine the significance of ownership changes. The classical economic tradition, based on Smith, Ricardo and Marx, was centrally concerned with the nature and significance of the institution of private property. Neo-classical economics, though, has no clear role for ownership as such. The cornerstone of this approach, general equilibrium theory, focuses entirely on the process of competition in the market. Firms are simply viewed as devices for transforming inputs into outputs and, provided markets are competitive, it does not matter who owns them. The sole significance of ownership of resources is the effect this has on income distribution and the need for redistributive taxation. Consequently, the concept of rent, which is crucially bound up with the analysis of property and which was central to classical economics, disappears from neo-classical theory.

More recent writers in the neo-classical tradition, stimulated in part by the experience of privatisation in Western Europe, have modified this basic approach to allow for an account of the importance of ownership. This has been done in two ways. Firstly, they have considered the possibility of monopoly. According to these writers the most important reason for nationalisation is to protect consumers from monopoly power. Hence the main problem with privatisation is the possible exploitation of such power by "natural monopolies" such as exist in the gas, electricity and telecommunications industries. The correct way to deal with this problem is by a combination of government inspired regulation and the introduction of competition where possible. Secondly, neo-classical writers have begun to look inside privatised firms and consider the relationships between managers on the one hand, and shareholders, creditors and governments on the other. This has allowed such writers to provide a justification for privatisation, something that, given the lack of significance for ownership in their basic approach, was previously lacking. The justification is that private shareholders are both better able to, and have more motivation to, monitor the behaviour of managers and ensure that they act in the interests of the firm, than governments. In nationalised industries managers or manager-worker coalitions are supposed to manipulate governments in order to pursue their own sectional interests. Privatisation, the argument goes, removes this possibility, handing the responsibility for monitoring managers over to shareholders who, since they have risked their own funds in the firm, will have a clear incentive to exert control. The problem with this argument, however, is that neo-classical writers have also identified a number of deep-rooted difficulties that shareholders face in controlling managers. The takeover mechanism is imperfect, for example, and the costs for shareholders of co-ordinating their individual monitoring activities are considerable. Hence, once more, as with the problem of monopolies, the neo-classical approach relies on competitive markets and regulation to control managerial behaviour in the final analysis.

The result of this has been a substantial body of writing on privatisation, which focuses almost entirely on two issues. First, the design and operation of regulatory structures. Second, the effect of privatisation on the performance of individual industries or companies, viewed mainly through its effect on managerial motivation and sometimes through its effect on workers (see Bishop, Kay and Mayer 1994 a and b for comprehensive collections of work on these two issues). In each case the central issue is seen not as the nature of ownership, but as the extent of competition.

This approach has been replicated in much of the analysis of privatisation in Britain that has come from the left. Criticisms of privatisation have tended either to highlight flaws in the system of regulation, allowing for monopolistic exploitation of consumers through higher prices or poorer services, or to stress the impact of privatisation on working conditions in particular firms or industries. However, there has been very little analysis of the effect of privatisation on the economy as a whole, on issues like macroeconomic development, innovation, inequality and structural change.

These broader issues have been raised in critiques of orthodox accounts of privatisation, however, from both the right and the left. From the right, the "Austrian" approach, originating with the work of Hayek, and associated in Britain with Stephen Littlechild, criticises the neo-classicals for being too static in their analysis and neglecting the significance of dynamic growth and efficiency. For Littlechild the justification for private ownership lies in the way it encourages entrepreneurial initiative and thus allows economies to develop and change. Regulation is relatively unimportant, since such "creative destruction" will erode monopoly power without any need for government control (ironically, Littlechild is currently responsible for the regulation of the British electricity industry). The problem for this approach is that most privatised industries are not made up of dynamic individual entrepreneurs, but are composed of large organisations run by professional managers. This has been particularly important in the Eastern European case where writers of this persuasion, such as Janos Kornai and Peter Murrell, have argued that privatisation is actually a hindrance to the growth of the private sector. Their preferred option would be for state owned industry largely to be kept in state hands, with stringent restrictions on investment, credit availability and wage rises, and allowed gradually to decline. Resources could then be concentrated on the entrepreneurial "new" private sector which could grow organically (Kornai 1990).

The orthodox approach to privatisation has been most thoroughly criticised from the left in a series of papers by Ben Fine (Fine 1989 and 1990). Like the Austrians, Fine criticises the emphasis on static efficiency as opposed to dynamic factors. However, he also attacks the neo-classical writers for their neglect of the links between the industries being analysed and the rest of the economy and their lack of consideration of issues of power and conflict. For Fine, the major nationalisations that took place in the UK after the Second World War were the consequences of an erosion, partly during the war itself but over a longer period, of effective capitalist command of the industries concerned" (Fine 1989 p. 228). This erosion "reflected a combination of developments in technical, industrial, marketing, financial, political and ideological relations. These different aspects, taken together, undermined the possibility of the capitals concerned being restructured under private ownership without considerable intensification of class conflict" (Fine 1989 p.228). The development of the nationalised industries in Britain was centred on the reimposition of capitalist commercial criteria over a forty year period until the enterprises concerned were "ready" to return to the private sector. This return was further encouraged by the inter-industrial links which had developed between the nationalised industries and the private sector in areas such as information technology and telecommunications. The process of re-establishing capitalist control in these industries, in the particular context of Britain, involved the replication of the low pay, low investment, lack of coherent industrial planning and consequent low productivity to be found equally in the private sector. Privatisation represents, for Fine, not the start, but the culmination, of a process of commercialisation which has been shaped by, and reinforced, the pattern of British industrial development.

According to this analysis privatisation depends on a lengthy process of establishing capitalist command within industry, with the transfer of ownership simply the final stage in this process. Such a process has not occurred in Eastern Europe. The experience of privatisation in that region has been decisively affected by the particular pattern of development undergone in the last two decades of central planning in each country. However, in no country has that development been an unambiguous movement towards the commercialisation which would lay the foundation for a privatisation programme of the Western type. This has been the central contradiction of the Eastern European privatisation programmes. Whereas in Britain the ability to implement privatisation has depended on the prior establishment of structures of capitalist control, in the East privatisation has been adopted as a means of subsequently establishing such structures. The differences between the different countries in the regions have their roots in the ways they have attempted to deal with this contradiction.

Goals and contradictions

More concretely, privatisation in Eastern Europe has had five main objectives. Firstly, to instal new management teams which will restructure industry on a profitable basis. Secondly, to create interest groups based on economic position, most importantly an identifiable and stable capitalist class. This is seen as crucial to the removal of the state from control over economic decision making. Thirdly, to encourage foreign investment, and to satisfy the wishes of the international institutions. Fourthly, to aid macroeconomic stability, by soaking up savings and providing revenue for the government. Fifthly, to perform an ideological role, underlining commitment to a market economy and creating a constituency of support for marketisation. Different governments in the region have differed in the importance allotted to each of these objectives. However, the general project of establishing capitalist control over industry depends on all five. In an environment where such control was already in the process of being created these objectives would reinforce one another. For example, successful restructuring would provide the profits to create a class of capitalists and would encourage further foreign investment. It would also provide corporation tax revenue to close the government budget deficit, and a supply of goods to ease inflationary pressures and so on. However, in the Eastern European environment where commercial criteria have hitherto been absent, the different objectives of privatisation can conflict quite sharply.

The first contradiction is between restructuring and the establishment of a stable capitalist grouping. The most obvious candidates to form such a grouping are the current and former managers of state enterprises, and their initial response to the collapse of central planning was indeed to try to form themselves, in several countries, for example Hungary and Bulgaria, into capitalists. Yet there is considerable scepticism about the extent to which the old managers of state enterprises will actually restructure them in the private sector. This is partly because they are often dependent for their position on the active or passive consent of the enterprise workforces, partly because of their managerial training and experience and partly because of their continuing ability to negotiate concessions from banks or government institutions as an alternative to restructuring (see Clarke et al. 1994 for case studies exemplifying these issues).

The second contradiction is between establishment of a capitalist class and the encouragement of foreign investment. If a stable capitalist class existed and could co-operate with foreign capitalists on the basis of something approaching equality then foreign investment would be likely to encourage restructuring. However, in the conditions of Eastern Europe, extensive foreign ownership would be likely to substitute for the formation of a domestic capitalist class (in fact such investment has been largely unforthcoming, anyway).

Thirdly, there exist a variety of contradictions between macroeconomic stability and the other objectives of privatisation. The objective of crystallising a capitalist group is in some conflict with trying to extract privatisation revenues from that group in order to balance the government budget. Conversely, stabilisation programmes by limiting credit and eliminating the "monetary overhang" of accumulated savings reduce the funds available to buy companies.

Fourthly, in societies with considerable attachment to a measure of equality of income and job security, the objectives of enterprise restructuring and establishment of a capitalist class are likely eventually to conflict with popular support for privatisation. Examples of these contradictions could be multiplied, however the essential point is clear from the above cases. The Eastern European governments faced a number of competing and conflicting objectives in their privatisation strategies. Different governments tried to resolve these conflicts in different ways.

The detail of the privatisation programmes adopted in Eastern Europe is complex. However, in order to impose some order on it, it is useful to consider two basic choices faced by the designers of privatisation programmes. Firstly, there was the choice between selling companies and distributing them for free (or for a nominal amount). Secondly, there was the choice between allocating control to outside shareholders or to institutions such as banks and other creditors on the one hand, and allowing the companies to be owned and controlled by "insiders" such as enterprise managers and workers organisations on the other. The choices made across these two dimensions yield three "ideal types" of privatisation: selling companies to outsiders, giving companies to outsiders, and giving companies to insiders. The fourth possible variant, selling companies to insiders, is not a feasible one, since the managers and workers in a particular company are not likely to have sufficient funds to buy the company at its market value if it is viable, or to be willing to do so if it is not. We can examine each of these cases in turn.

Model 1: sell to outsiders (East Germany)

The project of selling companies to outsiders was adopted most thoroughly in East Germany (See the article by Roesler in the present issue). It was the initial method planned in Poland, where the government in 1990 planned an extensive series of sales to the public or "Initial Public Offerings" (IPOs). "The result was not encouraging. Only five companies were privatised by IPOs in 1990, raising some Zl 300 billion ($21.6 million at the time) in revenue, of which nearly a quarter was spent on administrative costs. The final receipts were lower than the initial asset valuation of Zl 500 billion and, in order to avert embarrassment, some of the shares reportedly had to be purchased by state banks. In addition, despite very significant inflation during the 1990-92 period, all but one of the companies involved were still trading significantly below their issuing price in 1992. Perhaps significantly the only exception was a company in which the management had purchased a significant block of shares" (Frydman and Rapaczynski 1994 p.156). The failure of the Polish programme, and the comparatively slow process of such sales in Hungary and Bulgaria, has reduced confidence in this approach throughout the region.

The central difficulties in selling Eastern European companies to outsiders are twofold. Firstly, there are not sufficient outsiders with the capital to buy the companies. Secondly, even if there were, the outsiders would be unable to value the companies in a reliable way. In East Germany these problems were solved by selling companies almost exclusively to West German buyers and by the role played by the privatisation agency, the Treuhandanstalt, which restructured, valued and prepared enterprises for sale (Carlin and Mayer 1994). It is not clear, how much the experience of East Germany in these two aspects can be generalised. The only outsiders with sufficient capital to buy East European enterprises appear to be foreign investors. Even in the East German case the revenues obtained were small, DM 32 billion by June 1993 compared with an initial valuation of the Treuhands portfolio of DM 600 billion in Spring 1990 (Carlin 1994). The Treuhand did, however, obtain a substantial number of guarantees of investment and employment from purchasers. Nonetheless, the loss of jobs in East Germany exceeds that elsewhere in the region. The only other Eastern European country to have obtained sufficient foreign investment to make such sales a significant part of its privatisation programme is Hungary. In 1992 almost 60% of Hungarian privatisation revenues came from abroad. However, by mid 1993 the pace of foreign investment was slowing and worries about the price likely to be obtained in sales to foreign buyers had shifted attention to domestic based privatisation (*Financial Times* October 19 1993 p.4). Under the new government in Hungary there have, however, been more ambitious plans for privatisation through sales abroad, in both the telecommunications and energy sectors.

One way of avoiding the problems involved in finding buyers for companies domestically, is the proposal by Bolton and Roland to allow non-cash bids for companies (Bolton and Roland 1992). According to this proposal companies would be auctioned and potential buyers could offer a combination of cash and either equity or debt in the newly privatised firm. The problem here, however, is that of comparing different bids expressing different combinations of cash and non-cash elements. The availability of buyers for East German companies may not be replicated then elsewhere in the region. However, Carlin and Mayer have argued forcefully that the role of the Treuhandanstalt in valuing companies and in restructuring could usefully be applied elsewhere.

Model 2: give to outsiders (Czech Republic)

The project of giving companies to outsiders was implemented most clearly in the former Czechoslovakia, and since then in the Czech Republic. The strategy was to distribute vouchers to the entire adult population, on payment of a relatively small sum. These vouchers could then be used to obtain shares in a series of auctions, with no further charge. The main difficulty which has been raised with this approach is that of corporate governance, the control of managers by the new shareholders. The fear has been that dispersed shareholders will be unable to monitor and control managers. The solution proposed by economists to this, which also developed spontaneously in Czechoslovakia, is for the management of shareholdings to be delegated by shareholders to financial institutions. In Czechoslovakia such institutions, in the form of investment funds, ended up controlling more than 70% of stock in the first round of large scale privatisation (*Financial Times* November 16 1993 p.2). The dominant force behind these investment funds is the state owned banking system: " the nine largest funds control almost 50% of all investment points. Of these, six are subsidiaries of well-known state banks, one is owned by an American expatriate and only one is a domestic private joint venture. Of all voucher points placed, 37% are in the hands of the IPFs created by state-owned commercial banks" (Takla 1994 p.164). The strategy of mass privatisation through vouchers has been adopted in Russia, though very much as a subsidiary part of the Russian privatisation programme. It has also been taken up in Romania, though the progress of privatisation there has been very slow and the voucher scheme only covers a 30% share in the companies being privatised with the remainder initially being retained by the state (*Financial Times* May 3 1994 p.30). In Bulgaria a voucher privatisation scheme is now being prepared under the control of the Centre for Mass Privatisation, but meanwhile the State Privatisation Agency continues to try to privatise through direct sales to foreign and domestic investors (*Financial Times* October 13 1994 p.14). The earliest schemes for voucher privatisation were put forward in Poland in the summer of 1990, but the Polish mass privatisation scheme has faced continuous delays in implementation. The Polish scheme differs from the Czech one in that investment funds are to be set up by the state, with appointed local and foreign managers and allocated shares centrally rather than bidding through auction. The population will then be given shares in the funds for a nominal fee, rather than in companies themselves. This has been criticised for being over bureaucratic, however the scheme finally appears to be on the point of being put into practice after a four year delay (*Financial Times* December 2 1994).

The approach of giving companies to outsiders through mass voucher-based privatisation schemes has become something of an orthodoxy among Western advisors to the Eastern European governments. It is regarded as fulfilling the objective of creating a stable capitalist class. Further this class is seen as being very suitable in its institutional basis for the countries in the regions. It is heavily based on the role of financial institutions and this is seen as desirable by those who look towards a capitalism in Eastern Europe based on the German or Japanese model (see, for example some of the discussion in Frydman and Rapaczynski 1994). It also provides a constituency of support for privatisation through the distribution of vouchers. It does not provide revenue for the government or very extensive foreign involvement, but advocates of this approach argue that these are unlikely to be forthcoming whatever method is adopted. The real issue lies, however, with the objective of enterprise restructuring. Selling companies to outsiders has led, at least in the East German case, to extensive enterprise restructuring. It is not clear yet whether voucher privatisation will have the same effect.

Advocates of voucher privatisation, such as Frydman and Rapaczynski, argue that, provided one fund holds a sufficiently large proportion of shares in a company, there will be a strong incentive to restructure on a profitable basis. In the Russian case funds are limited to only 10% of the shares in any one company, which is unlikely to meet this requirement. In the Czech case, however, the limit is 20%. In theory this should allow funds to play an active role in restructuring, though it is still less than the 30% recommended by Frydman and Rapaczynski. However, there are a variety of obstacles to this. The *Financial Times* reports that "privatisation funds have to come to grips with managing their newly acquired portfolios. The biggest fund backed by Ceska Sporitelna, the large savings bank, has more than 1m shareholders and 514 companies in its portfolio; three other funds have stakes in more than 260 companies each. Vested interests, and the fear that precipitate action could unleash an uncontrollable wave of bankruptcies, have encouraged a wait-and-see approach, disappointing those hoping for more rapid change" (*Financial Times* November 16 1993 p.2). As well as the difficulties of managing such large portfolios there is also the fact that the companies involved are heavily indebted, both in terms of bank debt and inter-enterprise credit (estimated by the central bank at about 20% of GDP). Yet the banks are unlikely to start bankruptcy proceedings resulting from this, since through the investment funds they now in part own the companies. The April 1993 bankruptcy law in the Czech Republic, which was expected to lead to a large number of bankruptcies, has in fact led to very few. Labour productivity is stagnant, investment is relatively low, and, due to the high level of bad loans, interest rates are high, forcing companies to borrow abroad and thus pushing up the exchange rate as capital flows into the country (*The Economist* October 22 1994 p.29).

Model 3: give to insiders (Russia)

The third approach, that of giving companies to insiders, been most clearly adopted in Russia. There it has led to an extremely fast pace of privatisation; the Russian privatisation programme was adopted in full in June 1992 and by the end of 1992 46,815 state enterprises had been privatised, 21.5% of the total (Bim, Jones and Weisskopf 1994 p.269). The ability to privatise so quickly has been crucially dependent on the role played by insiders. Of the three possible variants of privatisation possible by far the most popular has been variant 2, which allows workers and managers to buy voting shares up to 51% of the total authorised capital at a charge of 1.7 times the book value of the assets. Given the rate of inflation in Russia this effectively amounts to giving the shares away free. Option 1, which reserves at least 60% of all shares and 80% of voting shares for outside investors, has been adopted significantly less than option 2 (option 3 has been adopted by very few firms).

The Russian privatisation programme has been largely designed with the aim of building a constituency of support for privatisation as being paramount (Shleifer and Vishny 1994). It has also on paper gone some way towards constructing a capitalist class, mainly around enterprise managers. It has been spectacularly unsuccessful at raising revenue; the 500 largest privatised companies were sold for only $7.3 billion, of which nearly half came from the ten largest with only 92 companies valued at more than $10m (*The Economist* November 5 1994 p.88). Russian capital stock was valued at less than $1,000 per employee (as compared with the US figure of $100,000). The most pressing question, however, concerns the potential for enterprise restructuring, again. Given the limit of 10% on the holdings of any one outside investor, the Russian privatisation appears to entrench insider control. It seems likely that, given the reciprocal dependence of managers and workers on one another for control of the enterprise in this kind of framework and the established barriers to restructuring resulting from paternalism within the workplace, insider control is unlikely to lead to significant structural change. This is borne out by the case studies of Clarke and his co-workers and by the analysis of Burawoy and Krotov, who see Russia as relapsing into what they call "merchant capitalism" a system based on profits through trading and exchange which ossifies and replicates relations of production.

Results

Each of these three choices of privatisation strategy, then, the East German approach of selling to outsiders, the Czech method of giving to outsiders, and the giving of enterprises to insiders in Russia, runs up against the conflicts and contradictions analysed above. This is also true of the approaches adopted in Poland and Hungary. What is notable about each of these countries is the variety of methods of privatisation adopted. Both countries have attempted sales of enterprises to outsiders, with varying success (more in Hungary than in Poland). Both have seen quite extensive privatisation to insiders (so-called "enterprise-initiated self privatisation" in Hungary and "privatisation through liquidation" in Poland) and widespread use of the leasing of state assets. Both are now moving towards a greater reliance on methods of mass privatisation (Poland more decisively than Hungary). However, the most striking similarity between these two countries is in the relative slowness of the privatisation process, as compared with East Germany, Russia and the Czech Republic.

The root of this slowness lies, paradoxically, in the marketisation and decentralisation undergone by Poland and Hungary in the 1980s. During this period centralised state control of these two economies was loosened, and alternative centres of economic power began to develop. In Hungary these were based on the role of enterprise managers, in Poland, due to the self-management law of 1981, the workers council also played an important role. Consequently, when the system of central planning collapsed property relations in these two economies were not clear. Enterprises were in one sense state property, but workers in Poland also felt themselves to have, and to some extent juridically did have, ownership rights. In Hungary enterprises had previously had the right to set up and invest in other enterprises and to lease out assets, and managers were closely involved in such transactions. In the uncertain situation created by the collapse of planning the first response of managers in the two countries was to try to formalise their position by establishing their ownership through a process of "spontaneous privatisation". The kind of activities involved in this are described by Staniskis under the heading of "political capitalism": using state assets in private production, spinning off certain functions of state enterprises to private companies run by enterprise managers, leasing out departments of state enterprises to private companies.

Public support

Popular discontent with this kind of activity led the Polish and Hungarian governments to halt the process of spontaneous privatisation and to use the joint stock corporate form to reduce the power of workers councils in Poland. However, while the governments were not prepared to allow insider control of the kind seen in Russia, they were also unwilling or unable to force an unambiguously outsider based privatisation programme on workers and managers. Hence the relatively slow pace of privatisation, and the hybrid nature of the schemes adopted, as well as the rather irresolute nature of government policy in this area in Poland and Hungary.

What conclusions can be drawn from these experiences ? Looking first at Eastern Europe it seems clear that the central contradiction of privatisation in that region, that it both depends on and is meant to lead to and enable a process of commercialisation, has not been overcome. Different countries have tried to resolve the contradiction in different ways, but the various objectives which they have tried to fulfil remain incompatible. Consequently, the process of the transfer of ownership has not yet led to fully-fledged capitalist economic relations. One response to this is to argue that privatisation is not really the central issue in the process of Eastern European transition, as Kornai does in the analysis mentioned above. For example, in a recent article in the *Financial Times* entitled "The long day"s journey to market" Martin Wolf and Chrystia Freeland compare Poland and Hungary with Russia, writing that "because privatisation in Russia has occurred without constraining the subsidies to formerly state-owned enterprises, without the comprehensive liberalisation that would allow the emergence of a competitive private sector and without the creation of a new legal order, it has not transformed the country's economy." On the other hand "Poland and Hungary have yet to launch mass privatisation programmes. But because they have liberalised and imposed hard budget constraints on state enterprises, greenfield private concerns have emerged as competitors and state enterprises have been forced to play according to the rules of the market. Although crash privatisation in both Hungary and Poland is minuscule by comparison with Russia, the genuinely private sector in these two countries is larger" (*Financial Times* March 7 1995 p.19). According to this viewpoint the contradictions involved in privatisation need not hinder the establishment of a market economy, since state enterprises will eventually wither away.

While this argument has some force it also has significant problems. Firstly, the Polish and Hungarian cases appear rather atypical because of the level of decentralisation prior to 1989, as described above. This both hindered mass privatisation programmes and also laid much of the basis for the private sector growth which has taken place in the first half of this decade. However, no other Eastern European countries, with the possible exception of some of former Yugoslav republics, were decentralised in this way. Secondly, much of the new private sector activity in Poland, Hungary and elsewhere appears to depend on the state sector as a customer or supplier, or, in the case of spontaneous privatisation, has arisen from the diversion of state sector assets. Hence, it is likely to be adversely affected by the decline of the state sector. Thirdly, even if one accepts the argument that Eastern European countries should have minimised the resources put into mass privatisation in order to aid the organic growth of the new private sector, the fact remains that mass privatisation is currently taking place in many countries, and is currently planned even for Poland and Hungary. Consequently, the contradictions generated by such privatisation appear unavoidable.

This may seem paradoxical, since both supporters of privatisation and followers of Kornai's approach are united in the belief that private ownership is necessary for economic efficiency. Early theorists of market socialism and economic reform argued that the introduction of a "socialist market" would ensure beneficial economic change without any need for a change of ownership. The market for these writers was a neutral instrument, compatible with many forms and structures of property relations. However, in recent years this view has largely been abandoned, in favour of a viewpoint which sees private property as central to economic reform (Brus and Laski 1989).

The reasoning behind this shift depends on two arguments. First, there is the view derived from Hayek and the Austrians that only private entrepreneurs risking their own money will be adequately motivated to run enterprises well. Secondly, there has been the influence of the theory developed by Kornai of the "soft budget constraint". According to this, state enterprise managers will always be able to be confident that they can depend on relationships with political bureaucrats to support their companies if they run into trouble. They will be inclined to over-invest, creating an "economy of shortage", because they won't have to bear the consequences if things go wrong. Combining these two arguments reformers have envisaged an economy where self-reliant entrepreneurs restructure the economy independent of state support or guidance, in a way that state enterprises could not be relied upon to do.

The experience of privatisation detailed above shows the weaknesses in this conception. Firstly, the establishment of private ownership in Eastern Europe does not only mean the growth of independent entrepreneurial activity. In the privatised industries the main role has been played by the existing enterprise managers and by institutional investors, some way removed from the Hayekian ideal. Secondly, private ownership does not mean the end of the soft budget constraint, or of dependence on political influence. Kornai's idea of the shortage economy had the great merit of turning attention away from the more technical aspects of economic reform to the social relations between managers and bureaucrats. Yet this has led to a tendency to try to read off such social relations mechanically from systems of ownership. For example, it has been assumed that private ownership necessarily implies a separation between enterprises and the state, while public ownership necessarily implies dependence. In fact, however, particular ownership arrangements are compatible with a wide variety of relationships between enterprises and the state.

In these circumstances the contradictions involved in Eastern European privatisation are no longer so surprising. The objectives which reformers hoped to gain by such privatisation are bound up with social relationships which do not yet exist in the region, and, unless one accepts Kornai's view that such relationships can grow organically as the state sector withers, the contradictions involved in trying to privatise without their prior existence remain. In this situation there may yet be a window of opportunity for alternatives to privatisation as a strategy for restructuring, and for raising the possibility of a more democratic form of economic change. There are signs that public support for privatisation is waning, at least in Poland. "According to a poll carried out in May 1993, for 46.2% of Poles the term "privatisation" carries negative associations including "exploitation of the working classes", "treason", "swindle", and "theft by Lewandowski" (Minister for Privatisation). The term carried positive connotations for less than 10% of those polled" (Tittenbrun 1995 p.30).

It may be that the highpoint of privatisation as a centrepiece of economic policy in Eastern Europe has been reached and that the ideological power of the concept will be less from now on. However, this still leaves open the question of the long term significance of ownership relations for the region, and also for the debate amongst the Western European left. To what extent are the contradictions detailed above specific to the Eastern European case, or do they hold more general lessons ?

The sense in which the Eastern European experience is special lies in the absence there of the long process of prior commercialisation of economic relations described by Fine as a precondition for privatisation. The contradictions generated by this have not affected the privatisation process in, say, Britain, and their absence in the West marks an important difference between Western and Eastern Europe. It indicates the limits of marketisation in the East. However, there is also a very important sense in which Eastern European issues are relevant to the Western European debate on socialism and ownership.

Taken as it stands, Fine's argument that privatisation depends on the previous establishment of clear capitalist criteria could be seen as simply the mirror image of the neo-classical view that it is competition which is centrally important rather than ownership. The neo-classicals are favourable towards market competition; Fine wishes to limit the effect of the market through state direction. However, both can be read as saying that, once competition is established, ownership can be transferred in a relatively unproblematic way. While Fine argues that ownership is important, the transfer of ownership in

British privatisation does appear in his account as the culmination of a long process of commercialisation in which it was by no means the most central element. We still lack a convincing analysis of the significance of ownership.

The Eastern European experience gives us some important materials for such an analysis. By looking at economies where ownership relations are either still extremely fluid, or in the process of being crystallised, we can gain insights into the tensions underlying such relations in seemingly more stable economies such as Britain. In this way we can see more clearly how patterns of ownership affect restructuring and competition. In Eastern Europe this emerges in the different implications of privatisation patterns for enterprise restructuring. The establishment of competition and the transfer of ownership affect one another intimately. In the West this dependence has been much more difficult to discern. However, it exists, just as in the East, and generates corresponding tensions and conflicts.

A central conflict is between the role of competition in market economies and the stability of the capitalist class. The neo-classical ideal of perfect competition sees profits bid down to a minimal level by the force of new firms entering the market. The Austrian model of competition is even more disruptive as industries undergo continual change in response to new opportunities and threats. Yet such competition severely damages the ability of the owners of enterprises to ensure a stable, continuing stream of returns from their property. They may, as the Austrians predict, respond to this by creative innovation in new, untried areas. They are more likely to use whatever methods are available to insulate themselves from competitive pressures; for example, collusion between enterprises, establishment of monopoly power, exploitation of government contacts. In this way, the maintenance of particular patterns of ownership can affect the process of competition and restructuring.

With this in view, Fine's argument that privatisation depends on a prior establishment of commercialisation can be seen to express one aspect of the process. However, viewed from another viewpoint, privatisation can limit restructuring or reshape it in ways centred on the protection of the position of the new owners. The conception that the transfer of ownership simply reflects the final moment in the application of market criteria to industries is over-simple. It neglects the extent to which market criteria were overridden prior to privatisation in the interests of providing a stable structure and environment for the new owners, and the extent to which the state continues to be involved in these industries. The strength of Fine's account is that he highlights the role of privatisation in an ongoing process of establishing commercial criteria. The weakness is that he sees this as the whole of the story, whereas commercialisation and restructuring in the nationalised industries has been shaped and limited by the desire of the government to ensure stable conditions for private ownership. Fine sees privatisation as an example of the lack of state involvement and planning in British industry; another viewpoint would be to see privatisation as a rather successful example of such planning; industrial planning exists in Britain but with the aim of strengthening capitalist ownership.

If this is the case then the significance for the left is threefold. Firstly, patterns of competition and restructuring cannot be divorced from questions of ownership. Secondly, state involvement in the economy cannot be avoided by transfers of ownership to the private sector. The issue is not so much the extent of state involvement, but for whose benefit it is carried out. Thirdly, a withdrawal of the state from playing an ownership role in the economy may well be accompanied by a "capture" of government policy by the new owners of industry. Such a development can easily lead not to an extension of competition and restructuring, but to the reverse, as the owners attempt to protect their position and ensure their property. All of these three points are exemplified by the experience of Eastern European privatisation, and by looking at that experience we can see more clearly some of the developments that have taken place in the West. The conclusion that can be drawn is that the Western left cannot ignore the question of ownership in formulating alternatives to current economic policies. Since ownership relations are closely linked both with changes at the enterprise level and with government policy towards the economy, and mediate between the two, any changes in either area, in both East and West, demand that the nettle of ownership be grasped. ■

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Peter Gowan

Neo-Liberalism and Civil Society

Across East Central Europe in the late 1980s, young intellectuals were sitting down at their desks to write essays on civil society. In 1991 in the Soviet Union, desks were being cleared for the same purpose: to win a Soros scholarship to the West by showing where you stood on civil society. Alumni came for a diet of seminars in places like Oxford to learn about our wonderful institutions (although, naturally, one wouldn't brag). The entire experience was a refreshing experience for all concerned. Not least for the teachers. After all, these students seemed to believe in it all, at a time when many of the lecturers were not at all sure what to think, bombarded as they were by the strident assaults on their liberal values, on institutions of civil society like their own liberal universities, the BBC, the higher civil service with its ethic of public service, the local authorities, the serious press, the welfare services, the teachers, the health service, and trade unionism. Government by discussion was ridiculed as the talk shop of the chattering classes. In short the very idea of the Liberal Democratic State was under assault. And the attack was being waged with all the most sophisticated techniques of mass suggestion, not least by savaging liberalism in the language of liberalism itself. The authoritarian populists were laying into civil society in the colours of so-called neo-liberalism.

Liberals versus neo-liberals

For decades Western liberals had seen a strong civil society as an integral element within the state acting as a countervailing force to the power of a secretive state executive and to market forces in the determination of public policy. Civil Society involved a network of associations and institutions, many of them supported by public funds, which exerted democratic pressures, calling both state executive bodies and big business to account. And civil society was underpinned by a strong welfare state, providing through its education system, public health systems, public housing and other local services a minimum basis for citizenship. The role of civil society was a political one within the liberal democratic view of the state: to ensure that public policy was governed by wide discussion and public pressure by the citizens through a myriad of civil associations and institutions. Civil society was integral to the state as a law-governed liberal democracy, while being always in tension with the state executive and with "the unacceptable face of capitalism".

In the 1970s, the attack was rather crude: the cry went up that the state was too weak because of democratic over-load. All the pressures from civil society (then called special interests) were making Western countries "ungovernable". In the 1980s the target and the aim remained the same, but the discursive tactics changed 180 per cent. Neo-liberalism was born and "the individual" was being crushed by a rapacious state. The crusade was launched against "the state" to free the individual, the economy and Uncle Tom Cobbly.

Traditional liberal suspicion of the state executive has been replaced by hostility towards the welfare state. The threat now came from the Inland Review, behind which stood the sinister forces of local government social services departments, teachers and the fat cats in the Direct Labour Departments or the trade union barons amongst the cleaners in the health service. Liberals were told to stop worrying about civil liberties and rally around to sharpen the sword of the state against the miners. Those who objected were dubbed the chattering classes, the consensus mongers or worse.

The Neo-liberals also took up the language of civil society to turn the liberal concept on its head. Instead of being a network of associations and institutions for invigilating state executives and market forces and articulating collective interests and concerns, it was to become a mixture of big business charitable foundations and self-help institutions for the deserving poor on one side; and archipelagos of unaccountable quangos for managing a depoliticised, privatised, publicly passive individual consumer on the other. The institutions of this neo-liberal civil society are above all there to ensure that the population stops prioritising the public welfare, stops looking for collective solutions to society's problems. In the name of freeing society (or the "individual") from the (welfare) state, the social engineers of neo-liberalism have been attempting to free the state executive from social responsibilities and from accountability to civil society.

Power and policy can be the preserve of a strengthened private network of increasingly incestuous linkages between executive officials and big business people and media barons, to which members of parliament doff their caps in the hope of a "consultancy" contract.

A civil society for Eastern Europe

The Soros scholars and their less fortunate aspirant colleagues in Eastern Europe would have gathered little or nothing of such painful debates from the tranquil prose of one of the most prominent proponents of a civil society for Eastern Europe in the 1980s, Timothy Garton Ash. The clashes between the liberals and the neo-liberal social engineers were surely minor differences when we were faced with a monstrous Communist totalitarianism in the East. Any form of civil society was surely better than that.

In the writings of Garton Ash on East Central Europe in the 1980s, developments in the East were indeed interpreted as being driven by the clash between "totalitarianism", seeking, in Ash's words, "to rule over an atomised society" and a civil society which embodied the idea of "social self-organisation" in the form of networks of autonomous social groups and movements which together would form, as Ash puts it "a strong civil society, rich in intermediate layers of free and frank association". These themes were developed by Garton Ash in his book, *The Uses of Adversity*, and were in turn derived from the writings of Adam Michnik. The above quote is from Ash's recent book, *In Europe's Name* (p. 282) (see my review in *LFEE* no 47). Of course, the paradigm of such social self-organisation was Solidarnosc in Poland, especially its intellectual networks.

But with the disappearance of "Communist totalitarianism", the ism", the discussion about civil society in the East has become altogether more complicated, not to say delicate. And the neo-liberal social engineers have set to work over there. Meanwhile, back in Oxford Garton Ash's efforts have been strengthened by a new addition at St. Anthony's - Michael Ignatieff. We will try to trace how ideas have evolved on civil society.

Civil society mark 1: infrastructure of liberal democracy

In 1990 Ralph Dahrendorf produced a short book on the transformations in Eastern Europe in 1989 (*Reflections on the Revolution in Europe)*. This was a fairly classical Western liberal statement on what civil society should mean for post-Communist societies. Interestingly Garton Ash endorsed Dahrendorf's book as a classic.

Dahrendorf sees the civil society as a network of institutions and relationships integral to the liberal state, which he prefers to call, following Karl Popper, the Open Society. He thus endorses the ideas of government by open discussion, incremental policy making in which each step forward is the output of negotiation between executive and civil associations. The right policy is the policy endorsed by the bulk of the pluralistic civil institutions. These collectivities, with their varied and distinctive cultures, outlooks and interests will be strengthened through being included in the open discussion. His proposals are close to those of Habermas for trying to achieve an undistorted communicative public space. And they restate Charles Lindblom's classic view of best policy as the policy of "muddling through" via the impact of a host of special groups and outlooks upon initial ideas, altering and even "distorting" pure concepts to fit these into the particularities of a complex society which are beyond the grasp of a single "scientific-rational" brain.

Dahrendorf therefore repudiates the temptations offered by the neo-liberal Social Engineers: the planners with their systems. As he puts it: "The countries of East-Central Europe have not shed their communist system in order to embrace the capitalist system - whatever that is. The have shed a closed system in order to create an open society." There is no "correct path", just experiment and trial and error by a large and diverse inter-subjective civil society.

And Dahrendorf is particularly worried that the leaders of the new Eastern Europe will be sold a second hand Western model of how they should engineer their new states. "The common language we speak today is not the language of the West, now adopted by the East. It is an intrinsically universal language which belongs to nobody in particular and therefore to everybody.... If any creed has won in the events of last year, it is the idea that we are all embarked on a journey into an uncertain future and have to work by trial and error within institutions which make it possible to bring about change without bloodshed."

The neo-liberal riposte

Even the busiest of the neo-liberal planners could not let this pass. Despite a gruelling schedule which had involved working over Yugoslavia's federal government in 1989, then sorting out Poland before tackling the biggest heavy engineering job of all in Russia in 1992, Jeffrey Sachs flew in to LSE to reply.

As Sachs puts it: "I consider Professor Dahrendorf to be mistaken in his view that Eastern Europe did not shed the communist system to adopt capitalism. In my view that is precisely what they have done, and all of their actions are directed towards this purpose... If instead the philosophy were one of open experimentation, I doubt that the transformation would be possible at all, at least without costly and dangerous wrong turns." (*Poland's Jump to the Market Economy,* 1993). Sachs was no cynic. He passionately believed in his shock therapy. Nor does Sachs necessarily endorse the full neo-liberal programme for emasculating civil societies in the West - though he is no friend of the welfare state. The point is that Sachs is a professional social engineer and in engineering things must be done methodically – first one thing then another. And the civil society part of the machinery has to be fitted in at the end, not at the beginning: first a capitalist labour market (and unemployment); then with privatisation a bourgeoisie (capitalists); then (with foreign direct investment and an export boom) economic growth; and then, but only then can there be institutional stabilisation - i.e. a stable liberal democracy and civil society. What, you may ask, tides people over in the meantime? Sachs has two answers: first, let us reduce the meantime to an absolute minimum by sweeping aside every obstacle and resistance to getting the capitalist system established. And secondly, put Western money in to bolster the supporters of capitalism and buy off opponents or undermine them.

Civil society mark 2: building a middle class

In his more recent writing, Timothy Garton Ash has engaged in a conceptual slippage. He wobbles away from Dahrendorf in the direction of Sachs. Ash claims to be against Sachs-style teleology. He says "we don't know what the transition is to" and he argues that those who pretend to know, "end up, often quite crudely, awarding place marks in the race to democracy: 'The Czechs are in the lead, Poland is lagging slightly, Ukraine is bringing up the rear...'" (Interview with Ash in *The Oxford International Review,* winter 1994)

But there seems to be an evasion here. The neo-liberal teleologists do not make absolute predictions about the future. They know that they face enemies who could derail their plans and turn the objects of their planning in other directions. What the planners do have is criteria of assessment as to the progression or regression in the countries concerned. And so, indeed, do liberals like Dahrendorf: his criteria must be the consolidation of open societies with strong civil networks checking executive power and untrammelled market forces.

And so, it turns out in the same article, does Ash. Or rather Ash gives us two, rather different benchmarks - one vague and one very clear. The first one is not only vague but evasive. He declares that those societies "in which civil society was developed and there were elements of a middle class and a market economy have made dramatically better progress" while others in the former USSR are bringing up the rear. Yet this is rather opaque: after all, the Czech Republic could scarcely be said to have had elements of a market economy in Ash's sense before 1989. It is also not clear what Sachs is referring to in suggesting that Russia, say, had a smaller middle class - presumably intelligentsia is in some sense referred to - proportionately than, say Poland or Czechoslovakia. And the reference to civil society is unspecified.

Yet, later in the same piece, Ash adopts a different and altogether clearer conception of the criterion for judging success. He states: "...the social dimension of transition is a neglected third dimension [between economic and political dimensions], and that is often where the differences between success and failure are to be sought..." But now the social dimension is no longer the networks of civil society, but something altogether more solid: a capitalist class, a bourgeoisie. As he puts it: "There is real truth in the Marxist label for liberal democracy: 'bourgeois democracy'."

This is exactly Sachs's point: first we must engineer a bourgeoisie, then the institutional frills of civil society etc can be added. Ash does not say this. He does not endorse the use of the state executive to forge this bourgeoisie on the anvil of shock therapy. But he endorses Sachs's sequence: first a capitalist class, then the rest.

Civil society mark 3: administered from the West.

The delicacy and good taste with which Ash picks his way round these issues contrasts with the tactlessness of Michael Ignatieff, as he tries simultaneously to wrestle with the concept of civil society while locking horns with the new regimes in Eastern Europe.

Ignatieff, in an article in *Foreign Affairs* ("On Civil Society", March/April 1995) begins with the conventional idea that, as he had put it in 1989, "in Hungary, Poland, Romania, East Germany, Czechoslovakia and the Baltics civil society triumphed over the state." He then takes us through some pages on the theory of civil society before returning to Eastern Europe to discover that everything has changed. "All of the post-communist regimes are nominally democratic, but in practice the levers of power have usually remained in the hands of the old nomenklatura." How the triumph he hails at the start of the article turned out to be illusory we do not learn: there is not a scrap of analysis of the actual fate of civil society in the region between 1989 and 1995.

But Ignatieff proposes the following lines of force as his solution: a strong state executive able to use force to coerce order, and prevent the social beast from escaping its cage. He declares that "invisible hands are no substitute for the magistrate's sword". At the same time he reassures us that in Eastern Europe outside Yugoslavia "state structures remain sufficiently robust to contain ethnic conflict". Nevertheless danger still looms throughout the societies of the region in the form of authoritarian populism. And the sword of the state executive will not be enough to slay this social monster.

It is at this point that Ignatieff finds a practical use for the concept of civil society. Civil society will be injected into the region as a weapon against authoritarian populism. Together with the sword of the magistrate, civil society will pacify the population. This is what Ignatieff calls his civil society strategy. It means an effort to change the behaviour of populations in the East through bureaucratic engineering by Western administrative agencies. Ignatieff elaborates as follows: "This means funding independent media; maintaining ties not simply with governments and regimes but with their oppositions; providing aid and assistance to strengthening the key institutions of civil society, the courts, judiciary and police; developing charitable and voluntary associations so that the population ceases to look to the state and begins to look to its own strengths..." We must, he says, start "with the search for partners outside the state, the leading parties, and the bureaucracy."

Ignatieff's remark here that the population should be encouraged not to look to the state but to its own strengths, may alarm some readers. It could sound like an authoritarian populist call to arms against the magistrate and his sword. But this is to misunderstand Ignatieff's neo-liberal code. It means society should not seek public solutions to their problems through the democratic state: they should solve their problems privately by their own efforts.

His civil society crucially involves "the refusal to privilege public goals over private ones,[and] the insistence that liberty can only have a negative rather than a positive content." In other words, Ignatieff's civil society is a strong network for turning the population away from involvement in democratic politics towards finding its own solutions, preferably privately while interpreting its own freedom as freedom from interference by the democratic state.

The analytical vacuum

These bewildering discursive shifts on the theme of civil society display two striking characteristics. Both Garton Ash and Ignatieff display a jaundiced weariness in their attitudes towards the current situation in Eastern Europe. And secondly, neither of them provides a scrap of analysis of actual civic associations and what has happened to them since their supposed triumph over "the state" in 1989.

Their posture of civil exasperation with the region contrasts with the bullish satisfaction of Professor Jeffrey Sachs. He is, on the whole, extremely pleased with his efforts at Shock Therapy since 1989. In his recent defence of his record (*Understanding Shock Therapy*, 1994), he notes that most of the states in the region have taken his medicine. He does mention that Ukraine was bringing up the rear, but since he wrote his pamphlet, Ukraine too has joined the conveyor-belt. Sachs is pleased because the countries of the region have made strides towards the capitalist market, have created a capitalist labour market with substantial pools of unemployment, have privatised a great deal of industry and have tackled budget deficits (in other words, cut welfare, health and educational spending). Sachs does not waste his time on analysis of the institutional tissues of civil associations in these countries over the last five years. These are tasks for the future.

The fate of real existing civil societies

If there is one country where civil society could have been said to have emerged in East Central Europe in the 1980s it was surely in Poland, with the rise of Solidarnosc in 1980-81. We may leave aside in this context whether the events of 1989 in Poland were a triumph for "civil society" over the state. But without question, the leaders of the new government of Mazowiecki came to power on the basis of their source in Solidarnosc, the bastion of independent civil networks in Poland.

What then happened was governed by Shock Therapy, driven by the conceptions which Jeffrey Sachs has popularised. The IMF and four successive governments claiming allegiance to the Solidarnosc tradition drove this shock treatment home. The networks of societal interests were not consulted and were not drawn into processes of inter-institutional bargaining, consensus-building and compromise. They were railroaded.

The first group to protest were the mainstay of Poland's private sector: the private peasantry. By the summer of 1990 they were already having to take to the streets in a vain attempt to defend their institutions and interests against the drive for Shock Therapy. But the central conflict which has driven Polish politics has been that between the industrial core of Solidarnosc and the neo-liberals in the government, backed by the International Financial Institutions. The syndicalist wing of Solidarnosc wanted to maintain and strengthen the control of state enterprises by their self-management bodies. This was reversed and power was recentralised into the hands of state agencies. The syndicalists wanted privatisation to involve the transfer of enterprises to employees. This was rejected. The government imposed hard wage controls on the state sector and refused to end them. Wage controls were not applied to the private sector. State enterprises faced heavy taxes in order to give private companies tax breaks. These measures driven through by World Bank conditionality were classic efforts at social engineering: to generate demands amongst workers in state enterprises for privatisation on the government's terms.

The efforts to create a demobilised, depoliticised, apathetic society in Poland were to some extent successful. Participation rates in elections dropped dramatically, as they did also in Hungary. Electoral participation in allegedly backward Ukraine was much higher. Yet at the same time political thinking began to evolve within the syndicalist core of Solidarity and within the electorates. In the summer of 1993 in Poland, Solidarity moved against the very government it had spawned and formed an alliance with the ex-Communist Socialist Party and its allied Peasant Party. This alliance brought the government down. The electorate in Poland also moved, with voters turning to the former Communists and Peasant Party allies to give them a majority in Parliament. These parties, portrayed as the totalitarian apparatus that, in Ash's view, aspired to atomise the population, had in fact been the only parties with real social links in terms of significant numbers of active supporters in localities.

This trend has been a widespread one within the region: it has applied in Lithuania, Hungary, Slovenia, Bulgaria, Ukraine and Estonia as well as in Poland. The same trend has been witnessed in Russia. When Gaidar's shock therapy was introduced by Yeltsin at the start of 1992, the majority in Parliament had granted Yeltsin special extraordinary powers to try radical economic reform. The consequences of the Shock Therapy turned Parliament against the programme.

Instead of recognising that this shift in Parliament's attitude reflected a shift in Russian society that should be respected, the *Economist* (1 May 1993) urged Yeltsin to break with the Constitutional Law governing the country, the legal framework which had enabled Yeltsin himself to be elected leader. Five months later Yeltsin took the *Economist*'s advice, to wide applause from many alleged supporters of civil society and liberal values in the West. (See the admirably dispassionate account of the Russian crisis of 1993 in Jonathan Steele's book, *Eternal Russia*, 1994.) The result was a surge of support not only for the Communist party but also for Fascism in the December 1993 elections.

In the face of these swings back to the former Communist parties in the region, Garton Ash, in *In Europe's Name*, has declared: "I confess quite frankly that I find it not only distasteful but also puzzling." A key to this puzzle could perhaps lie in an aspect of these societies in the 1990s that neither Garton Ash nor Ignatieff have deemed significant enough to even mention in their writings on the fate of civil society in the region: the tragedy which everyday life has become for very large parts of these societies.

There has been a catastrophic rise in poverty and malnutrition in many countries. A study in Russia by Goskomstat and the World Bank defined the poverty line as the income needed to maintain food consumption sufficient to maintain a normal body weight at an average level of activity - an austere definition by Western standards. The study showed that in 1992 37 per cent of the Russian population fell below this line, while the figure for children under 15 was a horrifying 46-47 per cent. A study carried out by CARE and the US Centre for Disease Control in 1992 found that on average Russian pensions were below what the World Bank estimated to be the minimal nutritional support level for a person living alone. Using UNICEF's definition the proportion of Poland's population suffering such malnutrition was negligible in 1989 but had reached 17.9 per cent in 1992. Similar problems, as well as problems of health, housing, and life expectancy can be found in the other countries of Eastern Europe. It is frankly distasteful to read Western discussions about the problems of societies in Eastern Europe which ignore these problems.

Yet it is against this background that we can assess the proposals for the future from Ignatieff. We might expect him to make some suggestions as to how economies shattered by the West's shock therapy policy could be helped. Surely Michael Ignatieff, so moved in the 1980s by the "power of the powerless" in Eastern Europe might be moved by the plight of the poverty-stricken there now.

The answer seems to be that we just don't know what either his or Garton Ash's reaction might be because if they have noticed the Eastern slump, the poverty, and the tattered social tissue left in their wake, they make no reference to it. Instead Ignatieff leaves vague the exact source of the future menace he wishes us to launch a preventive strike against.

Michael Ignatieff's project is for Western bureaucracies to disburse funds in support of the values he holds dear, not least the value of "the refusal to privilege public goals over private ones". He claims also to value above all negative freedom from state interference, yet with the obvious qualification that such state interference is OK in Eastern Europe provided it comes from Western states following his "civil society strategy".

Some may be inclined to smile at the crudely bureaucratic forms of thinking displayed here by Ignatieff. The professional social engineers like Sachs do not go in for such old fashioned administrative methods. They create structured social frameworks into which incentives and sanctions are built in such a way that rational individuals will be more or less bound to behave in the Correct Way. You don't take a state enterprise manager and give him a hand-out; nor do you give him any orders at all. You just change interest rates, impose credit ceilings on banks and alter the tax system to the point where the manager would be mad not to sack some workers. Ignatieff's idea of funding friends in the media is rather crude.

Yet there is an icy remark in his text: that note about "all the postcommunist states" still being controlled by the nomenklatura. This is rubbish. But what does he mean by the nomenklatura? The term used to mean the permanent officialsf in the upper layer of ruling Communist Parties. What does he mean by it now? We do not know. But he could mean the officials of the ex-Communist Parties now in government in so many East European countries. And this gives his statement an ugly undertone. For his uses the remark to say that democracy there is only formal. By this he means it doesn't really exist. And that idea can be used to justify Western governments flouting minimally civilised standards of behaviour in the region. Is Ignatieff seeking to open a window to covert action against the Socialist Parties in the East? Is his list of targets - the media, the opposition, the courts, the judiciary and police - a signal for exporting to Eastern Europe the manuals on the desks in discrete offices in Latin American capitals accommodating the station chiefs of the CIA? The meaning is unclear. It should have been clarified.

The European Union and the rest of the Western alliance is, in fact, taking overt action on these matters: not just by Ignatieff's funding agents, but also through the Pact for Stability. This puts pressure on the states of the region to sign binding international legal treaties renouncing claims to do with ethnic minorities or territorial disputes and granting adequate rights to their minorities. Yet there is a curious oversight in all this. Disputes involving the member states of the EU are excluded from this treaty-making process. Yet if we look more closely, most of the active claims of this sort at present in Europe are claims involving EU members with claims against former Communist countries: Germany has an active claim against the Czech Republic over the Sudeten Germans. Italy has blocked an Association Agreement negotiations between the EU and Slovenia because its government in 1994 revived claims against that country. Greece is making claims against Albania and against Macedonia; NATO troops are butchering Kurds in Turkey. There is also, of course, the active dispute between Spain and the UK over Gibraltar, the unresolved dispute involving both territorial claims and minorities between the UK and Ireland etc.

Ignatieff worries about authoritarian populist possibilities in East Central Europe. But what about actualities in Western Europe: the neo-fascists in last year's Italian government, the Freedom Party's rise in Austria, the 15 per cent for the FN in France? None of the Visegrad countries nor Ukraine as it allegedly brings up the rear have had anything like these votes for the far right. In these matters modesty and attention to facts is surely desirable.

The passing moment of modular man

Ignatieff points to the fact that we in Western Europe have had a blessed creature whom he calls "modular man", after Ernest Gellner, individuals with bolted-on attachments of a variety of kinds, many of them transient and driven by profane energies rather than by fundamentalist ideologies. This is surely true. But for how long and why? Ignatieff suggests that this is a defining feature of capitalism or at least Western capitalism. He talks about "the genius of capitalist civil society". Yet surely in European terms modular man is largely a post-war product. It was hardly a dominant feature of inter-war Europe. It is not a feature of capitalism but of a particular capitalism for a brief period of time. The particularity was the post-war boom, the welfare state and a civil society which did really operate to some degree as Dahrendorf would wish: liberal corporatist negotiations with authoritative civic associations. And there was another factor: the West's upper classes were on their best behaviour and labour benefited in comparison with its past.

Are we, in the West, still in this age of "modular man" or it is passing? The boom has ended. With the end of the Soviet Bloc, the upper classes no longer have a spur to self-discipline. And the ideological fuel provided for the parties of the Right in anti-Communism needs to be replaced. If Britain's right, the new diesel fuel on which we are to choke is nationalist demagogy. And as for the brand of liberalism which cemented internal peace in the West, the social liberalism of the social democratic state, it seems an expensive luxury of the Cold War, as Pennant Rea, the *Economist*'s editor pointed out: the penal taxation on which it was based, he informed us, was an import from Marxism forced upon the rich by the Cold War.

Ignatieff's proposals have one great merit: by diverting our attention to evil forces that may arise in the East, he makes us feel how lucky we are here in the West. But how long will we be lucky with the Neo-Liberals and their propagandists like Michael Ignatieff in the ascendant? A world economy largely out of control and a hollowed out civil society in the West makes the liberal democratic order's future look increasingly fragile. Twice in the last century the Western powers have plunged the world into misery. Who will offer us a scholarship competition for a little trip abroad on how to stop it happening a third time round? ■

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