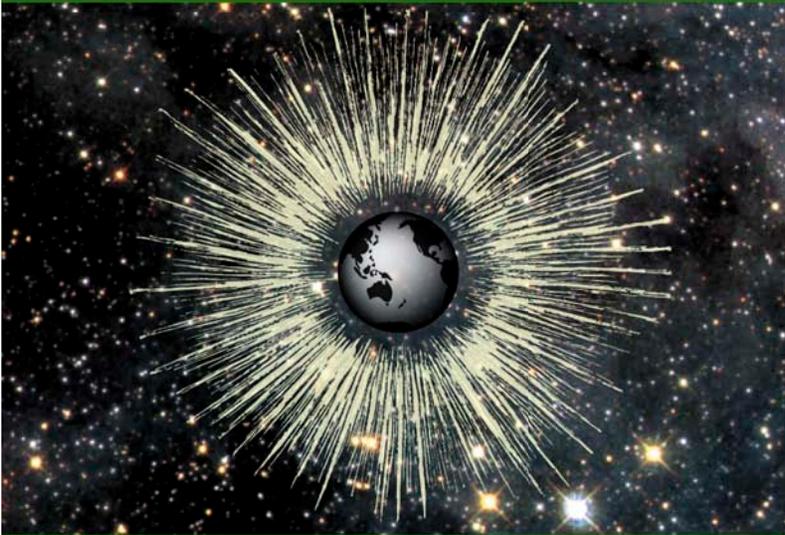


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THE HARD-EARNED INTEGRATION OF THE EAST IN THE WORLD ECONOMIC SYSTEM

Silviu Brucan

World socialism was a subsystem of the world-system and as such could not run deeper than the system of which it was a part. Had Lenin realized the workings of the world economic system, he would have concluded that Russia had no chance whatsoever to build an antisystemic economy in the midst of an overpowering world capitalist system. In his earlier writings, Lenin had a glimpse of that reality, hoping that another socialist revolution would break out in Germany, bailing out the Russian one. Instead, as his dream failed to materialize he began a desperate enterprise: socialism in one country.

In retrospective, I venture to say that the pervasive power of the world-system expressed itself in the fact that Lenin and Stalin, unconsciously, conceived both socialist society, as well as the future communist society, within the limits of the industrial system, which historically belongs to the capitalist epoch. This began when Stalin presented industrialization as the goal of socialism (industrialization being essentially a capitalist operation), and ended with Lenin's definition of communism "Soviets plus electrification," and Stalin's threshold to communism expressed in terms of millions of tons of pig iron, steel, coal and oil both indicating the limit of their historical perspective within the industrial system. Never did they formulate a *new type of productive forces* that would usher in the formation of a postcapitalist society, remaining intellectual prisoners of the industrial system.

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Stalin tried hopelessly to escape from that theoretical framework. *First*, he argued that socialist economies could be insulated from the world system; *Secondly*, he maintained that industrialization would make socialist states independent. Industrialization not only failed to make socialist states independent, but it instead became the trap whereby socialist nations were caught in the world economic system. As socialist states industrialized they only became dependent on world markets, world prices of raw materials and up-to-date technologies. Of course, the Western powers also benefited from socialist industrialization, milking socialist states through unequal West-East trade exchanges via the superiority of Western currencies and growing foreign debt until socialism was ruined and broke. As for the ideological split of the world market, this was a basic misconception of Stalin with regard to the workings of the world-system. As Samir Amin has pointed out: the predominance of the capitalist mode of production is manifest in the fact that, in the world-system, both central and peripheral formations are arranged in a single system, organized and hierarchical. Thus there are not two worlds markets but only one: the capitalist world market, in which Eastern Europe participated marginally.¹

In the 1980's, COMECON's marginal position in the world-system was set by three figures: almost 30% of the world industrial output, but only 11% of the world trade, and merely 9% of the world financial transactions.

THE WEST IS MILKING THE EAST

With the downfall of the Soviet bloc, all postcommunist societies began to institute a market economy, liberalizing their trade and monetary exchanges, consequently being sucked into the whirlwind of the world economic system. They opened their gates wide to Western corporations with the hope these would bring new technologies that might make their factories more competitive. In fact, Western companies show a taste for labor-intensive industries undergoing privatization. They tend to inject the latest technologies, maintain a low-cost labor force, and thus produce cheap goods for world markets. But the real trouble is the growing foreign debt, which

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is sending half of the hard-earned exports of postcommunist nations to the West in order to service this debt.

Stated bluntly, the claims by Western governments to have helped East Europeans establish a market economy is a big hoax. In 1995, while visiting London, I was invited by a Vice-Minister to the Foreign Office. When he asked me what the West could do to help us improve the economic situation, I answered: "Stop milking us!" He was astounded, so I gave him some data. The foreign debt of the emerging democracies has skyrocketed to such an extent that the money needed to service this debt is much higher than all the economic aid coming from the West. In figures, the Russian Federation and Eastern Europe owed more than \$150 billion, which means they were paying annually about \$20 billions as principal and interest. In comparison, the actual grants they got from the West never surpassed \$5 billion annually. The trade picture did not look better. The average score of the 1990's in the East-West trade is \$7 billion in exports to \$12 billion in imports. In brief, the *main cash flow in Europe has been from the poor East to the rich West*, and not vice-versa.

THE KEY OF SUCCESS TO MARKET REFORM: THE MIDDLE CLASS

The evaluation of progress in postcommunist societies is usually made in terms of political and economic achievements. Seldom are changes in the social sphere taken into account, although these affect society much more profoundly and are more indicative of both present stability and the future of these nations. Examining the social stratification of these societies, we find at the top the common phenomenon of the rapid enrichment of the new capitalists, involving in most cases enterprising members of the communist *nomenklatura*. However, as we move down, an obvious discrepancy appears between the Central European nations and Russia: the *middle class*.

To better understand the genesis and dynamics of the middle class in the region, we must go back to the pre-communist era. In Central Europe, the motive force of social development was capitalist-industrial growth, while in Russia, rigid feudal structures with millions of illiterate peasants were dominant. Apparently, in the Russia of modern times there has always been one class lagging behind the historical process. In October 1917, when the task was the socialist revolution, the supposed agent of change, the *proletariat* was missing. Today, when the task is the building of a modern market

¹ Samir Amin, *Unequal Development*. Sussex: Harvester, 1976, pg. 22.

economy, it is the *middle class* that is missing. American historian Richard Pipes makes a perceptive point: "Russia's inability to produce a large and vigorous bourgeoisie is usually seen as a major cause of its deviation from the political institutions and practices." Russian historian Yuri Afanasiev also emphasizes that Russia today lacks a social base for democratic reform, leading to an oligarchic system.

Not so in Central Europe. In Czechoslovakia, the interwar regime of President Masaryk was on par with Western Europe in terms of capitalist-industrial development and democracy. Here, a powerful social stratum survived even during the four decades of communism, enjoying a standard of living characteristic of a middle class (home and automobile ownership, significant cultural expenditures, holidays abroad, and the like). For obvious reasons, official statistics never mentioned that category, but Western sociologists discovered that, in the 1970's and 1980's, families with high incomes and a middle class lifestyle in Czechoslovakia represented about 30% of the active population; in Hungary the figure was 20-25%, in Poland, 15%. In retrospect, we now realize that the Prague Spring and the reformist drive that swept Hungary and Poland actually reflected petit-bourgeois trends toward liberalization rather than typical working-class grievances.

Romania was left behind the Central European countries in this respect. *Breviarul Statistic* reveals that in the inter-war period, the urban petit-bourgeoisie was made up of 128,000 owners, 327,000 store managers, 25,100 liberal professionals, and 19,500 family members; in total 3-5% of the active population. Under communism, a study, published by the Center for Sociological Research in 1988, showed that a "higher status" in society (in terms of housing comfort, cars, cultural consumption, and the like) was enjoyed by 5% of the active population. Such a low percentage was caused by Ceausescu's statist policy, which stifled any private economic activity. Even private peasants and owners of private plots were harassed by the militia whenever they tried to sell their products on the market.

In the U.S.S.R., besides the party and state dignitaries who enjoyed high salaries, only artists, musicians, scientists and managers in the military-industrial complex had a higher income. They represented no more than 1% of the active population. Sociologist Mikhail Tchernik considers that this very thin stratum taking shape after Gorbachev's opening of *perestroika* in 1985 had a monthly income of \$250 to \$2000 per person, owning usually an

Table 1 – Transition in Post-Communist States

Countries	Potential middle-class before 1989 (%)	Per capital GDP(%)	1995 Average Monthly wage (\$)	GDP Growth(%)
Czech Republic	30	4,338	303.1	4
Slovakia	25	2,926	253.0	6.4
Hungary	20-25	3,882	328.0	4.0
Poland	15	3,167	307.0	6.5
Romania	5	1,380	110.0	3.8
Bulgaria	5	1,176	118.0	2.8
Albania	1	332	50.0	6.0
Russia	1	2,393	126.3	-2.0

Source: *Financial Times* and *Business Central Europe*

apartment, an automobile, a TV set, an imported last-generation refrigerator, a VCR, and a small dacha outside town.

As shown in Table 1 there is an almost direct relationship between the percentage of potential middle class before 1989, and the progress of the market reform as of 1995 measured in per capita GDP and average monthly wage. The Czech Republic, with a 30% middle class has become the post-communist front-runner with more than \$4,000 in per capita GDP and an average monthly wage of \$300, whereas Russia, despite its enormous natural riches trails the group with only 1% middle class. In brief: *the middle class is the key to success in market reform.*

How was the middle class born in those countries? With forceps! The market economy could not possibly function with workers and peasants alone. Merchants and entrepreneurs, businessmen and intermediaries, salesmen and managers are all a *must*. Therefore, the formation of a class made up of such people is both vital and urgent. Eastern Europeans cannot afford to replicate the slow and gradual process of middle class formation, a process that took many decades in the West. We witness here instead a social birth abrupt, painful, forced and accelerated, with contenders cutting their way through the loopholes of a rudimentary and inadequate legislation. A *savage middle class*, I call it.

But the most striking social outcome of the revolution in the East is the making of a host of millionaires in just five or six years. The novelty of that phenomenon stems from the peculiar condition of their genesis: *the accumulation of capital was censured and illegal in communist society, so the post-1989 capitalists made their fortune at the expense of state property and capital,*

grabbing the assets, machinery, real estate—and even the social capital—of state enterprises or commercial organizations. In the forefront of this large-scale robbery were the former party and state bureaucrats who held strategic positions that allowed them to operate quickly and with great efficiency. A study of one hundred top Russian businessmen, undertaken by the Institute of Applied Politics in Moscow, found that 60% belong to the former *Nomenklatura*. A Polish economist who examined the trajectories of several hundreds of former party bureaucrats in the period 1988-93 discovered that more than half of those became managers in the private sector; in Hungary the percentage is even higher.

Again, Moscow had led the way. Russia, with its enormous riches and natural resources, was naturally in the vanguard of this historical plunder, its new capitalists showing an unexpected ingenuity after seventy years of Bolshevism. Serghey Yegorov, former president of the U.S.S.R. State Bank, and head of the Financial Section of the C.C. of PCUS, became the president of Commerce Banking Association, a tycoon worth hundreds of millions of dollars. Nikolai Rijkov, Gorbechev's Prime Minister, took over Tver-universal Bank, while Piotr Aven, former minister of Commerce, became president of Alpha Bank. Ranking at the top, Prime Minister Viktor Cernomyrdin was director of the gigantic gas company Gazprom, which was secretly privatized through a method that allowed the former boss to take the lion's share. In 1995, as Cernomyrdin created a party called *Nash Dom* (Our house), Russians used to call it *Nash Dom Gazprom*. The clan of pro-Yeltsin magnates is known as the "big eight," a consortium of major banks and companies; journalists refer to the group as "The Octopus," because its tentacles seem entangled in every big economic venture. Characteristic of the capital-power symbiosis is a breathtakingly bold proposal: in 1995 it offered a loan of \$2 billion to the cash-strapped government in exchange for shares in state enterprises. Most of these new capitalists own newspapers and radio or television stations. The cozy partnership of big business and the Kremlin was once more demonstrated in November, 1996, as the media mogul, and rakish business tycoon, Boris Berezovski was appointed deputy chief of the National Security Council.

In Table 2 we see a world premier in the history of capitalism: a small number of big magnates control not only the major banks and industries of the nation but also the most important newspapers, radio and television

Table 2 – Russia's Main Financial–Industrial Groups

Powerhouses	The Boss	Financial positions	Industrial interests	Media control**	Political friends
Gazprom	Rem Vyakhirev	Bank Imperial (with Lukoil) Gazprom Bank National Reserve Bank	Gazprom (gas, oil)	<i>Trend</i> <i>Rabichaya Tribuna</i> NTV (with most)	Victor Chernomyrdin
Berezovsky	Boris Berezovski	Obyedinenny Bank Logovaz	Sibneft* (oil)	ORT (with others) <i>Nezavisimaya Gazeta</i> <i>Ogoniok</i>	Yeltsin family circle Valentin Yumashev Alexander Lebed (recently)
Uneximbank	Vladimir Potanin	Uneximbank MFK Renaissance	Sidanco (oil) Norilsk Nickel (metals) Svyazinvest (telecoms)	<i>Komsomolskaya Pravda</i> <i>Russky Telegram</i> <i>Tzvestia</i> (with Lukoil)	Anatoli Chubais
Lukoil	Vagit Alekperov	Bank Imperial (with Gazprom)	Lukoil (oil)	<i>Tzvestia</i> (with Uneximbank)	
Menatep	Mikhail Khodorovsky	Bank Menatep	Yukos* (oil)	Independent Media	
MOST	Vladimir Gusinsky	MOST Bank		<i>Sevodnya: Itogi</i> NTV (with Gazprom)	Huri Luzhkov
SBS-Agro	Alexander Smolensky	SBS-Agro Bank		<i>Kommersant</i>	
Alpha	Mikhail Tridman	Alpha Bank	Trumen Oil trading firms		

Sources: *The Economist* and Russian reliable press reports

* Sibneft merged with Yukos

** NTV, ORT are television stations; other titles are newspapers and magazines

stations, occupying all of the strategic positions in the structures of power and government. Such a concentration of power in the hands of big business is unprecedented, particularly keeping in mind it was achieved in less than a decade.

The perpetuation of the old *nomenklaturists* in leading positions—political and economic—characterizes the transition period in all Eastern European countries, though the existence of a rapidly growing middle class makes a divergence from the Russian picture. The party bureaucrats have passed with unexpected easiness from the party headquarters onto the boards of big companies or banks. The remark of a former American diplomat in Budapest turned director of a New York investment bank is very telling: “Whenever I have a meeting at a big Hungarian company, I face over the table somebody I had to deal with at the time when Hungary was communist.”

The Polish publication WPROST made a thorough inquiry of more than two hundred managers of the most important Polish companies. The inquiry revealed entrepreneurs involved in strategic arrangements, businessmen closely connected with political leaders, sometimes acting as their advisers and regular companions in state visits abroad. In most cases, they were coming from the communist *nomenklatura*, having rapidly adapted to the market economy. The man to be found most often in the presidential airplane is Andrzej Skowronski, General Director of Elektrim, the largest holding company in Poland which controls more than one hundred enterprises in electricity, telecommunications, and the agro-food business. Another prominent figure is Gregorz Tuderek, General Director of Budimex SA (the former Foreign Trade Construction Enterprise), now the largest construction company in Poland. Tuderek supported President Walesa in the early 1990’s, but in 1995 he switched to President Kwasniewski, accompanying him to the Davos World Economic Forum and to Moscow. *L’eminence grise* of the new Polish establishment is Sobieslaw Zasada, a friend of all men in power. As such, he has succeeded in acquiring major government contracts such as Mercedes motor cars for the Armed Forces.

In Romania, I examined thoroughly the rapid enrichment of the new millionaires. How did they make it so big in so short a time? I found six ways and means that had been utilized and described them in detail in a special study. To mention but one here: Directors of state factories set up

a private “shell” firm run by a wife or a son, gradually transferring to this shell firm machinery, raw materials, and even contracts with third parties and bank credits guaranteed by state assets. Ultimately, the state enterprise would go bankrupt, while the private firm took over its business, becoming prosperous in the process. As we have seen in Poland, many new magnates have succeeded in the foreign trade sector. In terms of personnel, this sector was the best equipped and qualified for the market economy. The staff had traveled in the West, they were familiar with industrialists, bankers, and businessmen; they spoke foreign languages fluently, and knew the ropes of on world markets. Therefore, small wonder that after 1989 they fired the most spectacular “cannons” in the history of Eastern wild capitalism.

Petru Crisan had been the director of Romano-Export. In 1990, he immediately privatized his enterprise, reaping the lion’s share (55.9%) of the capital. In only five years, he became the manager and owner of 14 enterprises. With such a performance, Crisan qualified as Minister of Commerce in the Vacaroiu government, given the authority to, among other things, approve export and import licenses. The right man in the right place!

Apparently, *the symbiosis between power and capital is a main feature of the transition period*. The fact, so amply demonstrated in this essay, that the formation of the new capitalist class has been achieved mainly at the expense of the state in all post-communist societies leads to the conclusion that the power-capital symbiosis, far from being accidental, is the result of a *social process both necessary and inevitable*. The major industrialists, bankers or merchants could not possibly make a fortune and assert themselves on the social plane without the support of those in power. In turn, those who hold power cannot isolate themselves from the new social milieu that is forming around them, and they can hardly resist the temptation to get involved more or less directly in the business profits made under their noses and, in fact, at their hands.

WHITHER RUSSIA AND EASTERN EUROPE?

A recent public opinion poll regarding the future of Romani revealed that 50% of its citizens did not know where the country was heading, while 40% were divided: toward *capitalism*, toward *Western socialism* and even toward the *restoration of communism*.

After 1989, political leaders chose to talk about *democracy* and the *market economy* without indicating that these two historical tasks could only be implemented within the context of a capitalist social system. After so many decades of demonizing the defects of capitalism, leaders did not dare to mention it by name. However, Romanian society, as well as the other Eastern European societies, has gradually acquired the characteristic features of capitalism, although state ownership maintains an important place in the economy. Social polarization has become increasingly visible: at one pole millions of people beset by poverty, unemployment, illness; at the other pole, the millionaires with their fabulous profits, living in luxury and glamour. In between, the middle class—the stabilizing factor in modern society—is taking shape rapidly.

This social transition has been strongly stimulated by the external environment and such institutions as the Council of Europe and the International Monetary Fund, which are directing and monitoring the transition to capitalism in Eastern European nations. Actually, *the integration into the Euro-Atlantic structures* is the supreme strategic objective of all these countries. Whoever is in power—center-right or center-left—will follow the same basic economic policy, enthusiastically or grudgingly. The fact that in Poland and Hungary leftist governments, composed chiefly of ex-communists, have carried on with equal determination the march toward capitalism proves once again that the Euro-Atlantic objective, and the political urge to fulfill its requisites, constitute the *decisive factor* in the evolution of these societies.

Not so in the case of Russia. Apparently, Russia's way will depart from that of Eastern Europe. Indeed, *while the mechanism of the world economic system compels Eastern European nations to play by the rules of the world market, the referee being the International Monetary Fund, the dynamics of power politics generate in a great power like Russia the will to resist, and even oppose, the tendency of the Western Powers to assert their supremacy.*

To sum up: although the Western model of society will extend throughout the whole Eastern European area, it will stop short at the Russian border.