TITLE: WHAT IS RUSSIA AND WHERE IS IT GOING?
TOWARDS A THEORY OF ECONOMIC INVOLUTION

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This paper interrogates four models of Russia's entry into a market economy -- totalitarian, neoliberal, evolutionary and legacy -- and finds them all wanting. First, they do not have a theory of economic transition as a sui generis process that is politically constituted. Second, they subscribe to metaphors of revolution and reform that seem out of sorts with the actual degeneration of the economy. My research in the Komi Republic has led me to formulate an alternative theory of involution which captures both the dynamic expansion of the sphere of exchange and the dramatic contraction of the sphere of industrial production.

Involution has a dynamic of its own, so far taking Russia through four phases: disintegration, liberalization, stabilization and concentration. Each phase marks the combination of policies with the unintended consequences of previous policies, leading to the expansion of exchange at the expense of production. But involution is not only combined but uneven. Here I draw on research which compares the degeneration of the Komi timber and coal industries. Finally, I report on research into family strategies of survival in which there is a retreat to various forms of informal production, a process of domestic involution.

Comparisons with other countries is the way to capture the specificity of Russia. In my work I have drawn on studies of China whose accumulation strategies are in sharp contrast to Russian economic involution. This leads to the movement away from bipolar typologies (capitalism vs. socialism, market versus planned economies) to a more complicated scheme that offers different combinations of property and market relations. Comparing these countries highlights the importance of differential responses to global economic forces.
In 1936 Trotsky, never despairing of the future, asked in a book of the same title, "What is the Soviet Union and Where is it Going?" His American translators gave it a voluntarist twist by retitling it "Revolution Betrayed," belying the analysis itself which examines the social bases of Stalinism and the prospects for moving forward to socialism or back toward capitalism. Today too we must ask: "What is Russia and Where is It going?" Like Trotsky we must move beyond the noisy clash of Moscow armor and turn to the social bases of the emerging economy, penetrate the shields of ideology to the real processes that are shaping Russia's future. However, we must also entertain the possibility that Russia is not only somewhere in transit between socialism and capitalism but is moving toward some new sui generis political economic formation.

For Trotsky there were only two alternatives -- capitalism and socialism -- and the Soviet Union was somewhere "in transit" between the two. This manichean view continues to pervade post-Soviet Russia of today -- only where progress was defined as the movement toward socialism, now it is defined as the movement toward capitalism. Where before capitalism was demonized, now it is socialism. The nirvana principle is reversed: capitalism is the radiant future because it is the antithesis of the dreaded past.

In the era of the cold war, Marxist manicheanism, found its mirror image in Western liberal manicheanism in which the polar concepts were capitalism and communism, only now the Soviet Union became a type of its own, the antithesis of the West, a totalitarian society based on a planned economy. It was not en route to some humane, exploitation free society -- this was mere ideology that justified terror and waste. In the self-congratulatory definition of the Soviet Union as "Other," Western social science created obstacles to appreciating the sui generis character and dynamics of "communism."

It is not surprising, therefore, that it was two Hungarians -- Konrad and Szelenyi -- who stood outside the polar world to conceptualize Soviet societies as a sui generis "state socialism." They harked back to Polanyi by defining the principle of the new mode of production as "rational redistribution" but it was really a fusion of Marx and Weber. Under state socialism surplus was
appropriated and redistributed by a class of "planners" who legitimated exploitation of "direct producers" on the grounds of their superior knowledge and insight into the collective interest.

Whereas the cold war rhetoric allowed the convergence of opposed societies of capitalism and communism under the exigencies of industrialization, Konrad and Szelenyi made a very different theoretical move, again reflecting their outsider perspective. Instead of homogenizing the polar types, they determined that each had need of its complementary principle. Thus, the dysfunctions of market based societies require state redistribution while the dysfunctions of redistributive societies call for markets. In this way they could account for the variety of "Western" and "Soviet" societies but still on a unidimensional continuum from capitalism to state socialism.

The next step was to suggest there are not two but three polar types, the famous "third road," which has its own populist variant in each of the Soviet societies. Szelenyi's theory of interrupted embourgeoisement recovered Erdei's and Bibo's Hungarian third road, whereas Chayanov tried to recover Russian populism within the Soviet context of the 1920s, which he paid for with his life. He theorized a distinct peasant mode of production, a mode of production that did not operate according to the logic of profit maximization but on the basis of familial need satisfaction. He was sufficiently realistic to understand that it could only be combined with other modes of production. His theory of cooperatives was an attempt to combine the advantages of peasant production with a state redistributive order. With a triangle of production principles, the meaning of transition from "capitalism" to "socialism" is lost and in its place we must talk of the changing articulation among modes of production.

Today Teodor Shanin is pioneering a renewed interest in a Chayanovian approach to the post-Soviet economy, linking the third way, or what he calls "expolar" economies to the idea of an "informal" economy -- a concept that has taken on global significance in two antithetical ways. On the one hand, in order to understand how people survive in Third World countries or how the poor survive in the advanced capitalist countries, sociologists have examined the variety of "unregistered" economies -- subsistence, self-employment, petty commodity production, trading, etc. -- that escape official recognition. On the other hand, political economists have discerned a movement toward new forms of "flexible accumulation," based on "flexible specialization," or the expansion of "in-person services." The large vertically integrated corporation gives way to vertical disintegration, to a "network society" based on advanced informational technology and chains of subcontracting, to new forms of familial production. The "informal economy" is, therefore, Janus faced: on the one side a household survival strategy and on the other side a new source of accumulation.

We must ask where Russia fits in this picture, and how such "informal" economies tie into socialist and capitalist economies. This is especially important because official economic statistics show a secular decline in economic activity for the last seven years while it is hard to discern a corresponding decline in living standards. If it is true that the gap can only be accounted for by
unregistered activities, then it is also true we can understand these "informal" activities only in relation to the formal. We must resist the romanticization of the informal as somehow apart from state and market institutions.

I am beginning to think through this problematic, on the basis of research I have been conducting in the Russian economy for the past six years. I began in early 1991 with Kathie Hendley -- studying a Moscow factory we called Rezina, that was caught in the economic and political maelstrom of late perestroika. In April, 1991 I went north to the Republic of Komi to join Pavel Krotov in a four month study of the local timber industry, starting with participant observation in a model factory, we called Polar Furniture. We have returned every year to observe its demise as it is buffeted by broader macro changes that have hooked the local timber industry into the world economy. In the summer of 1992 we went to Vorkuta -- a city of 200,000 carved out of Komi's arctic north in the 1930s, an infamous site of the gulag. Its rich coal deposits have provided the sole economic reason for its existence. Since then we have returned every year to study how this most Soviet and yet most anti-Soviet of cities survived the ravages of the market economy, an economy miners had demanded in their extraordinary strikes of 1989 and 1991. Amazed by the burgeoning banking sector, in such contrast to the waning coal and timber industries, we spent six months in 1993 investigating what this might signify. Finally, during the last three years we have been conducting interviews with employees and ex-employees of three factories: Polar furniture, a garment factory in Syktyvkar and another in Vorkuta.

I: TRANSITION THEORY

I begin with conventional models of transition which are rooted in departures from an idealized past (communism, totalitarianism, state socialism) or an imagined future (capitalism). We will divide the theories according to whether they revolve around origins and destinations and whether they conceive of the transition in terms of rupture or gradualism, revolution or reform. We shall look specifically, what place the assign to economic forms that are neither state nor market.

1. Totalitarian Models. The first model of transition derives from an image of the Soviet Union as totalitarian, in which there is no "society" but the party state is all. When the party state collapses, the entire order collapses. As Martin Malia writes: "After the Soviet deluge there was only a void." Richard Pipes, another famous historian of totalitarianism, is more optimistic about postcommunism renouncing Russia's "patrimonial culture with its acceptance of unlimited state

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powers, animosity to private property and disrespect for the law." But as in the case of Malia a thick line separates the present from the past. Ken Jowitt, a political scientist, speaks of the Leninist extinction, even as he recognizes Leninist cultural hang overs. In none of these accounts is there a place for "society" as opposed to the state, the "informal" economy as opposed to the "command" economy.

2. Neoliberal Models. If totalitarian models claim that the collapse of the Soviet Union leaves behind only rubble, the neoliberals believe that a new order can be created de novo only out of rubble. Diagnosing the problem of the past as lying with state ownership and economic planning, neoliberals, most prominently Sacks and Aslund, announce shock therapy as the solution that will restore a market economy overnight. Freeing prices and tightening credit and monetary supply will bring about a balance between supply and demand which in turn will propel the economy forwards. This is the market road to market economy. Within this framework the informal appears as the forces of darkness, the resistance of "Stalinist managers" to economic logic, cultural legacies such as dependence upon the state and hostility to private enterprise. If the informal appears at all, it is an obstructionist Soviet residue that must be destroyed. Genesis of the new requires extinction of the past.

3. Evolutionary Models. Like the neoliberals, the evolutionary or institutional economists, look upon capitalism as the only desirable destiny but they disagree about how to get there. Instead of a revolutionary rupture Murrell, Goldman, Poznansky, and Stiglitz call for piecemeal change that nurtures the seeds of a market economy rather than obsessively destroying everything from the past. The informal economy that grew up as compensation for the dysfunctions of the formal command economy provides the soil for an emergent proto-capitalism. China is the archetypal transition in which market economy incubates under the benevolent eye of the party state. Evolutionary economists seek to forge a compromise with the past in order to build the necessary protective institutions of a market economy. They subscribe to a very different view of the virtues of capitalism, stressing its dynamic rather than its allocational efficiency. The virtues of the market lie less in balancing of supply and demand and more in Schumpeter's gails of "creative destruction". The drawback of the Soviet order was not its shortage economy but its failure to innovate — and innovation requires minimal levels of security, long time horizons, rule of law. The evolutionary transition from state socialism to capitalism rests on a synergy between informal and formal economies in which each gradually recomposes the other. But here the informal is a proxy for emergent market institutions.

*There is a debate here whether relations between state and market are being recomposed (Walder, Oi) or whether the market is displacing the state redistributive mode (Nee). The latter is an evolutionary variant of neoliberalism.
4. Legacy Models. We come now to our final model. If evolutionists are oriented to a capitalist future, legacy theories subscribe to the same gradualist change but one conceptually rooted in the past. Against theories of totalitarianism they argue that the collapse of the party state left in tact the "social realm," or "civil society" or more generally "the informal" upon which the totalitarian order had depended (Lewin, Cohen). They celebrate the idea of path dependency, namely that crucial events, constellations of relations set the trajectory into the future. In writing of the present they speak of institutional legacies rather than institutional vacuum. Legacy theory, therefore, pays attention to what is and what is not inherited from the old regime. Some look at the persistence of attitudes and behaviors (Steele). Writing of Eastern Europe, Szelenyi, Rona Tas et al. Staniszkis, look at the continuity of personnel, the circulation of elites, whether the old nomenclatura has managed to retain control of the commanding heights of the new order.

According to David Stark and Laszlo Bruszt, who focus on Hungary, neither the neoliberals who seek to extinguish the state sector nor the evolutionists who seek to promote private capital capture what is taking place, namely the mutation of the socialist economy, a shift from plan to clan. The new order is best understood neither as hierarchies nor markets but something else they call networks. One might say that the informal economy, grown up under the umbrella of state socialism, has burst its protective shell and stalked out into the international arena. Stark claims to break with the transition problematic by appealing to the metaphor of network that somehow straddles state and market. At the same time it is not clear how new these networks are and whether principles of state socialism and capitalism have indeed been transcended.

We can represent the four models of transition in the following table. We can group them along two dimensions: first, whether they are oriented to the originating (state socialist or communist) pole or the future capitalist pole, and second, whether they conceive of such change as rupture or continuity, revolution or reform.

<table>
<thead>
<tr>
<th>ORIGINS</th>
<th>DESTINATION</th>
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<tbody>
<tr>
<td>(Socialism)</td>
<td>(Capitalism)</td>
</tr>
<tr>
<td>REVOLUTION</td>
<td>TOTALITARIAN</td>
</tr>
<tr>
<td>Extinction</td>
<td></td>
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<tr>
<td>REFORM</td>
<td>LEGACY</td>
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<tr>
<td>Mutation</td>
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</tbody>
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TABLE I: THEORIES OF TRANSITION
As we proceed round the table from totalitarian theory in a clockwise direction, the informal economy becomes more salient to the analysis. Does that also improve the analysis – make it more accurate or illuminating? I have already suggested that these models may better fit certain countries than others, so that their relevance may be historically and geographically specific. Thus the evolutionists have laid claim to China, while the legacy theorists have laid claim to Hungary. Poland is heavily disputed between both of these and the neoliberals. Russia is the only country for which there are still defenders of the totalitarian model of transition. So we should not universalize models groomed for a particular society.

These models are so vaguely defined that they can all be made to fit any specific transformation. Certainly, after the fact, each model can explain the degeneration of Russia’s formal economy. The totalitarians say that only total collapse can follow a totalistic order. Neoliberals rub their hands and declare, “the worse the better” the sooner the old is extinct the sooner the new will emerge. The evolutionists lament shock therapy as indiscriminate destruction. Legacy theory always has a field day in Russia, declaring the more things change the more they stay the same, recalling continuities not just with the Soviet but also with the pre-Soviet period. It is not obvious that any of these models has superior insight into Russia’s demise.

We have to subject them to much harder tests: to explain (a) the specific phases of Russia’s overall economic transformation, the interaction of policies and effects; (b) the diverse trajectories taken by different regions and sectors, the coexistence of dynamism and degeneration; and (c) the gap between official figures on declining GDP and the relative robustness of everyday life. As transition theories, as theories of transition, all the above models suffer from four defects that impede their ability to address the specificity of the dynamics and structure of the post-Soviet Russian economy.

--First, rooted either in the past or in the future they are unable to pay attention to the sui generis dynamics of the transition itself. Rather than revolve around one pole or another, it is necessary to connect the past to the future.

--Second, neither revolutionary nor reform imagery capture the degeneration of some parts of the Russian economy (e.g. manufacturing), while other parts (e.g. banking) have a dynamism that is breathtaking. Nor does it capture the transformation of the household economy and the expansion of petty commodity production.

--Third, because debates tend to be hermetically sealed in a vertical direction, so the relationship between politics and economics remains untheorized. We require theories of the state and its economic effects as well as the configuration of politics within the economic realm. Since the extrication from communism is a double transformation toward a market economy and electoral democracy, we especially need a robust framework for studying “political economy.”
Fourth, these theories rest on comparisons of concrete economies in flux with state idealizations of capitalism and state socialism. The economists, oriented to the radiant future that is capitalism, compare the realities of Russian disorder with neoclassical or institutional models of market order, while social scientists oriented to the past mark social and political reconfigurations by their distance from typifications of the Soviet regime. More relevant would be a conceptual apparatus based on the process of transformation itself, rooted in a comparison of transitional economies with one another.

We need to make a fresh beginning.

INVOLUTION — A RUSSIAN SPECIFICITY?

I propose to break out of the polar frameworks of origins and destinations, revolution and reform by conceptualizing the transition as *involution*, conveying the idea of an economic system that consumes itself, that destroys its own foundations. Transition theory focuses on diachronic links between past and future, whereas involution (and its obverse accumulation) focuses on synchronic interdependencies and subordinations between sectors or between classes that impart dynamism to an order. As opposed to "revolution" and "evolution," "involution" deliberately evokes the idea of "regression."

Clifford Geertz used the concept of involution to describe the effects of the colonial subjugation of indigenous Javanese economies to sugar cane export production. For him involution entailed the intensification and complexification of subsistence production under pressure of population increase. Involution depicts a process all too common in Third World countries, namely the simultaneous conservation and dissolution of an indigenous economy forced into supplying cheap labor power or cheap products for externally linked capitalism. If we transpose the global and historical context from a world economy organized around trade in raw materials to one organized around finance, and from a legacy of colonialism to one of state socialism -- then we discover broad parallels that make involution appropriate to both cases. In Russia as in Java, global capitalism induces local capitalisms which undermine and at the same time reproduce indigenous economies.

Three cautionary notes are in order. First, involution is not a self-sustaining economic process but, as I shall show below, it is politically constituted and not just at the level of the state but also at the level of the region, the sector and the enterprise. Second, in Geertz's use of the term involution conveys stasis whereas I will argue that conservation is only a defensive response to dynamic change. Third, Geertz links the idea of involution to "shared poverty" and while there are elements of this in household and enterprise strategies, this should not obscure the enormous gap in wealth between different sectors of the economy and also between classes.
As the party state disintegrated, the redistributive system collapsed while the productive sector atrophied. The successor distributive system -- trade, barter, finance and mafiya -- is now the most dynamic sector of the economy. The sphere of exchange draws resources out of the productive sector without reinvesting in that sector. The proceeds of merchant, financial and criminal capital are invested back into the distributive sector or funnelled into the global economy. The result is the degeneration of productive sectors and the intensification of the domestic economy. This expansion of exchange at the expense of production, what I call involution, is the very antithesis of accumulation wherein exchange promotes production.

Indeed, we might say that the transition to an industrial economy involved a process of *primitive accumulation* in which the peasantry was dispossessed of its access to the means of subsistence, given new skills and turned into wage labor. This was the reign of terror that collectivization brought in the 1930s. Equally, we may call the present movement from industrial to merchant and finance capital a process of *primitive disaccumulation*. Industrial producers lose their skills and retreat back into subsistence existence. Instead of proletarianization we observe deproletarianization. Even if the cost in lives is less, we might conjecture that this primitive disaccumulation involves no less plunder than the earlier primitive accumulation.

Involution holds the key first, to the unfolding logic of the transition process, second, to the divergent trajectories of different regions and economic sectors, and finally to the transformation of household strategies. Combined involution examines the interaction of state led policies with their real consequences. Uneven involution examines those real consequences from the standpoint of economic actors, responding differently to the dynamism of market and non-market exchange. Domestic involution examines the adaptation of households to the combined and uneven involution of the formal economy.

**III: COMBINED INVOLUTION**

The development of involution follows a sequence of phases governed by neoliberal policy on the one side and real politic of struggles between executive, central bank and legislature. It begins with the phase of disintegration in 1991, which becomes the phase of liberalization at the inauguration of the reforms in January 1992, which then gives way to stabilization, the control of the money supply and credit, at the beginning of 1994. Each phase is marked by strategic shift in central policy which had unintended real consequences for the economy.

1. **Disintegration.** The collapse of the party state was felt long before August, 1991. Within the economy it was marked by devolving power to regional conglomerates. No longer restrained by the party, they exploited their monopolistic tendencies to strangle independent entrepreneurship. Cooperatives could only grow within the interstices of the conglomerates and under their supervision. Lateral transactions, once regulated by the party, flourished in the form of barter. But
once more the stronger, those with scarce resources at their command, profited at the expense of those with less to offer. Third, shop floor relations, once supervised by the party, became even more resistant to managerial direction. All three factors led to the pursuit of profit, not through the "rational organization of formally free labor" (Weber) nor through the expansion of surplus value (Marx) but through trade. The disintegration of the party stimulated merchant capital and the hypertrophy of production.

2. Liberalization. When economic reforms were initiated on January 2, 1992, the party state had been dissolved. Price liberalization only strengthened the power of conglomerates to accumulate profits through price fixing. It was hoped that these benefits would be short lived and that as soon as the monetary overhang had been absorbed by inflation, competition would dictate the survival of the fittest. In this neoliberal prescription, politics was an exogenous factor that simply implemented policies. In reality the state was internally divided between executive, legislature and Central Bank and many forces that stood to lose from the reforms were able to take advantage of these divisions. The Central Bank printed money and issued credits to bail out enterprises in difficult situations, not least the military industrial complex. A shortage economy rapidly moved into a debt economy with inter-enterprise arrears spiralling out of control.

Desperate to push the reforms forward before they were reversed, the Russian government ventured into voucher privatization. In August, 1992, on the anniversary of the failed coup, Yeltsin announced that each citizen would receive a 10,000 ruble voucher, what he called "a ticket to the free economy," to purchase a particle of state property. In effect 51% ownership of enterprises could be handed over to employees at virtually no cost to them, which in reality usually consolidated the control of managers.

Privatization may have increased enterprise autonomy but it did not introduce hard budget constraints. The monetization of the economy was premised upon and accelerated by the privatization of banks which were now controlled by enterprises that founded them. Independent banks were either built on the basis of the old spetz banks or they were created de novo as the pocket banks of conglomerates. In either case resources were siphoned out of production and into the burgeoning financial sector. Banks were reluctant to channel money back into production, rarely sponsoring long term investment and usually extending loans for no more than three months. They made higher and more secure profits from loaning money to other banks or converting their resources into foreign exchange.

Enterprises would come as supplicants to the banks and especially the regional branches of the Central Bank, much as they had come to the Region Party Headquarters before (obkom), only now they wanted money where before they wanted material supplies. Banks were forced to cover cheap state credits on behalf of those of their clients who had pressed their case successfully. Those who were not so successful avoided bankruptcy by chalking up debts with their suppliers, who passed
them down the line to their suppliers. Economic reforms -- price liberalization and privatization -- may have brought about the monetization of the economy but in so doing had rationalized rather than abolished soft budget constraints. If the phase of disintegration stimulated merchant capital, the phase of liberalization spurred on finance capital. In both cases involution proceeded apace -- the dynamism of exchange came at the expense of production.

3. Stabilization. Ironically it was only when the devotees of neoliberalism were voted out of office and the apparatchiki returned to power that harsh fiscal restraint could be introduced. Beginning in January 1994 Chernomyrdin's government managed a rapprochement with the Central Bank and the Legislature to gradually contain and then reduce credit emissions, inflation, and budget deficits. Enterprises were subject to harder budget constraints as banks would no longer bail them out because cheap central credits were no longer available and suppliers could not live with escalating debts.

Enterprises found their bank accounts frozen so that any money that entered their account would be appropriated to pay either for any unpaid taxes or utility bills. That is, those with "deficit accounts" (kartoteka) lost control over the circulation of non-cash money (beznalichnye) and so many exited from financial circuits and returned to cash transactions or more usually barter relations. In this way they circumvented banks and avoided paying taxes. Unable to borrow from other enterprises, managers borrowed from their own workers, either by not paying them at all or paying them intermittently. They tried to use their indebtedness to their own workers as a bargaining chip to extract loans from banks and government.

If any sphere benefited it was the sphere of private protection. With the state unable to offer even minimal guarantees of contract or loan enforcement, private protection flourished both in the form of security companies and in its more threatening expression -- the mafiya. If the "formal" state could no longer assure the economic transactions, so an "informal" or "shadow" state had to be invented. This criminalized state, constructed from below, became the sine qua non for the continued reproduction of the economy. Involution deepened as merchant and finance capital was joined by mafiya capital, increasing transaction costs at the expense of production.

4. Financial Industrial Concentration. As enterprises exited from the financial sphere, leaving deficits in their bank accounts, so inevitably banks themselves began to fold. Just as in 1992 banks mushroomed into existence so four years later they began to collapse like a pack of cards, leaving only the biggest Moscow banks to direct the finances of the country. Where liberalization prompted monetization and decentralization, stabilization led back to barter and fiscal centralization. The economy becomes polarized between emergent "financial industrial groups" a Russian form of kieretsu and enterprises that teeter on the brink of bankruptcy without ever disappearing. The financial industrial groups began to emerge in 1995 around those industries, usually export based, that could accumulate resources through monopolization and access to the state. Each group had its
own main bank which managed to weather the storm of stabilization. This is something requiring research that goes beyond the region, largely centering on Moscow.

The point of this brief synopsis of change is twofold. First, it underlines the importance of looking at transformation as a dynamic process in which state policies, guided by ideology and subject to compromise, have unintended effects. Once neoliberal policies were initiated they did seem to carry a momentum of their own, even if struggles between executive, legislature and Central Bank, determined crucial timing and tempo of change. We need a theory of the political as well as of its effects. Second, just as the Russian government, however indecisively, has pursued neoliberal strategy the consequences have been to stimulate exchange rather than production, involution rather than accumulation. There is nothing historically novel about this since merchant, finance and mafiya capital have always been the natural accompaniment of market expansion. Only under extra-economic force, viz. the state, can the market be forced to yield accumulation (Braudel, Arrighi, Polanyi, Weber, Evans).

IV: UNEVEN INVOLUTION

We have discussed involution as the unintended economic consequences of central policies, guided by ideology on the one side and by compromises among branches of the state on the other. We must now look at involution from below, from the standpoint of enterprises themselves, their strategies of survival.

1. Rezina—Divided Enterprise.

My first case study in Russia began in January, 1991, during what turned out to be the twilight of perestroika. Katherine Hendley and I managed to gain extraordinary access to the enterprise we call Rezina which produced a large assortment of rubber products for major companies across the Soviet Union. It was situated in prime real estate at the heart of Moscow. It suffered from a severe crisis of shortage, especially in the Winter of 1991. This was a time of organizational experimentation in which managers had legally created “cooperatives” and “small enterprises” to expand products that could be sold at contractual prices, to increase wages of selected workers, and to privately appropriate profits. In effect the Soviet state was allowing enterprises to become “residual claimants,” giving them the incentive to accumulate beyond and sometimes instead of the plan.

Rezina produced all sorts of surprises for one who had spent the previous decade studying Hungarian industry. I had always doubted whether Kornai’s theory of the shortage economy really applied to Hungary, that had long since passed over to a monetized economy and fiscal planning. But when I came to Rezina I immediately recognized the truth of Kornai! There shortages were an ever present, moment by moment matter that directly governed production. Even more curious was the character of the second economy. In Hungary the growth of cooperatives attached to collective farms
and then the growth of cooperatives within enterprises signalled a flexible form of production that could adapt to shortages and hierarchies and enhance output. But in Rezina the cooperatives were less concerned with altering or increasing production than with redirecting and redistributing production. Cooperatives were used to limit what the state could appropriate from the enterprise, a means of enriching managers and supervisors at the expense of state revenues. Speaking very broadly, the second economy in Hungary focused on production whereas the second economy in Russia still focused on (re)distribution.

Perhaps most startling was the civil war that beset relations among managers. There was always tension among managers at Hungary’s largest steel plant, The Lenin Steel Works, but I’d never seen the likes of Rezina’s open hostilities. Indeed, I had always worked with a model of the Soviet enterprise in which common interests whether between workers and managers or among managers themselves prevailed over differences simply because it was necessary to present a united front to the state in order to maximize resources and minimize plan targets. Perhaps the model had always been more myth than reality but there were historically specific reasons for civil war within the factory in 1991. It is only necessary to recall that this was late perestroika, a period of the disintegration of the party state.

The party apparatus within the enterprise was already defunct and warring factions had filled the vacuum. On the one side was the incumbent managerial team, led by the General Director and his Chief Engineer, and on the other side was the STK or labor council, led by young technicians. The struggle reflected the broader ongoing and deepening political struggle between the Soviet Union and Russia. The General Director defended his continued alliance with the Soviet ministries while the STK wanted to break with the ministry and take advantage of Russian laws that permitted the creation of joint stock companies owned by factory employees. The old guard regarded this as a hairbrained scheme that could only bring disaster on the enterprise, while the STK argued that disaster had already befallen Rezina and this was their only hope. We were witnessing the local manifestation of an epochal struggle between the past and the future, between Gorbachev and Yeltsin, between a planned economy and a market regime.

2. Timber Industry--Exit.

Once the Soviet Union had dissolved and reforms had been set in motion then enterprises could adopt more coherent strategies, reflecting the structure of their economic sector and their ties to the state. Whereas in the case of Rezina the alternative strategies of voice (campaigning within the command economy) and exit (leaving the command economy for the uncertain winds of the market)

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5 Much of what we know about the Soviet second economy sounds indeed strange to the Hungarian. Thus Soviet enterprises would be divided into two parts -- official and unofficial. The unofficial part would produce unrecorded production that would be used to bribe suppliers of materials for official as well as unofficial production.
divided the enterprise. Subsequently enterprises united around one or other or some mixture of the two. Timber and coal industries of Komi adopted polar opposite strategies.

We begin with the timber industry which is structured as a vertical chain, connecting lumber camps to industrial farms where the wood is cut and sorted and from where it is dispatched to wood processing factories, and Komi’s huge paper mill. At the apex of the chain was the furniture factory where I worked in 1991. Under the Soviet regime the Komi Wood Conglomerate organized the entire industry, coordinating operations and distributing materials, supplies, and labor to the enterprises that composed it. In effect, the enterprises at the bottom of the chain subsidized capital investments and high wages at the top of the chain. The furniture factory, in particular, was a beneficiary of this redistributive order.

With price liberalization, the lumber camps could declare their autonomy and exit from the exploitative chain, selling their wood to the highest bidder. From the standpoint of a shortage economy exit from the vertical chain looked a very attractive prospect. Indeed, any one lumber camp stood to gain so long as all the other enterprises remained within the old framework, but when they all exited the chain collapsed. Competition for buyers intensified so that timber could only be sold at a loss. As demand fell and freight charges climbed an economy of shortage became an economy of surplus. Output fell dramatically in the entire timber industry to a third of its former value. The conglomerate, that had been headquartered in the tallest and smartest building in Syktyvkar, descended into oblivion. Part became a commercial outfit and part was relegated to a subordinate place in the Ministry of Communications. The Komi government showed little interest in promoting the Republic’s largest employer and historically key sector. Belatedly, in 1995, the government tried to reassemble the chain by using its shares to combine the enterprises into six regionally based companies. But this was too little too late.

The enterprises that have managed to survive are the ones that continue to export at a profit, despite increasing costs of production and transportation costs. When the international price of cellulose rose in 1995, the large paper mill suddenly found itself awash with profits and began buying up lumber camps, but when the price fell these isolated villages simply dropped back into the wilderness. The wood processing continues to export while the furniture factory, which had tried to secure contracts with IKEA, finally receded into oblivion. It could not compete with furniture imported from the Baltics, from Eastern Europe and even the West that was now available locally.


The story of the coal industry is very different. First, its internal structure was made up of 13 independent mines organized spatially and economically at the end of spokes, all emanating from the local coal conglomerate -- Vorkuta Coal. The conglomerate did redistribute resources, but generally from the richer mines to the poorer ones. To be sure the richer mines resented subsidizing the poorer ones, and the mines as a whole resented the subsidies Vorkuta Coal supplied to maintain the
social infrastructure -- the sanitation works, the dairy farm, the schools and kindergartens. However, only the richest mine -- Vorgashor -- succeeded in leaving the conglomerate to hook up directly with the Russian government.

It was not only that centrifugal forces were weak but centripetal forces were strong in that the mines had a common interest in forging a united front vis-a-vis the Russian government in their demand for subsidies and low interest loans. The mines had no interest in privatizing and used their public ownership as the basis for claims on government largesse. Indeed, the conglomerate manipulated miners' strikes to enhance its bargaining power with the government. Both old and new trade unions colluded with the conglomerate, even as they tried to represent the interests of their members against management. Cross class cooperation became stronger the more the economic situation deteriorated and as Vorkuta Coal's influence in Moscow waned.

Under guidelines set out by the World Bank and more or less endorsed by the RosUgol', the all Russian Consortium responsible for the coal industry, Vorkuta began closing its mines in a relatively rational manner, the poorest going first. Industrial contraction was much slower in coal where output has only fallen by about 25% since 1991 than in timber where raw production has fallen by two thirds in the same period.


Our three case studies reveal three levels of politics: enterprise, sector and state politics. At Rezina internal political struggles proved crucial in shaping economic strategy; within the timber industry interests were forged by location within a hierarchical chain of interdependent enterprises; in the coal industry, the strategic locus of politics was the relationship of the industry to the state. Whereas strategies of voice and exit divided the warring factions at Rezina, exit was the dominant strategy within the timber industry, where subordinate enterprises saw their interests in leaving the exploitative hierarchy. Within the coal industry, mines were autonomous from one another but dependent on the conglomerate to garner resources from the state. Here they deployed the strategy of voice rather than exit. With working class solidarity to back them up, the conglomerate operated the levers of the old bargaining system in order to extract the most from the state.

Strategies of voice and exit, therefore, are the product of internal economic relations within the sector and the sector's relation as a whole to the state. Coal and timber represent extremes in this regard while most enterprises will deploy a mixed strategy in which they try to hang on to government subsidies, loans and bail outs while using these as a platform to launch into entrepreneurial activity. Thus the local garment factory in Syktyvkar was hanging on to its last threads with a government order for military clothing while it explored a joint venture with a German company for making and exporting bras. It could barely keep its head above water, heavily in debt to the state, half a year in wage arrears. Like so many other consumer industries it was caught between declining purchasing power and cheap imports.
As the economy continues to involute, as loans and subsidies become sparser, "voices" become ever fainter. Exit is no longer a strategy but a de facto reality. Enterprises simply have to fend for themselves, although they may do so by forming new alliances and networks. Certainly, the coal mines have stuck together while the timber enterprises are creeping toward new forms of association, sponsored from above or driven by shady ventures from below. The abdication or ineffectiveness of the state creates the space for private protection to foster economic transactions, rebuild economic chains. The spontaneous organization of new economic forms outside both state and market suggests that Russia's expolary economy becomes increasingly dependent upon informality.

5. Banking

We have devoted attention to the degenerative side of involution but not to its driving force, the sphere of exchange, especially trade and finance. During the first six months of 1993, Krotov and I tried to study the Komi banking system. Complaints from businesses, government and international agencies notwithstanding, we were amazed at the rapidity with which banks were transforming themselves from mere registers of transactions to regulators of transactions. The dynamic expansion of the banking sector was a sight to behold -- it was clearly one of the most lucrative outlets for resources that were flowing out of manufacturing.

The new banking system owed its origins to the struggle between Russia and the Soviet Union. The Russian parliament decreed that banks constitute themselves as independent entities. Wrapped in free market justification, this was a political strategy to strip the Soviet government of its most important levers of economic power. Two types of banks emerged: on the one side banks constituted on the foundations of the old state banks (spetz banks) and on the other side new banks, usually founded by conglomerates, often known as pocket banks. Resources would be channelled from enterprises to the banks among which it would circulate at high interest rates. Subsequently, with stabilization, banks could channel money out of the country. Banks did not invest their own resources back into industry. What loans they offered were usually to tide enterprise over a difficult period, to make up a shortfall in working capital. They were never extended for more than three months at a time.

When we did our study in 1993 commercial banks had to guarantee the loans that their clients received from the Central Bank or from various Ministries. Accordingly, the banking system polarized around large banks, essentially pocket banks of the state, that happily accepted loans on behalf of their clients. The biggest such bank in Komi, founded on the basis of the rich Promstrooi Bank, would be rocked by scandals before declaring itself bankrupt in 1995. At the other pole were banks who wanted as little to do with state loans as possible, especially when they were handed out to clients of dubious fiscal accountability. In between were the majority of banks which were forced to accept state loans, dispensed to their more viable clients. When stabilization hit, many enterprises defaulted on their loans, dragging down their banks with them. The honey-moon period of banking
came to a rapid close. The banks to survive were the large Moscow banks and their affiliates; banks connected to powerful industrial concerns such as Komi's oil and gas companies; or those banks that had avoided industrial clients altogether, making their money from speculation.

The rise of financial industrial groups -- sectorally based consortia of banks and large industrial conglomerates with close ties to the state and international capital -- seems to be the latest phase of Russian economic involution. Resources circulate within and between these Russian style kieretsu, while the rest of the country is forced back on more primitive informal modes of production.

V: DOMESTIC INVOLUTION

If the dynamism of the Russian economy lies in the sphere of exchange and that dynamism has come at the expense of production, both in industry and in agriculture; if real wages continue to fall (if they are paid at all) as the prices of basic commodities continue to climb, how do people survive? The answer lies in the third aspect of involution -- the retreat to a subsistence, domestic economy. Chayanov's theory of the peasant family economy may now be of widespread relevance to household production.

Over the last three years we have explored these questions with families of employees in the furniture and garment factories of Syktyvkar as well as families of garment workers in Vorkuta. We had thought that survival strategies might vary according to the enterprise of employment but we could find no such association. Indeed, the enterprise becomes more and more irrelevant as industrial involution proceeds so that other factors, related to family composition become more important. The proportion of able bodied members of the household, the distribution and content of skills among members, the material resources inherited from the old regime (apartment, dacha, etc.), extended kin relations combined to shape family strategies.

The transition has not only forced families back on their own resources but it has created the conditions for more rational strategizing, through the monetization of the economy and the liberation of time. In the shortage economy much time was devoted to processes of exchange, mobilizing extended friendship and kin networks, bribery and extortion. People would spend time searching for goods and services, waiting in queues, hoarding reserves, etc. Less time was available for productive activities. The monetization of the economy has liberated a great deal of time for productive activities so that people spend more time working (or not working but drinking), whether at wage labor or subsistence work. In one of our papers, dealing with present or former employees of the furniture factory we identified five typical employment strategies: new employment with dependence on parents, entering family business, living on unemployment, remaining at the job in the hope of early pension, retirement with multiple jobs. At least in Syktyvkar there has been an intensification of the domestic economy.
In other words, if involution at the level of the formal economy involves a transfer of resources from production to exchange, if exchange is the dynamic sector while production atrophies, THEN in the domestic economy we observe the opposite, compensatory movement with production taking the leading role and exchange becoming derivative and secondary.

Here Vorkuta turns out to be the exception that proves the rule. As coal mines close, and construction ceases, workers either retain their employment with the mines or leave. There has been an exodus from Vorkuta, although people often retain their Vorkuta residence (propiska). There are few signs of the intensification of the domestic economy. Instead, energy is devoted to renewing kinship ties across the entire former Soviet Union in order to prepare their own or their children’s exodus. Within the domestic sphere exchange rather than production is the order of the day because miners have largely retained their jobs and still earn more than any other class of workers. By comparison in Syktyvkar, the capital of Komi, involution has proceeded more quickly but at the same time created a variety of new jobs for displaced workers.

The intensification of the domestic economy is an adaptive response to the decline of industrial and agrarian production as well as to the collapse of the distributive system. Inasmuch as it is adaptive it acts as an obstacle to the recovery of industrial production. It does not provide the basis of future accumulation. One is reminded more here of the African model of the informal economy rather than the Chinese "household responsibility" system which stimulated accumulation. As compared to Russia, can it be said that household strategies, new forms of collectives and more incentives for state enterprises develop a synergistic relations under the direction of the party state?

VI: EXCURSUS: RUSSIA vs. CHINA

If involution is the diachronic process of transformation, however uneven, what is the synchronic configuration of the new Russian economy? Can one characterize the features of the economy as a whole -- not its dynamics nor its internal diversity but its sui generis character as a totality? As I suggested earlier, grappling with this question requires comparisons among countries in transition from state socialism. Russia’s scale makes comparisons with, for example, Hungary or Poland inappropriate. The more relevant and indeed interesting comparison for our purposes is with China, whose economy has grown at staggering rates, matched only by Russia’s equally staggering regression. Why in the one case involution, while in the other case accumulation?

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Following the work of Jean Oi, Andrew Walder, Susan Shirk and others, I argue China’s success is a product of the party state, just as Russia’s decline is a product of its dissolution. The managers of the Chinese party state have been able to do what Russian reformers thought a state can never do -- pass hard budget constraints down from center to regions, from regions to localities and from localities to enterprises. Lower levels are residual claimants vis-a-vis higher levels so that any surplus beyond the fixed amount appropriated upwards is retained at the lower level. Regions, localities, townships and villages, as well as enterprises have a real incentive to accumulate and invest in production. They have to yield so much, neither more nor less. By contrast the Russian state appropriates as much as it can and gives back only what it has to. Higher levels are residual claimants vis-a-vis lower levels. At each level -- enterprise, municipal, regional levels -- organs are encouraged to bargain up for more resources rather than stimulate downward accumulation. In Russia we have an upward oriented hierarchy, in China a downward oriented hierarchy. Subordination to Russia’s state is secured through economic means, entailing soft budget constraints, whereas subordination to the Chinese state is secured through political means, leaving open the possibility of hard budget constraints.7

In this picture both Russia and China have left state socialism but neither have arrived at a recognizable capitalism. In China reformers embraced a state led path to the market economy. The state nurtured market relations and hard budget constraints without relinquishing social ownership. The result was autocentric accumulation. In Russia reformers regarded the state as anathema and sought a market road to a market economy. They tried to leap straight into capitalism through price liberalization, privatization, and stabilization. Unable to regulate the consequences of their reforms, they ended up with a perverse combination of private property and soft budget constraints. The result is involution. In neither case does the exit from state socialism give rise to capitalism.

7It is always a problem to construct static typologies from dynamic processes. In this case it may be claimed that Russia’s budget constraint’s are only temporarily soft. Concretely, we must ask whether the emergent industrial-financial groups with their close relation to the state operate under soft budget constraints.
Table III defines Russian and Chinese “expolarity,” as Shanin would call it, in terms of property relations and budget constraints, but these are the result of distinctive relations between state and economy just as they give rise to different economic processes — involution and accumulation. In short, I’m suggesting that China and Russia may present us with alternative economic systems to the original polar types of capitalism and state socialism — two more polar systems with their own dynamics. Expolarity becomes a new polarity! That third road becomes a third and fourth road, which will become “real” when we have found a label for them! However, we can only begin to explore such expolar types by looking at internal variation. Can we discern within and despite such internal variation overall systemic features?

**TABLE III: FOUR ECONOMIC SYSTEMS**

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<tr>
<th>Budget Constraints</th>
<th>Hard</th>
<th>Soft</th>
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<tbody>
<tr>
<td>Property Relations</td>
<td>Private</td>
<td>&quot;CAPITALISM&quot; RUSSIA</td>
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<tr>
<td></td>
<td>Public</td>
<td>CHINA &quot;SOCIALISM&quot;</td>
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**VII: INVOLUTION AND THE GLOBAL ECONOMY**

Braudel creates a tripartite hierarchy for studying world economies: it begins with material life on the ground, ascends to the sphere of the market and commerce and reaches its apex in the world of capitalism pertaining to the relations between capital and the state. The rapidity with which material life has been integrated into the global is one of the remarkable features of the Russian transition. Fluctuating international prices of cellulose, paper, processed wood or raw logs have immediate and often devastating impact on rural as well as urban communities. At the same time the regulations of the IMF and World Bank have dictated the speed at which Vorkuta Coal closes down its mines, just as they gave impetus to a revitalized banking industry in the first years of reform, and just as they now dictate policies of fiscal stringency to the Central Bank, forcing myriads of local banks into bankruptcy, with calamitous consequences for successful as well as moribund enterprises. International finance encourages the pumping of resources from production into banking and through financial and criminal circuits money has fled the country. The simultaneous disintegration of the old distributive system and integration into a global financial order brought involution to everyone’s doorstep.

Once more the contrast with China is remarkable. As we have seen in Russia negotiation moves upwards from locality to region, from region to state whereas in China the pressure is downwards so that each level stimulates the level below to expand its production. The same seems to apply when we move to the international context. Where Russia is concerned to negotiate the best possible terms with international agencies such as the IMF, World Bank or the G7 countries, China, on the other hand, has had a more selective and measured integration into the world economy, an integration negotiated and regulated by the state, that has capitalized on free trade zones but also created financial global cities such as Shanghai. Accumulation and involution are patterns of economic transformation that stretch all the way from the domestic to the global economy.