Edited by Gareth Dale

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Eastern Europe in the 2000s

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Introduction: The Transition in Central and Eastern Europe

Gareth Dale

It is over two decades since the economies of Soviet Central and Eastern Europe (CEE) experienced their 'transition' to the market.[1] The ongoing restructuring of the region has been the subject of successive waves of analysis as new events occur: the accession of erstwhile Warsaw Pact members to the European Union (EU) and NATO, the 'colour revolutions' in Georgia, Ukraine and Kyrgyzstan, and the oil and gas price boom which fuelled the Russian economy's return to growth. The global recession of 2008–9 has ushered in a new phase, and it is this, the impact of the world economic crisis on CEE, that provides the central focus of this volume.

The chapters in this volume cover a representative range of CEE countries, from the former Soviet Union to the Visegrád Four (the Czech Republic, Hungary, Poland and Slovakia), including states both big (Russia) and small (Latvia), and which are within and outwith the EU and NATO. The tenor of contributions is critical. While acknowledging that the freedoms achieved in much of CEE – of speech, assembly, organisation and the vote – represent resounding victories for the mass movements of 1989, contributors take issue with the mainstream account of the transition, according to which archaic economies and closed societies gave way, aided by aid and expertise from the West, to efficient markets and democratic polities. Instead, they paint a picture of persistently low productivity and repeated crises, of self-serving Western involvement, of retrenched forms of servitude and 'managed democracy' and of an undergrowth of rent-seeking and corruption that flourishes within the market environment.

In this introductory chapter we set the scene with a summary analysis of the demise of the Soviet economic model and the broad social and political trends that bore upon the events of 1989, before surveying the arguments made in the substantive chapters concerning the 'transition' of the 1990s.

THE DEMISE OF THE SOVIET MODEL

Although state ownership of the means of production was nominally socialist, G. M. Tamás and Stuart Shields (Chapters 2 and 8) argue, the Soviet-type economies were constructed from a recognisably capitalist set of constituent parts: the separation of the means of production from the producers, wage labour and the coercion to work, money and the drive to accumulate capital – an imperative that was decreed by both geopolitical and geo-economic competition. The Soviet Union found itself positioned outside, and in competition with, what some authors call the 'liberal-capitalist heartland'.[2] For some of the nineteenth and much of the twentieth centuries, the 'catch-up' attempts by challengers to the liberal heartland powers, relying as they did on the direct mobilisation of people and allocation of resources, constructed forms of state that were relatively differentiated from society, proactive in economic development and heavily reliant on centralised administration. It was a 'variety of capitalism' that flourished especially at times when intense geopolitical competition coincided with economic de-globalisation, and where backward economies led by modernising elites engaged in catch-up industrialisation. De-globalisation – the breakdown of international trade and capital flows – encourages the 'nationalisation' of domestic economies. Militarism draws states into an economic coordination role, notably of the arms industry and other strategic sectors. And where a low propensity to save meets a high demand for investment, coercion offers a solution – where the land is barren and productivity low, as Nigel Harris put it, 'only a very powerful army and police force can snatch the surplus for national investment between the peasant's hand and mouth'.[3]

Geopolitical competition on the basis of economic backwardness locked the Soviet Union and its allies into a peculiar economic structure, characterised by relative autarky, an emphasis on heavy industry, a high savings ratio, allocation by administrative decision and an extensive use of political incentives and ideological appeals geared to increasing output. These features, Oskar Lange and others have noted, are typical of war economies.[4] In the words of the vice president of the GDR's State Planning Commission, they represented an attempt 'to transpose the economic rationality of capitalist enterprises onto the national economy as a whole'.[5]

Although 'backward' compared to the liberal heartland, the Soviet-type regimes were in many respects brazenly modern. They mobilised their populations in the service of rapid economic growth and a future-oriented ideology;[6] they applied science and technology systematically to the production process and Taylorist techniques to the labour process; and they imposed performance targets on employees within all social institutions. At least during the early decades, moreover, social mobility was rapid. As Tamás describes:

> The change from village to town, from back-breaking physical work in the fields to technological work in the factory, from hunger, filth and misery to modest cafeteria meals, hot water and indoor plumbing was breathtaking – and the cultural change dramatic. Also the route from illiteracy and the inability to read a clock face to Brecht and Bartók was astonishingly short.[7]

The Soviet model proved well adapted as a framework for capital accumulation within backward economies during a world-economic epoch of relative autarky. In the 1950s and 1960s large parts of CEE industrialised and some oversaw successful shifts of investment into high-tech sectors, such as aerospace and electronics. However, structures that had evolved in the 1930s and 1940s became obstacles to competitiveness as the ability to gain external markets and organise production on a transnational basis became a divider between winners and losers in the world economy. The Soviet system was structurally resistant to the trend. Trade was mediated through export and import licences and administered by cumbersome foreign trade organisations. Trade aversion was compounded by nonconvertible currencies and by treatment by the major Western states as 'least favoured nations'. Limited market size, small-scale production, a low degree of specialisation and high depth of production, and low productivity all tended to reinforce one another.

The phase of economic globalisation that set in during the 1960s and 1970s strengthened tendencies towards polarisation in which market leaders and firms with monopolies from product or process innovations – typically the most advanced enterprises and sectors based in the OECD – stood to reap surplus profits on an enhanced scale while others suffered declining terms of trade. Contrary to David Ricardo, international trade liberalisation tends to benefit regions with concentrations of absolute ('competitive') advantage.[8] Trade between such regions and those with little or no areas of absolute advantage, instead of bringing mutual benefit, steers the latter towards persistent trade deficits, foreign exchange strangulation and mounting debt.

Whereas in the early and mid-1970s the low cost of borrowing encouraged import-led growth, that strategy proved unsustainable when, in the early 1980s, interest rates soared and demand fell away, provoking acute crisis – in East Germany and Poland, just as in Peru or Mexico. While exports from the Soviet Bloc to OECD countries had surged during the 1970s, they slumped in the 1980s.[9] In the 1980s, then, CEE policy-makers were in a double-bind. They were torn between autarky (both in its national and Comecon-wide forms), which spelled stagnation, on the one hand, and on the other closer integration into the world market, which bore the prospect of increasing debt and dependency. If integration was a rational gamble, the odds of succeeding were long, given the relative weakness of CEE economies. Integration exacerbated their vulnerability to fluctuations in global demand, interest rates and to the dictates of 'hard' world standards and prices which exposed their lagging productivity. The greater the level of integration, the less their control over the pace and direction of economic development and the greater their dependence on Western technology and credits. Each Comecon economy was gradually 'sucked into a chaotic, disorganised, world system', as Chris Harman put it in 1977, a process that involved an intermeshing of economic crises East and West.[10]

Comecon integration could offer little in comparison with Western-led globalisation. Its basis was the sale of the Soviet Union's raw materials at below world market prices to its allies in the West in exchange for manufactured goods – transactions that were conducted in soft currencies and administered by bilateral treaties. But foreign exchange scarcity drove Comecon's members to prioritise exports to the West to an ever greater degree. Competition for Western markets, loans and investment infiltrated the supposedly cooperative relations between its members. Each jostled for position over trade and good relations with the 'non-socialist abroad', as manifested, for example, in bilateral trade deals struck with the European Community by Hungary, Poland and the USSR. In the 1980s, Comecon transactions converged towards world prices and were increasingly denominated in US dollars. Moscow hiked the price of oil, a move that somewhat ameliorated its economic plight but at the cost of undermining its hegemony – for pipelines carrying cheap oil had complemented military might as the skeleton of Comecon.

Perceiving their own and the hegemon's decline, CEE ruling classes lost faith in the Soviet model and looked to alternative methods for securing the conditions for capital accumulation. But this led to divisions. The *fact* of continuing relative decline meant that any serious opening to global competition would be destructive, with major bankruptcies and mass unemployment. But the *prospect* of further decline strengthened calls for radical reform. By the mid-1980s Poland had turned in this direction, as had Hungary, whose leaders began to tout its enterprises for sale in Western business centres ('even if they became 100 per cent foreign owned').[11] Gradually and inexorably, the Soviet model hollowed out from within; ideas of a 'socialist market economy' and political pluralism gained ground. As a result, as Harman pointed out at the time, it did not require a great deal of pressure for the entire edifice to collapse: 'the old people at the top raved about betrayal and even fantasised about telling their police to open fire. But key structures below them were already run by people who, at least privately, accepted the new multinational capitalist common sense.'[12]

TRIBUTARIES OF 1989

It is conventionally supposed that the starting pistol for CEE's transition was fired in 1989. But a zero hour it was not. If the events of that year were unpredictable, they were influenced by broader economic and political trends. I shall consider five of these, most of which date to the mid-1970s.

The first was the demise of the various types of 'national economic' model, including Soviet-style state capitalism, national planning in the West and import-substitution industrialisation in the South. This was hastened by the re-emergence of a world financial market. Offshore currency markets were permitted by Washington (and built up by the dollar deposits of, *inter alia*, Soviet and Chinese institutions). The mid-1970s witnessed a loosening of capital controls in the United States and then Britain, followed by the deregulation of stock exchanges. These changes facilitated a spectacular growth and centralisation of international banking, insurance and securities markets. The role of finance capital in organising the restructuring of capital grew exponentially, and the deregulation of national capital markets eroded the walls of that captive pool of savings on which Keynesian policies had been based.

The second was a slowdown in global economic growth and the return of crises. Whereas in the 1960s and early 1970s per capita annual global growth averaged around 3 per cent, the corresponding figure for the three decades since 1980 has been only around half as high and financial crises have become more frequent. As outlined by Jeff Sommers, Jānis Bērziņš and Adam Fabry (Chapters 6 and 10), these first two trends were linked: financialisation and economic globalisation should be understood in part as responses to the crisis of the mid-1970s.

The third, responding to the second and drawing confidence from the first, was the ascendancy of neoliberal economic policy and ideology. Narrowly defined, neoliberalism is taken to refer to an economic doctrine: in essence, a new edition of the neoclassical orthodoxy of the early twentieth century, with its commitment to market 'self-regulation', albeit with several updates (the monetarist analysis of inflation, supply-side theory and the deployment of 'enterprise models' which allow arms of the state to be run like businesses).[13] In a broader sense, it refers to a regime of policies and practices that claim fealty to that doctrine, including a structural orientation to export-oriented, financialised capital, deep antipathies to social collectivities, open-ended commitments to market-like governance systems, privatisation and corporate expansion.[14] There is, as David Harvey has argued, necessarily a divergence between the regime of practice and the doctrine itself, since the doctrine, if applied consistently, implies a world that could never exist. Rather than applying neoliberal doctrine, Harvey contends, elites around the world have deployed neoliberal concepts to furthering a class project. 'Neoliberalism' in this sense describes a range of highly interested policies that have brought enormous wealth to the owners of the means of production, while inflicting insecurity, the loss of public services and a general deterioration in the quality of life on workers and the poor.[15] Having adopted an extreme form of statism during global capitalism's étatist phase, much of CEE swung to the opposite extreme during the subsequent neoliberal phase – most egregiously in the case of Latvia, discussed by Sommers and Bērziņš (Chapter 6).

The fourth trend was the geographical spread of liberal-democratic government. From the mid-1970s breakthroughs in Southern Europe onwards, a substantial number of states adopted parliamentary government, albeit with key areas of public life handed to private interests, quangos or international organisations, and sequestered from democratic will-formation. Meanwhile, socio-economic polarisation encouraged a 'revolt of the elites' (Lasch), alongside alienation and insecurity among society's losers. As the voice of the latter weakened, political parties succumbed increasingly to plutocratic interests, and mechanisms of interest representation corroded.

In CEE in the 1980s the long-established normative arguments for political liberalisation came to be supplemented by pragmatic ones linked to economic decline and the 'pull of the West'. In their discussion of democratisation in economically stricken countries in the Second and Third Worlds, John Walton and David Seddon summarise three of these pragmatic claims.[16] One is that democracy provides a relatively stable political environment for business. Another, that the neoliberal ideology propagated by the international financial organisations and lender governments favours weak, non-interventionist states. Liberal democratic governments fit this bill 'because they dilute state power to a level acceptable to diverse coalitions, just as they give greater power to the free play of markets'. Finally, debt and austerity contribute to 'partial state breakdown', as the sacrifices required by structural adjustment exceed the normal limits of patronage and coercion practised by authoritarian governments, attenuating the ability of regimes to ingratiate supporters and bureaucratic retainers through subsidies and favours, even as austerity policies enhance the need for acquiescence, or even cooperation, from the masses. Nowhere was this more apparent than in Poland in 1989. As General Jaruzelski remarked, after initial steps towards democracy had been made, 'we tried economic reforms time and again. But we always met with public resistance and explosions. It is very different now. Now, with a government that enjoys public confidence, it has become possible to demand sacrifices.'[17]

The fifth and final trend to be discussed here was the global downturn that affected labour movements and exerted a powerful impact more generally on social movements and the political Left. For labour worldwide, the last major upturn was in the late 1960s and early 1970s, but as the struggles of those years ebbed, control over industrial action shifted from the rank and file to full-time officials. As their industrial muscle weakened, workers placed greater reliance on the traditional parties of the Left, but these, in the context of the mid-1970s crisis, were pledged to rescuing the economic situation for the 'nation'. The project involved making workers pay for the recession, with the ensuing hardship justified by the union machines in the name of 'realism'. The rescue packages were broadly similar in different countries: in Britain the 'Social Contract'; in Italy the 'Historic Compromise', in Spain the 'Moncloa Pact'. Nowhere were rank-and-file movements sufficiently organised or influential to pose an alternative. The collapse of the '1960s Left' was all too evident; the stations of its descent, in CEE as well as the West, are charted by Tamás in Chapter 2.

The burgeoning labour movements of the 1960s and early 1970s had strengthened concurrently with anti-imperialist campaigns and movements of the oppressed. Conversely, the defeats and demoralisation of the later 1970s and 1980s exerted a constraining effect on workers' consciousness, narrowing horizons and lowering aspirations, and this influenced other social movements too. There now appeared to be two opposed trends: workers' movements, retreating, demoralised and tied to social-democratic bodies, and 'new social movements', gaining fresh life. Reflecting this conjuncture, social scientists concluded from the defeats suffered by labour either that mass movements were a thing of the past or that radicalism would henceforth have to take 'self-limiting' forms – ideas that chimed with the sensibilities of many a dissident intellectual in the Soviet realm. This represented an 'acceptance of the present', an embrace of defeat and a naive idealisation of Western institutions which, Tamás and Shields observe (Chapters 2 and 8), was to shape 1989 and its aftermath. In the context of a global social movements' downturn, many CEE oppositionists turned away from conceptions of grassroots social transformation and towards a liberal approach – initially, around the slogans 'market socialism' and 'civil society'; thereafter, 'democracy, markets and Europe'. In parts of CEE, reformers even pushed a market-fundamentalist agenda, encouraged by Western foundations and governments.[18] In consequence, the neoliberal juggernaut which was heading towards the region encountered surprisingly little organised resistance.

NATO ABHORS A VACUUM

In terms of international relations the 'transition' centred on the roll-back of Russia and the advance of NATO. In the process, the answer to an abiding question of Cold War historiography – whether containing Soviet communism was the reason for Washington to station forces in Europe or merely a pretext to justify their presence and NATO's existence – revealed itself. Initially, Western leaders, including US Secretary of State James Baker, promised that there would be no eastward expansion of NATO, a guarantee that cleared the way for Moscow's compromise over Germany.[19] With a naivety that he was later to regret, Mikhail Gorbachev trusted these pledges and did not demand written assurances. Baker, Margaret Thatcher and – emerging from the shadows to whisper in George Bush's ear – Richard Nixon all fretted that negotiations with Gorbachev might lead to the denuclearisation of Germany or even the end of the US military presence in Europe. Baker in particular feared that the Soviet Union might exploit the geopolitical breach to build new security institutions around the Commission on Security and Co-operation in Europe, demoting the USA's status in Europe from invited overlord to hired gun. But that was not to be. The USA, following its strategic goals of maintaining its presence in Europe and preventing EU–Russian rapprochement,[20] tore up the promises to Gorbachev and pressed ahead with NATO expansion. Since then, US policy towards Russia has taken the form of 'a relentless, winner-take-all exploitation' of its post-1991 weakness, as Stephen Cohen puts it, which has culminated in its encirclement by a necklace of US and NATO bases in former Soviet republics, from the Baltics to Georgia, Azerbaijan and Central Asia.[21]

In the long run, as Gonzalo Pozo and Owen Worth explain (Chapters 4 and 5), NATO expansion, together with other forms of geopolitical and geo-economic humiliation, pushed Russia into opposition to the West, to the extent that, under Vladimir Putin, Atlanticism was all but banished from its political culture.[22] But in the short run, during Boris Yeltsin's presidency, Atlanticism prevailed, as Pozo documents (Chapter 4). Russia took on enormous foreign loans in exchange for 'rash political compromises', and US citizens (Yeltsin's 'Chicago boys') and institutions were roped in to push forward a programme of privatisation in which productive resources were disposed of at fire-sale prices, in a fraud-ridden process that Russians came to refer to as the 'great grab'.[23]

Elsewhere in CEE the geopolitical algebra was different but the push to prise open the region's economies to unrestricted access for Western capital was similar. Economic coercion was involved, as with the IMF's insistence on austerity and rapid privatisation as conditions for loans, but there was also extensive investment in the ideological underpinnings of the project, by USAID in particular.[24] In Latvia, Sommers and Bērziņš (Chapter 6) recount, economic policy was captured by a group of Latvian-American neoliberals known as the 'Georgetown Gang', who devoted their efforts to establishing a neoliberal comprador regime. Experts from the World Bank and IMF descended on the capital cities of the region armed with their now infamous one-size-fits-all plan, the thinly disguised aim of which was to advance the cause of corporate globalisation. Across CEE, the plan was applied. 'Stabilisation programmes' centred on liberalisation of prices and of foreign trade, and restrictive fiscal and incomes policies, to reduce state spending and lower wages. 'Structural measures' involved privatisation, banking reform and the slashing of industrial policy and welfare. Stabilisation and structural reform would, it was assumed, combine to usher in a swift and prosperous transition. Given the new market environment, trade liberalisation would permit capital inflows, which would in turn spark an export-driven growth surge, with low wages and proximity to EU markets providing a competitive advantage. As the state sector withered, new, small enterprises would take up the slack, absorbing much of the labour shed.

For those of a neoliberal persuasion, the early 1990s was a heady time. 'Like Western Europe after World War II', gushed Daniel Gros and Alfred Steinherr,

> Eastern European countries now have the historic opportunity to create *ex nova* optimal economic and social institutions and thereby free their latent energies.

Embrace of the world market would enable them to out-compete the stagnant corporatist economies to the West, and to

> leapfrog those Western countries whose oligarchic and inward-looking politico-institutional framework [had] not had the chance to be dynamited away.[25]

In reality, the dynamite was applied to the economic substance of CEE. Liberalisation of prices, trade and capital flows led swiftly to the collapse of Comecon's trading and payments systems. By the end of 1990 all intra-Comecon trade was conducted in hard currencies and at world market prices, resulting in the breakdown of the trade links between the states that were emerging from Moscow's retreating imperium. But exports elsewhere could not compensate for collapsing intra-Comecon trade. With outdated technologies, the poor quality of many commodities and lack of distribution and marketing connections, few CEE manufacturers succeeded in breaking into external markets, and protectionism of the major powers (EU, North America) made matters worse. In addition, CEE suffered a profound fiscal crisis, exacerbated by the deflationary effects of structural adjustment.

In this light, the comparison with Western Europe was naive, bordering on absurd. That region occupied a mighty position within the world system in 1945 and put its power to use; its *wirtschaftswunder* was ignited by postwar reconstruction; it benefited from a worldwide economic boom (and Marshall Aid); and it had nurtured its industries with infrastructure support and tariff protection. CEE, by contrast, had occupied a semi-peripheral position for centuries and was now attempting to play catch-up during a period of relatively weak global demand and fierce competition from low-wage producers in 'emerging economies', and in the absence of significant aid or debt cancellation. Whereas 90 per cent of Marshall Aid was in grant form, this applied to only 10 per cent of aid to post-communist Europe in the early 1990s.[26] Only Poland received major Western support, in the form of the cancellation of half of its debt to both public and private creditors and an EU assistance programme, with favourable treatment for agricultural imports. Hungary, by contrast, boasted the world's highest per capita debt and was obliged to earmark for debt servicing much of the revenue it raised by privatising state-owned corporations.[27]

The golden promise of the transition period was foreign direct investment (FDI), but inflows depended on buoyant domestic growth and that was undermined by the very measures designed to entice it, as outlined above. For the entire region, from Plzeň to Vladivostock, FDI in the five years from 1989 amounted to a mere two-fifths of the flow to China in 1993 alone. Meanwhile, rapid liberalisation enabled capital to evacuate the region, as Mike Haynes and Owen Worth point out (Chapters 3 and 5). Remarkably, more money left Russia in 1992–8 than the aggregate capital flight from Brazil, Venezuela, Mexico and Peru in 1979–87, the years of the Latin American financial collapse.[28]

Taking the period 1990–2010 as a whole, much of CEE experienced a regional Great Depression; in GDP terms it was a lost two decades. Far from 'leapfrogging' Western economies, much of the region has lagged further behind. In this, Poland represents the exception, but even an economy such as the Czech Republic which belonged to the next most successful tier was to take 18 years to return to the ratio of GDP *vis-à-vis* the EU average it had registered in 1989.[29] In Hungary, another of the 'success stories' of the region, the structural adjustment of 1988–95 destroyed more economic assets than did the Second World War, along with 1.5 million jobs.[30] Georgia, Ukraine and most of former Yugoslavia experienced catastrophic decline, as documented by Bojcun, Upchurch and Marinković (Chapters 7 and 11).[31] Russia succumbed to an economic meltdown unprecedented in peacetime (Chapter 3). Between 1992 and 1998 its GDP declined by almost half and industrial production by over half – more than that experienced by the USA during the Great Depression. Its grain harvest more than halved in the five years from 1993, dropping beneath even its level of 1913. Money disappeared from much of economic life such that, by early 1998, half of industrial sales were completed through barter.[32]

For the mass of the population in the region the consequences were cataclysmic. Double-digit inflation, Haynes points out (Chapter 3), scythed through families' savings in Russia, as it did in Belarus, Bulgaria, the Baltic States and beyond. Between 1990 and 1992 wages plummeted – by 44 per cent in Poland, 22 per cent in Czechoslovakia.[33] In no country affected by the Great Depression of the early 1930s did real wages decline as steeply as they did in CEE during the 1990s.[34] Even ten years after the transition, only in the Czech Republic had the average wage crept back above its 1989 level, and in many countries (including Lithuania, Russia and Ukraine) it remained below half that level. In Russia the fall was particularly precipitous: in 1992, the average citizen consumed 40 per cent less than she had in the previous year.

The consequence of this onslaught on livelihoods included a depreciation of life itself. Haynes draws attention to Russia's soaring mortality rate, which rose most rapidly in those regions where income differences yawned the widest.[35] The average Russian man today can expect to live until 62, down from 68 in the 1980s. No other industrialised country has ever experienced such a reverse.[36] In the light of immiserisation and social regression on the scale of the Great Depression it is little wonder that, when asked if life for most of their compatriots is now worse than it had been before 1990, many answer in the affirmative: 62 per cent of representative samples in Bulgaria and Hungary; 72 per cent in Ukraine.[37]

THE EU AND THE CONSOLIDATION OF THE NEOLIBERAL PROJECT

As Shields discusses (Chapter 8), the EU is the key conduit through which the neoliberal model is being institutionalised throughout Europe, both West and East.[38] The main thrust of the Phare programme, for example, was to prepare countries for EU membership by insisting on policies of economic deregulation and liberalisation. Dangling the carrot of EU membership, Brussels pushed would-be member states towards a peculiarly radical variant of the neoliberal model. Having to conform to EU rules regarding state aid and competition policy wedded these countries to the liberalisation of trade and investment in a way that made it difficult to accede to demands for protectionism or retreat.

Two projects that aimed to consolidate the neoliberal project in Western Europe were extended to the new member states in the East. The first was the Single Market, the aim of which was to restore Europe's global competitiveness via the liberalisation of previously protected sectors (for example, services, utilities and telecommunication), supplemented by further rounds of privatisation. While the rhetoric was of innovation, competitiveness and economies of scale the reality was the reorganisation of European capital over a wider territory, as manifested in rolling waves of mergers and acquisitions. The second was monetary union, which removed barriers and reduced transaction costs and, additionally, created a stick with which to force Eurozone states to reduce public spending through the restrictive monetary policy inscribed in the convergence criteria of the Maastricht Treaty and Stability and Growth Pact.

The EU's self-marketing as a solidaristic 'club' conceals stark hierarchies and *realpolitik*. Its powerful economies initially engaged with CEE as a prospective market for agricultural surpluses and other exports, as a market for bank loans and as investment opportunity, with the hyper-liberalisation of the region also serving the interests of those sections of the ruling class who wished to see similar processes take root in the West. With the creation of the Eurozone a new type of core–periphery relationship was established, with weaker economies – Hungary and Poland, as well as Greece, Portugal, Spain and Ireland – serving as markets and debtors for the stronger Western European states, above all Germany. However, as this volume shows, installing neoliberalism was less than straightforward. The crisscrossing interests of different states and domestic elites, together with struggles from organised labour, made the process protracted and the outcomes a political compromise, particularly regarding privatisation and welfare.

If the principal beneficiaries of the transition were Western capital and institutions (the EU and NATO), sections of the pre-1989 *nomenklatura* in CEE emerged as winners too. Even before 1989, company managers in parts of CEE had begun to convert their control over productive property into ownership, diverting cash flows to private companies and asset-stripping state concerns. As rules on property ownership were liberalised, entrepreneurs from party and other official backgrounds established quasi-state financial and trading organisations. They benefited from insider knowledge and the 'protection' afforded by connections to the security services and credits they had accumulated through patron–client networks, as well as from first-mover advantage.[39] Others engaged in 'mafia' activities, as the coincidence of weakened state regulation and the expansion of private business activity jump-started a market in protection and other forms of coercion.[40] *Nomenklatura* privatisation lies behind what some have seen as a puzzling aspect of the transition: the rapid mutation of former 'communist' parties into advocates of a neoliberal brand of social democracy. ('On a beautiful day in 1994', one account of an election in Bulgaria begins, 'as unexpectedly as they had fallen from power before, the communists came back to power as socialists who, in just a few years, had evolved into the biggest capitalists in the country'.[41])

Country by country, privatisation strategies varied widely. In Ukraine, in the 1990s, the prescriptions of the World Bank and IMF were rejected, and its privatisation programme was tilted towards local interests and against foreign investors, particularly in 'strategic' industries (see Chapter 7). In Poland, management buy-outs were the main method; privatisation occurred gradually in the early 1990s, before a sharp acceleration in 1995–6.[42] The Czech Republic, like Russia, preferred the relatively rapid method of privatisation by voucher, with regulations that favoured enterprise outsiders but not foreign investors.[43] It initially received plaudits from the World Bank and IMF, but, as Ilona Švihlíková explains (Chapter 9), its much-trumpeted promise of a dispersed ownership structure came to nothing. Instead, and contrary to expectations, most vouchers were snared by a handful of Investment Privatisation Funds, many of which underwent *de facto* nationalisation when they were unable to repay loans to state banks,[44] before those same banks were sold off to foreign financial institutions.

UNEVEN DEVELOPMENT AND FOREIGN (DIS)INVESTMENT

Economic restructuring in CEE has taken 'uneven and combined' forms, argues Fabry (Chapter 10).[45] At the most general level, it occupies a semi-peripheral position within the world economy, but this disguises stark differences: while a few areas have joined the 'global city', characterised by skilled labour and high productivity, larger swathes belong to the 'global sweatshop', with low-quality jobs in the primary sector.[46] Muscovites, as Haynes points out (Chapter 3), live as if on a different planet from their compatriots in the 'mono-cities' of the rustbelt. Many parts of CEE, including Russia and Ukraine (Chapters 3 and 7), experienced a regression in their place within the international division of labour, with a shift from producing high-skilled manufactures towards semimanufactures, agricultural goods and energy and mineral extraction.[47] Latvia, although encouraged by Western institutions to focus on the 'creative industries', has in fact made its mark as a transit and transaction point for asset-stripping, raw material exports and money laundering (see Chapter 6), as well as a major exporter of labour power. By many measures, the Baltic States are the worst places to work in the EU, with the lowest standards of living and the longest working hours. Spending on social protection per capita is a quarter of the EU average and income inequality is the most polarised.[48]

Other recognisable features of uneven and combined development are close ties between business and the state and a relatively high degree of dependence on foreign capital. Regarding the former, in parts of CEE the collapse of government institutions during the 'transition' of 1990–2 converged with a neoliberal commitment to 'roll back' the state to permit a high degree of state capture by comprador oligarchies and other business interests. This contributed in Serbia and elsewhere to 'wild capitalism' (diagnosed by Martin Upchurch and Darko Marinković in Chapter 11), in which rules and regulations are attenuated and ignored by corporate elites. In Ukraine, political parties tend to be vehicles for business interests and control over the gas industry was at the fulcrum of disputes between rival presidential candidates, as explored by Marko Bojcun (Chapter 7). But it is the political clout of business elites in Russia and the changing relations between business and the state that have attracted particular attention. In Russia the state bureaucracy survived the transition largely intact but became penetrated – and at one stage appeared to be captured – by business interests that thrived on monopolistic and rent-seeking practices.[49] As Pozo remarks (Chapter 4), the moment of the greatest power over the Russian state by business leaders was the mid-1990s. The relationship was then disrupted, first by the rouble crash of 1998, then by Putin's coming to power in 2000. The extent to which Putin represented a new departure should not be exaggerated. Already under Yeltsin, Russia's bureaucracy doubled in size, the proportion of *siloviki* (former members of the military and security forces) in top regime positions soared (from 5 per cent under Gorbachev to 47 per cent under Yeltsin), the budget of the Federal Security Service (FSB, successor agency to the KGB) trebled, the media was muzzled, the regions were subordinated to the centre, dissenting officials were dismissed, dissenting parliamentarians were overpowered by recourse to presidential fiat and parliament itself was subordinated – most dramatically through military attack in 1993. Putin himself was promoted by an alliance of Yeltin's cronies, *siloviki* and market reformers, and during his presidency the intimate links between political and economic power-holders which had been established in the 1990s were not severed.[50] However, the tutelary authority exerted by the regime over business elites was vigorously reasserted, in a restructuring of state–capital relations analysed in detail by Pozo and Worth (Chapters 4 and 5).

As regards the role of foreign capital, from the mid-1990s inflows began to soar, and from 1996 FDI stock as a percentage of GDP in CEE surpassed the world average. By the beginning of the twenty-first century foreign ownership of the *non-financial* sectors, apart from the Czech Republic, Hungary, Estonia and Slovakia,[51] remained relatively low, but in the financial sector the picture was different. Even in Ukraine the trend has been towards outright foreign control (see Bojcun, Chapter 7), while in much of the rest of the region almost the entire banking system is owned by foreign (mostly Western European) banks, as shown in Table 1.1.

Table 1.1 Foreign Ownership of Banks, 2007[52]

	Percentage of (total, bank-owned) assets held by foreign banks
Slovakia	99
Estonia	98
Lithuania	90
Bulgaria	85
Czech Republic	85
Poland	75
Serbia	75
Hungary	65
Latvia	65

To entice foreign investors, many states adopted 'flexible' labour markets and low taxation on capital, but there is little evidence that such enticements actually worked. The 'FDI model' in Serbia, note Upchurch and Marinković (Chapter 11), far from enhancing competitiveness, spawned unstable and unsustainable growth. Hungary was notably friendly to foreign investors – for example, its method of privatisation explicitly favoured transnational corporations (TNCs)[53] – and it did attract more inward investment between 1990 and 1996 than any of its neighbours, yet its economy grew more slowly than theirs. Moreover, notes Fabry (Chapter 10), its dependence on foreign capital left it highly exposed to the 2008 credit crunch, first, because profit repatriation practices negatively impacted current account balances; and second, because its foreign currency-denominated debt was extremely high.[54] Similarly, the Baltic States pioneered extreme FDI-friendly measures, such as flat taxes, in the mid-1990s.[55] However, TNC investments in 'complex industries' (chemicals, machinery, equipment) went to the Visegrád Four and hardly at all to the Baltics.[56] More generally, surprisingly little correlation could be seen between economic performance and FDI inflow. In 2003, FDI stock as a percentage of GDP was quite high in Hungary (58) and Czech Republic (50) but relatively low in Poland (27) and Slovenia (16).[57] (By comparison, the EU average was 33; China 16; the USA 13; Japan 2.) Substantial capital flows did enter the Baltic States and some other parts of the region, such as Bulgaria, following their accession to NATO and the EU. (By 2003, FDI stock as a percentage of Estonia's GDP reached 79.) However, as Sommers and Bērziņš reveal (Chapter 6), they served largely to inflate the bubble in real estate prices that was to burst in 2008.

In these ways, the modalities of the 'transition' of the 1990s contributed to the vulnerability to crisis that much of CEE experienced in 2008–10. This – the manner in which political-economic developments of the 1990s influenced the course of the 2008–9 crisis in CEE – is the core subject of this volume and is explored in more detail in the concluding chapter.

NOTES

1. This volume originated in a conference, '1989–2009: The East European Revolutions in Perspective', held in London, 2009. I would like to express thanks to my colleagues on *Debatte* for their assistance in its organisation, and to the Amiel-Melburn Trust and Lippman-Miliband Trust for donations towards participants' travel expenses.
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16. John Walton and David Seddon, *Free Markets and Food Riots: The Politics of Global Adjustment*, Oxford: Blackwell, 1994, pp. 334–5. See also Ankie Hoogvelt, *Globalisation and the Postcolonial World*, Basingstoke: Macmillan, 1997. For a dissection of partial state breakdown in post-Soviet states, see Georgi Derluguian, *Bourdieu's Secret Admirer in the Caucasus: A World-System Biography*, Chicago: University of Chicago Press, 2005.
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18. Bandelj, *From Communists to Foreign Capitalists*, pp. 63–4.
19. Mary Sarotte, *1989: The Struggle to Create Post-Cold War Europe*, Princeton, NJ: Princeton University Press, 2009.
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38. The next three paragraphs borrow liberally from Jane Hardy, 'Crisis and Recession in Central and Eastern Europe', *International Socialism*, 2010, p. 128.
39. Aviezer Tucker, 'Restoration and Convergence: Russia and China since 1989', in George Lawson, Chris Armbruster and Michael Cox, eds., *The Global 1989: Continuity and Change in World Politics*, Cambridge: Cambridge University Press, 2010; Pirani, *Putin's Russia.*
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42. Drahokoupil, *Globalization and the State*, p. 40.
43. Drahokoupil, *Globalization and the State*, p. 69.
44. Genov, *Global Trends*, p. 57.
45. See also Hardy, *Poland's New Capitalism.*
46. Genov, *Global Trends*, p. 210.
47. Hydrocarbons dependency has afflicted Russia with the 'resource curse': a vulnerability to commodity price fluctuations, upward pressure on the value of the rouble, which renders manufacturing and agriculture less competitive, and an exacerbation of social inequality and corruption.
48. Hardy, 'Crisis and Recession'.
49. Richard Sakwa, *The Crisis of Russian Democracy: The Dual State, Factionalism and the Medvedev Succession*, Cambridge: Cambridge University Press, 2011.

50. Pirani, *Putin's Russia.*
51. Drahokoupil, *Globalization and the State*, p. 56.
52. Mitra, Pradeep, Marcelo Selowsky and Juan Zalduendo, *Turmoil at Twenty: Recession, Recovery and Reform in Central and Eastern Europe and the Former Soviet Union*, Washington, DC: World Bank, 2010, p. 50.
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54. Laszlo Andor and Martin Summers, *Market Failure Eastern Europe's 'Economic Miracle'*, London: Pluto Press, 1998, p. 160. Genov (*Global Trends*, pp. 56, 132) argues that the dependence of Hungary's banking sector on capital flows from parent institutions in the West contributed to the deep economic crisis of 2008–9.
55. This was followed in the 2000s by Slovakia, Romania and the Czech Republic.
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2
Marx on 1989

G. M. Tamás

Karl Marx is considered, apart from being a theorist and a fighter, to have been an excellent observer of *Zeitgeschehen* of his age, rather like Alexis de Tocqueville or Hippolyte Taine.[1] Little is said on the larger dimension of works such as *The Eighteenth Brumaire of Louis Bonaparte* or *The Civil War in France*. My aim here is not, of course, the exegesis of what is called, disparagingly, his journalism.

I would like, however, to say a few words about what we should call – with all the necessary diffidence – the Marxian style of political analysis. There have been outstanding practitioners of this genre from Karl Kautsky to this day, but their work has not enjoyed the sustained critical attention that philosophy and economics have had in the Marxist tradition. Marx's own *modus operandi* relies on a mostly implicit philosophy of history, which can be read quite clearly through his political writings. These writings are not instances to exemplify a theory; they are steps in a revolutionary strategy: this is strategic analysis to serve a cause, albeit a cause emerging from the analysis.

Marx's political point of view is usually regarded as *engagé*, and while there can be no doubt of his commitment to the proletariat as an empirical group and as a political-party-in-becoming, his attitude is not exclusively or even mainly indignation about the injustice visited on workers and sufferers – the usual stance of the Left – but a search for signs: a search for signs of revolution, but not in the sense in seeking for portents. (Are the processes in society pointing towards the preconceived goal?) On the contrary, looking for signs of a revolution that is going on, behind the backs of people, a revolution hidden by the very nature of capitalism wherein everything essential is hidden.

One of the chief aims of revolutionary politics is to make manifest whatever is hidden behind the façade of capitalism, a system that is far from being obvious. Problems that should have been set out at the point of production appear as problems of consumption, circulation, distribution or redistribution. On the other hand, law and government presented by customary (i.e., moralistic) socialist criticism as a fraud will appear as embodying liberty and equality in fact, the reality of exploitation and oppression being fully reconcilable with a juridical form which is by no means a mere epiphenomenon.

Appearance is real: the state form and ideology (as motivation for action) are real enough. Prices, savings, investments, expanding and contracting markets are realities. Ethnic supremacies, cultural practices, sexual habits are real sources of pride, sorrow, creative inspiration, hatred and destruction. Freedom of contract, equality before the law, universal suffrage, disestablishment of the (state) church are not simply devices to mislead the oppressed and to mould them into obedience; they are the results of monumental struggles, and their reality – both in people's minds and in actual state practices backed by 'legitimate' coercion and a professional apparatus to deliver it – defines a social life different from that of societies lacking them.

At the same time, this reality is not the ultimate one in Marxian analysis. Reality here itself is a cluster of signs, but not simply in the sense of a crude essence/appearance dichotomy where the historical materialist will see the 'economy' shining through, as if 'the economy' was a separate thing.

No analysis, Marxist or otherwise, can be content with the authorised version of what institutions – through their official representatives – think of themselves. Many people think that Marxian political analysis is but an especially acute variety of this banality. But no, Marx and Engels would describe in *The Manifesto of the Communist Party* how it is capitalism itself that unveils everything that is hidden, profanes everything that is holy.

The iconoclastic revelations of radical theory pale in comparison to the iconoclastic, disrespectful and illusionless image capitalism presents of human existence. The first true intellectual effort of Marx – and so it should be for every Marxist, I think – was not to disbelieve the evidence (and show how biased its usual presentation was), but to believe it in spite of the incredulity of moralistic, idealist and (still important for his age) Christian social theories that society was indeed what the bourgeoisie said it was – a merciless, competitive battlefield quite independent of people's wishes for a more benign and safer environment – and to believe that this was mirrored by a system of motivations in the behaviour of the 'modern' person which admits no sentimentality. It is not true human nature distorted by demonic capitalism that needs saving, restoration or rehabilitation, but it is human nature *displayed* by capitalism that needs understanding.

Looking for signs of revolution in this material would be to remain content with Joseph Schumpeter's creative destruction or Antonio Gramsci's passive revolution, that is, recognising without further ado that the only revolutionary force in the world is still capitalism and the only revolutionary class still the bourgeoisie. 'Newness', radical change, invention and devastation are beyond doubt still the work of capitalism. This would be the all-encompassing truth were it not for the radical *historismus* of Marx's thought.

Capitalism is history – the 'human nature' that is 'displayed' by capitalism is an historical figure which appears 'natural' not only because that opinion (e.g., that there are acquisitive and competitive 'instincts in man') serves the interests of 'the system', but also because all varieties of 'human nature' are historical, transient, subject to change and consequently all varieties seem 'natural'. The immense 'second nature', the artificial environment, 'the industrial landscape' wrought by capitalism are not excrescences of an eternal humanity (however distorted), but the embodiment of the only possible human essence which is by definition non-eternal, that is, essential in its historicity, impermanent, a work in progress.

This historical specificity breaks through the texture of the everlasting present as a sign of revolution – when transience appears, when the smooth surface of any 'system' is punctured, when the fundamental contradiction is no longer a structural feature with the impersonality and *impassibilité* of fate, but a 'problem' to be solved, usually in the shape of an injustice to be redressed that stirs and spurs people into political action. There are characteristic moments when you are suddenly confronted with unexpectedly improved historical visibility; such is defeat. The *coup d'état* of Louis-Napoleon Bonaparte (1851–2), the bloodbath following the Paris Commune (1871; incidentally, the first time the French bourgeoisie sided with the occupying German army to put down the French proletariat, the second time being 1939–40 when they preferred the Third Reich to the *Front populaire*) has shown the irregularities – which, if Marx had been the rigid economic determinist and two-classes theorist he is still described as, should have driven him to despair – showing the revolution going on, unnoticed by those who shed their blood, as only the drama of disaster, chaos, rotting flesh. This drama is perennially contrasted by the establishment with order, good government, business as usual.

But political analysis mindful of transience and conscious of the occult character of modern capitalism, sharpened by the awareness of catastrophe, could see something else. Marx's so-called journalism and pamphleteering are decisive testimony to the peculiarity of class rule in a society dominated, weighed down by abstract labour and dead labour. Marx saw that the domination of capital may benefit the bourgeoisie, but it does not mean that the bourgeoisie as an empirical group is always or even usually dominant in all capitalist societies. Capitalist societies have always lived in the iron cage of updated Roman law, of a severely punitive state, subservient to standing armies (and later to security apparatuses) and to the church. Bureaucratic elites were never bourgeois in spirit or *esprit de corps*, nor were the intelligentsia ever all that friendly to 'commercial society', opposing it from Left and Right (in an 'adversarial culture').

The introduction of universal (or enlarged) manhood suffrage in the nineteenth and early twentieth centuries – a democratic panacea against unilateral bourgeois domination – in societies still with a farming or peasant majority has favoured political pluralities slanted towards Catholic and nationalist parties on the Right and towards social democracy on the Left. In all countries of Continental Europe the army played a decisive political role (cf. the Bonapartes, the Dreyfus affair, the alliance of the Crown with the officer caste in the case of Franz Joseph I, Wilhelm II and Nicholas II, and the subsequent part played by military dictators everywhere).

The wedge between the absolute domination of capital and the bourgeoisie's tenuous hold on actual power – a contrast which explains the success of Louis-Napoleon Bonaparte and the triumph of the French bourgeoisie over the Paris workers only with the aid of the monarchist and Catholic anti-bourgeois army and the putative German enemy, not to mention the inevitable compromise with the economically unviable landed estate, landed aristocracy and landed gentry – led Marx to calculate power relationships as not only favourable to proletarian revolution but also as an occult revolution in the making. There is no significant trace in his mature writings of a one-on-one Final Battle between the bourgeoisie and proletariat, apart from a few conventional phrases on behalf of the movement.

This is not only the realism of a social observer aware of the numerical inferiority of the industrial working class but also an understanding of the rule of capital: impersonal, indirect, institutional. The importance of conquest, public order, policing, the imposition of conformism, deference and obedience to the law – to put it less courteously: the protection of privilege in a juridically and constitutionally egalitarian regime – was in no doubt. For coercion to be exercised in an orderly way, the bourgeoisie had to relinquish undivided class rule after feeble and self-contradictory revolutionary attempts of its own. The many 18th Brumaires keep repeating themselves.

* * *

When talking about '1989', scholars of 'transformation' are, or frequently had been, the dupes of a reversed Stalinist discourse. They are searching for one ruling class taking the place of another. They suppose that if the revolutions/counter-revolutions of 1989 failed to replace the personnel of the 'communist' *nomenklatura* and apparatus with another, then the democratic 'turn' (*die Wende*) did not take place or, conversely, if another group of 'leading cadres' occupied the commanding heights of 'the economy' and of 'the state', then 'socialism' was defeated by capitalism. 'Nothing important happened really' is one extreme example of these unfruitful, although popular, controversies; 'everything is lost' is the other.

These extremes, which have more sophisticated versions, fail to grasp the nature of (to use a neutral term for the moment) Soviet-style societies and the nature of capitalist 'modernity', let alone the nature of twentieth-century government. Apart from what we may think about this,[2] it ought to be clearly stated that at least one of the most crucial characteristics of capitalism – the separation of the producers from the means of production – has never been transcended. This separation, assured by history (the dispossession or bankruptcy of smallholders and craftsmen), law and the state and by the ongoing process of socialisation of (private) property, is a given of all modern societies, an especially determining factor for the ensuing statecraft.

For protecting property effectively, the state has to establish a powerful legal framework. Its foundations originate in Roman law and prescribe the right of free disposal of assets owned. Legal ownership is unassailable: the fact that the part of wealth which is capital is petrified abstract labour does not result in ownership rights for the workers, whose share (the wage) appears as a mere contractual obligation fulfilled by the owner for the non-possessing worker according to mutual agreement, external to capital. Otherwise, if the non-paid part of labour were paid in ownership rights, the proletariat would buy out the capitalists and would have done so centuries ago.

Soviet-style 'socialism' assumed that 'nationalisations' have meant something like that. Hence the proletariat or 'the people' allegedly took possession of capital. But 'property rights' were not exercised by individuals or communities of workers, and the wage system remained in place. Surplus was reinvested by agencies separate from and independent of the working class, and consumption quotas were established by similar, also separate, agencies. The fusion of producer and means of production would also have meant a tendential suppression of the social division of labour that never happened.

It is quite correct to say that the 'Soviet system' was state capitalism in the final analysis, but this well-established thesis needs important qualifications. Last-ditch defenders of the defunct system – an important section of what remains of the 'Left' in Eastern Europe – are wont to argue against this, citing not systemic features but policies. On the whole, the policies of the 'communist' parties in power were mostly egalitarian. After a first, brutal 'modernising' period of accumulation, backed by large amounts of forced labour, the second, post-Stalinist period tried to create an Eastern version of the welfare state, bolstering individual consumption, cheap housing, mass entertainment and the like.[3] The problems familiar from the Western variety – debt, budget imbalances – appeared here also. The first generation of 'reformers' (Imre Nagy, Władysław Gomułka) rejected the old guard's obsession with balanced budgets and overproduction of investment goods; theirs was a quasi-Keynesian concept that had very little to do with the 'market reformism' of the second generation of 'reformers' (around 1968, exemplified by František Kriegel, Ota Šik, Rezső Nyers and others; the transition between the two generations was embodied by Włodzimierz Brus).

But these are only policies, consequences of systemic constraints. In Eastern Europe today it appears to most establishment observers in retrospect that the opposition between 'planning' and 'the market' mirrors the contrast between 'socialism' and 'capitalism'. This is a wholly naive view. The characteristics of modern societies are forcing us to ask: Is there anything to mediate between production and consumption, and are the aims of production (and therefore the way in which the social division of labour is fashioned) established by the mediator? In one case it is the market, in the other the state planning authority that is doing the mediating. Establishing the character, the amount, the technical level of production – then establishing the wages, the consumer choice, the dimensions of 'free' social services – is tantamount to being the main power decision-maker in any society. In both cases, the mediator and the decision-maker are impersonal institutions (the market and the planning authority, and the legal/coercive guarantees which make their functioning possible), but of course their class bias is different, as are the beneficiaries. (It appears obvious now that in the social struggles in the 'Eastern Bloc' the battle was engaged and fought at the point of production – party versus workers' councils – and when this shifted to battles around accumulation and redistribution, the Soviet system was doomed.[4])

The differences are considerable but they do not exhaust the whole problematic.

* * *

To explain the particularity of the pre-1989 Eastern Bloc regimes one has to turn to the interpretation of institutional solutions in order to enable us to say what has changed, beyond what is obvious and much talked about. The main issue is 'the party'. I shall not go into the intriguing question of the origins of the ruling 'communist' parties and of their national varieties. What I shall consider is the party's mature form, since this is what is least understood.

The transition to the 'mature form' – in my opinion one of the most important questions in modern world history – happened during revolution when the small militant sect of 'professional revolutionaries' was transformed into a gigantic mass movement, a key instrument of state power, and it has not lost its worldview, founding myth and unique moral faith. This is astonishing. Also, it shows a belief in politics that is unprecedented or unparalleled. Consider this: the revolutionary regimes of Lenin and Trotsky – unlike the revolutionary communist regimes in Bavaria and Hungary (about which more below) – did not waver in their determination to realise socialism and in their firm belief that what they were undertaking was 'the construction of socialism', albeit quite clearly understanding that the society they were creating had absolutely nothing to do with the communist ideal, *exclusively on the evidence that their party was exercising sovereign power*!

In the historic jargon of the Far Left this was and still is called 'substitutionism', a mendacious procedure whereby the proletariat substitutes itself for the liberated community, the party for the proletariat, the Central Committee for the party, the dictator for the Central Committee. Viewed from the outside, this has certainly been (increasingly) the case but it was not what the communist vanguard thought at the time while putting down resistance and stifling dissent. It may have been the result of Bolshevik policy; however, the result is not the essence. What did Communist Party rule equated with socialism mean to the men – and few women – who first embodied this peculiar kind of proletarian dictatorship?

Here we shall have to turn to the metaphysician of the party, Georg Lukács. His idea of the proletarian party underwent two phases. In the 1919 Socialist and Federated Council Republic of Hungary (to give it its cumbersome but ideologically correct name) he and his comrades regarded the party precisely as Ludwig Wittgenstein regarded his early philosophy: the ladder you climb in order to mount the wall, and, when over, you discard. In the Hungarian 'Commune', as it was called by its adherents, at the moment of the conquest of power and the merger of the social democratic and communist parties, the short-lived (six months) party was practically dissolved, its place taken by the workers' councils. Even the Hungarian Red Army was organised according to trade union branches: there was a metalworkers' division, a shoemakers' division, a typesetters' division, and so on, all supremely effective, the only conceivable successor to a disbanded royal force. The first-generation Hungarian communists believed that it was the proletarian community as such which ought to rule, not an elitist, conspiratorial group of fanatic militants.

The Hungarian Commune was beyond doubt a harsh dictatorship, but a dictatorship exercised, at least in part, by non-representative, direct democracy bodies. The central organs comprised delegates with *mandat impératif*, subject to recall and procedures not manipulated by nonexistent political organisations, only by chaos. After the defeat in August 1919, the exiles and émigrés, pondering the causes of their failure, thought that the main reason was probably the absence of a true Bolshevik Party of the Leninist type. The Hungarian communists were Luxemburgists or the followers of the greatest Hungarian Marxist thinker of the age, Ervin Szabó (who died just before the revolution) who happened to be an anarcho-syndicalist. They, including Lukács, became acquainted with Lenin's, Zinoviev's, Bukharin's and Trotsky's work and the Russian experience as such only in exile.

Lukács rewrote some of his extraordinary essays from 1918–19 in Vienna after the fall, in order to account for the necessary change in his thinking. *Geschichte und Klassenbewußtsein* (1923) is largely a presentation of this change; when arguing against Rosa Luxemburg and the Ultra-Left, he is in part arguing against himself. (The original Hungarian versions are not translated.) His crucial study of the party problem, rather neglected of late (Lukács, pp. 295–342), shows the innovative political idea of Bolshevism in all its outrageous boldness. Lukács writes:

> Organisation is the form of mediation between theory and practice. And, as in every dialectical relationship, the terms of the relation only acquire concreteness and reality in and by virtue of this mediation . . . Every 'theoretical' tendency or clash of views must immediately develop an organisational arm if it is to rise above the level of pure theory or abstract opinion, that is to say, if it really intends to point the way to its own fulfillment in practice. However, it would be an error to suppose that every instance of organised action can constitute a real and a reliable index of the validity of conflicting opinions or even of their compatibility or incompatibility. . . . [I]t must possess a function within a historical process and its mediating role between past and future must be understood. However, an analysis that would see an organised action in terms of the lessons it contained for the future . . . sees the problem in terms of organisation . . . It seeks out the *essential determinants* that connect theory and practice.[5]

This violent transformation of the idea ('theory') into action ('practice') depends on the nature of history in which it proceeds and of the agent who executes or undergoes it. 'Unless the proletariat wishes to share the fate of the bourgeoisie and perish wretchedly and ignominiously in the death throes of capitalism, it must accomplish this task in full consciousness.'[6]

During the great revolutionary wave between 1917 and 1923 and later, after the ebbing of the communist tide, Lukács and his comrades realised that the actual edification of a socialist or communist society was out of the question. Some, like Karl Korsch and Anton Pannekoek, opted for a 'revolution within the revolution', while the Leninists – Lukács, Bloch, Brecht – opted for the construction of a revolutionary-philosophical 'church', the party (a parallel noticed and elaborated by Alain Badiou in his magnificent book on the Apostle Paul) that was destined to represent the communist invariance and the true doctrine always applied to reality (to the very miserable reality of state capitalism and of modernising campaigns aimed at further reification and being reified themselves); Trotsky's permanent revolution has its counterpart in Lukács's permanent philosophical praxis:

> The struggle of the Communist Party is focused upon the class consciousness of the proletariat. Its organisational separation from the class does not mean in this case that it wishes to do battle *for* its interests *on its behalf and in its place*. . . . The process of revolution is . . . synonymous with the process of the development of proletarian class consciousness. The fact that the organisation of the Communist Party becomes detached from the broad mass of the class is itself a function of the stratification of consciousness within the class. . . . The Communist Party must exist as an independent organisation so that the proletariat may be able to see its own class consciousness given historical shape . . . and so that the whole class may become fully aware of its own existence as a class.[7]

This is the secret of the famous 'imputed consciousness' (the philosophically correct consciousness of the working class it does not have empirically). The soul of the imputed consciousness is possessed by a body: the party. The 'historical shape' of class consciousness grows an 'organisational arm': and this is, of course, a consequence of the utter failure of the October Revolution. The post-revolutionary, and in important respects counter-revolutionary, society is supposed to be governed *à contre-courant* and *à contre-coeur* by the party, assumed to remain invariant, that is, revolutionary, during the siege from without and within.

This position is summed up by one of the most brilliant minds of the 1968 generation thus:

> The Communist Party functions as a non-empirical *volonté générale*, an absolute consciousness that shapes itself through the voluntary self-discipline of empirical individuals. The Communist Party is the non-empirical *volonté générale* of the proletariat enlightened about itself; it is no transcendental subject which would present [*darstellt*] the totality of its voluntarily disciplined, empirical individuals – but it is non-empirical itself . . .[8]

Abstraction is being made of the *volonté de tous*, and this is, of course, diametrically opposed to all basic Marxian intentions which do not and cannot contain any 'party metaphysics' as they are aimed at a radical dissolution of all 'real abstractions' (in Alfred

Sohn-Rethel's sense) and a radically nominalist reduction of all reified substances (such as capital) to human practices.

We all know that the party did not remain what Lukács predicted it would be through all vicissitudes, but the traces of its origins in the proletarian *volonté générale* subsisted and help to explain what it was. Intellectually, it was a combination of a hyper-rationalistic planning authority and of an ideological guarantor of the 'popular' – egalitarian and plebeian – moral character of the regime that tried desperately to separate the political power of the 'working class' (meaning the party leadership and its proletarian client elites) from the commodity-producing industrial society, based politically on compulsion and co-optation. The imaginary fusion of the state and civil society in the self-contradictory concept of 'socialist state property' (an imaginary end to the separation of the 'economy' and 'politics' characteristic of bourgeois liberal regimes) was supplanted (and contradicted) by the role of the party as the supreme and exclusively political ultimate authority and repository of true doctrine. This accounts for the exaggerated belief of party leaders in rationality (science and technology) and irrational, authoritarian mobilisation (say the word and we follow). The detachment of the party from the 'large masses' (in fact, from the state capitalist reality, alienation, exploitation and oppression passionately denied by a formulaic utopian propaganda) was also key to its temporary success. It was impervious to 'empirical' tragedy as it did not 'represent' experience but reason. The well-known communist sophistry and demagoguery that could explain anything away, including the Gulag and the Stalin–Hitler pact, originated in the party's intellectual 'independence' or autonomy *vis-à-vis* the exploitative, alienated, reified, oppressive character of the regime which it led and from which it was 'detached'. At the same time, it was the only version of modern rationality known ideologically to most people in the twentieth century (capitalism being reconfigured as a spontaneous, 'organic' and thus 'irrational' order by such leading theorists as Joseph Schumpeter, Friedrich-August von Hayek and Alexandre Kojève, contradicting Émile Durkheim and Max Weber), and 1989 was experienced by many as the final (and deserved) collapse of Reason.

* * *

The existence and the rule of the *parti unique* (or *Staatspartei*) is at least as important an historical question as parliamentarism or the 'independent' judiciary in Western capitalist societies in the nineteenth century.

The rule of the party is what makes all the difference, planning and redistribution not being specific enough. The party – unlike in right-wing dictatorships, with the possible exception of Franco's Spain – did not disappear or lose its importance once in power. The party, in contradistinction to its primary idea proposed classically in *What Is To Be Done*, was an extraordinary and highly effective instrument of government unlike any other.

It was an instrument chosen (or, rather, gradually discovered) by a militant elite of former Marxists as a result of the collapse of their expectations of world revolution, especially in Western Europe. It went through many successive phases, but it had to respond to a pressing need. The Russian Revolution of 1917 and the 'communist' victories after the Second World War succeeded in promising things like peace without annexations, bread and land; that is, they had to satisfy bourgeois revolutionary, democratic longings pertaining to the nation-state, small property and general welfare. The specifically socialist aims of their own movement – postponed *sine die* – were vested in their political rule, and the communist perspective was to be upheld only by the longevity or permanence of this rule. A steered, directed development was to be kept on the right track only by a strategic perspective of many decades, perhaps centuries. In a non-socialist society – from the beginning the Bolshevik elite understood this clearly, as shown by Lenin's last writings and even Lukács's *Lenin* book (1924) – it was only political power that really distinguished revolutionary, 'post-capitalist' societies from the rest.

If the disalienating end of the proletariat was not (yet) conceivable – with an end to wage labour and commodity production – the political primacy and cultural hegemony of the working class had to be preserved. The dual power, in which most of the running of day-to-day government business was left to the state bureaucracy and the security apparatus, was nonetheless based on a movement where the political primacy of the working class was preserved within a sort of parallel society. The society at large may not have had a proletarian majority, but the party did. Ultimate control rested with the party. This is the principle of the *nomenklatura*: the *nomenklatura* was a complex list of appointed jobs and functions the filling of which was entrusted to various party committees. The appointment of, say, the Rector of Budapest University depended on the Central Committee, but that of the head of the university library on the Fifth District Committee. Personal proposals were accepted from the university 'basic organisation' (party cell) and the higher echelons of the party had to decide. Once appointed, the learned officials tasked with managing the university and its library enjoyed considerable autonomy, but if they wanted to keep their position they had to consult their respective party organisations even if they were not party members.

As some of the appointed jobs had national importance, many local party organisations had a disproportionate influence over national politics. But it was for the Centre to decide which organisation was called on to exercise such power. Some factory 'cells' (sometimes an organisation of many thousands of members) were traditionally headed by Central Committee members. The 'communist' workers of that factory who elected their secretary (who, even if he was not properly elected, had to be reasonably popular with the party members on the shop floor) had some influence in areas where their local leader had his. The party was primarily an institution of indoctrination, adult education and ideological – however ritualised – debate. For the large mass of party members this did not entail any privilege or material advantage.

Even if society as such was quiescent or subdued, the party was always mobilised. Meetings and the reading and regurgitating of party 'literature' took considerable time. A sense of belonging and a common faith were deliberately fostered. A 'communist morality' of puritanism, frugality, discipline, self-improvement and self-education (inherited from the classic workers' movement) had been undeniable social realities within the party, linked to an awareness of an occult elite – after all, they were a bunch of working stiffs supposed to be the leading members of the ruling class without the selfishness and greed usually associated with this. This is not to say that careerism, opportunism, conformism or even fear were not among the reasons to join, but the idea was that the party and its altruistic militants were the bastion of socialist life and morality among a mixed society of transition.

The party did not repeat the mistake of the church in introducing general infant baptism. So it did not really need a clergy and monastic orders. The 'baptism' of party membership was adult anabaptism reserved for the elect. The regime called itself 'socialist', but true socialism obtained only in the party. So when you hear ageing East European 'communists' calling their beloved regime just that, they have an experience to rely on: their very real membership of a select society motivated by a legitimising ideology directed at the future and imbued with a rationalistic philosophy and a cult of science that gave it the semblance of knowledge and an old-fashioned morality extolling hard work, unstinting effort, equal dignity, respect for the downtrodden, international solidarity and intellectual daring. Rather more than what subaltern classes usually get.

This is a far cry from the subversive, hypercritical, opposition mood of the Western and Southern Far Left also called 'communist', but not so different from the proletarian corporatist (*Arbeiterstand* as opposed to *Arbeiterklasse*) organisation of old European social democracy and its trade union counterpart. The well-known charges against 'real socialism' – that it was a class society and that it was a dictatorship – are true enough. But again, the authentic class relationships, as in any other society dominated by capital, were hidden, and political power and the too little appreciated institutional memory of political organisations superseded them. The working class did not rule as a class, but the rulers were mostly of proletarian extraction, upward mobility and equalising redistribution were strong and, unlike today, plebeian ways and virtues were esteemed, anti-egalitarian tendencies were kept strictly within meritocratic bounds and the bourgeois variety of 'sinful pride', individualism, disparaged. The party was the visible sign that in spite of actual inequality and oppression a hereditary aristocracy – the traditional foe of all plebeians in history – was not to be reborn (and it wasn't) and the party's inner belief of a Good Order excluded (and condemned morally) any contempt for and indifference towards the poor. Unlike bourgeois societies, the party – the 'leading force' in a pretty repressive and exploitative state capitalist tyranny – did not try to justify inequality, which it declared as a transitory, maybe necessary but essentially despicable phenomenon. Political power in plebeian hands was not wholly an illusion, and those who rebelled against Soviet-style regimes had to reject equality in the name of liberty more grimly than any well-heeled neo-conservative in a City consultancy or think-tank sinecure. Opposing egalitarianism is one of the most onerous tasks facing any class or caste society. The plain and public opposition of the doctrinally pure party and the doctrinally impure ('transitional') society offered a lasting symbolic solution, both being concomitantly defended as 'people power' (*Volksmacht*) threatened by inegalitarian disorder and the evil of a self-seeking, profit-maximising, rich bourgeois ruling class alien to the common good and its interests opposed to those of the masses. In the beginning, the party was not perceived as a ruling class, as the customary material privileges following from belonging to any master class were not essential or characteristic. Pecuniary or biopolitical advantage inherent in any aristocratic or class society was blurred and uncertain in the case of the party. Nor were lineage and inheritance (inevitable in the case of private property) usually important in the selection of the party elites, except towards the end.

The party's ethos had become self-contradictory precisely because of its sincere egalitarianism. It extolled welfare and consumption in the 1960s and so diluted its puritanical and altruistic morals. To sustain such policies it had to have recourse to credits, to international trade, to markets. It needed liquid capital, so it had to allow ever-growing inegalitarian practices in order to maintain both motivation and legitimation. It had gradually replaced the promise of a distant non-exploitative, classless, non-oppressive, unalienated society with the promise of ever-rising consumption, comfort and fun. And so it offered competition to the West, where it could only lose.

Hence the exaggeratedly political approach to changes in Eastern Europe that appears so odd to outside observers. East Europeans, theoretically sophisticated or not, know that the former regime they hate or like was not any kind of communist society bereft of the customary drawbacks of a modern class society centred on gain and loss, but they see what has taken the place of the party. The party appears, of course, dated, quaint or worse, but mostly something of the past. Its promise was not (and it is not remembered as) liberation but equality and respect for the working man (with stress on the gender). At the same time, people seem to forget a few fundamental structural characteristics of the party.

The party was organised as a network of *workplace* cells, so it was not centred on constituencies (electoral districts, ridings) as there were no contested elections. The power of the party was not based on citizens in their private lives 'at home' (which is the case of bourgeois electoral parties in 'pluralistic' representative systems) as consumers and 'families' at rest in their dwellings, but on producers. It was primarily power over producers that was the aim. The party's task was the imposition of production goals, mobilisation for increased work intensity and speed, work discipline, the imposition of a ready acceptance of longer working hours and of lower real wages, and the prevention of strikes (illegal anyway) and other forms of proletarian protest. As shown by sociological research, the real centres of power had been the large state firms or trusts. Little wonder that the only effective weapon against the party had been the workers' councils, both in Hungary in 1956 and in Poland from 1981 onwards (Solidarność was not a trade union, but a network of workers' councils, organised not by branches but by factory and region, exactly like the 'Communist' Party). The fight was there, at the source of real power.

The workers' councils may have fought the party (they had to, everywhere) but – coming after all from the same tradition, consciously or not – any power based on communities of producers cannot be sustained (however repressive and however exclusively political) under the dominance of the market.

In Poland, quite symbolically, the party and its enemy, the workers' councils, failed together. Both ended – for different, even perhaps opposite, reasons – in advocating the new market regime, and in consequence had become incredibly unpopular and completely lost their relevance. By this time, the party's specific and peculiar power was much diluted, with the partial exception of the German Democratic Republic – but even there, power was shared with the Soviet Russian military authorities and security services – in various ways. In Poland, it was the army (in spite of the Party's traditional fear of Thermidor and Brumaire, of Bonapartism), the junta of Generals Wojciech Jaruzelski, Florian Siwicki and Czesław Kiszczak, the coup of 13 December 1981 (technically it was what is called *autogolpe* in Latin America) that put an end to the party's primacy. In other countries, party power had been outsourced to the security services, the regular government, quangos, reform committees, managers of large enterprises, the Central Planning Office, the National Bank, the research institutes of the Academies of Sciences, regional bosses and the increasingly independent, liberal and/or nationalist media. The party fell victim to partial power centres in Poland, Hungary and Yugoslavia, and in all these places the shadowy, formerly quite insignificant regular government (Council of Ministers) gained in influence.

But by that time all heirs to the traditional workers' movement were in disarray. Let us recall these European moments: 1977–9: the Italian Communist Party sides with the bourgeoisie, the Vatican and the secret services in the struggle against the Far Left, hails NATO, proposes austerity measures and a second edition of the *compromesso storico*, condemns Soviet action in Afghanistan (and later the Polish coup). Nicolae Ceauşescu's Romanian regime turns from 'national communism' to outright fascism with part-Maoist paraphernalia and 'cultural revolution' techniques used for ethnicist purposes; open persecution of minorities. 1979: Margaret Thatcher's long reign commences, Labour – especially the Labour Left – defeated, veers to the right, miners' strike and trade unions defeated, privatisations, cuts. 1981: military coup in Poland against the workers' councils (Solidarność). 1981–2: François Mitterrand's and the communists' *programme commun* revoked under pressure. German and Austrian social democracy sides with the Soviet Union against Solidarność (and with the United States and Thatcher against Mitterrand). Separatist nationalism and radical market reforms are tearing Yugoslavia apart. East German intellectuals emigrate *en masse* to the West. West Germany's Far Left disarms and disbands, and in part goes Green. Democratic opposition (dissidence) appears openly in Hungary and throws down the gauntlet. Yuri Vladimirovitch Andropov, the head of the KGB, elected General Secretary of the Communist Party of the Soviet Union, completing the 18th Brumaire begun in Warsaw. General Jaruzelski also named First Secretary of the Communist Party.

Democratic/reformist, repressive/dictatorial, emancipatory/ autonomist versions of European socialism were all on the way to annihilation.

* * *

In Eastern Europe, capitalism without a bourgeoisie was replaced by capitalism without a bourgeoisie. All this happened precisely when the strategic position on which the erstwhile philosophical foundations of the One Party had been established disappeared in the West: the constellation of the structural given of any capitalist society – the existence of a propertied and a property-less class whose relation to one another is mediated by money and contract – which seems identical with the political opposition of cultural-political groupings largely identified with the great antagonists (the bourgeoisie and the proletariat) lost its relevance. Hegemonic culture and adversary (or counter-hegemonic) culture (anti-socialist and socialist) seemed to be more than themselves; they could believe authentically that they 'represented' something larger than themselves: either 'the Class' (the organised, militant, right-thinking working class, bearers of a post-capitalist future) or 'civilisation' (a purported combination of tradition, individual freedom, common sense, nation, religion, family, choice and the like).

Technological changes, the softening of conflict by the welfare state East and West, growing real wages and expanding employment, changes in habitat, health, hygiene, sexual mores, leisure, the culture industry, home-ownership, share-ownership, the motor car, the classlessness of popular culture, the defeat of Left radicalism

(1968–79), the exacerbation of racial conflicts and the advent of political Islam all contributed to the disappearance of class *from the surface* – for class, naturally, continues to exist, but has joined the other occult characteristics of capitalism, concealed in the depths. Its irrelevance is political, so it has joined other aspects of bourgeois society as defined by the bourgeoisie: the separation of spheres, in this case the separation of politics from the economy now extends to the proletariat, which has lost its political identity.

In the Soviet Bloc, the historical and philosophical figure of the proletarian was linked to the centrality of the party as the safeguard of the working class's political identity. 'People power' or 'proletarian power' was transformed after the market reforms of the 1960s and 1970s into sheer and banal state power, and the commissars became managers and rulers without the mystique of exercising power for an ultimate – and for the purposes of class power, perverse – reason that has for ever prevented the party from successfully legitimising a separated power structure and an exploitative social system apart from putting it in the perspective of a fundamentally different (communist) future. The twentieth century, under the aegis – according to Alain Badiou – of *la passion du réel*, that is, a commitment to changing the world and changing oneself, had been sublated by the twin defeats of ideological and theoretical communism (according to Guy Debord, these two are mortal enemies) and led to a humble and unassuming acceptance of the present, culturally known to us from *Bouvard et Pécuchet*. This embracing of defeat was largely inspired by 1989 in Eastern Europe.

The origins of the regime change in the Soviet Bloc were political. The promise of the incipient democratic movements – the rule of law, a competitive electoral system, recognition of rights, an end to censorship, removal of absurd restrictions (e.g., on travel) – had been egalitarian in a constitutional and legal sense, by no means opposed to the main official doctrine of the previous regime (and I do not mean the *abuses* of that regime, such as nationalism, racism and heterosexism, which violated its avowed principles), but sited the battlefield firmly away from production. In Hungary, in the only radical episode of the democratic transition period – the 'four times yes' referendum campaign, of which I was one of the main orators – opinion demanded an end to workplace party cells and to similarly workplace-based paramilitary party militia, thereby forcing the party to compete with the new political forces in a field where people were not employees and co-workers but consumers, tenants, home-owners and *private citizens* in the full sense of the word. Politics was confined to the workplace before 1989; it was banned from there after 1989.

From a state of complete unfreedom, East Europeans progressed to a state of freedom of the unfree. From a fraudulent pseudo-equality (from the 1960s onwards, Norway and Japan were more egalitarian in relation to income and housing than the Comecon/ Warsaw Pact countries) they have progressed to an equality of the non-equal. (It is, incidentally, the Aristotelian definition of democracy.) As the grounding structural determination of modern capitalist society – the separation of producers from the means of production, while it is only the fusion of the two that enables commodity production, a fusion made possible only (and mediated) by money (the voluntary and regulated sale of labour power) – remained in place throughout the Soviet period, it came as no surprise to the property-less (the population without capital assets, known previously as proletarians). The expectation was that the impersonal ownership of assets – a tendency observed by Marx and Engels: from the individual owner to the limited liability company to the *ideeller Gesamtkapitalist*, the state parallel to the increasing autonomy and preponderance of the executive branch of government – which reached its more exacerbated point, its apogee, in 'socialism' (i.e., tyrannical-bureaucratic state capitalism), would be replaced by the ownership, control and social influence of the bourgeoisie.

Well, this bourgeoisie did not materialise in ex-Soviet Eastern Europe. First, the barely competitive East European economy, freed from restraints and protectionist barriers (and the advantages brought to it by the threat of Soviet military might), was largely destroyed. The state enterprises bought for a song by the multinationals had been closed down and their consumer markets shanghaied. A new utopia of a society without industrial and agricultural production, only with services and consumption, was instantly created, along with unprecedented rates of unemployment so that huge masses of people were simply pensioned off while still young. The liberal myth according to which people's dependence on the state (the government) would decrease after the demise of 'socialism' was proved tragically wrong: people depend on the state for their livelihood more passively and more completely than ever. East European societies could not survive a single day without comprehensive social welfare programmes never seen in the West or in the 'communist' East before 1989. It is these indispensable social welfare programmes that East European 'liberal democratic' parties and governments attempted to cut radically, thereby easing the way for post-fascism which promises social benefits for the middle class, terror for the ethnically and sexually defined 'criminal classes' (immigrants and Roma), authority, deference, cohesion, athleticism, cleanliness and no nonsense for every able-bodied, young, male, white, autochthonous, hetero, 'Christian' gentile.

Not even the impersonal, abstract, distant, politically ungraspable character of capital has changed. It is seen by manipulated public opinion as a plot by absentee landlords and kings across the sea but, alas, there are no lords and kings, only investment funds, global banks and transnational financial services, which have no will and no worldview, but are merely obeying the abstract command of growth, expansion and accumulation. The only true novelty is the competitive electoral (multi-party) system, together with the increased role of the judiciary and of the uncensored media. It would be heartless – and wrong – to say that this has not brought about any genuine change for the better. At the very least it has given pleasure to millions, glad to see the discomfiture of their formerly proud masters and taking delight in disorder, disrespect and a joyous display of hatred. It has been a fresh experience for East Europeans – something commonplace in the West – to despise openly those at the top, to express the carnivalesque egalitarian sense of being governed by imbeciles.

If we are looking for signs, let us read Benjamin, quoted and explained by Esther Leslie:

> [In the chess automaton there was] actually a hunchback dwarf, who was an expert chess player and who sat inside and guided the puppet's hands by means of strings. One can imagine a philosophical counterpart to this device. The puppet known as 'historical materialism' is always supposed to win. It can easily be a match for everyone if it ropes in the services of theology, which today, as the story goes, is small and ugly and must, as it is, keep out of sight.[9]

The dwarf, theology, 'might represent a moment of Geist, or consciousness, it is "supposed to win", but it can only win if the class recovers enough to "master" its technology'.

East Europeans have been forced to understand the changes they were obliged by circumstances to undergo, superficially, as another instance of a liberating mirage and, more deeply, as political, and therefore as subject to a philosophical shaping of will. Political theology – something common in Ernst Bloch, Walter Benjamin and, yes, Leo Strauss and Carl Schmitt – may very well prove to be the dwarf in the machine. What is being contested when speaking of 1989 is a question of dignity. The Communist Party, while certainly having abandoned any kind of socialist project, insisted on representing an egalitarian mind-set, unlike any other power structure in world history. The price was despotism. Now that despotism has ended, the re-establishment of plebeian dignity is the commencement of something new.

The dwarf in the machine will show us that merely political changes, a freedom that stops at the factory gate (or the office door), a duality wherein the free citizen is but a cipher executing technological blueprints and algorithms, while at home he or she is, as a citizen, the sovereign, and this duality will always reproduce what we have believed to have escaped for ever. Classical capitalism has hidden the 'economy' and thus it has enabled a political revolution led by communists which, in spite of everything, has not touched the centre of exploitation. Contemporary capitalism hides politics as well. East Europeans are bound to know that political power struggles are intrinsically linked to the essentials of life, as pure politics of the democratic kind has not improved their lives because it did not address the occult characteristics of the regime.

In order to make this easier to understand, let us address a problem apparently common to both East and West – the problem of equality – in order to demonstrate the peculiarity of a development subsequent to the triumph and the demise of revolution, a market capitalism totally alien to the democratic longings of the nineteenth century – liberty, subjectivity, autonomy – the traces of which can still be found in Western self-images of late capitalism.

It is widely accepted that the main agent of equality in a modern class society is the state, the only force capable of imposing and effectuating redistribution, channelling, in some regimes – such as the social democratic welfare state – the assets deducted via taxation from capital assets to citizens who do not possess such assets through various mechanisms from social assistance to state investments in the public interest. This function of the state is determined largely by two intertwined combats: the class struggle and the hegemonic battle. Here, it is important to recall a distinction made by Nicos Poulantzas in his seminal essay, 'Preliminaries to the Study of Hegemony in the State', namely that the Gramscian notion of hegemony contradicts the 'subjectivistic' view of the young Marx wherein the subject is totally alienated and his or her subjectivity projected into an enchanted netherworld of 'ideology', by necessity a 'false consciousness', whereas in hegemony we are dealing with something objective, that is, political.

> In the modern state, politically men exist differently from the way in which they exist in the sphere of civil society. This fixing of political human man as a free individual, equal to all others, does not as such constitute a mystifying 'ideology.' It consists in a real relationship between men – albeit an abstract and formal one – but only in the political sphere, in an objective structure required by relations of class domination in the capitalist formation. The specific rôle of ideologies consists in resolving, through numerous mediations, the real division of men-producers into private beings and public beings, in presenting – and this is what their 'mystifying' character consists in – their real relations in civil society as a replica of their political relations, in persuading them that what they are globally is their political relations in the state.[10]

Both in 'real socialism' (i.e., bureaucratic state capitalism) and in 'proper' (i.e., private property-based) market capitalism the state is seen officially as a class-neutral agency with the civil service as the 'universal class' at its helm. Officially, again, the neutrality of the state is assured by the tendentially classless society, which is both the fundamental 'state aim' and a putatively enfolding 'reality' in the former case, and by the rule of law which is supposed to be centred on justice and fairness as a 'state aim' in the latter.

It could be asserted that in both cases – whatever the empirical facts – it is equality of some sort which defines the civic condition (unlike in fascism). The differences are subtle but relevant. In 'real socialism' the state itself is considered a servant only, serving first the universal class-in-becoming, the proletariat and, second, the party. The egalitarian feature of the 'socialist state' is a consequence of its anomalous position: the state as an organ of oppression ought to wither away – in a tendentially classless society there is nobody to oppress – so the least it can do is to oppress in an egalitarian direction and watch state capitalism to prevent it evolving in the direction of a fully-fledged exploitative class society. The kernel of this is, of course, the party. The party represents the link between theory and production. The theory is a theory of liberation, and at the point of production the party represents control, motivated by the morals of abnegation, altruism, commitment and voluntary effort, that is, a counter-theory to the fundamentally hedonistic (or eudæmonistic) philosophy of Marxism.

This would cause the grounding (and dissolving) debate of 'real socialism' to be a discussion of the normative content of 'socialism.' Heretics – to whose tradition the present author belongs – would say, 'this is *not* socialism' (the party, of course, stating the contrary). *Der Verräter, Stalin, bist Du*, shouted Willi Münzenberg. In the late phases of Soviet-style society, the second generation of dissidents (frequently the same people in a second act of their lives) would say no kind of 'socialism' will do, 'real' or 'utopian'.

This was the moment when the specificity of 'real socialism' came to an end. But before that, in 1956 or in 1968, the conflict was normative and philosophical. 'True socialism' opposed 'false socialism', the right idea of the party sought to contradict the wrong idea of the party. This is how it has been ascertained that the egalitarian leanings of the party were no substitute for liberation. It was found that true equality could only be the consequence of (and philosophically the inference from) disalienation and de-reification. That pure philosophical politics was not enough; what is more, a *critical* philosophy was needed for really liberating, in other words, proletarian politics, critical in the sense of uncovering the underlying, occult determinations of social life. The liberationist theory of the party meeting exploitation at the point of production fails as it does not address the main contradiction: the separation of the producer from the means of production which the party enforces instead of the market. But being philosophical, unlike the market, it fails philosophically: the party can be (and was) refuted, the market, which does not speak, cannot be.

Both the party and the market can equalise people only as consumers ('private beings') which means sustaining a hierarchy that is free to equalise or not. It can be (and often is) forced to pursue egalitarian policies, but with the state being neutral it does not and cannot 'naturally' contain the principle of equality and it contradicts it by force, being what it is. At the same time, inequality refutes the claims of 'real socialism' and it cannot refute the claims of market capitalism.

The so-called communist heritage in Eastern Europe – and one day in China and Vietnam – means that nobody is content with the silence of the market. Inequality is not being taken for granted, and it is thus that the only force offering legitimacy for inequality (post-fascism) can find a large audience. The liberal responses to post-fascism are unsatisfactory because they are affirming one kind of inequality (the competitive kind) while criticising another (the racial or ethnic kind), undermining their egalitarian claims, and thus appearing – and perhaps being – hypocritical. The dilemma of the party (legitimising liberation and legitimising equality, harmonising the two by the moral terror of productivist and accumulationist coercion while trying to be the representatives of the producers precisely at their workplace) has been solved by its resounding defeat while trying to be kinder to consumers. But this does not mean that this solution is the market in the sense of an exit from exploitation and oppression. It is barely the demonstration that all along the market has been the secret of Soviet society. The party has replaced the market, therefore it has become the market.

East Europeans have an intuitive grasp of this. When subscribing to the lie according to which 'nothing has really happened' they are obscurely aware of a fundamental position unchanged: they have never been, nor are they now, the owners. They can be offered goods and services by redistributionist policies if they succeed in cornering the establishment to give in to their, mostly but not always, consumerist demands, but these policies can obviously always be reversed if their might is reduced. The conflicted, dilemmatic legitimising strategy of the Party has taught us that equality can be guaranteed only by a yet never seen reversal of property relations. In spite, or perhaps because, of the failure of the October Revolution and its sequels, the communist question persists.

NOTES

1. This chapter was first published in *Angelaki*, vol. 15, no. 3, December 2010.
2. See G. M. Tamás, 'A Capitalism Pure and Simple', *Left Curve*, vol. 32, 2008, pp. 66–75; 'Counter-Revolution against a Counter-Revolution', *Left Curve*, vol. 33, 2009, pp. 61–7; and 'Counter-Revolution against a Counter-Revolution' (expanded), *Maska* (Ljubljana), vols. 121–122, Spring 2009, pp. 16–30 [bilingual Slovene/English].
3. G. M. Tamás, 'A Talk at Potsdam: The End of Three Equilibria: East/West, Labour/Capital, Left/Right', in *Hidden Histories – New Identities*, ed. Inka Thunecke, Potsdam and Berlin: Heinrich-Böll-Stifting/argobooks, 2010, pp. 12–19.
4. See David Ost, *The Defeat of Solidarity: Anger and Politics in Post-Communist Europe*, Ithaca, NY and London: Cornell University Press, 2005.
5. Georg Lukács, 'Towards a Methodology of the Problem of Organisation', *History and Class Consciousness*, 1923, pp. 299–300.
6. Lukács, 'Towards a Methodology of the Problem of Organisation', p. 314.
7. Lukács, 'Towards a Methodology of the Problem of Organisation', p. 326.

8. Hans-Jürgen Krahl, 'Zu Lukács: Geschichte und Klassenbewußtsein', 1967–68. Hans-Jürgen Krahl, *Konstitution und Klassenkampf*, 1971. 5th ed. Frankfurt am Main: Neue Kritik, 2008, p. 181.
9. Esther Leslie, *Walter Benjamin: Overpowering Conformism*. London: Pluto, 2000, pp. 172–3.
10. Nicos Poulantzas, *The Poulantzas Reader: Marxism, Law and the State*, ed. James Martin, London: Verso, 2008, p. 95.

Part One

Russia: Class and Power in the Age of Putin

3
Workers in Modern Russia

Mike Haynes

In 2008–9 the world economy crashed and with it, the Russian economy. There had been optimistic talk that Russia would be resilient in the face of any global downturn. But Russia's stock exchange experienced possibly the most precipitous fall anywhere in the world. Output slumped in 2009 by 7.9 per cent – the largest fall in the G20 countries. Russia is a huge country of 11 time zones and 140 million people. The 7.9 per cent fall is an average – some of its 83 regions escaped lightly, but in 57 in the first nine months of 2009, when the crisis was most intense, disposable per capita income fell by 30 per cent or more. By this time, however, Russia was no longer at the centre of global attention. Two decades before, its successes and failures were portrayed, rightly or wrongly, as a manifestation of the failure of one system and the promise of another – neoliberal market capitalism. In 2008–9 the problems in Russia, and the fate of Russian workers in particular, seemed more marginal to the debates of the day. But the continuing struggle of Russian workers to make a living among the wreckage of the old system and the often mutant forms of the new is an important part of the story of capitalism in the early twenty-first century.

Russia's workers have never been at the forefront of analysis of that society. In the Soviet era imaginary workers were everywhere as 'poster heroes', but the reality of the day-to-day lives of real workers was harder to see as the regime blocked discussion of the group in whose name its leaders claimed to rule. Since the collapse of the USSR in 1991, the situation of Russian workers, present and past, has become easier to discuss and analyse, but they remain marginal to most accounts of Russian developments. This is partly because the focus is elsewhere but also because the language of class became unfashionable for a long period and the wealth of data that has emerged is built on sociologically loose concepts – the average standard of living, inequality and poverty measured in terms of percentage slices of the population, and so on. Few commentators have resisted making confident claims about Russian workers: 'Putin's system has little to offer members of the working class,' writes Anders Åslund, 'their wages remain relatively low, they die early from alcoholism, and they have no voice.'[1] But neither at the descriptive nor at the analytical level has there been much concern with who Russia's workers are and the problems that they face as employed or unemployed *workers*. The discussion that does exist, especially in the work of Western writers like Simon Clarke, Sarah Ashwin and David Mandel, has tended to be ghettoised as the concern of sociologists or tangled up in ideas of 'human resource management'. Even in terms of a limited discussion of the advance in democracy in Russia this makes little sense. Democracy is never a gift from on high. The ways in which ordinary Russian workers have been victims of change reflects its top-down nature and the way that this has necessarily created the basis for a self-limiting and attenuated form of democracy.

RIDING THE RUSSIAN ROLLER COASTER

For most Russians, and almost all Russian workers, life in the past two decades has had a roller coaster quality with many succumbing and dying prematurely as conditions worsened and life expectancy dropped. The economic transition was supposed to turn Russia from a one-party dictatorship and state-controlled economy into a dynamic and prosperous democratic market economy through the process of privatisation, opening up to the world economy and market liberalisation. The results were quite different. Two decades later Russia is at best an authoritarian democracy controlled by a party of power, its economy dependent for its dynamism on the global prices of oil, gas and metals, its internal economic relations still with a heavy role for the state, and its private sector dominated by a handful of monopolistic companies. Such outcomes, feared in outline by some from the start, would have seemed perverse to most people and the reformers themselves in the heady days of 1989–91. Even more perverse was the process by which they have been achieved. In the 1990s Russians had to struggle through the longest and deepest economic depression that any major economy has experienced in peacetime. Between 1991 and 1998 output fell by over 40 per cent, falling at –6.8 per cent a year. Industrial and agricultural output fell even more. Inflation in 1992 wiped out, within weeks, family savings accumulated over decades. Average real wages were halved. As chaos in the economy worsened, many were paid months late, often forced to take wages in kind, and large parts of the economy reverted to forms of barter. The catastrophic cost to the population as a whole, and Russian workers in particular, can be counted in a single statistic. In the United Nations Human Development Index (HDI), which averages per capita income, life expectancy and literacy, Russia dropped from a rank of 26 out of 130 in 1987 to 72 out of 174 in 1994.[2] Yet for the minority who had the connections to manipulate the system, the transition produced a huge opportunity. Russia, already an unequal society, became even more unequal and notorious both for its poverty and ostentatious wealth – first dollar multi-millionaires and then dollar billionaires, many of whom moved their ill-gotten gains out of the country as quickly as possible.[3]

Crisis in 1998 led to the beginning of a climb up. The economy finally began an internal recovery but was then carried up by a surge in the price for oil and gas and some metals, which Russia had in abundance.[4] Output rose year on year by nearly 7 per cent and the government of Vladimir Putin (first as President from 2000 to 2008, then as Prime Minister) began to regain some control and used the opportunity to reintroduce a degree of order. Living standards for many (but not all) recovered sharply and by 2007 it was claimed that on average they were back to the levels at the start of the transition. Optimism grew – officially Russia was no longer 'stabilising', but aiming for 'modernisation'. The number of billionaires grew and Moscow came to have more than any city on the planet. But Russia's ranking in the HDI, having improved somewhat, was already falling again on the eve of the crisis.[5]

The crisis of 2008–9 showed that Russia had no self-propelling dynamism beyond its raw material and energy exports. Oil prices peaked at $134/barrel in July 2008 but had fallen to $34 by January 2009. Confidence was further hit by the brief conflict between Russia and Georgia in August 2008 and then, in September and October, the full global financial crisis pulled Russia in. Capital flowed out, the rouble sharply depreciated, parts of the banking sector became insolvent, output fell and investment was slashed.[6] The Russian government responded with a series of fire-fighting and first aid measures, especially in the financial sector, which in relative terms were actually greater than those implemented in the USA. These bailouts 'gave the government more leverage in the national economy than the most zealous proponents of nationalisation could ever dream of'.[7] But the crisis proved significantly deeper than commentators predicted it would be even though Russia did not need an IMF bailout.

For many Russian workers, however, especially those outside Moscow, the results were predictable. Albeit with a lag and not fully captured in the statistics, unemployment rose; others were put on short time; real wages fell and wage arrears began to mount again. State gestures towards increased social provision, in part a product of fear of protest, had some impact – the World Bank estimated that they kept some 6 million out of poverty.[8] But as in any class society the biggest burden always tends to be on those towards the bottom.

THE CONTOURS OF RUSSIA'S WORKING CLASS

Class is a relationship. This relationship has an objective element determined by how society is organised, and a subjective element (famously, class consciousness), which reflects how people experience and perceive their situation. In the first instance we need to be concerned with this objective element. The question of how to characterise Russia's society has been the subject of endless debate. Today Russia's own sociologists, sometimes supported indirectly by Western research grants, are applying all sorts of different theories of class and social stratification to both state and survey data, but how much sense this makes is less clear. Analysing the working class is also made more difficult by the complexities of Russian development. Capitalist development is never smooth – it is characterised by uneven development in which old and new forms combine, sometimes in peculiar amalgams. This imprints itself on social relations. This was apparent in the old USSR, but since then the unevenness of Russian society has grown and with it the variety of experience. Moscow with its population of 11 million makes up only 8 per cent of the population but these have 20 per cent of the income of the whole country. Compared to Moscow and rich oil regions like Tyumen, life in much of the rest of Russia was likened by Galina Rakitskaia in 2004 to 'life on a reservation with the barest essentials'.[9] Roughly one third of the urban population is to be found in towns of more than 500,000. But this leaves two-thirds in towns of less than 500,000 and 40 per cent in towns of less than 100,000. There is nothing unusual in this – it is characteristic of social relations the world over that the majority of workers do not live in the very biggest cities. But the official figures show, for example, that while 12 per cent of the population of cities of more than 1 million are poor, the figure rises to 21 per cent in cities and towns of less than 100,000.[10]

If class is a relationship, then central to it is work. In the USSR workers did not own or control the means of production and were forced to sell their labour power. At the height of repression, forced labour was a small component of the overall labour input.[11] *De facto* power lay with the manager as state agent, but the pressure to grow was such that labour shortages existed and this individually gave workers greater freedom than might at first sight appear and encouraged managers to hide their fist in a velvet glove of paternalism. With the transition the balance of power tipped even more in favour of those running plants and organisations. Formally this was embodied in a new labour code in 2002 which gave employers more freedoms and weakened the rights, usually unenforced, that workers had under the old code. Informally, the pressure of the dramatically deteriorating economic and social situation weakened the position of workers even more. The problem is to know exactly where this puts the Russian labour market in comparative terms.[12]

In the early stages of the transition much was made of the claims that the labour market was inflexible, with too many workers tied to and dependent on their jobs. This argument came from market reformers who saw the ability of bosses to hire and fire at will as a central component of the new market orthodoxy. But it also received some support from more critical commentators who argued that worker ties and plant paternalism created a blockage to the development of an authentic capitalism in the workplace.[13] It is an interesting question as to whether this was (and still is) true. In the 1990s, for instance, the average duration of employment in Europe was 10.5 years and *rising*, whereas in supposedly inflexible Russia it was around eight years and *falling*. The stereotypical contrasts of labour markets therefore may be misplaced. But if the labour market in the old system and early transition was not as inflexible as was sometimes claimed, neither is the new one as flexible as some fear: 'Non-standard employment forms' – different types of temporary and casual work – are now legal in Russia and the proportion of workers in them has risen from around 3 per cent in 1992 to over 12 per cent and the number is growing (interestingly, with a higher share of men). But this still means that the vast majority of workers – and an even bigger share in larger organisations – have permanent long-term relationships with their places of work. No less when workers move, the majority do so voluntarily. Sackings through business failure or crises, important though they are, are still the smaller part of labour turnover. In this sense the Russian situation is similar to that in the West, where arguments about workers being overwhelmed by flexibility and casualisation are belied by the evidence of actual work patterns.[14]

The limits of a labour force are set by the size of the population. But population is a product of history. In the case of Russia the transition intensified a slowdown in population growth, and then a fall that will be difficult to halt. The reason is that it drove up the mortality rate to extraordinary levels – Russian life expectancy is comparable to that in some of the world's poorest countries – and it put further pressure on the birth rate. (The basic data are set out in Table 3.1.) The result is that the potential labour force in the working age years is beginning to decline and this trend will accelerate. But who is in work is not just a question of demography. The labour force participation rate of the working age population (and the age limits themselves) is the outcome of economic, social and political choices and processes. In the Soviet period the demand for labour was high and this pushed up the rate of participation. With the transition, demand for labour fell and this resulted in a significant number of workers – usually, female, older, disabled, poorer, etc. – being excluded from the market and not being recorded even as looking for work. Tracking the real levels of employment, unemployment and non-employment became difficult because of the numbers who remained formally on the books of enterprises but effectively had no work. The subsequent growth of the economy after 1999 encouraged some of these groups to return to the labour market and created greater (but still not complete) clarity about who was and who was not on the books.

As in other countries Russian statistics measure state-registered unemployed, which is always low if there is no incentive to register, and ILO employment, which uses surveys to establish those in work and those looking for work. However, these statistics are sensitive to definitions, especially on the borderline between employment and unemployment. In the Russian case this may lead them to understate levels in comparative terms.[15] Even so, the recovery produced a pattern in which there was an increase in *both* those in work *and* those looking for work. The female participation rate, although lower than the male, increased more strongly, although women, whose earnings are 60–65 per cent of the male average, were not getting the higher-paid jobs.

Table 3.1 Basic Economic Indicators of the Russian Transition

	Population (millions)	*GDP*	*Life expectancy at birth*		*Percentage unemployed (ILO def.)*	*Real disposable income*	*Poverty*
			M	*F*			
1990	147.7	-3.0			n/a		
1991	148.3	-5.0	64	74	n/a		11.7
1992	148.5	-14.5	62	74	5.2	-41.0	33.5
1993	148.6	-8.7	59	71	5.9	14.0	31.5
1994		-12.7	58	71	8.1	-8.0	22.4
1995		-4.2	58	72	9.5	-13.0	24.8
1996	148.3	-3.6	60	72	9.7	5.0	22.2
1997		1.4	59	71	11.8	2.5	20.7
1998		-5.3	61	71	13.3	-13.8	23.3
1999		6.4	60	72	12.6	-15.1	28.4
2000		10.0	60	72	10.5	9.0	29.0
2001	146.3	5.1	59	72	9.0	8.5	27.5
2002	145.2	4.7	59	72	8.6	8.8	24.6
2003	145.0	7.3	59	72	8.2	14.5	20.3
2004	144.2	7.2	59	72	7.6	10.4	17.6
2005	143.5	6.4	59	72	7.2	9.3	17.7
2006	142.8	7.7	59	72	6.1	10.2	15.2
2007	142.2	8.1	60	73	6.4	11.5	13.4
2008	142.0	5.6	61	74	8.4		10.4
2009	141.9	-7.9					
2010	141.9						

Source: Rosstat, various.

The labour force has also experienced an important shift in its sector and industry composition. Before 1991 the pattern of development had been determined by competition to catch up and overtake the West in the military sphere. Consumption was squeezed to build up industry overall and heavy industry in particular. The service sector was held back, including sectors familiar in the West – finance and commerce. But the transition has restructured the economy not by pulling it up, but by driving down the international division of labour towards an emphasis on energy and raw materials extraction. These sectors have a relatively small employment impact so that the pattern of labour force change, though significant, has not been as pronounced as the changed distribution of output by value might suggest. Tracking the distribution of labour between different sectors is problematic because in 2005 a new method of defining sectors was introduced. Table 3.2 therefore stops in 2004 but the trends it reveals continued in the rest of the decade. Table

3.2 shows the weaknesses of agriculture, its initial stagnation and then relative and absolute decline in employment numbers; the relative and absolute decline of those employed in industry and construction; and the expansion of the services sector, retail, finance, etc., which had been suppressed in the Soviet era compared to the more market economies of the West.

Table 3.2 The Changing Russian Workforce by Sector (%)

	1990	*1995*	*2000*	*2004*
Agriculture and forestry	13.8	15.1	13.4	10.7
Manufacturing	30.3	25.8	22.6	21.4
Construction	12.0	9.3	7.8	7.8
Transport and communications	7.7	7.9	7.8	7.8
Trade and catering	7.8	10.1	14.6	17.2
Housing and personnel services	4.3	4.5	5.2	4.8
Health and social security	5.6	6.7	7.0	7.3
Education and culture	13.8	13.5	12.8	13.0
Others	5.3	7.1	8.8	10.0

Source: Rosstat, various.

Productivity, however, remains generally low in all these sectors, reflecting the failure of the transition to deliver the modernisation and catch-up that was promised. A McKinsey study of comparative productivity suggested that, on the eve of the 2008 crisis, Russian productivity in steel production was still only around 33 per cent of the US level, 31 per cent in retailing, 23 per cent in retail banking, 21 per cent in house and apartment building and 15 per cent in electric power.[16] The relatively poor performance in new sectors is striking. These low levels are a product of a complex of factors, but the history of low capital investment is important, as are weak human capital skills, with many workers finding their old skills devalued without being given adequate opportunities to acquire new ones, as well as inadequacies in the education of younger generations.

Of course, fundamental to the transition was privatisation and the creation of private businesses and organisations. Table 3.3 shows how the distribution of employment has changed by formal ownership and the decline of state employment.

The share of state employment remains comparatively high, even though it now involves a minority of the workforce. These are mainly state and local government employees and workers in areas such as health and education. The share of employees in the state

Table 3.3 Distribution of Employment by Formal Ownership (%)

	1992	*1995*	*2000*	*2005*	*2009*
Private	19.3	34.3	46.1	54.1	56.9
Foreign and joint Russian/ foreign	0.3	0.6	2.7	3.8	4.6
Public and religious	0.8	0.7	0.8	0.6	0.5
Mixed Russian	10.5	22.2	12.6	7.8	6.1
State/municipal	69.1	42.2	37.8	33.7	31.9

Source: *Russia in Figures 2009*, Rosstat, 2010, p. 93.

energy sector and privileged parts of the military industrial complex that have been retained in state control is small. But most Russians still work in bigger organisations and companies in larger plants, institutions and office blocks that derive from the old state sector. It is claimed that private enterprises 'enjoy a more stable financial position and, consequently, they pay higher wages and salaries, and ... most workers [in them] are young, well qualified, mobile, and able to compete'.[17] But it is important to distinguish between privatised businesses and new businesses that have grown from scratch since the transition began. The hope has been that the transition would create a vibrant new small and medium-sized business sector 'much less weighed down by the burden of traditional management practices'. Such a sector exists but it is heavily concentrated in European Russia (one third of small businesses seem to be in Moscow and St Petersburg) and its transformative role in the economy at large is limited. The sector 'flourishes' in niches of the economy but the real strength of companies is hard to ascertain given the history of murky book-keeping and taxpaying. Such companies tend to be owner-managed with a fair degree of informality and no real worker organisation. This may mean that 'anything goes', but bosses need to have some regard for keeping a loyal workforce. The bigger the 'medium'-sized company the more need there is for more formal processes, but these seem to be developing intuitively rather than by any plan or negotiation. Overall, old and new enterprises share one thing – a top-down approach to control, 'rank and file non participation in management is one of the main characteristics of the social situation in both the old and new enterprises: the treatment of people, including hired personnel is determined by the "good will" of the employers'.[18]

Russia's workers are spread across its different cities, regions and ethnic republics. In 2006 the average regional income was US$11,700. But the average is misleading. The figure stood at

$26,000 in Moscow, while only 40 per cent of regions had an average income of more than $10,000. Worst off was a group of regions which had average incomes of less than $5,000. These included, in the Caucasus, Chechnya, Ingushetia, Adigeya, Kabardino-Balkaria and Dagestan, and in southern Siberia, the Tuva and Altai republics, the Kalmyk republic and Ivanovskaya Oblast. Here official poverty rates rise to 40–50 per cent of the population. These regional inequalities reflect in part the legacy of the past but also the pressures of the transition. Closer integration into the world economy is leaving a host of depressed regions across Russia. The regions grouped into the Central Federal District, for example, have 26 per cent of the population but produced 34 per cent of the output, generated 41 per cent of exports and pulled in 54 per cent of imports and 54 per cent of foreign investment. But supporters of the market saw this as rational. According to a 2005 Word Bank report:

> future growth in Russia should be concentrated in particular areas where there exists a comparative advantage in world markets, these comparative advantages are distributed highly unevenly across the Russian Federation. Thus, there exists strong potential for very rapid divergence in regional development in coming years.[19]

Variation between towns and cities across the regions is also important. In the USSR many settlements developed around single enterprises – effectively state company towns where the enterprise was also responsible for the urban infrastructure and services. Millions of workers are today stranded in these depressed, rust-belt towns as they were in the West in the 1930s. Some 12 per cent of the population are said to live in 460 monocities – 'single industry-company towns' where economic, social and environmental problems combine. 'Monocities suffer the most in economic crisis, when unemployment rises dramatically.' Those who cannot migrate must live with limited employment and income prospects in an environment of polluted soils, water and air which time can worsen, as when contaminated water seeps from abandoned mines.[20]

So far our discussion has focused on the labour force in total. Although the pattern in the data is dominated by the experience of the mass workforce, the 'labour force' data still lump together rulers and ruled; the top, middle and bottom; those in towns and on the farms. Here we can only begin to break this aggregate in the crudest class terms. A sophisticated discussion would be able to finesse the distinction between a ruling class in command of the state, state capital and private capital and the wider working class, and a 'middle class' characterised by its more or less contradictory class location. Perhaps the key issue here is the middle class.

There has been a huge debate in Russia on the role of the 'middle class' which has been portrayed as the source of stability in the West but a missing or underdeveloped class in Russia. But much of this discussion is unsophisticated. Too often Russian sociologists arbitrarily classify and describe 'the middle' in terms of income and behaviour, further confusing things by using old concepts like the 'intelligentsia'; retaining the Soviet usage of equating 'profession' with 'occupation' rather than defining it in more specialised terms; and classifying 'workers' narrowly as manual workers. The real middle class is defined by its function, by the way that (beyond the owners of small and medium-sized businesses) it is pulled between capital and labour by its role in 'managing' capital and capitalism. Other social characteristics, such as income and lifestyle, can then encourage a greater or lesser identification up or down and so play an important role in determining attitudes and behaviour, but they cannot be the starting point of any analysis.[21]

In Russia this middle is reforming around 'the raw materials sector, a substantial portion of diverse middleman services, and a powerful apparatus of bureaucrats'.[22] This reconfiguration from the Soviet era has created opportunities for some but has been painful for others, not least those with state 'budget-funded jobs', such as teachers and doctors. This has created no little dissatisfaction in these groups although their average position (in part because of resources accumulated in the past and current opportunities for a second income) is less extreme than is sometime suggested. Nevertheless, significant groups feel under pressure through no fault of their own and unable to play the role of an 'aspirational middle class'.[23] The hope for some was that as the boom after 1999 grew this was beginning to occur. Some Russian commentators spoke enthusiastically of the prospects of a new middle-class consumerism. The improvements were real, though it is less clear what impact the 2008–9 crisis has had, especially beyond Moscow. Yet a sense of grievance remains and, as with workers, there is a lack of effective association (for example, professional associations, white-collar trade unions) to articulate this.

This does not mean that there has been a simple process of homogenisation between the 'middle class' and 'working class' or within the working class. To the contrary, what is striking is that as the majority have been squeezed to generate more wealth for the minority, so they have also experienced massive differentials in pay and conditions. In the 1990s the systems of centrally determined pay collapsed in many parts of the economy and pay began to reflect local conditions by town, region, sector, plant, etc. This produced a complexity of inequalities within the mass of the population that is hard to track. At the level of the broad sector in 1990 average pay differentials were 2–3 times. By the beginning of the twenty-first century they had risen to seven or more. Between industries, the differentials increased from 2–3 to 11–12-fold, and within industries they could be just as great. Add in regional differences and the gaps are extraordinary – the average pay in Tyumen, the key oil province, was said to be 40–45 times that of those in agriculture in Dagestan.[24]

SOCIAL POLARISATION?

To make sense of the position of workers we have to analyse their situation in relation to that of other groups, not least the ruling class. Class is always at least a two-sided process. Today the evidence of extreme polarisation in Russia is clear, but attempts to frame and analyse this in class terms are fewer.[25]

In the USSR the state determined the balance between accumulation and consumption, the overall pattern of distribution, wage differentials, etc. Many left-wing critics of the USSR recognised that the system was exploitative but disputed whether the USSR's internal relations were capitalist or even class-based. Others, including this author, argued that, globally, capitalist development was producing substantial forms of state capitalism and that in the USSR and similar 'Soviet-type societies', albeit by a peculiar historical trajectory, these elements had been taken to an extreme. While the former view led its supporters to eschew talk of the USSR having had a ruling class, the latter view led to the argument that those with *de facto* control of the means of production constituted a state capitalist ruling class.

This is important because if capitalism was something that was created anew in Russia in the 1990s, then it must have involved the development of *new* class groups based on *new* relations of production – perhaps by a process of primitive capital accumulation or what has been called accumulation by dispossession.[26] If, on the other hand, the USSR was already capitalist and had a ruling class, then the essence of the transition is more a sideways move, a change of form and a process of recomposition.

The process of privatisation and accumulation of private wealth and power was certainly chaotic. Being in the right place at the right time was important, but if an element of chance determined the fate of some, it does not explain the overall pattern. Crucially, since property and power were invested in the state, it was those with closest ties to the state and the people at the top (or an ability to develop those links) who were able to be in the right place and make the most of the opportunities that presented themselves in the 1990s. The scale and pattern of these opportunities were established from the top in terms of state policy. This had three parts: a positive one – the conscious process of reform and the determination to see rapid privatisation; a passive element – a willingness to tolerate (and soon an incapacity to limit) quite obscene forms of state plunder; and an opportunistic element – the preparedness of the top groups to use corrupt forms of property transfer to generate the resources to keep themselves in power (e.g. the loans for shares schemes of 1995–6).

Privatisation was a colossal gift from the well placed to the well placed. It can be argued that this has been the essence of the process of privatisation wherever it has occurred, but the scale of the gift involved was probably greater in Russia than anywhere else. In the words of one government adviser in 1995: 'El Dorado is now in Russia. The most rapid careers and largest fortunes are being made here . . . "[G]od loves those who work and get rich" and not the poor, the wretched and the humble.'[27]

Analysing legal ownership of 'wealth' (the stock of all assets) is all but impossible given the weakness of the statistics, the deliberate obscuring of ownership, the role of overseas holdings, tax avoidance and evasion, corruption, and so on. Wealth is not stable either, depending as it does on the value of assets and companies in volatile markets. Analysis of the *de facto* control of productive resources is even more speculative. Rumours of fabulous hidden fortunes (among them, Putin's) exist, alongside the better known measures of the wealth of the few. But it is clear that private wealth in Russia is highly concentrated. In 1996 Boris Berezovsky boasted that he and six others controlled 50 per cent of the Russian economy. He was exaggerating, but over 50 per cent of industrial output is controlled by fewer than 25 companies. The wealth of the more openly super-rich elite has been tracked inside and outside Russia for some years. Forbes counts the number of Russian billionaires and its wealthiest 'Golden 100' (*Zolotaia sotnia*), albeit using some heroic methods and guesswork. The Capgemini World Wealth Report tracks the ranks of Russian millionaires – 'high net worth individuals' (HNWI). Table 3.4 lists these data and shows how their numbers and wealth rose, were hit by the crisis and then began to recover.

Table 3.4 Russia's Super-Rich

	Billionaires	*Wealth Golden 100 ($ billion)*	*Number of HNWI*
1997	4		n/a
2002	n/a		80,000
2003	n/a		83,000
2004	30	141	88,000
2005	44	248	103,000
2006	60	337	119,000
2007	111	522	136,000
2008	32	142	97,100
2009	62	297	117,700

Source: Compiled by the author.

But this is the super-elite of a bigger ruling class. Even the group of millionaires – if, with dependants, we say that they number 500,000 – make up around a mere 0.3 per cent of the population. However, compared to other countries at similar or higher levels of development the Russian super-rich control relatively more wealth. The wealth of Russia's billionaires alone is put at the equivalent of around a quarter of Russian income, whereas in the USA the equivalent group's wealth equates to less than 10 per cent of national income.[28] At the other extreme 50 per cent of Russians have no savings worth speaking of. On the eve of the 2008 crisis some 16 per cent were officially living in poverty and 27 per cent on low incomes. The boom had brought these shares down from 1998–9 but in these groups any additional income has been used to buy more food, clothing and replace meagre household possessions. Despite the privatisation of housing they continued to sell off property like 'dachas, garden plots, garages, parking spaces' to make ends meet. Whereas in 2003 79 per cent of low-income families had property such as this to sell, by 2008 only 58 per cent did. This lack of savings and disposable property meant that major sacrifices continued to be necessary. With the growing use of fee-based healthcare, for example, one survey suggested that half of all low-income individuals and 68 per cent of the poor had not been able to get the medical treatment they required. For economists this represents a weakening of 'human capital', which only adds to the polarisation. In more human terms it represents another form of stunting and loss of opportunities.

Data on the distribution of income – from wages, salaries, dividends, rents, etc. on an annual basis – are more easily available. The data understate the situation because of hidden incomes, but it is likely that this leads to a bigger understating at the top than at the bottom. The data on income distribution arbitrarily divide the population into percentage groups (usually 1 per cent, 10 per cent, 20 per cent, etc.). The data can then be used to calculate a Gini coefficient which measures inequality on a scale of 0–1, with the higher figure indicating greater inequality. Grouping the population in this way is not ideal and the people within the categories may not be stable – the position of individuals can vary with age, for example. Percentage groupings can also be misleading when social dislocation is rapid, as it was in the 1990s. But even with these qualifications, inequalities shine through. Table 3.5 shows that at the end of the Soviet era Russia already had significant inequality (similar to some Western states and greater than in most of Eastern Europe). But over time this grew. The top gained at the expense of both the bottom and the middle, pointing to the problem of Russia's weak 'middle' class. Part of this increase in inequality reflects the widening pay differentials that have occurred, but part of it also reflects the ability of people with significant ownership, managerial and political positions to funnel income to themselves at the expense of the mass of the population.

Table 3.5 Distribution of Income in Russia by Quintile

Quintiles	*1975*	*1985*	*1992*	*1995*	*2000*	*2005*	*2009*
Poorest 20	9.5	10.0	6.0	6.1	5.9	5.4	5.1
20–40	14.8	14.6	11.6	10.8	10.4	10.1	9.8
40–60	18.6	18.3	17.6	15.2	15.1	15.1	14.9
60–80	23.3	23.1	26.5	21.6	21.9	22.7	22.5
80–100	33.8	34.0	38.3	46.3	46.7	46.7	47.8
Ratio bottom 10 per cent/ top 10 per cent			8.0	13.5	13.9	15.2	16.7
Gini coefficient			0.289	0.387	0.395	0.409	0.422

Source: Rosstat, various.

With such a strengthening of inequality and narrowing at the top, it was inevitable that social mobility would decline, and the tendency for social position to be passed on between generations increased. The limited studies that exist confirm the suspicion that in the final years of the USSR who your parents were played an important role in determining your life chances. Social mobility tended to be short-range (once industrialisation is allowed for) and relatively few made it from worker family to top official. In the last two decades this has become even more unlikely. There has been 'a potent channelling of opportunity in post-Soviet Russia toward those who were in the most advantaged major classes', write two researchers.[29] There was some downward mobility from the old Soviet elites, but when people were displaced they tended to regress to their origins, which meant that those from more humble backgrounds tended to move down while those from more privileged ones moved sideways. The effects of these weakening opportunities at the bottom can be seen in the lifestyles, sometimes self-destructive, of the new generations coming through schools and colleges who intuitively recognise that the future holds out limited hope for them. Markets, far from opening up opportunity for the many, actually intensify processes of class reproduction.

THE RUSSIAN WORKING CLASS – THE DOG THAT DID NOT BARK?

As the crisis of 2008–9 developed, a group of Russian economists suggested that the 'social contract' of the late Putin–Medvedev years, based on recovering incomes and social stability, would break: 'the growth of unemployment, drop in incomes due to wage cuts and high inflation and difficulties with loans . . . will lead to a decline in the standard of living and to social protest. An increase in social instability may activate radical political movements and . . . will further exacerbate the sources of crisis in Russia.'[30] Social protests did occur and trust in the government and system declined, but the scale of the challenge from below at this point, and in the previous two decades, was consistently less than some had hoped for and others feared. If this changes in the next years we may come to view the two decades since 1991 differently, but so far the question has been why Russian workers have been the dog which did not bark or did not bark more.

The actual response of workers can be quickly summarised:

- There were considerable protests and strikes in the 1990s but these were defensive, dominated by narrow groups in the workforce (especially miners and teachers), and tended to peter out in the new century.
- Formally, labour relations in Russia aspire to tripartism and social partnership between the state, business and unions, but the organisations of business and unions do not represent much, and little or nothing has been given to 'unions' in return for their participation.
- The old state 'trade unions' proved incapable of real change to become genuine trade unions but remain a significant though declining force, more a blockage to action than a force for it.
- New grass-roots trade unions appeared, briefly flickered into life, but then struggled to survive.
- No mass left, centre left or even bourgeois democratic party appeared, allowing the government to dominate parliament with a manipulated party of power and a marginal old official Communist Party, discredited by its past and declining, as the 'opposition'.

There is widespread agreement about the attitudes that underlie this pattern. Commentators have analysed workers' views using opinion polls, interviews, observation, participant observation in strikes, etc. The results tend to be the same. Workers have a widespread sense of frustration and injustice but this is often diffused by a lack of a sense of who the enemy is, what alternatives there are, an attachment to paternalistic enterprises and enterprise managers, a focus on immediate survival and a retreat into more localised, familial and individualistic ways of acting. In some accounts the negativity is overwhelming. Sarah Ashwin's 'anatomy of patience' among Russian miners, for example, talked in its first two pages of workers' 'despairing resignation', 'apathy', 'cynicism', 'impotence', of workers being 'like slaves', the representation of their interests 'problematic', their representatives 'ineffective' and workers' responses themselves being 'piecemeal and ineffective'.[31] Others look more positively on the actions that did occur, but their focus too remains on the extent to which no sustained challenge has come from below. In Russia, some could not believe their luck. In the midst of the transition the politician Boris Fedorov, himself on the make, commented:

> [Y]ou are witnessing the greatest plundering of the century, and perhaps in all human history. Protests are not heard. People bow their heads and complain, as though things could not get worse. As if everything is as it should be. We are very generous and very kind.[32]

There is a multiplicity of answers available to explain this.[33] None is likely to be sufficient in itself, although sometimes extravagant claims are made. Some treat the issue in terms of Russian peculiarities. Culturalist explanations, for example, stress Russia's dictatorial, despotic, authoritarian and serfdom tradition – a version of long-standing discussions of some transcendent Russian soul or Russian condition. Such explanations are usually confused as to what exactly defines the condition/tradition, where it comes from, how many have it and whether it is cause or consequence of what is trying to be explained. They have a deservedly bad name. In one of his last articles, the pioneering sociologist and opinion pollster Yurii Levada suggested that 'mass dissatisfaction' was 'a specific phenomenon of Russian life', but to the extent that it was 'not directed' it could not be the basis for the creation or defence of specific institutions, rights or the realisation of former possibilities.[34]

Deep-rooted socio-structural explanations have also been offered. Simon Clarke and collaborators argue that much of the old USSR still survives in the workplaces of the new Russia. Paternalism derives from a specific Soviet mode of production (or non-mode of production) which creates a barrier to a more authentic capitalism and a labour movement and class-conscious working class. 'We don't have a workers' movement because we don't have a class of employers, real bosses with clear interests and powers opposed to us', said one trade union leader in the 1990s.[35] In our view this stress on the peculiar and unique properties of the workplace in both the old USSR and the new Russia is questionable. And similar relations in other countries do not seem to have been a barrier to transition there. Even were we to grant that there might be unique elements, it is still unclear how important this factor is or how much it might contribute compared to other factors. In conditions of social turmoil and dislocation we can allow for the development of a sense of mutuality of interests within the enterprise without over-explaining this in such 'deep' theoretical terms.

Russian specialists naturally tend to give Russian answers to what they pose as Russian questions. But is it useful to step back and ask how much we need a special explanation, specific to Russia?

Democratisation has clearly been limited in Russia and the space for civil society to develop, including the labour movement within it, is still constrained. But if the forms of this are Russian, the underlying problem it could be argued is not unique. Despite the claimed global transition to democracy over the last 20 years, Western-style bourgeois democracy remains rare. Most states shifted from some degree of authoritarian rule to forms of 'managed', 'authoritarian', 'constrained' democracy. In these terms, as Masha Lipman put it in 2004, 'the Russian political system . . . is not very special'. And she added (perhaps with some exaggeration), 'not a single developing society whose economy is based on oil can claim democratic achievements'.[36]

In these terms we would rather stress the interaction of four other factors – the legacy of past repression; the underlying social dislocation and divisions of transition; the confusion of ideas and organisation; and the continuing role of state policy and control from above – as the basis on which a sufficient explanation of the relative quiescence of Russian workers can be built.

An important place to begin in explaining the weakness of labour is the low starting point in 1989–91. Although mass miners' strikes in 1989 helped to dissolve support for the old Soviet regime, most observers (this one included) were too naive in expecting a strong labour movement suddenly to emerge like a butterfly from a chrysalis. Labour movements across the world have developed as a result of long struggle. Their development is not linear – crisis can concentrate development, but growth does not simply happen. In the case of the USSR, workers seem to have had a strong 'them' and 'us' sense but any attempt to express this in action was ruthlessly suppressed. With its powerful, top-down, vertical organisation the state effectively atomised the working class for at least 60 years. In 1989, therefore, there was no deep-rooted, positive, independent memory of organisation or struggle to draw on. Workers did, on the other hand, have a huge negative heritage to overcome. Historians of early labour movements see them learning 'the rules of the game' through bitter experience. Elements of this have been present in Russia too, but perhaps in no other country have workers had to confront the confused and negative deadweight of the past apparent in Russia.[37]

The second element is the huge social dislocation of the transition itself. The positive window that was opened in 1989 was firmly shut in 1990–2, first by the increasing speed of collapse of the old USSR and then the orchestrated experience of shock therapy. The scale and rapidity of the social decline needs to be stressed. With savings wiped out, Russian workers were thrown into a continued struggle for survival and this is hardly the best position from which to launch a sustained challenge to those accumulating wealth and power. To the contrary, the transition can be argued to have changed the old political process of atomisation in the USSR into a social and economically based one in the new Russia, the legacy of which has survived into the twenty-first century. This is evident in opinion poll data. It is evident also in ethnographic accounts. And it is writ large in the demographic record and the scale of the mortality crisis: 'Cynicism and a profound sense of powerlessness are widespread. The sense of dignity, always critical in mobilising workers, is weak', wrote David Mandel at the lowest point of the transition, but the thrust of the comment has remained valid in the new century for much of the working class.[38] At the same time, the process of transition also produced, as we have seen, a degree of differentiation and dislocation within the working class that is rare in comparative terms. 'One of the most important causes of the loss of solidarity in the working class arises from the sharp divisions of this class, from the strong differentials in wages of these employed in different branches of the economy,' writes one Russian economist.[39]

Then we need to consider the issue of political confusion in terms of what alternatives exist, or can exist, and what organisational foundations they have. The Soviet regime succeeded in linking the idea of socialism in people's minds with a brutal, failed system. Any debate about alternatives before 1988–9 was closed down and the discussion in the West on the Left, and in some dissident circles in Russia, about whether the USSR was really socialist had no impact on mass consciousness.[40] The negative experience of the USSR not only meant that 'socialism' was not seen as a viable alternative, it also meant that even such ideas as 'social justice' and 'social democracy' were seen as compromised. This meant that it was difficult to articulate either an explanation of what was happening or an alternative which could realise what people clearly wanted in 1989 – which was not market capitalism as much as a more just, equal and democratic society. Market capitalism was successfully presented as the only option and when it failed to produce the expected results the dominant alternative idea became that of a new balance of state and market built around the recovery of a more nationalist Russia – a managed great power with a strong leader. The space for opposition was further narrowed by the organisational survival of remnants of the old Communist Party and the old trade unions as the Federation of Independent Trade Unions (FNPR). Nor have the social or organisational roots of their ostensible equivalents in the West, but both have a vested interest in organisational survival as a distanced but tolerated opposition, creating, from the point of view of those in real control, a safety valve.[41] As one trade union leader put it, 'we are useful to the employer since we act as a sort of "buffer" and help to keep the social peace while not letting the situation reach boiling point'.[42] In these terms the Communist Party has no positive role. The question of whether the old trade unions, the FNPR, can change further remains open, but the answer is doubtful.

Fourth, we need to consider state policy which has developed in such a way as to limit, discourage and deny a place for independent workers' organisations. Much of the discussion about the direction of Putin's Russia has focused on the extent to which it is constraining the development of a native capitalist class. But we need to distinguish the question of the balance of power at the top (between the representatives of state and private capital) and the overall thrust of the regime as a defender of Russia's ruling class and its state and private capital base from outside challenge Some Russians have recognised this. In 2004, for example, Ksenia Yudeava wrote:

> Semi-authoritarian regimes should be given their due: sometimes they make it possible, to a great extent, to protect property rights and limit the pressure for redistribution. For all the complaints about the instability of property rights in Russia, it is clear that the current semi-authoritarian regime is protecting property rights better than a more democratic regime with more communists in power.[43]

In playing this role state policy has had a soft and a hard side. The soft side has a number of elements. Here we will note two. One is the deliberate political manipulation of argument and organisation through the media and political system to disorient opposition and channel it away from more radical directions. This is something which in Russia itself is described by its supporters in self-confident Machiavellian terms. The second is the restrictive labour code which was introduced in 2002. Little noticed at the time, it has severely limited workers' formal rights in comparative terms and effectively pushed them towards the old trade unions – the FNPR. The hard side has been the willingness to turn a blind eye to intimidation on the part of managers and local authorities, the support of compliant anti-worker decisions in the courts and the increasing tendency for the national state to play a role in limiting both general protest and workers' activities in ways that appear unconstitutional but have so far been hard to oppose.

THE FUTURE

In the 1990s the official strike statistics recorded the major protests that took place, suggesting, at their peak, that perhaps 1–2 per cent of workers were involved.[44] In the new century official strikes all but disappeared in the official statistics. In 2008 there were officially two strikes and in 2009 just one.

These strike data are entirely spurious, a product of the restrictive terms of the labour code which makes officially recognised strikes all but impossible. Tracking the real level of activity is therefore left to organisations such as the Institute of Collective Action in Russia, which uses press, Internet and activist sources to try to generate data that can be analysed, despite pressure from the authorities.[45]

Attempts to introduce commercial charges for many state services in 2005–6, for example, did produce some sharp reactions which have been analysed by Simon Pirani.[46] In narrower labour movement terms too, the boom and tightening labour market finally began to lead to some attempts at strikes and organisation in Russia, and especially the workplaces of multinational companies, in 2006–8. These were signs perhaps of a new militancy and usually involved organisation outside the official unions and gave some life to new union organisations that had been floundering.[47] In the short term the crisis undercut these, but in the longer term they may be important new signs.

There is still a long way to go. If the problem lies deep in Russian culture or in the very nature of workplace relations and Russia's incomplete capitalism, then it is difficult to be anything other than pessimistic. If they do not, pessimism may still be the more realistic option. But the crisis has shown that the hope that Russia could develop a broad and vibrant economy that would lead it to converge with the advanced West is misplaced. Capitalism in Russia, as in so many other countries, necessarily combines uneven forms and its dynamism will continue to rest for the foreseeable future on the energy sector. This will carry it up or down for reasons beyond the control of Russia's political leaders or its ruling class as a whole. It will also leave an important social and political vacuum. The endless opinion polling that too often passes for social analysis on

Russia does show one important factor: the high levels of support for leaders like Putin and Medvedev do not indicate high levels of support for the system itself. To the contrary, the governing system is rated extraordinarily badly even among its own supporters and irrespective of age or occupational background. As Yurii Levada put it with the bluntness that earned him the hostility of both the old regime and the new, 'the current leadership does not have any kind of firm ideological support in its own electorate'.[48] In this sense the political basis of support in Russia is thin. This accounts in no small part for the continued concern at the top to manipulate politics and ideas into safer channels. It is a need that is likely to continue.

NOTES

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3. For a Russian summary of the first part of the transition which brings together basic statistics and opinion poll data, see '10 let rossiiskikh reform glazam rossiyan (analyticheskii doklad)', *Alternativy*, no. 2, 2002, pp. 95–123.
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5. Babenko, 'Understanding Russia's Demographic Challenge'.
6. Simon Pirani, *Change in Putin's Russia: Power, Money and People*, London: Pluto Press, 2009.
7. Expert View, 'The Economic Crisis in Russia', *Problems of Economic Transition*, vol. 52, no. 6, October 20 09, p. 16.
8. World Bank, *Russian Economic Report*, no. 22, June 2010, p. 20.
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14. See Kevin Doogan, *New Capitalism? The Transformation of Work*, London: Polity, 2009.
15. J. David Brown et al., 'Nonstandard Forms and Measures of Employment and Unemployment in Transition: A Comparative Study of Estonia, Romania, and Russia', *Comparative Economic Studies* vol. 48, September 2006, pp. 435–57.
16. See Philip Hanson, *Russia to 2010*, Finmeccanica Occasional Paper, November 2009, p. 19.
17. Aleksandr Temnitskii, 'Traditions and Innovations in the Labor Culture of Blue-Collar Employees of Private Enterprises in Post-Soviet Russia', *Sociological Research*, vol. 45, no. 2, March–April, 2006, p. 64.
18. Irina Kozina, 'Social and Labor Relations in Small and Medium-size Businesses', *Sociological Research*, vol. 47, no. 6, November–December 2008, p. 89.
19. Quoted in Michael Bradshaw, 'The Geography of Russia's New Political Economy', *New Political Economy*, vol. 13, no. 2, June 2008, p. 199.
20. Revich 'Social Inequality and Environmental Health', p. 244.
21. The main attempt to develop a more sophisticated analysis along these lines arises from the work of Oleg Shkaratan. In English see Oleg I. Shkaratan and Sergei A. Iniavevski, 'The Socioeconomic Position of Professionals and Managers' and 'The Position and Actual Behaviour of Professionals and Managers in the Sphere of Employment', *Sociological Research*, vol. 46, no. 5, September–October 2007, pp. 47–90. In Russian see Oleg Shkaratan et al., *Sotsial'no-ekonomichesko navrentsvo i ego vosproizvodstvo v sovremennoi Rossii*, Moscow: Alternativy, 2009.
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26. See, for example, David Lane, 'Revolution, Class and Globalisation in the Transition from State Socialism', *European Societies*, vol. 7, no. 1, 2005, pp. 131–56.
27. Roy Medvedev, 'A New Class in Russian Society', *Russian Social Science Review*, vol. 39, no. 5, September–October 1998, p. 61.
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30. Expert View, 'The Economic Crisis', p. 25.
31. Sarah Ashwin, *Russian Workers: The Anatomy of Patience*, Manchester: Manchester University Press, 1999, pp. vii–viii.
32. Quoted Medvedev, 'A New Class in Russian Society' pp. 63–4.

33. Lewis H. Siegelbaum, 'The Condition of Labour in Post-Soviet Russia', *Social Science History*, vol. 28, no. 4, Winter 2004, pp. 637–65.
34. Yurii Levada, 'Chelovek nedovol'nyi?' *Vestnik obshchestvennogo mneniya*, no. 5, 2006.
35. Quoted David Mandel, 'Why is There No Revolt? The Russian Working Class and Labour Movement', in Leo Panitch and Colin Leys, eds., *The Socialist Register*, London: Socialist Register, vol. 37, 2001, pp. 171–94.
36. Masha Lipman, 'Democracy: Formal and Managed', in A. Kuchins et al., eds., *Rough Crossing: Democracy in Russia*, Moscow: Carnegie Centre, 2004, pp. 66, 68.
37. This is well brought out in Pirani, *Change in Putin's Russia, passim.*
38. Mandel, 'Why is There No Revolt?', p. 185.
39. Voeikov, 'Klassy v sovremennoi Rossii', p. 104.
40. See Marcel van der Linden, *Western Marxism and the Soviet Union: A Survey of Critical Theories and Debates since 1917*, Leiden: Brill, 2007. On the debates in the dissident movement, see Hyung-Min Joo, 'Narratives of Inequality under Communism: Voices from Below in the Soviet Case', *Problems of Post-Communism*, vol. 52, no. 6, November–December 2005, pp. 46–58.
41. Stephan Crowley, 'The Social Explosion That Wasn't: Labor Quiescence in Post-Communist Russia', in Stephan Crowley and David Ost, eds., *Workers after Workers' States: Labor and Politics in Post-Communist Eastern Europe*, Lanhgam, MD: Rowman and Littefield, 2001.
42. Quoted in Tatiana Chetvernina, 'Trade Unions in Transitional Russia – Peculiarities, Current Status and New Challenges', *South-East Europe Review*, no. 3, 2009, p. 419.
43. Ksenia Yudaeva, 'Democracy: The Problem of Inequality', in Kuchins et al., *Rough Crossing*, p. 79.
44. Voeikov, 'Klassy v sovremennoi Rossii'.
45. www.ikd.ru. Its director, Carine Clément, has been threatened and attacked.
46. Pirani, *Change in Putin's Russia*, pp. 173–90.
47. Pirani, *Change in Putin's Russia*, pp. 160–72; Samuel Greene and Graeme Robertson, 'Politics, Justice and the New Russian Strike', *Communist and Post-Communist Studies*, vol. 43, no. 1, March 2010, pp. 73–95.
48. Yurii Levada, 'Ruling Authority, the Elite, and the Masses', *Sociological Research*, vol. 49, no. 2, 2010, p. 89.

4
Russia's Foreign Policy from Putin to Medvedev

Gonzalo Pozo

That Russian foreign policy has undergone a dramatic transformation over the last two decades is not surprising and can hardly be disputed: one does not have to be an expert in the field to see that Moscow has become more assertive abroad, particularly since Vladimir Putin was elected Russian President in March 2000. The change, perhaps most visible during the deterioration of Russian relations with much of the West over recent years, the 'Gas Wars' with Ukraine and of course the conflict with Georgia over South Ossetia (which marks the first time the Russian Army has crossed an international border to attack another state since the Soviet invasion of Afghanistan) has been amply refracted by the media and popular commentary. A good example is the recent book by the *Economist*'s International Editor (and former Central and East European correspondent), Ed Lucas, who summarises what he sees as the central lesson of Russia's recently reinforced foreign policy as follows: '[T]he West is losing the New Cold War while having barely noticed that it has started.'[1] Many of Lucas's sometimes more circumspect claims chime with much of the sensationalist media coverage on Russian politics in the last few years. Cloak-and-dagger tales about Russia continue periodically to make headlines and sell books, including stories about rocks secretly fitted with radio transmitters informing MI5 agents, liberal FSB defectors fatally poisoned by radioactive teapots in Central London, and most recently, young female Russian assistants allegedly influencing the voting patterns of greying, nonentity Lib-Dem MPs.[2] Beyond the different versions of this 'return of the Cold War' narrative, it is still possible to find more serious coverage of Russia's drive to rearm over the last few years, and perhaps most often, of the clampdown on all kinds of political opponents of 'Putinism'. Unsurprisingly, mainstream media outlets tend to concentrate their attention on the plight of courageous journalists, anti-establishment liberal parties and organisations, and liberal-minded super-rich businessmen, such as the former tycoon Mikhail Khodorkovsky.[3] The ideological function of this kind of orientalist reporting seems quite clear. By trying to cast Russian foreign policy as neo-Soviet imperialism, and Russian domestic politics as a toned-down version of the Gulag archipelago, the West reminds itself of the good old days, when one would no more doubt the superiority of its politics and economic system than question the invincibility of its fictional secret agents. Particularly now that the hegemony of neoliberalism and cosmopolitanism has cracked, it is comforting to invoke the Cold War once again: after all, the West emerged victorious from what Isaac Deutscher called the 'Great Contest'. Meanwhile, as Russia's opposition to the West continued to sharpen during the 2000s, the despatches of 'New Cold War' journalism served to reassure us of the safe distance between 'our' Western capitalism, and 'theirs'. For instance, as Lucas claims, in the West bribery and corruption are an unfortunate occurrence in an otherwise lawful and predictable setup; in Russia, by contrast, 'they *are* the system'.[4] And while coverage continues to indulge in the narcissism of small differences, it tends to leave aside the fate of ordinary Russians, who have had to survive two socially gruelling decades of forced privatisations, capitalist corruption and extreme cycles of boom and bust.[5] The plight of Putin's millionaire victims, many of whom live opulently in London, leaves little space for stories like Valentin Urusov's, a Russian miner imprisoned for recruiting workers to a trade union. Perhaps most spectacularly of all, 'New Cold War' narratives tend to silence the West's own hand in supporting and funding the deep and painful reforms which would develop into the authoritarian and corrupt variant of capitalism on steroids they now decry.

Headlines and ideology apart, the shifts in Russian foreign policy over the last decade were felt on virtually all other fronts of Russian foreign policy. These shifts are important and illuminating in several ways. First, not long ago Russia was still seen as the 'sick man of Europe'. For most of its first decade the inheritor state of the USSR presided over a disoriented society in economic free fall, characterised by a blend of political authoritarianism and state impotence. Its foreign policy was institutionally disorderly, conceptually incoherent and weak.[6] At home and abroad, Russia was visibly incapable of establishing its sovereignty or ensuring the security of its citizens, and perhaps nothing symbolises this more effectively that the first Chechen war. Yeltsin's regime depended on international loans issued in the West and the encroachment on the state of a new class of industrial-financial tycoons at home further curtailed its ability to influence events in any clear direction during the 1990s.[7] As Bobo Lo has summarised:

> Across the political spectrum, from communists and nationalists to 'centrists' and liberals, there was a general consensus that Russia's international standing had hit rock bottom by the end of the 1990s, with the Kremlin's angry but wholly impotent response to the NATO military intervention over Kosovo confirming the magnitude of national decline.[8]

By contrast, Russian foreign policy has not only become much more assertive during the 2000s, but also much more 'predictable'. It has partly succeeded in overcoming the lack of coherence and institutional fragmentation which characterised it during the Yeltsin era and now operates under a much clearer mandate from the President, within a more intelligible institutional frame. Importantly, Russian foreign policy has found, after years of searching, what one could call a normalisation in conduct and doctrines, and has also succeeded in fixing a sense of national identity and interest.[9] Beyond its everyday political impact, this shift from weakness to assertiveness and predictability has allowed analysts to focus more sharply on the impact of interest groups (their activities, values and alliances) on the conduct of foreign policy.

Second, the visible strengthening of Russia's foreign stance has come hand in hand with a wide-ranging programme of political and economic reforms at home. Putin's ambitious plan, implemented since his arrival at the presidency, included a new federal make-up able to bring the regions under direct control from the Kremlin, a crackdown on independent media, a substantial shake-up of the electoral and party systems, and finally, the deployment of the old Soviet energy infrastructure (especially pipelines) to strengthen and extend Moscow's international standing. Putin's reforms have also been characterised by the political ascendancy of the so-called *siloviki*, the members of the security establishment who have cemented the authoritarian/corporatist fusion characteristic of new Russia – a phenomenon popularised as 'Russia Inc' from the pages of *Wall Street Journal* to those of *Kommersant*.[10] However, Putin's reforms and the rise of the *siloviki* have also had a very large role to play in the increased attention given to the imperial theme. Putin and the *siloviki* share a strongly nationalist outlook, upholding a conservative and statist ideology which is widely held among Russia's ruling elites.[11] As the set of principles and views about the political identity of the country which constitutes Putinism became the target of intense attention within and outside Russia, the imperial theme gained in importance, this time as a 'geopolitical outlook', or an influential foreign policy disposition.[12] The equation of strategic calculations or particular modes of envisaging and representing international relations by foreign-policy makers with geopolitics itself implies, as Alejandro Colás and I have argued elsewhere, a mistaken understanding of the meaning of geopolitics.[13] However, the transformations undergone by the economy, society and domestic and foreign policies of Russia over the last decade have been characterised in part by the advent of more openly 'geopolitical' modes of thinking within Russian foreign policy-making institutions, and therefore, by a sharper analytical attention to these 'geopolitical' strands both in the discursive formation and practical articulation of Russia's international relations.[14] It is also in the peculiarities of modern versions of Russian nationalism that the study of foreign policy has begun in recent years to acquire a strong geopolitical flavour, that is, a sense that Russian ruling elites and their foreign policy circles partake in a worldview where the elements of zero-sum games, international competition and rivalry over resources and territory have gained salience. Further, Russia has seen a telling intellectual revival of the classical 'geopolitical' tradition.[15] Several recent works on Russian foreign policy have focused on the appearance of a new geopolitics, or in some other instance, a new kind of 'power-balancing and pragmatism'.[16] The foreign policy and security concepts first pioneered by the erstwhile Foreign Minister, and briefly Prime Minister, Evgenii Primakov, and taken up by Putin have guaranteed this: '[F]acing the US' attempts to use military power as a source of hegemony, those [old Great Power] habits have started to dominate the stage in Russian security thinking again.'[17]

RUSSIAN IMPERIALISM?

The tight link between a Putinist version of nationalism and the question of empire has been quite thoroughly studied and historically contextualised. The contemporary variant of Russian nationalism called Putinism is based on the idea that the reconstitution of Russia's diminished international status after 1991 and the internal reconstitution of growth and order are inextricably linked.[18] The elements that characterise this discourse necessarily open us to the notion of *derzhavnost'*, or 'great powerness'. As we shall see in more detail when we analyse the pre-eminent ideological strands of Russian foreign policy, such an outlook, based on restoring the strength and security of the Russian state can only be achieved by reference to Russia's deployment of its natural resources, in particular oil and gas. In this foreign policy ideology, the restoration of order, growth and international influence is very hard to disentangle from Russia's status as an energy superpower, which in turn must openly declare its international interests and work to establish its control over key spaces, mainly the post-Soviet spaces of the Caspian and Central Asia.[19] Indeed, in its main foreign policy and security concepts, Russia has staked its geographical claims to influence in an increasingly explicit way since 2000, culminating perhaps in Medvedev's talk of 'zones of privileged interest' in the weeks following the August 2008 war with Georgia over South Ossetia.[20] None of this means that Russian foreign policy is now a fully synchronised institutional, ideological or political machine. There are still contradictions and unresolved differences of interests and views within it. But as Bertil Nygren has argued, Putin has acted as 'the orderer': when it comes to Russia's relations with the outside world, 'order means predictability, which increases security', and in turn guarantees social and economic stability.[21]

With elements from a nationalism of empire, the concept of *derzhava* and the return of 'geopolitical' outlooks are active mainly at a discursive level and play an important role in the formulation and activation of foreign policy. Of themselves, however, they cannot explain its evolution. Like any other key activity of the state, and wherever it is formulated or deployed, foreign policy is a complex process, shaped by the international environment, the economic context, the institutional frame and many other actors and power relations. Ultimately, Russian foreign policy must be seen as a highly politicised and mediated social product. A complete understanding would include considering its social sources and historical evolution. As we have seen, much of the literature tends to concentrate on the discursive formation of Russian foreign policy or its institutional factors. Interestingly, Russia's growing assertiveness abroad and authoritarian evolution at home have diverted analytical attention to the importance of neo-imperial/geopolitical themes.

When attention does focus on economic factors, most authors concentrate on exogenous ones, claiming that Russia's newfound confidence in the 2000s had everything to do with the dizzying rise in the international prices of gas and oil throughout much of the decade (until their sharp and rapid decline in autumn 2008, provoked by the onset of the present crisis of capitalism). Many were content to cast Russia as the latest of many countries to suffer from the negative effects of having abundant stocks of a given natural resource (the so-called 'resource curse'). That high oil and gas prices embolden and sharpen the aggressive stance of countries which produce these commodities is a well-studied phenomenon (now elevated to the status of a 'law' thanks to the musings of the intelligence analyst Thomas L. Friedman).[22] Indeed, Russia's energy resources have played a crucial role in this transformation. The rise of Putin to power was blessed (or is it 'cursed'?) by a sharp and continuous rise in the price of oil and gas since the 1970s. Russian foreign currency reserves peaked in August 2008 at $598 billion, following the rise of the price of oil to record levels. The tax revenues of the Russian state (one of the indicators of political weakness during the 1990s) grew steadily from 2000 to 2007, allowing the Russian Treasury to run a fiscal surplus from 2003, with a year-on-year increase in the contribution to those revenues of taxes on hydrocarbons. International commodity prices also allowed the Russian state to create a stabilisation (sovereign) fund from oil exports held offshore in 2004, which amassed over $150 billion in 2007.[23] Of course, the capital flight that followed the war with Georgia in August 2008 and the further impact of the financial crash and global recession which followed the collapse of Lehman Brothers in September took their toll.

During the worst period of the crisis, after the international oil prices plummeted from close to $150 a barrel to less than $35, the Russian economy was deeply shaken. Those analysts convinced of its almost complete reliance on the price of oil and gas looked completely vindicated. Russia's financial markets were saved only by the repeated intervention (read partial closure and virtual firewalling) by the state, which saw its hard currency reserves depleted by over $200 billion in an effort to maintain the value of the rouble. Russia's energy and raw material behemoths were also deep in debt, inflation reached almost 15 per cent and by 2009, the Russian economy was officially in recession. And yet, the Russian strand of the 'resource curse' does not give the full picture: while the recent transformations have certainly not gone unnoticed, the study of Russian foreign policy has still not advanced much in one crucial respect – it continues to cry out for an analysis that can relate its structures, conduct and discourses to the strategies of accumulation and interests of its ruling class. Specifically, the Putinist regime has built its popular legitimacy on being able to deliver rising living standards and economic growth. This has allowed it to service a coterie of semi-private interest networks while eliminating the opposition's chances of making any electoral gains. In the face of the global financial crisis, the regime's political supremacy saw a number of interesting challenges, most famously in Vladivostok in the impressive demonstrations during December 2008 against tariffs on imported cars (but also in less widely reported incidents in other cities from Moscow and St Petersburg to Kazan and Samara). However, writing in early 2011, with oil prices once again reaching three-year peaks, it can be safely argued that Putinism and its key leaders have survived the crisis. While in recent months part of Russia's foreign policy has been reprogrammed to secure lines of economic cooperation and investment from the West, Moscow has, in the main, continued to strengthen its opposition to Washington and its allies. Denying the importance of international oil and gas prices in Russian foreign policy would be foolish, of course, but the point is that simply relating Russia's resurgence to its natural resource wealth is a very limited economic and political explanation.

Another theme that has made an interesting appearance with Russia's rise during the 2000s is the notion of empire. Some authors had been warning about the perils of Russia's neo-imperial temptations since the mid-1990s.[24] However, it was Putin's rise to the Russian presidency that lent the imperial theme a new, often urgent purchase. Janusz Bugajski, for example, has written extensively about what he believes constitutes Moscow's goal of establishing a new empire, based on coercion of neighbouring states through a combination of thuggish diplomacy and ruthless campaigns of energy blackmail.[25] Celeste A. Wallander recently opened an important intervention, noting that '[T]here is a new reality on the global scene: a Russian foreign policy that is proactive and strategic' and arguing that the novelty should be interpreted as neither 'post-imperial' (assertively protecting its national interests, while respecting the sovereignty of others) nor 'neo-imperial' (attaching its own security to the control of her weaker neighbours), but 'trans-imperial', that is, an assertiveness rooted in traditions of classical imperialism as well as in elements that are radically modern and transnational.[26] Anita Orbán, using a very problematic refinement of defensive realist theory, has cast the foreign projection of hydrocarbon power as a 'new Russian imperialism'.[27] Beyond the reifications of realism, Robert Legvold edited an excellent volume on Russian foreign policy in the twenty-first century, largely based on the premise that Moscow's 'post-imperial' international relations must be understood with references to the continuities and discontinuities of its imperial past. This undertaking is part of a renewed interest in the international history of Russian imperialism, typically covering its subject from the sixteenth century to the present, and implying that, if no longer imperial, contemporary Russian power needs to be understood through its imperial past.[28] A good example is Philip Longworth, who argues that while the imperial character of Putin's Russia is still an incomplete and complex reality, the possibility of it developing fully cannot be ruled out.[29] This idea has been echoed by the French political scientist Michel Korinman:

> Russia has the means to mobilise immense resources and Putin, although he knows that the Russians want above all political stability and economic growth, is re-imperializing the country. This is why the Russians are determined to overcome 'the new world order' which is far too unilateral, and to establish instead a 'concert of empires'.[30]

While the return of the categories of empire/imperialism is very useful and welcome, the neo-imperial theme (applied to contemporary Russia) tends to refer to the longevity of historical legacies, domestic authoritarianism and attempts to expand foreign influence and control. In other words, all these approaches tend to confuse the notion of imperialism in at least two basic ways. First, the fact that Russia combines military and political pressure with diplomacy and cooperation in its relations with the former Soviet states has convinced many that the Putinist construction of 'great powerness' cannot be considered imperialist in any classic sense.[31] The 'post-imperial' version of these arguments unsurprisingly lost purchase after the wars in Abkhazia and South Ossetia in August 2008. However, the main point should remain that imperialism and empire do not lose their theoretical validity even if they refer to forms of power which do not imply a reconstitution of colonial domination, or, in the Russian context, a restoration of Tsarism.[32] This is precisely one of the main problems with those who adhere to strong versions of the 'neo-imperial' theme, who felt so vindicated after August 2008. For these authors the prospect of a stronger Russia with a centralised state proves that the ghost of (Soviet) imperialism still haunts the Kremlin. Perhaps the clearest exponent of this view is Janusz Bugajski, who recently warned that:

> [T]he statist and neo-imperialist essence of Putinism again challenges the West, primarily as an alternative center or fulcrum of independent statehood, international protection and economic development . . . In building a new global order, Moscow strives to renew itself as a major pole of power by recreating its dominant role in a revamped empire, beginning with the 'post-Soviet space', *which has become a euphemism for Russia's imperial space.*[33]

One of the curious aspects of Bugajski's burning concerns (and this applies to other writers who share his basic conclusions, among them Anita Orbán) is the fact that Russia's imperial drive seems to be taken for granted, working as a direct consequence of Russian political strength or economic growth, in a kind of evil instance of autopoiesis. In their different ways, these authors seem content to assume that Russia will turn towards imperialism simply because, in contrast to the 1990s, now it really can pull it off. However, imperialism is not merely about the annexation of territory and naked expansionism. If properly conceptualised, it is about an amalgamation of territorial and economic interests. Moreover, what all these authors seek to define as imperialism is not a confluence of state and business interests in foreign policy (something closer to the Marxist tradition), but the subsumption of the Russian energy sector into the state's vertical power structure with a view to extending its influence abroad. The nuance is obvious in Marshall Goldman's intriguing observation that current events in Russia mark 'a reverse form of economic imperialism' in the way 'Lenin would have defined it'.[34] What Goldman means, of course, is that economic imperialism involves a kind of *diktat* of business interests on policy. In the background of many such analyses lurks a question which, as Peter Duncan puts it, 'has been raised but not addressed', namely, whether Russian capital, and in particular, dominant energy firms like Gazprom, 'act abroad on their own initiative or as agents of the Russian State'.[35] It is small wonder that there is so much variation among the answers on offer: the terms of the debate thus presented are often misleading.[36] As Duncan also argues, making sense of the interaction between state power and business in Russian foreign policy requires asking the right kind of questions about this relation and demands placing the motivations of actors at the centre of the analysis.[37] The recent history of Russia has seen the emergence of an amalgamated structure of power, where capital and the state are tightly intertwined. In it, capital not only seeks economic profit through its economic activity, but crucially, through access and influence to the state, on which it partly depends. Conversely, the state seeks the proximity and assistance of business to exert its authority and pursue its goals. The question is not so much who dominates this often uneven and co-constitutive relationship, but the way in which it might help modulate particular patterns of foreign behaviour, and the role of these in upholding social relations of power in Russia.

INSTITUTIONAL AND IDEOLOGICAL REORIENTATIONS

The first important element to consider is the institutional edifice framing Russian foreign policy. The idea that only foreign goals determine a state's foreign conduct is as absurd as empirically unlikely. The usual structures involved in the formulations and enactments of foreign policy are rooted in society and politics, both through the mindsets of the state managers who constitute their personnel, and through the organic relation of the state form to the political economy which it oversees and which is its origin. This is surely obvious and quite true of any state. However, as Lo has noticed, the Russian case is remarkable (we hasten to add, not quite unique), particularly across the former Soviet Union, in the degree to which its foreign policy became politicised and in the disproportionate role played by 'bargaining chips' shamelessly exploited for narrow political gains.[38] The main reason for this has already been alluded to. During most of the 1990s, the Russian Federation had difficulties coordinating its foreign policy, a circumstance which repeatedly resulted in policy shifts and inconsistencies on every front (the specific twists and turns with regards to NATO are examined in other chapters). The overall weakness of the Russian state during this period resulted in the interference of a plethora of different groups, both inside and outside government, vying for influence in the policy-making process and pushing for their particular interests, while at the same time defending their separate and often contradictory agendas as optimal in terms of the Russian national interest.[39] This state of confusion and flux was scarcely aided by the trajectory and leadership style of Yeltsin himself, and was further aggravated by the domestic scene, shaken by the radical transformation of the entire political system, the semi-imposition of a new constitution by the end of 1993 and an electoral landscape very often opposed to the choices and decisions taken at the top of the executive.[40] The economic crisis pushed the Yeltsin administrations to take on enormous foreign loans, often in exchange for rash political compromises which Moscow then sought to reverse. If this were not enough, a radical programme of privatisation and shock therapy was unleashed, even before steps had been taken to ensure the smooth running of new institutional and legal frameworks. The boundaries between the private and public were now becoming almost impossible to disentangle.[41] The blur also clouded the making of foreign policy. While the influence of business is felt in the policies of any state, this presence was overwhelming in Russia already since the 1990s.[42]

Before the break-up of the Soviet Union, Mikhail Gorbachev and Eduard Shevernadze had tried very hard to transfer the main sources of foreign policy from the Communist Party to the Ministry of Foreign Affairs [*Ministerstvo Inostrannykh Del*, MID]. After the failed August coup of 1991, the Soviet security establishment was left in disarray. Russian foreign policy was set to fall squarely in executive hands and became dominated by the President and his supporters in the MID, along with a number of presidential agencies and advisory groups. Chief among these was the Security Council [*Sovet Bezopastnosti Rossiiskoi Federatsii*, SC], a consultative body made up of the heads of the most important ministries and governmental agencies which has the task of formulating the President's national security concepts and strategic documents.[43] Despite Yeltsin's hapless efforts to bring foreign policy and other key areas firmly under presidential control, another institutional legacy of the Soviet Union, the Supreme Soviet, set out to pursue its own goals and agendas in foreign policy. (This body was tasked with elaborating foreign policy under the dispositions of the Soviet Constitution, in place until 1993.) The Russian Constitution of 1993 made official the presidential control of foreign policy and represented an important step to transcend the deadlock between the Kremlin and the Supreme Soviet which had nearly derailed Russia's political transition a few months earlier. However, some key institutional ambiguities remained, and a crucial one among these was that while the new constitutional set-up allowed the proliferation of presidential committees and agencies, it left the exact role of the MID unclear.

One mandate that was less unclear, at least on paper, was Yeltsin's 1992 request that MID coordinate all the foreign policy activities of the other state agencies. But this in itself was a mammoth task, particularly since the MID was a 'battleground of foreign policy formation from 1990 through 1996'. Fulfilling its mission was particularly difficult after 1993, since the official centralisation of foreign policy in the hands of the President often acted to marginalise the MID itself in favour of the other ministries.[44] As Lo writes: '[A]mong the worst of these offenders were the Ministry of Defence, the Ministry of Atomic Energy, the Ministry of Economic Development and Trade and the Presidential Administration apparatus (the foreign policy adviser, the Security Council).'[45] The result was the fragmentation of foreign policy across sectors and areas of influence, with other governmental or private agencies (among them Gazprom, LUKoil, some firms from Russia's military-industrial complex, and later, as we shall see, rich businessmen) *de facto* formulating their own goals, ties and contacts, particularly in those areas of policy where the MID remained unsure.[46]

Compare Yeltsin's first years in power with Putin's. After his inauguration, Putin effected a deep change in the institutional frame of Russian foreign policy. Quite quickly and effectively, he reordered the foreign policy-making process as part of his project of strengthening vertical power, infusing it with greater clarity, homogeneity and horizontal coordination.[47] Much of this had to do with a change of guard at key posts within the MID, starting with the ministers themselves. Since one of the key characteristics of the institutional frame of Russian foreign policy is precisely the tenuous procedural role of official posts, the political profile of the incumbent becomes a more decisive element than normal. For this reason, men like Sergei Lavrov who, unlike Evgenii Primakov, come from a diplomatic background, are likely simply to perform the implementation of concepts and directives designed by their superiors in the Kremlin and those closer to the President (figures like presidential chiefs of staff and their deputies, presidential aides like Sergei Prikhodko, and important men of the elite like Sergei Ivanov, former Defence Minister and currently Deputy Prime Minister).[48] Apart from the weight which some individual appointments might carry and the influence this might have on general policy, Putin's political reforms have had two further institutional effects worthy of mention. The first one concerns the role of the SC, which has been shifting since its foundation (the suspicions of many that it would become a kind of post-Soviet politburo were never realised).[49] In particular since former Foreign Minister Igor Ivanov became the Council's Secretary (2004–7), its profile waned, and even today, under Medvedev's presidency and Nikolai Patrushev's Secretariat, its role is more consultative and symbolic. All in all, this is a far cry from the times when the SC, especially during the period of Ivan Rybkin and Boris Berezovskii, directly engaged with key security issues (in particular, Chechnya). Second, Putin's general reordering of Russia's political system has significantly limited the role of the Federal Assembly and, more broadly, the impact of domestic party politics in Russian foreign policy, one of the sharpest differences between the contemporary period and the 1990s. Alongside the ratification of foreign policy agreements, the foreign policy role of the Federal Assembly, as Trenin and Lo have argued,

> is to 'work' with foreign parliaments, voice undiplomatic opinions of concerns to Russia (in particular the treatment of Russian minorities in Latvia and Estonia), and to counter foreign criticism of Russian policies (most notably on Chechnya in the Parliamentary Assembly of the Council of Europe).[50]

Hand in hand with this foreclosure of the policy-influencing role of domestic politics is, of course, the further alienation of the media and public opinion from the elites that make and carry out decisions. The political sphere in Russia seems to have been sidelined, relegated to performing a reactive role or at best, in the case of the Federal Assembly, a pedagogical one.

At the same time, contemporary Russian foreign policy is still permeable to two crucial influences. The first is the security services, whose conservative views have had an important impact on vital elements of Russia's foreign projection, for instance, military doctrines.[51] The second kind of influence is Russian capital, in particular big business conglomerates in the energy, mineral and financial sectors. We return to this below. Meanwhile, at least one overall conclusion should be apparent from this brief overview of the Russian institutional context. The picture that emerges is that of bureaucratic environment which, both during the disorderly days of Yeltsin and the more central and normalised 2000s continues to be partly characterised by ever-shifting lines of influence, political weight and informal power. Beyond the point, which virtually all commentators agree on, that Putin has successfully imposed an order on the official structures of foreign policy-making, the more transcendental meaning of this story is that these structures have evolved in line with Russian politics and society, and have become less transparent and more malleable in the hands of powerful players. The club rules have become clearer and the possibilities of membership have been greatly restricted, but the importance of informal networks of influence still constitute a crucial driver.

Putin's coming to power, then, had a deep transformative effect on social, economic and political life; but 2000 also marks a key reorientation in terms of the processes involved in the symbolic and identity construction of Russian foreign policy. In terms of a dominant foreign policy discourse, Putin's rise initiated three main trends. First, and with the adoption of new foreign policy and national security concepts in 2000, Russia's external realignment confirmed a trend already in motion since the mid-1990s, and banished most traces of Atlanticism.[52] Second, and particularly after 2003, Putin's regime successfully began to integrate different hues of pragmatism, nationalism and statism into an ideology of the regime, which we have been referring to as Putinism and which continues to frame foreign policy under Medvedev. Finally, Putinism succeeded in galvanising a recognisable consensus among foreign policy elites, an essential feat given the informal networks of power which belie much of the state's institutional foreign policy framework. Thus, though the ideology of Russian foreign policy had already been changing in the 1990s (in particular thanks to Primakov), it was really only after 2000 that it took a fundamentally new course.

From the start, Russian politics and foreign policy became the field of national debate about the values and narratives which could best capture the historical essence of Russia, that is, its identity and place in the world. Classically, the two broad camps of this debate were the Westernisers (or Atlanticists, also known as *zapadniki*) and Eurasianists (or conservative nationalists). Westernisers wished to see Russia geopolitically and economically reintegrated with the West. The results of Atlanticism were largely negative. First, starting in 1992, the Westernising course was immensely unpopular across the political spectrum. For most parties and popular opinion, Atlanticism was a strange ideological implant in a country with a territorial and geopolitical outlook which was not simply European but also, fundamentally, Eurasian. Second, the reception of Russia into the structures of the post-Cold War order was at best mixed, with not enough money, exclusion from some important international fora and humiliation for its weakness. The hopes of a fast integration of Russia into the new international order were soon dashed, and this, coupled with political and economic troubles at home, rapidly gave rise to frustration and anger. Towards the mid-1990s, in a process strongly galvanised by the appointment of Primakov to the MID in January 1996, the Russian Federation began to change its trajectory, aiming this time at pronouncements and policies which chimed with Eurasianist principles and which attempted, for the most part, to make a virtue out of necessity. Relations between NATO and Russia, and in particular the war in Kosovo, became the weathervane of this change in foreign policy. Since then, Atlanticist thinking has been mostly relegated to intellectual circles, especially those associated with the analyst Dmitri Trenin.[53]As we have been arguing, Putin's coming to power in March 2000 marked a reorientation of Russian foreign policy, a shift designed to pursue the dual goal of a restoration of economic growth and foreign and political order at home, and the reconstruction of Russia's external role as *derzhava*, or a great power. As with any corporatist political project, order, economic growth and foreign assertiveness are understood to be mutually intertwined aspirations.[54] Particularly after 2006 the official ideology of Putin's regime has congealed around a number of specific programmes, proposals and debates, in particular, those around the new doctrine of sovereign democracy [*suverannaia demokratiia*], articulated for the most part by the Kremlin ideologist Vladislav Surkov and the more recent Putin Plan [*plan Putina*].[55] One of the key novelties of Putinism as a foreign policy discourse is that it provided a consistent narrative about the need to integrate the interests of the oil and gas sectors with those of the state. Putinism defends closer cooperation between the giants of Russian hydrocarbons and mineral resources and the state under the banner of the reconstitution of Russia's greatness, and thus provides a discursive legitimacy for the quest to renew Russia's hegemonic role over its 'near abroad'.[56] In purely ideological terms, Putinism is relatively revolutionary in its significance, since it serves three narrative functions. The first is to unify the many versions of conservatism, pragmatism and statism which, as mentioned above, have pullulated without order among Russia's foreign policy-making elites. The second function has been to lend a forward-looking, one might even say progressive, quality to state policy. The third, and most fundamental from an ideological standpoint, is to unite this doctrine to the leader and the concrete political project of the state and its leader. But beyond this, there is of course a further key ideological function, which is not merely narrative or political but economic. To wit, it provides justification for the expansive deployment of Russian capital, now concentrated around the state, gas and oil and mineral industries. Thus, the official version of 'great powerness' provides a very successful set of narratives expressing the fusion of economic and territorial motives, the overlap between state and business power, and the (self-)justification of the elites, working within Russia Inc. We shall return to the economic dimension of this ideology below and concentrate for now on its political aspects.

The political and economic basis of Putinism, hinged as it is on the centrality of hydrocarbons, unsurprisingly displays an explicitly geographical projection: the main aims of foreign policy towards these strategically vital regions revolve around the establishment of Russia's direct influence on them.

CLASS AND FOREIGN POLICY IN CONTEMPORARY RUSSIA

The political clout of business elites in Russia, as has been mentioned before, has been comparatively higher than in most Western countries, something widely acknowledged by most analysts.[57] The moment of greatest power over the state for the elites was in all probability the period between 1995 and 1997, when big business practically underwrote Yeltsin's victory in the 1996 presidential campaign, particularly during the second round, in July that year. There are two clear indications of the rise in business influence over the state at this time. First, the most powerful sections of Russian business organised and swiftly benefited from the loans-for-shares programmes, the first auctions of which began in autumn 1995. The process, a kind of amphetamine-fuelled neoliberal privatisation, activated an unprecedented transfer of economic assets from the public sphere into the hands of a small group of financial conglomerates, controlled by the oligarchs. Second, powerful business conglomerates have been encroaching on the state with the appointment of some of them to key posts in the Russian administration. Vladimir Potanin, for instance, was appointed First Deputy Prime Minister with responsibility for the economy, and held the post from July 1996 to August 1997. Also in 1996, Boris Berezovskii was appointed Deputy Secretary of the Security Council, having already acted as executive secretary of the Commonwealth of Independent States.[58] The oligarchs, from their predominantly financial base during the 1990s, oversaw the key elements in Russia's transition to capitalism, a process which redefined Russian politics and society in several profound ways.

Two events would shake up the relations between the state and business. The first was the rouble crash of August 1998, which hit the oligarchs hard and pushed them away from finance and deeper into the energy and mineral sectors. The crisis also tended to dissolve their own political relevance to the advantage of other men already consolidated in these sectors (the likes of Roman Abramovich, Vladimir Bogdanov, Oleg Deripaska and Alisher Usmanov). The second and perhaps determining factor was, yet again, Putin's rise to power in 2000. Putin and his circle have, in part successfully, attempted to harmonise particular business interests in the energy and mineral sectors with the foreign and security pursuits of the Russian state by linking them not simply to the national interest, but more generally to Russia's economic prosperity.[59] In comparison to his predecessor, the new President was far more alert to the fact that energy is a key resource not simply for the Russian economy but for the future prosperity of the state and for the attainment of its foreign policy goals, and in this way, 'placed considerable emphasis in the statements on promoting Russian economic interests as an important feature of foreign policy'.[60] Putin's essay on 'Russia on the Threshold of a New Millennium' (1999) and his foreign policy concept of 2000 both suggested the national importance of a proper integration of the Russian economy with the global market.[61]

Some key players in the energy sector expressed views which seemed to coincide with Putin's overall message. For instance, the president of LUKoil, Vadim Alekperov, had this to say in 2001:

> The new ideology of Russia's oil men proposes that we, Russian oil men, do not only work for profits, we work in order to build a contemporary highly developed economy, a great power, Russia, of which we are now proud and of which we want to be proud in the future .... Without any false pathos, we affirm that every step we have made in the last ten years in the history of our company has gone in the struggle for the new Russia, striving to take into account the national interest of our country.[62]

Fine words, but the statement is structured precisely by false pathos, or the shameless attempt to assuage any suspicions the new Putinist regime might have about the values and fidelity of LUKoil. As the Khodorkovsky affair amply demonstrated, businesses now have to work hard to keep good relations with the state and to stay out of the sight of voters in domestic politics. However, the fact that Alekperov's declaration of patriotism has a clear political rationale should not distract us from the important truth which it does contain.

The Russian economy is overwhelmingly dependent on its energy-related activities, and as we have seen, energy in Russia is the arena of an intense overlap between private and public interests, and legal, semi-legal and downright criminal links and behaviour.[63]

The Russian state seeks to gain in influence and control especially over the near abroad, and in this the energy weapon is a key tool. On the other hand, big Russian capital has a predatory attitude to wealth and relies on the state for the generation and reproduction of rent. The high levels of investment required to maintain and renew the industrial infrastructure of the hydrocarbons sector and the relatively slow yields this accrues make the expansion of business activities abroad more attractive for a constellation of Russian energy concerns predominantly driven by the rapid acquisition of profit.[64] To put it another way, the symbiosis of business and the state in Russia has a clear foreign projection too: while the state might wish to use the energy weapon to uphold its influence abroad, gas, oil and mineral fortunes seek to work with the state abroad in order to defend their investments and access to rent in the form of access to foreign reserves. It is particularly in the former Soviet Union, where the main Russian oil and gas firms have been relentlessly acquiring interests, that this trend is visible.[65]

Gazprom makes up to 20 per cent of annual state revenues and accounts for about 8 per cent of Russian GDP.[66] For Gazprom, increasing its earnings on exports markets is one way to offset any increase in domestic taxation, and, as was the case during the years when energy prices were low, to round up revenues.[67] Since Europeans pay premium rates for gas, partly due to the fact that European gas prices are linked to oil, Russia needs to keep its role as Europe's gas supplier, even while alternative markets are explored. In this way, defending its reputation as a responsible energy supplier and protecting its own sources of revenue become mutually complementary goals: the Russian state and Gazprom share a central interest in gaining control over the markets, production facilities and transport and storage networks of its CIS neighbours. As Mark Smith argues:

> The supply of oil and gas and the acquisition of assets by Russian energy companies in these states are a means of tying these states to Russia, so the interests of these companies in acquiring markets and overseas assets dovetails neatly with the political interests of the Russian state.

Since the points advanced so far about the synchrony of goals between large capital and state focus so much on energy and on the geopolitical space of the CIS, it is possible to object, as Smith does, that 'outside its near abroad, it is harder to argue that foreign policy is driven by business interests'.[68] Even when this is an important caveat (suggesting that, at best, the model proposed in this chapter only has a regional scope) it is predicated on two mistaken assumptions. It is precisely the contest over these spaces of accumulation and influence in the former Soviet map that underwrite competition (and naturally) opposition to a US-led world order and NATO expansion. Moreover, one of the virtues of this account of the relation between state and business interests in foreign policy is that, while it pays due attention to the motivation of players, it still transcends a debate concerned with the chicken-and-egg quandary of whether it is business interests which drive Russian foreign policy, or the other way around.

The Obama administration has sought to reset relations with Medvedev's Russia and has attempted to ameliorate the corrosion of the West's relations with Moscow overseen by George W. Bush. Despite the upbeat rhetoric, an important strategic arms reduction agreement between Washington and Moscow, and the recent NATO summit which amid talk of creating a new partnership took important steps to increase Russia's cooperation in Afghanistan, the main contours defining Russian foreign policy and its relations with the West have proved very difficult to redraw.[69] A central reason has to do with the social and economic origin of an assertive drive for the external extension of Russia's political and market influence over its near abroad, a space which the realities of contemporary Russian capitalism are providing with a new geopolitical charge, and which, as we have seen, the ideology of Putinism can legitimate and activate, providing the most comprehensive synchronisation of the different class interests prevalent within the state. Medvedev's frequent appeals to liberalisation have scarcely been followed by any political measures to alter a corrupt and inefficient institutional set-up underwritten by strong relations of fusing economic and political power. The first, severe consequences of the global economic crisis in Russia tended to soften Moscow's diplomatic stance and facilitated a rapprochement with the West, intended to ensure financial stability, foreign investment and a means of reducing the impact of the slump in international oil prices between the autumn of 2008 and summer of 2009. But even then, such moves have taken place against a backdrop of growing suspicion and uncertainty over Ukraine, the Caucasus and Central Asia. The status of Abkhazia and South Ossetia remain, to say the least, an unresolved equation for any future plans to enlarge NATO, while the international tension over Ukraine's integration into the Western orbit has now been internalised after the almost unimpeachable electoral victory of 'pro-Russian' candidate Viktor Yanukovich. (Medvedev had his own gas war with Ukraine in the winter of 2008.) Even the enthusiastic rhetoric has been dampened. As a recent Wikileak exposed, the familiar declarations of mutual goodwill coming out of NATO's Lisbon summit in November 2010, and the Alliance's offer of a fresh start with Russia had actually taken place against the background of secret allied plans to defend the Baltic States in the event of a Russian attack.[70]

CONCLUSIONS

The continuity of the current economic and political regime, with its attendant ruling ideology (Putinism), has been clear during Medvedev's presidency. Within Russia, the transfer of presidential powers from Putin to Medvedev in May 2008 was seen by many as farcical, and has at best paved the way for a mechanism of some power-sharing, commonly referred to as 'tandemocracy'. Abroad, Medvedev has tried to improve Russia's image after the war with Georgia in August 2008 (its diplomatic overtures in Poland after the death of the Lech Kaczyńki and much of his staff in a plane crash in April 2010 were largely successful). Beyond that, Medvedev has furthered the vectors of Putinist foreign policy.[71] The use of energy as a tool of power projection has remained an important part of Russian politics abroad. Meanwhile, Medvedev has defined a much clearer stance on the role of energy in the Arctic, with the Security Council of the Russian Federation outlining an Arctic Strategy (signed by Medvedev in September 2008).[72] The first step in its implementation involves verifying Russia's Arctic territorial limits, including its entitlement to an Economic Exclusion Zone according to the UN Convention on the Law of the Sea. This move was echoed in 2009 by the development by NATO of its own 'Northern Dimension' and is very likely to involve an intensified militarisation of the Arctic. While mired by enormous contradictions, extreme inequality and poor infrastructural development, the foreign Russian resurgence is likely to continue for as long as it is underpinned by a class structure characterised by a minimal social base and very tight connections to the state and the energy sector. The spatial manifestation of such a mode of accumulation, one characterised by the mutual reliance of business and state power for rent and influence, will mean that Russian foreign policy is likely to continue to evince an extensive territorial outlook, and this will entail friction with the West. The evolution of Russian capitalism is likely to drive a sharpening of international rivalries over the coming years.

As for theory, even if not many works address the relation of business and foreign policy beyond the framework of specific empirical questions, mentions of the business/state nexus which acts as the linchpin of Russian foreign policy are being heard with increasing frequency in recent times. There are some promising examples of this: for instance, the expert Lo, who does not usually pause long on this theme in his main works, recently argued in a policy brief that:

> the most important element binding the [Russian] elite is a common interest in the survival of Putinism as an exclusive and non-accountable system that enriches them all. The term 'Kremlin Inc.' describes a tiny group for whom a 'class loyalty' based on self-interest is far more important than often artificial policy differences. Individuals may fight each other, but the survival of the group is paramount. Putin represents the best bet for preserving this closed system against the emergence of a Russia in which the elite would be called to account. While he [Putin] may have lost some of his mystique, there is no-one else who has the *cojones*, let alone the political craft or institutional trumps, to replace him. Any attempts to do so would seriously jeopardise the dividends that have accrued to this privileged circle over the past decade.[73]

Indeed. Nevertheless, the key question is not so much in Putin's craft, in his mystique or even in his trousers. Rather, it can be found in the problem which Lo, as if grudgingly pushed to Marxisant jargon for lack of a better term, refers to in inverted commas as class loyalty. More systematic returns to such themes would be a welcome development to the study of Russian foreign policy, given that they would open it up to questions about the relation of capitalism to international conflict and war as well as to even more trenchantly critical appraisals of Russian foreign policy than most of the existing ones. In such a development, the categories of capital and class might find their own theoretical place within a body of literature overwhelmingly unacquainted with historical materialism (and just as often, dismissive of it).

NOTES

1. Edward Lucas, *The New Cold War: How the Kremlin Menaces both Russia and the West*, London: Bloomsbury, 2008.
2. See, for instance, Alexander Litvinenko and Yuri Felshtinsky, *Blowing up Russia*, London: Gibson Square Books, 2007; Yuri Felshtinsky and Vladimir Pribylovsky, *The Age of Assassins: The Rise and Rise of Vladimir Putin*, London: Gibson Square Books, 2008. See also Nicholas Watt and Luke Harding, 'Mike Hancock, his Russian Assistant and Questions on Trident', *The Guardian* (London), 5 December 2010.
3. See the recent article by David Remnick, 'Gulag Lite', in the 20 December 2010 issue of the *New Yorker*, www.newyorker.com/talk/comment/2010/12/20/101220taco_talk_remnick.
4. Lucas, *The New Cold War*, p. 18.
5. For an essential account, see Simon Pirani, *Change in Putin's Russia: Power, Money and People*, London: Pluto Press, 2010, and Mike Haynes' chapter in this volume for an angle on the Russian working class.
6. See Bobo Lo, *Russian Foreign Policy in the Post-Soviet Era: Reality, Illusion and Mythmaking*, Basingstoke: Palgrave Macmillan, 2002, especially chapter 3. Also, Andrei Tsygankov, *Russia's Foreign Policy: Change and Continuity in National Identity*, London: Rowman & Littlefield, 2006, pp. 60–8.
7. See, for instance, Jeffrey Mankoff, *Russian Foreign Policy. The Return of Great Power Politics*, Plymouth: Rowman & Littlefield, 2009, p. 56.
8. Bobo Lo, *Vladimir Putin and the Evolution of Russian Foreign Policy*, London: Blackwell, 2003, p. 23.
9. Richard Sakwa, *Putin: Russia's Choice*, London: Routledge, 2004, pp. 215–17.
10. Andrei Illarionov, 'Russia, Inc.', *New York Times*, 4 February 2006. For an excellent critical take on the concept, see Tony Wood, 'Contours of the Putin Era: A Response to Vladimir Popov', *New Left Review*, series II, no. 44, March/April 2007, pp. 53–68.
11. Lo, *Vladimir Putin and the Evolution of Russian Foreign Policy*, pp. 72–4.
12. Lo, *Vladimir Putin and the Evolution of Russian Foreign Policy*, pp. 94–6.
13. See Alejandro Colás and Gonzalo Pozo, 'The Value of Territory', *Geopolitics*, vol. 16, no. 1, 2011, pp. 211–20.
14. See, in particular, Lo, *Axis of Convenience*, especially chapters 8 and 9.
15. See Eduard G. Solovyev, 'Geopolitics in Russia: Science or Vocation', in Andrei Tsygankov and Pavel Tsygankov, eds., *New Directions in Russian International Studies*, Stuttgart: Ibidem Verlag, 2005, pp. 127–42. Two key authors to emerge in recent years attesting to the rebirth of 'classic' geopolitics are Sergei Panarin and Aleksandr Dugin. See Dugin, *Osnovy Geopolitiki*, Moscow: Arktogeya, 1998; and Katya Kliouikova, 'Geopolitics in Russia', in Michel Korinman and John Laughland, eds., *Russia: A New Cold War?*, London: Vallentine Mitchell, 2008, pp. 1–7. See also Mark Smith, 'Russian Nationalist Movements & Geopolitical Thinking', *Conflict Studies Research Centre 05/40*, September 2005, www.da.mod.uk/CSRC/documents/Russian/05(40)-MAS.pdf.
16. Vladimir Rukavishnikov, 'Choices for Russia: Preserving Inherited Geopolitics Through Emergent Global and European Realities', in Roger E. Kanet, ed., *Russia. Re-Emerging Great Power*, Basingstoke: Palgrave Macmillan, 2007, pp. 55–78. See also Bobo Lo, *Axis of Convenience. Moscow, Beijing, and the New Geopolitics*, Washington, DC: Brookings Institution Press, 2008.

17. Nikita Lomagin, 'Forming a New Security Identity in Modern Russia', in Jakob Hedenskog, Vilhelm Konnander, Bertil Nygren, Ingmar Oldberg and Christer Pursiainen, eds., *Russia as a Great Power: Dimensions of Security under Putin*, London: Routledge, 2005, pp. 257–77, p. 267.
18. In broader political terms, the meaning of Putinism has been closely scrutinised. At least one commentator has eschewed the term 'authoritarian' for a more strident description: Alexander Motyl, 'Is Putin's Russia Fascist?', *The National Interest*, 3 December 2007, nationalinterest.org/commentary/inside-track-is-putins-russia-fascist-1888. For a critical response, see Andreas Umland, 'Rastsvet russkogo ul'tranatsionalizma i stanovlenie soobshchestva ego issledovatelei', *Forum noveishei vostochnoevropeiskoi istorii i kul'tury*, vol. 6, no. 1, 2009, pp. 5–38.
19. On the external projection of Putinism, see Bertil Nygren, 'Putin's Use of Natural Gas to Reintegrate the CIS Region', *Problem of Post-Communism*, vol. 55, no. 4, 2008, pp. 3–15, especially, pp. 11–12. See, more generally, Konstantin V. Simonov, *Energeticheskaia Sverkhderzhava*, Moscow: Algoritm, 2006; see also Jeronim Perović, Robert W. Orttung and Andreas Wenger, eds., *Russian Energy Power and Foreign Relations: Implications for Conflict and Cooperation*, London: Routledge, 2009; Jeronim Perović, Robert W. Orttung and Andreas Wenger, eds., *Russian Energy Policy and Military Power*, London: Routledge, 2008; Janusz Bugajski, *Cold Peace: Russia's New Imperialism*, London: Praeger.
20. See, for instance, Mette Skak, "Russia's New 'Monroe Doctrine'", in Roger Kanet, ed., *Russian Foreign Policy in the 21st Century*, London: Palgrave Macmillan, 2010, pp. 138–54, p. 147. More generally, see *Strategiia natsional'noi bezopastnosti Rossiiskoi Federatsii do 2020 goda* [National Security Strategy until 2020], as ratified by Presidential Decree, 12 May 2009, www.scrf.gov.ru/documents/99.html.
21. Bertil Nygren, *The Rebuilding of Greater Russia: Putin's Foreign Policy towards the CIS Countries*, London: Routledge, 2008, p. 9.
22. Thomas L. Friedman, 'The First Law of Petropolitics', *Foreign Policy*, May/June 2006, pp. 28–36; also Marshall Goldman, *Oilopoly: Putin, Power and the Rise of a New Russia*, Oxford: One World Books, 2008. Simon Pirani offers a much more substantive and critical version of Russia's economic dependency on hydrocarbons in *Change in Putin's Russia*, particularly pp. 58–61. Pavel K. Baev discusses its military and security implications in *Russian Energy Policy and Military Power*, especially pp. 30 and 144.
23. The stabilisation fund was divided between a well-being fund and a reserve fund in 2008.
24. See, among others, Uri Ra'anan and Kate Martin, eds., *Russia: a Return to Imperialism?*, London: Macmillan, 1995; and Mette Skak, *From Empire to Anarchy: Post-Communist Foreign Policy and International Relations*, New York: St. Martin's Press, 1996. The Polish journalist Ryszard Kapuściński and Polish writer K. S. Karol, watching as Russian tanks obliterated Grozny during the first Chechen war, wrote a number of articles published in the European press regretting that Russia had yet to revise its imperial spirit.
25. Bugajski, *Cold Peace*. See also Janusz Bugajski, *Dismantling the West: Russia's Atlantic Ambitions*, Washington, DC: Potomac Books, 2009, especially chapter 6.
26. Celeste A. Wallander, 'Russian Transimperialism and its Implications', *The Washington Quarterly*, vol. 30, no. 2, 2007, pp. 107–22.

27. Anita Orbán, *Power, Energy and the New Russian Imperialism*, Westport, CT: Praeger, 2009.
28. Robert Legvold. ed., *Russian Foreign Policy in the Shadow of the Past*, New York: Columbia University Press, 2007. 'From the Sixteenth Century to Today' is the subtitle of Dominic Lieven's, *Empire: The Russian Empire and its Rivals*, London: Pimlico, 2003. 'From Prehistory to Putin' is the more marketable range promised by the subtitle of Philip Longworth's *Russia's Empires: Their Rise and Fall*, London: John Murray, 2005. Cf. Boris Kagarlitsky, *Empire of the Periphery: Russia and the World System*, London: Pluto, 2008.
29. Longworth, *Russia's Empires*, pp. 320–2.
30. Michel Korinman, 'The Fifth Empire', in Korinman and Laughland, *Russia. A New Cold War?*, pp. ix–xv, p. x.
31. See, for instance, Nygren, *The Rebuilding of Greater Russia*, pp. 8–15. Though essential in many ways, Nygren's discussion further muddies the argument by treating economic and energy diplomacy as instances of 'soft power', something which, apart from other difficulties, does not square with the standard definition of soft and hard power made by Joseph Nye in two classic texts: *Bound to Lead: The Changing Nature of American Power*, New York: Basic Books, 1990, and *Soft Power. The Means to Success in World Politics*, New York: Public Affairs, 2004.
32. The acceptance of international norms, the integration into international fora and the respect for other territories' sovereignty, which are the linchpin of 'post-imperial' explanations, have tended to focus arguments towards Russia's relations with the West. Moscow's stance with regard to the Caucasus, Moldavia and Ukraine has been, since 1991, less than exemplary. See Christoph Zürcher, *The Post-Soviet Wars: Rebellion, Ethnic Conflict and Nationhood in the Caucasus*, London: New York University Press, 2007, especially chapters 5 and 6.
33. Bugajski, *Dismantling the West*, p. 9. Emphasis in the original.
34. Goldman, *Oilopoly*, p. 174.
35. Duncan, '"Oligarchs", Business and Russian Foreign Policy', p. 17.
36. Two volumes in particular, rare in that they analyse the role of Russian business in foreign policy, offer a good sample of the different positions: Jeronim Perović, Robert W. Orttung and Andreas Wenger, eds., *Russian Business Power: The Role of Russian Business in Foreign and Security Relations*, London: Routledge, 2006, and same editors, *Russian Energy Power*.
37. Duncan, '"Oligarchs"', Business and Russian Foreign Policy', pp. 17–18.
38. Lo, *Russian Foreign Policy*, p. 13.
39. This process is well explained by Yuri Fedorov, 'Interests Groups and Russia's Foreign Policy', *International Affairs* (Moscow), vol. 44, no. 6, 1998, pp. 173–83.
40. Light, 'Post-Soviet Foreign Policy', p. 420.
41. Duncan, '"Oligarchs", Business and Russian Foreign Policy', p. 5.
42. Mark Smith, 'Russian Business and Foreign Policy', *Conflict Studies Research Centre F82*, May 2003, p. 1.
43. For a survey of the history and actions of the Council, see Carolina Vendil, 'The Russian Security Council', *European Security*, vol. 10, no. 2, 2001, pp. 67–94. A security council had existed before 1992. Critics saw its re-establishment by Yeltsin as an attempt to replicate the functions of the Soviet politburo, and therefore, as a means of perpetuating Soviet bureaucratic hierarchy.

44. Helen Belopolsky, *Russia and the Challengers: Russian Alignment with China, Iran, and Iraq in the Unipolar Era*, Basingstoke: Palgrave Macmillan, 2009, p. 33.
45. Lo, *Vladimir Putin and the Evolution of Russian Foreign Policy*, p. 21.
46. Robert H. Donaldson and Joseph L. Nogee, *The Foreign Policy of Russia: Changing Systems Enduring Interests*, Armonk, NY: M. E. Sharpe, 2005, p. 122.
47. 'If the days of government ministries and agencies doing their own thing are not necessarily over, then at least they are now more inclined to observe the proprieties of government discipline' (Lo, *Vladimir Putin and the Evolution of Russian Foreign Policy*, p. 23).
48. Mankoff, *Russian Foreign Policy*, p. 55. Cf. Dmitri Trenin and Bobo Lo, *The Landscape of Russian Foreign Policy Decision-Making*, Moscow: Carnegie Endowment for International Peace, 2005, archive.carnegie.ru/en/pubs/books/9200doklad_fin.pdf, pp. 9–11. See also, Lo, *Vladimir Putin and the Evolution of Russian Foreign Policy*, pp. 42–6.
49. Trenin and Lo, *Landscape of Russian Foreign Policy*, p. 10.
50. Trenin and Lo, *Landscape of Russian Foreign Policy*, p. 13.
51. See Mankoff, *Russian Foreign Policy*, p. 57.
52. *Kontseptsiia vneshnei politiki Rossiiskoi Federatsii* [Foreign Policy Concept of the Russian Federation], as ratified by Presidential Decree, 28 June 2000, www.fas.org/nuke/guide/russia/doctrine/econcept.htm.
53. Trenin is one of the most consistent critics of Russia's Eurasian destiny and great power status. See in particular *The End of Eurasia: Russia on the Border between Geopolitics and Globalization*, Washington, DC: Carnegie Endowment for International Peace, 2002. See Mankoff, *Russian Foreign Policy*, pp. 72–3, for the demise of liberal figures in foreign policy-making circles.
54. The general point is made, among others, in Sakwa, *Putin*, p. 167. This section on the geopolitical elements of Putinism is heavily indebted to Mark Bassin, both in conversation and in an unpublished paper, 'Energy Superpower as Political Discourse in Putin's Russia', presented at the Geopolitics of Energy workshop, Birkbeck College, May 2009.
55. See, for instance, Boris Gryzlov, 'Plan Putina – dal'neishego razvitiia, strany', 17 September 2007, er.ru/text.shtml?2/6793 (accessed 11 January 2011), and Edinaia Rossiia, 'Chto takoe Plan Putina?', 2 November, 2007, er.ru/text.shtml?2/1569. See also Fiona Hill, *Energy Empire, Oil Gas and Russia's Revival*, London: The Foreign Policy Centre, September 2004, fpc.org.uk/fsblob/307.pdf.
56. Bugaïjski, *Cold Peace*, pp. 37–40; Nygren, *The Rebuilding of Greater Russia*, p. 245; Lo, *Axis of Convenience*, p. 150.
57. See, for instance, Duncan, '"Oligarchs", Business and Russian Foreign Policy', pp. 5–6; Smith, 'Russian Business & Foreign Policy', p. 1; Robert W. Orttung, 'The Role of Business in Russian Foreign and Security Relations', in Wenger, Perović and Orttung, *Russian Business Power*, pp. 22–44, especially pp. 23–4.
58. Paul Klebnikov, *Godfather of the Kremlin: Boris Berezovsky and the Looting of Russia*, New York: Harcourt, 2000, especially for a review of Berezovskii's activities as a Russian official: 'No man stood closer to all three authorities at once: crime, commerce and government', writes Klebnikov of Berezovskii (p. 3).

59. For more on the amalgamation of private economic success, national prosperity and foreign projection in Putin's doctrine, see Lo, *Vladimir Putin and the Evolution of Russian Foreign Policy,* especially, pp. 54–65.
60. Smith, *Russian Business and Foreign Policy*, p. 1.
61. Vladimir Putin, 'Rossiya na rubezhe tysyacheletii', *Nezavisiamaia Gazeta*, 30 December 1999, www.ng.ru/politics/1999-12-30/4_millennium.html, cited in Clifford Gaddy and Andrew Kuchins, 'Putin's Plan', *The Washington Quarterly*, vol. 3, no. 2, 2008, pp. 117–29, especially pp. 119–22. Also cited in Smith, *Russian Business and Foreign Policy*, p. 1.
62. In Duncan, '"Oligarchs", Business and Russian Foreign Policy', p. 13, and Smith, 'Russian Business & Foreign Policy', p. 2.
63. Robert Orttung, 'The Role of Business in Russia's Foreign and Security Relations', pp. 25–7.
64. For the poor performance of Russian business in the upkeep and development of the Russian energy industry, see Heiko Pleines, 'Developing Russia's Oil and Gas Industry', in Jeronim Perović, Robert Orttung and Andreas Wenger, eds., *Russian Energy Power and Foreign Relations,* London: Routledge, 2009, pp. 71–86, p. 72.
65. Smith, *Russian Business and Foreign Policy*, pp. 4–8.
66. Jonathan Stern, *The Future of Russian Gas,* chapter 1 gives a detailed account of the size and importance of the company in Russian finances. See also the brief summary in Orttung, 'The Roles of Business in Russian Foreign and Security Relations', pp. 22–3.
67. Stern, *The Future of Russian Gas*, pp. 23–7.
68. Smith, *Russian Business and Foreign Policy*, p. 7.
69. In the spirit of rebuilding US–Russian relations, Secretary of State Hillary Clinton presented her Russian counterpart, Sergei Lavrov, with a mock reset button while on an official visit to Moscow on 6 March 2009. Alas, the device was labelled '*peregruzka*', or 'overload', rather than the Russian word for 'reset' (*perezagruzka*). The irony was not lost on the Russian media.
70. In several of the leaked diplomatic cables, the State Department makes clear that these plans are not to be publicly discussed and explains the wider strategic value of the contingency plans in preparation: '[W]e see the expansion of EAGLE GUARDIAN as a step toward the possible expansion of NATO's other existing country-specific contingency plans into regional plans. This is the first stage in a multi-stage process to develop a complete set of appropriate contingency plans for the full range of possible threats – both regional and functional – as soon as possible.' Cable 10STATE7810, 'Expansion of Eagle Guardian to Include Baltics', *Wikileaks,* wikileaks.ch.nyud.net/cable/2010/01/10STATE7810.html.
71. In particular through the Foreign Concept of the Russian Federation approved in July 2008, and the National Security Strategy until 2020, ratified by the President in May 2009.
72. 'Press-reliz po osnovam gosudarstvennoi politiki Rossiiskoi Federatsii v Artike na period do 2020 goda I dal'neishuyu perspektivu', 23 March 2009, www.scrf.gov.ru/news/421.html.
73. Bobo Lo, 'Russia's Crisis – What it Means for Regime Stability and Moscow's Relation with the World', *Centre for European Reform Policy Brief,* London: Centre for European Reform, 2009, p. 5.

5

Autocratic Neoliberalism and Beyond: Russia's Caesarist Journey into the Global Political Economy

Owen Worth

Vladimir Putin left the office of President of the Russian Federation in 2008, just as its economy was beginning to be buffeted by the global economic crisis. Largely due to its dependency on the price of oil, Russia's fragile economy slumped back into crisis with the global downturn in energy prices. As a result, the post-Putin era (or, more accurately, the period in which Putin has taken a lesser role in government) has left Russia facing instabilities of the sort that it experienced throughout the 1990s. This chapter looks at how the Russian state has re-engaged with the global political economy since the failed attempts of shock therapy in the aftermath of the collapse of the Soviet Union. It argues that this failure and the subsequent instabilities that followed led to the adoption of 'Caesarist' strategies, to borrow Antonio Gramsci's term. That is, both Boris Yeltsin and Putin adopted populist and authoritarian means in order to facilitate change, though with contrasting degrees of success. As a result, Russia remains in a state of flux, with its economy unevenly integrated into the global economy.

The economic journey taken by Russia since the collapse of the Soviet Union has been well documented. It has often been reviewed in terms of two decades that have been expressed through the respective styles of leadership espoused by Yeltsin and Putin. The first decade, under Yeltsin, saw the initial idealism of privatisation and economic liberalisation yield to an uncompetitive oligarchic control of the economy. Under Putin, the second decade saw a move towards the state assuming greater control of the economy and a steady annual increase in economic growth. Yet the increase in economic growth was dependent on the oil boom and when it subsided, the Russian economy again tumbled into recession. Throughout this period, both Yeltsin and Putin attempted to surmount the instabilities endemic in Russian political and civil society. Yet the failure to facilitate the development of a form of sustainable civil society relatively autonomous from the central state, in the manner of the CEE states, led to the pursuit of Caesarism, which has become an entrenched feature of post-communist Russian political culture.

RUSSIA'S SOCIAL BASE AND THE PROCESS OF CAESARISM

As a nation that has traditionally incorporated both Asian and European characteristics, Russia has historically had an ambiguous relationship with dominant Western practices. Much has been written about the geopolitical nature of Russia and of the various attempts to Westernise and integrate it into the wider European project.[1] In terms of identity these have often been seen in terms of the competing forces of the *zapadniki* and the *derzhavniki*. The *zapadniki* (pl. *zapadnik*) refer to those who believe that Russia should turn to Europe and the West for its political development, whilst the *derzhavniki* (pl. *derzhavnik*) see Russia as a distinctly separate power, and reject the Western liberal democratic model in favour of exceptionalism. Both can claim origins in the mid-nineteenth century, but their genealogy can be traced further back and, as illustrated by Neumann, both have experienced eras when they have gained superiority. For example, whilst the Decembrist and Bolshevik uprisings betrayed distinctly Western influences, the period of nineteenth-century Russian autocracy and the Soviet Union that respectively followed emphasised a non-Western alternative. Similarly, the different approaches taken by the various Tsars reflect the contrast between the two traditions (for example, the 'Europeanisation project' of Peter I and the Slavism of Nicholas I). Since the collapse of the Soviet Union both traditions have re-emerged, with neither gaining the upper hand.

On coming to power, Yeltsin cast himself very much within the *zapadnik* mould. Whilst the *glasnost/perestroika* era that preceded Yeltsin was itself drawn from Western influence and a reinterpretation of the principles of Marxist-Leninism, Yeltsin embarked on a process of Westernisation that would normalise Russia as a functioning liberal democracy. The failure to achieve this was seen with the initial economic shortcomings of liberalisation. With Russian civil and political society deeply unstable in the context of economic collapse, Yeltsin attempted to hold on to power by strengthening central government control and relying on a series of populist measures in order to stave off further instabilities during the many crises that occurred in the 1990s.

It is here where we can locate the Caesarist strategy. Caesarism is a concept that was used by many political and historical theorists of the state in the nineteenth and early twentieth centuries, and was a common phase in German historical science, before being used more prominently by Max Weber.[2] Gramsci used the concept to explain how strong and popular leadership can act as a means to contain instabilities and fragilities that have emerged within civil and political society. To understand how Gramsci employed the concept, one needs to locate it through his wider concept of hegemony. For Gramsci, hegemony refers to the process that is formed between the dominant and subaltern classes in civil society in order to reach consent. This consent is reached at the level of civil society, whereby dominant economic, political and cultural ideologies are forged and articulated in a number of contrasting forms.[3] The content of hegemony is determined by numerous factors expressed through religion, folklore, popular culture and a wide variety of non-political institutions. Caesarism occurs when the hegemonic bond is weak or where challenges arise that contest the hegemonic form. The situation in Russia after the collapse of the Soviet Union was characterised by both these scenarios. Yeltsin's initial embrace of the *zapadinik* not only produced a weak hegemonic starting point, but also led to alternative hegemonic projects, many of which took their cue from the competing historical tradition of the *derzhavnik*.

This post-communist weakness is best portrayed by Jeremy Lester in his insightful account of the hegemonic crisis that emerged in Yeltsin's Russia in the early 1990s.[4] In Lester's depiction, nationalist, socialist and populist social forces emerged to challenge the emergence of capitalism in post-communist Russia. In response, Yeltsin moved to consolidate a fragile compromise that relied on leadership at the centre, rather than on constructing hegemonic consent. Lester identifies this move as indicative of 'Caesarism'.[5] His account concludes prior to the 1996 election, with the observation that Yeltsin pursued his own hold on power, while a set of competing hegemonic projects (Westernisers, Russophiles, centralists and socialists) all had the potential to construct viable futures for Russian civil society. Yet this succession of 'Caesarist manoeuvring' continues to characterise Russia's political dynamics even today, the most significant difference being that while Yeltsin embarked on such a strategy largely for reasons of survival and necessity, his successor adopted a far more deliberate and stronger form of Caesarism.

As mentioned above, Caesarism requires a specific political situation in which to emerge, whereby a strong leader serves to exercise power in order to facilitate change. Yet, unlike a hegemonic project, Caesarism generally emerges as a stop-gap in order to prevent a combination of competing social forces disabling political and civil society and creating unrest. Gramsci's own understanding of the process was that it occurs both as a necessity in order to prevent inevitable civic crises and also serves as a means for a leader to create a base to build future hegemonic consent between rival social forces. As Gramsci argues:

> The generic schema of forces A and B in conflict with catastrophic prospects – i.e with the prospect that neither A nor B will be victorious, in the struggle to constitute (or reconstitute) an organic equilibrium, from which Caesarism is born (can be born) – is precisely a generic hypothesis, a sociological schema (convenient for the art of politics).[6]

A strong Caesarist strategy can be nurtured to resemble a project that has some element of sustainability, in the sense of continuity.[7] Thus, as we shall see, while Yeltsin's form of Caesarism appeared as a spontaneous reaction to stave off civil instability and contestation in the light of economic collapse, Putin's version was more conscious and coherent. Putin used the strategy of Caesarism to control the economy in a more managed fashion and to attempt to construct a bridge between the competing forces of the *zapadniki* and *derzhaniki*. Upon this was built a leadership cult – another prerequisite for a successful 'Caesar' – that was far stronger than that of his predecessors.

THE MOVE TO AUTOCRATIC NEOLIBERALISM: RUSSIA UNDER YELTSIN

While Yeltsin might have embarked on a series of Caesarist strategies in order to hold on to power, his economic policy altered markedly during his period in office. The first phase began in 1992, when Russia embarked on its capitalist transition via an ambitious economic programme intended to supplant the planned economy with a functioning market economy. Instigated by Yegor Gaidar and advised by Jeffrey Sachs, the controversial 'shock therapy' was intended to follow the 'Balcerowicz Plan' in Poland which had been held up by neoliberal reformers as the standard bearer of quick-fix reform. One of the main objectives behind the reforms was that it would eradicate the *nomenklatura* system of bureaucratic control which had not just marked the era of Soviet planning, but had also maintained the measures of private ownership brought in by *perestroika*. By April of the same year, Gaidar left his position as Economics Minister after failing to control the huge inflationary effects that price liberalisation – the first stage of shock therapy – had brought to Russia since its inception in January.

The first economic U-turn of Yeltsin's premiership thus occurred within just three months, as price liberalisation failed to make inroads into the power of the *nomenklatura* as those that had benefited from privatisation measures during *perestroika* managed to enhance their own positions by manipulating and increasing prices for their own gain, without concomitant productivity increase.[8] Similarly, Gaidar's privatisation plans which aimed at constructing a system which would provide a level playing field in order to promote free enterprise. The reality however was different. Privatisation was largely undertaken through a voucher system, whereby insider takeovers were commonplace and those that had benefited from early forms of private ownership were able to strengthen their position. In addition, whereas the purpose of liberalisation and privatisation was to integrate Russia quickly and successfully into the global economy, the actual process reduced overseas investment and internal competition as potential investors were frozen out by the small concentration of new internal owners keen to protect and expand their own assets. As a result, by the end of 1993, Russia already had an uncompetitive economy with its means controlled by a privileged few.

What was emerging in Russia was a form of capitalism that Boris Kagarlitsky dubbed 'autocratic neoliberalism'.[9] Yeltsin's form of Caesarism became increasingly reliant on the support of the small capitalist elite that emerged from the liberalisation process. At the same time, he pursued and attracted considerable support from Western governments, which regarded the instability surrounding him as potentially dangerous to future international stability. This support cannot be underestimated when looking at the modalities of the transition. The neoliberal prescription that was encouraged by Chicago School-trained economists and international institutions was highly influential in the initial process of liberalisation and remained an important influence throughout the mid-1990s, even when the form of neoliberalism that was emerging in Russia was coming to be known as 'crony capitalism'. This 'cronyism' was to gain in significance by the mid-1990s when Yeltsin, alongside his new privatisation adviser, Anatolii Chubais, devised the highly controversial loans-for-shares scheme. In the light of continuing fiscal deficits and the presidential election in 1996, a scheme was put forward devised to raise state funds by auctioning off many of the largest state-owned industrial assets. This increased the power of the few industrialists and entrepreneurs already in a position to gain from the deal, many of whom notoriously became known as oligarchs by the international media.

In terms of the division of labour, Russia entered the global economy as a nation that appeared uncompetitive and highly reliant on its natural resources. An economy emerged in which fuel and raw materials-based industries, alongside financial and banking institutions, became fully integrated into the global capitalist economy, leaving traditional sectors of the economy to suffer and remain uncompetitive. This was seen with the low share of foreign direct investment (FDI) entering the country, with Russia attracting less than 1 per cent of the estimated global total in the mid-1990s.[10] In addition, capital flight continued to be a feature of Russia's shrinking economy under Yeltsin, as both international investment and capital accumulated by the oligarchs left the county. Yet despite the uncompetitive nature of the Russian economy, the IMF/World Bank continued to endorse its progress. For if Russian industry had failed to become internationally competitive, its government had retained its commitment to fiscal constraint and kept in line with the Washington consensus agenda.

By the end of his term in office, Yeltsin's form of Caesarism was becoming more and more tested as the country lurched from one economic crisis to another. Originally, he was successful in protecting and expanding his power base. The widespread discontent that resulted from the effects of price liberalisation and voucher-based privatisation led to friction with parliament and the growth of the 'red-brown' (Communist-Fascist) opposition alliance. Yeltsin's response was to dissolve the Constitutional Court and centralise the presidential system, leading to the infamous stand-off between the army and pro-parliamentary forces in October 1993. Whilst this exemplary case of Caesarism succeeded in maintaining Yeltsin's firm grip on power, it did not appear to generate much public support and despite the 1996 election success, he became unable to generate political and civil support around a coherent hegemonic project.

The 1998 financial crisis was to highlight the fragility of his tactics. The Russian administration was now charged with attempting to steady the economic ship on the one hand, and negotiating a plan of actions with external agents like the World Bank, who were reluctant to provide an aid package if Russia stepped outside its monetary strictures, on the other. In addition, ideological opposition had resurfaced, obliging Yeltsin to shuffle his government in order to address it. What resulted was a period in which Yeltsin shifted from position to position before dismissing his entire cabinet in order to keep potential instabilities and unpopularity at bay. This move saw the final journey in Yeltsin's period as President, as he appeared to have run out of avenues to pursue. Increasingly reliant on the oligarchs and unable to provide any stability to either the economy or the political process, Yeltsin stepped down at the end of 1999.

PUTIN: A STRONG CAESAR?

If Yeltsin can be seen to embody a weak form of Caesarism, then it can be argued that this was largely caused by his initial failure to engage with and understand the extent of the strength of the sociopolitical forces that opposed him. As indicated above, one of the signs of a successful form of Caesarism is that it provides a base whereby a hegemonic order can be built. Yeltsin's original rhetoric played up his Westernising agenda, arguing that experiments such as communism served to hold back Russia's development as a Western capitalist power. Yet he then compromised this position by moving towards an increasingly nationalist position and by adopting authoritarian measures; his stance moved towards an engagement with the *derzhavniki*. While it could be argued that any move to consciously merge these two traditions may result in a harmonious atmosphere in which a successful hegemonic project could be imagined and constructed, Yeltsin pursued these actions not to build on a process of co-option, but merely for the purpose of survival. By the end of his presidency, no clear base had emerged and civil society in Russia remained prone to instabilities.[11]

In his term as President, Putin has been more subtle in how he built consent. In actively pursuing a 'Russian way', he both stressed the need for protecting the Russian traditions of 'statism', 'patriotism', a 'belief in the greatness of Russia' and 'social solidarity' and, at the same time, argued that these had to be allied to the goals of economic growth, stability and structural reform in the interests of competitiveness and further integration into the global economy.[12]

His strong popular support suggests that he has been far more successful in building a national hegemonic project by allying the forces of *derzhavniki* and *zapadniki*, his administration nonetheless relied exclusively on Caesarist measures. However, unlike Yeltsin, the Caesarism practised by Putin seemed to have a direction to it, not just in its co-optation of competing social forces, but also in the manner of generating popular support.

The foundation for this was laid in the more stable economic performance that Russia experienced when Putin succeeded Yeltsin. In real terms Putin's economic strategy was far more successful than his predecessor's. During his eight years in office, the economy remained on a growth rate of around 7 per cent, with very little fluctuation. Putin's 'efficient economy' can also be seen with its progress on foreign investment and on moves to integrate Russia institutionally further into the world economy. The emphasis on FDI was seen as one of the most significant reasons for the upturn in the economy.[13] Having been unable to sustain any constant flow of foreign investment during the 1990s, Russia became a popular destination for FDI after Putin took office. Statistically, while most of Eastern Europe remained a popular destination for foreign investors, a distinct shift towards targeting Russia as its final destination occurred during the Putin era. Russia saw a steady increase in its share within the wider region of Eastern Europe, with indicators at the time confident that the share would increase by 2010, prompting fresh confidence with regard to the sustainability of economic growth for the first time since the Soviet Union's collapse.[14] Whilst this remained modest in terms of its overall share of GDP, it nevertheless remained a huge departure from the crony capitalist era of Yeltsin, Berezovsky et al., when insider takeovers effectively limited any substantial foreign investment.

The restoration of economic competitiveness was aided by Putin's stress on World Trade Organisation (WTO) membership. Although Russia did not gain membership of the organisation during his term as President, it did made large strides towards meeting this aim and remains involved in negotiations to achieve this end. Having been praised by the organising body for the structural changes it has made to its economic and trading system, Russia made great steps towards meeting the requirements for entry.[15] Yet, the process has been and remains long and arduous. For all the effort placed on gaining membership, Russia remains the only major power outside the global trade club. In addition, while accession in most cases takes around 5–7 years, Russia's negotiation process to date has taken over 17 years, prompting many to query whether an end to the process will ever be reached.

Much of Putin's modernisation drive was accredited to the Trade and Economic Development Minister, German Gref. Whereas Putin has clashed with and overridden many in his team, Gref was largely given a free hand to put his own model of economic liberalisation into practice. Unlike the Chicago School-influenced neoliberals a decade before (Gaidar, Yavlinsky), Gref adopted a more pragmatic approach, placing the emphasis on tax reform, the lifting of import tariffs, the end of culture of protectionism and the curbing of expenditure. In this sense, Putin has retained a consistent commitment to a 'managed market' economy,[16] which has allowed Russia to integrate gradually into the global economy and provided a stabilising tonic to the instabilities of the 1990s. Indeed, it should be added that the privatisation programmes encouraged by Putin (such as in the state electricity monopoly) were more comprehensive in their execution than those carried out ten years earlier, as foreign companies that had then been frozen out now gained significant access to the market.

In a sense Putin's domestic reforms had a similar dual purpose to those of his predecessor – to maintain a basis of popular support and to reform its economic structure in order further to 'internationalise' the state.[17] Yet key reforms, including labour and land reforms, and tax, welfare and benefit reforms, were more neoliberal in nature and application than any reform under Yeltsin. Political reforms included restricting the number of political parties through a centralised registration process, increasing the threshold for representation at the Duma and abolishing elections for regional governors – all of which were aimed at centralising support and marginalising opposition. Here we see Putin's form of Caesarism in action. Whilst Yeltsin's play-offs with parliament created a political division that became untenable, Putin's relationship with parliament gradually emerged into one in which the latter took a subordinate role. Putin was a favoured candidate of the Unity Bloc in parliament, which had emerged as a centrist pro-Kremlin bloc at the 1999 election. The Unity Bloc was to reinvent itself as the United Russia [*Yedinaya Rossiya*] Party through a merger with the Fatherland-All Russia bloc. At the 2003 election United Russia took 226 of the 450 seats, a number that increased to 315 in the 2007 Duma elections – the latter being significantly aided by a new one-constituency proportional representation system which set the threshold at 7 per cent. This effectively sidelined any regional or independent deputies and a number of significant oppositional parties within parliament, as a move away from the Mixed Member Proportional Representative voting system (MMP) left parliament with only one opposition party – the Communist Party – as an effective opposition.

The more notorious forms of Caesarism associated with the Putin years (at least according to the Western media) were seen in the attack on the oligarchs, the war in Chechnya, the disappearance and effective sidelining of liberal representation in parliament, the clampdown on media freedom and the handling of disasters such as the Kirsch and Beslan and the murders of Anna Politkovskaya and Alexander Litvinenko. While these may have appeared necessary in terms of breaking up the narrow ownership of the economy (in respect to the oligarchs), or as a form of populism geared to preventing geopolitical fragmentation (Chechnya), they have all contributed to the argument that Putin was waging an unsustainable attack on any expression of opposition. This demonstrates the dangers and problems of using Caesarism in this manner as it can appear to divide, rather than build, the potential of a stable hegemonic base. In alienating significant sections of Russian society, Putin's policies contributed to the emergence of opposition. The mobilisation of the United Civil Movement, organised by the former chess champion Garry Kasparov, and the umbrella movement Other Russia, as well as the deposed oligarch Boris Berezovsky's plans to engage in a Russian version of the 'orange revolutions' instigated in Belarus and the Ukraine, are three examples that suggest that instabilities still inhere within civil and political society.

On the one hand, therefore, Putin did manage to lay claim to have formed a social base for a successful and sustainable hegemonic project by fusing together the diverse parts of Russia's ideological divide. However, by effectively stage-managing organised political representation, Putin lacks any engagement with organic movements drawn from civil society. Indeed, by the end of his presidential term, public trust in political institutions within Russia remained among the lowest in the world.[18] This in turn meant that more had to be invested in Putin's leadership cult. He was partly aided in this by the fact that the civil opposition was orchestrated by figures who, despite the media attention they attract in the West, are unpopular in Russia. Added to that was that the Other Russia movement contained an eclectic mix of extremists, nationalists and hard-line Stalinists, alongside free market liberals and sundry mavericks, giving the appearance of a collection of the 'lunatic fringe' of

Russian politics rather than a serious contender. If anything, the opposition contributed to the cult of Putin. Yet, the cult would have to redefine itself after Putin's term in office came to the end, at the same time as the economic growth on which it was founded came to a dramatic halt.

RUSSIA AND THE GLOBAL CRISIS: ALL ABOUT OIL AFTER ALL?

From the perspective of international political economy, Russia's economic development can be seen as one which has become increasingly dependent on the condition of the global economy. One can also argue that the strategies of Caesarism have largely resulted from the integration of Russia into the global economy. As an energy-rich country, Russia remains a key component within the global economy, but it has entered that system as a semi-peripheral player, with comparative advantage primarily in hydrocarbons. This development became embedded during the early years of transition, under the supervision of the World Bank/IMF, whereby an economy emerged where fuel- and raw materials-based industries alongside financial and banking institutions became fully integrated into the global economy, leaving traditional industries relatively uncompetitive.[19] Thus, to a degree, Russia's political agenda has been shaped by (neoliberal) capitalist forces at the world scale, such that adaptation to these hegemonic conditions has become the main task of the respective domestic governments.[20]

Both Yeltsin and Putin held that Russia needed to both adopt and adapt to the realities of neoliberal practices at the global level, but due to its fragile position its governments have been unable to contest and transform these realities in the way that larger global actors might. As a result, both Presidents used Caesarist mechanisms to defend their position against internal contestation. Such a characteristic is often found in semi-peripheral states, for such states are beset by instabilities and their inability to create stable forms of governance often precipitates populist and authoritarian regimes.[21] Yet, there is more to Russian Caesarism than this. As Lile Shevtsova recently argued, Russia is unique in that it is a member of the G8, a permanent member of the UN Security Council and engages in power politics befitting a great power, yet its economy has become dependent on hydrocarbons.[22] In this way it appears as a unique semi-peripheral state in the sense that it is at one level a great power yet, at another, appears underdeveloped and unstable.

Russia's propensity to instability has recently been highlighted in the context of global economic crisis. This crisis occurred just as Putin was leaving office. To an extent this has strengthened the 'myth of Putin'. In contrast to Yeltsin's era, Putin's was seen as one of growth and strong leadership, while the post-Putin term has been marked by renewed instability. Meanwhile, Putin's assumption of the role of Prime Minister maintains and builds on his cult status by appearing as the man who can lead the recovery. Yet at the same time, Russia appears in a state of limbo, as the new President, Dmitry Medvedev, and Putin have yet to negotiate a stable division of power, if indeed such a balance can ever be achieved. If the cult of Putin has to a certain extent continued into the post-Putin presidential era, then Russia's underlying reliance on the global energy market has become increasingly obvious. Oil prices peaked in mid-2008, before collapsing later the same year. The falling price of 'Ural crude', Russia's export oil mixture, took its toll. Yet it was the bursting of the growth bubble that had been brought about by a consumer boom and by inward overseas investment that was to cause the more noteworthy problems.[23] Capital has flowed out of the country in vast amounts and the economic infrastructure has deteriorated, pitching Russia into recession.

The impact of the global crisis on Russia is far from certain. Medvedev himself has argued that Russia now appears at a crossroads in terms of its economic trajectory. He noted that what the crisis had revealed above all was that Russia was uncompetitive in terms of its industry and maintained a 'humiliating dependence on raw materials'.[24] For Russia to advance, he argues that it needs to restructure and modernise its economy, with an emphasis on technological development and an embrace of the information age.[25] Alongside this, he calls for an end to 'paternalism' and for civil societal forms that nourish a culture of competitiveness.[26] This would suggest that Medvedev is borrowing from the tradition of the *zapadnik* and urging Russia to turn its back on its exceptionalist past and look to the dominant and successful 'globalised' countries.

Medvedev's assertions follow many who have viewed Russia in terms of its performance within the global economy. During the oil boom, it superficially appeared to have turned a corner in terms of its economic development and integration into the global economy, but the reality showed that it had entered the international economic system as an energy-dependent state, and not one that proved able to use its cheap or educated labour to attract substantial inward investment, as China and India have done.[27] Medvedev may be appealing for economic modernisation and a move away from Russia's dependence on hydrocarbon exports, but the reality is that a break from energy reliance is unlikely to succeed. For, while Russia has suffered in terms of industrial stagnation, rising unemployment and foreign investment, it has managed to stave off the worst of the crisis due to the scale of demand for its oil it enjoyed during the boom. As a consequence, some have argued that far from looking towards modernisation, Russia is more likely to strengthen the current oil-dependent model, as developed under Putin.[28] For some, this model emerged as a result of the bureaucratic centralisation of the Soviet Union. Yeltsin's attempts to shake up the system through market reform failed, but it did result in Russia's integration into the global economy. Rather than pursue a different agenda, Putin looked to shore it up by the consolidation of crucial economic sectors. This was achieved by reducing the power of the oligarchs and attracting external investment. From this position, the stabilisation brought in during the Putin era makes the continuation of this oil dependency-based economy appear more likely than any radical alternative.

With the onset of the global economic crisis, Russia was confronted by a number of alternatives. It could opt for continuity, maintaining the Caesarist style of governance that has prevailed to date or it could look to economic modernisation along lines suggested by Medvedev. In the case of the former, a prolonged Caesarist moment that maintained its prominence through the 'Putin myth' will become increasingly difficult to reinvent as Putin himself adapts to his new position. Here, while a move was made during Putin's term in office to forge a social base for a more functioning hegemonic civil society to emerge, its continued reliance on a managed style of politics – a reliance increased through its dependency on oil – has meant that this has become more difficult. In the case of the latter, a radical transformation could open up a number of further possibilities. This in turn would raise the prospect of progressive change and a re-engagement with trade union representatives and NGO activity, both of which were marginalised under Putin, so that the vast inequalities that have plagued Russia could at last be confronted.

CONCLUSION

Since the end of the Soviet era, Russian capitalism has gone through different phases and has often appeared as merely lurching from one crisis to another. Yet, certain characteristics of its political and economic structures have developed which I have attempted to show in this chapter. First, the move towards 'Westernising' Russia through market transition proved unmanageable and reopened old tensions between the *zapadnik* and the *derzhanik*. There followed a move towards a populist and authoritarian style of governance that, following Lester, I call Caesarism. Its success depended on popular leadership, and thus it has appeared more successful under Putin than Yeltsin. Under Putin, the economy prospered and stabilised, while at the political level the Kremlin became more centralised, with opposition within parliament all but eradicated. The extent to which the economy has become dependent on the price of oil was revealed during the global 'credit crisis', when Russian industry and investment that had been built up during previous years suffered a sharp downturn.

In the context of the global crisis, Russia stands at a crossroads, a position that it has known before. At time of writing, a dramatic departure does not seem to be imminent; rather, the Caesarist political framework that has complemented the energy-based economy seems set to continue. If President Medvedev is serious about Russia developing its manufacturing and knowledge industries, a new relationship between state and civil society would be required. This would not necessarily mean abandoning the state-managed democracy, but could instead adopt China as a model. A change of that sort could enable the emergence of a real and significant challenge to the Kremlin's legitimacy from civil society, rather than, as in recent years, one driven largely by marginal forces, eccentrics and deposed oligarchs. At present this seems an unlikely outcome, given that continuity and pragmatism have been central features of Russia's recent political development.

The Medvedev–Putin partnership is likely to continue the Caesarist course, whether or not it engages in far-reaching economic modernisation, but in the long term it is unsustainable. As discussed in the next chapter, the methods of autocratic neoliberalism that have overseen Russia's integration into global capitalism under Putin and Yeltsin have led to stark inequalities, economic hardship and a severe weakening of labour movements. These continue to represent Russia's reality today.

NOTES

1. M. Malia, *Russia under Western Eyes: From the Bronze Horseman to the Lenin Mausoleum*, Cambridge, MA: Harvard University Press, 1999; I. Nemann,

Russia and the Idea of Europe, London: Routledge, 1996; H. Seton-Watson, 'What is Europe, Where is Europe? From Mystique to Politique', *Encounter*, vol. 65, no. 2, 1985.

2. In the Preface to the second edition of *The Eighteenth Brumaire of Louis Bonaparte* (Moscow: Progress Publisher, 1967), Marx condemns the usage of the term 'Caesarism' which, he argued, was turning into a 'school-taught' phrase, for understanding nineteenth-century authoritarian regimes. His point was that Bonapartism in France was formed through a class struggle that was more advanced than anything in ancient times, leaving the phrase in the historical form redundant (pp. 6–7). Gramsci's own reconstruction of the term was one that incorporated the notion of Bonapartism in order to establish a wider state-historical understanding. See Antonio Gramsci, *Selections from the Prison Notebooks*, London: Lawrence & Wishart, 1971, pp. 215–19.
3. Gramsci's understanding of hegemony was developed, rather unevenly, in his many prison notebooks and has provided a number of different avenues for subsequent contemporary accounts, which are too numerous to mention here. However, what should be underlined is that there are a number of complexities that occur when hegemony is being fashioned. For example, Gramsci argues that traditional and organic intellectuals provided a key role in the production of hegemony do not merely reflect similar dominant positions, but depart from contrasting 'conceptions of the world' or from 'contradictory consciousness'. See A. Gramsci, *Prison Notebooks Volume II*, New York: Columbia University Press, 1996, pp. 196–9 and *Selection from the Prison Notebooks*, pp. 356–8. For an excellent illustration of the complex processes involved in the construction of hegemony, see Stuart Hall, *The Hard Road to Renewal*, London: Verso, 1988.
4. J. Lester, *Modern Tsars and Princes: The Struggle for Hegemony in Russia*, London: Verso, 1995.
5. Lester, *Modern Tsars and Princes* pp. 68–82.
6. Gramsci, *Selections from the Prison Notebooks*, p. 221.
7. O. Worth, 'Unravelling the Putin Myth: Strong or Weak Caesar?' *Politics*, vol. 29, no. 1, 2009.
8. R. Simon, *Labour and Political Transformation in Russia and the Ukraine*, Aldershot: Ashgate, 2000, p. 117.
9. B. Kagarlitsky, *Russia under Yeltsin and Putin: Neoliberal Autocracy*, London: Pluto Press, 2002.
10. S. White, *Russia's New Politics: The Management of a Post-Communist Society*, Cambridge: Cambridge University Press, 2000.
11. In *Modern Tsars and Princes*, Lester borrows from Femia by arguing that what had emerged in the last stage of the Soviet Union was a sort of 'minimum hegemony', which was formed around a loose set of principles, but remained highly prone to instabilities (pp. 26–7). Likewise, Yeltsin's leadership did steer the new Russian state towards some similar form of basic order, but its future direction remained uncertain and fragile. See O. Worth, *Hegemony, International Political Economy and Post-Communist Russia*, Aldershot: Ashgate, 2005.
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19. Simon, *Labour and Political Transformation in Russia and the Ukraine*, p. 115.
20. Worth, *Hegemony, International Political Economy and Post-Communist Russia*, pp. 3–5.
21. See the collection edited by O. Worth and P. Moore, *Globalization and the 'New' Semi-Peripheries*, Basingstoke: Palgrave Macmillan, 2009.
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Part Two

From the Baltic to the Balkans: Market Reform and Economic Crisis

6
Twenty Years Lost: Latvia's Failed Development in the Post-Soviet World

Jeffrey Sommers and Jānis Bērziņš

Today, yet again, we find Latvia at a crossroads. This small Baltic republic has been hit full force by all the turbulent storms unleashed on Europe in the past century. Global wars, emigration driven by invading armies, forced deportations and occupation have all afflicted it. However, these tragedies have also been interspersed with periods of industrialisation and development both in its interwar years of independence and during phases of Soviet rule. Yet, the disincentives to innovate during the Brezhnev years, accompanied by the massive waste of resources and huge military spending of that period accelerated the Soviet Union's decline. The *coup de grâce* to the crumbling edifice was delivered by the war in Afghanistan and the collapse of oil prices in the 1980s, both in part engineered by the United States to take down the already faltering Soviets. In this weakened condition, Baltic aspirations for independence again emerged in the 1980s. Meanwhile, the USA itself was in crisis. Integrating the resources of the Soviet Bloc provided one means by which the USA temporarily overcame its own crisis of accumulation. Thus, functionally, Baltic nationalism came to serve the US and West European spatial fix pursued to restore profits and reduce the costs of restructuring the transatlantic economies.

Unfortunately for Latvia, its independence coincided with the twin dynamics of Western rent-seeking and financialisation, which came in response to the global economic crisis of the 1970s – a process that ended disastrously in the autumn 2008 economic crash. These forces could be unleashed on the *tabula rasa* of the post-Soviet space which lacked institutional structures to oppose or mitigate these new trends. The enemy of these new policies was social democracy and Jacques Delors' model of a social Europe. It was in the Baltics that the USA would find its most willing pupil and ally in implementing an entirely different project, which the

US Secretary of Defence, Donald Rumsfeld, later came to term 'the New Europe'.

TRANSFORMATIONS AND TRANSITIONS: LATVIA IN THE WORLD

While institutional pressures have been brought to bear on Latvia to create a finance and capital gains economy, some nations emerging from the former Socialist Bloc, such as the Czech Republic, Slovakia and Slovenia, resisted these forces and retained an industrial capacity. To understand why a finance and capital gains economy dominated in Latvia requires further investigation into the political economy of the former Soviet Union and an understanding of the global trends of that time. The 1980s were critical years in marking the downfall of the USSR. Latvia as a former Soviet republic with newly independent status set about the business of rebuilding its political economy during the 1990s. The USA, then the centre of the world economy and the chief proponent for ending national economic development policies created during the Bretton Woods period, had a key role in this process.

Capitalism presents successive crises that, in spite of different superficial appearances, resemble each other in their essence, as each is the fruits of their endogenous contradictions. Periods of expansion and contraction appear in the form of crises or accelerated accumulation.

From the end of the 1980s the central economies experienced an increase in the velocity of the internationalisation of capitalist social relations. The main indicators of this process were financial deregulation and the reduction of the transport and communications costs. Thus, six main characteristics can be distinguished in the macroeconomic portrait of that time: a) low growth rates of gross income in the world core; b) deflation; c) instability, marked by monetary and financial disequilibrium; d) high structural unemployment; e) marginalisation of whole areas in relation to the trade system; and f) increasingly intense world competition.[1] With the demise of the USSR, neoliberalism became established as the dominant political and economic ideology, thus determining the political and economic model that should be adopted by all countries, whether in transition or not, socialist or not. In Latvia's case, the result was the imposition of neoliberalism as a universal panacea, which would assure sustainable social and economic development.

In the wake of the Soviet collapse, Latvia fitted this pattern. Instead of being openly discussed and democratically agreed, economic policy was captured by a group of neoliberals known as the Georgetown Gang. Led by the Latvian-American economist George (Juris) Viksnins, this small cadre of activists crafted a policy that would result in deindustrialisation and financialisation. Composed of key policy-makers who had been in position throughout much of Latvia's 18 years of independence, their ranks included students recruited and mentored by Viksnins, who then took powerful positions as heads of the Central Bank and Ministry of Finance, and even as Prime Minister. Einars Repse, the current Finance Minister, was one of these and held all the above offices. Ilmars Rimsevics, presently head of the Central Bank, who has been at the Bank since independence, stands out as another of these prominent policy-makers active throughout Latvia's independence. They implemented policy based on a stable exchange rate fixed to a basket of currencies (later linked to the euro), along with low inflation and lean government spending.[2] Their doctrine ossified into a dogma that was also internalised in the Latvian academy. Their critics were simply dismissed as Russian revanchists or ignorant populists, regardless of the nature or quality of the critiques.

The US government played a key role in bringing together these young neoliberals, joined by former mid-level Soviet era figures, who saw Latvia's future as developing outside the old Soviet Union. USAID and the usual complement of US organisations guided Latvian policy along neoliberal lines,[3] as exemplified by the *Latvia 2000* report. Viksnins describes the strategy as maintaining dialogue with the public regarding the new policy but also seeing that 'the reform has to continue despite changes in government'.[4] The Washington consensus was to be applied regardless of the people's will, for it could change with new governments. Functionally, policy implementation was hardly different from that in the Soviet period. Planned by elites, it was presented to the public as the only way forward, as if there were no viable alternative. Its principles led to the social fragmentation seen in Latvia today.

Latvia's favourable position on the Baltic Sea provided opportunities for privatising gains from the Soviet economy during the 1980s. Its ports supplied exit points for exporting Soviet and later CIS natural resources acquired cheaply at state prices and sold on at global prices to world markets, with the gains on the arbitrage pocketed by individuals. In contrast to financial schemes that created no value, industry was almost completely ignored by the newly independent Latvia. Tight monetary policies were undertaken in anticipation of drawing in foreign direct investment.

This all but ensured the end of local manufacturing. Much industry was antiquated and needed dismantling, but given ideological exigencies almost no effort was made to implement an industrial policy to inventory Latvia's industrial equipment and restructure potentially competitive enterprises. The USA and leading financial institutions encouraged this and supported new monetary policies that facilitated deindustrialisation, as long as Latvia continued to play its mediating role facilitating the export of CIS raw materials and capital. As a result, a new political economy emerged during the late Soviet period and became institutionalised when Latvia regained independence. Presented as a 'transition' or a 'reformed' system, in reality it was an economy built on arbitrage, quick windfall profits, tax avoidance and privatisation of social property.

PONZI FROM THE BEGINNING: LATVIA AND UNDERDEVELOPMENT

The term 'development of underdevelopment' was coined by Andre Gunder Frank in 'The Development of Underdevelopment' (in *Monthly Review*, 1966). In this essay he rejected the idea of the existence of an 'original' underdevelopment and the concept of 'traditional' society. According to Frank, underdevelopment

> is not due to the survival of archaic institutions and the existence of capital shortage in regions that have remained isolated from the stream of world history. On the contrary, underdevelopment was and still is generated by the very same historical process which also generated economic development: the development of capitalism itself.

The main idea was that the development of the core states would result in the underdevelopment and permanent subordination of the peripheral countries through colonial exploitation. In this way, dependence was being reproduced along with the development of the states at the centre of the capitalist world economy. Dependence in this case must be understood as the creation of development and expansion in some countries, but through creating structural underdevelopment in others.

The reproduction of dependence would be maintained because of the inequalities of the relationships between a dependent economy and the dominant external economy in politics, military affairs and economics, such that the underdeveloped economy came to fulfil the domestic needs of the dominant country. Dependence is a political process and not merely the imposition of military force; it is intrinsic to the system and spreads into the cultural, economic, technical and financial arenas, which are reflected in the political space where groups try to establish dominance.

Although the underdevelopment debate centred on Latin America, the concept of the 'development of underdevelopment', to quote Gunder Frank, may be equally applied to Latvia. While formal colonial exploitation is not present in Latvia today, global politics, military affairs and economics still shape the internal patterns of development of all countries, especially those in the periphery. Today, the main concepts that must be taken into consideration besides politics are the differences in terms of trade, international division of labour, foreign investments and financial (in–out) flows and the monopolisation of knowledge.

Force has largely been displaced (although is sometimes still used) by institutions such as the multilateral agencies (e.g., the IMF and World Bank) to impose, for example, economic policies. This tendency was facilitated by the collapse of the Soviet regime, which resulted briefly in a unipolar world and the victory of neoliberal ideology. If before the 1990s there was a wide debate about the policies appropriate to development in the broad sense of the term, by the end of the 1980s monetarism and the ideology of free trade had become almost universally accepted. In the case of the imposition of economic policies on transition countries, the Washington consensus became a near-religion.

The imposition of the Washington consensus was problematic in transitioning countries, as the diversity of their political and cultural backgrounds was not taken into consideration. The assumption that a healthy equilibrium is always achieved by market forces, producing economic growth and employment, has not been realised. An economy may be at Pareto equilibrium and still have high unemployment and underdevelopment. History has shown that the state has been essential as an intervening force to create development. In the case of transition countries, the mere application of neoliberal policies was not sufficient to assure economic development and equilibrium because the economic agents are themselves imperfect. Consequently, these policies helped to ensure a process of subordinated insertion into the international division of labour as a result of the differences in the terms of trade, the impoverished conditions for foreign investment in the real economy and a frictionless environment for speculative capital. The latter is the key to the Ponzi nature of Latvia's economy.

Hyman Minsky's model of financial cycles centres on domestic debt relationships. Economies start in balance, with industry paying for its expansion out of retained earnings. Next, industry borrows money, but these debts can be paid out of earnings – the 'hedge' stage. Over time both real estate and industrial investment become increasingly debt leveraged, with banks taking a greater share of real wealth from the economy. After this increased debt leveraging, only interest can be paid, and not any amortisation of the principal. Industry's growing debts never permit payment on the loan principle. The Ponzi stage is reached when interest is simply added to the debt, so that debt levels become detached from the underlying real economy of production to pay. This process was augmented under neoliberalism by loosening credit standards. This in turn flooded economies with credit that further inflated asset prices, enabling debtors to keep paying interest by refinancing their loans against more and more inflated prices for property pledged as collateral, with the inevitable crash ensuing thereafter.[5]

This is the phase into which the Baltic States passed directly in 2004 given the confidence inspired by EU accession and NATO membership. The money came from a flood of cash unleashed, ultimately, by the US Federal Reserve seeking to stimulate the US economy, but with the money leaking onto global markets.

George Bernard Shaw once quipped that America was a country that went from barbarism to decadence without the intervening stage of civilisation. As Michael Hudson notes, in a similar fashion the post-Soviet economies went almost directly from debt-free economies to the Ponzi stage without the intervening stage of productive industrial investment. Not only did the Baltic States live by borrowing, but most of the credit being borrowed was in foreign currency – primarily euros.

In Latvia, the result can be summarised as Ponzi from the start. Trade deficits were financed by selling off public property and by illicit capital inflows (offshore correspondent banking, etc.). This was later augmented by Swedish banks, which extended credit for investment in real estate, in effect burdening Latvia with debts for loans which contributed no value or increased productivity to Latvia's economy. Most were secured against collateral inherited from the Soviet and pre-Soviet period debt-free. Rising property 'bubble' valuations thus formed the basis for foreign currency inflows, not current earnings. The largest inflow categories were for construction in luxury housing, office space and shopping areas, with too few opportunities for investment in industry.[6]

For the Baltic countries and other post-Soviet economies, the neoliberal model culminated in enormous social and personal devastation that no Western democracy would have sustained without massive political protests: a declining birth rate, deteriorating public health, increasing worker injury rates, accelerating emigration and, in Russia itself, shortening lifespans. In addition, neoliberal extremism put in place the world's most oligarchic tax structure: in the case of Latvia, a nearly 60 per cent flat tax on labour (worker and employer contributions) with virtually no tax on real estate or financial property.

Latvia's post-Soviet development employed decidedly neoliberal policies to attract foreign investment, which served as a substitute for reorganising its Soviet industrial infrastructure. Latvia's specific characteristics and comparative advantages, combined with the special attention paid to it by the USA, helped to move it away from pursuing the 'coordinated market' model of the most successful post-socialist bloc state, Slovenia.[7] Latvia also failed to pursue the relatively 'embedded liberal' policies of Central Europe, to use Bohle and Greskovits' term, which could have created more balanced and sustainable economic development.[8] Instead, a 'capital gains economy' was created where local elites reaped super-profits from the sale of state property or by acting as intermediaries in an offshore capacity in handling CIS wealth transiting to points west. Gains were also realised from foreign investment in areas Latvians themselves chose not to control because they lacked expertise or because quick profits were not sufficiently large to entice them. The result, in short, is that Latvia's economy became characterised primarily by capital gains (speculation), offshore financial activities and foreign capital inflows. Commodity export is secondary, with timber the most significant product. Industrial production comes a distant third and has continued to decline. For Latvia's economic planners of the decades since independence, production has largely been seen as *passé*.

Understanding Latvia's present requires an analysis tracing its development from the 1980s to the present within the framework of a larger global crisis of accumulation.[9] Neoliberalism was the policy response to the post-Bretton Woods period of accelerated economic development designed to restore order in the ravaged world after the Second World War. The Bretton Woods system had presided over the creation of 'embedded liberal' economies within 'developmental' states. Indeed, even the CIA at this time supported embedded social democracies in Western Europe, especially in Italy and France, to starve support for the communist alternative.[10] It worked remarkably well for a while. Contrary to mid-nineteenth-century liberal economic principles, Western Europe developed largely along coordinated market lines, resulting in the 'social Europe' model we are familiar with today. Western European economies and societies were reconstructed along the lines advanced by John Maynard Keynes and Gunnar Myrdal. But the economic crisis of the early 1970s and the co-awarding in 1974 of the Nobel Prize in economics to Gunnar Myrdal and his ideological opposite, Friedrich Hayek, represented a partial recognition of the crisis Bretton Woods faced and the ideological change underway in economics, in political science and among policy-makers. The effort to turn around the 1970s decline in profits, given emergent overcapacity, occasioned the need to reform Keynesian economics. This provided the opportunity, but not necessity, to change policy in the direction of neoliberalism. This context is essential for understanding how the current Latvian economy came to be constructed.

This reconstruction took place as part of long-range project: reintroducing the USSR's natural resources to world markets would help check the 1970s trend of high commodity prices and would act as a tonic to the ailing global economy of the 1970s. The functional outcome of success in opening the Soviet Bloc was that money from the sale of these commodities was sent to American equity markets, contributing to the equity boom of the 1990s in the USA (to the tune of at least $250 billion). Western Europeans also realised gains from opening up the Soviet Bloc. As Alice Amsden has noted, when established developed nations felt the pinch of competition from late industrialisers (mainly East Asia), they typically shifted investment from home to abroad. Now Western Europe had access to both the consumer markets of the former Soviet Bloc and its heavy industrial production centres on its eastern border which formerly were in competition with those of Western Europe. This boosted Western Europe's economies at a critical restructuring juncture, as they created the Eurozone for capturing global rents with a new reserve currency to challenge the dollar. It also assisted Western European business in curbing wage demands with threats of exit (e.g., German carmakers threatening to relocate production to Bratislava) while creating an expanded market share for Western European goods. The Maastricht criteria for establishing the euro necessitated the curtailment of demand-side policies which had generated Western Europe's postwar prosperity, as those policies would reduce the attractiveness of the euro as a reserve currency. Access to post-Soviet consumer markets thus mitigated what would have been even worse unemployment rates than existed in the 1990s; at the same time, it delivered opportunities for both short-term profit and long-term strategic investment. In sum, with the collapse of the former Soviet Bloc, Western Europe seized the opportunity to restrict competition from the East.[11] Integration, at least initially, was to be on the West's terms.

Latvia played three roles in this process of restoring profits in the West: 1) it served as the transit point for CIS capital *en route* to the West; 2) it served as a transit point for asset-stripping and raw material sales to markets in the West; and 3) more recently, through labour migration it, along with neighbouring Baltic nations and Poland, helped to restrict wage costs in Britain, Ireland and, to a lesser extent, Sweden. Moreover, this represented a factor accumulation adding more labour and thus more economic growth in those countries, but without the incentive of higher labour costs to stimulate greater productivity. Meanwhile, because Swedish banks had an excess of liquidity, it was difficult to secure high rates of return in the real economy of production, but strong profits could still be realised in the Baltic States, which proved to be their star performers from 2004 until the crisis emerged in autumn 2008.

In short, Latvia was part of the physical space formerly closed off in the East, which the West, economically under pressure from global overcapacity, opened for investment and the sale of consumer goods in the late 1980s and 1990s. Additionally, Latvia was the transit point through which CIS raw materials and money flowed to the West. Latvia's political economy, therefore, can best be understood in terms of David Harvey's concepts of 'accumulation through dispossession' and 'spatial fixes' to overcome the tendency of declining profits and diminished economic growth that plagues mature economies.[12] Yet, it was not merely the removal of Soviet Bloc competitors and access to new consumers in the East (*pace* Gowan) or the return of Soviet Bloc raw materials to the West (*pace* Harvey) that temporarily buoyed the economies of the West. The last chief source, and one which has contributed to the current economic crisis, was the collateralisation of previously debt-free property in places like Latvia, which in the short term delivered super-profits to the West. Access to the post-Soviet Bloc provided just such a temporary fix for the rich nations of the transatlantic North. Indeed, in this sense there is historical continuity, with the Baltics performing this function as they had for the Vikings and later as a 'spatial fix' for the Dutch which helped create their hegemony in the late sixteenth through to the early eighteenth centuries. What remains to be seen is whether the debt burdens placed on Latvians recreate another old pattern – serfdom – but this time in the form of people unable to move because they are tied to their debt-leveraged properties.[13]

THE FDI AND CAPITAL GAINS ECONOMY: LATVIA'S BOOM IN BUSTS

Latvia's economy appeared to leap quickly from Moscovich to Maserati performance in the middle of the 2000s. But the appearance did not reflect reality. Almost all the growth was based on foreign capital inflows, with virtually no gains in production. Several forces combined to create a veritable storm of high-powered consumption, one that was prone to collapse as soon as the inflow of foreign funds halted. As it stands, the primary benefits of the current consumption economy created by foreign capital accrues to the capital, Riga, which accounts for a third of the nation's population and two-thirds of its economy.

Foreign capital inflows expanded following NATO accession and Latvia's joining the European Union in 2004, as previously stated. The latter brought significant aid in the form of structural funds. These direct payments from Brussels also contributed to capital inflows that bid up real estate prices well beyond rates the real economy could support. Simultaneously, dramatically rising oil prices enriched the oil-producing regions of the CIS. The price rise resulted mainly from the demand for oil generated by the US war in Iraq; before the conflict began, prices were roughly US$20 a barrel, but they rose steadily beginning in 2004, peaking at over US$140.[14] The other cause of the price rise was speculation following the collapse of Western equity prices by 2000. The result was to flood Russia and its near abroad with money. That cash cascaded into real estate and was made available for consumption in the form of luxury residences in the Latvian seaside town of Jurmala and Riga's city centre. Indeed, at the peak, property prices in Jurmala reached those of Monte Carlo. The EU's highest inflation followed in the wake of these capital inflows.

Significant capital flows into Latvia (legal and illegal) went primarily to real estate, property development projects and expansion of retail investment. In other words, despite some contributions to the real economy in the form of construction, much of the capital inflows in this period were merely put to speculative purposes and consumption. Real estate speculation was also fuelled by regional and global excess of liquidity seeking quick returns. Just as the US war in Iraq triggered the global rise in oil prices, the USA also led the way in creating the real estate bubble. Its equity boom stopped a year before 9/11. President George Bush implemented a tax cut and cheap credit programme to restore confidence in the post-9/11 economy through demand-side measures (tax cuts, increased spending and cheap credit). Cheap credit sustained the American housing boom, but the copious quantities of cash created to fuel it generated significant liquidity and real estate inflation. Japan also contributed to this problem with its cheap money policies designed to overcome the problems created by its economic crisis. Cheap money flooded into the global economy, creating asset inflation which helped to fuel Latvia's real estate boom and is partly responsible for Latvia's current economic crisis.

This process of financialisation reached its peak with the 2004–7 real estate expansion. Capital inflows from Western Europe (primarily Sweden) are now contracting and it is uncertain if new capital inflows can be found to maintain the Latvian economy. The massive capital inflows permitted Latvians to enjoy the highest economic growth in the EU. This growth, however, was illusory, predicated on the consumption of foreign loans, not on any real economic growth. Latvians are only now discovering that their debt overhang will saddle them with debt service payments to foreign banks for years to come. Figure 6.1 shows the bank credit growth in the period 2001–9.

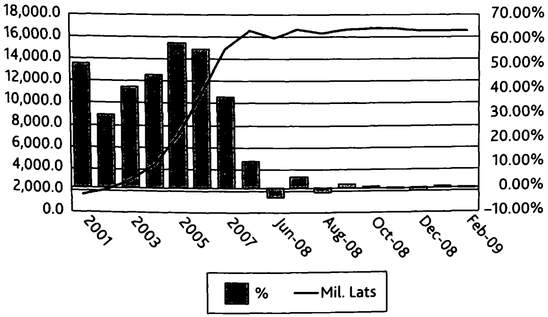

Figure 6.1 Bank Credit Growth, 2000–9

Source: Latvia's Financial and Capital Market Commission, Banking Activities Report, various issues, www.fktk.lv/en/statistics/credit_institutions/quarterly_reports; own calculations.

In the last quarter of 2008, loans issued to residents amounted to Ls 14,737.4 million, or 90 per cent of GDP. In comparison with the end of 2003, there was a significant change in the structure of the loans issued due to the strategy of the banking sector and consumer demand. While in 2003 the most privileged sectors were individual services (23 per cent), wholesale (16 per cent), financial intermediation (13 per cent) and manufacturing (12 per cent), by the end of 2008 the situation had changed drastically. In 2004, the banks started to lend relatively cheap money to finance operations in the real estate sector and to households for consumer purchases. Money lent to non-banks in the last years became mainly directed to finance operations with real estate activities (56.6 per cent), consumption of durable goods (11.2 per cent) and financial intermediation (7.2 per cent), while all other sectors experienced a relative reduction. The result was a process of economic restructuring which contributed to the 'development of underdevelopment'.

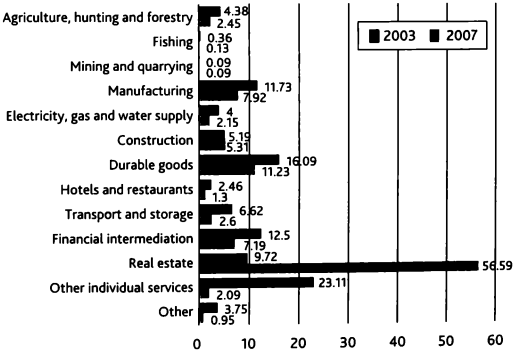

Figure 6.2 Structure of Loans Classified by National Economy Sector at End 2003 and End 2007 (%)

Source: Latvia's Financial and Capital Market Commission, Banking Activities Report, various issues, www.fktk.lv/en/statistics/credit_institutions/quarterly_reports; own calculations.

Several parts of the real economy have been adversely impacted by financialisation of the Latvia's economy. In 1995, manufacturing, agriculture and energy accounted for, respectively, 21 per cent, 9 per cent and 5 per cent of GDP. However, in 2008 the same sectors accounted for 11 per cent, 3 per cent and 3 per cent of the GDP. Although GDP was growing, these structural changes represented a deepening of underdevelopment. This was first, because the demand for durable goods has a natural limit. There was a huge repressed demand of these goods as people wanted to get rid of their old Soviet durable goods. With the availability of credit, consumption of these goods boomed. However, when this demand was met, the sectors associated with it tended to experience a sharp decline in turnover. Second, as economic history shows, artificially inflated prices of real estate always fall; bubbles inevitably burst. Third, and most pertinent to our argument, because the capacity of people to borrow is directly related to the amount of money they have to repay, a ceiling is set for growth in the credit market.

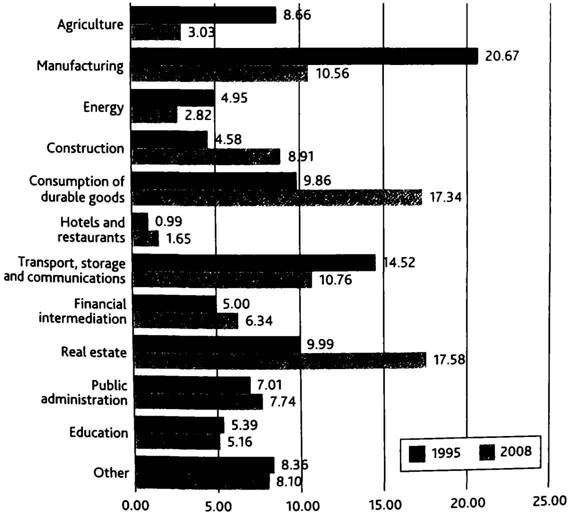

Figure 6.3 Structure of Latvia's GDP, 1995 and 2008 (%)

Source: Latvia's Statistic Bureau, data.csb.gov.lv/Dialog/varval.asp?ma=IK0040a&ti=IK04%2E+GROSS+DOMESTIC+PRODUCT+BY+KIND+OF+ACTIVITY+%28thsd+lats%29&path=../DATABASEEN/ekfin/Annual%20statistical%20data/02.%20Gross%20domestic%20product/&lang=1.

Additionally, the transport and storage sector depends on the production of goods, which is dependent on demand. With crisis, this sector tends to suffer a reduction in performance. As Latvia's manufacturing sector had been shrinking, in addition to the inevitable decrease of commerce in durable goods, the transport and storage sector also experienced a slowdown. In this way, nearly half of Latvia's GDP is unsustainable and this indicates that a crisis was inevitable, with or without the current financial crisis. Although GDP was growing fast, in reality the structure of the Latvian economy was becoming debased and increasingly dependent on four sectors that are not sufficiently dynamic to advance growth in the medium and long term. In other words, the failure of the internal model was a natural consequence of its structure and not merely a function of the collapsing financial sector. The end of the credit boom has simply exposed these longer-term failures.

Another problem was inflation. As a result of the influx of foreign money from 2003 to 2007, Latvia's monetary base increased by 181 per cent.[15] From May 2004 to June 2008, the increase was 163 per cent. For M1, the biggest growth was in overnight deposits, which suggests that the issuance of money by the Bank of Latvia (BoL) was not the main cause of the increase. Rather, it was the result of money-creation by private banks operating in Latvia. The money supply was expanded further by external remittances, thus aggravating inflation.

Although inflation is commonly seen as a problem, it may also signal economic growth when at mid-levels in developing economies. Developing countries like Latvia must take into consideration that an annual rate of 13 per cent of inflation is not so bad if there is economic growth and, more importantly, *real* development. Inflation is a problem when it is at high levels, such as 13 per cent a *month*. Annual inflation of about 2–3 per cent is typical for developing countries in deep recession or for developed countries approaching stagnation and starting to face problems such as unemployment. Before achieving an inflation rate of 2–3 per cent, a country first must develop, as revealed by the research of Joseph Stiglitz on the former Soviet Bloc.[16]

Ineffective economic restructuring in Latvia and the resulting inflation were the result of poor regulation by the Financial and Capital Market Commission and the inability of the BoL to deal firmly with the increasing monetary base. The Market Commission did not fulfil its basic function of regulating the financial system and guaranteeing its stability by controlling the explosion of market credit and protecting banks and clients from overexposure to risk. The fact that the chief banking regulator's salary was paid by the financial sector prevented the independent regulation that a state-funded regulatory system would have provided.

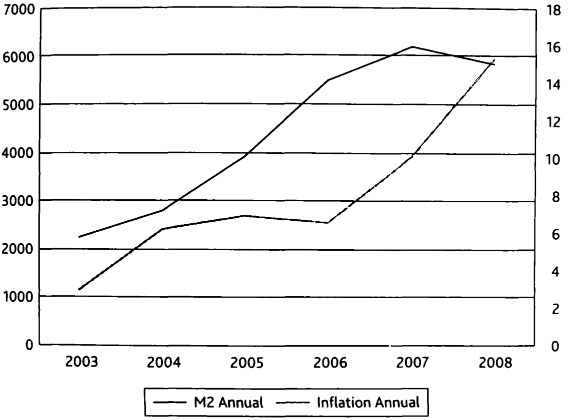

Figure 6.4 Monetary Base and Inflation in Latvia 2003–8, (Million Lats and %)

Source: Bank of Latvia, www.bank.lv/eng/main/all/statistics/bank_mon_stat/bmsq42006/, and Latvia's Central Statistics Bureau; data.csb.gov.lv/Dialog/varval.asp?ma=CE0010a&ti=CE01%2E+PRICE+INDICES+%282005%3D100%29&path=../DATABASEEN/ekfin/Annual%20statistical%20data/07.%20Prices%20and%20consumption/&lang=1; own calculations.

The case of the BoL is different again. Its institutional structure makes it impossible to control monetary policy due to the 'impossible trinity' it has created of fixing Latvia's exchange rate to the euro and by keeping the capital and financial accounts of its balance of payments open. Lastly, the fact that close to 90 per cent of the credit lent in Latvia was denominated in euros meant that the Bank could not use interest rates as an instrument to control inflation.[17]

Much more important for the BoL was to artificially prevent the exchange rate from going beyond the narrow fluctuating band linked to the euro and to maintain long-term interest rates in line with the Maastricht criteria. These goals have been achieved administratively, without active intervention in markets. Therefore, although aware of growing inflation, the BoL ignored the role of the monetary base as the main determinant of inflation in Latvia. In sum, much of the financial crisis could have been avoided simply by restricting credit creation (money) by the private banks. Unfortunately, ideology prevented them from doing so.

A working paper produced by the Bank of Latvia even discussed the changing expectations of economic agents in determining inflation. Yet its authors did not consider the role of monetary aggregates that would be essential in explaining why the expectations were changing.[18] Although most sectors of the Latvian economy were developing based on unrealistic positive expectations, people nonetheless felt that they were getting richer. The result was a distorted perception of reality. Even in 2008, some international consulting companies were still defending the idea of Latvia becoming an international financial centre, when a superficial analysis of basic macroeconomic indicators already clearly showed that its economy was facing a structural crisis.

Reducing the inflation caused by the recent credit expansion without lowering economic growth would require new regulations of the financial sector. This is a delicate issue in Latvia, as concepts of 'economic freedom' and 'economic liberalism' are understood by Latvian authorities, politicians and a significant section of private business to be equated with complete freedom of action for individuals. In short, business does not appreciate being told what to do. Attempts to impose regulation are perceived as a retreat to communism or branded as populism.[19] This cultural specificity also helps to explain the lack of initiative of regulators to perform their basic function of regulating efficiently. In addition, there is a lack of effective cooperation between the BoL, the Financial and Capital Market Commission and the central government, as they tend to act independently of each other.

The BoL did in fact issue several warnings regarding structural problems that the Latvian economy was going to face due to inflation, but did nothing to avoid them. Moreover, as previously stated, it failed to see the private sector's role in creating the problem. The BoL only recommended curtailing government spending. The government never took these warnings into consideration and even repudiated them. Meanwhile, the Commission ignored the macroeconomic aspects of its chosen regulatory model. In Latvia's case the passivity of the Commission, together with the attitude of the politicians, is an important component in the formation of the structural crisis.[20]

Moreover, private banks, even when the economic expansion appeared unsustainable, with an unsound structure of loans, were still lending on easy terms at the beginning of 2008. Moral hazard was in play too, as reflected in the answer given in June 2006 by the head of the real estate division of one of the top three banks of Latvia when asked why they were inflating the real estate market with credit. It was known, he said, that 'it is unsustainable, but everyone's annual bonus depends on making more money. We know it will crash, but we are all making too much money now to stop it.'[21] Although the appetite for risk by large foreign banks was particularly strong given the modest exposure of their portfolios to the Latvian market and the very high returns on equity invested there, international experience shows that perceptions of loan quality are notoriously pro-cyclical during economic upswings, but deteriorate rapidly when conditions turn less favourable. In short, during the recent crisis conditions were guided by herd psychology and bank industry incentives that maximised short-term rent-seeking behaviour, as predicted by Keynes.

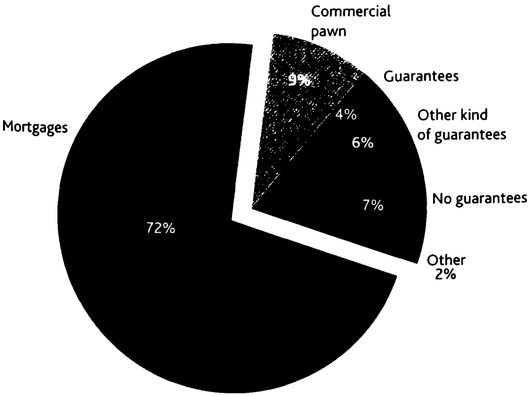

Figure 6.5 Structure of the Bank Loans Classified by Type, End 2007 (%)

Source: Latvia's Financial and Capital Market Commission, Banking Activities Report, various issues, www.fktk.lv/en/statistics/credit_institutions/quarterly_reports; own calculations.

The consequences of the end of the speculative cycle in the real estate market in Latvia were twofold. For the banks, the soundness of the loan portfolio experienced a reduction of quality, in other words, the collateral for the issued loans is considerably less than the amount lent; and their assets suffered a reduction that may affect profitability. As foreign-owned institutions dominate most of the banking system, this means losses are exported to the parent banks, and this manifested itself in a 'Request for [a] standby arrangement' from the IMF. For the general population the main problem has been the psychological dimension (*pace* Keynes) of the crisis. In short, people are not buying. Real estate is seen as an investment, thus people equate a fall in property prices as a loss in their savings. This undermines their confidence in the national economy, resulting in reduced consumption and employment opportunities and insecurity.

As it was clear that asset inflation was above sustainable levels at least from 2006, some measures could have been taken to avoid it. Although the possibilities to oversee a comprehensive monetary policy are limited, in this specific case one instrument was available to the BoL: compulsory reserves. As the monetary base was increasing, mainly as a consequence of the remittance of capital from foreign banks to their subsidiaries to be issued as credit, together with the endogenous creation of money by banks operating locally, greater regulation requiring larger compulsory reserves would have been sufficient to absorb the excess liquidity of M2.[22] Combined with stricter regulations for lending by the Financial and Capital Market Commission and a more prudent tax policy by the Ministry of Finance, the process of economic restructuring could have contributed to real wealth-creation rather than rent-seeking.[23]

Instead, the 'development of underdevelopment' deepened further. Latvia thus can only be seen as a maldeveloped country, being integrated into a subordinate position within the European Union. Its insertion into the international economic system has structural dynamics creating paths of dependency. The structure of its foreign trade shows that it exports mainly primary products rooted in the second Industrial Revolution of the nineteenth century, while it imports machinery and equipment needed by the fragile real sector of the economy. Moreover, it must import most of its minerals and fuels. Latvia also imports a considerable quantity of food, as its agriculture is not capable of meeting internal demand and agribusiness is generally underdeveloped. The Latvian economy is poorly developed and dependent on imports of technology and material products, assuming an underdeveloped and subordinated position in the international system.

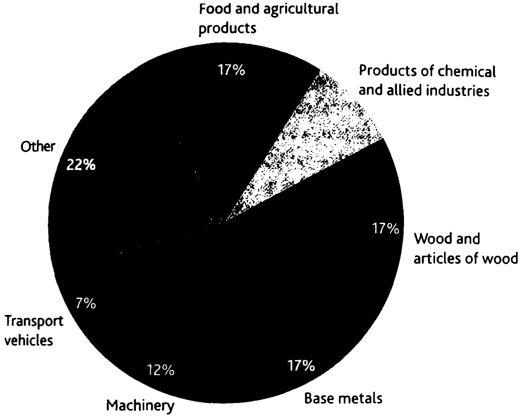

Figure 6.6 Structure of Latvia's Exports, 2008

Source: Latvia's Central Statistic Bureau, data.csb.gov.lv/Dialog/varval.asp?ma=AT0010am&ti=AT01%2E+EXPORTS+AND+IMPORTS+BY+COMMODITY+GROUP+%28thsd+lats%29++++++&path=../DATABASEEN/atirdz/Short%20term%20statistical%20data/Foreign%20trade/&lang=1.

In short, neoliberalism developed an environment in which destructive rent-seeking could thrive, hindering development of the real economy. While finance has been largely a destructive force in Latvia, it is nonetheless critical for the creation of industry, yet unfortunately Latvian finance has funded few new start-up enterprises. Latvia's historical relationship and geographic proximity to Russia gives its financial sector a comparative advantage which it should continue to capitalise on. But it is not the foundation on which to build an economy. Even Switzerland and Luxembourg's economies have significant industrial production to complement banking. The financial sector was easy to create and attracted much capital from Russia and other states to the East, yet it has created relatively few jobs. Moreover, the lack of regulation of finance has made it a destructive force through creating asset bubbles and starving the real economy of investment capital.

The devaluation of Latvia's real estate bubble is seen by many as the cause of its present economic difficulties. In fact, it was the hike in prices, not the subsequent fall, that caused problems. In this respect, the property price decline may prove beneficial. Latvia's government should avoid bailing out its banks and should not take measures that support high real estate prices. Falling property prices will push investment into more productive sectors. Mortgages in themselves are not bad, but they lead to defaults when they exceed rental income, which Latvia's certainly do. The proper housing model to follow is Germany's. A higher percentage of Germans hold mortgages than do Latvians, but they have relatively low debt service obligations as a percentage of their income and are not in danger of defaulting. The example to reject is America's. Housing costs today typically absorb 40 per cent of an American family's income, twice that of German wage-earners. The alternative followed in Latvia was for prospective homebuyers and commercial companies to borrow heavily from banks – largely in foreign exchange – to obtain access to housing. High debt service payments are already coming due for Latvia's highly debt-leveraged property, and it is likely to experience the same high level of defaults that other countries are experiencing. Another positive outcome will be that lower property prices will reduce the cost of labour and goods, which currently are upward adjusted to pay for Riga's exorbitant housing and commercial property costs. The pain of a real estate crash is the necessary tonic to reduce prices and make Latvian goods and services more competitively priced. Reducing Latvia's currently high debt service on big mortgage payments to bankers for over-priced property will also free money for other things. Chiefly, the money saved from having property bubble pricing to lower prices on housing could be diverted to taxation. These taxes in turn can be invested by the public sector in Latvia's human and physical infrastructure instead of going to Swedish banks in the form of mortgage payments to pay for overpriced real estate.

Another example of poor policy leading to an additional 'tax' on the public is the South Bridge over Latvia's Daugava River, which was financed by a high interest rate loan from a German commercial bank. A greater percentage of domestic financing would have reduced debt service payments to foreign banks. Partial financing could have been raised on bond issues funded from increased property tax revenues in areas proximate to the bridge; this would have proved attractive for those looking for quick access to both sides of the Daugava. Creative financing options that use more domestic sources of capital, when possible, can improve Latvia's financial position.

Latvia has real economic advantages that could set it on the path of prosperity if its tax system encouraged investment. Its geographical location makes it a natural transit corridor linking Europe to Asia via Eurasia by a new Silk Road. This idea has now become familiar, but is still far from realising its potential. Recently, China sent its first container traffic through Latvia. Such trade should be actively encouraged, as the Latvian government now seems to be doing.

Latvia should also deploy EU structural funds to increase agricultural output. Latvia has agricultural potential to produce biofuel in marginal areas where soils or topography do not support wheat. For the first time in world history, food and energy prices became linked when the USA diverted corn production from feedstock to ethanol. The USA has diverted over 20 per cent of its corn production to biofuel use, with a projected upward limit of 40 per cent. This will place dramatic upward price pressures on all grains, not just those used for fuel. Latvia could develop a coordinated approach to rapid expansion of wheat production in many areas, including a systematic study of where the highest yields are possible, and then it could use structural funds to purchase the equipment farmers will need to produce it.

Latvia also might serve as a supplier to the automobile hub emerging in St Petersburg, where Asian investors are keen to see stability and good relations between the Balts and Russians. Economic integration might help to achieve that goal. Current tensions with Russia will make this difficult but not impossible. International car manufacturers would support this for reasons of political stability. This idea should be carefully advanced through the Japanese embassy to determine its resonance.

Latvia must also advance industrial development. Latvia has innovative enterprises, such as GroGlass, which makes use of high technology from the Soviet era space programme. This valuable resource has survived from the 1980s and has resulted in a foreign investment of approximately US$40 million. While countless opportunities in the 1990s to identify competitive products from the Soviet period are now probably irretrievably lost given prevailing neoliberal paradigms, the government should make determined attempts to form joint partnerships with private concerns to create demonstration plants. Credits should be extended for others that follow suit, hopefully with industrial clusters emerging around them. This is a proven model that other nations, including many in Western Europe, not to mention Asia, have pursued and are pursuing on the path toward development.

All economic systems have lifecycles. The neoliberal restructuring of the global economy has reached the limits of profitability. The USA has experienced several periods of financialisation in its history, all of which created super-profits in the short term but ultimately crashed, requiring a reorganisation of its economy. Currently, the USA is experiencing the end of such a cycle. This has implications for the global economy as the USA ultimately will stop flooding the world with cheap money in order to fight inflation of its own creation.

Latvia has been a victim of competing ideologies of economic development that have failed to develop its economy. From Soviet central planning to neoliberal financialisation, both systems have now revealed their shortcomings. Historically, nations that have established coordinated economic structures have been the most successful. Western Europe and parts of Asia have employed these with good results. Some, but not all, nations that were once part of the Soviet Bloc, such as Slovenia and Slovakia, have seen their industrial sectors thrive under the 'embedded neoliberal' model. That model has produced rewards for individual and collective efforts in wealth creation but works to minimise rent-seeking behaviour represented by over-financialisation, which often destroys wealth. Latvia should study those models as it reorients its development to launch a new period of economic growth.

As speculative opportunities diminish and the economy declines, Latvia will require a new focus on producing wealth such that many more people can enjoy the benefits, in contrast to the speculator economy that emerged in the 1980s when the corruption of the Soviet economy carried over into the post-Soviet period. Finance is essential to fund production, but it becomes destructive when it is permitted to pursue speculative gains instead of creating genuine value. Latvia is presently at a crossroads: it can recognise this pattern and seize the opportunities to earn profit from its many strategic comparative advantages, or it can enter a period of decline as a result of failing to adjust to the end of another cyclical period of financialisation in the world's economy.

NOTES

1. François Chesnais, 'Mondialisation du Capital & Régime d'Accumulation à Dominante Financière', *Agone: Philosophie, Critique & Littérature*, 16, 1996, pp. 15–39.

2. Government spending was, however, allowed to escalate rapidly during the credit boom beginning in mid-decade, thus contributing to a fiscal crisis when the bubble burst in autumn 2008.
3. Ieva Morica, 'The Latvian–American Partnership in Building Civil Society in Latvia', in D. Auers, ed., *Latvia and the USA: From Captive Nation to Strategic Partner*, Riga: University of Latvia Press, 2008.
4. George Viksnins, 'The Georgetown University Syndrome and Latvian Economic Reforms', in D. Auers, ed., *Latvia and the USA: From Captive Nation to Strategic Partner*, Riga: University of Latvia Press, 2008.
5. Hyman Minsky, *Stabilizing and Unstable Economy*, New York: McGraw-Hill, 2008.
6. Much of this account of Minsky's application of the Ponzi stage of an economy comes from articles we are co-authoring Michael Hudson.
7. Stephen Crowley, *East European Labour, the Varieties of Capitalism, and the Expansion of the EU*. Columbia: Columbia University, 2007.
8. Dorothee Bohle and Bela Greskovits, 'Neoliberalism, Embedded Neoliberalism and Neocorporatism: Towards Transnational Capitalism in Central-Eastern Europe', *West European Politics*, vol. 30, no. 3, 2007, pp. 443–66.
9. Robert Brenner, *The Economics of Global Turbulence*. London: Verso Press, 2006.
10. Francis Stonor Saunders, *Who Paid the Piper: The CIA and the Cultural Cold War*, London: Granta Books, 2000.
11. Peter Gowan, *The Global Gamble*, London: Verso Press, 1999.
12. Harvey, David, *The New Imperialism*, Oxford: Oxford University Press, 2005.
13. The issue of 'debt serfdom' was developed by Michael Hudson, which we have applied to Latvia in the context of several publications.
14. Other factors contributed to the price rise too, but the war was central. Production costs in 2008 remain below US$20 a barrel, so that the rest are windfall gains made in a period of uncertainty created by the war. Rising demand from China and India is another factor, and, interestingly, was made possible by US neoliberalism, which created the opening for China to receive massive foreign investment and become a muscular exporter. See Giovanni Arrighi, *Adam Smith in Beijing*. London: Verso, 2007.
15. Here considering M2.
16. Joseph Stiglitz, 'Quis Custodiet Ipsos Custodes?', *Challenge*, vol. 42, no. 6, November/December 1999, pp. 26–67.
17. About the impossibility of the Bank of Latvia to perform monetary policy, see Konstantīns Beņkovskis, *Banku Aizdevumu Kanāls Latvijas Monetārās Politikas Transmisijā*, Latvijas Banka Pētījumi 1/2008.
18. Konstantīns Beņkovskis and Daina Paula, *Inflācija Gaidas Latvijā: Patērātēju Apsekojuma Rezultāti*, Latvijas Banka Pētījumi 1/2007.
19. The word 'populism' has a lot of concurrent uses by Latvian politicians and authorities. Usually, it is used to criticise any idea or action from opposition groups, even if the idea concerned isn't populist at all.
20. Indeed, on 24 May 2006, I (Sommers) went with Michael Hudson to meet Latvia's then Prime Minister, Aigars Kalvitis, to warn of the structural problems. We were then sent to the Finance Ministry, where it was made clear they had no interest in acting on the concerns we presented.

21. Jeffrey Sommers, 'Latvia Living at the Extremes: Seeking Equilibrium between Central Planning and Financialization', *Humanities and Social Sciences Latvia*, vol. 56, 2008, pp. 34–54.
22. The Bank of Latvia has increased the compulsory reserves held by banks three times since 2005: at the beginning of 2005 from 4 per cent to 6 per cent; in December 2005 from 6 per cent to 8 per cent; and in 2006 through the inclusion of the financial liabilities due in more than two years, in order to limit the Scandinavian banks, which were able to attain long-term financing and were playing the major role in the sector. It is not clear why the Bank of Latvia did not use all the potential of this instrument.
23. To date, there are no taxes on capital gains and very low taxes on real estate. Taking into consideration that other sectors are much more labour-intensive, resulting in more taxes to be paid, there was a tendency towards the development of the real estate sector.

7
The Ukrainian Economy and the International Financial Crisis

Marko Bojcun

This chapter examines the impact of the international crisis of 2007–9 on Ukraine's economy. The crisis manifested itself on a number of levels, impacting successively on the banking system, the volume of external trade, domestic production, consumption, indebtedness and employment. It was tackled from the end of 2008 by a state programme of recovery agreed by Premier Yulia Tymoshenko with the International Monetary Fund (IMF) in exchange for a loan of $16 billion. The failure of Tymoshenko's government to deal adequately with the crisis during 2009 contributed to her defeat in the 2010 presidential elections.[1] It also diminished the capacity of the incoming administration under President Viktor Yanukovych to manoeuvre between Russia on the one side and the Euroatlantic core states on the other. The entire previous period of the Yushchenko presidency had seen a significant growth in FDI and a heightened rivalry between European and Russian investors for strategic assets and market share in Ukraine. Thus Ukraine's overall place in the world capitalist economy, its linkages with rival transnational capitals and its capacity to manoeuvre in the world market have been deeply affected by the crisis.

The first objective of this chapter is to examine how the international crisis impacted on the national economy and the response to the crisis by Tymoshenko's government in 2008–9. This section looks at the crisis as an external force confronting the national economy and state. The second objective is to examine how the Ukrainian state leadership under Presidents Leonid Kuchma and Viktor Yushchenko sought to integrate the country into the world market over the decade leading up to the crisis. This section, looking at the transition to capitalism from within the national economy and state, seeks answers to two important questions: What did the crisis reveal about the adequacy of the development strategies pursued during the past decade by the Ukrainian state? How has the crisis affected Ukraine's position in the world capitalist economy, in particular its relationship to rival centres of transnational capital in Western Europe and Russia that seek to incorporate it into their own growth strategies?

THE COURSE OF THE CRISIS

According to Bohdan Danylyshyn, Finance Minister in the second Tymoshenko government (December 2007–March 2010), the international financial crisis hit the Ukrainian economy in a succession of waves.[2] The first appeared as a promise, not a threat. In 2006 and 2007 share prices of the biggest investment banks and hedge funds in USA and Western Europe began to fall. Facing a growing mountain of irredeemable debt in the US sub-prime mortgage market, these big players stepped up their investments in the markets of the Far East, Central and Eastern Europe. One of the publicly held assumptions in financial circles at the time was that emerging markets were immune from the sub-prime mortgage crisis. Foreign direct investments in Ukraine rose sharply from a \$1.7 billion net inflow in 2004 to \$9.2 billion in 2007. Capital inflows climbed even higher in 2008, but from August of that year the collapse of Ukraine's foreign trade and the seizure of its banking system prompted massive capital outflows, leaving net FDI at \$6.2 billion for the year as a whole.[3]

The inexorable rise of FDI flows, particularly after the 2004 Orange Revolution, was the result on the one hand of the growing volumes of investment capital available to the region of Central and Eastern Europe, and on the other, the liberalisation of its financial markets. For the first time since independence commercial banks in Ukraine became the most important intermediaries and allocators of investment capital. A range of foreign banks – both EU-based and Russian – started operations in Ukraine, usually buying up Ukrainian banks to serve as subsidiaries. They saw good opportunities for profit both from retail banking services, which were wholly undeveloped, as well as for corporate investment in production for export, retail and wholesale trade, transport and real estate. The share of foreign capital in Ukraine's banks grew from 13 per cent in 2004 to over 50 per cent in 2009.[4]

The second wave of the crisis came at the beginning of 2008 when FDI started to concentrate in the sectors that account for the main share of Ukraine's exports. The shift of FDI was prompted by the huge rise in prices on international primary commodities markets. In Ukraine there was a big jump both in the earnings of firms producing steel, wheat, chemical fertilisers, coal, coke, etc., and in the debt obligations they assumed to finance new rounds of expanded production.[5]

But in 2007 signs of economic overheating were already appearing as commercial banks took larger amounts of short-term foreign credits to pass on as loans to both Ukrainian firms caught in the thrall of booming export demand and to individuals, in the form of mortgages, car purchase loans and other forms of consumer credit. The FDI surge financed imports to Ukraine of machinery, automobiles and luxury goods that, together with the high price of oil and gas imported from Russia, resulted in a deepening trade deficit and contributed to the deficit of the government's current account. At the end of 2007 the National Bank of Ukraine responded to overheating by limiting the short-term loans commercial banks could take from abroad. Then, in spring 2008, the government abandoned the hryvnia's peg to the falling US dollar and allowed it to float within a defined band. This was intended to ease the pressure of the rising cost of euro-denominated imports, as the euro was growing strongly against the US dollar at that time.[6]

The third wave of the crisis came in summer 2008 when world prices of oil and metals fell sharply. Prices of petrochemical products and food, heavily reliant on intensive energy inputs, fell in succession. Price falls were followed by the hasty departure of hot money (around 5–7 per cent of FDI in Ukraine) and the suspension of further outlays by the stable, longer-term investors.[7] The big producers of primary and semi-processed goods now faced a choice: either to push even greater volumes of goods onto external markets where they might at least hold market share while earning much lower unit prices, or sharply curtail output and cut their losses, conserving capacity and laying off workers. Invariably they took the latter course because international demand for their goods continued to shrink as the crisis deepened in the fourth quarter of 2008 and there was no domestic demand to replace it.

A fourth wave, generated by the global contraction of production and trade, pushed deep into the national economy. Stagflation set in; from September 2008 the hryvnia steadily devalued. Lines of credit to Ukraine's commercial banks dried up as foreign banks and corporate investors lost liquidity in their core institutions on the one hand, and on the other, Ukraine's collapsing exports, real estate market and domestic consumer demand threw into doubt the ability of borrowers to repay what they already owed. Savers, on the other hand, who had just learned to trust the banks enough to deposit money in them, lost confidence again and began to withdraw their deposits. Their massive exchanges of withdrawn hryvnia into US dollars put more pressure on the exchange rate. The National Bank of Ukraine (NBU) was forced to intervene to prevent a run on the banks: savings accounts were frozen for six months, affecting millions of ordinary savers.[8]

THE GOVERNMENT'S RESPONSE

The government of Yulia Tymoshenko faced a difficult situation at the end of 2008. Although public external debt was relatively small (about 20 per cent of GDP), the private sector was facing a total external debt in the region of US$104 billion – around 108 per cent of the GDP achieved in 2009. And $43 billion of that amount was short-term debt, due for repayment in 2009.[9] The government was under great pressure to help restore confidence and liquidity to the banks and to prevent the weakest from going under. With such a large proportion of bank capital foreign-owned and a large number of Ukrainian firms holding foreign loans, it seems very likely that pressure was put on Tymoshenko by the international financial institutions and the governments of significant foreign investors to take speedy action to prevent defaults in the private sector.

However, collapsing foreign trade, contracting domestic production and demand, and growing unemployment had sharply reduced the government's revenues from taxation and increased its social welfare payments. Preparation of the 2009 state budget showed a shortfall of approximately $17 billion in meeting the anticipated expenditures. Without a sizeable sovereign fund (NBU foreign currency reserves totalled around $28 billion in January 2009) Tymoshenko saw no option but to seek external financing of the state budget. She turned to the IMF and six states, one of which was Russia, which offered a $5 billion loan.[10]

In November 2008, Ukraine and the IMF concluded a memorandum setting out the conditions of a $16.4 billion loan. This worked out to around $360 per capita. The interest rate on it was set at 2 per cent per annum, the loan to be repaid by 2014.[11] Tymoshenko sold the IMF loan to the public in such terms – a low interest rate, adequate reserves to cover the amount and a relatively small per capita burden. President Yushchenko supported

Tymoshenko on the loan, seeing that it would serve to anchor Ukraine to the Euroatlantic core states.

For the Party of Regions sharp criticism of the IMF loan came from Mykola Azarov, the party leader who would become Prime Minister under the Yanukovych presidency in 2010. Putting forward an alternative Bill to the government's October 2008 legislative package in conjunction with negotiations over the IMF loan, Azarov argued that it was not needed. He saw no looming crisis in the banking system. His alternative amounted in essence to: the creation of a Stabilisation Fund to stimulate economic recovery; and raising the amount of bank deposits guaranteed by the state. Azarov saw the main danger at the end of 2008 in an area that was not addressed by the government and the IMF at all in their joint memorandum: the collapse of Ukraine's external markets. To counteract this he proposed mobilising domestic demand for steel, chemical fertilisers and machinery, traditionally the country's main exports. He also proposed the government use the proposed stabilisation fund to finance reconstruction of state railways and rolling stock, build bridges, subsidise farmers' purchases of fertiliser and give tax-breaks to the machine-building industry:

> The current situation requires a considerable mobilisation of the domestic market . . . Under pressure from the IMF our government is doing precisely the opposite. We have to lower taxes, but it is raising them; we have to relax fiscal policy wherever possible to increase domestic demand, but it is making this tougher . . . If we implement all the demands of the IMF the situation will only get worse.[12]

Tymoshenko, however, retained a slim majority in the Verkhovna Rada (legislature) and her coalition carried the day. The IMF loan and its terms were accepted, though later amended (see below) and became the centrepiece of the government's strategy to deal with the crisis. According to the IMF–Ukraine memorandum, its main aims were:

- to restore the banks' liquidity; this measure would include recapitalisation of the stronger banks, liquidation of the weaker and state purchase and sale of bank shares, all in an effort to make credit available again;
- to raise the guarantee on individual bank deposits from 50,000 to 100,000 hryvnia;

- to monitor the corporate sector debt with a view to anticipating peak periods of debt service and avoid any massive default across the private sector;
- to create a floating exchange rate without a defined band as a way of dealing with further external shocks to the economy;
- to target inflation at 17 per cent in 2009, falling to 5–7 per cent by 2011;
- to strengthen fiscal discipline and bring the current account deficit down to 1 per cent of GDP by raising end-user costs for energy resources, freezing salaries and wages in the public sector, as well as holding social expenditures to the rate of inflation, and postponing by two years the planned alignment of the national minimum wage with the defined minimal living standard (i.e., the poverty line);
- to restore Naftogaz, the state gas importer, to financial health by raising end-user prices of imported gas to those of domestically produced gas and by the simultaneous abolition of the state subsidy of gas consumed by public housing and communal facilities.[13]

The IMF released three tranches of its loan – the first $4.5 billion in November 2008 upon adoption of the agreement with Ukraine, the second of $2.8 billion in May 2009 and the third of $3.3 billion in September 2009.[14] The fourth and final tranche was delayed by the presidential election campaign. However, at the very end of 2009 the IMF agreed to amend its deal with Ukraine and allow the government to use $2 billion of the NBU's own reserves (thereby limiting the NBU's minimum international reserves requirement) to prop up Naftogaz Ukrayiny and pay the government's urgent gas bill to Russia.[15]

The Tymoshenko government implemented its rescue package from the end of 2008 broadly in line with the aims set out in its memorandum with the IMF. It used the IMF loan, as well as additional revenues of its own, to pay off $7.1 billion of the commercial banks' debts to foreign creditors and a further $5.7 billion to honour the savings accounts of Ukrainian depositors. (Total savings in all banks by Ukrainian citizens was 207 billion UAH, about $20 billion on 1 December 2008.) Some of the funds were used to increase the minimum reserves of two state banks (Ukreksimbank and Oshchadbank) and to buy out controlling shares and thereby nationalise five commercial banks to prevent them from failing. Tymoshenko said in an interview in August 2009 that one of these five – Ukrprombank – went bankrupt after its biggest shareholders stole the initial funds advanced by the NBU to recapitalise it.[16] The Kyiv weekly *Dzerkalo tyzhnia* reported that the National Bank had already issued 111 billion hryvnia (worth $15 billion in December 2008) in credits between September and December 2008 (i.e., before the disbursement of the IMF loan) for the recapitalisation of commercial banks, but that some of these credits had disappeared into the shadow economy through immediate purchases of foreign currencies on the interbank currency market. And some of the money was lent out unsecured to private clients who then went bankrupt. Bank Nadra, for example, 'lost' 380 million hryvnia ($51 million) in this way.[17]

Meanwhile, the Ukrainian currency had been allowed to float on international currency markets, and it devalued against the US dollar from an average rate of 5:1 in 2008 to around 9:1 in September 2009. It subsequently began to rise in value again, albeit slowly, registering an annual average rate for 2009 of 8.1 UAH to the dollar.

The IMF loan and the release of NBU funds with the IMF's agreement in January 2010 were critical to ensuring that Ukraine would meet its monthly payments for gas imports from Russia. These payments proved a significant burden on the state budget, as the government continued to subsidise end-user gas prices to public housing and communal institutions. Tymoshenko had renegotiated the gas contract with Russia in January 2009 but secured a purchase price only 20 per cent lower than the price Russia charged EU consumers. However, the agreement removed Rosukrenergo, the private intermediary trading body, and established a direct purchasing and payments procedure between Naftogaz and Gazprom. Tymoshenko aimed to establish a transparent trading arrangement that ensured stability and predictability of prices and supply both to Ukraine and its Western neighbours.[18]

Tymoshenko's government also seized Rosukrenergo's gas reserves stored under the Carpathian Mountains. She thereby provoked a bitter fight with Dmyto Firtash, a principal partner in both Rosukrenergo and the troubled Nadra Bank, who was backing Viktor Yanukovych in his bid for the presidency. The gas trade was also one of the subjects of an ongoing dispute between Yushchenko and Tymoshenko, who traded accusations of benefiting from allegedly corrupt arrangements and betraying Ukrainian national interests.[19]

Finally, the government was obliged to respond to the social consequences of the sharp economic downturn. These included growing indefinite layoffs and unemployment reaching 9.6 per cent in 2009, mounting wage arrears, deepening household indebtedness and persistent price inflation of essential consumer goods.[20] Strikes against wage arrears and layoffs began in autumn 2009, and there were fairly widespread protest marches organised by the trade unions against poverty. The marchers denounced the IMF agreement as evidence of the government's willingness to bail out big business at the expense of the working class, who now bore the costs of the crisis.[21]

The government and the IMF were at odds over the 2009 state budget, which held up the release of the second tranche of the IMF loan. The IMF was insisting on a budget deficit of 1 per cent, to be calculated on the basis of a projected 8 per cent drop in GDP in 2009 and an inflation rate of 16 per cent. Such a small deficit could have been achieved in such projected macroeconomic circumstances only by sharply lowering government expenditures on public sector salaries, pensions and other social services, as well as by reducing state subsidies on domestic energy prices. However, the Rada adopted a 2009 budget with a projected deficit of 3 per cent GDP (31 billion UAH, equivalent to $3.7 billion). This was unacceptable to the IMF delegation, which left Ukraine to wait for the Cabinet to modify its position. But the Cabinet remained divided. Finance Minister Viktor Pynzennyk, supported by Yushchenko, insisted that the Cabinet follow the prescription set out in the memorandum with the IMF. Tymoshenko was clearly resisting such a course and holding out for a concession from the IMF. Pynzennyk resigned and the IMF agreed to accept a state budget deficit of 4 per cent of GDP, which everyone knew was unrealistic because month by month GDP was contracting – squeezing government revenues accordingly.[22]

The second tranche of $2.8 billion was released to the government only in May 2009. The third was released in September, but the fourth tranche was held up because on the eve of the presidential elections the government failed to increase domestic prices of gas supplies and the Rada adopted legislation in October to increase social welfare payments by an average of 20 per cent. The legislation was pushed through the Rada by a coalition of the Party of Regions and the Communists thereby defeating Tymoshenko's reduced parliamentary coalition. President Yushchenko signed off the legislation.[23]

The annual decrease in GDP in 2009 turned out to be 15.1 per cent. The state budget deficit at the end of 2009 was a matter of some dispute between political leaders, but the dispute was voiced openly only after the elections were over. While the Cabinet under Premier Tymoshenko had reported a surprisingly low year-end deficit of 19.9 billion hryvnia, the incoming government under Premier Azarov calculated it at 103.8 billion hryvnia. Azarov added together the deficit declared by Tymoshenko, the costs of recapitalising the banks and Naftogaz, further loans taken from the IMF under special drawing rights and the government's outstanding repayments of VAT to businesses. Further, in calculating the state debt (as opposed to the annual budget deficit) Azarov added in the cost of honouring state bonds. By his calculation the state debt stood at 211.6 billion hryvnia, or 23 per cent of GDP.[24] Interestingly, Azarov did not take into account the huge obligations of the state pension fund, which would have driven up the calculated state debt to around 40 per cent of GDP. He needed to show just how badly Tymoshenko had managed the state finances during her time in office, but not to reveal the full extent of the state's indebtedness for fear of undermining the confidence of international creditors and investors.

The government's response to the crisis in 2009 can be summarised as follows: the Cabinet led by Tymoshenko, and supported by the President Yushchenko, took the IMF loan and made it the centrepiece of its strategy to combat the impact of the financial crisis on the economy and state finances. By using the IMF loan to recapitalise the commercial banks, nationalise the five banks facing collapse and honour Ukrainian depositors' savings accounts the government in effect transformed part of a massive private sector debt into a public debt. Adherence to the terms of the IMF loan about limiting state budget expenditures came under pressure as the presidential elections loomed and the candidates sought to provide additional social support to those worst affected by the economic downturn. However, government neither formulated nor implemented any significant measures to stimulate economic recovery, although there was a lot of talk about it from the end of 2008 and throughout the presidential election campaign period.

The immediate impact of the 2007–9 crisis on the Ukrainian economy, measured in the most basic indices, can be summarised in the following terms:

- after climbing steadily at strong annual rates of growth, real GDP fell in 2009 by 15.1 per cent;

- net FDI fell from its peak of $9.2 billion in 2007 to $4.5 billion in 2009;
- a collapse in Ukraine's principal exports, notably steel and chemicals, and a similarly sharp contraction in imports;
- after its revaluation during the boom years, a devaluation of the national currency (the hryvnia) by around 40 per cent;
- a rise in unemployment levels to 9.6 per cent in 2009;
- a year-on-year decrease in real wages of 10.9 per cent by October 2009;[25]
- a sharp reduction in the capacity of the population to meet their household debt obligations: consumer loans and mortgages denominated in foreign currencies have to be paid back in devalued hryvnia;
- an increase in the public debt to at least 23 per cent of annual GDP (40 per cent including the state pension fund's obligations) as a result of the government's assumption of private sector debt obligations to foreign creditors and domestic savers.

The immediate causes, the moment of impact and the quantitative dimensions of the crisis can only tell us a limited amount. Its wider significance for the Ukrainian economy can be understood better by analytically situating the crisis in the context of Ukraine's emergence as an independent state and its leaders' efforts subsequently to insert their national economy into the world capitalist economy. Such an analysis can begin by way of addressing the following two questions: What did the crisis reveal about the adequacy of the national development strategies pursued during the past decade by the Ukrainian state? How has the crisis affected Ukraine's position in the world economy, in particular its relationship to rival centres of transnational capital in Western Europe and Russia seeking to incorporate Ukrainian economic territory into their own growth strategies?

KUCHMA'S STRATEGY OF DEVELOPMENT

In its first seven years as an independent state Ukraine experienced a continuing economic decline. The decline had begun in the 1980s, but it accelerated rapidly as the Soviet and Comecon networks of production and trade disintegrated. A severe contraction of output in most sectors of the economy, the degradation of their fixed assets and the diminution of the labour force, both in the absolute numbers employed and their level of productivity, were the outstanding features of the 1990s. The value of Ukraine's GDP measured in constant domestic prices fell by around two-thirds between 1990 and 1997.[26] Hardest hit were the sectors with the highest levels of technique, which had also been the most closely integrated sectors within the Soviet division of labour: armaments, aeronautical and aerospace industries, heavy engineering and consumer durables. Mining and processing of fuels, minerals and chemicals, whose gross output declined in absolute terms at a relatively slower rate, increased their share of industrial production overall. These sectors enjoyed strong international demand in the 1990s and figured prominently in the structure of Ukraine's exports. They survived better because they were not affected by collapsing domestic demand and they could find markets beyond the defunct Soviet Bloc.

Not only did the Ukrainian economy contract, it also splintered into several autonomously reproducing layers: a subsistence economy in the production of food, on which all the rural population and up to half the urban population depended in the mid-1990s;[27] a nationalised sector of arms, aerospace, aviation, as well as the major utilities, which the new state was not eager to privatise; and a private sector emerging from petty trade and services, and from the first rounds of privatisation of state-owned small and medium-sized enterprises. Much of this third layer was located in the shadow economy, beyond the reach of statistical measurement, state regulation or taxation.

It was only during Leonid Kuchma's first term as President (1994–9) that the state leadership acquired minimal institutional capacity to apply the brakes to the economic decline. In 1996 it introduced a national currency (the hryvnia), the last to do so among the post-Soviet states. It implemented monetary stabilisation, tightening the money supply and bringing down the soaring inflation rate. And it started to build up state finances and regulatory institutions mainly on the basis of implementing the first rounds of privatisation. However, it could not undertake a proactive strategy of economic and social development until after the decline hit rock bottom in 1999. The devaluation of the hryvnia in the wake of the 1998 financial crisis provided the kick-start for a recovery of the food processing sector, allowing it to compete effectively with food imports which had managed by the end of the 1990s to capture more than 60 per cent of the domestic retail market. (*Chas* commented on 25 October 1996: 'We have lost not only the foreign market; we've almost lost our own . . . One of Kiev's supermarkets is now selling potato *varennyky* [dumplings, a traditional Ukrainian dish], and they're made in Brooklyn, New York!')

The devaluation and favourable world market prices stimulated a recovery of Ukraine's exports of steel, chemicals and food products. From these altered price conditions on domestic and external markets, and with the help of recently built state institutional capacity, came strong renewed growth from 2000 onwards.

By the end of the 1990s, Kuchma's leadership team had concluded that Ukraine should not try to follow the prescriptions of the IMF and the World Bank. No one but themselves would help pull Ukraine out of 'the widening bloc of poverty' that such prescriptions had fostered in past decades and into which most post-Soviet countries had now fallen.[28] Rather, Kuchma's strategy aimed to create 'a social market economy' integrated into the world market on terms that capitalised on its strengths and resulted in its insertion on a relatively high technological echelon. It was in the first instance an export-led strategy to accumulate surpluses from foreign trade in steel, chemicals and food products, as well as refined petroleum products and machinery. The accumulated surpluses would be used to fund the upgrading of existing high-tech sectors of production and to create new ones, leading in the long run to an import-substitution strategy of growth, which would be more reliant on domestic demand and less vulnerable to external fluctuations and shocks.[29]

An integral part of the strategy was to establish a strong national capitalist class and to restrict foreign ownership of strategic industries, the banking system and the fuel and energy complex.[30] The principal mechanism for establishing this class was privatisation of the large nationalised economic assets. After the privatisation of small and medium-sized enterprises was completed, the State Property Fund began organising the distribution of the first set of big industrial enterprises. It chose to sell these assets in 2003 and 2004 cheaply to just a few powerful capitalist 'clans', which were vertically integrated corporations of production, trade and finance that had accumulated their initial capital in the 1990s through various legal and extra-legal means. Of the 18 big enterprises privatised in 2003 and 2004, 13 went to just four corporations, of which one – System Capital Management controlled by Renat Akhmetov, a close ally of then Prime Minister Yanukovych – got seven.[31] Thus, the new historical phase of capitalist development in Ukraine was being shaped by a state strategy that preserved the concentration of industry on a very narrow social base.

Further privatisations would of course follow. Let us not forget that in 2004 the technologically most sophisticated sectors of the economy – aeronautics, aerospace, armaments, transport, telecommunications, as well as the public utilities providing energy, water and environmental protection – were not even considered for privatisation. They remained state-owned, either giving added revenues to the state coffers (arms, for example) or requiring substantial state support to maintain them in the face of highly competitive and restricted foreign markets (aeronautics and aerospace).[32]

Kuchma's 'multi-vector' foreign policy served his economic development strategy. Maintaining strong ties with Russia was essential for three reasons: cheap Russian oil and gas fuelled the Ukrainian economy and its public utilities; Russia was the biggest importer of Ukrainian machinery and processed food products; and Ukrainian firms were locked into joint production with their Russian counterparts in a number of sectors, the most important of which was armaments. Nevertheless, the Ukrainian leadership under Kuchma aimed to utilise its competitive advantages *vis-à-vis* Russia, as well as other former Soviet states, in order to acquire the resources it needed for eventual westward integration into the Single Market and the governing institutions of the European Union. Building a social market economy and entering on a high echelon into the global division of labour would make Ukraine an attractive candidate for EU membership.[33] European integration remained the priority of Ukraine's foreign policy throughout Kuchma's term in office, even when after 2000 he was diplomatically isolated in the West and faced mounting pressure from a resurgent Russia to yield to deeper penetration of the Ukrainian economy by Russian firms.[34] Kuchma made concessions to Vladimir Putin, but steadfastly refused to consider going any further into the Russia-led Single Economic Space than participation in a free trade area (which was never established).

Kuchma's determination to keep foreign capital out of the strategic heights of the national economy applied as much to the Russians as it did to the West Europeans. However, it was difficult to keep Russian investments out of the middle tiers of the Ukrainian economy once the Russian economy started to recover and its state took a more determined stance in staking out a westward, downstream trail for its primary resource producers. Ukraine's processing and refining industries and its transport infrastructure were these Russian producers' obvious targets. The pace of Russian cross-border investment in Ukrainian assets quickened in 2000 and 2001, especially in the fuel and energy sector and metals refining. By using Ukraine's state debt for Russian natural gas supplies as leverage (variously estimated at between $1.4 billion and $3 billion at the time) Putin succeeded in getting Kuchma to initial a debt-for-equity deal in November 2000 to cede control to Gazprom of Ukrainian gas transit pipelines to Central and Western Europe. Kuchma managed somehow to wriggle out of this initialised deal. Meanwhile, other Russian companies did succeed in taking large shares or a controlling interest in a number of powerful Ukrainian enterprises: Avtozaz, buying the Zaporizhzhia Aluminium Plant; Lukoil buying the Odessa oil refinery, creating a joint venture with the Kalush refinery and purchasing a network of petrol stations; the Tuymen Oil Company buying the Lysychansk oil refinery; the metals conglomerate Russian Aluminium taking the Mykolayiv Aluminium Industrial Complex; Metalls Russia investing in the Donetsk Metallurgical Industrial Complex; Alliance Group, Alfa Nafta and Tat Nafta taking part in the privatisation of the Kherson, Nadvirna and Kremenchuk refineries respectively.[35] Undoubtedly, the inability of Western investors to buy such assets at the time explains much of the coolness of European and US diplomacy towards Kuchma after 2000.

The economic statistics suggested that Kuchma's growth strategy was working (see Table 7.1). Gross domestic product grew solidly year on year, the rate of inflation was reduced to single digits and the current account balance rose into positive figures. The income of the population rose markedly in real terms for four years. Investment in fixed capital grew year on year, although from a very low base. FDI remained distinctly modest on a per capita basis, though one has good reason to suspect that investments from the Russian side were underreported.

However, there were also shortcomings in the strategy and the political regime that was built by Kuchma to manage and direct it. First, the export-led strategy relied in 2000–2 on expanding production of export commodities through increasing labour and raw materials inputs. But these inputs were maximally applied and quickly exhausted, while fixed capital itself had already been exhausted by the long decline of the 1990s. And while the real incomes of the workforce were growing, the owners of industry and their state sponsors were failing to address domestic demand. In 2003–4 exports again soared, but the earnings from exports were not sufficiently reinvested in fixed capital, nor were they targeted

Table 7.1 Ukraine 2000–9: Selected Indicators of Economic Growth

	2000	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*
Growth in real GDP (%)	5.9	9.2	5.2	9.6	12.1	2.7	7.3	7.9	2.1	−15.1
Inflation (% change in annual average consumer price level)	28.2	12.0	0.8	5.2	9.0	13.5	9.1	12.8	25.2	11.2
Real income of the population (% change)	4.1	10.0	18.0	9.1	19.6	23.9	11.8	14.8	7.6	−10
Government current account balance (% GDP)	4.7	3.7	7.5	5.8	10.5	2.9	−1.5	−4.1	−7.2	−1.7
Foreign direct investment (net inflows $m)	594	769	698	1411	1711	7533	5737	9218	6181	4463
Share of output of sectors of industry (%)										
Mining	12.0	10.9	10.4	9.0	7.3	8.3	8.2	8.5		
Food and agricultural products	17.7	19.1	19.1	18.5	15.8	16.3	15.5	14.4		
Light industry goods	1.7	1.6	1.6	1.3	1.2	1.1	1.1	0.9		
Petroleum refining, coking coal	3.7	5.5	7.7	9.5	9.1	9.4	8.0	8.2		
Metallurgy and steel processing	23.0	20.6	20.5	21.8	23.3	22.1	21.9	24.7		
Engineering	13.1	11.5	12.1	13.1	13.4	12.7	12.5	14.4		
Production and distribution of electricity, gas, water	15.2	14.1	13.2	11.3	16.3	15.9	18.3	14.8		
Other sectors	13.6	16.7	15.4	15.5	13.6	14.2	14.5	14.1		

Sources: EBRD 2009; NBU 2010; State Committee of Statistics of Ukraine; Ya. A. Zhalilo, *Teoriya i praktyka formuvannia ekektyvnoyi ekonomichnoyi stratehiyi* derzhavy, Kyiv: National Institute of Strategic Studies, 2009.

to diversifying production in order to meet the still expanding domestic demand.

One may well ask what happened to the earnings of the big exporting firms. Why were they not reinvested and redirected to serve domestic demand? A larger part of these earnings were expatriated to offshore havens to protect them from both devaluation and the taxation authorities. Tiny Cyprus, where numerous Ukrainian and Russian firms opened up bank accounts, became the source of the largest recorded share of FDI into Ukraine. Furthermore, in 2004 the President's administration intensified the collection of taxes and compulsory purchases of state bonds by VAT-indebted firms. Yet these obligations were avoided through corrupt agreements between firms and regional taxation authorities, and a large portion of the taxes which were collected in 2004 were diverted into the presidential election campaign to support Viktor Yanukovych, the President's chosen successor. Such practices contributed to the consolidation of regionally based political formations around the most powerful firms, whose leaders balanced off against the centre and competed against one another for influence within its central institutions.[36] In turn, their success at minimising their own taxes threw the burden onto the smaller businessmen, who invariably served the domestic market. In 2004 this burden potentially fell onto 2.5 million legally registered small business and self-employed people out of a total working population of 20 million.[37] They naturally passed on the greater tax burdens to their own clients. But they were deeply resentful both of the Kuchma regime and the clans it protected.

Regionally concentrated centres of production serving export markets and enriching regionally aligned elites aggravated social and economic disparities across the country as a whole. One of the most evident disparities was a growing regional differentiation in the wage packet. By October 2004 the average monthly wage in the heavily populated and industrialised eastern oblasts of Donets'k, Dnipropetrovs'k and Zaporizhzhia was over 700 hryvnia, while in the predominantly agricultural and more sparsely populated western oblasts of Ternopil', Rivno and Khmel'nyts'kyi it barely exceeded 400 hryvnia. Western Ukraine, moreover, was suffering mass emigration due to a lack of jobs. And while wage arrears were highest in the eastern oblasts at the beginning of that year, they were paid off more quickly there than in the western oblasts, leaving the strong impression among the population of unequal treatment and unequal distribution of the rewards from the economic recovery.[38]

These regional disparities in income explain why more rural workers and urban workers from the central and western oblasts tended to support the Orange camp, and the industrial heartland of Eastern and Southern Ukraine backed the Blue camp during the upheaval at the end of 2004.[39]

The Ukrainian state leadership was always mindful of the need to maintain a consensus between the classes as it tried to navigate through the 'transition'. During the 1990s and into the twenty-first century Ukrainian leaders regularly expressed their fear of 'an uncontrollable social explosion', not knowing what were the socially acceptable limits or the consequences of their actions. And this fear was quite understandable because a new sovereign state power was breathing life into an emerging class of very wealthy people by handing them the accumulated social wealth of past generations while the absolute living majority, the legal heirs of that wealth, were being impoverished. The mechanism for this historic redistribution of wealth was privatisation. The majority of the population were bitterly disappointed with the coupon privatisation of the early 1990s and the worker and management buyouts that followed. Their allocated shares in both failed to bring them even a glimpse of the promised prosperity. Everyone saw the first big enterprises denationalised in 2003–4 go to regime insiders. And then a wave of illegal and covert privatisations of production facilities, research institutes, communal housing, trade outlets and natural resources mounted on the eve of the 2004 presidential election and carried on right up to the final round of voting. It rightly provoked popular outrage and condemnation as corrupt and 'antinational'.[40]

The industrial working class in Ukraine did enjoy rapidly growing real incomes after 1999. But these incomes were recovering from a terribly depressed state when close to 95 per cent of household incomes was spent on food and essential services, when life expectancy and the birth rate both plummeted, and infant mortality rose. Furthermore, these incomes recovered highly unevenly, aggravating regional tensions within the working class. Tensions also increased between the professionals, the small and medium-sized businesses and the state-supported billionaires. Not only had Kuchma failed in his strategy to establish a workable cycle of domestic economic and social reproduction mediated by the world market. He also failed to contain the social tensions arising from this strategic failure, which then took on a complicated political life in the struggle between the Orange and Blue camps.

Thus, concludes the economist Ya. Zhalilo:

> the processes of unregulated expansion of capitals concentrated in the exporting sectors became one of the reasons for the socio-political crisis in Ukraine at the end of 2004 . . . [it was] the direct result of the chronic ineffectiveness of the socio-economic strategy of the state to build mechanisms for the harmonious redistribution of resources . . . for the purpose of development.[41]

FROM THE ORANGE REVOLUTION TO THE INTERNATIONAL FINANCIAL CRISIS

The 2004 Orange revolution marked a watershed in the Ukrainian state's declared domestic and external policies. While this is not the place to analyse the course of the revolutionary events, it is nevertheless important to identify the mass expectations arising from them and their influence on regime strategy. These expectations included above all: to eradicate corruption in privatisation, taxation and state regulation in general; to end state protection and favouritism towards the biggest corporations; to assure equal legal, regulatory and tax treatment of self-employed people in small and medium-sized businesses; to end the various kinds of coercion used by the state authorities against their parliamentary and extra-parliamentary opponents, such as surveillance, press censorship, murders of journalists, denial of basic rights of assembly and expression; and to improve the standard of living of those parts of the population who had benefited least from the economic upturn since 1999 – pensioners, small town and rural workers, inhabitants of economically depressed regions. These people were an important contingent of the multi-class alliance that made up the Orange camp. Meanwhile, the Orange leaders could not afford to alienate any further the mass base of the defeated Blue, pro-Yanukovych, camp, which in electoral terms was almost as large as its own. The industrial workers concentrated in the eastern and southern oblasts did not want to see the material gains they had made in previous years eroded.

Both Yushchenko and Tymoshenko felt compelled to restore a sense of national unity. However, they were not ready to restore unity within the establishment itself. Before continuing with any new privatisations the Orange leaders decided to take back the biggest assets privatised under Kuchma and offer them again for privatisation by an open and transparent tender. In this way they were killing three birds with one stone. First, they were responding to public outrage over the way that privatisations had been conducted in the past. Second, they were set on weakening their rivals within the Blue camp by confiscating their wealth. Viktor Pinchuk, Kuchma's son-in-law and Renat Akhmetov, the richest man in the country, were the first to be targeted: they lost the steel plant complex Kryvorizhstal'. Pinchuk also lost the Nykopil' Southern Pipe Plant and Oranta Insurance Company. Some 1,700 other privatisations were hastily challenged and reclaimed by the state before the whole process was brought to a halt by protests over its selective nature. Threats were issued both at home and abroad that the loss of business confidence in private property rights would cause big business to withdraw from Ukraine altogether.

The third bird at which reprivatisation was aimed represented the biggest of the impending changes to state economic strategy: to open up to foreign investment. The new government organised a showpiece reprivatisation of Kryzorizhstal', which was won by competitive tender by the Indian steel tycoon Lakshmi Mittal in October 2005 and which brought into the state treasury more than six times the price at which Pinchuk and Akhmetov had acquired it in the first place. But then privatisation of large industries and utilities like Ukrtelecom and the Odesaa Port Authority faltered and got bogged down in face of renewed public opposition. The Verkhovna Rada refused to approve further privatisations.[42] Therefore, foreign capital could not take this direct route to acquiring the productive assets of the Ukrainian economy, but instead had to approach by other routes, such as investing in foreign and domestic trade.

Like Kuchma, Yushchenko was dedicated to integrating Ukraine into the Atlantic core of advanced capitalist states, their economic, institutional and security structures. In contrast to Kuchma, his pro-EU, pro-NATO foreign policy was aimed against Russia. Yushchenko wanted to weaken the grip of Russia on Ukraine's economy, its information space and security environment. This much is clear in the foreign policy pursued after 2004, notwithstanding Tymoshenko's attempts while Prime Minister to blunt Yushchenko's edge and seek an accommodation with Russia. Yet with respect to the state's strategy of economic development, which concerns us here, Yushchenko's enthusiastic engagement with the EU and NATO at the political level was accompanied by a major opening up to transnational capital flows from the Euroatlantic states into Ukraine. These two engagements were seen as mutually reinforcing by those who wanted Ukraine to rapidly become a member of the EU and NATO. It was as if the new leadership under Yushchenko had concluded that Kuchma's strategy of European integration would take too long and that it might be achieved more quickly if the doors were thrown open to let European finance sink roots into the national economy. Surely the EU's political institutions and its security umbrella would have to follow finance in to protect it? And it definitely was the accepted wisdom in the Ukrainian liberal-democratic, pro-Western camp that FDI invariably brings benefits: it introduces new technologies, stimulates upgrading and diversification of domestic production and links it to transnational production and distribution chains. Western capital, it was believed, would also help create those still missing or chronically weak economic sectors that were needed to serve growing domestic demand.

For domestic demand did indeed continue to grow, both as a result of growing real income (see Table 7.1) and government social policy. Honouring its commitment to improve the lot of the poorer sections of society, the government extracted a greater proportion of GDP from businesses and boosted household incomes. Wages and salaries in the public sector rose rapidly. Pensions and social welfare benefits went up in 2005 by the equivalent of 4 per cent of GDP to 25 per cent of GDP, while overall GDP growth in that year rose only by 2.7 per cent. So it was not just the explosion of cheap foreign credit that led to the expansion of effective demand. And without an equivalent expansion in the domestic production of goods and services in demand, only foreign producers and suppliers could satisfy it.

FDI leapt forward after the Orange revolution, from \$1.7 billion in 2004 to a peak of \$9.2 billion in 2007 (see Table 7.1). As noted earlier, much of this inflow came through the banking system. The proportion of capital held in Ukraine's banks that was owned by foreign shareholders grew from 13 per cent to over 50 per cent between 2004 and 2009. The EU and Russia were the most important sources. Between them six EU member states held 61 per cent of foreign-owned banking capital (Austria 16 per cent; Italy 14 per cent; France 13 per cent; Hungary 7 per cent; Sweden 6 per cent; and Germany 5 per cent). Financial institutions based in Russia held another 21 per cent. The Russian share was distinguished by the predominance of state banks among their holders – VTB, Vneshekonombank, Sberbank, BM Bank and Prominvestbank – and by four other banks closely tied to the Kremlin. The European presence was headed by Raiffeisen of Austria, Unicredit and Intesa San Paolo of Italy, and BNP Paribas, based in France.[43] By April 2009 seven of the largest ten banks (in terms of assets) were foreign-owned. Ukrainian state-owned banks meanwhile held less than one eighth of the country's bank assets.[44] This state of affairs made it increasingly difficult during the boom period for the National Bank to enforce monetary policy. And at the time of bust, when the private sector owed over $100 billion to foreign creditors, these pressed the government to rescue them by taking on a loan of $16 billion from the IMF and to turn their bad debts into a public liability.

FDI in the years 2005–9 did not go into technologically upgrading and diversifying the economy, except in a very limited way. Rather, it went mainly into acquiring and expanding networks of retail bank branches which released cheap credit to the population (cheap at the time of boom), expanding wholesale and retail trade in high-tech goods, consumer durables and luxuries, many of them imported, financing mining and processing plants geared for export, and buying up real estate. In 2007, the peak year for FDI, 29 per cent went into expanding financial services. Another 9 per cent went into construction, which at the time was closely tied to a booming real estate market in the cities. Twenty-five per cent of FDI went into industry, but it was targeted at the plants exporting most of their production (steel and chemicals) into soaring world commodities markets. Engineering got just 1.7 per cent of all FDI in 2007. So, machinery became an ever-growing component of the country's imports, squeezing the Ukrainian machine-building sector and reducing its capacity to serve both domestic and foreign demand.[45]

CONCLUSION

Table 7.1 shows that Ukraine experienced eight years of GDP growth from the beginning of 2000 to the end of 2007. That period saw two phases of strong growth which were divided by a moderate downturn right after the Orange revolution. Both of these phases saw growth driven by strong international demand for steel and chemicals. However, the structure of industrial GDP remained fairly static over this period, with some clearly negative trends, notably a diminution of the share of food production and light industry in GDP. The engineering sector, whose output enjoyed demand in Russia and other former Soviet markets, hardly grew at all. That can only mean that neither the private owners of industry, who were making big profits from exports, nor the state, which reclaimed part of these profits through taxation, was redirecting these resources to the sectors of the economy most in need of development.

These eight years of export-led growth did not fundamentally improve the structure of Ukrainian industry, its overall technological level or the nature of its insertion into the world economy. The question arises whether this failure arose for different reasons in the phases of GDP growth presided over by Kuchma and by Yushchenko. It has already been argued that Kuchma's strategy failed because of an 'internal brake': his political regime could not manage the social and regional tensions arising from the unregulated expansion of capital in the exporting sectors. On the other hand, the Orange revolution opened up the political process and promised to overcome these tensions. Unlike Kuchma, Yushchenko invited foreign capital from the Euroatlantic core, both to offset it against Russian capital and to help satisfy the still growing domestic demand for commodities and services that the domestic economy could not provide. Yushchenko and his allies believed foreign capital would help upgrade the Ukrainian economy technologically and diversify domestic production of goods in demand. However, foreign capital did not put its money there, but in domestic and foreign trade, financial services and the high-earning exporting sectors. Foreign-owned capital expatriated its earnings, as indeed did domestic capital. Thus, Yushchenko's strategy came up against an external brake on development. And when the international financial crisis mounted in 2007–8, freezing capital flows and driving down prices and demand on world commodities markets, the Ukrainian economy and the state were left exposed, without reserves or alternative demand to fall back on. Yushchenko and Tymoshenko had to turn to the IMF to keep the ship of state afloat. Yanukovych and Azarov, who succeeded them in 2010, have had to go to the IMF for a second loan.

In these ways, the international crisis offered an opportunity for centres of foreign capital to strengthen their positions within the Ukrainian economy. The Euroatlantic centre has marched into the banking system and in response to the international crisis has put up an umbrella over its investments in the form of two IMF loans totalling more than $30 billion. So it insures its risk and gives itself leverage to influence the policies of the indebted government. These developments insert Euroatlantic capital into the economy's financial heights. Russian private investors, on the other hand, had a head start on their Western counterparts in the productive sectors. By 2008 they already occupied commanding positions in non-ferrous metallurgy, petroleum refining and petrochemicals and mobile telecommunications, and had strong positions in iron and steel and the dairy industry. The crisis allowed Russian investors to buy more assets. The Russian state bank Vneshekonombank took 75 per cent ownership of the troubled Prominvestbank in late 2008. And in January 2010 Vneshekonombank supported a successful bid by Russian private investors to take majority ownership of the Donbas Industrial Union, the now deeply indebted steel producer that was once one of Kuchma's chosen national champions.[46] The Russian government stepped up its efforts to gain control of the biggest Ukrainian asset of all – the state-owned network of oil and natural gas pipelines. It has for the moment failed to get this coveted prize, not least because the IMF allowed – or rather required – the Ukrainian government to use part of its loan to pay Naftogaz Ukrayina's monthly bills to Gazprom. But for how long can it go on? After the election of Viktor Yanukovych, President Putin proposed that the Ukrainians and Russians 'merge' Gazprom and Naftogaz Ukrayina, as well as their military industrial complexes, the aviation and aeronautical industries, and some others for good measure. Yanukovych is truly in a tight spot; he has managed to pay only some of his country's debts to Russia by extending the Russian lease on the Black Sea naval port at Sevastopol for another 25 years to 2042.

The resulting structure of ownership of the privatised Ukrainian economy now consists of three layers – at the top the financial layer is divided between European-, Russian- and Ukrainian-owned banks. It has not gone as far as, say, Poland or Latvia, but the trend is towards outright foreign control of the banking system. The middle layer is occupied by Ukrainian owners of mining and industrial processing, with Russian investors making big inroads into the technologically higher end of the processing chains. They are working closely with the upstream suppliers of Russian energy and raw materials that feed the processing industries and the public utilities. And the bottom layer – agriculture and food production – seems secure in majority Ukrainian hands. The processing plants of the 'agro-industrial complex' were already privatised in the 1990s and land itself has been kept off the privatisation agenda altogether. The big challenge for the food processing sector is therefore not about ownership, but about finding adequate external markets to realise returns. Controllers of those external product markets and sources of finance – the EU and Russia in particular – act as gateways for Ukrainian producers into the world economy.

The international financial crisis has shown how vulnerable the Ukrainian economy is to external shocks. Its growth strategy in the past decade has relied heavily on external commodity markets that have seen massive swings in price and demand. The political leaders and private owners of industry have failed to generate a production and distribution of values through their national economy that can satisfy domestic demand and allow such demand to replace a significant portion of external demand. Furthermore, Yushchenko's team in office tried to deal with that failure, first committed by Kuchma, by admitting a bigger inflow of foreign capital, which they expected would complete a virtuous circle of harmonious and balanced growth. The revised strategy has not only failed, but has introduced an even more destabilising external ingredient, which has no obligations to the Ukrainian people, not even the kind that elected representatives should honour. Capital, whether foreign or domestic, has revealed itself as fundamentally *anational* in outlook and obligation. No sooner has Ukraine acquired a sovereign state and a capitalist class than its people have begun to realise who they are working for.

NOTES

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33. Hal'chynsky et al., *Stratehiya ekonomichnoho isotsial'noho rozvytku Ukrayiny 2004-2015*, p. 18. The strategy of European integration was a long-term one. It foresaw mastering an 'innovative' model of further economic development, reducing the per capita income gap between the EU and Ukraine, incorporating Ukrainian industrial production into European production chains, building a strong middle class, democratising political institutions, revising the legal code to EU law, and joining the WTO and NATO by 2008.

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8
Poland and the Global Political Economy: From Neoliberalism to Populism (and Back Again)

Stuart Shields

The resurgence of populism as a sociopolitical force in Poland (and throughout Europe) in recent years has been exacerbated by the recent economic 'crisis'. This poses a number of conceptual and practical questions for historical materialist International Political Economy (IPE). Is this an expression of class antagonism, the result of crises of underconsumption or a simple conservative reaction to the worst excesses of the transition now writ even larger in the post-crisis mood of austerity? This is nothing new for much of Central Eastern Europe (CEE). Large swathes of the erstwhile Soviet Union have experienced a general socioeconomic and political crisis since the early 1990s and the collapse of Soviet domination in CEE. CEE has witnessed profound socioeconomic and political upheavals, as those states most proximate to the European Union (EU) have edged ever closer to membership of the 'club', yet widespread inequalities and unemployment remain endemic. The transition to democracy and capitalism with concomitant membership of Western institutions was intended to happen quickly but has instead tested the resolve of both state and society for over a generation.

One of the most powerful responses to this has been the (re) emergence of populism in Poland. By populism I mean a discourse that pits a virtuous, homogeneous national people against a set of self-serving 'powers-that-be', who 'consider society to be ultimately separated into two homogeneous and antagonistic groups, "the pure people" versus "the corrupt elite"',[1] conspiring in a time of (perceived or real) crisis and change, not only to deprive the people of what is rightfully theirs in terms of their economic and social standing, but to suppress their values, voice and very identity. This is obviously an all-encompassing term for a widely variegated set of responses, though this nonetheless captures some sense of the social mobilisation occurring. Resistance to neoliberalism in Poland has centred on a set of anti-political, populist gestures associated with the emergence of a New Right and the steady disappearance of the Left since 1989. However, the situation is not quite as clear-cut as this might suggest, as the utility of populism is precisely in its embrace of a range of diverse and often contradictory political beliefs. As Colas warns, it is

> at once a derivative and self-sustaining category; a social movement and an expression of state authority; a revolutionary and conservative form of politics; at times marginal, on other occasions a determining historical phenomenon, the term 'populism' can mean different things to different people in different contexts.[2]

Explanations of resurgent populism could include a number of factors, but it requires an emphasis on the role of various mediating structures, most notably the post-communist state and the global capitalist system. Populism has re-emerged in Poland primarily since the regionally mediated crisis of the post-communist world and the accompanying realignment within the global capitalist economy. Obviously, complex local dynamics are unfolding in the sociopolitical responses elicited; however, the aim of the chapter is to focus on those contexts of the populist re-ascendancy, associated to the differentiated development of capitalism in the region associated with ongoing neoliberalisation.[3]

The chapter considers whether this signals a clear and decisive rejection of neoliberalism despite the absence of a coherent Left alternative. The response has not been a reinvigorated Left. The anti-neoliberal alternative has come from the nationalist Right with the pro-welfare position dominated by politically regressive conservative social forces who aim to arrest welfare cuts and end the neoliberal austerity associated with Poland's seemingly permanent transition.[4] The chapter takes issue with these changes and attempts critically to evaluate the populist turn, asking whether this signals a clear and decisive rejection of neoliberalism, understood in terms of the relationship to specific conjunctural projects for the reorientation of capitalist reproduction. The argument unfolds in four stages.

The next section articulates the broader context for consideration of the populist response to neoliberalisation through the injurious impacts of post-communist transition and EU enlargement. The deleterious lack of economic progress for vast swathes of the populace has invoked widespread dissatisfaction with the political process as those who suffered most to overthrow communist rule have subsequently reaped so little in return. The following section then reflects on the rupture with the past in Poland, considering what happened to propagate the dissolution of the Solidarność successor parties. In exploring what has happened to these social forces since 1989 the chapter concludes that Left and Right have been (willingly) co-opted into reproducing neoliberalism. This leads to a discussion about the emergence of populist social forces, predominantly nationalist radicals, who opposed the seemingly permanent miring of the post-Solidarność parties and the reformed Communist Party in corruption allegations. Finally, we reflect on the potential for a progressive politics of the Left to emerge as opposition to the latest crisis in CEE evolves.

CONTEXTUALISING POPULISM: POST-COMMUNIST TRANSITION AND NEOLIBERALISM

Recent historical materialist approaches to the integration of CEE into the EU provide a starting point for understanding the influence of the EU on the development of political economy in CEE as part of a political project aimed at exporting a neoliberal agenda into CEE.[5] The socioeconomic restructuring associated with the EU has succeeded in altering political behaviour at the state level. Europeanisation has infiltrated national policy discourse and political structures as the EU exports its model of market regulation to CEE, reauthoring the relations between capital, state and labour. The EU is 'the conduit through which the neoliberal social and economic model is being institutionalised in Europe'.[6] In the countervailing tendencies and tensions, the contradiction between socialised production and the capitalist system of private appropriation is the basic contradiction of the current conjuncture in CEE. The response of national social forces to neoliberalisation has been deeply disquieting. The impact on labour has obviously been substantial primarily because labour has borne the brunt of the neoliberal assault and labour's capacity for mobilisation has been substantially diluted at the national and enterprise levels.[7]

In contrast to the burgeoning Europeanisation literature,[8] an historical materialist approach asserts that any attempt at understanding the social transformations occurring in CEE needs to account not only for the *form* of these changes taking place, but also their *social purpose*. Through conditionality, in particular the dissemination of ideas and 'policy transfer' of the EU's objectives to CEE, the policy range available to the accession countries has been considerably limited.[9] As Schimmelfennig and Sedelmeier point out, the apparent 'massive benefits of EU membership being within close reach, the fulfilment of EU *acquis* conditions became the highest priority in CEE policy-making, crowding out alternative pathways and domestic obstacles'.[10] The dominance of the EU in CEE exports and inward investment, as well as the EU's role as actor in the construction of post-communist politics, illustrates the central role played by the EU in the region since 1989.

The extension of neoliberalism into the negotiation of EU membership inculcated a particular type of second generation of reforms in CEE.[11] Transition and enlargement of the EU have coincided with a period of unprecedented (neo)liberalisation and deregulation, a development synonymous with the optimisation of the macroeconomic environment for transnational capital. In the EU the 'internationalisation of austerity' over the last 20 years,[12] has resulted in a systematic if incomplete dismantling of the European social model while CEE has continued to contend with the ongoing social crisis caused by reconciling shock therapy and the necessity for a social safety net.[13] The main thrust of much of the current literature is a fixation on analysing a technocratic and incremental process of post-communist change in the context of Europeanisation. Central to this literature is an unacknowledged normative commitment to depoliticised change in CEE.[14] Of course, the process is anything but depoliticised, as 'neoliberal strategy is centrally concerned with depoliticising economy and society by weakening or removing historically accumulated forms of socialisation. Existing forms of non-market coordination and state regulation are abandoned'.[15]

The diverse nature of social opposition towards neoliberalism is disintegrating existing mechanisms of social control and political representation as it draws on 'populist' concepts of cultural, ethnic and historical identity to respond to the problems of changing socioeconomic conditions.[16] The populist backlash to the neoliberal construction of post-communist states is configured around a traditional conservative mind-set. This is set in opposition to any form of sociopolitical order that is not considered by the populists to be a substantial enough contrast to liberal democracy. This includes neoliberalism as well, as it was its combination with liberal democracy that produced the current immoral post-communist order. They argue that growing inequalities and societal problems have been enhanced during the post-communist era, linking it to a political project that focuses on protecting the national and cultural heritage of the nation-state from the malign influences of the external. Nationalist populist responses in Poland stem from a belief that the hegemonic neoliberal order is not only a serious threat to the sovereignty and identity of the nation, but to the petit-bourgeois fear that transnational capital poses a threat to domestic businesses and jobs. That this sentiment may be similar throughout CEE and similar populist expressions might be complementary does not resonate for the populists.

FROM COMMUNIST RESISTANCE TO NEOLIBERAL CONFORMISM

During the communist period opposition had naively focused on an idealised set of values that emphasised Western-style political institutions, freedoms and standards of living without consciously promulgating notions of the market or neoliberalism. Polish demands for Western-style democracy were like skimming cream from the Western economic system.[17] The main actors had little idea of what they were doing. The state as supreme owner has been replaced by another set of distant owners – FDI. 1989 is a moment of modernisation of a state capitalism experiencing the same crisis as states in Western Europe during this period. State ownership of the means of production, planning, etc. were ostensibly state socialist, but wage labour, money, the division of labour, coercion to work, labour-time and the separation of the means of production from the producers existed in the pre-1989 states of CEE. This led to the hijacking of the reform process in 1989 when, apart from particular neoliberal forces, the Polish intellectual and political elite lacked a clear programme or vision for reform.[18] The result, according to Rae, has been the emergence of

> a political system rife with corruption and pathology, weak political parties, and low electoral turnouts . . . trade unions have been marginalized, resulting in extreme levels of exploitation. A strong and independent civil society, once the ostensible goal of the transformation, has failed to materialise as democratic accountability has declined . . . conservatism has arisen as the most coherent and consistent alternative mode of political thought in Poland today.[19]

One of the most conspicuous characteristics of post-communist Poland is the omnipresent contradiction between the radical, uncompromisingly anti-communist ideology and the principle of compromise which enabled a smooth, peaceful transfer of political power. In the context of the contemporary period, this contradicts the traditional Left leanings of the Polish intelligentsia on the one hand, and the high value attached to religious values on the other. It is worth remembering that widespread social-democratic sympathies preceded the imposition of Soviet domination and the Stalinist turn of 1949, re-emerging after the 1956 liberalisation as a belief in 'market socialism' and the evolution of the Soviet-type regime to converge with capitalism into a new social organisation, combining market, state and democracy. The Left-oriented position was common in Solidarność during 1980–81, and the later roundtable talks which culminated in the negotiated end to Communist Party rule.[20]

Turbulence and party instability has occurred on the Centre-Left of the political spectrum. This was surprising since commentators have cited the Polish communist successor party, the Democratic Left Alliance (Sojusz Lewicy Demokratycznej, SLD), as almost a model of how to transform a former regime party into modern, electorally successful social democrats.[21] The former communists-turned-social democrats who returned to power in 1993 were less concerned with articulating an alternative to the neoliberal norm than reproducing mainstream neoliberalism based on the familiar macroeconomic policies, although they might put more faith in state intervention. By the 2001 election the renewed SLD fell just short of an overall majority in the Sejm, the lower chamber of the Polish parliament. During this unstable period the emergence of populist social forces began to crystallise as reaction to the Rywingate affair. The story broke on Boxing Day 2002 when the prominent film producer Lew Rywin[22] was alleged to have offered Adam Michnik, editor of *Gazeta Wyborcza* (Poland's first and largest post-communist daily newspaper), to make changes to a draft law that would have severely curtailed print media access to buying radio and television firms for an appropriate inducement. Rywin alleged he was acting for a 'group holding power'. From the New Year, televised hearings of the Polish parliament's Rywin commission exposed the connections between politics, business and corruption to public examination.[23]

The problems for the SLD were exacerbated when the sleaze accusations failed to stop there. Instead, accusation followed accusation. SLD MPs were accused of accepting bribes relating to a new gaming law. This was connected to allegations concerning organised crime and money laundering, as well as corruption in the health service and local government. These claims were corroborated in a series of criminal trials.[24] In May 2004 the Sejm established a second investigative commission to enquire into the circumstances surrounding the use of the security services to arrest the president of PKN Orlen, Poland's largest energy company, in order to block a deal to supply it with Russian oil. This spread to include the role of Prime Minister Miller, wider government misuse of the security services, Orlen's revised contracts and matters of Finance Ministry economic supervision and energy security. In January 2005 a third commission examined alleged irregularities in the 1999 privatisation of the insurance giant PZU.[25]

In an early forerunner of the response to the current crisis, the negative impact of these scandals was exacerbated by the introduction of economic austerity measures at the end of 2003 to prevent the budget deficit from spiralling out of control. Attempts at forming a right-wing electoral coalition on the lines of Solidarność Electoral Action were abandoned in favour of consolidation around the three main existing parliamentary parties: PO, Prawo i Sprawiedliwosc (PiS) and the clerical-nationalist League of Polish Families (Liga Polskich Rodzin LPR). However, as illustration of the discursive strength of the emerging populism, even PO attempted to realign the party along more socially conservative lines and a stronger national-patriotic discourse exemplified by a change of tone in the party's approach to European issues, particularly its opposition to the new voting provisions contained in the EU constitutional treaty, which would have replaced those in the 2001 Nice Treaty which were felt to be more favourable to Poland. This move from hard-core neoliberalism appeared to benefit PO when it emerged as the most popular party in opinion polls at the beginning of 2004 and won the largest share of the vote in the June 2004 European Parliament election. In 2005 PO had suggested introducing a 15 per cent flat tax rate for income, business and VAT. Two years later with the populists defeated at the ballot box, PO even offered to increase state sector wages. The PO leader, Donald Tusk, now Prime Minister, even supported the idea of national champions in strategic sectors to compete with transnational capital.[26]

RESISTING NEOLIBERALISM – POLAND'S NEW POPULISM

The populist coalition that came to power in 2005 in Poland on a wave of nationalist ultra-Catholic rhetoric remains suspicious of foreign influence and of the breakdown of family and religion in the face of neoliberalism.[27] On being elected the Kaczynski twins' (President Lech and Prime Minister Jaroslaw) government pursued high-profile attacks on gay rights, favoured the reintroduction of the death penalty and demanded a complete ban on abortion. The government gathered around itself disparate ideological positions and political demands, and stressed their equivalence in terms of a shared antagonism to both the Solidarnośc successor parties and the former communists, now reconfigured as social democrats.

The Polish populist response has been to construct a variety of conspiracy theories around these changes, ranging from a global liberal-Left Jewish pact, aimed at taking over the world, to fears that the EU and monetary union represent another attempt by Germany to reinstate Poland's peripheral position in the European political economy. This stems not only from a fear of national identity and culture, but also from the sense that particular forces, the former *nomenklatura*, have done rather nicely out of the transition and translated their power as state-owned enterprise managers into power as an emergent post-communist national bourgeoisie. Once this is added into the maelstrom of xenophobic fears that former enemies in the West and the East are trying to force Poland to accept a secondary role in the new Europe it becomes all too easy to present the whole transition process as one big confidence trick, exchanging Moscow's dominance for Brussels'.

However, the question I want to focus on is whether this counter-hegemonic movement associated with populist sentiment is actually contributing to a deeper neoliberalisation. Rather than counter-hegemonic protectionism, the Polish populists are illustrating the incompatibility of Poland's capitalism with the continental market economy.[28] We are witnessing a struggle over a particular brand of hegemonic project rather than a counter-hegemonic project that distinctly contests a particular order on ideological grounds. Attracting populist support, there has been an increase in fringe political groups that are explicitly counter-hegemonic, being grounded more rigorously in nationalist principles. Other noticeable populist concerns have stemmed from the farming crisis and subsequent rural marches and protests. One fuel protest, aimed at taxation on fuel, gained the support of neoliberals and provided another ambiguous forum for rural protesters to underline concerns such as cheap food imports, low government subsidies and the interference of the urban elite in the cultural traditions of Poland.[29]

Put differently, this outbreak of populism is defined by its form rather than its content, dividing and simplifying the social field into two distinct camps, championing the people over what Laclau termed 'the dominant ideology', or 'the dominant bloc'.[30] The disparate and heterogeneous demands that constitute the movement have been unified and stabilised under the rubric of exorcising the past to defend the future. The Kaczynskis pledged to end corruption and focus on restoring the moral integrity of Poland which had been discarded under communist rule and ignored since the transition. The populist coalition of PiS, Samoobrona and LPR promised a moral revolution, adopting an anti-EU position that resonates deeply with long-held Polish fears over sovereignty from the 1920s and 1930s divisions between a national rural people and an urban, cosmopolitan elite.[31] All of this is posited within the contemporary context of national anti-EU sentiment set in contradistinction to an international pro-EU elite who have failed so conspicuously in reconstructing Poland's economy, ridding the nation of the remnants of communism and protecting 'Poles, (peasants, workers, "us") from those who would threaten them (foreigners, Germans, Jews, capitalists, political elites, "them")'.[32]

After the former communist SLD gained power, the nationalist, anti-communist Right became vocal in using popular sentiments against supposedly unjust economic policies, combining that with rhetoric targeted against the ruling coalition. The Right did not attack capitalism as such, but rather what they perceived as a parasitic form that capitalism took due to alleged manipulation of the former communists, who were interested solely in enriching themselves, and due to the operations of foreign capital. Prior to the 2005 elections this populism had been addressed principally within a discourse of the 'stolen revolution'.[33] The surprise election in 2005 of the ultra-conservative PiS (Law and Justice Party) has signalled the collapse of former Left parties as the obvious party of choice for the malcontent losers of transition. SLD, in government since 2001, had its image irretrievably tarnished by a succession of high-profile corruption scandals and achieved a mere 11 per cent of the vote. Instead, this constituency turned to the populist Samoobrona, the LPR known for its high-profile attacks on gay rights, favours reintroducing the death penalty and demands a complete ban on abortion, and the Polish Peasants' Party (Polskie Stronnictwo Ludowe, PSL). Their constituency is so-called Polska B, the north-east and east of Poland which has suffered the worst effects of shock therapy. The Samoobrona leader and Deputy Prime

Minister Andrzej Lepper opposed transition, EU enlargement and NATO membership, and as Krok-Paszkowska avers, understands provincial Poland like no other politician.[34]

The paranoia, so important to the populist position, rejects the economic problems associated with shock therapy and neoliberalism.[35] As Smolar puts it, 'their identity, in a political, economic, and social sense, has been moulded around the rejection of this model'.[36] The coalition, though, has followed the unfortunate pattern of Poland's post-communist governments and become deeply mired in corruption charges, including allegations that Lepper demanded sexual favours in return for jobs, and reports that close associates of Roman Giertych, head of LPR and Deputy Prime Minister, participated in a neo-Nazi rally.

RESISTING NEOLIBERALISM: WHAT'S LEFT FOR THE LEFT?

Given the current conjuncture, the impact of the recent financial crisis has been highly uneven in CEE. For Poland though, as elsewhere, a coherent Left alternative rather than one intimidated and marginalised is a necessity, as for many in the region the crisis is the first recession experienced since the collapse of the Soviet Union and a 'a sustained period of economic growth in the early part of the 21st century during which individuals became increasingly financialized'.[37] Expectations would normally be that widespread dissatisfaction with right-wing responses to crisis would have strengthened the forces of the Left. However, the intellectual and political climate in Poland, as noted in the preceding sections, has militated against such an outcome. Indeed, in recent years Poland has moved further towards the unholy mix of the populist and neoliberal Right, while the Left remains paralysed by inaction.

Contemporary change in Poland cannot be fully understood without exploring the historical development of issues like the importance of national state formation, class development and relations, the struggles for independence and democracy, and the formation of labour movements. The reformulation of state and society is not a *new* question for Poland since the experience of imperial domination and the nationalist response to this continues to inform today and have been actively utilised in the selective redrawing of the past by various social forces and political interests. The nation in Poland has been predominantly explained in ethnic terms, primarily because sovereign statehood was deprived for most of modern Polish history. Nation and state have historically been understood as distinct if not antagonistic.

In the final section we bring the analysis up to date by addressing the emphasis so far on the populist Right mobilisation by considering left-wing opposition to the current financial crisis. The possibilities for progressive alternatives are real – remember how seemingly permanent political regimes collapsed across CEE in 1989. The political downfall of the regimes did not mean that there was great enthusiasm for a Western-style market economy. The longer time has gone on the less people have liked it and the crisis offers a punctuation point in the neoliberal mode of transition and integration into the global economy. The hubris of the EU and international financial institutions in considering transition a success is at least debateable, and the idea that graduation to EU membership means the completion of transition should be challenged.

While it is to be expected that workers were disoriented after the initial transition in the early 1990s, Solidarność, the key social force in the struggle against the Soviet *ancien régime*, ended up arguing for workers to accept market reforms, offering itself up in its own marginalisation. Over time this has become a less effective strategy given the devastating results of neoliberalisation. Attitudes to the common sense of neoliberalism have changed over time in Poland. While the picture remains mixed there are rising expressions of dissatisfaction.

One of the longest running disputes in Poland was at the Budryk mine in Silesia between the union August 1980 (not Solidarność or OPZZ, the two main unions) and the Jastrzebska Coal Company. The conflict has been recurring since 2003 and its most recent iteration lasted 46 days. The dispute escalated into a hunger strike by several miners and a protest in Warsaw by the wives of the miners involved. To date, 2010 has witnessed demonstrations by public sector unions against a proposed wage freeze, rail unions protesting against privatisation strategies, the lack of investment and despite the Budryk case being resolved, more protests are expected in the mining sector, as well as in retailing.[38] In 2007, nurses set up a tent encampment (the so-called White Village) in Lazienki Park, outside the Prime Minister's office, and received widespread support from miners, steelworkers and others who shared the nurses' concerns about creeping neoliberalisation through increasing private provision in Poland's healthcare system.[39]

However, the response of the Left to the hardships of recent years has not been limited to organised labour, as Polish trade unions remain intrinsically fractious.[40] Other social groups have not been slow to stage major events. A number of demonstrations in 2003 against the Iraq war brought 10,000 people onto the streets of Warsaw to protest against Polish involvement in the war. US efforts at locating part of the European missile shield in Poland met resistance.[41] Indeed, a form of anti-globalisation movement has coalesced in Poland in recent years fuelled by efforts to configure both a practical and ideological alternative to post-communist transition despite an inchoate political focus that includes resistance to welfare cuts, support for strikes, opposition to the USA's interventions in the Middle East and their missile defence shield deployed in CEE, as well as confronting discrimination of women and minorities.[42]

While the Left has remained relatively weak in comparison to the populist and neoliberal Right, potential space has opened up for a reinvigoration of the Left with the founding of Krytyka Polityczna. Formed in 2002 Krytyka Polityczna aims to create a new left-wing formation in Poland and reintroduce a left-wing discourse into public life. It has an independent publishing house translating the works of foreign left-wing intellectuals and providing a space for numerous past and present Polish writers. Representatives of Krytyka Polityczna frequently contribute to the political debate in the mainstream media, at a level that no other left-wing grouping has achieved.[43] There has been little serious analysis of Krytyka Polityczna to date. The one notable exception is Gavin Rae, who has published on Krytyka Polityczna and its intellectual leader, Slavomir Sierakowski. Sierakowski has managed to mobilise a section of the country's intelligentsia against the prevailing political consensus and attempt to build a Centre-Left coalition that would form an alternative hegemonic project, set on challenging the rights domination of Polish political life and breaking the false dichotomy between conservative nationalism and neoliberal conservatism.[44]

Given that Poland was the only EU state to increase GDP during the 2007–8 crisis, such discussions of the need for a reinvigorated Left might seem fanciful. However, despite GDP growth, the issue may well be the budget deficit. With the pressures of maintaining the stated PO aim of joining the euro and a constitutional commitment to keep the deficit at 55 per cent of GDP, 2011 and beyond promises a similar set of austerity measures as elsewhere in CEE. PO have proposed increasing VAT from 22 per cent to 23 per cent, with possible further increases in 2012 and 2013, and a public sector wage freeze.

For many, the Left, in particular the SLD, has sustained itself as a form of protest vote with a nostalgic resonance for the old days. Despite the corruption scandals of the last SLD government at the 2010 presidential election, 20 per cent of the SLD vote came from demographics other than the elderly and the other losers in transition.[45] Instead, a possible way forward for the Left is this increasing social grouping, who have not kept up with the winners of transition. A young educated section of society is priced out of the housing market, dependent on 'flexible' working patterns.[46] However, the forces set against the Left remain numerous and powerful. Avoiding recession has only encouraged the neoliberals: former Finance Minister Leszek Balcerowicz has been on a lecture tour promoting Poland's exceptional economic performance during the crisis, while PO remain ready to use the crisis as an excuse for further reforms.[47]

CONCLUSION

In this chapter I have emphasised the international context of the populist revival in Poland. First, it feeds into contemporary debates surrounding resistance to neoliberalism reinforced since the 2007 crisis. It has contributed to these debates by underlining both the particular historical trajectory of contemporary capitalism in CEE and by analysing the dynamics of the concrete social formations engendered through the process of post-communist transition. The competitive relations of the economic downturn has been translated under capitalist social relations into mass social dislocation and unemployment provided an additional force towards economic crisis to eliminate an active, resistant and costly labour force: i.e., an enthusiastic labour movement like Solidarność and their replacement by objective means of mechanical production. The social relations of neoliberalisation have fast become the iron hand of determination. As Gamble notes,

> the presumption is always in favour of recreating the widest possible conditions for markets to flourish, which means removing as many restrictions on competition as possible, and empowering market agents . . . [f]or such a policy to be effective the state has to be prepared to break the resistance of any group which demands market protection or subsidy through the state.[48]

Hence the possibility for resistance remains intact.

Second, there is the necessity to underscore the global-regional dimensions of the capitalist crisis in CEE in the context of EU integration. By centring the analysis on populism the chapter offers a fruitful analysis of the specific forms of sociopolitical response to capitalist crisis. These responses, like those of the populists in Poland, invoke an undifferentiated political subject, 'the people' (*narod*), in the context of a global-regional mediated collapse of state legitimacy and social cohesion. Whilst by no means absent in the advanced Western world, such responses are particular in their emergence within social formations that have enjoyed subordinate reintegration into global capitalism. This specific articulation has been accompanied by struggles that engender specific forms of sociopolitical mobilisation which (re)combine long-standing allegiances to kin, trade, ethnicity or creed with budding allegiances of class[49] that reinvented long-standing Polish traditions of anti-imperialism, nationality and statehood.

Third, a consequence of the 'triumph of neoliberalism' is that traditional dividing lines between 'Left' and 'Right' have become ever more blurred. There is a discomfort with accepted notions of neoliberalism as a unidirectional process resolutely forcing the state into the eager embrace of privatisation, deregulation and marketisation. Caricaturing neoliberalism as 'open, competitive, and unregulated markets, liberated from all forms of state interference, represent the optimal mechanism for economic development' is substituted for a sense that actual policy and practice involves 'coercive, disciplinary forms of state intervention in order to impose market rule upon all aspects of social life'.[50] These shifts occur within combined and uneven processes of neoliberalisation and represent efforts to stabilise neoliberal strategies of accumulation. There is thus a need to track patterns of neoliberal restructuring and make connections between local instances of resistance to the crisis and broader neoliberal discourses.

In addition, the chapter has offered an analysis of Poland's recent populist turn by rejecting methodologically nationalist attempts to isolate events in Poland from wider processes of structural change. This reification of the state as a static category, essentially an unproblematic category of analysis, makes our ability to interrogate alternative development projects arduous. No clear anti-neoliberal strategy exists in Poland; instead pragmatic responses by specific social forces have occurred, but within the structurally delimited environs of state intervention. It is therefore imperative for us to begin to identify the sources of populist appeal in post-communist

Poland (and elsewhere), to resist the hegemonic local and international responses to the current crisis in this and other parts of CEE. This chapter is a step towards taking up this challenge. The crisis is not yet over.

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9
The Czech Republic: Neoliberal Reform and Economic Crisis

Ilona Švihlíková

In this chapter I shall present a critical evaluation of the neoliberal reforms carried out in the 1990s and 2000s in the Czech Republic, paying attention to their impact on its economic trajectory. I shall devote particular attention to trade, for the Czech Republic (CR) is highly export-oriented, with more than 80 per cent of its manufactured products going for export – mostly to Germany. I shall discuss the CR's economic weaknesses, which include a high dependence on foreign direct investment (FDI) and a persistent current account deficit, which make the country vulnerable to outflows of dividends and profits. Finally, I turn to an analysis of the neoliberal reforms that preceded the crisis which began in 2008 and which are seen by the elite as the tool with which to overcome it.

A 'MARKET ECONOMY WITHOUT ADJECTIVES': THE CZECH REPUBLIC, 1989–2006

Following the 'Velvet Revolution' in 1989 the CR set course towards the market economy. Václav Klaus, the Finance Minister at that time (and President at the time of writing), backed by the IMF, favoured a course of neoliberal shock therapy, also described as a 'leap into the market economy'. It was a mode of transformation that divided the nation, a divide that is reflected to this day in Czech political life. Klaus's approach, which can be summarised as 'market economy without adjectives', was opposed by the economist Valtr Komárek, who favoured different methods of privatisation and a less severe erosion of welfare policy. However, the global neoliberal ascendancy, combined with Klaus's charisma, won the popular vote, and a process of belt tightening began. At the outset it was widely held that a few years of suffering would enable Czech living standards to approach West German levels, and the neoliberal political parties that proclaimed this gained majority support in elections at the beginning of the 1990s. The electorate's right-wing sympathies were not necessarily entrenched, and polls repeatedly showed favourable attitudes to equality and to the notion that all who want a job should have one.[1] However, the Left was sullied by association with communism, a situation that led many voters to identify with right-wing parties even when their values were Left-oriented.

Klaus is a controversial figure and became known for a series of notorious statements. For example, in the context of concern that organised crime was about to profit from privatisations, he commented that he did not recognise the concept of 'dirty money'. This symbolised the newly fashionable view that individual financial success was everything and the social normative integument nothing. Yet Klaus's personal popularity was enormous, and this helped him to push through neoliberal reforms in an uncompromising manner. The main reform steps included privatisation by vouchers, liberalisation of prices, combined with monetary and fiscal restriction, and currency devaluation.

In the privatisation process citizens were invited to purchase 'voucher books' and to invest, as small shareholders, in companies. As elsewhere in Eastern Europe, the reality was less straightforward. Confused and inexperienced citizens were 'helped' by Investment Privatisation Funds (IPFs), whose motto invariably was: do not worry about the company, leave it to us; if you invest 1,000 crowns, its value is sure to rise to 10,000! The bulk of voucher points were invested through IPFs, and if these are included, about three-quarters of all eligible citizens took part in the privatisation process. The economic and political influence of IPFs grew enormously. Some politicians even claimed that these funds practically saved the privatisation process because the 'stupid citizens' had initially responded to the government's privatisation plans too reluctantly.

However, following strong IPF-led campaigns for citizens' participation in privatisation, the idea of 'people's capitalism' took off, if only for a short time. Few citizens had meaningful knowledge about the companies in which they were buying shares. This brought about a lack of transparency that contributed to speculative sales of important and strategic companies (the so-called *tunelování*). The elites that presided over the process were surprised to learn that small shareholders did not take part in company general assemblies and were not keen on actively participating in share trading. Another surprise was that the strategy of privatisation by voucher led to an extreme concentration of economic power.[2] The IPFs were a major actor in the privatisation process, but also the major winner. In CR at that time, the five biggest banks, together with 14 of their IPFs and an insurance company, owned more than two-fifths of the shares of companies privatised in the first round, and about four-fifths of all bank credit. According to Miloš Pick, some 500 families controlled the bulk of the economy; these form a new, extended economic politburo, never voted for by the diffused owners and hardly ever revocable by them. For the Left, the privatisations were 'the theft of the century'.

A second important aspect of the reforms presided over by Klaus concerns trade. The context was complex: following the dissolution of Comecon, Czech companies withdrew from that area to concentrate on Western markets, in which they could only play the role of suppliers of cheap or unprocessed products in competition with firms from developing countries. The strategy, however, was simple – and, again, influenced by the IMF. It was to focus single-mindedly on price competition through substantial currency devaluation and wage cuts, rather than focus on industrial restructuring and technological upgrading.

The first impact of the reforms manifested itself in relations between the two parts of Czechoslovakia. The Slovakian economy had been weaker for several generations, and redistribution from the Czech region reached as much as 8 per cent of Czech national product. Whereas the CR encountered its difficulties with the 'leap into the market economy' later, Slovakia suffered particularly in the post-1989 period due to the rapidity of trade liberalisation and the end of redistribution. In the face of growing opposition to shock therapy in Slovakia and Klaus's refusal to compromise on the radicalism of the reforms, an agreed division of Czechoslovakia ensued.

In the mid-1990s the problems were beginning to mount. A few investment funds had gained control of most of the economy and organised crime had become a major economic player. A restrictive monetary policy with high interest rates discouraged corporate investment. Company modernisation was rarely successful, with a few important exceptions, such as Škoda, following its takeover by Volkswagen. Many long-established companies went bankrupt, were asset-stripped or both. The process started to get out of hand when the government, via a Consolidation Agency, was obliged to renationalise a number of major companies in order to prevent chain bankruptcies. Meanwhile, short-term speculative capital was flowing in at a tremendous rate, attracted not only by the fixed exchanged rate but also by the full convertibility of the Czech crown. The banking sector was weighed down by a high level of bad loans and almost collapsed, and although the state rescued several banks, others went bankrupt. The cost of the bank bailout is not known, but it is generally considered to be in the order of 900 billion crowns.[3]

Rather than pausing to reflect on the causes of these difficulties in corporate and financial policy, the Klaus government concentrated on the demand side, claiming that citizens were living beyond their means and, in 1996, introducing an austerity package. It was an important moment for, as we shall see, it was to set a pattern for later policy responses to crisis. The economic downturn and popular disillusionment precipitated premature elections in 1998. These represented a breach in the political development of the Czech Republic: for the first time a Left-oriented party, the Social Democrats, won and it was able to construct a minority government.

The Social Democrats took power in a parlous economic situation. At the beginning of the transformation, in comparison with other Central European transition countries, the CR had enjoyed low foreign indebtedness and low inflation, as well as a skilled, well-educated workforce. However, much of this potential was wasted. The Right-oriented governments of the 1990s had followed the Washington consensus and aspired to convert the CR into a Central European 'tiger'; instead it became a lame dog.

The first social democratic government in power (1998–2002) sought to rectify the situation by encouraging foreign capital inflow and export promotion. An active industrial policy, they thought, would stimulate growth, reduce unemployment and counteract the rise of organised crime. To this end, they established a Revitalisation Agency, which oversaw an elaborate export promotion policy that utilised export guarantees, interest rate subsidies and tax breaks to assist selected firms. It was a strategy that facilitated an export orientation of CR-based companies, including foreign-owned ones, and these grew in influence, particularly in the manufacturing sector. Nowadays, about half of Czech companies export, although some 2,000 foreign companies take three-quarters of export earnings.[4]

Under the second social democratic government (2000–6), the CR enjoyed its highest economic growth since its foundation in 1993, a surge that was probably helped by accession to the EU in 2004. In this period its traditional export focus was reaffirmed, particularly with regard to vehicles and machinery. At the same time, however, the right-wing parties initiated an attack on the 'generous' welfare state and on the budget deficit. It was indeed true that the CR recorded high budget deficits even in years of record growth. But the cause was not welfare spending. One major cause, which the right-wing parties neglected to mention, was the bank bailout; another was the cut in corporate taxation which even the Social Democrats considered indispensable (although they later were to resile from that position).

The next general election, in 2006, ended in a perfect stalemate: 100 deputies on the Left, 100 on the Right. After protracted negotiations the leader of the main right-wing party declared that he had won the support of (or had corrupted) two Social Democrat deputies. And so, under a cloud of dubious practice, began the reign of a new right-wing administration, one that was characterised by further rounds of neoliberal economic reform, renewed attacks on welfare and a bullishly pro-American foreign policy, which included acceptance of a US missile base on Czech soil.

BEFORE THE CRISIS: NEOLIBERALISM *À LA* TOPOLÁNEK

Mirek Topolánek, the Prime Minister of the new government, entered the history books not only as head of the '102 deputies' government, but also as a member of Europe's new vulgar breed of political leaders alongside the likes of Silvio Berlusconi. Showing an undisguised partiality for Nazi terminology, he promised a 'night of long knives' when his Civic Democratic Party (ODS) achieved power, and, when kicking a journalist, announced in German, 'es kommt der Tag'. The election promises of the Social Democrats were, he said, an 'Auschwitz lie'. On the international scene he achieved notoriety when photographed naked in Berlusconi's villa.

The 'tax and social revolution' ushered in under Topolánek was more radically neoliberal than anything that even Václav Klaus had proposed. Supply-side economics, with its cuts in taxes and benefits, was the order of the day. It was justified with reference to the Laffer curve, which posits that high taxes demotivate entrepreneurs and reduce economic activity, and that decreasing tax rates – especially corporation tax – not only stimulates the economy via the supply side but can also lead to higher tax revenues, because entrepreneurs are more willing to pay tax and less likely to take shelter in tax havens.

In line with this philosophy, the government reduced corporation tax to 22 per cent and raised VAT, resulting in price hikes for medicines and food. But its flagship programme was a 'flat tax'.

The justificatory claims were that it would be fair, and friendly to entrepreneurs, increasing the motivation of people to work and invest, and benefiting the higher earners who, it was assumed, were the more diligent too. The new tax is deducted from the so-called 'super-gross wage', which includes employers' social insurance contributions – thus, employees pay tax on a benefit. The government boasted that the average tax rate was reduced to 15 per cent,[5] however in reality it exceeds 20 per cent, because the tax base is higher due to the aforementioned social insurance contributions which have become part of the tax base. Nor has it been 'one rate for all' as proclaimed, because high earners enjoy a ceiling on their social contributions and thus pay effectively only 15 per cent. The tax is clearly regressive[6] and it is unpopular: polls suggest that most Czechs believe that the richest should be taxed more.[7] Moreover, far from preventing tax flight, in 2009 a record number of companies moved their headquarters to tax havens, such as Cyprus or Luxembourg – and the Ministry of Finance admits to ignorance as to the scale of the tax shortfall due to this phenomenon. In 2010, corporations stepped up their threats that they would relocate to tax havens if taxes were increased.

The Topolánek government's reform efforts did not stop at the tax system. A further reform was the introduction of fees for doctors' appointments. This was justified by the argument that the elderly were overusing the healthcare system, pushing it into deficit. This 'reform' caused such revulsion that the Social Democrats overwhelmingly won the regional elections in 2008 on the basis of the promise to abolish these charges.

In general, then, Topolánek's reforms aimed above all at benefiting the rich through the flat tax, combined with ceilings on social security contributions. The backers of these reforms, such as the members of the Industry Association, claimed that 'any reform is better than no reform'.[8] A particularly revealing statement in this regard was uttered by Richard Sulík, the ideological father of the Slovakian tax reforms, from which the Topolánek government derived its inspiration. 'The flat tax is not introduced for people, but for the economy: for those to whom the economy belongs. So, for the owners of capital, real estate, and companies.'[9]

Predictably, the reforms elicited reactions from the trade unions and the opposition parties. The trade union leader Milan Štěch, for example, stated that 'The aim of the public finance reform is not reparation of the disastrous state of public finances. It is only a disguise for completely different intentions.'[10] For the unions the underlying purpose of the reforms was to benefit the richest and reduce the revenues available to government for redistribution. Lower taxation and lower redistribution, they argued, would lead to income and property differentiation and an increase in poverty. The economic committee of the Social Democrats[11] shared the trade unions' view. It warned of the tendency to privatise public services, including the healthcare system and pension schemes. But the Social Democrats did not utilise the political power required to block the reforms.

ECONOMIC CRISIS AND ITS SOCIAL REPERCUSSIONS

In 2008 there were two major influences on the Czech economy: the crisis, which began in the fourth quarter; and the impact of the Topolánek government's reforms. These factors occurred simultaneously and it is not easy to separate them – indeed, the government was later to claim that all economic problems were due to crisis and not to its policies.

In CR the crisis did not take the form of financial crisis; its banking sector was not directly hit. The CR has not adopted the euro and Czech savers and Czech banks (albeit in foreign ownership) are conservative. No American-style mortgage system has been introduced and Czechs prefer conservative investment instruments. Furthermore, in the form of high banking fees (in comparison with other European countries) Czech banks have an important independent source of income.

When the crisis did hit, in 2008, its first symptoms came in the form of a precipitous fall (of 25 per cent) in contracts from domestic and foreign markets, and a rapid slowdown to an annual rate of 3.2 per cent. Industrial production experienced an abrupt fall of 15 per cent as a result of recession affecting the CR´s most important trade partners.[12] Simultaneous with falling exports, the economy was hit on the domestic front, primarily by a drop in consumption which was consequent on real wage increases which, due to high inflation and cuts in social benefits, were lower than in any year since 1998.

2009 was a year of crisis, during which real GDP fell by 4.1 per cent, with particularly big declines in investment and in capacity utilisation in manufacturing.[13] The shock of the crisis was all the greater given that it came after a long period of record growth. The bottom of the economic cycle was probably reached in the second quarter of 2009, and the beginning of 2010 brought signs of recovery, with GDP in the first quarter growing by 1.1 per cent.[14]

The main driver was exports of goods and services, while domestic demand remained suppressed.

Unemployment usually reacts to the business cycle after some delay, and it sank to 4.4 per cent in 2008. An increasing number of vacancies were filled by foreigners, mostly from Slovakia, Ukraine or Vietnam. Many of them took jobs that were unattractive to the Czechs: as shop assistants working long hours for low wages, in the construction industry, as cleaners, etc. Czech citizens were often unaware of the poor conditions suffered by their immigrant co-workers. But with the onset of recession the number of vacancies fell dramatically, and, as the crisis hit with greater force in 2009 and 2010, unemployment increased sharply to 6.8 per cent and 8.2 per cent respectively. Immigrant workers were often the first to be given notice and had to leave the country.

In the late 2000s only about 10 per cent of the Czech population lived in poverty. However, a further 17 per cent, mostly retired, young families with children and single mothers, lived just above the poverty line and fully one third of households encountered difficulties in making ends meet. Household indebtedness was a looming problem, one that presented a major risk to the whole economy. A significant slice of household debts was held not by banks but by 'other financial institutions' which charged very high interest rates – as much as 50 per cent. The crisis was later reflected in a 60 per cent increase in property repossessions.

IMPLICATIONS FOR TRADE[15]

In 2009, one of the CR´s few positive achievements was a record trade surplus of 150 billion crowns. However, a closer look at the numbers reveals this to be less impressive than appears at first sight. Both imports and exports fell dramatically; the record surplus resulted simply from the faster decline of imports. Moreover, the CR's most important export market is Germany, with which the biggest surplus is achieved. This fact is viewed critically by some actors, notably the trade unions. They claim that the high share of exports in GDP is because, as a result of privatisations and the system of investment incentives, the Czech economy has become an adjunct of the German economy, for which it acts as a capacity reserve during boom years.

A second and related problem concerns the commodity structure of exports, which are heavily concentrated in machinery and transport equipment, notably automobiles. There are three large automobile plants: Škoda Auto, TCPA and Hyundai. Exports in this area were greatly assisted by the German 'cash for clunkers' car-scrapping bonus. But the CR's concentration in this narrow sector represents a weakness, rendering the economy highly susceptible to cyclical oscillation.

Notwithstanding the importance of the balance of trade for the small and open Czech economy, it is also necessary to look at the impact of the crisis on the balance of payments as a whole.[16] Despite a positive development of the trade and service balance, the current account has been in the red for years. The main cause of this is the income balance, which reflects the vigorous involvement of transnational corporations in the CR. In 2009 it reached –230.9 billion crowns due to a massive outflow of dividends and profits.

While a negative current account may lead to currency depreciation, in the case of the CR the current account deficit is more than covered by the inflow of FDI. However, a kind of vicious circle exists here. The FDI inflow puts further pressure on the balance of income, when dividends and profits leave the country. It may be only a question of time before the FDI inflow stops or slows down, due to more profitable investment opportunities elsewhere for example. Thus, pressure can be put on any government to sustain favourable conditions for FDI (including tax and social dumping), because otherwise large outflows of dividends and profits could catalyse a financial crisis. In 2009 an estimated one fifth of foreign companies were thinking of leaving the CR and switching production to countries such as China or India.

CRISIS? WHAT CRISIS?

For almost the whole of 2008, quite unbelievably – and despite repeated warnings from the trade unions, which were treated with derision – Topolánek's government tried to deny the existence of a crisis, and even after acknowledging it insisted that the CR would not be affected. The CR was presented as an island of stability, due to the structure of its banking sector and the fact that it had not joined the Euro zone.

At the end of 2008 the Prime Minister presented an analytical paper setting out his vision for the Czech economy in 2009. It claimed to take the 'new state of global economy' into account, yet predicted GDP growth of about 3 per cent and that any figure of below 2 per cent would attest to a crisis scenario. Clearly, he was out of touch with reality. Some months earlier, in July 2008, the Finance

Minister, Miroslav Kalousek, had presented the budget for 2009 on the assumption of high growth (4.8 per cent). Kalousek, later the founder of a successful new party, TOP09, claimed in October 2008: 'I repeat, there will be no crisis in the Czech Republic. The economic growth will be slower. Despite all possible problems, the Czech Republic will grow.' A similar 'non-reaction' came from President Václav Klaus. He referred to the crisis as a 'flu' and expressed serious doubts that a state could take any remedial measures. In an interview in April 2009, he repeated that the best way to combat the crisis was to do nothing at all: 'Anti-crisis measures generally invoke more problems than they solve.' Further, he confirmed that he opposed measures like car-scrapping subsidies and criticised the Keynesian paradigm that seemed to be getting headlines again: 'I am strongly worried . . . the economy could be influenced by the state in a scale that is not much lower than under the real socialism.'[17]

By this time – in fact from the beginning of 2009 – the government had decided that it could no longer deny the crisis and established a new body, the National Economic Government Council (NERV). As the trade unions remarked ironically, NERV consisted mostly of economists who had been blind to the crisis until the last possible moment. The most important measure it suggested was in line with supply-side economics – an additional cut in employers' social security contributions. The effects of the measure on employment are doubtful, but the effect on state revenues is clear: it would lead to a drop in public revenues of 70 billion crowns for 2010, according to trade union estimates.

Prior to the establishment of NERV, the Czech national bank had decided to act, lowering interest rates to an historical minimum: 1.25 per cent. It was expected that this would weaken the crown and reduce the price of domestic credit. But no longer in Czech hands, the banks did not react accordingly. Many of them serve as a profit earner in hard times for their parent institutions abroad, although the official reason for their failure to issue loans was prudence. Either way, monetary policy proved to be an ineffective tool.

After the failed monetary expansion efforts and NERV, with its social security contributions cuts, government policy focused on the budget deficit as its main topic. Unlike in other European countries at that time, fiscal austerity and the sustainability of public finances were given precedence. (This was welcomed by the NERV members, some of whom acknowledged that the crisis gave them the opportunity to introduce measures that would otherwise be unacceptable.)[18]

The worsening economic situation led to growing dissatisfaction with Topolánek's government and its overthrow by the Social Democrats and communists, together with a few deputies from the coalition. In retrospect, the victory was Pyrrhic, as the Social Democrats had little sense of what to do next and were seriously weakened when the national government that ensued assisted the rehabilitation of the right-wing parties. The Social Democrats were not able to set the media agenda and the social impact of crisis was overshadowed by the subject of government debt.

GOVERNMENT DEBT AND BUDGET DEFICITS

Since the beginning of 2008, the hottest political and economic issue has been the budget deficit and government debt.[19] This was not a new phenomenon. The Czech Republic has had substantial budget deficits for years, even if some of them were 'hidden' in special government agencies and did not feature in 'official statistics'.[20] Beside these hidden debts, another major factor contributing to the deficit was that the project of tax reduction, which had been supported by conservative and Social Democrat governments alike, had backfired. Rather than hastening economic growth, its principal outcome was lower revenues, as a result of which the CR recorded budget deficits of tens of billions of crowns, even in years of record economic growth.

The Topolánek government focused on public finance reform: a combination of tax and expenditure cuts. The tax system was made more regressive, penalising the low and middle classes and benefiting the rich. An analysis produced by the Ministry of Finance in 2007 acknowledged the problems, stating that welfare benefit cuts would be the prime cause of deficit reduction, while the tax cuts would actually deepen the deficit. 'The Topolánek government's reforms' to fiscal and welfare policy, it argued, would not succeed in 'solving the main problem of the Czech Republic's public finances'. It went on to question whether the 'fuss' surrounding the tax and social system was actually worthwhile. 'If the reforms had introduced savings measures on the expenditure side and if they had not caused a drop in tax revenues, they would have been much more successful.'[21]

As the government was forced to downgrade growth forecasts ever further, it became obvious that the deficit would get out of hand and would surpass the government's expectations (but not those of the trade unions). With the worsening economic plight it became obvious that the deficit would rise, perhaps to 200 billion crowns.

The situation was complicated by the fact that the opposition managed to overthrow Topolánek's government, which enabled Topolánek to pin the blame for the economic calamity on others.

In the crisis year of 2009 the public sector deficit reached a record 146 billion crowns, or 5.3 per cent of GDP. As for the gross government debt, at 35 per cent of GDP it was low by international standards, yet it was to become the defining topic of the 2010 elections.

The deficits attested to the shortcomings of the prevailing neoliberal strategy. Low taxes had led to declining government revenues and had not stimulated rapid growth. State revenues collapsed, such that in 2008 achieving a balanced budget would have required economic growth of 11 per cent. 'The Czech Republic has taken tax cuts a bit too far' was the sarcastic comment of a representative of the Trade Union Association.[22] For the unions, the problem lay in the low level and regressive structure of taxation. This, they pointed out, underlay the government's refusal to recognise the onset of crisis for, had it done so, it would 'not have been possible to defend its tax-cutting agenda'.[23] In this sense, trade union representatives concluded, the political elite had welcomed the crisis, because it provided them with a serviceable excuse for their disastrous economic management and appeared to absolve them of the need to explain why the public sector deficit and unemployment levels remained stubbornly high despite reductions in social benefits. All of these home-made problems could simply be attributed to the crisis that 'nobody expected'.

THE 2010 ELECTIONS AND THE NEW GOVERNMENT

In May 2010 a general election was held. In the early months of the year, the right-wing parties were polling poorly. But then came a 'gift from heaven', in the form of the Greek crisis. The agenda was seized by the right-wing parties, which attacked the Social Democrats' aim of preserving the welfare state with the statement that such 'profligacy' would 'lead us to Greece'. In the election campaign, the Greek debt crisis became a powerful image, used by the Right in its bid to further erode the welfare state in the name of 'necessary' austerity.

With 'Greece' (i.e., government debt and the threat of bankruptcy) elevated to pole position in the media, most other topics vanished and the right-wing parties won by an unexpectedly large margin. Although the Social Democrats gained the largest share of the vote, they had no potential coalition partners, and the Communist Party continued its decline. With 118 of 200 deputies and with Klaus as President, the right-wing coalition government of ODS, TOP09 and VV at time of writing is in a strong position. The ODS finished with the worst result in its history, but as the largest party in the coalition it retained the seat of Prime Minister. The strong performers were its two coalition partners, TOP09 and VV. The new, virulently right-wing TOP09 did well, particularly with young people, who are inclined to see social benefits and state-guaranteed welfare as relics of 'communism'.[24] TOP09 gained particular notoriety due to its association with a video in which young people are persuaded to visit their grandparents – depicted as communist-voting benefit scroungers – and 'explain' to them that they should vote for the Right or else their grandchildren will no longer visit them.[25] (As this ugly vignette suggests, the election campaign showed clear signs of inter-generational conflict, and research suggests that this is not without basis in fact. Sociologists believe that behind the hatred towards older generations lies frustration and fear of the future. Older people are viewed by a significant number of their younger compatriots as competitors for money, career and good jobs.[26])

The big unknown among the coalition parties is the other new party, Věci veřejné (VV [Public Matters]), a populist outfit led by a former journalist. Not a party in the traditional sense, it is a trust run by entrepreneurs, with unorthodox, even dubious sources of finance. (One of its goals is to privatise security and its main sponsor, currently Minister of Transport, happens to own a big security company.) VV gained support through its promotion of referenda and for its 'social work', whereby its 'guards' patrol Prague with the aim of 'removing' homeless people. It seems to have attracted support from former Social Democrat voters, who viewed it as a left-wing alternative.

From the start, the new government – calling itself 'the coalition of budget responsibility' – announced tough austerity measures and is planning the most radical reforms since 1990. Its programme does not include any significant economic strategy, but focuses instead on cuts to public sector spending. These appear as a welcome excuse for 'necessary' reforms: the further erosion of welfare provision and a far-reaching privatisation of public services. Perhaps the most widely feared reform is to pensions. The government is suggesting that citizens under the age of 40 should be forced to invest a part of their savings in private pension funds. The state system would receive lower contributions, but this would be 'compensated' by higher VAT. In other words, current pensioners would pay for their pensions in higher prices of food and medicines. In healthcare, the government plans to hike fees for attending a doctor or hospital and to establish a list of 'standard' types of healthcare, while for everything else, including many common medicines, people would be obliged to pay cash. In education school fees are to be introduced, and universities are to become more managerially run and refocused on working with business. The Labour Code is to be reformed and an American system of 'hire and fire' introduced, resulting in less employee protection and a weakening of the trade unions. Unemployment benefit is to be reduced, even though only 35 per cent of job seekers receive it and it represents only 1 per cent of government expenditure.[27]

In short, the CR is following the likes of Greece and Great Britain in defining budget deficit reduction as the overwhelming priority, regardless of the economic and social consequences.

CONCLUSION

The Czech Republic has been undergoing 'transformation' for more than 20 years and the results have been mixed. The first steps into the market economy were in line with the Washington Consensus and ultimately led to a deep crisis at the end of the 1990s. The social democratic governments that followed attempted to use investment incentives and export promotion programmes to attract foreign investment. Modestly, they tried to develop a welfare state. However, even social democratic Finance Ministers accepted the logic of supply-side economics – the idea that lowering direct taxes leads to accelerated growth. There then followed a period of right-wing rule in which the neoliberal agenda was pushed more vigorously, to the benefit of the wealthy.

Supply-side economics did not accelerate economic growth or reduce unemployment, but did contribute to record budget deficits as a result of shrinking government revenues. But from 2008, Right-oriented governments have, with some success, sought to persuade the public that these problems resulted from the crisis, and to refocus the political agenda on questions of deficits and debt. Greece became a spectre, serving to buttress right-wing arguments that welfare provision must be drastically cut if Czech government bonds are not to be reduced to junk status. The new right-wing government enjoys a comfortable majority, making it easier to push through radical reforms in pensions, healthcare and trade union rights, in addition to the privatisation of public services and a further regressive shift in the tax system.

The reforms stress the expenditure side of the budget; however, no thought is given to raising corporation taxes, despite the fact that these are among the lowest in the EU, or to tightening up tax collection – the Czech tax authorities recently issued a report that admitted its failures in tax collection and tax evasion on a large scale.[28] At the end of 2009 almost 100 billion crowns were owed in back taxes.

However, the trade unions and other social movements are not dormant or paralysed; they are preparing to fight the government. The shock of the election result was such that even groups and movements that traditionally were rivals are now considering the advantages of cooperation.[29] Two movements are of particular note. One is *Alternativa zdola* (AZ: Alternative from Below), which concentrates on topics such as energy self-sufficiency at the municipal level, the creation of cooperatives, employee participation and communal living. The other, *ProAlt* (For Alternatives: Against the Cuts), came into being as an immediate reaction to the planned cuts of the new government. Its aim is to publicise the negative impacts of the reforms, to organise protests and ultimately to overthrow the government. The two organisations are cooperating with each other, especially in organisational matters, and in this they have followed the example of *Ne Základnám*, the highly successful movement that campaigned against the locating of US missile bases in CR. Given the scale of the economic and social crisis, a tremendous responsibility now falls upon their shoulders.

NOTES

1. 'Hodnotové orientace české populace v roce 1992', in Aleš Lisa and Vladimír Prorok, *Základy politologie*, Praha: VŠE, 1999, p. 120.
2. In Miloš Pick, *Stát blahobytu nebo kapitalismus*, Všeň: Grimmus, 2009, p. 42.
3. At the current exchange rate it is about £30 billion.
4. Jiří Vavroň, 'Průmysl táhnou podniky se zahraniční účastí', *Právo*, 26 June 2007.
5. Before that, the progressive rates were 12, 19, 25 and 32. The left-oriented daily *Právo* calculated that Topolánek personally would save almost 22,000 crowns thanks to the new tax and social contributions ceiling.
6. For example, a taxpayer without children with an income of 20,000 crowns a month gross will 'save' 40 crowns, whereas the same taxpayer with an income of 75,000 gains 3,500 per month.
7. CVVM, Taxes poll, 24 March 2007. Another public poll – STEM – confirmed the same result.

8. 'Reforma začíná rozdělovat společnost', *Právo*, 12 April 2007.
9. Petr Gočev, 'Na reformě prodělá většina poplatníků', *Britské listy*, 17 April 2007.
10. 'Odbory: vládní reforma nahrává jen bohatým', *Právo*, 21 April 2007.
11. Jan Mládek, 'Velký reformní podvod – a co bude potom', *Právo*, 15 January 2008.
12. Analyses show that Czech exports are positively correlated with German industrial production.
13. CSU, *Tendencies and Macroeconomic Development in the Czech Republic*, www.czso.cz/csu/2010edicniplan.nsf/p/1101-10.
14. Analysis of CSU: *The Development of the Czech Economy in the First Quarter 2010*, www.czso.cz/csu/2010edicniplan.nsf/p/1109-10.
15. Ilona Švihlíková, *Crisis Implications of the Trade Development in the Czech Republic*, part of a grant project of Economic Diplomacy, 2010.
16. The trade balance analysis is made by the Czech statistical bureau, using a different methodology from that of the Czech National Bank (CNB), which publishes comprehensive analysis of all items of the balance of payments. Therefore, there may be discrepancies in the figures.
17. Václav Klaus, V této krizi neselhal kapitalismus, *Mladá fronta*, 16 April 2009.
18. For example, Tomáš Sedláček or Pavel Kohout; blog.aktualne.centrum.cz/blogy/tomas-sedlacek.php?itemid=10013.
19. Analysis of the Trade Unions, *Ekonomická krize utajeným pohledem odborů*, 23 January 2009, www.blisty.cz/2009/1/23/art44923.html.
20. For example, Consolidation Agency: The Losses of Privatization and Banking Sector Consolidation.
21. Jiří Malý, *Dobývání renty prostřednictvím reforem veřejných financí*, Praha: Professional Publishing, 2007, p. 49.
22. Martin Fassmann, Reforma veřejných financí bývalé koalice a světové ekonomická krize = rozvrácené veřejné finance České republiky, Trade Union analysis, 26 June 2009, www.blisty.cz/2009/6/26/art47596.html.
23. Fassmann, Reforma veřejných financí bývalé koalice a světová ekonomická krize = rozvrácené veřejné finance České republiky.
24. Surprisingly, a majority of young people support the proposal for school fees, even though this affects them negatively and directly.
25. Jan Čulík, 'The Czech Right Wing Uses Porn Images and Vulgar Aggression Against Old People to Try to Win the Forthcoming General Election', www.czechfocus.cz/2010/7/8/art52224.html, 25 April 2010. Despite many requests that the clip be removed from Youtube due to its offensive nature, the opposite was done: the clips parodying it were removed!
26. 'Čtvrtina mladých má seniory za přítěž, analysis of ageism', *Právo*, 28 April 2010.
27. Jakub Svoboda, 'Krácení sociální dávek rozpočet nespasí', *Právo*, 25 May 2010.
28. 'Státu neustále unikají daňoví dlužníci', *Právo*, 28 June 2010.
29. The trade unions have an excellent research centre but their fighting power is limited. Many Czechs consider strikes and demonstrations as something that 'decent' people should avoid.

10
From Poster Boy of Neoliberal Transformation to Basket Case: Hungary and the Global Economic Crisis*

Adam Fabry

INTRODUCTION

Hungary has for long been a poster boy of neoliberal transformation in Central and Eastern Europe (CEE). However, as the negative effects of the financial crisis started to be felt in 2008, its *bon renommé* in international policy-making and business circles quickly evaporated; indeed, the international business press singled it out as the 'black sheep' of the current crisis. This 'return to fame' stems from the fact that the signs generally associated with the global crisis – financial meltdown, falling levels of production, growing unemployment and social inequalities, widespread disillusionment and public anger (in the guise of rabid reactionary politics) – are all present in an exacerbated form in Hungary.

The first section of this chapter presents a chronology of the problems that the Hungarian economy has faced from 2007 until the present. Second, we present an overview and critique of the four narratives that have dominated mainstream discourse about the crisis in Hungary. We then proceed to outline the central features of an alternative interpretation, which builds on the insights of Marxian political economy, in particular Marx's law of value and Trotsky's theory of combined and uneven development. It depicts the crisis as the outcome of *external* pressures (a global crisis of capitalism) and *internal* pressures (contradictions inherent in Hungary's post-transformation capitalism), which together confront Hungary's economy and state. In conclusion, we argue that the current crisis

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in Hungary extends beyond the normal up- and downturns of the business cycle, revealing fundamental contradictions in Hungarian society itself.

AN ECONOMIC TSUNAMI SWEEPS DOWN THE DANUBE: A CHRONOLOGY OF HUNGARY'S CRISIS

The global crisis has evolved in three interdependent and mutually reinforcing ways. What started out in 2007 as a 'crisis in the heartland'[1] of global capitalism with the sub-prime mortgage crisis in the United States had, within a year, evolved into a global credit crunch, which at the time was estimated to cause the global economy losses of at least US$1 trillion.[2] The credit crisis subsequently spread to the 'real' economy. According to the International Monetary Fund (IMF), global output declined by 0.6 per cent in 2009.[3] Total write-downs on global exposures were estimated to reach US$4 trillion or more.[4] Since then some 'green shoots of recovery' have emerged in the world economy, especially in the emerging economies. However, the rebound seems so far to be slow and fragile and could quite conceivably see the world economy falling back into renewed recession.

First Wave: Storms Gathering around Central and Eastern Europe

The ten ex-command economies (EU-10) that joined the EU in 2004 and 2006 were hit by the global crisis in a succession of waves.[5] The first, which followed after the onset of the sub-prime mortgage crisis in the USA, was not perceived as a serious threat. Capital flows to the region had risen throughout most of the 2000s, contributing to a credit-led boom. From 2000 to 2007 a total of over US$305 billion of FDI poured into the EU-10.[6] As one of the leading reformers in the region, Hungary had been a prime recipient of funds, with cumulative FDI between 1989 and 2007 reaching nearly US$64 billion.[7]

However, before we take this figure as an indication of the inevitable flattening of the world brought about by corporate-led globalisation (to borrow a phrase from Thomas Friedman), these figures need to be put into perspective. In so doing, they illustrate what Bill Dunn has described as the 'enduring pertinence of geography' for capital accumulation.[8] Despite their year-on-year increase, total FDI flows to the EU-10 economies between 2000 and 2008 only represented 3.6 per cent of worldwide FDI flows.[9]

Having said that, the economies of Central and Eastern Europe (CEE) were in a sense becoming a 'destination of choice'[10] for capital. Between 2003 and 2007 the unweighted average of capital inflows (107 per cent of GDP) to the EU-10 (excluding Slovenia) was three times as high as in pre-crisis Indonesia, Philippines and Thailand (38 per cent of GDP in 1992).[11] The positive flow of foreign capital continued even when share prices of investment banks and hedge funds began to fall in the USA and Western Europe in late 2006.[12] For the credit bonanza in the region, no end was in sight.

No wonder, then, that the official view in policy-making circles and among international investors was that the sneeze in the US economy following the sub-prime mortgage crisis would not cause 'flu in the EU-10. Despite signs of difficulties looming, the dominant view about the economic prospects of CEE remained upbeat.[13] In autumn 2007 the IMF projected that average GDP growth in CEE would fall moderately, from 6.7 per cent in 2002–7 to 5 per cent in 2008–12. Hungary's decline was expected to be modest: down from 3.6 per cent in 2002–7 to 3.4 per cent in 2008–12.[14] However, with the onset of the second wave of the crisis following the collapse of Lehman Brothers in September 2008, these hopes quickly faded.

Second Wave: A Vulnerable Gazelle on the Savannah of Global Finance

The second wave of the crisis was less benign. As liquidity dried up in global financial markets, investors retreated to safer havens in the core capitalist states. Faced with this situation, the openness of the CEE economies turned out to be a recipe for disaster. The combination of relatively small economies (except Poland), together with extreme openness to foreign capital and high dependency on exports, left the region highly exposed to the effects of the credit crunch.

The Hungarian economy fitted these descriptions perfectly. Its economic openness is extremely high: its proportion of trade in total GDP amounted to 161.4 per cent in 2008 (the highest in the EU-10) and 70 per cent of this trade went to advanced economies.[15] As a further indication of Hungary's embeddedness in the global economy, it ranks third in the world and highest within the region in terms of its transnationalisation index.[16]

Hungary's precarious position was made worse by what international investors perceived as the dire state of its public finances. If one looks closely, this fear appears exaggerated. While Hungary's consolidated government debt in 2007 (65.9 per cent) was higher than the average for the EU-10 (41.3 per cent), it was not substantially above the average of the old EU-15 member states (60.4 per cent).[17] Indeed, many countries within the EU – including Greece (95.7 per cent), Germany (65 per cent), France (63.8 per cent), Italy (103.5 per cent) and Portugal (63.6 per cent) – had similar or higher levels of government debt. However, the differences between these countries and Hungary are that the former are larger in size and also benefited from longer maturity periods on their sovereign debt.[18] The weighted average of maturity on Hungary's sovereign debt was only 3.3 years – lower than all the countries listed above.[19]

Investors were also worried about the high credit levels of Hungarian households and the private sector. The level of private sector indebtedness stood at 67.6 per cent of GDP in 2008 (fourth highest of the EU-10), while household debt stood at 27.4 per cent of GDP (third in the region after Estonia and Latvia). The fact that the majority of these debts had been taken out in Swiss francs or euros, against which the Hungarian forint depreciated sharply in October 2008, brought investors' worries about the state of the Hungarian economy towards boiling point.

These concerns boiled over in October 2008 when foreign investors sold more than US$2 billion of Hungarian government securities (nearly 5 per cent of Hungary's foreign-owned securities at the time) within a couple of days.[20] Government officials and policy-makers in Budapest now admitted that Hungary faced the threat of a run on the forint. The head of the Hungarian National Bank (HNB), András Simor, vividly depicted the gravity of the situation in an interview with TV channel CNBC when he compared Hungary's situation to lions' pursuit of gazelles on the savannah. Just as lions select slower, weaker and more vulnerable gazelles as their prey, 'speculative capital' attacks those countries that are at greatest risk.

Faced with this quagmire, the government in Budapest appealed for assistance from international lenders.[21] A bailout package of US$25.1 billion was provided, with the IMF providing two-thirds of the sum, the EU covering the majority of the remainder and the World Bank chipping in with a little more than US$1 billion. In return, the socialist minority government agreed to impose austerity measures, including savage welfare spending cuts and tax increases.[22]

Third Wave: The Crisis Hits Head On

The third wave of the crisis hit the EU-10 economies head on. According to a World Bank report, CEE economies were among 'the hardest hit by the ongoing global economic crisis'.[23] Table 10.1 sheds some light on the grim realities behind this statement.

Table 10.1 Selected Economic Indicators, end of 2009 (%)[24]

	GDP growth, at market prices	*Export of goods*	*Industrial production (except construction), gross value added at basic prices*	*Unemployment (registered)*
Bulgaria	-4.9	-10.8	-8.0	6.8
Czech Republic	-4.1	-14.6	-12.1	6.7
Estonia	-13.9	-23.0	-21.5	13.8
Hungary	-6.7	-18.7[a]	-17.7[a]	10.0
Latvia	-18.0	-10.7	-16.5	17.1
Lithuania	-14.7	-11.9	-13.2	13.7
Poland	1.7	-8.5	-3.7	8.2
Romania	-7.1	-3.3	-0.3	6.9
Slovakia	-4.8	-15.1	-18.2	12.0
Slovenia	-8.1	-18.1	-15.5	5.9
EU-10 average	-9.9	-13.5	-12.7	10.1
Selected comparators				
Germany	-4.7	-16.6	-16.7	7.8
Greece[b]	-2.0	-18.0	-0.4	9.5
Ireland	-7.6	-5.2	0.5	11.9
EU-27 average	-4.2	-14.4	-12.3	9.0
US	-2.6	N/A	N/A	9.3

a = Figures are from the Hungarian Central Statistics Office (KSH), 2010; b = Figures for Greece on GDP growth and industrial production are provisional.

As Table 10.1 reveals, the effects of the crisis have been varied.[25] Though not as badly hit as the Baltic States, Hungary was nonetheless hit hard by the global recession, with output contracting by 6.7 per cent in 2009.[26] However, it is important to remember that the Hungarian economy was deteriorating *before* 2009, with growth averaging 0.8 per cent in 2007 and 2008.[27] The impact of the crisis was aggravated by the contraction experienced by Hungary's primary export markets, in particular Germany. As a result, exports plummeted by 18.7 per cent in 2009 and industrial production by 17.7 per cent – the steepest decline since 1991. Manufacturing was particularly badly hit, falling by 18.4 per cent on an annual basis. Among the subsectors within manufacturing, automobile production experienced the most severe slump, decreasing by nearly 30 per cent on an annual basis. (Unlike the advanced economies, the government in Budapest did not introduce a 'cash for clunkers' scheme to counterbalance the downturn in the automobile sector).

By now, Hungary's economic malaise was rapidly spilling over into the sphere of politics. In mid-April 2009, Ferenc Gyurcsány resigned as Prime Minister and was succeeded by Gordon Bajnai, former Minister of National Development and Economy and onetime business partner to Gyurcsány, who now took charge of a semi-technocratic government. Despite possessing virtually no popular support and notwithstanding signs of social and political instability – with fascist paramilitaries of the *Magyar Gárda* [Hungarian Guard] marching through the streets of the country terrorising the Roma population, gays and lesbians and 'communists' – the new government resolutely pressed ahead with the implementation of further austerity measures.

The combination of a global recession together with austerity proved to be a poisonous brew for ordinary citizens. By the end of 2009, unemployment stood at 10 per cent, the highest rate since the early 1990s. However, while already giving little reason to celebrate, this figure does not take into consideration the nearly 1.5 million jobs that had been shed in the 1990s, which contributed to chronically high underemployment; Hungary's employment rate stands at 55.4 per cent, well below the EU average of 64.8 per cent.[28]

As for those fortunate enough to have a job, the situation is hardly rosier. Capitalists have responded to the downturn by increasing the exploitation of workers. The country is turning into one of the worst places to work in the EU. Weekly working hours for full-time employees in 2009 stood at 40.1 hours, higher than the EU-27 and EU-15 averages of 39.3 and 38.9 hours respectively.[29] Real wages fell in 2007 by 4.6 per cent and, after a slight rise of 0.8 per cent in 2008, declined again in 2009 by 3.5 per cent.[30] At the same time, those at the top came out relatively unscathed from the crisis: the wealth of the ten richest Hungarians grew by HUF 124 billion (approximately US$557.5 million).[31]

NARRATING HUNGARY'S VULNERABILITY TO THE CRISIS

Having seen the speed at which Hungary found itself entangled by the crisis, we are forced to ask why it became so vulnerable once the crisis hit the region. In order to answer this question, journalists, policy-makers, businessmen and academics have provided a number of competing interpretations. As elsewhere, these arguments range from the simplistic and populist to the complex and specialised.[32]

Here, we focus on four distinct narratives, which have dominated mainstream discourse in Hungary.

1. Corrupt Politicians and Greedy Bankers Are to Blame

The speed at which the US sub-prime mortgages crisis triggered a global crunch left many of the world's financiers, regulators and politicians dumbfounded. For the average citizen it was met with a mix of anger and bewilderment. Apart from seeking to grapple with *how* this could happen, the question on people's lips was, *who* was to blame? Soon enough, the global news media were replete with examples of greedy bankers and corrupt politicians at whom an accusing finger could be pointed.

In Hungary, this narrative places culpability for the crisis on 'corrupt communists and liberals' (e.g., MSZP or SZDSZ politicians) or 'greedy bankers' (in line with the endemic anti-Semitism in the region, these are covertly or even openly alluded to as Jews). This argument has become popularised by different political forces on the Right and their intellectual acolytes, but it can also be traced in the views of some members of the business elite. According to the division of labour between different right-wing forces, the 'moderate' Right (e.g., Fidesz) relentlessly reminds the electorate about the blame of successive socialist-liberal governments and their associated business circles, while Far Right forces (e.g., Jobbik) add a dose of anti-Semitism to the narrative.

It is not difficult to understand the attractiveness of these views when taking into consideration the miserable record of the ruling socialist-liberal coalition and their associated partners in the business elite during the years of the crisis. Aided by a plethora of media outlets, the right-wing opposition sought relentlessly to remind the Hungarian electorate about the culpability of the Centre-Left government. The right wing engaged in a conscious cultural and ideological battle, which has seen a drastic shift to the Right in the Hungarian media. Ranging from the conservative *Magyar Nemzet*, Hungary's most popular daily, through the programmes of *Hír TV*, the country's most popular news channel, to the Far Right views pumped out by the small media empire owned by Gábor Széles (one of the richest men in Hungary), right-wing ideas permeate much of the media landscape.

But the popularity of the 'corrupt politicians and greedy bankers' narrative is not simply the result of the dominance of the right-wing media. During Gyurcsány's incumbency, MSZP and SZDSZ politicians became increasingly synonymous with corruption. Gyurcsány's own credibility has been in tatters ever since his infamous gaffe in September 2006, when, using particularly foul language, he admitted that his government had lied about the state of the economy in order to get elected.[33] The speech sparked massive anti-government protests (unprecedented since 1989) and violence broke out in Budapest on the evening of 18 September, when a small group of demonstrators (comprising Far Right groups and football ultras) broke into the offices of the Hungarian state television and set fire to it.

Support for the socialist-liberal coalition has been evaporating ever since. By the time of the general elections in April 2010, trust in socialist and liberal politicians was so low that the right-wing opposition could enjoy a comfortable return to power.

As for the bankers' greed, it is enough to invoke the name of HNB president András Simor in order to understand why this narrative strikes a chord with many ordinary citizens.[34] Simor's current salary, roughly US$460,000, is not only obscene compared to average Hungarian salaries, but also more than twice as much as Federal Reserve chairman Ben Bernanke. The fact that Simor was awarded the Central Banker of the Year in 2010 for Emerging Europe prize by the global finance journal *Euromoney* only adds insult to injury to those who already feel that the burdens of the crisis have not been shared equally.[35]

It is not difficult to pinpoint the analytical shortcomings of the 'corrupt politicians and greedy bankers' narrative. While it is true that shady politicians and self-aggrandising financiers must take responsibility for their reckless actions, Castree is right to underline that 'abstract[ing] them as a group from the wider political economy [only] serves to obscure a number of important factors [behind the crisis]'.[36] Quoting Castree again, it is also questionable whether greed is of much explanatory value, as it implies 'some transhistorical human impulse that threatens to manifest itself in the absence of proper checks'.[37] Nonetheless, the claim that corrupt politicians and greedy financiers were at fault for Hungary's economic malaise has gained a very considerable popular appeal.

2. Lax Regulatory Oversight

Once economic commentators, politicians and policy experts recovered from their initial shock at the severity of the global crisis, the term 'regulatory failure' became one of their favourite explanations for its cause. The argument here is that lax fiscal or monetary oversight, or both, by regulators worldwide enabled finance to outgrow the constraints of the real economy. As the IMF put it, 'bad policies', 'overly expansionary macroeconomic settings and excessively optimistic views on prudential risks', aggravated the effects of the crisis in CEE.[38]

Here again, proponents can draw on a mass of empirical evidence. Examples of regulatory shortcomings – or in many cases a complete *lack* of regulation – were evident for years, globally as well as regionally. Governments and various regulatory institutions in CEE were well aware of the dangers of rapid credit growth but chose to turn a blind eye to the problem in order to remain 'competitive' and maintain the illusion of economic success for their electorate. In Hungary, experts and commentators have emphasised the lack of prudence in the banking system (foreign currency denomination of mortgage loans as the prevailing practice, excessive credit-to-deposit ratios, etc.) and a general unpreparedness for turbulence in financial markets (marked by insufficient foreign exchange reserves in the central bank), as evidence of regulatory shortcomings.[39]

While the light touch regulation narrative has been less attractive than Interpretation 1 in the eyes of the Hungarian public, it is, as Castree points out, 'polyvalent in the political sense'.[40] As such, it enables those who signed up to the fantasy of 'self-regulating' finance a chance to offer touching *mea culpas* in its name. Even the IMF – one of the strongest advocates of financial deregulation in the last two decades – recently offered its own apologies to the region, admitting that 'with the benefit of hindsight, a more active policy response during the boom phase would have helped'.[41] However, to the misfortune of the CEE economies, by the time the IMF realised its mistakes, it was already too late.

For commentators who have maintained a critical stance towards neoliberalism, the global economic crisis seemed to offer a rare opportunity to break with the hegemony of neoliberal ideas and provide proposals for tackling regulatory shortcomings.[42] Building on the insights of Kenneth Galbraith, John Maynard Keynes and Hyman Minsky, these included the implementation of a 'new system of financial regulation' which would protect the public interest against the private agendas of profit-maximising banks. Other proposals included the passing of a new Glass–Steagall Act (a 1933 Banking Act, which introduced banking reform), tougher capital adequacy requirements, reform of accounting standards, tighter restrictions on tax havens, greater consumer protection from 'predatory lending', the break-up of too-large-to-fail banks and the creation of a Tobin tax on certain cross-border financial transactions.

It should, however, be pointed out that criticism of neoliberal policies is not monopolised by progressive forces. Indeed, in the contradictory reality of Hungarian post-transformation capitalism, neoliberal critique has increasingly become the territory of the Right. As we shall see, Orbán's right-wing government has taken the most concrete measures towards curbing the power of finance.

3. Western-style Capitalism is to Blame

The third argument has been voiced by those who trace the roots of the current crisis to the shortcomings of Anglo-Saxon capitalism. The focus here lies in how the belief in the 'hidden hand' of the market enabled 'speculative capital' to break free from the boundaries of the nation-state, spurring a frantic race for profit, which ultimately led to the ruin of all.

Again, representatives of this narrative in Hungary come in all political colours. One of the most renowned representatives of this view on the Left is Iván Szelényi, professor of sociology at Yale University. In 2008, when the global economic crisis was in its infancy, he passed a harsh judgement on Anglo-Saxon capitalism and its apologists in the post-Soviet Bloc:

> Now that the crisis of global finance capitalism shakes the world in its very foundations, when we experience an economic collapse of a magnitude not experienced since 1929–33 . . . the wisdom of the neoliberal path chosen by the post-Communist countries in 1989–90 appears highly dubious. Today, the ball got rolling from the United States, but it appears that it may trigger the greatest avalanche in this very region. Neoliberalism is in crisis in America . . . but it seems that post-Communist capitalism, which was more neoliberal than the neoliberals themselves, will have to pay twice the price for its . . . erroneous economic and social policy.[43]

Szelényi warned against premature claims about the 'end of capitalism', but argued for a 'qualitative revolution' that moves beyond the neoliberal model of capitalism based on economic growth through mass consumption, towards a model encouraging 'less consumption of goods with better quality'. For this vision to materialise, Szelényi acknowledged the need for stronger regulation by the state.[44]

Proselytising about the return of the state was not restricted to left-wing intellectuals. One of the most vocal critics of Anglo-Saxon capitalism in Hungary has been none other than Prime Minister Orbán. In a speech delivered in July 2010, he spoke of the 'crisis of Western capitalism' caused by 'the dominance of speculative capitalism over productive capitalism in recent decades'. Equating the current crisis to a crisis of (Western) civilisation, the logical conclusion of this argument is that there is a need for a rediscovery of (Christian) 'moral values', accompanied by the return of the state in economic affairs.[45]

The new government has wasted little time in putting Orbán's words into action. In negotiations in summer 2010 with the IMF, the government, fearful of losing electoral support, refused the IMF's proposal to impose further budget deficit cuts and opted instead to seek funds directly from financial markets. The IMF and its acolytes were flabbergasted by the government's decision, labelling Orbán a 'maverick' and 'populist'.[46] Critics of the IMF, on the other hand, were enthralled. The American economist Mark Weisbrot argued that Hungary was 'pioneering an alternative to austerity' in Europe.[47] Apologists of neoliberalism have since been further infuriated by the government's decision to reduce the budget deficit by imposing levies (so-called 'crisis taxes') on banks and financial institutions, telecommunications, energy and large retail companies (all of which are mostly foreign-owned), as well as to renationalise private pension funds. While foreign investors and pundits in the international business press have been fulminating against these moves, they have been popular with the Hungarian electorate.

4. Macroeconomic Imbalances are to Blame

The fourth narrative seeks to move beyond the narrow scope of the previous three. On a global level, this means placing the global crisis within a wider economic context. As Castree suggests, this involves folding 'interpretations two and three together and show[ing] them to be . . . elements of a much larger story'.[48]

Narrative 4 presupposes that the reasons why CEE economies were badly hit by the crisis cannot be reduced to a single factor alone. According to Philippe Le Houerou, World Bank Vice President for Emerging Europe and Central Asia (ECA), the region's vulnerability to the crisis was due to a combination of factors, including large current account deficits, high levels of external debt, rapid credit growth and a consumption boom financed by foreign currency borrowing.[49] Irrespective of political convictions, there is a consensus among proponents of Interpretation 4 that these factors were, to a greater or lesser extent, all present in Hungary prior to the current crisis. Differences arise, however, as to the causes that enabled these factors to develop.

Proponents of market orthodoxy trace the reasons for Hungary's vulnerability to one or more of the following factors:

- doubts about the government's fiscal policy (whether the government would be able to stick to its deficit reduction targets after years of austerity);
- lack of 'competitiveness' *vis-à-vis* other economies in the region due to failures to implement structural reforms in the economy; and as a result:
- the continued existence of a premature welfare state.

Former Finance Minister László Békesi has been one of the celebrated representatives of these 'Market Maoists'.[50] He argues that Hungary's economic problems were due to 'erroneous' government policies between 2001 and 20006, combined with structural characteristics of the Hungarian economy.[51] Instead of following policies of 'sustainable growth' (e.g., increasing exports and investments while furthering household savings and fiscal stability), Békesi argues that successive governments in Budapest led the economy down a path of 'artificial growth' through 'voluntarist' measures, which increased state spending and saw wages growing beyond increases in productivity. Structural imbalances, with the economy being 'dominated by sectors that are sensitive to conjuctural changes', which are usually severely affected by downturns in global demand, placed further strains on the economy during the global crisis.

While one might concur with some of Békesi's diagnosis, his solutions sound less appealing. For Békesi and his neoliberal *confrères*, the panacea to Hungary's economic ills lies in *more*, not less, marketisation. Hence, 'There should only be as much planning as is absolutely necessary, but as much market as is absolutely possible.' In order to achieve this, labour must be brought to its knees. Wage increases should be tied to increases in productivity and the government should stimulate exports whilst maintaining a stringent stance in fiscal policy. The overall goal of economic policy, Békesi argues, 'should not be the optimisation of distribution . . . but increasing competiveness'.[52]

In its progressive version, Narrative 4 places the Hungarian economy within a wider context, emphasising the macroeconomic, geopolitical and historical dimensions of its economic problems. Andor, for example, argues that the Hungarian crisis cannot be viewed in isolation from the increasing interdependence among the EU's member states. Looking at the banking system of CEE, he notes that it is largely foreign-owned (predominantly by Austrian, Italian, French, German and Swedish banks), which means that 'a financial crisis in this region cannot be isolated from the rest of the EU'.[53] Other economists, such as Péter Róna, have traced the problems of the Hungarian economy to its continuously high levels of underemployment. According to Róna, chronic underemployment is due to the lack of competitiveness of Hungarian corporations *vis-à-vis* the subsidiaries of multinational corporations (MNCs). The lack of competitiveness of Hungarian firms, Róna argues, is ultimately due to a combination of bad monetary policies of the central bank and the government's lack of development strategies.[54]

Ultimately, progressive commentators are left in an awkward situation: as they (justly) seek to defend the badly wounded welfare state from further neoliberal attacks, they become spellbound by the institutions which they protect, seeing in them the key agent of progressive change. Hence, it ends up following Narrative 3, calling for more active state involvement in economic affairs. But although shoring up the welfare state is a noble cause to fight for, the problem with this view is that its solution to the crisis remains within the framework of the existing system.

Interpretation 4 provides a much-needed macroeconomic, geopolitical and historical dimension, which manages to highlight how global imbalances affect the Hungarian economy. However, in the end, its technical and abstract language means that this interpretation lacks the popular resonance of Interpretations 1 and 3. Therefore, as Castree points out, it is 'operative only among those versed in the technicalities of the global political economy'[55] – the type of people who read the *Financial Times* (or comparable business papers in Hungary), IMF or World Bank reports or in books or academic essays on the global political economy.

TOWARDS AN ALTERNATIVE INTERPRETATION

The current global economic crisis has highlighted the contradictory dynamics of capitalist development. As we have seen, its effects on individual economies and different regions have been varied. The abovementioned narratives all highlight interesting *aspects* of Hungary's vulnerability to the global crisis; however, none of them provides a satisfactory account of how its recent economic malaise is interlinked with the dynamics of the global economy. What they lack is a sense of *totality*.

There is a body of Marxist literature on which a more critical and valuable approach to the effects of the global crisis on CEE economies can be constructed, with concepts of 'class', 'law of value' and 'competition' at its heart.[56] The essence of such an approach is that the contradictory development of post-transformation economies cannot be understood *sui generis*, but needs to be considered *in relation* to the contradictory dynamics of the global economy and the international states system. This chapter seeks to complement these insights by drawing on the notion of 'uneven and combined development' (U&CD), as developed originally by Leon Trotsky and in which there has recently been renewed interest.[57]

Conceiving of capitalist development as a dynamic process which results from the interaction between economic change and political and social forces, the notion of U&CD offers a framework on which a non-deterministic account of post-transformation capitalism in CEE can be constructed. This narrative emphasises the importance of local conditions (historical and institutional dimensions and the role of the state) as crucial to the variegated ways these countries have been reinserted into the global economy. To paraphrase Brenner et al., the expansion of the logic of capital is always embedded within and reworks existing institutional landscapes through processes of capital accumulation.[58] Hence, while capital, to quote Marx and Engels, *seeks* to 'create a world after its own image',[59] it does not represent a homogenising process, but leads to variations across time and space.

UNEVEN AND COMBINED DEVELOPMENT

Common to Marx and Trotsky's understanding of capitalism was the idea that it had to be understood as a totality, which unifies the world into a single productive system under the dominance of capital. The *modus operandi* of this system is the 'law of value'. As Hardy points out, this law has two aspects. On the one hand, competition means that 'all producers have to produce with the minimum input of labour time', while on the other, 'it forces a tendency towards a normal rate of profit in all industries'.[60] As capitalism expands across the world, aspects of U&CD become visible between different societies. As Harman describes:

> The capitalist exploitation of labour dissolves all pre-existing social forms, transmuting them into elements of a single capitalist world. Every tangible object is continually being reduced to a simple expression of a single, unitary substance – abstract labour. Every element of unevenness is continually being combined with every other element of unevenness to provide the totality which is the world market.[61]

Here we can discern how the theory of U&CD can be connected to Marx's law of value, a point recently explored by Colin Barker.[62] His argument is based on the notion that the expansion of productivity 'creates a rapidly growing flow of commodities whose value must urgently be realised', which forces capital to move beyond its national boundaries.[63] The competition resulting from this process 'translates into "international" pressure on the nations and industries of the entire world'.[64] As Barker points out, once a world market built on the logic of capital accumulation has developed, the law of value imposes itself with ferocity on those subject to its power, generating U&CD in the process:

> The law of value . . . is not merely a 'description of regularities' but a *prescriptive command*, more . . . powerful in its real effects on behaviour than any edict or fatwa. It subordinates not only workers and employers, but the mightiest governments. Yet its forces derive, not from any powerful deliberative agency, but from the impersonal workings of the capitalist form of combined development.[65]

Here we can trace the foundations of a crucial corollary feature of the law of value; what Marx described as the 'tendency of the rate of profit to fall'. Barker argues that this concept seems to offer 'a neat dialectic' with the theory of U&CD, as it illustrates how 'one process, accumulation, engenders through its very logic its opposite, devaluation'.[66] This is the case since the 'interaction of capitals, through the circuit of production and circulation' is in itself based on relations between 'unevenly advantaged capitals', which lead to incongruities in the investment of new production, and hence tend 'to cheapen commodities at the point of sale'.[67] Consequently, capitalists that are first to develop new production techniques, and in the process manage to bring down the value of associated commodities, deliver 'a nasty shock' to those who – for one reason or another – have remained with their old production methods.[68]

Left with outmoded methods of production, these capitalists find – when they bring their products to the market – that the general price has decreased and their output of commodities (e.g., their capital) has diminished.[69]

In many ways, this contradiction epitomises the paradoxical outcomes of the integration of the Soviet Bloc into the global economy, which, on the one hand, saw these economies being incorporated into the circuits of global capital, while, on the other, perpetuating uneven development both *within* these countries, as well as *between* them and the more advanced economies of the capitalist core. It is to the central features of this process that we now turn our attention.

BETWEEN STATE CAPITALISM AND THE MARKET

The crisis of the 1970s presented leaders on both sides of the Berlin Wall with a depressing picture of overproduction, lower returns on investments, mass unemployment and working-class resistance. Following old habits, capital responded to the crisis by spurring a Darwinian process of 'creative destruction', allowing unprofitable units of capital to fail while those surviving the test were supposed to provide the basis for a new cycle of economic growth.[70] However, the world economy had undergone significant changes during the years of the post-Second World War boom, with the units of capital – the firms within the system – becoming larger through the processes of concentration (the gradual accumulation of capital) and centralisation (mergers and takeovers). Tense military rivalry between East and West further discouraged world leaders from allowing capital to be destroyed to a sufficient degree. As Joseph Choonara explains, this meant that 'the very mechanism that clears out the system and restores it for a time to some level of health – economic crisis – had become more dangerous to the system'.[71] The system was, in other words, becoming too big to fail.

Other solutions thus had to be invented to solve the crisis. In the West, the answer was to turn to neoliberal policies and create what David Harvey describes as a 'spatial fix', which sought to overcome the problems of falling profit rates by moving capital and labour to areas where it was cheaper to produce them (i.e., outsourcing), while at the same time seeking to open up new markets for capital accumulation so ushering in the processes commonly recognised today as 'financialisation'.[72] (The implementation of these policies was not automatic, but often relied on active support by governments.) While neoliberal policies managed to defer the crisis in the advanced economies (profit rates recovered in the 1980s and 1990s), they failed to stimulate worldwide growth. Global per capita growth rates fell from 3.5 per cent in the 1960s to 2.4 per cent during the troubled decade of the 1970s. Data for subsequent decades have been even more depressing, with global growth rates of 1.4 per cent and 1.1 per cent for the 1980s and 1990s. For the 2000s, the picture was even bleaker with annual aggregate growth struggling to reach 1 per cent prior to the outbreak of the global financial and economic crisis.[73]

In the East, the crisis of the 1970s brought the economies of the Soviet Bloc face to face with their own internal contradictions and the grim realities of the world market. As the effects of the slump became increasingly felt within the Bloc, the leaders of the one-party regimes bowed to the pressures of capital – what Trotsky described as 'the whip of external necessity'[74] – abandoned central planning in favour of the market and sought greater integration with the world economy. This was to be achieved through a policy of importing technologically advanced goods from the West in return for exports of industrial and agricultural products.

Hungary became a regional forerunner, with its imports from the West growing at a faster rate than those from other Soviet Bloc states.[75] The rise in imports was to be paid by loans from Western governments, banks and international financial institutions. This meant that the debt burden of the command economies rose significantly from the 1970s onwards. In the 1980s Hungary's foreign debt per capita was the highest of the Soviet Bloc economies.[76] Caught between the pressures of the world market and growing demands for reform – both within the party bureaucracy and from dissident movements – the Kádár regime was incapable of upholding its hegemonic role in society. Increasingly squeezed from without and within, most of the party leadership decided to 'jump before they were pushed'.[77]

HUNGARY'S POST-TRANSFORMATION CAPITALISM

The Hungarian economy was in a dire state by the time of the regime change. From 1973 to 1990 it had stagnated, in contrast to the preceding period (1950–73), when growth had averaged 3.6 per cent, which was above or on par with most advanced economies.[78] Faced with this bleak picture and spurred on by spiralling foreign debt, the political elite concluded that radical market reforms were necessary in order to jump-start the economy. The hope was that these would stimulate economic growth, which in turn would enable ordinary citizens to enjoy the same living standards as their neighbours in the West.

The door was thus left open to the interests of capital. Economic reforms placing emphasis on liberalisation, marketisation and privatisation were introduced by successive governments in Budapest. This process dovetailed with the economic and geopolitical interests of major Western powers, which were eager to move in and gain control of new markets created as a result of the collapse of the Soviet Bloc.

The influx of foreign capital brought drastic changes to the Hungarian economy. On the positive side, it contributed to the introduction of previously absent manufacturing activities, such as computing and car production, while the proportion of low-tech industries declined significantly.[79] Foreign capital also contributed to a rapid shift in the direction of Hungary's trade. Between 1989 and 1991 the share of Hungarian exports going to Soviet Bloc markets decreased from 41 per cent in 1989 to 19 per cent, while the share of total exports going to OECD countries rose to 70 per cent.[80] Since then, these tendencies have become entrenched.

The structure of the Hungarian economy has become similar to those prescribed in neoclassical textbooks. Hence, to the acolytes of neoliberal orthodoxy, Hungary represents a success story of neoliberal transformation. However, as Phaedrus, the Roman fabulist, proclaimed, 'Things are not always what they seem to be, and the first appearance deceives many.' Similarly, Hungary's growing resemblance in overall macroeconomic structure with advanced economies does not reveal some of the structural imbalances that have remained intact 20 years after Hungary's formal transition to the market.

To begin with, Hungary's reintegration into the global economy largely followed short-term interests and lacked any long-term vision of social and politico-economic development.[81] Subsequent governments in Budapest treated the inflow of foreign capital as a sacred cow, which was automatically supposed to yield higher economic growth. However, this view failed to recognise the real reasons why foreign capital had suddenly become interested in CEE.

The reasons for capital's attraction to the region were twofold. On the one hand, the combination of relatively low labour costs and an attractive climate for foreign investors (e.g., low or even flat tax rates, protection of private property and the right to expatriate profits), together with their geographical proximity to the core economies of the EU and higher than average profit rates in a number of sectors (finance in particular), made these countries a lucrative region for capital flows from advanced economies.[82] On the other, the flow of foreign capital to CEE economies enabled capitalists in the core economies to spur a 'race to the bottom' by forcing workers in their countries to accept lower pay and conditions. As exposed in a report by the Research on Money and Finance (RMF) network, the great beneficiary of these policies was Germany, whose main source of growth in recent years was through the accumulation of a current account surplus, achieved through pressures on pay and conditions rather than productivity growth. This surplus was then 'recycled through foreign direct investment and German bank lending to peripheral countries and beyond'.[83] Indeed, German banks were one of the main owners of the Hungarian banking system.

The drawbacks of Hungary's overreliance on foreign capital and exports are visible in the overall structure of its economy: the proportion of foreign capital is extremely high, while the internal market is weak. This is evident from the fact that, in 2008, nine of the ten largest corporations in Hungary were subsidiaries of MNCs.[84] However, while foreign capital is monopolistic in many parts of the Hungarian economy, the problems that stem from this are aggravated by what Szalai describes as the 'monocultural character' of foreign capital, in the sense that the activities of MNCs are primarily geared towards the needs of Western European markets (in particular Germany, which remains Hungary's largest trade partner).[85] According to estimates by Loránt, the profit extracted by MNCs from the Hungarian economy amounts to 6–7 per cent of total GDP.[86] As a further drawback, Pitti draws attention to the fact that MNCs focus, to a very large extent, on assembly-like activities that are generally easily replaceable, rely on low-skilled labour and can (if necessary) be shifted abroad at a pen stroke.[87]

At the same time, the restructuring of the Hungarian economy along neoliberal lines came at a high social cost. Throughout the region, economic restructuring led to a 'post-transition recession', the magnitude and duration of which even the World Bank admitted was 'comparable to that of developed countries during the Great Depression, and for most of them it was much worse'.[88] Economic output in Hungary only returned to its 1989 level in 1999, but by then ordinary Hungarians had paid a heavy burden for the slump.[89] In 1996, real wages and pensions were 24 per cent and 30 per cent respectively below their 1989 levels.[90] Economic recession also resulted in widening income inequalities. The income of the richest 10 per cent of the population towards the final days of the Kádár regime was around 4–5 times that of the poorest decile. By 2003 it had risen to 8.4.[91] In concrete terms, this translates into staggering differences in wealth: while the poorest 1 million Hungarians control a mere 3 per cent, the richest 1 million own 25–6 per cent of national wealth.[92]

With hindsight, the outcomes of Hungary's politico-economic transformation thus appear highly uneven. The country has been integrated into the global economy as a semi-peripheral player, with all the economic, political and social drawbacks that this entails. As the current crisis has revealed, this is a dangerous position to be in.

CONCLUSIONS: THE HUNGARIAN CRISIS AS AN ORGANIC CRISIS OF POST-TRANSFORMATION CAPITALISM?

In 1989 'real socialism' came to an abrupt end in CEE. In the following two decades the region has been a laboratory for neoliberal transformation. The *zeitgeist* of this period was summed up by the utopian 'end of history' thesis of the neoconservative American philosopher and political economist Francis Fukuyama. According to Fukuyama, the downfall of Stalinism represented an 'unabashed victory of economic and political liberalism', marking not only the 'triumph of West', but also 'the end of history as such'.[93]

The current financial and economic crisis has brought the triumphalism of global capitalism into question and shattered the neoliberal wonderland in CEE. At first sight, Hungary's vulnerability to the crisis appears to be contingent on the fluctuations of the world market. Hence, fanatic 'market Maoists' are calling for further 'market reforms' while born-again Keynesians speak of 'state-led development', in the belief that these measures will put the economy 'back on track'. But what if the current impasse in Hungary is more profound; what if its problems extend beyond the 'normal' up- and downturns of the business cycle and underlie fundamental contradictions in Hungarian society itself?

This is a bold claim to make, but let us be brave for a moment and follow through the argument. My claim is that the politico-economic system introduced in Hungary after the regime change was plagued with contradictions from the beginning. Under pressures from the world market, successive governments in Budapest pursued policies of liberalisation, privatisation and marketisation in the desperate hope that these would help to turn around the economy and bring higher living standards to ordinary Hungarians.

However, these reforms have failed to live up to their promises. Not surprisingly, public dissatisfaction with the current state of affairs is near total. In April 2010, a survey indicated that 94 per cent of those interviewed regarded the economic situation in Hungary as bad, while 72 per cent said they were worse off now than under communism.[94] Capitalist triumphalism thus seems to be giving way to the dystopia of capitalist realism.[95]

But, beneath the surface, these data also point to a potential crisis of hegemony of the Hungarian ruling class. On the basis of our analysis, it seems plausible to argue that Hungary's current impasse extends beyond the boundaries of a 'cyclical crisis' (i.e., downturn of the capitalist business cycle), to what Antonio Gramsci defined as an 'organic crisis'. While cyclical crises are an inherent outcome of the contradictions of capitalism, organic crises extend beyond the problems of capital accumulation, creating problems in society that question the hegemony of the dominant class.[96] The dissolution of the old order presents previously subordinate classes with a possibility of challenging the status quo and achieving hegemony in society. However, Gramsci emphasised that this was by no means a straightforward process, as the contradictions of an organic crisis could (in the absence of a clear counter-hegemonic bloc) 'protract themselves for tens of years'.[97] Faced with such a situation, society finds itself at an impasse, in which 'the old is dying [while] the new cannot be born; in this interregnum a great variety of morbid symptoms appear'.[98]

If we utilise Gramsci's concepts, Hungary's crisis takes on a completely new meaning. For progressive forces in Hungary this means that they have to bite the bullet and accept that there is no solution *within* the current system to the country's economic malaise. The only viable alternative is to unmask the profanity of the present system and re-engage with the politics of class struggle.

NOTES

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97. Gramsci, *Quaderni del carcere*, p. 1579.
98. A. Gramsci, *Selections from the Prison Notebooks,* New York: Progress Publishers, 1971, p. 276.

11
Serbia from the October 2000 Revolution to the Crash

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THE OCTOBER 2000 REVOLUTION

On 5 October 2000 the people of Serbia rose up in Belgrade against the rule of Slobodan Milošević and his Socialist Party regime. The parliament building in the centre of the city was stormed by the crowd. Demands for democracy were fuelled by the government's unwillingness to recognise its defeat in the 24 September presidential election. Hundreds of thousands of people demonstrated in the capital that day, with convoys of trucks and lorries travelling from major towns and cities across Serbia. In September political events had been dominated by a general strike of 7,500 workers from the Kolubara mine complex, coal from which produced the majority of Serbia's energy needs. Their demands were both economic and political, with a call for full recognition of the general election results.[1] The state's 'official' union condemned the strike but other, newly independent unions agitated in its support. Workers then turned the Kolubara strike into a beacon from which to launch a more fundamental protest. Protestors from the Sevojno copper mill and the Kostolac mine joined the strike, and protest among workers began to spread throughout the region. One crucial moment of this 'Bulldozer Revolution' was the charge by a tractor driver with his bulldozer at the state-owned television building on 5 October. The building was set on fire and three floors were gutted, while some of the despised journalists and editors were beaten up and driven out into the street.[2] During the reign of Milošević the media had remained loyal to the state elite and its mendacity, and this worker's individual protest symbolised the desire of ordinary people to transform their country after years of war, sanctions, NATO bombing, economic austerity and authoritarian politics. The storming of parliament together with the bulldozer charge marked a high point of workers' anger. There had been many anti-government demonstrations before, but nothing seemed to change. As the driver of the bulldozer, an unemployed construction worker named Ljubisav ('Jo') Djokić explained in a post-revolution interview:

> I have been protesting for ten years. I used to go to all the rallies. I would get beaten, swallow lots of teargas and then come back home without achieving anything . . . I thought hard this time and decided that I would be more successful if I took my bulldozer with me . . . The police fired bullets at me, I protected myself by raising my bucket. In the end, my bulldozer forced open the door of the state television building and I shouted to the protesters that the TV is free and everyone rushed in.[3]

Popular protest against the government had been transformed into a revolution with the aim of regime change and a better future. The mass of working people, allied with students and other young people from *Otpor* ('Resistance'), felt that the regime was coming to its end and were prepared to take the risk of one great push against Milošević without fear of the consequences of failure.[4] The protestors could no longer be ignored or beaten into submission. As the radio and TV station fell to the masses, pro-democracy journalists and broadcasters took the stage, while leading officials of the ruling Serbia Socialist Party (SPS) resigned. On 6 October Milošević appeared on television to admit defeat and the next day he resigned. The revolution had succeeded and a new coalition government was formed under Vojislav Koštunica.

The heady interaction of economics and politics in October 2000, spurred on by the workers' movement and strikes, appeared at first glance to confirm the analysis proposed almost a century earlier by Rosa Luxemburg in the *Mass Strike* (1906). Indeed, it seemed that this was like a 'real' revolution, involving protest, strikes, courage and insurrectionary activity. However, we cannot claim that the mass of workers demanded a social revolution in the manner of the Paris Commune in 1871 or Petrograd in autumn 1917. No organised force or party voiced such demands, despite the anti-capitalist flavour of *Otpor*. Rather, the movement wanted regime change through political revolution, a rejection of the one-party Stalinist state and an end to a decade of international isolation and immiseration. For the new ruling elite who came to power, however, the objective was not a return to the classic socialism of Marx but a turn to the West and its apparent embodiment of liberal democracy and market-led prosperity.[5] The road map to this nirvana in Serbia remained unclear. In the immediate aftermath of the 2000 Revolution, Collins recorded:

> So many questions were still unanswered . . . how could Serbia construct a genuinely equitable society, repair its shattered economy, reform its corrupt civic institutions, reconcile itself to its bloody past and peacefully resolve its disputes in Kosovo and Montenegro? Could the opposition alliance hold together . . . [and] Slobodan Milošević: would he ever face trial for his crimes?[6]

For workers, there remained the central question of economic justice, not just in terms of income distribution, but also of workplace justice. For the leadership of the newly independent unions the goal was full integration into the social democratic heartlands of Western Europe, while for the rump of the old 'official' union the key aspiration appeared to be to hold on to some of the vestiges of past authority, interspersed on occasion with cries of Serbian nationalism. Despite these ideological and practical differences in the workers' movement, the strikes continued alongside occupations and workplace sit-ins in a form of vengeful guerrilla warfare against the state and employers. Many disputes arose, whose purpose, as described by Marinković, was to allow 'freedom of organisation' and the 'elimination of harassment of trade union activists and fraud and robbery of the enterprise assets by management'.[7] In many cases this meant the ousting of management cadres and the re-election of new ones (ironically, a practice that drew some legitimacy from the tradition of Yugoslav self-management). Other disputes focused on non-payment or freezing of wages, or job losses under privatisation.

In retrospect, a decade on from the revolution, the popular aspirations that it expressed appear unfulfilled. Privatisation and state reform have left hundreds of thousands without work and with lower pensions and welfare benefits. Such economic progress that has occurred was reversed by the crash of 2008, as foreign direct investment evaporated. Progress on individual freedom and the right to travel has been made, but political gangsterism persists. The trade unions remain fragmented, weakened and divided, with much potential associative power in a weak civil society, but with little structural power as the Serbian economy fails to stabilise.

SERBIA, THE WESTERN BALKANS AND THE GLOBAL ECONOMY

To begin to understand this malaise we have to get to grips with both the underlying structural weaknesses of the Serbian economy and the dependence of the ruling elite on failing neoliberal prescriptions. By 1999, the Serbian economy had shrunk to half its size of a decade earlier, having been adversely affected by civil wars, NATO bombings, international economic sanctions that lasted from 1992 to 1995, and the loss of internal Yugoslav markets. The break-up of Yugoslavia left Serbia with an accumulated public debt in 2000 of €14 billion, equivalent to 169 per cent of GDP.[8] For most of the working population the legacy of Milošević was nothing short of disastrous. In this chapter, we shall analyse in more detail the economic problems that faced Serbia after the October 2000 revolution and the strategies adopted to tackle them. First, we shall provide an overview of the Western Balkan economies and Serbia's relative position. Second, we examine the particular problems of Serbia, including dependence on credit and the consequences for the labour market. Third, we consider the government's industrial strategy with regard to privatisation and FDI in particular. We then consider the influence of external agencies such as the international financial institutions and the European Union. Finally, we assess Serbia's future economic prospects and draw out some implications for the workers' movement.

The Western Balkan Economies in Perspective

Total external financial support for the Western Balkans (former Yugoslavia plus Romania, Albania and Bulgaria) has amounted to approximately €6.5 billion each year since 2000 with a notable shift in funding away from bilateral sources (including the EU) towards the IFIs. By 2005 they provided 60 per cent of all loans and grants, compared to 40 per cent in 2000. There has also been a shift to loan rather than grant funding over the same period.[9] As well as loans and grants from 'official sources' funding has been sought from private investors. Not to be forgotten as an additional source of inward income is workers' remittances from abroad, which, as Table 11.1 indicates for some countries (e.g., Bosnia-Herzogovina, Serbia and Montenegro), in 2005 outstripped both FDI and official loans and grants in total value. That considerable variation existed in the labour markets and economies of the new countries of the former Yugoslavia is self-evident and has been discussed in detail by Arandarenko.[10] The variation reflects different levels of success in sustaining economic growth as well as pre-existing regional wealth inequalities. As can be seen in Table 11.1, levels of GNI per capita varied enormously across the region, with Slovenia the richest nation and Bosnia-Herzogovina (BiH) and Macedonia the poorest.

Table 11.1 Selected Economic Indicators: Western Balkans

	EuroZone (2001) 2008	*BiH (2001) 2008*	*Croatia (2001) 2008*	*Macedonia, FYR (2001) 2008*	*Serbia and Montenegro[a] (2001) 2008 (Serbia only)*	*Slovenia (2001) 2008*
Population, total million	(306) 314	(3.9) 4.6	(4.4) 4.4	(2.0) 2.0	(8.1) 7.35	(1.9) 2.0
GDP (current US$ billion)		(5.4) 30.5	(19.8) 73.3	(3.4) 18.9	(11.6) 83.1	(19.8) 61.8
GDP growth (annual %)	(2) 1	(4) 5.5	(4) 4.8	(-5) 4.8	(5) 5.6	(3) 4.5
GNI per capita, Atlas method (current US$)	(21,227) 36,329	(1,480) 3,790	(4,390) 9,310	(1,710) 3,460	(1,290) 4,730	(10,410) 20,960
Unemployment %[b]		23.4	8.4	33.8	13.6 (Serbia)	4.4
High-tech exports (% manufactured exports) 2005	(17) 16	n/a n/a	(10) 12	(1) 1	n/a n/a	(5) 5
FDI net inflows (current US$ billion) 2005		(0.1) 0.3	(1.3) 1.8	(0.4) 1.0	(0.2) 1.5	(0.5) 0.5
Official development assistance and official aid (current US$ billion) 2005		(0.64) 0.55	(0.11) 0.13	(0.25) 0.23	(1.3) 1.1	(0.13) n/a
Long-term debt (DOD, current US$ billion)		(2.5) 8.4	(12.0) 25.8	(1.3) 4.6	(6.8) 26.2 (including Kosovo)	n/a 40.4
Workers received remittances (US$ billion 2005)		1.8	1.2	0.2	4.7	0.2
Internet users (per 1,000 people)	(279) 439	(12) 210	(117) 400	(35) 350	(74) 150	(301) 650
Gini coefficient for income (1998 and 2006)[c]	USA (for comparison) 40.8 (2006)	n/a 56.2	(29.0) 29.0	n/a 39.0	n/a 30.0	(28.4) 24.0

Sources: World Bank, *World Development Indicators* 2008; UNDP, *Human Development Reports* 2001, 2006; CIA World Factbook.

Notes: a. Excluding Kosovo; b. Unemployment rates are official figures, actual unemployment may be less due to presence of the informal/grey economy; c. The higher the coefficient the greater the income inequality.

Across most of the region (apart from Slovenia) industrial production has struggled to reach the levels of the pre-conflict period, unemployment remains high and the informal economy has mushroomed. Comparing 2003 with 1989, real gross industrial output in BiH (excluding Republika Srpska) had fallen by 87 per cent, 48 per cent in Croatia, 61 per cent in Serbia and Montenegro, and 55 per cent in Macedonia.[11] Within the same countries total employment fell over the same period by 40 per cent in BiH, 27 per cent in Croatia, 22 per cent in Serbia and Montenegro, and 48 per cent in Macedonia. The decline has been worse in the former Yugoslavia than in comparable post-communist states as it has been accompanied by debt overhang, making scope for internally led and funded regeneration remoter, and reliance on either FDI or IFI loans and grants more important.

Serbia

Between the 2000 revolution and the 2008 crash, Serbia experienced steady GDP growth (see Table 11.2), stimulated by free trade agreements with the EU and Russia and increasing FDI, which soared from a paltry US$0.01 billion in 2000 to a peak of US$4.29 billion in 2006.[12] However, in comparison with other transformation countries the OECD reports that

> Serbia lags several years behind . . . Economies like Hungary, the Slovak Republic and the Baltic States, which in 1990 appeared about as productive as Serbia, are now generating much higher per capita incomes. Serbia has also fallen behind the previously less developed economies of Poland, Romania and Bulgaria.[13]

Major foreign-based investors include US Steel, Philip Morris, Microsoft, Coca Cola, Siemens and Carlsberg, while the Russian-based Lukoil and Gazprom have invested heavily in the energy sector. In the retail sector a number of multinationals have set up shop, including Mercator (Slovenia), Intermarche (France), Metro Cash and Carry (Germany) and Veropoulos (Greece). In financial services major overseas banks with new establishments in Serbia include Banca Intese (Italy), Credit Agricole and Société Generale (France) and Erste Bank (Austria). Serbia remains heavily dependent on imported oil and gas and, in 2008, a deal was signed between the Presidents of Serbia and Russia, Boris Tadic and Dmitry Medvedev, which granted Gazprom's oil arm Gazprom Neft a majority stake in the state-owned Petroleum Industry. As a part of the deal, a 400-km long section of the South Stream gas pipeline will be built through Serbia.[14]

Table 11.2 Gross Domestic Product in Serbia, 2000–9

	GDP (US$ billion)	*GDP growth rate (%)*	*GDP per capita (US$)*	*GDP (PPP) per capita (Geary-Khamis $)*
2000	8.7	4.5	1,160	5,713
2001	11.5	4.8	1,536	6,177
2002	15.3	4.2	2,036	6,512
2003	19.8	2.5	2,640	6,857
2004	23.8	8.2	3,186	7,638
2005	25.3	6.0	3,408	8,357
2006	29.7	5.6	4,009	9,141
2007	39.9	7.1	5,387	10,071
2008	50.0	5.6	7,054	10,792
2009	42.4	-4.0	5,742	10,540

Source: IMF World Economic Outlook, October 2009.

From 2000 through to 2008 Serbia experienced a period of growth as the government's strategy of credit-driven accumulation and the attraction of FDI gathered pace. However, growing national income has masked a problem of low internally-driven capital formation and its corollary, growing national debt. Serbia has also been exposed to a growing balance of payments deficit, as the total monetary value of exports has been less than half that of imports. The precarious state of Serbia's balance of payments has meant that the country has been faced with a continuing problem of debt servicing, a weak currency and inflationary pressures. By 2008, accumulated private sector debt stood at US$19.5 billion and public sector debt at US$8.49 billion. Serbia has sought to accommodate this by building up its foreign reserves, selling state assets through privatisation and with loans and grants from the international financial institutions such as the World Bank, the International Monetary Fund (IMF) and the European Bank for Reconstruction and Development (EBRD). In return for support from the IFIs the government has adopted a neoliberal reform programme of labour market and financial market deregulation, combined with public spending cuts.

We turn now to the effects of this programme.

NEOLIBERALISM

Successive governments since 2000 have pursued orthodox neoliberal policies. In this model, opening up to FDI flows should enable economies with low levels of savings and capital formation to modernise and converge with more developed economies by developing competitive advantage in international trade. However, in reality the 'FDI model' in Serbia has led to a credit- and import-led model of economic growth that has failed to improve the competitiveness of the export sector or create real demand as expressed in investment in fixed capital. Instead it has spawned a highly unstable cyclical form of growth dependent on constant inflows of cheap credits. Interest rates were kept relatively high over the post-2000 period in comparison with European Central Bank rates in order to support the dinar, keep down the cost of imports and control the rate of inflation. High interest rates have acted to attract foreign credits, enabling the National Bank of Serbia to build up foreign currency reserves to maintain the required foreign exchange liquidity. Total foreign exchange reserves in 2008 stood at nearly US$13 billion, compared to less than US$1 billion in 2000.[15] Second, fiscal policy has been geared to improving state finances through privatisation and FDI receipts. However, the influx of foreign credits created the conditions for import growth as aggregate demand far oustripped domestic supply. Rising trade and budget deficits then placed more pressure on the dinar and exacerbated inflation. Just as important, reliance on FDI as a state strategy for growth cleared the way for a ballooning of external deficits and subsequent private sector debt, which more than doubled between 2005 and 2007, climbing to 37 per cent of GDP by October of that year. Market liberalisation and FDI have thus contributed little to restoring the international competitiveness of the weak export sector (only 27 per cent of GDP in 2006). Manufacturing industry has also accounted for a declining share of GDP, its contribution of 1.3 per cent to the annual GDP growth rate of 8.2 per cent in 2004 falling to 0.7 per cent of a growth rate of 7.1 per cent in 2007.[16]

One curious aspect of the Serbian economic situation has been a (short-lived) rise in real wages. Between 2004 and 2008 average net wages (corrected for inflation) grew at a rate of over 10 per cent a year, despite the fact that there were no appreciable gains in labour productivity.[17] Part of the explanation for this may have been that foreign credit availability had stimulated domestic demand to the extent that employers were prepared to pay a wage premium to keep production levels flowing upwards. Of course, in a highly competitive political situation political parties and governments have not always been willing to suppress wage growth and risk electoral failure. This might also explain why pensions have been indexed to wages – the average annual net growth was 9.2 per cent in the same period. However, the phase of real wage increase came from a very low starting point and was set against a background of a fluctuating dinar kept artificially high by government support. In reality, the majority of the population were operating domestically at levels just above survival, with the unemployed and pensioners suffering even more.

We now explore in more detail these problems as they have affected the labour market.

The Labour Market in Serbia

The biggest problem in Serbia remains the high level of unemployment and high concentrations of poverty. The informal (casual and temporary) and black (illegal) economy have increased in relative weight, which in itself is an indication of the atomisation of people and their recourse to irregular personal survival strategies. According to the Serbian Labour Force Survey in 2008 only 37 per cent of the total population declared themselves economically active.[18] A falling birth rate and an ageing population are likely to exacerbate the problem in the near future. The industrial structure of the labour force exhibits a relatively high rate of workers employed in agriculture and forestry (24 per cent) compared to manufacturing (18 per cent). The major sectors of private manufacturing employment are pharmaceuticals, agricultural machinery, electrical and communication equipment, paper and pulp, lead, transportation equipment and food. The share of agriculture in total employment has been falling in recent years while that of the service sector has been growing. In 2008 one quarter of all workers were employed by the state while only 2.4 per cent were employed in socially owned enterprises. Informal work in Serbia is concentrated in the agricultural and private service sector (retail, hotels and catering, etc.). According to trade union surveys, the textile industry is also a hotspot of informal working.[19] The informal sector's share of total employment is growing, and increased from 30 per cent in 2002 to 34 per cent in 2003.[20]

In communist Yugoslavia much vocational-based training was undertaken by a network of workers' and people's universities. In 1990 about 200 existed, but since then the infrastructure has all but collapsed and only about 20 survived across the whole region into 2008. Lack of resources also hamper the efforts of the Serbian government's own training agency, although efforts have been made to design training programmes considered important in the new market economy, including schemes part-funded by the EU and World Bank to train redundant workers and boost school infrastructure. In terms of active labour market policy the European Training Foundation (ETF) notes that

> the long years of disinvestment in new technologies and modern methods of work organisation within enterprises, involvement in subsistence agriculture and informal sector activities, suggest that a large section of the labour force may have the formal qualifications but not the updated skills necessary for a market-based economy.[21]

The National Employment Strategy for Serbia is the coordinating mechanism for new initiatives, which include special provision for those disadvantaged or discriminated against in the labour market, such as disabled people or Roma.

In 2002, there were over 800,000 people living below the poverty line, representing 11 per cent of the population, with a monthly income of less than US$72, which corresponds to less than US$2.40 a day.[22] During the period of growing real wages for the employed the absolute poverty rate did fall, from over 10 per cent to 8.8 per cent in 2007.[23] However, while poverty indices have shown a slight improvement, inequality has increased. The United Nations Human Development Report for Serbia shows that the Gini coefficient for income inequality increased considerably in the years immediately following the October 2000 Revolution, from 28.3 in 2000 (similar to Germany's) to 34.1 in 2002 (higher than Poland's).[24] This increase at the national aggregate level has had variable effects at the sectoral and regional levels. The withdrawal of state subsidies (often for state-owned enterprises) also leads to enterprise collapse, which may have devastating consequences for micro-regions dependent for income and employment on those enterprises. Poverty appears concentrated in the former big industrial and mining centres (Kragujevac, Niš, Vranje, Bor, Majdanpek) and in the south of Serbia. The United Nations Human Development Index for the city of Belgrade was 0.826 (similar to Latvia's or Bulgaria's HDI) and another four districts (Severno-Backi, Srednje Banatski, Zajecarski and Nisavski) were in the 0.782–0.826 range, but in the Pcinsky district the HDI was only 0.663 – slightly above Tajikistan's, but below the HDIs for Moldova and Kyrgyzstan.[25] There is a distinct urban/rural divide in terms of poverty. Poverty rates in rural areas (where just under half the country's population live) are double those in urban areas. Serbia is also facing challenges of integrating 139,200 refugees and 208,000 internally displaced persons from the years of civil war among whom poverty rates are four times higher than national average.[26] Poverty levels are also higher among the Roma and Albanian minorities, who have much lower education levels than average and who suffer labour market discrimination. Unemployment among Roma people in 2004 was estimated to be 46.1 per cent (compared to 15.5 per cent for non-Roma) while 61.2 per cent of Roma were living below the poverty line (compared to 10.6 per cent of non-Roma).[27] Official data state that total unemployment in 2010 was in the order of 19 per cent of the 3.26 million labour force (up from 15 per cent in 2008).[28] However, it is likely that this is a considerable under-recording, as individuals recording ten days' work over the preceding year are not included in the official unemployment statistics. Some unofficial surveys record real unemployment as likely to be as high as 50 per cent. Unemployment is especially concentrated among the young, with 90 per cent of school and college leavers waiting more than five years for their first job. Half of all 18–29 year olds were unemployed in 2008. Such high unemployment rates among the young have led to an observed phenomenon of 'life procrastination', whereby 'youth' extends to the age of 29 and beyond. For the majority of young people, the lost decade of civil war and sanctions under Milošević has been followed by a wasted decade. This is likely to create general disaffection within Serbian society, with all its associated dangers of nationalistic tension and alienation, as well as demand to emigrate in search of a better life elsewhere.[29] Indeed, data from the Serbian National Census suggest that at least 400,000 Serbian citizens were working abroad in the early 2000s, mostly in Germany, Austria and Switzerland, but this is likely to be an underestimate. Remittances from this diaspora are extremely important, amounting to approximately one tenth of GDP.

Privatisation and Wild Capitalism

While ordinary workers have struggled in the face of economic difficulty the government has been keen to privatise state-owned and socially-owned enterprises. It is here that we can find the root cause of what we describe as 'wild capitalism', as insider dealing to buy up privatised assets has spurred corruption and growing inequality has forced individuals into the black economy. Laws to allow privatisation were passed in 1989, 1990 and 1994 under Milošević, which strongly favoured domestic investors and employees through a system of preferential discounts on shares. An estimated 50 per cent of socially-owned capital had been privatised under this process by 1994.[30] Enterprises not fit for privatisation were liquidated, adding to the general problem of capital reduction in Serbia. Not until 1997 did a law come into force that opened the path for foreign investors to purchase enterprises. The later legislation also restricted insider ownership to existing employees and pensioners of enterprises, and this, Ristić argues, created some hostility to privatisation from the excluded sections of the population.[31] Managers of 'failing' enterprises could remain in charge through shareholding options, with attendant problems of transparency. The 1997 law allowed 60 per cent of the shares to be allocated to workers in state-owned enterprises as part of the process of formally down-scaling the system of self-management. In effect a *nomenklatura* form of capitalism was consolidated under Milošević as the privatisation process gathered pace. This was partly a result of managers of enterprises deliberately running down enterprises and creating losses in order to buy them up cheaply – a process graphically described by Obradovič as '(so-called) useful malfeasance'.[32]

The problem of insider dealing has been contentious throughout transformation economies. It is engendered by states wishing to attract FDI, compounded by the collapse of party authority and command planning. It is these conditions which give rise to clientelism and the use of private networks, which some have defined as 'crony capitalism', others as 'patrimonial' or 'wild' capitalism'.[33] The first feature of wild capitalism is a weakening of the norms of social solidarity and fair income distribution as social safety nets are downscaled or withdrawn in an effort to 'roll back' the state. This decline of social solidarity may be accompanied with an ideological emphasis on individualism. This can be described in Gramscian terms as a process of *trasformismo*, or 'passive revolution' from above, whereby ideology is imposed from above with little political space allowed for opponents of the process from below.[34] In the immediate years following the upheavals of 1989, this process was aided and abetted by political elites, management consultants and some academics from Western business schools.[35] The second feature of wild capitalism is a disregard for, or absence of, rules and regulations which govern the behaviour of corporations and corporate elites within wider society and the market. This is compounded by a preponderance of weak and under-developed agencies within civil society, which might otherwise have been able to keep selfish corporate and individual interests in check.[36]

This 'weak' civil society in most cases sits alongside a strong state, containing many authoritarian features of the past. Norms of expected behaviour within society are thus given political and social space which emphasise personal rent-seeking at the expense of 'ethical' business behaviour. The very nature of transformation, characterised by rapid neoliberal reform and the attraction of foreign investment, militated against the immediate establishment of a newly formed layer of 'indigenous' entrepreneurs. Instead, the existing minority ruling elite were in a position of power, they held the necessary networks and resources, and controlled production of goods and services as a distinct interest group or class. They seized the chance to become the new economic power elite under market capitalism. 'Wild' capitalism, rather than being a dysfunctional aberration capable of being suppressed by procedures of 'good' corporate governance, becomes systemic as old ways of working are combined with new forces of market-based behaviour.

Notwithstanding these difficulties the new Serbian government began a more thorough process of privatisation with a twofold aim. The first was the integration of Serbia into the world economy by restructuring enterprises deemed to be unproductive or inefficient. Second, the government wished to pay off accumulated public debts, and the sale of state-owned enterprises to foreign buyers did go some way to satisfy this objective. The first privatisation law after the October 2000 revolution was enacted in 2001, and enabled the privatisation of all 'socially-owned capital', as opposed to the existing state-controlled public services and enterprises. The law stipulated that each privatisation should include social welfare support for those individuals displaced by the privatisation process. Privatisation in this instance followed the model of tender in order to gain new majority owners, whether domestic or foreign individuals. With both forms of privatisation – insider share ownership and open tender – concerns were once again raised about the ability of individuals to obtain property at bargain prices through a combination of legal and illegal means: 4,500 enterprises were targeted for privatisation, which were expected to raise about US$150 million. Between 2002 and 2004, over 1,100 enterprises, employing over 150,000 employees, were sold off.[37] Key early sales were those of steel works (to US Steel) and breweries, tobacco manufacturers and petrol stations. The Slovenian company Mercator also bought up many retail establishments. Full privatisation of the Serbian telecommunications network proved difficult because of problems of infrastructure: 49 per cent of shares were sold to Italian and Greek telecom operators in 1998, but rather than improving the infrastructure and efficiency the motive appeared to be entirely to reduce the budget deficit. Substantial new privatisation agreements were struck in 2006, including the sale of the mobile telephone operator Mobi063 to Telenor of Norway for €1.5 billion, the purchase of the Vojvodjanska Banka by the National Bank of Greece for €360 million and the takeover of Hemofarm by the German company Stada for €475 million.

In 2009 the Serbian Privatisation Agency still had 2,145 enterprises listed for privatisation on its website and was engaged in a renewed programme of privatisation designed to raise a further US$45 billion.[38] The government's 'wish list' for privatisation includes the state airline JAT and the state-owned airports. Ten per cent of the assets of privatised companies were due to be distributed as shares (worth US$1,500) for each member of the population. (The timing of this distribution is significant as it came at the height of tension over the future of Kosovo, and distribution of shares to Kosovo Albanians – still technically citizens of Serbia – may have fulfilled a useful political manoeuvre by the Belgrade government.) Many smaller and medium-sized enterprises in the 'socially-owned' sector have been sold to domestic investors. One crucial area for privatisation has been the large but troubled Zastava arms and automobile combine. This had been linked with various European car manufacturers with a view to establishing either a full sale or a franchise/joint venture arrangement. The factory has a symbolic history as a stellar enterprise within Serbia. It was heavily bombed by NATO forces during the offensive against Serbia, but workers responded by forming a human shield around the plant in its defence. In two nights of bombing 160 workers were injured and 160,000 square metres of factory floor space were destroyed.[39] In July 2008 a memorandum of understanding was finally struck with Fiat who agreed to invest €700 million in return for a 70 per cent stake in the company. Interestingly, this deal marked a return to earlier agreements first begun between Fiat and Zastava in 1954 under the Titoist regime, when the popular Fiat 600 car was built in the factory.

THE CRISIS AND WORKERS' RESPONSE

The Serbian state's reliance on foreign credit to cover its lack of domestic capital formation was totally exposed by the great financial crash of 2008. The immediate impact of the crisis was that potential sources of credit and FDI into Serbia all but evaporated while export opportunities contracted. The weakened economy, together with deteriorating credit agency ratings, led to a collapse in the value of the dinar, which fell by 30 per cent against the US dollar and reached 100 dinar to the euro for the first time ever. The result was a rapid increase in the price of imported goods and a consequent hike in inflation during 2010, which rose two percentage points to more than 8 per cent.[40] Total industrial production fell by 12 per cent in 2009, with a decline of nearly 16 per cent in manufacturing.[41] GDP per capita fell by almost US$1,000 in that year, representing a 4 per cent contraction.[42] More crucially for the government's recovery strategy, foreign investment into the country collapsed from its peak of US$5.12 billion to US$1.96 billion in 2009.[43] The seriousness of the effects of the global financial turmoil was shown in January 2009 when the Finance Minister, Mlađan Dinkić, announced that the Fiat–Zastava deal would be postponed for ten months as a result of the financial crisis.[44] The likelihood of further sales of state-owned enterprises was diminished by the crisis, even if shares were to be sold at under-valued asset prices. The Serbian Privatisation Agency also reported in August 2009 that a quarter of privatisation contracts had fallen through as new owners failed to honour the deals. The deteriorating situation for Serbian households has meant that many more individuals have been driven into the black economy, which is now estimated to employ about 700,000 people, producing up to 40 per cent of GDP. At a conference in September in Belgrade called to tackle the problems of illegal working, Radmila Bukumirić Katic, the Assistant Minister of Labour and Social Policy, said, 'the introduction of new flexible forms of work and reduction of labour costs would contribute to reducing the black economy'. The response of the state thus appears to be to deepen neoliberal market reforms at the expense of worker protection. Confirmation of this came at the same conference when the head of the country's Inspectorate of Labour, Radovan Ristanović, said he 'could not remember any case over the last five years' where someone had been fined the fixed penalties of up to €10,000 for employing illegal workers.[45]

In effect, its weak structural state meant that the Serbian economy was sent into reverse by the recession. It had survived from 2000 to 2008 on the back of credit and liquidity financed by foreign loans and some foreign investment. This had now come to an abrupt end, while the programme of privatisation had not only failed to generate sufficient internal capital formation but had also acted as only a temporary shield from the inevitable debt-driven crisis to come. The Serbian state responded to the crisis with a threefold strategy, which can only be described as more of the same. The first part of the strategy was to seek further loans from the IFIs. In May 2009 the IMF agreed to revise its loan facility with a standby agreement of €3 billion, while the World Bank approved two development policy loans of US$100 million to help 'reform' the public sector.[46] The EBRD has also granted a number of credits and loans, including €100 million to Serbian Rail to upgrade its rolling stock.[47] Part of the conditionality attached to these programmes was a freeze on public sector pay and pensions, which acted only to further depress domestic demand and reduce the potential for domestic savings as a route to internal investment. Second, renewed efforts were made to privatise and to seek foreign investment. These met with some success, including a loan from China to help build a new bridge in Belgrade, and investment from Yura, the South Korean auto-components manufacturer. Yura agreed in April 2010 to buy the Zastava Elektro cable plant in Raca for €3 million. Somewhat chillingly, reports from the *Financial Times* state that Yura had suffered from labour unrest in its factory in Slovakia, but in contrast 'appears pleased with Serbia's lower wages (around 350 euros per month) and still relatively capable workforce'.[48] Most importantly, the Fiat deal with Zastava Auto was finally agreed, with plans announced to produce as many as 200,000 units in the Kragujevac factory by 2012.[49] Finally, the government has responded to the World Bank's calls for business deregulation by promising a 'guillotine of the regulations' in 2009 in an effort to cut red tape.

Privatisation has been contested within Serbia. For workers' organisations it has been problematic, not least because of vacillation among the union federations as to the degree of conditional support or opposition they should offer to the privatisation process. On the one hand, privatisation may be seen as a lever by unions to ensure payment of wage arrears and to provide some chance of secure employment. On the other hand, it may be associated with the abandonment of pension provision and potential unemployment should the former state-owned or socially-owned enterprise be restructured. For this reason the three main union federations in Serbia (SSS, *Nezavisnost* and ASNS), together with the enterprise unions, have been ambivalent about privatisation, supporting it only when sufficient social safety net guarantees are in place. The unions have also adopted a political strategy of 'clientelism', each aligning itself formally or informally with a political party, all of which are committed to neoliberal prescriptions.[50] This has effectively disarmed the unions, preventing them from directly attacking market fundamentalism to the point where much of the early militancy evident in the October 2000 revolution has been wasted. The unions even went as far as to strike a deal with the government agreeing to freeze pensions and public sector pay after the financial crash.

Despite this, rancour continues to be voiced against those employers who are alleged to have abused the privatisation process for personal gain. In some cases privatisation, and the problems of insider dealing and corruption surrounding the process, have led to rank-and-file direct action against the owners.[51] In March 2007 the pharmaceutical factory Jugoremedija, for example, became the first enterprise to be controlled by its worker-shareholders, following occupation of the factory. The dispute between the workers and management first began after the state sold its 42 per cent shareholding in the firm to an indicted criminal. Complaints of contract violations and concerns over financial procedures soon followed. In the summer of 2009 workers' general discontent over the emerging privatisation fiasco gave rise to a wave of strikes. Local press agencies reported that most of the strikes, involving over 30,000 workers in 40–45 enterprises, were directed at privatised concerns where employers had not paid salaries or health and pension benefits for some months.[52] The workers involved, led by hundreds of factory staff from Zastava Elektro, complained they had been unpaid since the start of the year; they took their protests onto the streets by blocking traffic around the office of the Serbian Privatisation Agency and other key buildings in Belgrade. A rather macabre protest also hit the headlines when Zoran Bulatović, a worker at the Raska textile mill in Novi Pazar, went on hunger strike in protest against non-payment of wages, and cut off two of his own fingers and (he claims) ate one of them.[53] The mill once employed 4,000 workers but has reduced its labour force to about 100, with claims of unpaid salaries going back as far as 1993. Following the protest the government began clearing the path to allow the local Novi Pazar council to assume ownership of the plant and pay the workers.

Privatisation has thus proved to be a painful process. While it was perceived as central to Serbia's attempts to confront its structural economic problems, the reality for many workers was to reinforce perceptions of 'them and us'. The problems of non-payment of wages, asset-stripping and insider dealing we identified as key areas of dispute in the October 2000 revolution are still apparent a decade later. This problem has even been recognised by the World Bank in its country strategy reports, and the EU, via its discussions framing Serbia's Stabilisation and Association Agreement (SAA), signed in May 2008. However, the IFIs and the EU have contradictory economic messages. The World Bank continues to exert pressure for more privatisation and employee 'flexibility' through its Country Partnership Strategy for 2008–11.[54] Ironically, it praises Serbia, in its 2006 *Doing Business* report, for being a 'top performer' in enacting liberalising reforms. However, in the Bank's own survey of opinion-makers and business leaders in Serbia it reports that 'A sizable portion of respondents thought that the World Bank has not been efficient enough in increasing transparency in governance and in reinforcing the education sector'.[55] In addition, the evidence suggests that the liberalisation agenda of the IFIs conflicts with efforts to create social dialogue between employers and employees that might be able to constrain wild capitalism.[56]

The signing by the Serbian government of the SAA in May 2008, before the economic crash, has brought Serbia closer to EU membership. But here too we see contradictory pressures. The reform encouraged by this process has focused on customs and taxation policy, agriculture and visa conditions. Most important are EU concerns with levels of corruption, the perceived need for judicial reform, minority and human rights, and the ongoing issue of alleged war crimes, including requests for extradition of Ratko Mladić and Goran Hadzic to the International Criminal Tribunal for the former Yugoslavia. Despite these reservations, financial support to Serbia from the EU has been considerable, amounting to €1.3 billion between 1998 and 2006, with a further commitment of €195 million each year from 2007 to 2011. The European Investment Bank has been a key player in channelling loans to Serbia for infrastructure projects; these include road and rail improvement, school building and medical centres. The arguments among Serbia's political elite for joining the EU remain the same as for other post-communist states in transformation within the periphery of the EU. Vachodova argues that for such states the EU is perceived as a 'security enhancing political community' and a 'welfare-enhancing common market'[57] – the EU offers business opportunities within a protected common market. For social democrats within the country membership is seen as a positive step not only because it reduces uncertainty over borders and threats from neighbours, but also because it creates a political atmosphere conducive to the

European Social Model (ESM). However, for workers and their unions the prospects of EU accession create dilemmas. On the one hand, the process of institution building required by the EU, which includes social dialogue mechanisms as part of the 'soft' *acquis communitaire,* may give legitimacy to trade unions as one of the 'social partners'. On the other hand, the drift of EU policy-making towards a deliberative approach based on benchmarking has diluted the institutional framework which might allow for any advance in workers' rights. In addition, the flexibility and employability agendas now dominant in the EU under the Lisbon Process confirm its shift towards neoliberalism and away from the ESM.[58]

In summary, we can foresee that Serbia's continuing debt problem will only serve to exacerbate its economic problems as it is forced ever more to seek alternative sources of funding from outside. The economic crash of 2008 exacerbated this situation, as credit facilities ground to a halt and the near-collapse of the Greek economy brought a real prospect of a chain reaction tearing through the Balkans' banking sectors. As such, the problems associated with global capitalism that came to the fore in the crash are sharply focused in a weak debtor state such as Serbia. It would appear that the options for the Serbian state to find a way out of the crisis are therefore rapidly narrowing. Reliance on the IFIs, the EU or on other external credit and foreign direct investment cannot offer a long-term debtor state such as Serbia a secure or sustainable future. Of course, such relative immiserisation of working people in the Balkans and their subjugation to greater external economic powers has a long historical tradition. In earlier times the alternative vision of a federation of socialist states within the region galvanised the radical Left.[59] For workers, such a vision would mean not only restoring the spirit of the October 2000 revolution but also shedding the shackles of the market economy.

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12
Conclusion: The 'Crash' in Central and Eastern Europe

Gareth Dale and Jane Hardy

In early 2011 the world's business and political elites met for their annual jamboree at the World Economic Forum at Davos. Whereas at the same event a year before the mood had been sombre, this time they breathed a collective sigh of relief: parts of the global economy were booming; the banks remained virtually unscathed by regulations; large bonuses were back on the agenda; and profits were recovering. And yet their confidence was tempered by the fragility of the recovery. The 'great recession' of 2008–9 had been triggered by a crisis in the financial sector, but this was symptomatic of an underlying malaise: a crisis of over-accumulation and profitability. Since the 1970s, global capitalism had relied increasingly on wage repression and credit expansion to stave off crisis. In the 1980s, harsh programmes of industrial restructuring and wage repression were put into place which, with the addition of financialisation (the growth of finance and the integration of a broader array of actors into financial markets, the proliferation of financial instruments and the rise of shadow banking) came to be conceived of as neoliberalism.

The neoliberal policies that were adopted around the world, including CEE, in the 1980s and 1990s failed to restore per capita growth rates.[1] Rather, their standout achievements were soaring incomes for the rich, chronic instability and high levels of consumer and corporate debt. Wage repression served to lower levels of effective demand and to heighten inequality, contributing to rising household debt as workers borrowed to compensate for meagre wage growth, while financial speculation fuelled bubbles as the savings of the rich went in search of higher profits.[2] (Wealth inequality, the American economist Ravi Batra has observed, 'is a prerequisite for manias and bubbles. The greater the inequity, the bigger the bubble.'[3]) In the 1990s and 2000s, with interest rates low, due in part to dollar recycling from China and other surplus countries, capital flowed into real estate and dot.com companies, sparking asset price booms which then grew over into speculative bubbles, following the 'Minsky' dynamic outlined by Sommers and Bērziņš (Chapter 6). The frenzy of speculation was given blessing by a new creed, the faith that mathematical risk-modelling techniques ensured the supplanting of uncertainty by the accurate calculation of risk.[4] Ironically, it was a faith that underpinned and accompanied the ascendancy of those ratings agencies which so glaringly failed to predict the oncoming crisis.

The mid-2000s in particular was a period of historically high global liquidity in which international banks were awash with funds and competed fiercely to lend to governments, firms and households in CEE. By 2008, foreign debt as a percentage of GDP exceeded 100 in Estonia, Latvia, Bulgaria and Hungary, and exceeded 50 in Croatia, Lithuania, Moldova, Serbia, Slovakia and Ukraine.[5] For a time, debt-led growth seemed to work, in CEE as elsewhere. Between 2005 and 2007 the Baltic States registered the highest growth rates in the EU. They drew accolades from the IMF and World Bank for joining the top 30 most 'business-friendly' economies, a model even for Western states to follow, with their 'flat taxes' on income and lack of taxes on inheritance and property.[6] Social democratic intellectuals, too, were prepared to concede that the Baltic States 'perform well in terms of macroeconomic stability' and have constructed 'coherent and adequate institutions'.[7] In the Baltics, but also in Russia, Hungary, Bulgaria and elsewhere, soaring property prices encouraged individuals with political connections and capital to develop hotels and the Old Town areas of major cities as tourist centres. This fuelled a real estate bubble which, as Michael Hudson describes, 'seemed to be a banker's dream because its low starting point triggered a wave of sales and re-sales'.[8] Most of this lending was denominated in foreign currencies (which seemed the rational choice, given their lower interest rates relative to local finance), as individual households strove to maintain living standards after their 1990s slump, or to purchase homes, or both. Lending to ordinary people in CEE in foreign currencies was analogous to lending to poor people in the USA – the 'sub-prime market' – where banks lent to people irrespective of whether they could repay. The crunch came in 2008 with the bursting of the global real estate bubble. Throughout CEE, mortgage lending dried up and house prices plunged.

CRISIS, CREDIT CRUNCH, AND RECESSION

The crisis hit CEE along two channels. First, in IMF-speak, 'global deleveraging' (i.e., a massive contraction of lending) afflicted financial institutions exposed to 'toxic' debt and this, coupled with property price crashes in some countries, reduced the willingness of financial markets to finance sovereign debt.[9] In countries outside the Eurozone, such as Latvia, Lithuania and Hungary, devaluation of the domestic currency meant that the cost of repaying debt soared. Second, the ensuing recession reduced the demand for exports, which negatively impacted production and employment. In export-dependent economies such as the Czech and Slovak Republics, Estonia and Hungary, exports slumped and capital inflows dried up, leading to drastic output declines in 2009.

The scale of the recession is indicated in Table 12.1. It shows sharp GDP falls in the Baltic States and Ukraine and elsewhere, with the exceptions of Poland and the Czech Republic, falls in GDP significantly above the EU average. The depth of the crisis varied depending on the scale of property bubbles, the level of dependence on exports and the size of public sector deficits. But the region as a whole was highly exposed due to its inherent weakness, compounded by the wholesale adoption of neoliberal policies. As the chapters in this volume show, CEE economies suffered the effects of the crisis in an acute form, with collapsing output and plunging living standards. Capital inflows were large, and the reverse flow will leave the region devastated, not unlike Latin America in the 1980s or South-East Asia in the late 1990s.[10]

As detailed by Sommers and Bērziņš (Chapter 6), Latvia was particularly hard hit. Its economy contracted by 18 per cent in 2009, the deepest recession in the EU, while its unemployment rate soared from 13 per cent to 20 per cent, sparking a renewed wave of emigration as people attempted to escape poverty. Hungary, too, was badly afflicted, as discussed by Fabry (Chapter 10). Even before the crisis of 2008, its budget deficit of 10 per cent of GDP was deemed too high for the Maastricht criteria, which stipulated a target of 3 per cent. The government embarked on a series of austerity packages, with tax hikes and reductions in benefits and subsidies. With its high reliance on foreign capital and dependence on exports, Hungary was vulnerable. Foreign currency lending had accounted for 85 per cent of credits, and fully 1.7 million Hungarian citizens had taken out loans in foreign currencies. The government estimated that 10–15 per cent of these were 'endangered' (i.e., liable to default). Some had to sell their homes, while others faced hefty hikes in mortgage payments.[11]

Table 12.1 Selected Economic Indicators, 2009–10

Country	*Real GDP growth (%), 2009*	*Real GDP growth (%), 2010*	*Government deficit % GDP, 2009*	*Unemployment, 2010*
CEE economies				
Bulgaria	–4.9	+0.4	–3.9	9.7
Czech Republic	–4.1	+2.0	–5.9	7.4
Estonia	–13.9	+2.4	–1.7	19.0
Latvia	–18.0	–0.1	–9.0	20.0
Lithuania	–14.7	+0.7	–8.9	17.3
Hungary	–6.7	+1.3	–4.0	10.4
Slovakia	–4.8	+4.0	–6.8	15.0
Slovenia	–8.1	+1.0	–5.5	7.0
Poland	+1.7	+3.6	–7.1	9.6
Romania	–7.1	–1.9	–8.3	7.4
Ukraine	–14.8	+4.5	–6.2	8.8
Selected comparators				
Ireland	–7.1	–0.3	–14.3	13.3
Spain	–3.6	–0.3	–11.2	20.0
United Kingdom	–4.9	+1.7	–11.5	7.8
Average EU 27	–4.2	+1.8	–3.9	8.9

Source: Data drawn from EBRD, Eurostat and IMF.

Or consider the case of Serbia, explored by Upchurch and Marinković (Chapter 11). Its credit and import-led growth strategy left it exposed when loans and FDI virtually evaporated at the onset of the crisis. A 30 per cent collapse in the dinar led to rising inflation during 2010, driving many ordinary households into the 'black economy'. Ukraine (discussed by Bojcun in Chapter 7) relied heavily on external commodity markets which experienced sharp swings in prices and demand. Before the crisis, Ukrainian exporters and households borrowed heavily to finance, respectively, new rounds of expanded production and consumer goods. This, compounded by the high price of oil, deepened government and trade deficits. When the crisis struck, these weaknesses were exposed, enabling foreign businesses to fortify their positions within the Ukrainian economy, particularly in the banking sector. In January 2009, Ukraine's economic squeeze spilled over into geopolitical tensions with Russia, in a dispute over gas prices.[12]

Russia itself was precipitated into crisis by a combination of the credit crunch and oil price collapse, exacerbated by jitters in the markets in the wake of its war with Georgia. In contrast to the turbulent 1990s, from 2000 onwards the Russian economy boomed, fuelled by high oil and gas prices. Between 2000 and 2008, real wages and incomes almost trebled and, as Pozo explains (Chapter 4), the Putin regime used the oil windfall in 2008 to pay off foreign debts and to accumulate foreign exchange reserves, which grew to become the third largest in the world. In the same period, however, a reversal of leverage occurred: as public foreign debt was paid off, private sector debt grew sharply.[13] Hence, Russia was vulnerable when capital inflows dried up in the summer of 2008, and from then until early 2009 its economic reversal was more dramatic than that of nearly any other major economy, whether measured by output, industrial production or stock market values. Russia's central bank injected $222 billion (equivalent to 14 per cent of GDP) into the economy in order to stave off collapse.[14] As Pozo shows, this enabled the state to secure a tighter grip on resources and deepened the intertwining of state and capital.

POLAND AND THE CZECH REPUBLIC: 'VELVET' CRISIS?

In 2009 the governments of Poland and the Czech Republic sought to avert speculative attacks on their economies by distancing themselves from the catastrophes unfolding elsewhere in the region. Their supervisory authorities, along with those of Slovakia, Romania and Bulgaria, issued a joint statement requesting that investors differentiate between the stronger and weaker economies in the region. They did not wish to be seen as the sub-prime of CEE.

It is true that Poland and the Czech Republic were less crisis-scathed than the Baltic States and Hungary. They did not suffer such gigantic property bubbles and their household debt in foreign currencies was much lower (8 per cent in the Czech Republic and 30 per cent in Poland).[15] The Czech Republic's banking sector was relatively unaffected (see Švihlíková, Chapter 9) and its low ratio of government debt to GDP provided insulation against speculative attack. Poland was less exposed than the Czech Republic, with less dependence on exports. The złoty fell against the euro by 30 per cent between August 2008 and 2009, which meant that Poland could steal an advantage over Eurozone competitors such as Slovakia. In 2009 its GDP grew by 1.7 per cent, which was meagre compared with 6.8 per cent in 2007 and 5 per cent in 2008, but nonetheless was the highest in the OECD. *Gazeta Wyborcza* described the country as experiencing a 'velvet crisis'.[16]

However, Poland's success in riding the storm should not be exaggerated. Despite its growth in GDP, unemployment of nearly 10 per cent (in 2011) is above the EU average and masks one of the EU's highest rates of in-work poverty.[17] Eurostat, the EU's statistical agency, found that one in three of its population suffers 'serious material deprivation'[18] and two in three cannot afford an annual holiday away from home. The struggle to survive is reflected in falls in savings and increasing levels of indebtedness. In the future, demand is likely to be buoyed by the fact that it will be the largest recipient of EU cohesion funds, which between 2009 and 2015 will amount to an average of 3.3 per cent of GDP per year. Poland's Achilles' heel is a high public sector deficit which leaves it exposed to speculative attacks on its sovereign debt. This has risen rapidly – from 2 per cent of GDP in 2007 to 7.1 per cent in 2010. The Polish government responded in late 2009 by launching another raft of privatisations, aimed at reducing the public debt.

SOVEREIGN DEBT, AUSTERITY AND THE IMF

If the crisis of 2008–9 focused on the private sphere, in the following year it was displaced onto the public sphere, as governments around the world, including in CEE, injected unprecedented amounts of money into the system, converting private debt into public debt – as discussed by Bojcun and Fabry (Chapters 7 and 10). By 2010, the financial crisis had morphed into a crisis of sovereign debt, and bondholders commenced speculative attacks on the government deficits of peripheral economies.

The response to the sovereign debt crisis has been similar across the region. Governments have sought to persuade the public that the response should prioritise deficit and debt reduction. The rafts of austerity packages have been variations on the familiar theme of reducing wages and benefits, attacking pensions, cutting spending on health and welfare, raising (regressive) taxes and neoliberal reform of the labour market (see Upchurch and Marinković, Chapter 11). The perverse consequence of the attempt to balance budgets during a recession by slashing state expenditure, of course, has been sharp output declines and slow recoveries, which in turn reduce tax receipts and raise budget deficits.

The fixation with implementing austerity is not politically neutral, but serves neoliberal forces, for prioritising deficit reductions sidelines alternative agendas, such as reconfiguring the relationship between states and business.[19] In the May 2010 elections in the Czech Republic, discussed by Švihlíková (Chapter 9), 'Greece' was a spectre used by the political Right to justify their demands for welfare cuts and the curtailment of trade union rights. Even in Poland, despite its 'velvet landing', the right-wing Civic Platform government has been fixated on reducing the public sector deficit, which has entailed savage cuts to a welfare system that was already crippled following two decades of neoliberal 'reform'.[20] The government announced an increase in VAT from the beginning of 2011 and was planning further privatisation with the aim of generating 25 billion złoty to plug the gap in government spending.

International organisations, notably the IMF, have been heavily involved in crisis management in much of CEE. As Bojcun and Upchurch and Marinković (Chapters 7 and 11) discuss, both Serbia and Ukraine sought IMF loans, which arrived with the well-rehearsed conditionalities of 'fiscal discipline': wage freezes and public spending cuts. In autumn 2009, Romania's government collapsed as it struggled to implement a package of IMF-imposed reforms. In the following year, its successor, in return for an IMF loan, introduced draconian austerity measures, which included public sector wage cuts of 25 per cent and a hike in sales tax from 19 to 24 per cent.[21]

Hungary's experience was particularly suggestive. As the recession evolved into the sovereign debt crisis, international finance speculatively sold the bonds of selected governments, and Hungary was the first in CEE to be subjected to sustained attack. Even though its public sector debt had been dramatically cut – from 10 per cent to 3.5 per cent of GDP – and was significantly lower than that of other countries (see Table 12.1), this was deemed insufficient for the IMF. In July 2010, the government, fearful of losing electoral support, refused to implement the additional cuts demanded by the IMF. The latter took umbrage at the fact that the 'maverick' and 'populist' Prime Minister Viktor Orbán ruled out further austerity measures.[22] Consternation ensued when the Hungarian government sought to reduce the budget deficit by imposing a three-year levy on (mainly foreign) banks and financial institutions. Taxing the banks and refusing to implement IMF-required austerity measures alarmed the markets. The Hungarian government, wrote Timothy Ash, Head of Emerging Market Research at the Royal Bank of Scotland, 'has not learnt its lesson' from previous gaffes, adding that 'the market is in no mood to overlook any fiscal laxity'.[23] Yet the levy, described by the *Financial Times* as 'the most punitive considered anywhere in the world', was hugely popular with the electorate.[24]

A NEOLIBERAL WORLD TURNED UPSIDE DOWN?

When the collapse of asset price booms pushed the world economy into recession in 2008, it seemed for a moment as if global neoliberalism was cracking. The crisis followed three decades of ascendant neoliberalism, and its contributory causes included several of that paradigm's core commitments: wage repression, social inequality, and financialisation – including that frenzy of innovation, particularly in derivatives trading, which so destabilised global finance in the 2000s. When the crisis broke, Keynesian deficit spending was rediscovered, in the USA, Europe and most conspicuously China. Many of those who had supported financial deregulation in the 1980s and 1990s underwent a conversion. 'This crisis has turned the world upside down,' an economic adviser to former Czech President Vaclav Havel remarked. Whereas in the 1990s the West would lecture the former Eastern Bloc countries about the need to privatise and deregulate, he continued, now the message emanating from Washington is to nationalise failing financial institutions, and to re-regulate. 'People here who argue that open markets are the solution to everything are no longer being taken as seriously.'[25]

And yet, rather than the rupture with neoliberalism that some scholars, notably Vlad Mykhnenko, predicted at the height of the crisis, the policies implemented since its onset, in CEE as elsewhere, represent nothing more than an inflection.[26] The crisis did lead to a rediscovery of the economic role of nation states – as had occurred during the Great Depression. Yet no reprise of the 1930s is on the cards. Then, the world market fractured into autarkic blocs; now, given the vastly more developed transnational integration of production, that degree of fragmentation is almost inconceivable.[27] And while the IMF has modified some of its 'market-fundamentalist' positions (on capital controls, for example), its position as impresario of crisis management has strengthened, in contrast to the legitimacy hit that it endured in the East Asian crisis of 1998–9.

In conditions of low growth, one would expect neoliberal capitalism's legitimacy crisis to smoulder on. In the rich countries, structural, conjunctural and policy constraints on growth (low profit rates, accumulated debt and public spending cuts respectively) portend sluggish economic growth for the coming decade – the lowest since the 1930s, according to *The Economist*.[28] China's rapid growth is predicted to continue, although its real estate bubble and inflationary pressure are not to be dismissed, nor is the structural imbalance between its gargantuan surplus and its counterpart, the record government and trade deficits of the USA.[29] The Eurozone's analogous imbalance is constituted by Germany's export surplus and its counterpart, the deficits of peripheral economies in Southern, Central and Eastern Europe. At time of writing (April 2011) the risk of an intertwined sovereign debt and financial crisis in Europe remains high. The higher budget deficits and speculative attacks on Greece, Portugal and Ireland, moreover, have further eroded any lingering sense that CEE constitutes an economically distinct region of Europe. Equally, the crisis, in its global character, has squashed that discourse of wishful thinking that continues to blame the 'transition' for CEE's economic difficulties.

In these conditions, neoliberal capitalism's legitimacy crisis, together with political conflict over the distribution of social pain, is set to continue. As Jamie Peck, Nik Theodore and Neil Brenner (2010) have argued, as an intellectual project, neoliberalism is practically dead, even as it marches on as a mode of crisis-driven governance. It has entered a 'living dead' or 'zombie' phase, 'in which residual neoliberal impulses are sustained not by intellectual and moral leadership, or even by hegemonic force' – as in the 1980s and 1990s – but by 'underlying macroeconomic and macro-institutional conditions', which include enforced public austerity, global indebtedness, and growth-chasing, beggar-thy-neighbour modes of governance. The attempts by the ruling classes in the core capitalist economies and CEE to revitalise neoliberalism by opting for a strategy of austerity and marketisation have coincided with recovery from crisis, but growth has not rebounded in a way that inspires renewed confidence among the promoters of the neoliberal project.

POPULIST BACKLASH AND POPULAR RESISTANCE

Analysts of CEE have been surprised by the relative absence of resistance that has been displayed since 1990. In two decades of transition CEE has experienced only low-level resistance, with a few explosive exceptions (Albania in 1997, Serbia in 2000; see Upchurch and Marinković, Chapter 11). Although surveys in the region attest to low levels of support for free-market capitalism, a strong sense of conflict between managers and workers, a belief that income differentials are too great and, in Poland, a modest revival in trade union strength, the position of labour across most of the region remains weak, as indicated by low indices of industrial action and of coverage for collective agreements, and high labour market flexibility (a euphemistic proxy for capital's power over employees), which is above the Western European norm everywhere except Slovenia.[30]

The explanation offered by Haynes for the case of Russia (Chapter 3) can be applied more widely. It rests on four factors. The first is the legacy of past repression. The decades-long denial of any independent trade union or political organisations bred two or more generations with little schooling in the traditions and repertoires of protest.[31] Second, Haynes refers to 'the confusion of ideas and organisation'. The legacy of the 'socialist' regimes compromised revolutionary socialism, as well as social democracy and the aspiration to 'social justice', rendering it difficult for opponents of neoliberalism to articulate explanations or alternatives. Third, there is the social dislocation and divisions involved in the transition. Shock therapy, with mass unemployment, yawning inequality, rapid social and geographical restructuring and the end of state subsidies, weakened the social power of the working class and disrupted the sense of normal life, softening society for neoliberal remodelling. As social solidarity weakens, welfare nets are attenuated or removed, and the social fabric dissolves, while the space vacated is filled by individualism, as Upchurch and Marinković explore in the case of Serbia (Chapter 11). Fourth and finally, there is the ongoing role of state and parastate repression. In Russia and Ukraine this includes media manipulation and censorship (to the point of the assassination of investigative journalists), a restrictive labour code and the empowerment of the security services. (With echoes of Steven Spielberg's 'Minority Report', a law signed by President Dmitry Medvedev in 2010 permits the FSB – the successor agency to the KGB – to caution individuals suspected of preparing acts of extremism and to imprison them for obstructing its activities.[32]) In Hungary, the government has emasculated the Constitutional Court, created an 'Anti-Terrorism Centre' with extended powers, introduced a law according to which civil servants can be fired at will, passed a media law that allows overt political censorship and severely curtailed the right to strike.[33]

Such measures have been nourished by a region-wide populist backlash against neoliberalism which, as Shields, Fabry and Švihlíková explore (Chapters 8, 9 and 10), has been guided along nationalist-conservative channels. Throughout CEE (including

Serbia, Poland, Russia and the Baltic States), neo-conservative and fascist movements have gained a headwind and seek to combine chauvinistic sentiment (anti-gay, anti-women, anti-minorities, xenophobic, anti-Semitic and, above all, anti-communist) with monetarist orthodoxy, pro-NATO military zeal, 'persecution of everybody on the left, censorship and savage ethnicist propaganda'.[34] 2010 alone saw the cancellation of Slovakia's first and Serbia's second gay pride events when they were attacked by fascists,[35] and an electoral breakthrough for the fascist, Roma-baiting, Jobbik Party in Hungary.

Yet we would point to evidence of progressive movements too. In Russia, we have seen striking car workers and cement workers, protesting pensioners and demonstrations for the right to free assembly. Ukraine experienced strikes against wage arrears and layoffs in autumn 2009 and trade union-led marches against poverty. In Prague in 2009, 30,000 trade unionists protested over working conditions and there has been a sustained campaign against the proposed NATO missile shield (Chapters 8 and 9). In Romania, in May 2010, tens of thousands of public sector workers protested against plans to cut wages and pensions in one of the biggest gatherings on the street since the 1989 revolution. In Poland, September 2010 was marked by major union demonstrations and in 2011 public sector unions protested against government plans to freeze wages, with 13 union federations combining to form the Coordination Committee of Trade Unions in the Public Sector. In Latvia and Lithuania in 2009, citizens rioted, 10,000 protested in Riga and Lithuania's three trade union confederations united around a set of demands.[36] Demonstrations took place in half a dozen cities and these were followed by a cross-border protest simultaneously in Riga and Vilnius. In 2010 Lithuania experienced further sporadic protests, for example, against an electricity price rise. Whether CEE can extricate itself from the grip of market fundamentalism and neo-conservative chauvinism will depend on whether such movements can build a more sustained momentum and establish a secure foothold.

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