

Russia's New Class

One aim of the market reforms carried out in the last few years was to assist in the rapid formation of a new class of property owners and businessmen who could become a solid base of support for the post-Soviet system in Russia. Although there has been some progress, this goal has not been reached.. It would be premature to refer to Russian businessmen—or the “new Russians,” as they are called in the West—as a fully formed social class. We are observing only the first stages in the formation of such a class, the beginning of its consolidation and arrival at self-consciousness.

Nevertheless, it is important to understand how it is that capitalist entrepreneurs are making their appearance in a society in which the heritage of state socialism persists. By what means have large private fortunes been created in Russia? What will the rise of a new class bring to Russia and its economy? These and many other questions related to the emergence of a new social structure in Russian society are at the center of attention for many economists, sociologists, historians, and political scientists. Russia is once again the scene of a social experiment unparalleled in history and on a huge scale. It is not that a cap-

italist bourgeoisie, taking shape over the course of centuries in the interstices of a feudal society, is creating a layer of government bureaucrats and officials obedient to capitalist class interests while encouraging ideologues promoting laissez-faire liberalism. On the contrary, it is ideologists and government bureaucrats, trained in the depths of a “developed socialist society,” who are helping a capitalist bourgeoisie take shape—and hoping to accomplish this in a very short time.

“BUSINESS PEOPLE” IN THE GORBACHEV ERA

While in Hungary and the Baltic countries many previous property owners or their children have returned to make a claim, the “new Russians” have no links with the bourgeois classes of old Russia. The same can’t be said, however, about the complex world of illegal business, the black market or “shadow economy,” which existed for decades in the USSR and gained great scope during the years of “stagnation,” the Brezhnev era. Those active in the shadow economy lived not just by the laws of the market but by those of the criminal world. The legalization of private enterprise opened up major possibilities for them. Nearly everyone who had been sentenced to prison for economic offenses was amnestied. Their years in prison or labor camp now became a source of pride, just as hard labor under the tsars had been for revolutionaries in the past. Few of the kingpins of the shadow economy, however, were able to adapt to legal businesses conditions. The swift growth of organized crime offered them far greater opportunities. That is why any continuity between those active in the shadow economy of the 1970s and the “new Russians” of the 1990s is rather the exception than the rule.

In 1987–88 legal businesses and large private fortunes first began to appear in the USSR. A law “On Individual Labor Activity” (adopted in November 1986 by the Supreme Soviet) permitted the establishment of tens of thousands of small workshops. In Marxist terms, this was only a “petty bourgeoisie,” however. There were few opportunities for big business or enrichment on a large scale in that situation. The law “On Cooperatives” was a different matter. Its hidden potential was not apparent even to those who drafted the law. Tens of thousands of cooperatives were soon formed—by private individuals as

well as government enterprises and organizations. Commercial and “middleman” cooperatives predominated, but quite a few associations were formed to engage in production or construction. Through the cooperatives it was possible to transform billions of rubles worth of non-liquid assets into cash. The liberalization of foreign trade—that is, the relaxation of the previous government monopoly on such trade—also made it possible to swing commercial deals on a large scale through the cooperatives.

The orders authorizing formation of some cooperatives were signed by top-ranking ministers, even by the prime minister, Nikolai Ryzhkov. Many people who are now part of the Russian business elite made their first millions at that time. They even say it was easier for them to work under Gorbachev than under Yeltsin. According to many present-day millionaires, the years 1988 and 1989 were the most favorable for their businesses. Ivan Kivilidi, who has since been killed, recalled how easily he was able to make money in those years by selling aluminum abroad for dollars, after purchasing it inside the USSR for rubles, then using the dollars to import computers and fax machines. In three or four months \$500 would grow into \$50,000—or a million rubles would become a hundred million. Brokers could make money even faster. Our first rich people were aided by more than their entrepreneurial talent. They had no serious competition, and they had those all-important “right connections.”

By the late 1980s, “shuttle” trade had already made its appearance in the USSR. Tens of thousands of Soviet citizens went streaming into “socialist” Poland, Hungary, or China. (It was still hard to get visas to capitalist countries.) They brought home not only computers and faxes, but also clothing and cosmetics. But to do as the Kivilidis did, to ship to the West flatbed rail cars full of aluminum or raw petroleum—which of them had that kind of opportunity? They had to be content with exporting, in the trunks of their cars, Russian matryoshka dolls, needlework, or mushrooms from the forests of Russia or Byelorussia.

The Komsomol (Young Communist League), the only permitted youth organization for teenagers and young adults in the USSR, with as many as 15 million members in the late 1980s, had been the starting point for anyone wishing a successful career in the one-party state dominated by the CPSU. It began to engage in business ventures quite extensively, of course with encouragement from the ruling party. It

was a disciplined organization, and now it was being steered toward profit-making. "My assignment was to become a millionaire," several young people have testified. A new term arose: "the Komsomol economy." (See the discussion of this in the Komsomol magazine *Molodoi Kommunist* [Young Communist], 1990, no. 2, p. 39.)

Government assets could be transformed into ready money through the Komsomol organizational structure, and through this same structure the first commercial banks and stock exchanges were set up, as well as cooperatives for the construction of housing, especially for young people. Impulse, a young people's "creative production association," produced a variety of consumer goods, primarily aimed at the youth market; it also built a children's hospital in Moscow province, in the town of Kaliningrad. The Siberian youth center "Magistral" provided equipment for computer classes and video viewing centers and organized cooperatives for making garments of fur and for processing timber. There were also Komsomol brickyards in Ryazan province, and in Dnepropetrovsk, a Komsomol operation for producing artificial marble and fiberboard panels.

The main source of profit for the youthful entrepreneurs lay elsewhere, however. Komsomol businessmen dominated the show business and video markets, as well as tourism and the gambling business. A substantial part of the super profits from international trade also passed through their hands. The dissolution of the Komsomol, in 1990, a surprise to many, did not damage "the Komsomol economy." By then it was able to get along without the organization's tutelage. Besides, it became possible to put some of the property formerly belonging to the Komsomol into profitable circulation.

Within the government apparatus and in the official structures of the state-owned economy, there was significant activity along similar lines, although it was kept hidden. Many managers and directors were allowed a previously unheard-of degree of independence, and their enterprises were placed partly on a self-financing basis, instead of depending on government subsidies. In place of several ministries, large trusts or conglomerates were formed, Gazprom being a prime example. Government supply centers and exchange centers were reorganized as privately owned trading centers, stock or commodity exchanges, or joint ventures (with foreign firms). Regional banks or banks serving particular branches of the economy were transformed into commercial banks. All this was regarded at the time as part of the economic aspect

of perestroika, which was moving toward a market economy. In this connection, however, the leadership of the CPSU did not have a clear conception or program, and it had difficulty in keeping the anarchic tendencies of the market economy under control.

It has been said that the young, aggressive, predatory businessmen who emerged in 1988–89 were among those who dealt the final blow to perestroika, because its ideal of social justice interfered with their aims. (See the article by the historian Vladimir Iordansky in *Svobodnaya Mysl*, 1996, no. 11, p. 3.) The ideals of social justice, however, do not necessarily exclude individual initiative, private enterprise, and private ownership, especially when those are based on the natural, material needs and interests of the population. Restrictions were necessary only in regard to anti-social forms and methods of enrichment: businesses engaged in plundering the wealth of the country and its citizens should not have been permitted. But under perestroika, the necessary limits were not set. The leaders of perestroika went to an extreme in allowing highly parasitic forms of business to flourish.

Among the Russian businessmen of 1988–89 there were really not that many who were purely aggressive and predatory, concerned only with maximizing profits regardless of the cost to society. I met a young Moscow businessman in Rome in 1990 who, after obtaining the necessary credit, had purchased old military transport planes destined for the scrap heap, transferred them to Latin America, and set up a successful air transport company moving cargo between Peru, Brazil, and Venezuela. His pilots were also from Russia, flying at their own risk for no more than \$2,000 per month. My acquaintance was on his way to Moscow to buy another dozen planes that had been written off by the Soviet military. He was not troubled by any moral aspects of the business. But he was less of a money grubber than the customs official who relieved him of his massive gold watch, providing no official record of the transaction.

Many small businessmen of the late 1980s were driven by poverty and need, but many were drawn by the possibility of taking initiative, engaging in a form of self-expression. These were people whose talents went unutilized by the bureaucratic-administrative system. People's motives and interests varied widely at that time. We can see this in two typical, but quite different, examples of Russian businessmen of the period 1989–91. There was Vadim Tumanov, who built bridges and

roads in Karelia and Moscow that were cheaper and better than those of the state-owned construction organizations; he paid his workers well and made a good profit for himself and his company. Then there was Sergei Mavrodi, who deliberately tricked and defrauded millions of his fellow citizens by organizing an elaborate pyramid scheme (the MMM Company).

THE "NEW RUSSIANS" OF 1992–93

Some use the term "shock therapy" for the changes that occurred in Russia after the downfall of the CPSU and dissolution of the USSR; others call it a "structural transformation"; still others speak of the triumph of a capitalist revolution. However one views it, there is no question that for the business elite, conditions changed fundamentally in 1992–93. The coming to power of the "democrats," the liberalization of prices, and the swift upward spiral of inflation created opportunities for some to get rich quick. A number of foreigners as well as native Russians wasted no time seizing these opportunities. With the demand for dollars rising rapidly, the purchasing power of foreign currency in Russia greatly exceeded its purchasing power in the West. Thus the purchase of almost any commodity at the domestic Russian price, followed by its resale at world market prices, resulted in a quick and substantial profit. Western dealers did not have to operate on an especially large scale, as long as they had dollars or marks, and they came to dominate in the massive buying-up of everyday consumer goods, as well as objets d'art and folk handicrafts, pottery and china, antiques, and musical instruments. Vietnamese citizens who were working in the USSR in the 1980s also engaged in these activities.

When it came to selling major types of raw materials in Western markets—oil, petroleum products, metals, especially ferrous and rare earth metals, lumber and other forest products, chemical fertilizers, and furs—it was Russian citizens, not foreigners, who predominated. They did so because of their positions and connections, enabling them to obtain the necessary licenses and authorizations.

Export privileges made it possible for a number of high-ranking Russian officials as well as businessmen to make huge fortunes along these lines in a short time. Thus, Kirsan Ilyumzhinov, the youthful

president of Kalmykia and a millionaire, makes no bones about the fact that he made his millions by selling oil and petroleum products. Konstantin Zatulin, who in 1988 held the modest position of an assistant secretary on the Komsomol Central Committee and who was responsible for promoting the “youth economy,” had by 1992 become the chairman of the board of a company called Brokers of Russia, a member of the board of the company Russian Gold, vice president of the Council of Entrepreneurs of the Moscow city government, one of the directors of the Moscow commodities exchange, and an adviser to President Yeltsin on foreign policy and defense.

In export matters, actual business ability played a secondary role. Inside information, connections, and bribes were decisive. In 1992–93, according to the businessmen themselves, no important deal involving timber exports went through without the intermediary services of the *son* of a top official of the former Ministry of the Forest Industry, who did not himself own any company or put his name on any contract. The volume of exports by the gas, oil, and metals industries far outpaced those of the forest industry, but even so, timber exports in 1993 were valued at \$1.4 billion. Also highly profitable in 1992–93 was the purchase of real estate. A two-room apartment in Moscow in fairly good condition would sell for \$2–3,000, and for \$8–9,000 in cash you could buy a good three- or four-room unit.

The legalization of dealings in foreign currency and credit became a major source of enrichment. The government granted credits to agriculture and other vitally important industries at annual interest rates of from 10 to 25 percent. But in most cases the money did not reach its destination very quickly. With inflation soaring at a yearly rate of 2,500–3,000 percent, other uses were found for these credits. If a banker “sat on” the money for a while, using it for foreign currency dealings, he could make huge profits. In the same way money earmarked for the payment of wages to miners, teachers, and military personnel, if it was held up for two or three months, could bring in enormous profits. Even in the military there were financial officers who couldn’t resist this temptation. Commercial banks set up foreign currency exchange locations almost everywhere. It wasn’t only the wealth of the already existing banks and bankers that grew. The number of banks increased rapidly, and Russia soon emerged as the number one country in the world for the number of banks per capita. Thousands of banks collapsed later on, bringing ruin to many cus-

tomers, but not to the bankers. They had covered themselves by making big deposits in Western financial institutions or buying real estate—also as far from Russia as possible.

Many bankers or exporters established dual citizenship, not only in Israel but also in every country that facilitates such procedures for well-to-do people who own real estate or have business interests in the given country. Some big businessmen left Russia altogether—for example, Artyom Tarasov, who took up permanent residence in England. Tarasov was one of the first Soviet millionaires. He made huge sums of money as early as 1990–91 through his involvement in the scandal-ridden “Harvest 1990” campaign. Thousands of collective farms at that time delivered to the Russian government quantities of grain above the quota set by the plan in exchange for special government certificates with which they could obtain certain goods that were in short supply and hard to get. Most of these certificates were not honored, but instead large sums ended up in Tarasov’s pockets. He went on to work as a middleman, was involved in gambling operations, financed television shows and the lottery called Russkoye Lotto. When he heard that a criminal case was being prepared against him, he fled the country, feeling endangered by the excessive attention being paid to his person by the minions of the law.

The Western press, as early as the 1950s, wrote a lot about “the managerial revolution.” In the big corporations top officers were not only receiving huge salaries—as much as a million dollars a year—but they also had the opportunity to acquire company stock on favorable terms. Still, these men did not become owners of the corporation and could be removed from their posts by those who owned controlling blocks of shares or at meetings of shareholders. Similar, but not identical, processes have been under way in Russia. The hasty privatization of state-owned enterprises at very low prices created opportunities for the directors of those firms and others in leading positions in economic management to acquire large “chunks” of formerly state-owned property. It would have been difficult, if not impossible, to carry out privatization against the will and interests of the actual managers of the enterprises. The factory managers as a group did not wish merely to be paid higher salaries. A substantial portion of the shares in the newly privatized firms were distributed among the managers on the basis of a secret subscription list. The former directors did not obtain controlling blocks of shares, but when combined with their

influential positions even a block of several percent was enough to make them the actual new owners of the enterprises.

Even in the Gorbachev phase of perestroika, these former directors had been able to successfully adapt to the new conditions. The term “nomenklatura privatization” refers to this reality—ownership of newly privatized firms by managers who had been part of the top-level party-state bureaucracy, the “nomenklatura.”

Failure awaited attempts by newcomers or outsiders to obtain ownership of major state-owned enterprises. Take the case of Aleksandr Yepifanov, owner of the private company Mikrodin, who was able to purchase, for a million dollars, 25 percent of the shares in a newly privatized auto plant in Moscow, the ZIL plant. After privatization the functioning of the plant deteriorated drastically; instead of profits there were mounting debts and losses. In this state of affairs, the Moscow mayor's office could not look on with indifference, since the livelihoods of hundreds of thousands of Moscow residents depended on the ZIL plant. In the end, Moscow Mayor Yuri Luzhkov felt obliged to buy up the shares of the plant, which now became municipal property.

A similar situation involved a famous heavy machinery plant in the Urals, Uralmash. The Moscow businessman Kakha Bendukidze, owner of the private firm Bioprotsess, purchased a controlling share of Uralmash stock for only \$2 million. He of course was not about to start managing the giant Uralmash plant himself, even when the privatized plant's functioning deteriorated. In fact, Bendukidze soon expressed willingness to sell his shares—although he was asking \$1 billion.

Even when 51 percent of the shares in a state-owned enterprise were distributed among its blue-collar and white-collar workers, the directors became the *de facto* owners. It was virtually impossible to impose new owners from the outside. It made considerable political sense for the post-Soviet regime to allow this merger of power and property in the hands of the corps of former “Red directors”: this reduced the strength and intensity of opposition. To have left influential and powerful managerial personnel, who also had experience as party leaders, without property or positions would have strengthened the opposition many times over.

“Property passed into the hands of those most ready to take it. At the same time revolutionary pressure from the masses in favor of alternatives pointing in a socialist direction—such as placing control

over the means of production in the hands of the work collectives—proved to be very weak. What can one say? Perhaps it was all for the best,” writes Yuri Aleksandrov (in *Novoye Vremya*, 1995, no. 43, p. 19).

Let us note well: *Property passed into the hands of those most ready to take it.* Not to those who had a greater right to it, not even to those most able to use it efficiently in the broader social interest. Nor to those who could pay real market value for it. (Neither the directors nor the “work collectives” had that kind of money.) This unusual mode of formation of a new class of property owners has probably never been seen during the period of formation of capitalist society in any other country in the world.

Different authors take different attitudes toward this unique mode of class formation and toward the activities of Russia’s “new class.” The economist Aleksei Ulyukaev, a former assistant of Gaidar, writes glowingly about the appearance in Russia of a large number of the rich and super-rich.

“For a long time,” he writes, “America was the land of opportunity. People there could make something of themselves, rising from ‘pauper to prince.’ The fastest careers happened there, the biggest fortunes were piled up, the highest degree of individual freedom was found there, the broadest opportunity for the individual to pursue his happiness and prosper.

“Today Russia is this kind of Eldorado. The fastest careers happen here, and the biggest fortunes are made. Real men of affairs, all those oriented toward success, toward free and unencumbered creativity in their personal lives, are drawn here. For that reason the ideology of practical liberalism, the concept that ‘God loves those who work hard and enrich themselves,’ not the poor, the downtrodden, the humble, the miserable—these ideas are taking root in Russia and will soon have pride of place here” (*Svobodnaya Mysl*, 1995, no. 3, pl. 53). Ulyukaev seems to forget the God of the New Testament who said it is easier for a camel to pass through the eye of a needle than for a rich man to enter the kingdom of heaven.

Some calmer observations on this subject are made by Olga Kryshtanovskaya, who heads a unit at the Sociology Institute of the Russian Academy of Sciences engaged in research on “the elite.”

Kryshtanovskaya writes:

At the core of Russian's economy is a class of "authorized personnel," owners of major properties to whom the state has entrusted the task of developing a market. The economy operates in the absence of equal "money-making" opportunity for all. . . . The state capitalism of today has *itself* nurtured these businessmen, giving birth from its own inner recesses to this *class of authorized property owners*. This was a positive, productive move. First, these government-authorized owners had a personal interest in making a profit (as did the state, personified in its top officials); second, government-authorized business was guaranteed against bankruptcy and all sorts of disorder and consequently brought an element of stability into the chaos of the market; third, this new economic elite was a natural obstacle in the path of any "plutocracy" that might be formed by the nouveaux riches of Russia, for whom the laws had *not* been written.

(*Izvestia*, January 10, 1996)

Kryshtanovskaya exaggerates the productive qualities of this "authorized class," a class that was not so much nurtured by the government as appointed from within its own ranks. Certainly these operators are different from the nouveaux riches and plutocrats whose praises Ulyukaev sings, those who rose "from pauper to prince." But the "authorized" millionaires, like their counterparts among government officials, have quickly learned how to put substantial sums in their own pockets—whether their businesses are doing well or not. There have been many cases in which operations at a mine, mill, or factory were going from bad to worse, with workers receiving no pay for months on end, while the directors found the money to build themselves luxurious villas or go on vacations to the Canary Islands.

The historian Vladimir Iordansky is more critical:

The tense relations within the "new class" were predetermined by the conditions under which it originated. It is misbegotten and internally disharmonious because its development was unnatural. Upon it lies the ineradicable mark of the post-perestroika government's artificial efforts to promote its existence.

. . . Given these circumstances, the predominant characteristic of the “new class” is parasitism.

(*Svobodnaya Mysl*, 1995, no. 11, p.8)

Vadim Kortunov, director of the Humanities Center at the State Academy of Management, has an equally low opinion of Russia’s new class.

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

(*Nezavisimaya Gazeta*, December 5, 1996)

These assertions are justified in regard to a great many contemporary Russian businessmen, but by no means all. Recently I became acquainted with the operations of a joint stock company called Izmailovo, which runs a group of tourist hotels in the Moscow suburb of that name. Despite the fierce competition that now prevails in the tourist and hotel business, the very large units at Izmailovo would

have been doomed to bankruptcy if the owners of the controlling shares in this complex had been free of any “symptoms of the thinking process.” Valery Ryazantsev, the new general director of the Izmailovo complex, has been able to provide excellent services for his foreign and Russian guests and has also transformed the complex into a kind of cultural center for the region. The Izmailovo hotel corporation sponsors interesting exhibits and has shown a generosity toward artists and sculptors that is rare in these times. It is not by chance that many of Russia’s parties and social movements, ranging across the political spectrum, have in recent years held their conferences and congresses at the Izmailovo complex. The company’s good reputation has helped it succeed in business.

The harshest appraisal of the ways in which Russia’s new class has been created belongs to none other than Boris Fyodorov, the prominent politician and leader of the “Forward, Russia” movement.

“It’s as though we were present at the biggest robbery of the century,” he writes, “perhaps even the biggest in human history. But no protests are heard. Heads are bowed and people are intoning, ‘Oh, please, just don’t let things get worse.’ As if everything was as it should be. Very kind, forgiving, and generous people we are” (*Izvestia*, March 21, 1995).

There is justification of course for the charge “biggest robbery of the century”—although it is strange that Boris Fyodorov became aware of it only after he lost his post as finance minister and vice premier of the Russian government. At the height of “shock therapy” Fyodorov was not only an adviser to Yeltsin on financial questions but also a director at the World Bank representing the Russian Federation. He had many opportunities, particularly in 1992–93, to influence the ways in which Russia’s new class took shape, being part of that class himself. Even Gaidar in recent times has more than once referred to Russia’s new capitalists as incompetent and thieving—although he relates these negative qualities to the “Soviet upbringing” of these new property owners, not to the haste, incompetence, and lack of system in the program of “systemic transformation” drafted by his own governmental team. The Russian language is rich in proverbs and sayings along the lines of “Haste makes waste.” One of them is: “Haste gives birth to the blind.” (*Toropit—slepykh rodit.*)

Wealth that is not earned by the sweat of one’s brow, whose source one feels must be kept secret, has produced a kind of inferiority com-

plex and fearfulness in many “new Russians,” often combined with arrogance and snobbery. It is not surprising that in 1992–93, ruined and impoverished Russia became an exporter of capital to the West to the tune of \$20–30 billion, a process that continues to this day. The “new Russians” are afraid to invest their money in the Russian economy, and they don’t want it held in Russian bank accounts. Better to buy or build a villa in Cyprus, Nice, or Spain or squander a year’s worth of their company’s payroll money on a pleasure trip to Italy

“What is this?” asks the political commentator Kirill Kholodkovsky (in *Izvestia*, April 10, 1996). “The inevitable overhead costs of a transitional period, after which everything will gradually settle down and return to normal? Or the outlines of a new kind of system in the making, in which society will have to feed a new type of parasite, shoving Russia’s wealth into his bottomless pockets, lining a purse that is usually sequestered somewhere outside our country?”

The answers to these questions depend on the kind of government and economic policy Russia is to have in the coming decade.

THE BUSINESS ELITE, 1994–96

Among the democrats of the first or second wave—those who paved Yeltsin’s way to power and helped ensure the swift growth of Russia’s new class—hardly any kept their posts in the Russian government after 1993 or their status as part of the business elite. The government and the elite are now closely linked with the “nomenklatura”—the highly placed bureaucrats who dominated the party, government, and economy in the 1980s. Studies by the Sociology Institute of the Russian Academy of Sciences showed that at the end of 1995 as much as 75 percent of Yeltsin’s administration and immediate entourage consisted of members of the former Soviet elite—that is, had been prominent in the Communist Party of the Soviet Union, the Soviet government, the Young Communist League (Komsomol), and Soviet economic administration. Also originating in the Soviet nomenklatura were 82 percent of the regional “post-Soviet” elite and 74 percent of the government of the Russian Federation. As for the business elite, 61 percent of it was recruited from the same source, mainly from the Young Communist League or from Soviet economic administration (*Izvestia*, January 10, 1996).

By 1996–97 a fairly stable leading group of Russian entrepreneurs

had emerged. In all the listings of the members of this group the experts generally give Rem Vyakhirev, head of Gazprom, first place in terms of economic power and political influence. Of the fifty most influential entrepreneurs in Russia, five came from the gas, oil, and energy sector in 1996, seven in 1997. Dominating the listings were the bankers—twenty-seven of them in 1996, twenty-six in 1997. In the listings we also find three heads of auto companies in 1996 (four in 1997); two from the diamond and gold mining sector; and two from the sphere of commerce and export. Advertising, publishing, show business, the airlines, and ferrous metals were represented by one big businessman each in the top listings. Three heads of diversified companies made the top fifty in 1996; four in 1997. Also on the list, and not in the lowest spot, was Svyatoslav Fyodorov, the world-famous eye surgeon who heads a company called Microsurgery of the Eye. (He is no relation to Boris Fyodorov.)

These listings, based on assessments by experts, are published quarterly by the newspaper *Nezavisimaya Gazeta*. (See, for example, the February 20, 1997, issue of that publication.) Other listings, published by *Delovoi Mir* (Business World), do not differ significantly from these.

Other statistics have taken note of the average age of our home-grown businessmen (36 years), their marital status (few women are numbered among the business elite, only 6 percent of the total), the number of former Communist Party members (85 percent), and their educational level (70 percent have had higher education; 7.5 percent are holders of candidate's or doctor's degrees). (See *Argumenty i Fakty*, 1996, no. 4, p. 6.)

It is much harder to estimate the personal fortunes of the richest people in Russia or their annual incomes, because they try to keep much of this information hidden from the tax collectors. The experts guess that no more than a thousand people in Russia measure their annual profits in millions of dollars. Approximately ten thousand make profits of between \$100,000 and \$500,000 annually—not that many by American, German, or Japanese standards. To the businessmen themselves, the “rich” are those who make no less than twenty to thirty thousand dollars a month. To the average resident of Moscow, anyone who makes even *one* thousand dollars a month is pretty well off. I speak of Moscow because most of Russia's rich live in that capital city. In the provinces, even five hundred dollars a month is a good income.

The Russian press more often than not writes in a critical vein about the business elite—although the magazines *Delovye Lyudi* (Business People) and *Dengi* (Money) and the newspapers *Kapital* and *Kommersant* (Merchant) are exceptions. The Christian Democrat Viktor Aksyuchits places the blame for the defects of the new class once again on the Communists. His article “The Bright Future of Nomenklatura Capitalism” states in part:

Capitalists with a Communist Party apparatchik mentality—where has that ever been seen before? All the big fortunes in Russia can be traced to the most varied sources, except for their economic origins. There was always party or Komsomol money or credit on favorable terms from the State Bank or Western credits distributed to the right people, or licenses to export raw materials, or government orders, or delivery of goods on favorable terms, or subsidies, or permission to privatize desirable state-owned properties at throwaway prices—something like this can invariably be dug up as the source of the primary accumulation of capital for all our homegrown nouveaux riches. The question of who would be richer was not decided by objective economic laws, but by a very specific, bureaucratic “subjective factor”—government officials and the personal ties which the future rich had with them. In addition to that, favorable conditions were created for the legalization of businesses run by organized crime. Therefore, when measured by other yardsticks, this form of capitalism could be called bureaucratic-Mafia capitalism.

(*Nezavisimaya Gazeta*, February 16, 1996)

In contrast Western newspapers and magazines have written with unconcealed admiration about the wealthiest figures among the new Russian businessmen. *Forbes* magazine, for example, had an article about Mikhail Khodorkovsky, who it described as “one of Russia’s richest men”:

As he sips coffee in his office, the skin of an Ussuri tiger glistens on the floor. . . . Khodorkovsky is all of 31. His first financial backing came from one of the communist-controlled district councils of Moscow. Later, apparently Khodorkovsky bought out the district council. Now this swarthy young man runs a vast conglomerate. It includes the Menatep Bank, a dozen other

banks, Moscow real estate, a steel mill, one of Russia's largest producers of titanium, as well as food processing and chemical companies.

"We don't invest in companies that do less than \$50 million in sales," Khodorkovsky smirks. He is a Russian equivalent of the misnamed robber barons who came to dominate American capitalism in its early days—capable, energetic men with vision, but ruthless: Cornelius Vanderbilt, John D. Rockefeller, Andrew Carnegie, James J. Hill, Jay Gould, and J. P. Morgan. These men gained control of vast assets not through theft, as the popularizers thought, but through organizational skills and financial leverage. . . . The Russian robber barons, like their American predecessors, are not creators or builders but consolidators—capitalists in short, rather than industrialists. They are restructuring existing companies into capitalist units.

[Translator's Note: The quoted passage about Khodorkovsky originally appeared in *Forbes* magazine, November 21, 1994, pp. 74ff. The author cites the translation published in *Za Rubezhom* (a Russian-language review of the foreign press), 1944, no. 46]

Two years later the German magazine *Wirtschaftswoche* wrote more candidly about Khodorkovsky. We quote from the Russian translation, published in *Za Rubezhom*, 1996, no. 48, p. 4.

Drops of sweat stood out on the brow of Mikhail Radayev, director of the oil refinery in Samara. But not from the heat. For about an hour he had been showing his guest—an unassuming-looking intellectual type wearing glasses and a tweed jacket—around the refinery. . . . The huge pipes and giant holding tanks made no big impression on the guest from Moscow. To every suggestion by the director about improvements he replied with the same words: "What would that give us? How much profit would that bring?" The director shrugged his shoulders: in Soviet times it had not been axiomatic for a plant manager to know how to produce a profit.

This inspection tour of his empire by the 33-year-old Mikhail Khodorkovsky showed that "the clash of two worlds" is not just a theoretical concept. In only a few years this banker has bought up about fifty enterprises with a work force numbering more than 300,000 (blue collar and white collar employees) and an

annual turnover equivalent to more than 12 billion marks. His methods are not always elegant. His prize possession is Yukos, the second largest oil firm in Russia, of which the Samara oil refinery is a part. He bought it from the Russian government, paying much less than it was worth. Ever since the time in 1987 when this Yeltsin supporter, with a university education in chemistry, began selling computers from the basement of a building, he has had good relations with the powers that be. To begin with, he persuaded the rector of his institute to let him open a cafe. Then as a Komsomol activist he persuaded the Soviet government to give him a license to start a bank, thus founding Menatep, one of the first commercial banks in the country.

During the years of hyperinflation up to 1995 the bankers, more craftily than others, with the help of foreign currency deals and credit speculation, when interest rates on loans reached a height of tens of percentage points per day, contrived to make fortunes literally overnight. Here, too, Khodorkovsky went one step further. For a long time he had been helping with complex government financial deals. At one point he was responsible for reorganizing the entire Russian oil industry. In 1992, when privatization of the Russian economy began, he acquired at laughable prices the “tastiest morsels” in the chemical industry, raw materials, and light industry—that is, in those sectors which, in the event of an economic upturn, would be the first to bring in a profit.

In 1992, and even in 1994, it was possible to buy up quite a few businesses at “laughable prices”—if one was in the right position, with the right contacts and resources. But getting them to work efficiently was another question. Khodorkovsky promises to accomplish this over the course of “no more than . . . a few generations.” It so happens that I own several shares in Khodorkovsky’s company called Moscow Real Estate, but it has not earned even twenty kopecks worth of dividends for my family and myself. Consequently I have a different opinion about how decent and competent these new financial magnates are. What is this company doing for its shareholders? I don’t know how accurate it is to use the term “robber baron” for the founders of America’s biggest financial and industrial dynasties, but it can be said with certainty that neither Morgan nor Rockefeller, neither Carnegie nor Vanderbilt were assisted in the early stages of their

business careers by any district committees of the Young Communist League or municipal district Soviets. (The term “Soviet,” which of course originally meant “workers’ council” and was a representative body consisting of delegates from various factories and other workplaces in a city, was still used for local government bodies, such as city councils and municipal district councils in the Soviet Union, but after the early 1920s they were dominated by the single ruling party, the CPSU.)

LIFESTYLES OF THE RUSSIAN RICH

Hardly any of the magnates listed as the richest and most powerful will display their wealth openly in impoverished Russia. They are more concerned with guards and security. Most of the denizens of the night clubs and casinos, expensive restaurants and deluxe saunas are not part of the top one thousand wealthiest Russians.

For all who have risen above a certain line a Mercedes 500 or 600 has become *de rigueur*: in the years 1992–1996 in the Moscow region alone, more of these models were purchased than in all of Europe over a ten-year period. Every month in Moscow three or four thousand apartments in exclusive buildings are bought by “new Russians.” In recent years thousands of red-brick fortress homes have been built for “new Russians” in the suburban areas near Moscow, and similar construction has been under way on a smaller scale in other regions. Much larger sums have gone for the purchase of real estate outside of Russia. The most popular countries are Spain, the United States, Cyprus, Portugal, Greece, and France, but the “new Russians” have not overlooked Switzerland, England, Italy, Canada, Germany, and Austria. Besides houses and lots, they are also buying securities. Russian businessmen have invested billions of dollars in American and German banks.

The “new Russians” also love to travel. In 1994 their spending on tourism in countries outside the former USSR amounted to about \$7 billion—that is, more than the IMF loaned Russia in 1995. Experts estimate the total amount spent on personal consumption by the Russian rich at \$45 billion—several times more than Russia’s annual spending on military and defense needs. (These figures come from the Sociology

Institute of the Russian Academy of Sciences and were published in *Izvestia*, March 13, 1996, and *Argumenty i Fakty*, 1996, no. 44.)

Most of Russia's rich do not appreciate attention from their own mass media. Some of them have been willing to open their palace doors to Western correspondents, but were unhappy to see reports from the Western press reprinted in Russian publications. Vladimir Bryntsalov, for example, was at first glad to see the dozens of photographs in the French magazine *Paris-Match* and the German *Bunte* showing the luxury he lived in. The French magazine reported:

Vladimir Bryntsalov is one of the richest men in Russia. His personal fortune is estimated at \$1.5–1.8 billion. Bryntsalov lives, eats, and dresses like a tsar. He is protected by 20–30 bodyguards armed to the teeth. His villa is located not far from Moscow. It is a palace of gold, every corner of which glistens with wealth. He seems to have everything: antiques, icons, table service of gold, crystal, paintings by old masters—no fewer treasures than in the vaults of the Kremlin.

He has ordered furniture from Versace, luxurious chandeliers from Baccard, and Russia's best icon painters have decorated the ceilings of his palace rooms with images of the saints. The inlay work on his walls comes from his own workshops, the porcelain for his feasts is of his own manufacture, and the silk cloths are from his own textile mills. Thus he lives with his tsarina, Natalya. She is his second wife and has blessed him with a son and heir, Prince Alyosha, and an heiress, Princess Alena. Three governesses—two English and one French—keep his heirs busy learning to speak foreign tongues fluently. He also has a daughter by his first marriage, for whom he is building a palace of carara marble near the Kremlin.

How is it possible to become so wealthy so fast without being a criminal? After putting together his first million, Bryntsalov began buying up pharmaceutical firms one after another. He says, "I concentrated on pharmaceuticals, because medicine is something everyone needs." Today he owns a holding company that produces 30 percent of all medications in Russia.

(The passages above are translated from the Russian version of the *Paris-Match* article, which appeared in *Za Rubezhom*, 1996, no. 10, p. 10.)

Bryntsarov was quite unhappy when, in early 1996, the *Paris-Match* article appeared in Russian—in many regional papers, as well as *Za Rubezhom*. At that time he had just entered the presidential race after announcing formation of the Russian Socialist Party under his own leadership. The aim of the party, he declared, was prosperity for the Russian people and for Russian capitalists. The program of his party states, “A socialist government would serve two masters, His Majesty the Russian people, and Russian capital.” It also says that birth certificates should state the bearer’s nationality. In other words, in a Bryntsarovian Russia the government, not the family, would decide what a child’s nationality is. The voters did not show much support for this billionaire “socialist.” He received less than 0.5 percent of the vote.

THE MOST IMPORTANT BUSINESS FOR RUSSIA— CONSUMER GOODS PRODUCTION

According to Russian businessmen themselves, their biggest profits in 1995–96 came from trade, especially trade in raw materials, foreign currency, electronic goods, and real estate. Second-highest earnings were in banking. The third-ranking position went to government service. Certainly government salaries, even for top officials, are not that big. But the businessmen know what they’re talking about. According to privately circulated surveys that businessmen have responded to anonymously, 91 percent claim that in any dealings with the authorities they are obliged to pay bribes. Fourth place in the list of top sources of income was held by the brokerage business, which earlier, in the years 1992–93, was the quickest way to get rich. Fifth place was assigned to theft. Strange as it may seem, this category is broken down into several subdivisions, not only by Russians but also by Western businessmen. Hardly anyone among the really substantial men of commerce would buy a stolen fur coat or car, although it has been known to happen. There are other stolen goods that are easier to deal in: for example, museum pieces, icons, paintings by Russian or Western masters, rare books. And no one feels a pang of conscience about buying carloads of nonferrous metals or tanker cars of oil that have been diverted from the (usually state-owned) enterprises producing them. Sixth place in the list of most profitable businesses goes to real estate; seventh to consulting. Not until eighth place do we come

to a type of business that is fundamental for any healthy economy—consumer goods production.

Hardly any of the “super-rich” can be found among those who have established successful consumer-goods or construction companies and maintain them at a high level. People in these fields aren’t even in the second or third rank as far as wealth and political influence go, though this is where the major part of what is customarily called “national capital” is concentrated. Productive business people of this kind find it harder than others to evade taxes or register their corporations outside of Russia—in Cyprus, for example. Many of them are able to stay afloat only because they themselves advertise and sell the goods they produce. The term “new Russians” is rarely applied to these people.

Take for example the firm Agrodorspetsstroï (an acronym meaning “Rural Roads Special Construction”) headed by Pavel Golyshev. The work it does is very difficult, but very much needed. Like Vadim Tumanov, mentioned earlier, Golyshev builds roads. By early 1994 his company had built more than a thousand kilometers of road. But it did not bring in very large profits, and Golyshev was forced to diversify. His company began cutting timber and mining gold in remote parts of Siberia. Its productivity, and the wages it paid, were three or four times higher than those of state-owned enterprises in this area. Nevertheless, his business was given no special treatment by the banks or the government.

“Yes, we are prospering and moving ahead,” Golyshev has written. “But how much effort it has cost us! We’ve been oppressed by senseless tax policies, nonpayment of bills, and the unbridled behavior (*bespredel*) of the banks. We would have been able to develop much further and bring in much more if it hadn’t been for these harsh economic conditions. It’s nearly impossible now to work productively and profitably, and soon we’ll make it completely impossible” (*Delovoi Mir*, April 23, 1994).

The Doka Pizza Company, which began operations in 1991 with a capital of forty thousand rubles, within three years owned dozens of pizzerias and restaurants in Russia and other former Soviet countries and was producing and selling dozens of lines of potato chips. This firm, with its headquarters in Togliatti, in Samara province, is headed by Vladimir Dovgan. It has produced and delivered to all parts of the country hundreds of miniature ovens for baking various

kinds of breads. They were no worse than imported ovens, but were six to seven times cheaper. The company has also issued stocks and securities, which have done well and brought in earnings for the shareholders.

"Feeding people is the most reliable and stable business," says Dovgan. "Judge for yourself. There are 160 million people in Russia, who spend a large part of their income on food. Besides, with a minimum of investment there is a big volume of business and maximum return on investment" (*Argumenty i Fakty*, 1994, no. 16, p. 15).

Anis Mukhametshin, founder of a company called Anis, draws the same conclusion. His first endeavors were in show business, and he is still a leader in that field, but he branched out and made a fairly substantial investment in ice cream. Taking just one of his plants as an example, it produces as much as 180 tons a day of ice cream that is of excellent quality but sells for half the price of imported Western ice cream. Anis has also built a cigarette factory outside Moscow, plus a distillery for liqueurs and cognacs and a pharmaceutical plant. Here too his products are several times cheaper than their imported Western equivalents. He recently completed construction of an ice cream plant in a suburb of Moscow, while in Tatarstan there is a big soft drink plant that produces "Anis Cola." He does not, however, operate on the "robber baron" model of either Andrew Carnegie or Mikhail Khodorkovsky, much to the regret, no doubt, of *Forbes* magazine. Here is what the magazine *Delovye Lyudi* (June 1995, pp. 25, 29) wrote about Mukhametshin:

In his youth this 42-year-old Tatar passed through "the Uzbek school" of life in the former Soviet Union, one of the harshest forms of schooling one can imagine. He was hardened by the continuous round of pitiless and exhausting battles in that "school," and in this respect he differs fundamentally from most Russian entrepreneurs, who tend to fall into nervous paralysis at the slightest unpleasantness. Many of the habits of the lone wolf remain with Anis to this day. He does not trust hangers-on or consultants, nor cooks, drivers, and bodyguards. He is always alone, both at his business and behind the wheel of his armored Mercedes, and there is no cavalcade of guards' cars rushing along behind him. His home is always full of guests, and rather than burden anyone else, Anis himself cooks pilaf and shurpa [a

Tatar dish] for them. . . . Many of his old friends have been in Europe or America or South Africa for a long time—they prefer to cultivate their businesses on less stony soil, under a kinder sun. Anis builds his factories and houses here, as well as his mosques and churches and theaters, and a school for deaf children, the only one of its kind, not in order to leave the country some day. He does this in order to stay.

Almost all types of textile products are the output of the Russian company Paninter, with which I personally became acquainted in March 1996. The firm is headed by Aleksandr Panikin, a mathematician by education, who in the recent past worked as an administrator in the theatre world. He started out in business in 1988 with some garment-making machinery and 25,000 rubles. By 1994 the Paninter textile plant was producing more than a million items per year with a work force of 700. Efficient organization of labor, high productivity, but above all high quality standards—these have ensured quick sale of the company's products. Here, too, the prices have helped. They are two or three times lower than comparable imported Western goods. The best Russian clothes designers are working for Paninter, and all its products are marketed through its own network of stores. Goods received are sold within two or three days. All this is at a time of seemingly insoluble crisis for Russia's textile industry, whose warehouses are bursting with unsalable goods. Paninter outlet stores have been opened in St. Petersburg and Krasnoyarsk, in the Urals, and in other regions. Production is expanding quickly, and not only stitching and weaving. In the distant suburbs of Moscow, the company has established a commercial farm, from which dairy products are already being delivered to Russia's capital.

Additionally, Paninter runs the Center for Practical Free Enterprise, which has already graduated several classes of students hailing from many different parts of Russia. The company also gives large sums to charity. Two hundred retirees living near the Paninter plant receive regular pension payments, and the company has created green spaces and other improvements in the neighborhood, including aid to the schools and to a children's sculpture center. Paninter also sponsors round-table discussions and other public events. A newspaper called *Paninter* carries major articles by leading political figures from many different points of view, as well as material about the firm itself.

Aleksandr Panikin is actively engaged in seeking ways to bring Russia out of its present crisis. His proposals are debatable—especially the one about helping successful Russian companies become transnational corporations. He is convinced that such a venture would succeed, given government support. But there are certain stages of growth that a market economy must pass through, and they cannot simply be skipped over.

There is another firm, the Hobbit Company, whose successful operations I have observed for the past several years. It was founded in Moscow by several young science researchers who were friends of mine and former parliamentary assistants. The company began with furniture making, but switched over to mass production of all types of “mini-garages” (basically, plastic shells). It produces and installs as many as 2,000 mini-garages per month—without any prepayment or additional fees required. In 1995–96 Hobbit established ties with a successful German firm and organized the production of plastic windows and doors that provide good sound and heat insulation. The Hobbit Company is also expanding into advertising, providing services in this field to many companies in Moscow, St. Petersburg, and even Berlin. In the first two years Hobbit increased its work force from thirty to three hundred, and in the next two years the number grew to one thousand.

In discussing the productive entrepreneurs of Russia, we should say something more about Vladimir Bryntsalov. It is true that his lifestyle and many of his public statements, which are deliberately intended to shock, have damaged him as a public figure. But the way he built his business operations was not through currency speculation or special access to cheap credit. The medications he produces are the result of a total revamping of the Karpov chemical and pharmaceutical plant, which had fallen into decline. It is true that a state-owned enterprise Mosmedpreparaty (acronym for Moscow Medical Preparations) did transfer a unit to Bryntsalov, or sold it to him for practically nothing—the Antigen plant, which is located on a large plot of land (80 hectares). In this instance I do not condemn Bryntsalov. Hundreds of enterprises privatized from 1993 through 1995 have ended up being less economically productive than before. That is not true of Bryntsalov’s businesses, which are part of a conglomerate called FAO Verein.

There are many other companies working successfully and pro-

ductively in Russia. They include industrial plants, advertising agencies, publishing and information companies, and self-supporting (i.e., nonsubsidized) hospitals and clinics. These successful Russian enterprises, in almost all cases, have connections with Western companies in one form or another. Paninter, for example, uses high-productivity Western equipment in its plants. Golyshev's company has purchased Swedish enrichment processes and equipment and Italian road-building technology. Doka Pizza uses organizational methods pioneered by McDonald's and Coca Cola. The Anis Company places orders for equipment and even labels with Western firms. The Hobbit Company cooperates with the German firm UEKA. It uses German technology, and also sells that technology in many parts of Russia. We should make a distinction between businesses like these and the purely parasitical operations of the comprador type, which are committed only to making profits for their Western corporate masters and which are the worst type of Russian business today. The examples above show that intelligent and mutually beneficial economic integration is possible.

SMALL BUSINESS

An enormous field of free-enterprise activity in Russia today, and in many cases the most important, is constituted by medium-sized and, especially, small business. But this sector enjoys hardly any support from the Russian government, the big banks, or the "free-market" reformers.

As one author, A. Neshchadin, has noted:

After small business emerged as a significant factor, the promises of the Gaidar government to support this sphere took the form of outright suppression of virtually any free-enterprise activity. If the legislation on free enterprise in the Gaidar era is compared with that under Ryzhkov it is easy to see that current legislation blocks virtually any possibility for small business to develop. This applies to the systems of registration and taxation as well as the system for monitoring the conduct of operations.

(*Izvestia*, September 21, 1994)

The predictions of Marxists in the late nineteenth and early twentieth centuries that small and medium-sized businesses would inevitably be squeezed out by giant monopolies have not come true. Even today in the developed countries small- and medium-sized businesses are the main component of each nation's business activity and the chief hope for the healthy development of business in general. In Western Europe from 50 to 80 percent of the gross national product comes from small- and medium-sized businesses.

There is little hope that true entrepreneurs will develop among people who do not start their businesses themselves, relying on their own material and financial bases and drawing on their own abilities and initiative. The school of business, like all others, has its own lessons that must be learned and stages that must be passed through. If a class of entrepreneurs is to take shape in Russia, its core will consist of people who started their businesses at their own risk, using their own financial means or the credit they were able to obtain. Thus far in the upper strata of the Russian business class, such people are few and far between. They are to be found predominantly in small- and medium-sized enterprises. But it is precisely in this sector that many feel obliged to go out of business after two or three years of hard work and trying experiences, because they did not receive the support that small and medium-sized businesses most frequently need in order to last through the first phases of their development. It seems that in this area, too, the post-Soviet Russian government is experimenting according to the principle "sink or swim."

The number of enterprises that can be counted as small businesses are defined in different ways by different authors, using different criteria. The Russian Economics Academy estimates that by the end of 1995 there were about 900,000 small businesses in Russia, employing about 9 million people (*Voprosy Ekonomiki*, 1996, no. 7, p. 39). The biggest growth in the number of small businesses was seen in 1992, but in the years since then the rate of growth has declined considerably, a decline connected with the very high rates of taxation, from 60 to 90 percent of all profits. The largest number of small businesses were in the fields of commerce, science, and the servicing of scientific institutions, public education, and several other areas where it was easier to avoid tax pressures. In consumer goods production, agriculture, and other sectors of greater importance to society, small businesses found the going much tougher.

In 1995 and 1996 the number of small businesses in commerce, science-related fields, and public catering also began to dwindle. Even the most radical parties from the Communist part of the spectrum are now trying to exploit the disastrous situation for small business, calling on the “proletarians of the business world” to support them.

For example, in the Communist publication *Glasnost* (October 11, 1996) we find:

The proletarians of the business world cannot be forgotten, those 20 or 30 million small property owners, traders, people doing “shuttle” commerce, owners of trucks, small booths, shops, or studios, people who sell doughnuts or hawk things from trays around their necks, people who, following their own desires or (more often) forced by the will of harsh circumstance, have plunged into the abyss that is normally called “business” in hope of surviving, making it, feeding their families, and maybe acquiring some wealth . . .

It has already been forgotten for some reason that the formation of cooperatives was encouraged by the Communist Party in the 1980s, that that was the best era for those who dreamed of having their own business but didn’t have the capital for it: it was easier then to obtain credit or to rent space, and the arbitrariness of government officials was kept under strict control. The small property owners no longer understand that, were Communists to hold the reins of power, things would be simpler and better for them. . . .

The existence of small- and medium-sized businesses (and the prospering of the same) is an unstoppable process, like the growth of bamboo. A fairly large number of theoretical precepts and practical examples confirm that the world of small business is perfectly compatible with Communist ideology and the socialist cause.

I do not know about “Communist ideology” but as far as the programs of most socialist parties are concerned, they do favor the development of small business and its coexistence with socialism. However, people in this field still remember only too well the foolish campaign against “unearned income” conducted by the ruling Soviet Communist Party in 1986, as well as the anti-alcohol campaign of 1985–90 and all the persecution of small business from the 1930s

through the 1970s. That is why people in the small business sector did not support the Communist Party of the Russian Federation in the 1996 elections.

The many difficulties and few achievements of small business were topics of discussion at the First All-Russia Congress of Representatives of Small Business, held in February 1996. The participants heard quite a few promises from government spokesmen, but the fates of most small businesses continue to be governed by the “sink or swim” principle. Yet all serious economic analysts are warning the government that support and development of small business should be a top policy priority. It is not just that small businesses are playing an increasingly vital role in the national economy, that they can become and in some cases already are the fastest growing sector. The most important aspect of small business is that, more than any other branch of the economy, it can ensure stability in society, both politically and economically.

Only small business can ensure the quickest possible return on investment and the most efficient use of resources. Yet even those small businesses that have the greatest possibilities for rapid growth and major innovation have not received the necessary government support.

Today we are all surrounded by or drawn into some form of business activity. One of my friends, after losing his job with a district committee of the Communist Party, began using his own sedan, a Zhiguli, to deliver flour and sunflowers produced by relatives in the Kuban region to members of his wife's extended family in the colder, more northern region of Vyatka. Today he is the owner of a Kamaz truck and a Mercedes van. He has a store in Stavropol where he sells goods from the north of Russia and one in Kirov, where he sells products from the south. As many as twenty people work for his small company, whose operations make life better for hundreds of customers.

Another acquaintance of mine, a former CPSU employee, organized a warehouse for the storage of paper products and runs a retail business dealing in office supplies. Several young people I know, unable to maintain their families on their miserable salaries as engineers or researchers, took up the “shuttle” trade, organizing their own stores, located in their homes, as part of the process.

Many of the people I know personally are engaged in small business. One of my acquaintances, a journalist, organized a successful

advertising agency. I know physicians with private practices, publishers, owners of book shops, brokers, and jewelers. An acquaintance of mine is a private farmer, who has an apartment in Moscow and does a successful truck gardening business on two hectares of land with the help of a mini-tractor and a number of contrivances that he invented himself. Six months out of the year I myself work in my thousand-square-meter garden and orchard, providing my family with a year-round supply of vegetables and berries. I prepare my own books for publication without benefit of editor or censor, paying for each small print run myself and selling them through intermediaries. I also see to the syndication of my own articles in Russia and those of my twin brother, Zhores Medvedev.

This is a reality that is in some ways better, some ways worse, than the previously existing one. None of my friends and acquaintances consider themselves "new Russians." Necessity, as a rule, was the mother of their business ventures, but these have helped fortify them in the present day and prepare them for whatever reality tomorrow may bring.

A BALANCE SHEET

Healthy entrepreneurship is just taking its first steps in Russia. The experiment begun in 1991 of producing an entrepreneurial class by hothouse methods has not been especially successful. No such class has yet taken shape. In fact, the process of formation is just beginning, and it is proceeding in a way that is very painful for our society and country. The Russian bourgeoisie, large, small, and medium, remains a class "in itself," to use Marx's terminology, rather than one "for itself." That is, it is not united by an enlightened self-awareness, but is divided into various groups and strata, not only by social position, income, and mode of operation but also by competing interests. The tone is set by the most egoistic and parasitic groups, which have fattened on the ailments of society and continue to do so. Rather than contribute to overcoming society's difficulties, they aggravate the ailments of our economy.

The super profits of its business elite do nothing to enlarge Russia's economic possibilities. Rather, they have the effect of constricting its domestic market. Research by the Institute of Systems Analysis of the

Russian Academy of Sciences has shown that even today the main income of the elite neither seeks nor finds application within Russia, but “goes West” at the rate of \$2–3 billion per year. (This was reported in the newspaper *Finansovye Izvestia* [Financial News], November 12, 1996.)]

Russia is unable to break out of a vicious circle: while its own economy is declining, it continues to serve as a donor to the economies of the West, resulting in greater domestic and foreign indebtedness. The Russian government, by increasing the tax burden, makes Russian goods less competitive, thereby shrinking the tax base for its own budget. As a result there is a persistent danger of generalized bankruptcy. Against this background the elation expressed by Chubais at the end of 1996—over the fact that more than half the property in Russia was in private, rather than government, hands—seems rather strange. It is all too reminiscent of the glowing reports in the early 1930s of success in the campaign for “total collectivization.”

A round table discussion, sponsored by the magazine *Rossiysky Obozrevatel* (Russian Observer, 1995, no. 1), took up the theme “The ‘New Russians’—What’s Russian About Them, and What’s New?” Some participants in the discussion likened the present situation to the sinking of the *Titanic*. Once the ship’s officers knew that all was lost, all the best delicacies in the restaurant were given out free, champagne flowed like water, and the orchestra played till it could play no more.

“Everything the ‘new Russians’ do indicates lack of confidence in the future,” said one of the participants, Anatoly Utkin. “Their social irresponsibility will be their undoing . . . They don’t represent any positive idea. Getting rich as an end in itself cannot serve as a social ideal.” The Russian *Titanic* is already sinking, as Utkin sees it. Some of the 1500 passengers have made it into the far too few lifeboats and are heading for foreign shores; others are perishing in the icy seas. But the “new Russians” are unaware of the danger. They are playing banking games, selling fuel, or popping into other people’s cabins to grab things left behind. Perhaps it is true that they are displaying a lot of energy and initiative, but in their greed they are the most irrational passengers on the doomed liner. “Their energy,” says Utkin, “might have been used for constructive purposes, but they are standing on the captain’s bridge trying to direct the orchestra instead of trying to stop leaks or provide lifeboats for the weakest and most defenseless.”

Another dark side of Russia’s new class, in addition to the egoism

and social irresponsibility typical of many of them, is their connection with the criminal world. In 1994 the Institute of Applied Policy did a study on the question "The New Millionaires." In the course of research and investigation approximately 40 percent of those surveyed admitted they had previously been involved in illegal business dealings; 22.5 percent admitted they had been taken to court because of this; and 25 percent at the time of the survey still had connections with organized crime. And we are only talking about those who *admitted* illegal connections. Unfortunately, the criminalization of Russian society has proceeded much more quickly in the last seven or eight years than the development of legitimate private business.