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60 PAGE ISSUE!

ISSUE 22 ★ PRICE £1.50



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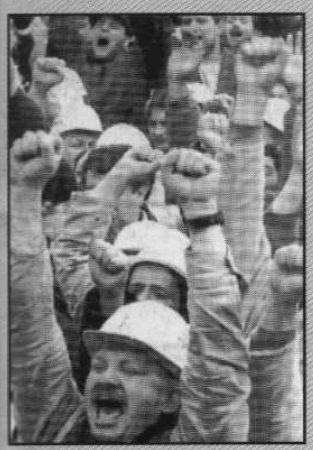
The rise of the racist right



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Che Guevara



What did he really stand for?

SPECIAL REPORTS: CAPITALIST RESTORATION IN RUSSIA AND CHINA

TROTSKYIST INTERNATIONAL is published by the League for a Revolutionary Communist International (LRCI), BCM Box 7750 London WC1N 3XX, UK.

email: lrci@easynet.co.uk

A selection of current and past articles from TI is available on LRCInet at: http://easyweb.easynet.co.uk/~lrci

Printed by Russell Press, Nottingham

ISSN 0953-7554
© LRCI 1997

The LRCI includes:
Arbetarmakt (Sweden)
Gruppe Arbeitermacht (Germany)
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Pouvoir Ouvrier (France)
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Subscription (3 issues):
£8 Britain & Europe;
£11 rest of the world;
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Cover photo: Che Guevara

Trotskyist INTERNATIONAL

ISSUE 22 ★ JULY-DECEMBER 1997

INCORPORATING PERMANENT REVOLUTION

In this issue...

FRANCE: After the left's election victory
1 Mathieu Roux on the tasks facing the workers' movement and the left

GERMANY: Workers defend past gains
6 Martin Suchanek discerns a new vanguard emerging in recent battles

AUSTRALIA: The right raises the stakes
40 A report from Workers Power/ Australia as the government plays the race card to divide working class opposition

BRITAIN: Marxism and devolution
45 Richard Brenner spells out the revolutionary response to calls for devolution in Scotland and Wales

REVIEW: What's behind the backlash?
60 Clare Heath on a new collection of feminist essays

SPECIAL REPORT:

TWO SCENARIOS FOR CAPITALIST RESTORATION

The capitalist restoration process has followed different paths in the two eastern superpowers. Can the Chinese bureaucracy create a new imperialism without fragmenting? Can Yeltsin overcome the huge economic obstacles to the completion of the restoration process? In these surveys **Trotskyist International** offers answers to these questions and assesses their significance, both for Marxist theory and the future of the class struggle.





RUSSIA
12 Keith Harvey reflects on the determination of Yeltsin's new government to push on with reform and offers a balance sheet of labour movement struggles

CHINA
26 Peter Main examines what lies behind the increased tempo of economic reform that is taking China towards capitalism

REVIEW FEATURE



WHO WAS CHE GUEVARA?

50 Mark Abram reviews a major new biography of the Argentine guerrilla.

FRANCE TURNS LEFT...



NOVEMBER 1995: FRENCH RAILWAY STRIKERS ON THE MARCH. THIS YEAR'S SHOCK ELECTION VICTORY FOR THE LEFT WAS A PRODUCT OF CLASS STRUGGLE

The left's election victory signals a new period of class struggle in France, writes **Mathieu Roux**

IN ONE of the most spectacular political blunders of modern times, French President Jacques Chirac dissolved the National Assembly, in which he had majority of 351, a whole year before he needed to. He claimed that he did this in order to win a mandate for the tough measures necessary if France was to meet the criteria for European Monetary Union (EMU).

The result was the complete opposite—a mandate for the left to obstruct these measures. The Socialist Party (PS), which had only 63 seats in the outgoing parliament, won 268 seats, an absolute majority when taken together with its Communist and Green allies.

This political earthquake scores higher on the Richter scale than Tony Blair's landslide on 1 May, because PS leader Lionel Jospin did not win by stealing the neo-liberal clothes of the right.

For this reason the left's victory was greeted by an initial fall on the stock exchange and by groans from the US and British press that France, unlike Britain, had decided to go "forward to the past".

Jospin's victory puts further obstacles on the road to the Euro, if anywere needed. A key part of the PS election campaign was the promise not to implement the Euro at the price of workers' living standards. The PS - which was in power when the Maastricht treaty was signed - now talks about the need to "go beyond Maastricht" and to increase the significance of the "social" Europe element in EMU.

Rather than representing a massive turn to the left by the PS itself, this position reflects the pressure on it from important sections of the population, in particular from the workers. At 28%, the vote for the PS was both the largest for any single party and a

pronounced recovery from the last election in 1995. Indeed, it seems to have recovered its support among the unskilled French workers at the expense of the Front National (FN).

In short, the PS retains its links with the workers' movement, even if these links are neither as institutionalised nor as explicit as those of the Communist Party in France or the Labour Party in Britain. The PS still has to seek its electoral support from white and blue collar workers as well as the progressive middle classes. To win, therefore, it quite simply had to listen to what people were saying.

While the bourgeoisie was - and is - strongly in favour of European union, the same could not be said for the population as a whole, and especially for the working class

This did not require any great powers of observation. For the last five years the whole of French politics, and in particular the class struggle, has been dominated by doubts about the consequences of the Euro and the convergence criteria. Indeed, it is an indication of Chirac's stupidity - or arrogance - that he refused to believe what was obvious to virtually everyone else.

During 1992, European integration was taken a stage further when, firstly, frontier controls and tariffs on exports were dropped, making the continent a truly "common market". Then the Maastricht treaty was signed, outlining the road to the creation of a common currency, later named the Euro. Then the trouble began.

Currency capers

In autumn 1992, the European Monetary System collapsed as Britain, Italy and Spain were unable to defend their currencies faced with severe speculative pressure; France only avoided having to leave the system when the government stepped in to buy vast amounts of French currency.

Then, in referendums to ratify the Maastricht treaty, Denmark rejected it and the monetary union that went with it, while the French population endorsed Maastricht by only the slimmest of margins. While a united imperialist Europe can survive without the Danes, the fact that France only just came down in favour of the treaty sent a cold shiver through the chancelleries of Europe.

The partnership between France and Germany - right up to the fusion of their currencies - is at the heart of the European project. From the formation of the European Steel and Coal Community in 1951, French imperialism has sought to tie its destiny to that of German imperialism, with the aim of preventing economic conflict from exploding yet again into military confrontation. This is sought even at the cost of losing "national independence" in the move to increasing integration.

Virtually all sections of French industry and finance are in favour of Maastricht and a common currency; this is hardly surprising given that a massive part of the French economy is based on export earnings, and in particular on trade with Germany - notwithstanding a few right-wing mavericks like Peugeot chairman Jacques Calvet. However, the political parties of the right wing of the bourgeoisie were far from united in the referendum campaign.

For example, Jacques Chirac grudgingly stated that while he would personally vote "yes", he would not actively campaign for a "yes" vote. Neo-liberals like Edouard Balladur campaigned in favour of endorsing the treaty, while an unseemly coalition of populist and nationalist politicians, led by the racist Charles Pasqua and the supposedly left Gaullist, Philippe Séguin, fought for a "no" vote. This

PCF: Nowhere to hide

The position of the French CP (PCF) after the elections is full of ironies. Long regarded - correctly - as "the most Stalinist Communist Party of Europe", the only major European CP which has not changed its name, it is also the only one that has succeeded in getting into government. Nevertheless, despite its success it is probably in its weakest position ever.

With the formation of Jospin's rainbow coalition in early June, the PCF found itself in power for the third time in its history. Its previous visits to the corridors of power were in 1945-47, when De Gaulle used the PCF's influence in the working class to ensure the reconstruction of France's industrial base following the war, and 1981-1984, when Mitterrand got the PCF to accept responsibility for his austerity policies and to limit workers' fightback, thus making a major contribution to the decline of the PCF.

This time around, the PCF, reinforced by a big increase in its parliamentary representation (from 23 to 38 deputies), has been straining at the leash to join the government, to prove its new-found "responsibility".

The foreign press made much of the "hard conditions" that the PCF attached to their acceptance of ministerial office, and the importance of PCF participation for the future of the Jospin government. In fact, all this is just window-dressing. They cannot wait to get their feet under the cabinet table.

The "conditions" actually posed by the PCF were minimal - essentially a £50 per month increase in the minimum wage. Jospin was going to do that anyway. Furthermore, had the PCF decided not to participate, that would have had little effect on the government's ability to govern, despite the parliamentary arithmetic. From 1988-1993, the PS governed despite being in a minority. On every key vote, they simply put down a motion of confidence, and the PCF either abstained or voted in favour.

The PCF had, in forming an electoral bloc with Jospin, effectively junked its own long held virulently anti-Maastricht policy, the basis of years of ogling the chauvinist right of the main bourgeois parties—figures like Seguin and Pasqua—as potential allies in a patriotic front to oppose it. Jospin may have moved towards a more critical position vis-a-vis the austerity measures needed to get EMU but he is still fundamentally loyal to the project.

The PCF will not form any kind of "left conscience" of the government, nor can it realistically put any parliamentary pressure on Jospin.

The real importance of its participation - which, like that of 1981-84, only involves relatively minor posts (Transport, Youth and Tourism) - is that it directly implicates the PCF in all that is to follow. And if, as seems probable, the state of the economy prevents the Jospin government from realising even its minor promises relating to unemployment, the PCF will have to put up or shut up.

The new Transport minister is PCF member Jean-Claude Gayssot. In another life he was a railworkers' union official. This may prove useful at some point in persuading the railworkers to accept attacks that they have so far successfully resisted. Even sooner he will certainly be called on to face down the airline pilots at Air France when they undoubtedly launch further strikes to defend their pay and conditions against the restructuring plans the new government has inherited from Juppé.

The reorientation of the PCF is often presented as being the work of

effectively cut the ground from under the feet of Jean-Marie Le Pen's fascist Front National, providing a "respectable" rallying-point for right-wing opponents of Maastricht.

One of the explanations for this discrepancy between the will of the ruling class and the views of its political parties is the role of right-wing parties under the Fifth Republic, set up in 1958, and tailor-made for General de Gaulle and his semi-bonapartist view of bourgeois democracy.

In the Fifth Republic, as conceived by De Gaulle, all power emanates from the Presidency, while the function of the Assembly is primarily to express the will of the President. The role of right-wing parties in this system is thus, essentially, to mobilise support for Presidential candidates. None of them are like any of their apparent equivalents in Britain, the USA or Germany.

For example, Chirac's RPR was set up in 1976 as a machine for getting Chirac elected as President. Using widespread corruption and nepotism, and based on Chirac's control of Paris, it was able to do exactly that. However, leading RPR members were utterly divided when it came to the Maastricht referendum. The RPR does not represent a coherent political position.

The other right-wing party, the UDF, is really a coalition of various parties, many of which only have a few hundred members. Its continually changing constellations of alliances are generally of little interest to anyone outside its narrow ranks, and they rarely accurately reflect debates within the real ruling class.

While the bourgeoisie was - and is - strongly in favour of European union, the same could not be said for the population as a whole, and especially for the working class, which tended to vote "no", encouraged by the nationalist leaders of the PCF. The Communists sought to use the occasion to open up its age-old fantasy of an alliance with a "progressive" (in this case, profoundly nationalist) wing of the bourgeoisie.

Like Pasqua and Séguin, the PCF concentrated their attacks on the "loss of sovereignty" implied by further steps towards European union, and spent much time pleading in favour of the independence of the franc! Unfortunately this nationalism, coupled with genuine fears as to the implications of meeting the convergence criteria, seduced many working class voters.

The closeness of the 1992 referendum result revealed a profound uncertainty among the French electorate that the promised gains of Maastricht would be worth the sacrifices. This impression was reinforced by the class struggles that erupted the following year, after the crushing victory of the right wing parties in the legislative elections and the opening up of a second period of "cohabitation" in which the President (elected every seven years) was at odds with the government (elected every five years).

The pressures of Maastricht

At the same time as the right-winger Edouard Balladur became Prime Minister, the need to meet the convergence criteria began to make itself felt (the budget deficit was running at 4.5%, as against the 3% Maastricht limit) and the European Commission began to apply its policy of deregulation. The result was relatively easy to foresee: the class struggle in France increasingly took on the form of responses by workers and youth to policies that were the direct or indirect consequences of steps towards EMU.

In 1993, the opening shot was fired by the government as the nationalised airline, Air France, took the first steps towards its eventual privatisation, as demanded by the European Commission. The projected removal of state subsidies immediately led to a threatened 4000 job losses and a pay reduction of 30%. Determined rank and file strike action, including the occupation

Balladur backed down, setting a precedent that has been followed ever since, and that will presumably be applied with even greater sensitivity by the new left-wing Jospin government when it faces working class opposition

its new leader, Robert Hue. But most of the organisational and political changes that have led the PCF back into government were undertaken by Hue's predecessor, the veteran Stalinist hatchet man Georges Marchais.

It was Marchais - who today represents the more conservative wing of the Party - who abandoned the bureaucratic parody of "democratic centralism" that disfigured the party, who allowed oppositionists to express themselves in the pages of the party's daily paper, and who then handed over power to Hue, a relative unknown.

Hue has merely pushed this process to its logical conclusion. On the symbolic front, the party has abandoned the hammer and sickle and is musing about a change of name. More important has been its political evolution.

Hue, since he became leader, has showed a poor grasp of the political situation but also an unbridled opportunist appetite. In 1995, judging the right to be in the saddle for a long while, as the Juppé government prepared its full scale attack on the working class, Hue proclaimed a policy of "constructive opposition" by the PCF.

He undertook a series of long tête-à-têtes with Chirac. When the whirlwind of class struggle swept through France in November-December, the PCF was nowhere to be seen, giving the lame excuse that this was a "social" struggle and not a political one!

Participation in Jospin's government marks yet another step in the social-democratisation of the PCF. If it again accepts responsibility for austerity policies it may well find itself without any future. Its influence on the working class and in the CGT trade union is far weaker than in 1981-1984. If it were to consciously stand with the government against a wave of class struggle, it would be swept away.

That, no doubt, forms part of Jospin's calculations, just as it was part of Mitterrand's long-term plan to reduce the PCF to impotence. Indeed Mitterrand came near to achieving his goal. Between 1978 and 1984, the PCF plummeted from 21% of the vote to 8%. It has never recovered its place. The 50% jump in the number of the PCF's National Assembly seats is not due to any increase in the share of the popular vote, which stubbornly remains fixed below 10%. It was due to an agreement with the PS over "who stands where" for the left in the second round ballot. Thus, it increases the reliance of the PCF on the PS rather than increasing its room for manoeuvre.

In Italy the "reformed Stalinists" of Rifondazione Comunista have increased their support over the last two years by skilfully combining general backing for the PDS-led government from the outside with opposition to a series of budgetary measures. This has enhanced its left reputation in the eyes of many workers.



PCF LEADER HUE (RIGHT) AND JOSPIN

But the PCF was fatally discredited in the eyes of many of its electors by its role in office in the 1980s and this support has withered, even in its traditional "red belt" around Paris. Its support is now more regionally based. It knows that it would have little leverage on a government from outside as a result of this decline. It prefers, therefore, to seek influence from within.

It seems unlikely that its participation in government will do anything to bring significant reform. The PS is likely to gain credit for any reforms while the PCF would be tarred with the brush of any attacks.■

of the runways at the Paris airports and pitched battles with the riot police, led to the sacking of the Air France boss and the temporary dropping of the austerity programme.

Balladur backed down, setting a precedent that has been followed systematically ever since, and that will presumably be applied with even greater sensitivity by the new left-wing Jospin government when it faces working class opposition.

Six months later, in spring 1994, the government again provoked massive unrest, this time among the youth, when it tried to launch a major attack against pay levels in the form of a "five year plan for jobs". The project of a new, lower, minimum wage for youth - the "CIP"- led to major demonstrations throughout the country, as a new layer of young militants, many of them still at school, took to the streets and fought with the riot police.

The battle that rocked France to its foundations in November-December 1995 immediately revealed the fault-lines of an unbridled neo-liberal agenda

Yet again, Balladur backed down and the "five year plan" ended up lasting less than five months. The convergence criteria seemed further and further away.

Even in other areas of reform the government - which held over 80% of the seats in parliament - repeatedly showed its fundamental weakness. For example, a reform of the funding of private education, much favoured by the religious right, was abandoned when over a million people demonstrated in Paris at the beginning of 1994.

The reasons for this weakness were simple. Quite clearly, with such a crushing majority, the parliamentary arithmetic would have given Balladur all the support he needed. What he lacked, however, was time. President Mitterrand's term of office was to come to an end in May 1995, and the seven-year presidency would provide the right with enough breathing space to press home the attacks and, like Thatcher and Reagan, reap the durable benefits.

Because the Presidential election was due in 1995, Balladur did not have the political breathing space necessary to be able to press home any of his attacks. At best, therefore, Balladur could only hope to test the water as vigorously as he dared, make whatever advances he could, and then launch a decisive offensive after the Presidential election in 1995.



But Balladur's get tough campaign floundered when Chirac went to the polls on a blatantly populist and lying platform, criticising the "social fracture" caused by unemployment. In keeping with his lukewarm support for a "yes" vote in the referendum and his new-found populist turn, Chirac argued that Europe would have to be more "social". In fact rather as Blair stole the Tories clothes, Chirac stole the traditional policies of the Socialists.

Chirac's political manoeuvres have a cynical and short term character. Telling a load of a brazen lies just to get enough electors to vote for him, rather than for the discredited socialists, naturally brought its reward and fast!

Feigning surprise at the state of government spending as soon as he came to power, Chirac's new Prime Minister, Alain Juppé, launched a new round of spending cuts, a wave of privatisations and began to take on the "hole" in the funding of the massive joint state health and pension system, the "Sécu".

This was to be his undoing. Despite having rapidly parted company with his Finance Minister, one-time fascist thug Alain Madelin, because of his overly-muscular threats against civil servants at the end of Summer 1995, Juppé quickly adopted exactly the same neo-liberal stance. He launched a series of ill-prepared attacks against pension rights in the public sector, and in particular against the vanguard of the working class, the railway workers.

The battle that rocked France to its foundations in November-December 1995 does not need re-telling (see Trotskyist International No19, January 1996). It immediately revealed the fault-lines of an unbridled neo-liberal agenda, irrespective of whether this is put into operation in the framework of the Maastricht criteria or not.

Despite the fact that it had been able to impose its "reform" of the Sécu in the face of the millions of demonstrators, the initial response of the Juppé government to the 1995 movement was to scale down its attacks. The privatisation of the massive Thomson electronics company was suspended, as was a programme of sackings at the debt-ridden state-owned bank, Crédit Lyonnais, while all talk of fundamentally reforming the SNCF railway company was abandoned.

But the logic of Europe-wide deregulation continued to make itself felt in the most unlikely places, including among the small, private road-haulage companies. In autumn 1996, faced with continued attacks against their wages, conditions and pension rights in the name of European competition, the truck drivers went on strike, rapid-

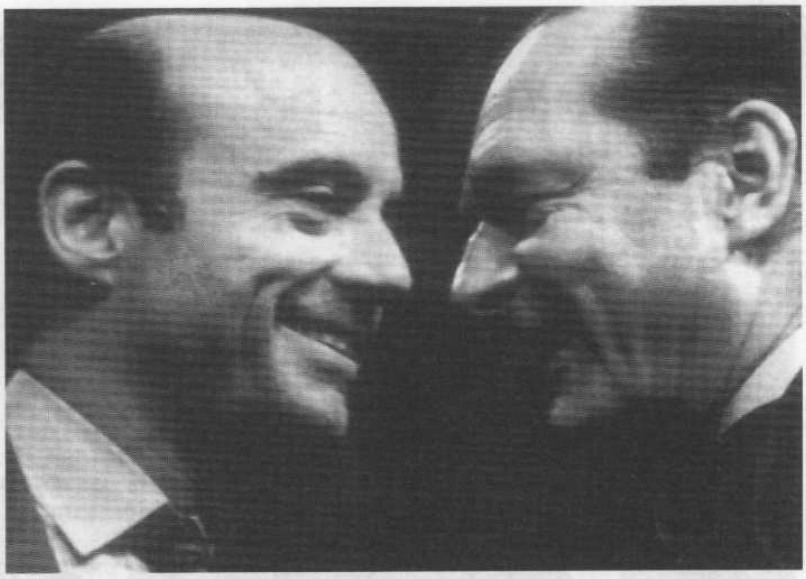
ly bringing much of the country to a halt as oil refineries were unable to deliver petrol.

At the same time, the new techniques of just-in-time production that have spread throughout much of European industry, particularly in car production, meant that after a few days on strike the lorry drivers were able to stop production in car plants in France, Spain and Germany as they ran out of vital components.

The truck drivers' strike revealed both sides of the bosses' Europe: their neo-liberal criteria threaten workers' living standards, while the growing integration of the economy tends to generalise and broaden struggles and makes their system of production all the more vulnerable.

Thus the stunning electoral defeat for the right was a direct product of the battering it had taken at the hands of French workers over the last two years. Why on earth Chirac and Juppé imagined that these workers would give them a mandate to repeat all these attacks is hard to say.

Perhaps for the same reason that the mighty Chancellor Kohl has lost his golden touch over the last year or so, blundering into conflicts with the unions from which he has had to beat an undignified retreat. It is unwise to develop a contempt for the working class because of the wretched cowardice of its reformist leaders.



Why Chirac and Juppé imagined that the workers would give them a mandate to repeat the attacks of the last four years is hard to say

After the Left's victory

The Socialist Party's electoral victory is not only a massive slap in the face for Chirac, it also threatens the 1999 deadline for the single currency itself. Having accurately read the public mood, Jospin has made clear that he will not go ahead with the existing Maastricht criteria. At the beginning of the campaign he promised not to implement them at the expense of workers.

This pledge was, perhaps wisely, dropped soon afterwards, allegedly following the intervention of the Godfather of European imperialism, Jacques Delors. But the French economy, following the traditional pre-election round of tax reductions, is heading for at least a 4% deficit, even according to official figures.

Moreover, if Jospin is remotely serious about implementing his campaign pledges on the minimum wage, and creating work for 750,000 unemployed (partly through new government jobs) then this would blow a huge hole in the budget deficit.

A looser set of Maastricht criteria and/or a slower timetable for the Euro, while having many dangers for the project of European integration, could give Jospin room to manoeuvre to implement parts of his reform programme. After all, if Jospin were to try a turnaround similar in scale to Chirac's in 1995 it would undoubtedly meet a similar response on the streets. The utter discredit that would result may benefit the FN and then Kohl could kiss his European dream goodbye.

The FN also casts a shadow over the future fortunes of the establishment, right and left, in France. If the new Socialist Party government turns into a carbon copy of its left predecessors - a few left words followed by neo-liberal attacks - and if the trade union leaders are able to repeat their treachery of 1981-1984 and hold back workers' struggles, then the ultimate winner could turn out to be the Front National.

Similarly, a protracted period of stormy "cohabitation" is likely to damage Chirac and the republican right. According to the Constitution of the Fifth Republic, defence and foreign policy are the "protected domains" of the President. While it was relatively clear what this meant in 1993, and even more so in 1986, what is "foreign policy" today? Are the Euro and its convergence criteria part of "foreign policy" or do they come under the domestic prerogatives of the Prime Minister?

These are not merely end-of-term puzzles for students of the French Constitution, they are the key terms of a debate that may be fought out every week in the Socialist cabinet meetings that are presided over by . . . the Gaullist President. A period of crises and internal tensions seems likely to open up and once again the FN could benefit.

This fascist front gained its highest ever score, despite a low-key campaign and being faction-ridden and in open conflict over the succession of its führer, Jean-Marie Le Pen. Le Pen - or his successor - will be waiting in the wings if Jospin fails to deliver the goods desired by the mass of the population - a social Europe, the preservation of the welfare state, and more jobs.

Over a third of the population has no confidence in either the traditional right or the left. Corruption scandals and blatant legal rule-bending have characterised governments throughout the Fifth Republic and the FN gains from the resulting cynicism.

Already some leaders of the right are musing about how they can pre-empt their decline at the hands of the FN by fusing with it! This is music to the ears of FN leader Mégret who has always seen the growth of the FN as coming from the recomposition of the "republican" right rather than the mere accumulation of old-time fascists and vicious racists which was put forward by Le Pen.

However, the last period shows that the wind is not yet blowing in the FN's favour. Despite their election successes, in each of the key events of the last few years, in each of the major confrontations over the consequences of the steps towards European integration, the FN was completely sidelined when the workers or youth took to the streets. In November-December 1995, or in the youth struggles against the CIP, the FN's vile racist rhetoric was blown away by the wave of solidarity and mass demonstrations.

This shows that, as long as French workers fight to defend themselves against any impending attacks, as long as they struggle to impose pay rises, job creations and reductions in the working week with no loss of pay, then the FN threat will turn out to be a damp squib. But purely defensive struggles cannot go on forever. Either workers must raise the class struggle to a higher, offensive level or they could, eventually, suffer a strategic defeat such as British workers suffered in the mid-1980s. Then the FN's turn might indeed come.

Building a revolutionary party in opposition to the reformist betrayals of the PS and PCF will thus be a key task in the coming period, providing the means not only to sweep the FN scum from the street, but also to make sure that the united Europe that is built is a workers' Europe, not a bosses' paradise.★

WHERE IS GERMANY GOING?

The last year has seen a dramatic rise in class struggle in Germany. Militant strikes by engineeers, miners, builders and steelworkers have taken bosses and union leaders by surprise. **Martin Suchanek** draws the lessons of the struggle so far

THE EVENTS of the last year have highlighted three important features of the present political situation in Germany.

Firstly, a serious division exists within the capitalist class over strategy. Secondly, the fighting strength and self-confidence of the working class, particularly of its best organised sectors, remains high. Thirdly, although the structures of institutionalised class collaboration ("social partnership") established in the years after the Second World, still form the framework within which struggles take place, they are becoming more and more of an obstacle for both main classes in German society.

The German capitalist class and its divisions

The tempo of German politics began to quicken as a result of the March 1996 regional elections in Schleswig-Holstein, Baden-Wurttemberg and Rheinland-Pfalz. The Social Democratic Party (SPD), was defeated and the most consistent advocate of neo-liberalism in Germany, the Free Democrat Party (FDP), increased its vote. This encouraged the more aggressive wing of the bourgeoisie both in government and in the bosses' associations.

An important austerity package was immediately pushed through by the government. In September, emboldened by the feeble protests of the unions and the parliamentary opposition, the government changed the law on sick pay, cutting it from 100% to 80% of normal pay.

This attack was both provocative and symbolic. The right to full pay whilst ill was the result of the longest strike in post-war Germany. In 1956 the metal workers of Schleswig-Holstein won this after a six week stoppage; eventually, it became the standard for all German workers.

However, the change in the law did not automatically apply to all workers. The actual level of sick pay (as well as working hours and other conditions of work) is regulated by the "Tarifvertrag" a system of regional collective bargaining between the bosses' association and the union for each industry. These agreements are legally binding for the negotiated period.

Encouraged by the government and most of the bosses' associations, a faction of the German bourgeoisie, most notably Daimler-Benz, decided unilaterally to renounce the Tarifvertrag for engineering workers and to pay only 80% sick pay from October 1996.

This would have decisively undermined the whole bargaining system. It would have meant that the capitalists were able to rip up an agreement whenever it pleased them. It would have shifted the balance of forces within the German bourgeoisie substantially in the direction of its confrontationist wing.

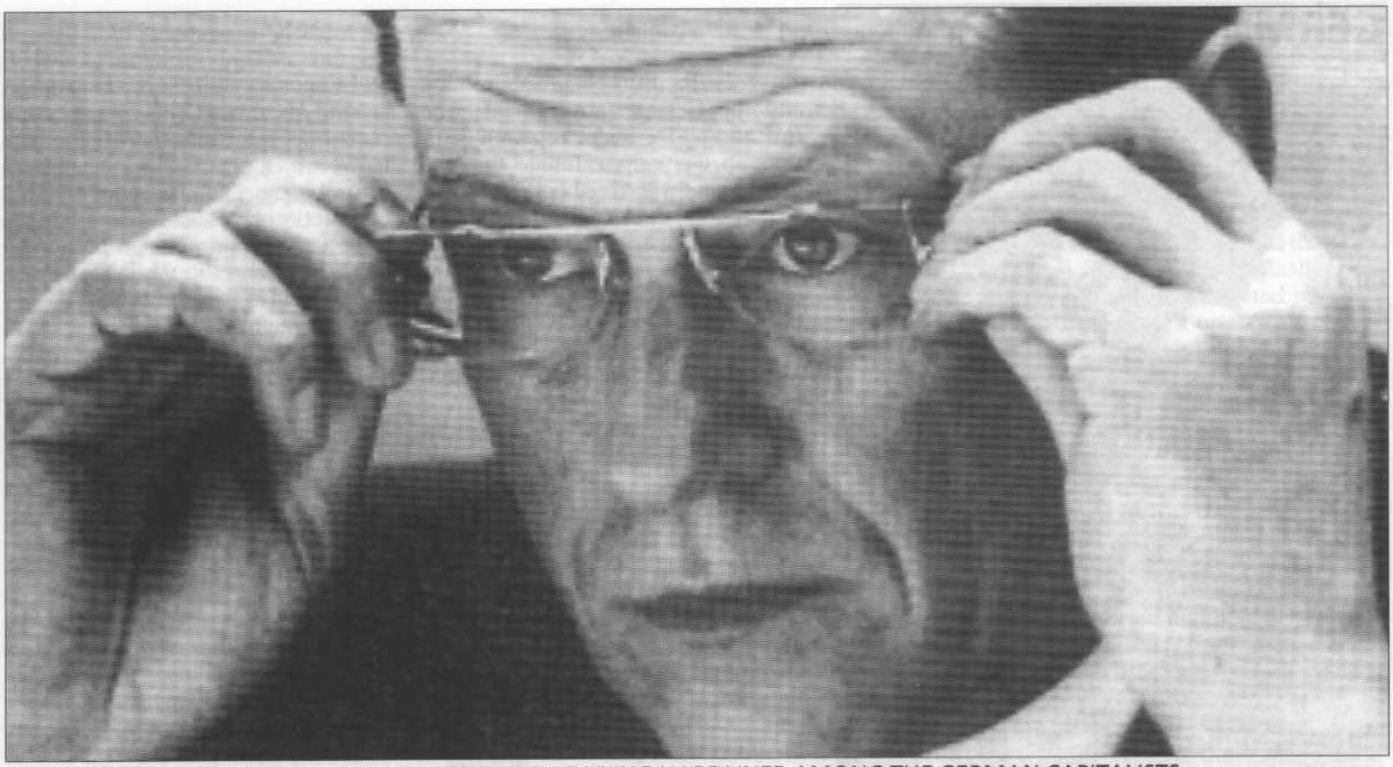
However, after a week of struggle, which included massive strikes at Mercedes car plants and even the emergence of elements of an alternative leadership at shop floor level, the pressure of the working class forced the bosses into unceremonious retreat. The militancy created huge pressure on a fault line within the capitalist class and its unity fractured.

Some of the big companies – like Volkswagen and Preussag – refused from the very beginning to join in the attack on the workers over this issue. Others, like BMW, Opel (General Motors) and Siemens watched from the sidelines, waiting to see who won.

The outcome was clear within days and the government's confidence collapsed. Having originally urged on the bosses by changing the law, Chancellor Kohl now whimpered that the attack on the Tarifvertrag "was never intended". On the contrary, he understood the "justified anger of the unions" even when the unions threatened generalised strike action in defence of the Tarifvertrag system.

The division over sick pay is one of several within the bourgeoisie over political and economic strategy for Germany. The more "aggressive" wing is itself a coalition. On the one hand, there are various uncompetitive small and medium enterprises which can only see a radical improvement in their position coming about through a slash and burn policy on workers' rights, wages, health and safety at work, job security and welfare benefits.

On the other hand, the leading faction of the hardline camp is a wing of German multi-national capital, such as Daimler-Benz. This faction is convinced that Germany will not be able to lead a united European imperialist bloc against the US, Japan and others



JURGEN SCHREMPP, BOSS OF DAIMLER-BENZ AND LEADING HARDLINER AMONG THE GERMAN CAPITALISTS

if it does not break the social power of its own working class.

While recognising the past benefits of class collaboration and the integration of the labour bureaucracy, the "hardliners" are now resolved to overthrow the whole system of "social partnership", even if it means a decisive showdown with the working class.

As yet, other sections of the bosses remain unconvinced. They would prefer not to overthrow institutionalised class collaboration altogether, but rather to shift the balance of forces within its framework strongly in their favour.

Volkswagen is representative of this view among the big corporations. The car giant did not rush to impose new sick pay levels but was able to reduce labour costs at least as successfully through a deal with the unions and the Betriebsräte (works' councils).

They got the union leaders to agree to a deal which combined a reduction in the average working week to 28 hours (and a wage cut) with a sharp intensification of work rates and a massive extension in "flexibility". The working week of 28 hours is an annual average; if demand increases, workers have to work extra shifts without overtime pay. In addition, wages for newly employed workers will be lower than standard rates.

This faction of the ruling class has two important allies. First, the (Catholic) workers' wing of the ruling conservative party (CDU) and, second, the union bureaucracy. They hope that by making concessions they can "repel" the offensive of the "hardliners" and ensure that the resistance of the workers does not break out of the framework of social partnership.

The hardliners within the ruling class are now resolved to overthrow the system of social partnership even if it means a decisive showdown with the working class

The divisions are also reflected in the political physiognomy of the bourgeois parties that make up the ruling coalition. Whilst the FDP, the German liberal party, is the most outspoken advocate of overthrowing the post-war system of economic management, the CDU and CSU are themselves deeply rooted in that system.

These so-called "peoples parties" include organised factions of conservative workers and petit-bourgeois within their ranks. Their sectional and class interests have to be mediated and meshed with the strategic objectives of German finance capital. In that sense, unlike the British Tories under Thatcher, these Christian Democratic parties are themselves a reflection of the German post-war order. As a result, those who favour an attack on social partnership are beginning to call for a reshaping of these parties themselves.

There is a wing of the CDU which sees the need for such a shift. It includes the leader of its parliamentary fraction, Schauble, and the so-called "wild bunch" (Junge Wilde), who are a number of regional CDU leaders in their 40s and 50s, an age considered "young" in German politics.

The political problems of the hard liners are expressed in the position of the FDP, the present junior coalition partner. As the self-proclaimed party of the "better off", the FDP articulates the programme of attacks on the welfare state much more clearly than the CDU. However, this has put in question its ability to gain the 5% of votes necessary to have any seats in parliament.

However, although the hard liners moved to the fore after the elections of last spring, the battles of last autumn have shifted the balance of forces back towards the class-collaborationist wing which could lead to the formation of a "grand coalition" between the CDU and SPD after the next elections.

Given these divisions, Helmut Kohl acts as a mediator between the factions. To date, he has commanded obedience because he has already delivered one historic victory for the German capitalist class – reunification with East Germany.

The EMU and the German bourgeoisie

There is another factor which makes the maintenance of institutionalised class collaboration more important in the short term but, at the same time, much more difficult: the creation of a federal Europe.

Despite their differences, all wings of German finance capital are keen to push on towards European monetary union. For them, this is the crucial next step in challenging US and Asian capital. Therefore, being "pro-European" is a pre-condition for every German government which claims to act for the bosses.

However, the German capitalist class is not entirely of one mind even on this. Small and medium-sized firms and the subsidised farmers in West Germany (an important conservative electorate) are all sceptical and, indeed, opposed to monetary union and the "loss" of the Deutschmark. Their alternative to the "euro" is economic nationalism.

They are stronger numerically than they are politically. That is the result of the slavishness of all the parliamentary parties to the interests of the big bour-



GERMAN MINERS DEMONSTRATE IN BONN

geoisie. Unlike France or Britain there is no significant sector of the major industrial and financial groups which opposes the "euro". Consequently, the economic nationalist outlook only finds a political expression in the right-wing populist and racist parties and the right wing of the Christian Democrats.

The reasons for the absence of any anti-European German monopoly capital are clear: a unifed European market and a common currency – operated to "German" standards – would reduce costs for German industry and allow for a certain "export" of its inner social conflicts to the other European Union states since German industry is generally more productive and more advanced than the rest of Europe.

In April, after striking and taking over their pits, the coal miners of the Ruhr and Saar marched on the capital, Bonn. Up to 10,000 miners effectively occupied the city for three days

Maastricht criteria and the state of the economy

A number of surveys of Germany's progress in meeting the Maastricht criteria have recently been published. Most are agreed: the chances are slim if the criteria are applied strictly. Only two sources think that the government will reduce its budget deficit below 3 percent – the European Commission and the German government! The IMF and all the major research institutes in Germany estimate that the government will overshoot this target. Total public debt is also likely to be above the Maastricht criteria at around 61.8%.

It is therefore highly likely that the German bosses will try to relax the criteria, emphasising the "tendency" rather than the goal. In addition, Finance Minister Waigel has secured a "stabilisation pact" which would ensure that the states introducing the "euro" will stick to the Maastricht criteria in the following year.

The debate around the Maastricht criteria shows how "consistently" the bourgeoisie or its political parties follow their own advice when strategic interests are at stake. The German government is planning to face down the outraged central bank (Bundesbank) and revalue its gold reserves, thereby "adding" DM25 billion to state revenues in 1997 and 1998. By such "imaginative bookkeeping" it will aim to get closer to the Maastricht criteria.

This does not mean that the attacks on welfare, wages, and immigrants will now decrease, but it clearly reflects an unwillingness of the German bourgeoisie and its government to push through a really decisive attack on the labour movement in order to achieve the single currency on time. The government's weakness is made all the more clear by the fact that it is even prepared to challenge one of the sacred cows of German politics: the so-called "independence" of the Bundesbank.

The German economy is still in great difficulty. Growth has been very low over the last two years, managing a mere 1.2% in 1996. Whilst the economy is expected to grow at around 2%-2.5% this year, this will come almost exclusively from an increase in exports; the domestic market will continue to stagnate. The former East German region has been hit particularly hard and growth there has now fallen below that in West Germany.

Such insipid growth will not lead to any fall in unemployment. Virtually every month brings a new post-war record. At the end of February, 4.6 million (13.5%) were registered as unemployed; an increase of 400,000 in a year. Independent estimates put the real figure between 7-8 million.

Some parts of the working class are hit particularly hard by unemployment. In construction it is at 18% (400.000), while 22% of all immigrant workers are jobless. In the health service, there has been an increase of around 25% in the number of unemployed during the last year, mainly as a result of cuts.

In addition, over the last four years, real wages have declined on average around 1% a year. This average conceals important differences; the gap between well organised workers in the central sectors of the economy and contract workers has increased, an important fact since the proportion of contract workers in the labour force has doubled in the last few years.

Class struggle over the last year

Despite these difficult economic conditions there has been an increase in class struggle over the last year. After the partial victory of the workers in autumn 1996 there has been a series of disputes over the winter and during the spring.

In April, after striking and taking over their pits, the coal miners of the Ruhr and Saar marched on the capital, Bonn. Up to 10,000 miners effectively occupied the city for three days. In Saarbrücken, 30,000 blockaded the major motorway in the Saarland. In the Ruhr, hundreds of thousands took part in various local and regional days of action.

The actions of the miners had a strongly spontaneous element to them, directed against the trade union bureaucracy and the Betriebsräte. In Bonn they effectively stormed the FDP headquarters and were able to break through the police lines around the parliamentary buildings.

The whole dispute erupted when the government announced cuts in state subsidies for coal production. Instead of pushing for a complete withdrawal of the cuts, however, the unions and the SPD made a deal with the government for a longer timetable for cuts and the introduction of early retirement. Although some Saar miners saw this as a victory, the Ruhr miners were more sceptical. Nonetheless, at the end of the day, the union leadership emerged with its reputation enhanced.

The SPD was very prominent in the dispute. It openly backed the miners while they were in Bonn, organising food for them and sending the parliamentary leaders to give their solidarity. On the whole, the SPD representatives were much more radical in their rhetoric than the trade union leaders.

In mid-March, Berlin saw several days of action by building workers, organised by their union (IG BAU). Workers tried to occupy building sites at the Potsdamer Platz and in front of the Reichstag to back up their claim for a minimum wage (albeit a low one of 18 DM/£6.50 per hour) for all building workers including immigrants and against the hiring of cheap labour. They were also fighting for 100% sick pay.

Compared to the miners the political consciousness of the building workers was relatively low. There was also an

important, if small, racist element to the whole mobilisation. This was not challenged by the union bureaucracy but rather strengthened when they called on the police to supervise building sites to prevent employers hiring illegal immigrant labour. In the end, a slight wage increase and 100% sick pay was won, but only in exchange for a significant reduction in holiday pay.

In terms of the political consciousness of the workers involved, the strikes and demonstrations by the steel workers at Krupp and, especially, at Thyssen were the most advanced of this recent wave. The dispute started when Krupp tried to take over Thyssen (the bigger and more profitable company), in a move backed by the Deutsche Bank and the Dresdner Bank. This could have led to 8,000 sackings almost immediately.

From the outset, the Betriebsräte and the IG Metall union were in command of the situation and the workers' trust in their leaders was and is quite strong. The big steel plants were occupied for several days and the protest culminated in a 30,000 strong demonstration in front of the Deutsche Bank headquarters in Frankfurt.

After mediation by the SPD-led provincial government of North Rhine-Westphalia, a deal was reached which forbids any sackings on the basis of individual plant losses during the fusion between the steel sectors of the two companies.

While the anger of the workers was obviously directed firmly against their bosses and against the banks, there was also a remarkable openness to anti-capitalist slogans in general.

In addition to these major struggles there have been many smaller disputes over the last few months, including strikes at Lufthansa, occupations by printers in Magdeburg and by carpenters in Ribnitz. The majority of these have been in response to the threat of closure or attacks on working conditions.

Balance sheet of the struggles

Analysing these strikes and occupations, a certain pattern emerges. Most have started with an attack by the bosses which has provoked a militant, determined resistance by organised workers, but one not necessarily called for by their leaders. Although several have involved confrontations with the police, public opinion has been very sympathetic to the strikes and the goals of the demonstrators.

Where demands and actions have threatened to go beyond the aims of the union leaders, they have regained control by backing them, whereas in the past they have oftened condemned such militancy. Eventually, the bosses have retreated and the bureaucracy has negotiated a compromise, often with the involvement of the SPD.

The disputes, therefore, have remained within the framework of "social partnership". The sections of the capitalist class involved have not been prepared to face down the strikes and stick out for their original demands. In fact, the German bourgeoisie has been more successful in its partial attacks when it has drawn the union leaders and the SPD into working out a solution.

The Krupp dispute started when the firm tried to take over Thyssen in a move backed by the banks, which could have led to 8,000 sackings

Typical in this regard has been the privatisation of the post office which is now well under way. About 7% of the total workforce lost their jobs in 1996 and not one of these job losses met with resistance because they were negotiated with the works' councils and the union and have largely been the result of early retirement and a freeze on recruitment, rather than compulsory sackings. A similar pattern can be observed on the railways.

A second pattern emerges on looking at where the struggles have taken place. Most of the disputes have been in the former West Germany; all the significant and high profile strikes this year took place there. Yet in the former GDR wages are still below the level in the West and unemployment is higher. Most workers in the East are not paid nationally agreed rates, often with the connivance of the unions.

The reason for this unevenness lies ultimately in the historic defeat suffered by the East German workers in 1990 when they surrendered much of their established social protection during the process of capitalist reunification. The legacy of this defeat is still to be overcome. In some ways, its full effects on the fighting capacity, confidence and consciousness of the working class in the former GDR are only now being seen.

This state of affairs is more or less openly accepted by the official leaders of the labour movement. This constitutes a grave danger for the German working class, since the depressed confidence and lower expectations of the workers in the East could be used to undermine the gains of the working class in the West, if the policy of the labour movement across the whole country is not radically changed.

Even more importantly, in many plants, the workers went on strike before the unions had called them out. Indeed, IG Metall had originally envisaged a much more limited response against the attack on sick pay. But – usually led by the trade union representatives at shop floor level – the workers did not wait for the bureaucrats.

Political mood of the working class and the strategy of the reformists

The struggles of the last months have led a significant number of workers to recognise that a political change is necessary, and that defensive economic struggles are insufficient if the working class as a whole is to defend its established conquests and fight rising unemployment.

In their own way, the trade unions leaders have taken up this mood, "reminding" the workers that there are elections next year – and that there is time to oust the government. This has two purposes. Firstly, the trade union leaders are frightened that a major dispute may spark off a generalised fightback rooted in the factories and on the streets, which would seek to bring down the government by means of a mass political strike.

In this they clearly share the fears of the more cautious elements of the capitalist class who would prefer to pursue their piecemeal attacks and to draw in the union leaders, rather than pushing them into an open fight. As partners in this cautious strategy, the leaders of the DGB (the German TUC) and the major industrial unions, have



STEELWORKERS TAKE OVER THE STREETS OF FRANKFURT



NOVEMBER 1996 PROTEST AGAINST THE GOVERNMENT LED ATTACK ON SICK PAY

been anxious to assure the bosses that they are firmly opposed to bringing down a "democratically elected government" by strike action.

Secondly, the horizon of the trade union bureaucracy extends no further than the election of an SPD-led government. Despite the SPD's extremely cowardly politics and rightward trajectory during the 1980s and early 1990s, there is a discernible shift towards the SPD within the working class, if not by reason of a passionate regard for its programme then at least because it is the only alternative on offer. For the first time for nearly a decade, the SPD is now ahead of the CDU/CSU in the opinion polls; the ruling coalition would clearly lose its parliamentary majority if a general election were held now.

The conflict within German reformism is not one between the unions and the SPD. Rather, it runs through both organisations

Yet the relationship between the SPD and the strike movement of the last period is not all one-way; it has had an effect inside the SPD itself. For the first time in many years, the SPD appeared openly on the demos. It even promised to reintroduce the legal requirement for 100% sick pay, to defend the current level of pensions (which are planned to be cut from 70% of the last wage to 64%), to tax speculative profits, to invest in industry to create jobs and to penalise companies which do not train a minimum number of apprentices. Most importantly, using its majority in the second (federal) chamber of parliament, the SPD has blocked or delayed an increase in VAT and certain cuts in welfare spending.

Likewise, the unions ensure that at nearly every major trade union rally, speakers from the SPD are on the platform. The character of the SPD as a bourgeois workers' party has become much more obvious in recent months, as have the illusions held by the majority of the organised working class in this party. By contrast, the other bourgeois workers' party in Germany, the PDS (the ex-Communist Party in the GDR) has not gained significantly from the recent mobilisations and was much less visible in them.

However, opinion is divided within both the unions and the SPD over a future coalition partner for the SPD. The IG Metall, the DGB itself and some smaller unions are more or less advocating a pact with the Greens (and, if necessary, the PDS). Others, like the IG Chemie or IG Bergbau are open to (or even in favour of) a "grand coalition".

Likewise there is also a debate within the union bureaucracy on how much to promise the working class. Even though the existing promises are quite limited compared to the "reform programmes" of the 1970s, there is a strong current of opinion that thinks that even these are too much. This is not because they think the promises will raise workers' expectations too high, but rather because they would alienate every section of the bourgeoisie from the first day of an SPD-led government.

That is a decisive consideration both for the SPD leaders and the union hierarchy. For them nothing comes before the formation of a bloc with the "enlightened" and "reasonable" capitalists, against the "speculators". In exchange for this they are prepared to offer quite a lot. Over the last few years, the labour movement has surrendered many important positions. For example, in the 1980s it was inconceivable that any trade unionist (including the leaders) would accept a reduction in the working week if it meant a cut in pay.

Now, even IG Metall is offering precisely this. Moreover, at an SPD congress in May, Schulte, the DGB-chairman, recently offered a further dilution of the standards set by regional bargaining, sanctioning worse working conditions or pay levels if companies can prove an "economic need". At the same time, he indicated that he was prepared to "speak" about a reduction in the levels of pensions in the long term, thus outflanking the SPD from the right.

Elements of a new vanguard

The conflict within German reformism is not one between the unions and the SPD. Rather, it runs through both organisations. Inside the unions it has reached, there are embyronic signs of an organised left opposition in the fac-

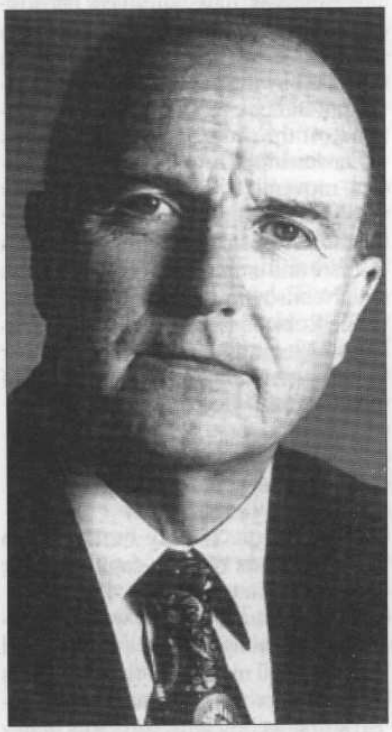
tories and within the regional bureaucracies, elements of a rank and file movement and of a new class struggle vanguard of the German working class.

There are three principal sources of this opposition. First, factory or company based opposition groups have emerged which are sometimes loosely co-ordinated between sites or branches of industry. Some of these groups, such as the Kollegengruppe at Mercedes Bremen – whilst not initiating the actions – have played an important role in articulating opposition to the bureaucracy. They have served to raise demands on it and have organised the actions in a very democratic way at the shop floor level, through daily decision-making assemblies of the whole workforce, for example.

Generally, we can say that the leaders of the struggle last autumn are to be found amongst the shop floor trade union representatives. They were the ones who reacted immediately to the workers' demands for action (or initiated them) and thereby went beyond the plans of the I G Metall leadership. In addition, the strikes have thrown up a whole layer of younger or newer members of the unions who were very active and developed politically through the mobilisations.

Secondly, there is mounting tension within the apparatus of several key unions. This hasled to various oppositional caucuses in a number of cities (Berlin, Stuttgart) as well as the adoption of resolutions by whole districts rejecting the policy of the national leadership. This is an important (but also ambiguous) development. The German trade union bureaucracy is a very big and – at the top also a very well paid – caste. All in all it employs 15,000 full time officials (not including the works' councillors, the posts in the pension funds, on the supervisory boards of the enterprises etc.).

Factory or company based opposition groups have emerged in the unions, sometimes loosely co-ordinated between sites



KLAUS ZWICKEL, PRESIDENT OF I G METALL, LEADING UNION BOSS

Over the last year, there have been several oppositional resolutions – usually emanating from the political secretaries, who are a kind of transmission belt between the union leaders and the rank and file.

Politically, they are either militant syndicalists or left reformists and very often – a small apparatchik is still an apparatchik – very soft in their criticisms of the lack of internal democracy and accountability in the German labour movement (some even deny that there is such a problem).

Thirdly, there is also a layer of intellectual "advisors" of the left in the unions/factories, left academics or usually anti-party leftists.

In practice, the groups tend to be a mixture of all these elements and may also include members from the smaller reformist organisations like the DKP or centrists of mainly Maoist, but also of Trotskyist origin.

Real weaknesses exist in all these oppositional groups which need to be overcome if the whole promising development is not to end in impotence, demoralisation or the creation of yet another reformist current.

This opposition is not only politically very heterogenous, it also does not yet exist as a national force. Consequently, it does not constitute a political alternative to the bureaucracy. To overcome this is not simply an organisational matter. It will involve a political struggle against the deliberately narrow focus on plant-level organisation within many oppositional currents or, similarly, the regionally limited outlook of many oppositional trade union officials and activists.

Some groups excuse themselves because the movement is new and the number and size of groups has increased only recently. But the real problem is one of political perspective; most of the oppositionists do not set themselves the task of actually fighting to replace the existing leadership, or of fighting against the bureaucracy as a whole and for workers' democracy at all levels of the working class movement.

The oppositionists themselves not only borrow some of the ideology of the traditional post-war labour movement, but also tend to accept the crippling separation between "economic" and "political" struggles, which is organisationally expressed in the division of labour between the SPD and the trade unions.

In the end, their aims do not go beyond building a movement, albeit one oriented to class struggle, which can pressure any government or bosses' association and force concessions from them; a kind of "reformism from below".

Such a strategy – however militant and democratic – certainly cannot go beyond the limits of militant syndicalism. In the German political arena this means not only that it will be completely hopeless when it comes to challenging the political power of the bourgeoisie, but will even be unable to challenge the political dominance of the SPD over the working class.

Revolutionaries have to throw themselves into these oppositional movements. It will require loyal, patient and hard work to transform them into a national rank and file movement, committed to militant forms of action and complete democracy and accountability, which would provide the best school for hundreds of thousands to learn the methods of the class struggle.

The "sleeping giant" that the working class in Germany has been for so long, is beginning to rouse itself. It is flexing its muscles. As it stirs into life it will naturally put the old organisations it has to hand to the test, maybe not just once or twice even, but for some time to come yet.

The current phase of German politics is characterised by a developing class struggle, but one confined for now, and almost certainly until the next election in 1998, within the framework of social partnership. It is, therefore, a phase of preparation for the decisive battles between Germany's workers and their bosses. In the short term, the political development of the opposition in the factories and unions will be a crucial factor in determining how these future class conflicts unfold.

Revolutionaries must prepare for future victories by starting now to group together the vanguard of the German workers in a revolutionary party, rooted in the factories and communities, that can codify all the lessons of the unfolding partial struggles, learn from their successes and their failures until one key lesson above all commands the loyalty of millions: that no conquest is safe, no victory permanent under capitalism while the capitalist class endures and its state and institutions dominate the workers.

These must be smashed to the ground and capitalism itself overthrown if workers are really to defend their past gains.★

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RUSSIA

The death a workers'

Keith Harvey examines the contradictions of capitalist restoration in Yeltsin's Russia

IN MARCH this year Russian President, Boris Yeltsin, formed a new government after a major shake-up of his cabinet.

The existing Prime Minster, Victor Chernomyrdin, was pushed to the background while two new first deputy Prime Ministers were appointed – Anatoly Chubais and Boris Nemtsov.

This was no mere cosmetic change of face at the Kremlin. It represented a watershed in the post-1991 history of Russia. For the last five years Yeltsin has tried to balance the competing factions within the post-Stalinist ruling elite while destroying all vestiges of the bureaucratic planned economy.

But putting a capitalist restorationist in the Kremlin has proved easier than carrying out capitalist restoration in Russia.

Yeltsin began with a state machine determined to restore capitalism. His main aim has been to create a viable and functional capitalist class to underpin the efforts of that state machine. However, the state machine itself has – for much of the last five years – been the site of battles waged by the factions of a disintegrating bureaucracy and a rising entrepreneurial elite. On occasions the conflict within Yeltsin's executive threatened to engulf him.

Despite crushing the Communist Party in 1992, despite taming Parliament in 1993 and mass privatisation during 1993-94 – and despite re-election in 1996 – Yeltsin's appointed governments have failed to push his social counter-revolution to the point of restoring capitalism. The many far-reaching changes in ownership rights have failed to complete the decisive shift in the social relations of production and exchange.

The appointment of the latest Cabinet now signals a determination to do just this. As one major western adviser noted recently, "What we are seeing now is a really massive reform offensive"[1]

Chubais and Nemtsov have purged "conservative" opponents and set out a programme that aims to overcome all the remaining structural barriers to capitalist domination of the Russian economy. Their aim is to end the long transition period, which opened in 1992, during which the country has endured the protracted death agony of a workers' state.

Key elements of the new programme include:

- the break up of the monopolies,
- the "war on corruption",
- restoring stable government finance,
- the imposition of laws to allow new owners to push through key changes in the enterprises.

Will they succeed? Yeltsin and his governments have survived because the scale of the suffering of the Russian working class has, so far, not been matched by the necessary level of conscious and co-ordinated political resistance. If the acute and persistent crisis of leadership within the Russian workers' movement is not overcome very shortly and the workers remain passive in the face of the coming attacks on welfare and employment, then Chubais and Nemtsov will probably succeed.

The Rubicon is in sight. But the Russian workers still have it in their power to prevent Yeltsin and his army of restorationists from crossing it.

Two scenarios for capitalist restoration

In 1936 Leon Trotsky outlined two possible roads back to capitalism for the USSR. First:

"If . . . a bourgeois party were to overthrow the ruling Soviet caste, it would find no small number of ready servants among the present bureaucrats, administrators, technicians, directors, party secretaries and privileged upper circles in general. A purgation of the state

agony of state



apparatus would, of course, be necessary in this case too. But a bourgeois restoration would probably have to clean out fewer people than a revolutionary party. The chief task of the new power would be to restore private property in the means of production. First of all, it would be necessary to create the conditions for the development of strong farmers from the weak collective farms, and for converting the strong collectives into producers' cooperatives of the bourgeois type – into agricultural stock companies. In the sphere of industry, denationalisation would begin with the light industries and those producing food. The planning principle would be converted for the transitional period into a series of compromises between the state power and individual "corporations" – potential proprietors, that is, among the Soviet captains of industry, the émigré former proprietors and foreign capitalists. Notwithstanding that the Soviet bureaucracy has gone far toward preparing a bourgeois restoration, the new regime would have to introduce in the matter of forms of property and methods of industry not a reform, but a social revolution."

Trotsky then outlines a second scenario which assumes that neither a revolutionary overthrow, nor a counter-revolutionary overthrow from outside the bureaucracy occurs:

"The bureaucracy continues at the head of the state. Even under these conditions social relations will not jell . . . it must inevitably in future stages seek supports for itself in property relations. One may argue that the big bureaucrat cares little what are the prevailing forms of property provided only that they guarantee him the necessary income. This argument ignores not only the instability of the bureaucrat's own rights, but also the question of his descendants. The new cult of the family has not fallen out of the clouds. Privileges only have half their worth, if they cannot be transmitted to one's children. But the right of testament is inseparable from the right of property. It is not enough to be director of a trust; it is necessary to be a stockholder. The victory of the bureaucracy in this decisive sphere would mean its conversion into a new possessing class."[2]

Trotsky, understandably, foresaw that either the ruling bureaucracy would convert itself into a ruling class, or this bureaucracy would be overthrown from within by an open bourgeois party.

During the actual restoration process, more than fifty years after Trotsky wrote, these alternatives occurred in a modified but combined form.

On the one hand, the counter-revolutionary party emerged as a faction within the Stalinist bureaucracy and, under Yeltsin's leadership, broke with the leading nomenklatura. They destroyed and purged the political core of the bureaucracy – the CPSU – together with the personnel of the key economic ministries of the state planning system. On the other hand, the industrial directors and upper managers of the old state enterprises and many officials within local, regional and city government are undergoing the "conversion into a new possessing class".

The bureaucracy did not "continue at the head of state" as Trotsky foresaw. Indeed, Yeltsin called upon representatives of imperialism from outside the old ruling caste in order to staff his executive. Nevertheless, the thinness of



YELTSIN DEFEATS THE STALINISTS, AUGUTST 1991

this layer meant that they had to rely upon the conversion of many bureaucrats into free-market evangelists who would subsequently work under their direction.

If we combine the two variants we can see that the purgation of the state apparatus, the conversion of the planning principle for a transitional period, the denationalisation of light industry and above all, the social counter-revolution in property forms, have – as Trotsky predicted – been central to the experience of Russia over the last six years.

Naturally, elements of Trotsky's prediction have not been borne out. The collective farms have not been the first to suffer privatisation. Land in general, for industrial or agricultural use, has not been turned into private property in Russia to date.[3]

In addition, and most important, we have to deepen Trotsky's insight that "the chief task of the new power would be to restore private property in the means of production." When Trotsky envisaged this within his second hypothesis (the victory of a counter-revolutionary party from outside the bureaucracy) he clearly believed that such a victory would effect the transformation of the economy quickly.

As it has turned out the social counter-revolutions "in the matter of forms of property and methods of industry" have not been synonymous. The former was achieved rapidly in Russia – within two years (1993-94) the mass of industry was denationalised and handed over to new private owners. But as we will show the transformation in "the methods of industry" (and of trade and finance) did not follow automatically.

On the contrary, the specific feature of the Russian transition has been the enormous contradiction between the form of property ownership and the content of the social relations of production and exchange that lay behind the legal form. This was due to the combined, and hence compromised, character of the transition process. The process has relied on an uneasy compromise between the forces of bourgeois counter-revolution representing interests outside the ruling Stalinist strata[4] and those within it who are seeking to convert themselves into an important section of the new capitalist class.

Constructing the bourgeois state apparatus in Yeltsin's Russia, 1991-97

In the process of capitalist restoration the state is the dynamo of transition. The state has to destroy the old apparatus of economic administration and create the legal and political framework within which capitalist social relations of production emerge. This framework has to define relations between the working class and the new exploiting class and impose the costs of restoration upon the workers. This is the first and most fundamental task of the state machine during the restoration of capitalism.

At the same time the new administration has to establish the ground rules for inter-capitalist competition. The state must act as a general executive of the capitalist class, raising itself above and over the competing capitalists. It has to enforce the general logic of capitalist accumulation against individual capitalists and against blocs of capital owned by the state itself. This second, specifically capitalist, function of the state apparatus generally takes longer to become fully operative.

Neither of these aspects of the state machine emerged fully formed. Like the changes in the economy, the political change is a process: one that started with Yeltsin's victory over the Stalinist nomenklatura in August 1991. This gave Yeltsin possession of the executive of the state machine and with it the loyalty of the bulk of the high command of the armed forces.

With Yeltsin's victory in 1991 and the subsequent dissolution of the Soviet Union, Russia was transformed into a moribund workers' state[5]. This can be defined as a degenerate workers' state in which a bourgeois restorationist government has come to power committed to the restoration of capitalism. The immediate objective is the destruction of those institutions of command planning which had been left untouched by "market socialist" reforms; above all, the break up of the ruling Communist Party apparatus within the state machine and inside the factories. By destroying the "directing brain" of the planned economy the first steps are taken in the "de-politicisation" of the economy. Other early measures included the adoption of a series of laws that recognised the right to own means of production and the unrestricted right to enjoy profits by exploiting labour.

Of the two aspects of the emerging post-Stalinist state machine, the task of imposing the domination of the new embryonic ruling class over the workers is the most immediate. Yeltsin set about this task immediately with the implementation of the economic shock therapy in January 1992.

The big bang; all shock, no therapy

Under Gorbachev's rule (1985-91) the CPSU had loosened the reins of command planning and direct physical resource allocation. Adopting and adapting various reforms implemented in most East European countries after 1968, perestroika edged Russia towards a system of indirect planning in which the enterprises operated with considerable autonomy from ministerial directives. This was achieved through the national supervision of a set of closely connected monetary and fiscal mechanisms – direct subsidies, controlled prices, investment credits and negative interest rates.

Nevertheless, indirect planning was still central planning, in which the planning agencies set definite targets for the pace and content of economic development. In early 1992 Yeltsin's new government quickly ended even this degree of direction, destroying the centralised planning and supply structure.

The effect of this, in the absence of a new capitalist class and an alternative motor of accumulation, was to ensure a fall in material production and investment:

"The European Bank for Reconstruction and Development (EBRD) estimated that real GDP fell by 19% in 1992, 12% in 1993 and 15% in 1994 . . . an awesome decline, which no architect of the economic policies, or adviser or institution pressing for them, had forecast."[6]

The new government saw to it that the burden of this historically unprece-

dented collapse fell on to the shoulders of the Russian working class. It used inflation to impoverish both wage earners and pensioners, by obliterating the real value of their incomes and benefits. With inflation running at 2,300% in 1992 and more than 800% in 1993, wages fell by two-thirds during 1992-94, by which time Yeltsin conceded that half of all Russians were living below the official poverty line.[7]

This fall was engineered by the government so that the value of wages would more accurately reflect the real nature of value added to products by Russian labour when compared to prevailing international levels of labour productivity. This was a precondition for attracting foreign investment and making Russian goods competitive in international markets.

Unemployment increased dramatically, despite the absurdly low figures for official unemployment in Russia – around 2% in 1994. The low official level is explained by a combination of factors, the most important being the low level of benefits, lack of entitlement to them, the difficulty of registering, the stigma and the low possibility of finding another job.[8] Real open unemployment was more in the region of five times the registered rate. [9]

The big bang also included the liberalisation of most prices and trade. This important restorationist measure had the effect of converting money from a passive instrument of accounting, as it was under the degenerated workers' state, into an active agent capable of signalling relative productivity performances of the different uses of labour.

These immediate "stabilisation" policies were, for the new restorationist government, critical preconditions for the transition to capitalism; without them it would have been impossible to measure "progress" reliably. But they were only preconditions. Without far-reaching changes in property rights and, beyond that, a fundamental counter-revolution in the social relations of production, it would be impossible to pass from a destructive phase of transition to a new period of accumulation.

The contradictory nature of the privatisation process

"A collapse of the Soviet regime would lead inevitably to the collapse of the planned economy, and thus to the abolition of state property. The bond of compulsion between the trusts and the factories within them would fall away. The more successful enterprises would succeed on coming out on the road of independence. They might convert themselves into joint stock companies, or they might find some other transitional form of property – one for example, in which the workers should participate in the profits."[10]

Trotsky's remarks turned out be to be remarkably prescient. The collapse of the planned economy led to the swift abolition of most state property. A "transitional form" of property did emerge in which the Russian workers became shareholders.

One of the tasks to be undertaken by the government of Russia's moribund workers' state is to create a capitalist class to undertake the transition to capitalism and, eventually, help transform the character of the state machine itself into a fully fledged capitalist one.

The process of denationalisation undertaken by the Russian government after 1992 was phenomenal in its scope and speed. Between October 1992 and June 1994 more than 15,000 medium and large state enterprises were privatised. By 1996 nearly 18,000 were in private hands, accounting for 80% of the industrial workforce and 88% of industrial production.

The privatisation scheme was devised by a team led by Alexander Chubais, appointed Minister of Privatisation in November 1991, (later Yeltsin's Chief of Staff and now first deputy Prime Minister). Having secured control of the executive after the failed coup by Stalinist hardliners in August 1991, the new bourgeois government under Yeltsin moved quickly to "de-politicise" the economy for several reasons.

In the first place, the state had quickly divested itself of the legal responsibility for organising the demand for products and providing investment funds, but no new owners existed who could be responsible either. There was only de facto possession of the enterprise and a general inertia in production and distribution. In the slump conditions that prevailed during 1992 each factory just struggled to keep going. As one report put it:

The bourgeois government had to try and create a class of bourgeois owners in order to root the new bourgeois state in a new capitalist system

"State-owned enterprises had no clear owners and managers were left with no incentives to invest . . . Managers yielded to wage pressures and used most income flows, or even sold off machinery, to pay for higher wages."[11]

The bourgeois government had to try and create a class of bourgeois owners in order to root the new bourgeois state in a new capitalist system. Privatisation also aimed to create competition between different blocs of capital. The new joint stock companies under state ownership would be one such bloc of capital. Competition for market share and investment funds is essential under capitalism if innovation and efficiency are to improve. Breaking up the huge monopolies was part of this process of creating competition. Finally, privatisation was recognised as essential in most industries if the enterprise was to get access to international capital markets for investment.

All this was the beginning of wisdom. The hard part was to devise a form of privatisation that was politically acceptable. Should the enterprises be sold for cash after being painstakingly valued, as in the west? Should foreign companies and banks be allowed to bid?

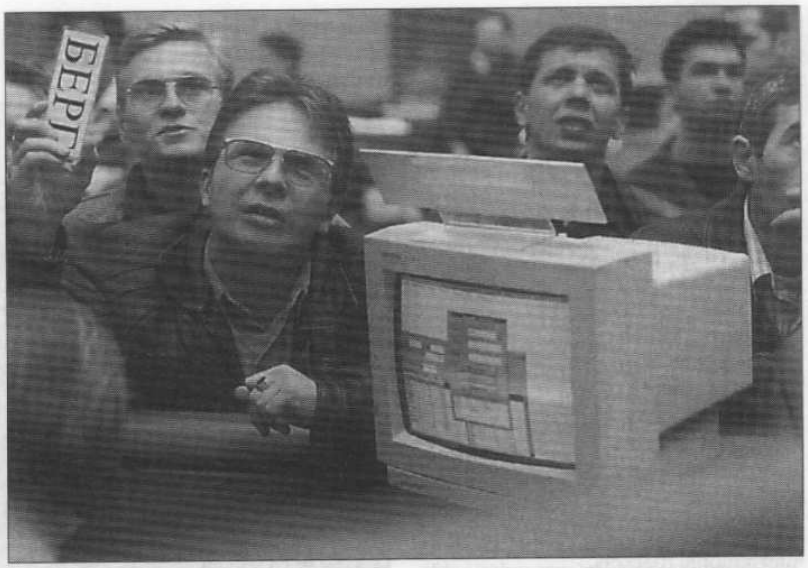
The legislation was adopted in June 1992[12] after a struggle between the Presidential executive, local administration and the enterprise managers who had a strong voice in a Parliament still made up of unelected deputies from the Gorbachev era.

The power of the ministries was first diluted by making all state enterprises self-governing joint stock companies under the control of a board of directors, prior to being privatised.[13] The programme was also devised so that permission for privatisation did not rest with the Ministries but could be initiated from below by the enterprises.

The critical question was, who would the new owners be? In the wake of



RUSSIAN WOMEN WORKERS DEBATE CHANGES



RUSSIANS TRACK THE PRICE OF THEIR NEW SHARES IN PRIVATISED FIRMS

Yeltsin's victory over the Stalinist hardliners in August 1991 all those who backed him in his counter-coup were united in following this victory through with a form of privatisation that would further weaken the power of the old economic ministries, where support for the now outlawed CPSU was strongest. As one account put it:

"The present and former bureaucrats in the ministries traditionally responsible for certain industries also entered the property battle. They wanted the enterprises in their former areas of responsibility to be organised into production associations with . . . large ownership stakes and a good deal of control over these huge conglomerates of companies. Sometimes they envisioned the state retaining ownership of the enterprises while they ran them."[14]

During 1992 and 1993 the managers pressed the Yeltsin government hard for the companies to be handed entirely over to them

In the spring and summer of 1992 the Minister of Industry, Alexander Titkin, gained some support for this in the Cabinet. Despite opposing this the Yeltsin camp was not agreed on its own alternative. One faction of the restorationists led by Boris Fedorov (former Finance Minister) and Grigory Yavlinsky wanted to sell the enterprises off to the highest bidders as this would attract capital investment. This would inevitably have led to extensive foreign ownership by western multinationals, which would have caused a storm of protest, and so was rejected by Chubais.

On the other hand, the idea that the "working class owned the economy", even if they did not control it, was widespread, an ideological leftover from the degenerated workers' state. Moreover, Gorbachev's reforms strengthened this outlook when they gave the enterprise workers the power to elect their directors in the factories in 1987. As Trotsky predicted, some "transitional form of property – one for example, in which the workers should participate in the profits" – was inevitably backed by many.

At the same time if "insider ownership" was to happen, it had to appeal to the enterprise managers, especially since, "The top managers . . . were virtually in complete control of their factories after Gorbachev removed the power of the cabinet ministries to fire them . . ."[15]

During 1992 and 1993 the managers pressed the Yeltsin government hard for the companies to be handed entirely over to them as "closed joint stock companies". They failed but they did ensure that they would gain greatly from the privatisation through "insider ownership".

While the managers did not favour employee ownership, the fact that the trade unions were effectively in the pocket of management led the directors to believe they would dominate any "partnership" in the privatised firm. Given the atomised character of working class consciousness and organisation the managers feared potential outside investors far more than they did their own workers.

In Parliament the managers controlled a powerful force in the shape of Arkady Volsky's Civic Union. In this climate, and given the pressure for speedy change, Chubais had to devise a plan that would embody massive inducements to managers.

The managers would have preferred the firms to be handed over to the workers and managers as a closed partnership. But Chubais resisted this since it would have made the firms immune to outside market pressure and ownership.

In the end Chubais had to compromise and allow managers and workers to buy 51% of voting shares at a nominal price of 1.7 times the book value of assets. The book value was based on the original cost of the buildings, equipment and assets of the enterprises in Russia. This was designed to prevent individually drawn-up, firm-by-firm valuations.

Russia, as a degenerated workers' state, simply did not have the range of information, mechanisms and institutions necessary to make a scientific valuation of the "worth" of assets, based on international comparisons.[16] Privatisation in the west took place in an established market, whereas in Russia privatisation was the mechanism by which to create the market.

The effect of the administrative valuation was to massively undervalue assets (minimally by 40 times and as much as 1,000 times)[17] and make them cheap to buy, especially in the light of prevailing inflation.

Managers and workers could pay for their shares in cash, with vouchers or retained earnings from the firm. Chubais claimed one important victory: he ensured that workers were free to sell their shares which held out the prospect of significant outside ownership in the future.

This scheme of "insider control" was a compromise between the Yeltsin neoliberals and the enterprises. In order to outmanoeuvre the economic bureaucracy Chubais sought to gain support from the mass of the Russian population for his scheme, not just the 17 million enterprise workers, by giving away a minimum 29% of the remaining shares in each company, free of charge, to all of the 149 million Russian citizens through a system of vouchers.[18]

Between October 1992 and February 1993 144 million Russians (98% of those entitled) claimed a voucher worth 10,000 roubles. They could sell it, hand it over to a fund to invest or personally buy shares at a share auction of any company in the country.

This move broke the back of resistance to privatisation within the old Stalinist milieu since they did not want to be seen as advocating the confiscation of the people's assets.[19] Chernomyrdin, an advocate of the financial-industrial groups solution, denounced the scheme on becoming Prime Minister in December 1992. But he dropped opposition to it a month later. From that point on the anti-Yeltsinites among the dispossessed bureaucrats in Parliament only argued that the vouchers should be used to purchase health care and education.

The first auction took place in November 1992 and by the summer of 1994 most industry was in "private hands". The result was to create, in terms of ownership, a class of capitalists forged out of the top managers of the former state enterprises.[20]

The new bourgeoisie took to its task

with relish, using every legal and illegal means to concentrate ownership in its hands. This involved a dual process of buying up the shares of their own workers and diluting the weight of shares held by outside owners.

During the privatisation process itself (1992-4) the managers weakened the influence of the outside owners by a number of means. They set up subsidiary companies to buy shares, they issued new shares, with little or no notice to outsiders that they were being offered, and then bought them out of "loans" issued to themselves from the firms' revenues.

By the end of 1994 nine out of ten privatised companies were majority owned by a combination of managers and workers. On average, "outsiders" owned 20% and the state around 10% of the shares.[21]

Over the next 18 months the manager-capitalists increased their number of "insider" shares to around a third of all insider shares; but they failed to prevent an increase in the proportion of shares held by outside investors. In 1996 only six out of ten firms were majority insider-owned.

Average outside ownership rose to 32% in 1994-95 as employees started to sell their shares to outsiders when the price of shares rose. Already workers have sold a quarter of the shares they bought in 1993-94.

But outside ownership is not as strong as it might appear. Some of these outsiders were front companies set up by managers. Also, outside ownership is quite concentrated where it exists; one tenth of companies have no outside ownership and a quarter have less than 20%. Finally, during 1995/1996 – as Yeltsin's position weakened and Zhuganov's KPRF and the Nationalists gained a majority in the new Parliament – plans to privatise government shares to outsiders were shelved.

The rise in the votes for Zhuganov in the December 1993 Duma elections reflected growing disillusionment with the results of "reform" thus far. Further closures and mass sackings that would result from a push to increase the power of outside investors over the enterprises seemed politically impossible to Yeltsin during the whole of 1996, a year plagued by illness and the need for Yeltsin to secure enough popular support to win a second Presidential term.

As the chief economist at the World Bank said on a visit to Moscow in 1997: "I think structural reform had well and truly stalled last year."[22]

The new Yeltsin cabinet appointed in March 1997 has already gone onto the offensive. A new law has been drafted to strengthen the rights of outside investors. Sergei Vasilev, head of the Russian Federal Securities Commission, noted that:

"Outside shareholders have already won control of one quarter of Russian enterprises and that a fierce battle is raging between insiders and outsiders at the remaining companies."[23]

The outcome of that battle will be critical in shaping Russia's new capitalist class and the enemy facing Russian workers.

There was a contradiction between the legal form and the social content of the new relationship between managers and workers

The problem of agency; legal form versus social relations.

Privatisation created a class of private owners of industrial assets. But the behaviour of the new owners and the government over the two years after privatisation was substantially completed indicated that the change in the form of ownership in itself does not resolve the problem of how the enterprises will be run.[24]

There was a contradiction between the legal form and the social content of the new relationships between the state, the managers and the working class. This contradiction has pervaded the whole of the moribund workers' state phase in Russia. To hand over control and ownership of productive assets is one thing; to make the owners act as agents of capital and force the workers to submit to being a surplus-value producing exploited class is quite another.

Transforming the relationship between the new owners of capital has proved just as difficult. So has changing the relationship between the government and the newly privatised firms.

The essential task of the transition process is to make owners act like capitalists: to take systematic decisions regarding investment, production and sales that act to maximise the long run return on investments and/or maximise the stock market value of the company.

As Marx insisted:

"The creation of surplus value is . . . the determining, dominating and overriding purpose of the capitalist; it is the absolute motive and content of his activity."[25]

In Russia after 1992, a number of firms started to make operating profits, whereby sales revenue was greater than the costs incurred in production. But it is important to understand the short term one-off causes of this and distinguish it from the profit maximisation that flows from the normal pattern of capital accumulation.

In the first place, wage costs were savaged by holding wages below the very high rate of inflation (2,300% in 1992). This high inflation also eroded the value of enterprise debt, which itself had to be serviced and was thus a cost to the firm.

In some of the larger firms in the energy sector, operating profits were an outcome of the monopoly they held in the domestic market which allowed high prices to be charged. Finally, privatisation resulted in a massive markdown in the value of all company assets. Since the rate of return on investment is conventionally measured by sales as a percentage of assets, profits could rise initially.

Thus, early on in the transition, rates of profit reflected monopoly, one-off adjustment factors and the effects of inflation. All of these diminished with time. More and more firms became loss-making as the restoration process dragged on. To have a determining effect on the investment process (i.e. the overall accumulation of capital in Russia) profits have to be, in essence, an indication of the underlying productivity of a firm. For this, action in restructuring the labour process and the use of investment funds are the decisive indicators of the rational actions of the "agents of capital" in the production process.

By contrast, many firms in the old USSR were value-destroying: many more operated at a loss. Surplus labour was hoarded by enterprise managers for possible future "storming of the plan targets"; the productive capacity of the firm was often hidden from ministry officials.

The EBRD summed up the inheritance and the task facing the enterprises in 1995 as follows:

"Many of these enterprises are saddled with a product range for which there is little or no demand, obsolete equipment, an oversized workforce with an inappropriate mix of skills for a market economy, a set of expensive social responsibilities to their workforce and large debts."[26]

Restructuring a firm has a twofold aim during the restoration process. On the one hand, it involves a purely technical change in what Marx called the "use-value" character of the labour process. The pattern of production in the old USSR was broken up; established markets in Eastern Europe were destroyed, the preponderant weight of the defence sector in the life of many firms had to change. Consequently, many enterprises had to change their product lines and find new markets.

But the most important change concerns the transformation of the labour process into a "valorisation process"; that is, the new products manufactured had to become at the same time exchange values which embody a surplus value over and above that necessary to replace the cost of raw materials and machinery and to reproduce the labour force.

This entails shedding labour, attracting capital for new plant and equipment in competition with other firms. It also means introducing parts of the valorisation process entirely absent in the old USSR, such as sales and marketing divisions, to ensure that the surplus embodied in the new products is actually realised through sales.

But acting as an agent of capital inside the firm is not "natural" human behaviour – contrary to what the ideologues of the free market may like us to believe; it is socially learned behaviour.



AGEING RUSSIAN BLAST FURNACE; CAN IT PRODUCE PROFITS AS WELL AS STEEL?

The workers and most managers in the degenerate workers states did not learn it and had to be taught it. The average age of an enterprise director in Russia in 1993 was 54, with thirty years of training in the bureaucratic command economy.[27]

One key aspect of social reality for worker and manager under the degenerate workers' state was the notion of the "labour collective" in the enterprise:

"The essence of this phenomenon consists in the fact that everybody who works in the enterprise has the same status as a hired labourer. The contradiction between the interests of the worker and those of the administration, while they are very significant, nevertheless take second place to the contradiction between the labour collective of the enterprise and the external administration, and now even the market environment."[28]

In other words, despite the shock of the economic big bang and the privatisation programme, the process of class differentiation within the independent enterprises has been slow. The capital-labour relation has not fully emerged from the chrysalis of the "labour collective".

Ruthless, profit-maximising behaviour in the labour process would demand mass sackings, attracting investment for new equipment

It is not surprising that under these conditions the restructuring of the enterprises, even after privatisation, has been slow and hesitant. Ruthless, profit-maximising behaviour in the labour process would demand mass sackings, attracting investment for new equipment. But as the EBRD ruefully noted in its 1995 report, in factories where worker-ownership predominated the primary objective "is likely to be first to preserve employment and then to maximise wages, subject to the firm remaining solvent."[29]

When it came to using enterprise savings during the 1991-93 period, rather than use them for investment, "The savings of enterprises were in many instances financing an accumulation of inventories in the form of unsellable goods."[30]

As regards the pattern of investment in general the EBRD claimed:

"The high reliance on internal finance by state enterprises or those that have been privatised to dispersed outside shareholders or to insiders resembles the pattern of enterprise finance from the previous regime, in terms of management and decision-making process and the aggregate flow of funds."[31]

Perhaps the most stark illustration of the suppressed character of the capital-wage labour relationship in the Russian moribund workers' state is to be found in the nature of Russian unemployment. Reference has already been made to the low registered and even lower level of open unemployment: 9.3% by the ILO's definition in 1996.

But this figure is no guide to the total surplus labour in the enterprises. While sackings did occur it was nothing like on the scale that would be implied by the collapse of output. In reality a number of surveys have shown that "the concealed unemployment index" was, by 1994, around 33% of all workers in Russia.[32] How could the huge gap be explained?

Without sacking them managers did lay off workers for varying lengths of time; 5% of all Russian workers were on unpaid leave in 1992/93. In July 1994, 5,000 factories were not working at all and one estimate suggested that 7% of the working year was not worked due to partial or total shutdowns in 1994.

But all these "surplus" workers officially stayed on the firms' books as employees. This allowed managers to avoid having to pay severance money and the workers were still entitled to their share of firm-based benefits: food, household goods, holiday trips, hospital costs, day care centres, nurseries and subsidised housing. Although all these were harder to come by they were important given the low wages.

The bottom line was simply that managers did not feel compelled to turn concealed into open unemployment:

"There has been excessive wage flexibility, excessive in the sense that it has been easy for managements to avoid or reduce wage costs, and therefore they have been under little pressure to remove surplus labour."[33]

But this phenomenon of the Russian transition is – from the standpoint of the transition to capitalism – one of the more backward features. It accounts in part for the fact that the Russian moribund workers' state phase has been so protracted. While surplus labour was legally freed from its attachment to the enterprises by Yeltsin it has been more difficult in practice to create the mobile reserve army of labour that is essential to a capitalist economy.

The total transformation of Russian labour power into a commodity has still not been completed. While wage differentials have emerged within and between industries, the commodification of labour power has stalled since non-wage goods and services from the enterprises can account for more than actual wages themselves.

The consequence for the privatised enterprises is clear; it prevents them from becoming profit centres:

"It has been estimated that 20% of total compensation paid by Russian industrial firms is accounted for by social services".[34]

One manager noted:

"The expenses for the plant's day-care centres, apartment houses, medical centre, and farm take up a good part of our total sales for a month!"[35]

And another:

"Payroll accounts for 22% of our costs. But we have social programmes for employees that account for about 25% of our costs."[36]

A key task of the restoration process, then, is to devolve responsibility for non-wage benefits away from the firm and onto national and local government so that the costs of production in each enterprise can be brought below the surplus generated by the workforce itself. At the same time, wages would then have to rise to a level which more accurately represents the cost of reproducing labour power without systematic recourse to goods and services which themselves are distributed to the workforce in a non-commodity form.

In mid-1996 it was estimated that workers' wages only account for 40% of household income – down from

60% two years earlier – with the rest coming from petty trading, dividend income from shares etc. Once again, these figures reflect the protracted and difficult process of crystallising out a fully formed proletariat dependent on the sale of its labour power alone.

Moreover, the phenomenon of non-payment of wages only serves to reinforce this view. Many workers do not sell their labour-power, they give it away. In a situation of high inflation, a serious delay in the payment of wages also amounts to non-payment.

In 1996 the government estimated that unpaid wages amounted to $4.5 billion. The amount had doubled in the first eight months of 1995. But even this is a gross underestimate. During the March 1997 protest strikes against non-payment of wages the Russian media reported the total to be nearer $500 billion![37]

Around one-third of all firms in late 1995 owed wages to their workers.[38] This amounted to an average of 7% of sales revenue.

Thus, non-payment probably made the crucial difference between profit and loss for a firm.

Under capitalism surplus value is indeed drawn from the unpaid labour of the workers, but this is not direct robbery since, in value terms, the workers receive the value of their labour power in the form of wages. Under capitalism exploitation is a function of the immense productive power of labour which generates more value than it itself contains when it is applied to production.

But in the Russian moribund workers' state, while pockets of capitalism seek to push their way through, the economy is completely disfigured by a labour process in which surplus value is at the expense of wages, in which the working class is indeed robbed but in which it gets partial compensation by receiving charitable handouts from the firm in the form of non-wage goods.

It is not the case that restructuring is entirely absent in the Russian moribund workers' state, but it has been of a generally passive character. Generally speaking, productivity falls during this phase since demand slumps faster than jobs.

But productivity improvements in most firms where they have begun, take place on the old technical foundation inside the firm. That is, they result from sackings and using existing equipment more intensively, rather than on the basis of new investment.

Even this level of restructuring does not disguise the fact that decisions are generally taken in a moribund workers' state to preserve the enterprise as much as possible from the effect of the operation of the law of value. As the World Bank ruefully noted:

"The bottom line is that management-employee buyouts can lead to managerial and worker entrenchment that blocks further reform."[39]

Relations between enterprises

Matters stand no further advanced in the moribund workers' state when it comes to relations between the independent enterprises. Capital has to differentiate itself not only from wage labour but also from itself. It was hoped that once they were free from the directives of the ministries the prospective capitalist-managers would engage in open, unchecked competition with each other for a greater share of social surplus value. But once again the record of the first five years of transition in Russia indicates that these relationships have acted to impede the spread of the law of value to the state and the privatised firms.

More than 60 years ago Trotsky had already predicted that with the abolition of the planning agencies "the bond of compulsion between the trusts and the factories within them would fall away". But what would replace it?

Here we must turn to explore the significance of Trotsky's brief remark that under a new bourgeois regime, "the planning principle would be converted for the transitional period into a series of compromises between the state power and individual 'corporations' – potential proprietors, that is, among the Soviet captains of industry."

In effect in Russia, during 1992-94 the "bonds of compulsion" were replaced by what we might call "the bonds of custom and practice". Having lost the organising centre of the branch ministries which had issued the state orders, the majority of enterprise directors established a series of bilateral ties and with it a chain of orders that either continued the line of supply and demand of the old regime or set up new ones to compensate for the loss of markets in Eastern Europe.

Many firms in the new moribund workers' state adjusted to the loss of state orders by, as far as possible, seeking to reproduce through a series of bilateral relations the proportions of the old command system. Although the "planned economy", like the Cheshire Cat, faded from view its smile, or rather its grimace, persists during the phase of the moribund workers' state.

The common response of firms was to continue as far as possible in maintaining the flow of materials from established suppliers and selling goods to established customers

The common response was to continue as far as possible in maintaining the flow of materials from established suppliers and selling goods to established customers. Yet because state subsidies had been cut, and prices liberalised, more and more firms were unable to pay for the goods they received. They were neither paid by their customers nor did they pay their bills to suppliers. A vicious spiral of inter-enterprise debt (IED) began. By mid-1994, according to official Russian government figures, 39,000 enterprises were in serious debt:

"Only 11.7% of all firms had no debts to banks or other enterprises . . . 56.3% of firms stated that they owed more than was owed to them."[40]

By August 1994 the government estimated total IED to be US$40 billion.[41] By the end of 1995 enterprises' liquid assets covered less than 25% of debts due compared to 51% in 1993.

In turn the accumulation of debts was little more than an accumulation of losses. The number of loss-making firms continued to grow after privatisation. In 1995 25% of all industrial enterprises were reported to be loss-making compared to 10% in 1993.[42]

A comprehensive study of Russian industry in 1995-96 summarised its results by categorising firms in one of four groups: "clear winners" who will survive and finance investment from their own profits; "potential winners" which are profitable but need new capital to prosper; "uncertain" firms which are sliding towards bankruptcy; and "losers" which "need to go bankrupt because it is impossible to operate them successfully".[43]

The authors reported that, as of June 1996:

"No more than a quarter of Russian companies are clear winners . . . The bad news is that three-quarters of Russian corporations are in need of radical and far-reaching restructuring. At least a quarter of those firms should be bankrupt."[44]

Government intervention in the moribund workers' state

A crucial factor in our understanding of the "moribund workers' state" is that the government – despite its impeccable pro-IMF credentials – was a grudging but active participant in this series of compromises. It underwrote – on an extending scale – non-commercial economic behaviour.

During 1992-94, this included the Finance Ministry and Central Bank themselves issuing budget subsidies to ailing firms. For much of this period control of the money supply and credit was in the hands of Parliament, which in turn was dominated by anti-Yeltsinites. Similarly, bankruptcy legislation, formally adopted in 1993, was not enforced. On the contrary, typically for a moribund workers' state, bankruptcy legislation was used by those in debt to protect themselves from the claims of creditors; that is, to prevent the enforcement of the law of value upon ailing or failing firms.

While this does not seem rational from the point of view of the capitalist goal, it is explicable from two angles.

First, just as the political balance of forces in 1992-93 had demanded a compromise between Chubais and Parliament in drawing up of privatisation proposals, so Yeltsin was balancing between neo-liberal hardliners and forces that favoured heavy state support for Russian industry. In many Russian cities, dominated by nationalist and KPRF local administrations and heavily dependent for employment on one or two major enterprises, the pressure to preserve many firms from the

market was immense.

Secondly, even the most fanatical restorationist recognised that at least until privatisation and the breaking up of huge monopolies took place there

A generalised and immediate imposition of the law of value on the labour process in the bulk of Russian factories would have destroyed the possibility of future surplus value creation

was a case for preserving bankrupt industry to see if they could be "turned around" under changed ownership.

It is important to understand that this paradox is not the result of insufficient determination on the part of the restorationists but rather constitutes an acknowledgement by them of an objective difficulty at the heart of the process.

The bulk of material production in the moribund workers' state can become surplus-value generating production only on condition that its present unprofitable character is sustained and reproduced for some time in the transformation process. A generalised and immediate imposition of the law of value on the labour process in the bulk of Russian factories would have destroyed the possibility of future surplus value creation.

It is typical behaviour of the state, in this phase, to actively underwrite the extension of loss-making production. While capitalism can tolerate and approve of the partial negation of the law of value implied in selective state subsidies, it is hardly capitalism when a majority of firms owe more than their assets are worth and these losses are absorbed into the state through the medium of the government's budget deficit.

The government also had conjunctural reasons for extending support to loss-making firms; without it mass privatisation would have been politically impossible. If tens of millions of Russians found themselves, overnight, in possession of shares of privatised firms that had gone out of business there would have been major repercussions.

As a result of all this, during privatisation throughout 1992-94:

"Firms continued to receive most of their credits through the central bank, and often paid interest on these credits out of government subsidies they received from the national budget. Loans were repaid with proceeds from new loans. In 1992, government subsidies and central bank credits together added up to over 40 percent of the GDP."[45]

This politically directed indiscriminate support for enterprises was checked in late 1993, after the grip of the "anti-reformers" in Parliament over the Central Bank was broken by Yeltsin's October 1993 coup against Parliament, followed by new elections to it.

This had the effect of controlling the money supply and hence capped inflation. Real interest rates were also made positive for the first time in 1994. Inflation fell from 20% a month in 1993 to around 5% a month in August 1994. But far from forcing the ailing firms to act like capitalist units all this succeeded in doing was to shift the burden of propping up industry elsewhere.

Non-commercial loans from the private banks continued for a while and local government has extended credit to local firms.[46] But the main basis of support to firms, and a key factor in easing their financial crisis, has been rolling over the huge amounts of IED and the toleration of generalised non-payment of enterprise taxes to the government. The result has been the proliferation of loss-making production by means other than Central Bank credits or government subsidies.

To date the Russian government has chosen, as happened in all other moribund workers' states, to use bankruptcy laws to protect rather than destroy failed enterprises.[47] The laws that were drafted in 1992-93 do not empower creditors to enforce the bankruptcy of a debtor but rather leave the initiative with the government. It has steadfastly chosen not to use this power.[48]

Bankruptcy has the function of releasing capital locked up in failed firms so it can be redistributed to profitable concerns; it is the supreme negative moment during which the law of value is enforced. But in Russia, since 1992, it has not been enforced. On the contrary, the number of firms protected by the government against closure has multiplied with each passing year of the transition. As of June 1996, "Oleg Soskevets, former first deputy prime minister, said that 35% of industrial enterprises were technically bankrupt."[49]

A tale of two hundred cities

In many of Russia's one-industry cities the whole community is drawn ever deeper into the vicious circle of inter-enterprise debt and non-payment of wages. The result is barter between local industry and suppliers and ad hoc local "currencies" being used to trade goods and services within the towns.

An example of what this means for millions of Russians is Zlatoust.

In Zlatoust (1,320 km south-east of Moscow) the steel factory is the main or only source of employment for the 200,000 inhabitants. It is badly in debt and the enterprise director said:

"In Russia we have a crisis of payments – money just doesn't work any more, so we mostly live on barter."[50]

Since late 1995 the factory has issued its own cheques as currency. The workers only receive $30 of their monthly wages in cash. The other $115 is in factory cheques, "to buy a Soviet-style selection of foods and consumer goods from the factory stores, pay for rent and local utilities and even purchase bus tickets."[51]

The local government allows the factory to pay off its tax debts in these cheques, which in turn are used to pay for child allowance and pensions.

This experience was replicated across the country during 1995-96. From the vantage point of the restoration process it represents a massive breakdown in the circulation of "capital" in Russia. This latter process demands that money becomes more and more "abstract", that is, disinterested in its origin and capable of being transformed into all and any concrete use-values, accumulated in savings accounts and be capable of being invested in myriad profit centres. Only in this way can money serve as capital, as "self-expanding value".

But in Russia, in 1995-96, the rouble, far from being the "universal equivalent" acting as a servant of capital accumulation, was being discarded in favour of local currencies which serve only as an acceptable means of payment in many disconnected patches of Russian territory.

"A crisis of the state"

Towards the end of 1996 the Russian restoration process was in crisis, and not for the first time. The paralysis of the state was symbolised by Yeltsin's prolonged illness and recuperation after heart surgery. The Russian state was consumed by the failures of the push for capitalism and seemed incapable of rising to its mission as architect of the transition.

Michael Camdessus, managing director of the IMF, claimed at the end of last year that Russia was suffering from a "crisis of the state". By this he meant not simply a run of the mill conflict within the government of the day, or between the administration and the opposition. He was referring to something altogether more fundamental: a crisis of existence. What was at stake was the very ability of the state to function as the "general executive committee of the ruling class", to use Engels' phrase.

The state had proven its anti-working class credentials in driving through the momentous lowering of wages, pensions and state benefits and increasing unemployment. But it was faltering in its ability to raise itself above the squabbles of the emerging Russian bourgeoisie, to adjudicate the rival claims of the different factions, to draft and enforce the most basic laws that determine "the rules of the game" by which all capitalists have to play: the respect for rules that govern inter-capi-

talist competition.

In the early years of transition (1993-95) the most powerful symptom of this crisis was the inability of the state to enforce "the rule of law" over the Mafia-capitalists. It could not root out the many bought and paid for bureaucrats and politicians within the state apparatus that protected the Mafia.

But the problem went deeper than the issue of criminality. It is a structural problem, the most obvious evidence of which is the fiscal crisis of the state. Any class state has to be able to draw off a part of the social surplus generated in production, through general taxation, in order to sustain its apparatus of administration and coercion. But the Russian moribund workers' state has proven incapable of raising, or collecting, the taxes it needs to carry out its basic functions. As Chubais noted in April this year:

"Russia is experiencing a monstrous state budget crisis, whose parameters, if the truth be told, call into question the ability of the state to perform its functions."[52]

The problem originated in 1992-94. By rejecting cash sales of state assets the Russian privatisation programme deprived the government of valuable revenue with which to finance the budget deficit. This deficit mushroomed during 1994-95 because of growing unemployment and a collapse in tax revenue during the slump. Further tax concessions were made to enterprises so as not to push them to the wall.

But this problem led to another: many officials of the state bureaucracy (police and tax collectors) were as much victims of the widespread non-payment of wages and salaries as teachers and other state employees. As one report put it:

"Russia's guardians of law and order – police and tax inspectors – are forced to live off bribes rather than their unpaid salaries."[53]

Time and again over the last few years the government has insisted that the taxes must be paid to fund the transfer of social benefits from the enterprises to federal and local government. Time and again the enterprises refuse to pay the taxes in the belief that the government will use the revenue for other purposes. It is a powerful symptom of the inability of the aspiring capitalist state in Russia to command the loyalty and obedience of the emerging capitalist class which it strives to serve.

The same phenomenon is revealed by the battles waged between the rival owners of capital for control of the privatised enterprises. The state has proven worse than useless as an instrument for regulating the conflict between "insiders" and "outsiders" for control over share capital, a key issue in the fight to impose the "logic of capital" over the behaviour of the enterprise directors. All kinds of breaches of law have taken place by "insiders" to thwart the ability of shareholders to exert their power over restructuring. Dmityr Vasilev, the Chairman of the Federal Securities Commission, which regulates Russia's capital markets noted in April this year:



YELTSIN PROMISES NEW CRACK-DOWN ON "MAFIA CAPITALISM"

"At the moment I have insufficient enforcement powers. I cannot fine directors or put them in jail."[54]

"Russia is experiencing a monstrous state budget crisis whose parameters call into question the ability of the state to perform its functions"
Chubais

Of course, weak or corrupt states can be found in many fully developed capitalist countries, especially in semi-colonies. But in Russia these structural deficiencies are not simply disfiguring the process of capital accumulation and the running of the state machine, but are impeding the very emergence of capitalism and the law of value as the governing set of social relations.

Yeltsin's new government, appointed in March, has made the solution of this problem its key task. On corruption, laws have been tabled to end the established relationship between the state and "authorised" banks which handle the federal government money. A public tender system has been introduced to oversee government contracts; officials of the state will be obliged to declare the source of their income and their families.

To regulate inter-capitalist competition the government is drafting legislation to increase shareholder power over the directors.

As for public finances, the government appointed by Yeltsin in August 1996, just after his re-election, had already abolished all the tax breaks and privileges announced by Yeltsin during his campaign. But the reshuffle in March this year has signalled major new reforms. Chubais plans to break the power of the Russian monopolies. Gazprom alone generates 8% of Russia's GDP. The prices it sets for the rest of industry is part of the reason for the widespread arrears and debt problems. By breaking up this and other monopolies, and lowering prices, the state aims to ease the restructuring of capital and get in the tax arrears.

If the new government implements its plans successfully the Russian state machine will undergo a major transformation. It will gain all the attributes of an embryonic bourgeois state, determined to shed Russia of the final characteristics of a moribund workers' state by overseeing the necessary restructuring measures over the key industries.

Russian Finance Capital?

What will be the fate of a future Russian capitalism? Is it destined to be a semi-colonial ruin, dominated by European Union and US multinationals, eventually falling submissively into imperialism's diplomatic and military alliances?

Or, as an ex-"superpower", can it fend off the encroachments of imperialist capital and, behind a wall of protectionist measures, build its own sectors of monopoly finance capital capable of first dominating the Russian economy and later the CIS and further abroad?

Without the fairly swift concentration and centralisation of capital in Russian industry and finance the latter development is unlikely to occur. On the other hand, opening up Russian companies indiscriminately to the kind of investment most need in order to restructure them along capitalist lines threatens to hand over control to "outsiders", foreign multinationals among them.

To date, foreign imperialist investment in Russia has been slight – just $5.3 billion between 1989-96,[55] deterred by the unprofitable character of most industry and the fact that investment does not guarantee any power to impose restructuring.

In addition capital markets – another potential source of investment funds in Russia – are small and with little turnover. Very few of the major companies trade shares on the stock exchange and of those that do less than a fifth of their shares are available for trading.

It is in the relationship between Russian industry and Russian banks that the key to the future lies. After 1992 there was a massive growth in commercial banks in Russia. This experience was very different to Central Europe where there were very few private banks until recently and most of these are state banks that have been privatised once the very long process of "retiring" their massive debts was achieved.

In Russia the hyperinflation of 1992-94 effectively destroyed most of the debts of banks and new banks were allowed to set up with minimum capital. Over 2,500 sprung up, 80% of them using capital from sponsoring enterprises.[56] For most of the inflationary period the banks wanted to make profits from short-term speculative investments in the high yield finance markets (buying government debt to finance its budget). Consequently few

invested in industry.

Many banks were receiving funds for enterprise investment from the state, intended to be passed on to the enterprises. But they were withholding them and speculating with them in short term deals on currency markets. Bank lending in 1993 for investment was a mere 8% of all investment and even this was not for new equipment (as in the old USSR) but went to finance stock holding.

During its phase as a moribund workers' state Russian enterprises have relied for most of their investment needs on their own cash reserves and/or privileged access to non-commercial loans from state banks. Clearly, this situation is incompatible with capitalism, a system which demands that



LUKOIL; RUSSIAN FINANCE CAPITAL?

investment is directed at those industries that have the best future prospects and is drawn from funds that are centralised and depoliticised. Investment that is, in general, based on privileged political access based on past ties is not capitalist.

Nor is a system whereby profits generated from within one enterprise are not circulated to capital as a whole via banks, investment or pension funds, which in turn lend them on at commercial terms to those sectors most likely to produce the best rates of return. A society in which profits only remain available for use within the firm that generated them, irrespective of its performance, is not a society in which the law of value holds sway over the accumulation process.

But there are signs that this situation is changing as the character of Russian banks is transformed. The assets of banks are becoming more concentrated as many banks go bust and regulations on their operations are tightened. The relationship between the major banks and their original sponsoring enterprises has become inverted:

"From being auxiliary financial branches of their corporate sponsors, they became in effect the principals in new diversified conglomerates." [57]

The catalyst for this inversion was the introduction of a loans-for-shares scheme in the second half of 1995 when the government sold its share of equity in the privatised firms to the banks in return for loans to the government.

This in turn meant that banks:

" . . . even while reluctant to lend to potential investors, have moved towards involvement in capital formation in the real economy: they have acquired privatised domestic enterprises. This process, which took off in 1995, became feasible and extremely profitable owing to the severe undervaluation, in terms of a normal international comparison, of the fixed assets of the Russian enterprises, including the huge energy and high-tech producers."

This process has led to a new form of conglomerate—the financial-industrial groups (FIGs). The FIGs usually comprise banks (or investment funds) and industrial and trading enterprises:

"By mid-February 1996 there were 30 officially registered FIGs, up from 15 in August 1995. All together, they controlled nearly 300 industrial enterprises and 70 banks and employed 2.5 million people. The state is a partner in each of these FIGs; its holding varies but it is below 25% in every case."[58]

Some commentators suggest that these conglomerates are shaping up to be the Russian version of the Korean chaebol or Japanese keiretsu, huge cartels with interlocking ownership and dominant over the entire economy.

However, there are two kinds of FIG, each with very different implications for the restorationist process in Russia. One type resembles a typical merchant bank of the west. One survey has described this in the following manner:

"The merchant bank does not have to worry about stock markets, share registries, struggles with managers, or half-hearted commitment to restructuring plans. The general director of a typical bank FIG described his operation: 'We own fifty privatised companies and have twenty people engaged in buying stock of employees at these enterprises'. "[59]

While the weight of FIGs in the Russian economy is small at present it is dynamic and growing.[60] And as the same report notes:

"The main objective of the FIGs is to introduce transnational Russian companies to the world scene and allow them to become active in the economies of the former Soviet republics."[61]

The other kind of FIG has been labelled a "capitalist politburo" whose purpose "seems to be to protect the current management of the companies and recreate the massive associations of companies that typified Soviet industry".[62]

Gazprom and Ruskhim (chemical giants) are cited as examples of this kind of FIG, huge energy monopolies with vast assets which "want to channel their capital to the weak companies, in effect to create a kind of closed capital market in which enterprise managers can deal with people they know rather than the anonymous market."

The danger posed to the restoration process by this kind of FIG is clear to leaders like Chubais in the new government. They may impede or block the necessary restructuring, encouraging all the vices of monopoly capital (parasitism, decay, anti-innovation, protecting market share rather than dynamic expansion), without having acquired any of the virtues of capitalist competition that might equip them for doing battle in the future with the major MNCs of the EU, Japan and the USA in global markets.

That is why Chubais' new government aims to push through anti-monopoly measures to break up these potential Russian chaebols at least until they have proven their worth in overcoming the remaining obstructions to capitalist restoration itself.

Nevertheless, it is clear that in principle the shape of a new Russian finance capital can be discerned.

The working class in Russia during the transition

The Russian workers have borne the full brunt of the rush for capitalism. Real wages had fallen by two-thirds up to 1994 before stabilising. Pensioners have been utterly impoverished by inflation. Unemployment, while officially low, is in reality is over 10%.

There have been alleviating factors. The privatisation process briefly gave many workers a few dollars in vouchers to supplement their meagre incomes. Moonlighting has marginally raised household income above nominal wage levels. Continued access to a much reduced supply of consumer goods via the factory also helped alleviate the worst shortages caused by poverty incomes.

But the poverty, insecurity and humiliation has been immense.

Naturally, the workers have not suffered in silence. But while strikes and street protests have continued throughout the restoration process, the class struggle has been at a very low level. In 1992-94 less than 2% of the enterprises experienced strikes. And most of these were initiated or supported by enterprise management in order to extract subsidies from the government or were a weapon used by one faction of management against another.[63]

Starting with the national protest



RUSSIAN MINERS ON STRIKE IN 1989

against non-payment of wages in October 1994 there was a ninefold increase in the number of strikes in 1995. But only 3% of these took place in the now privatised industries. Over 95% of them occurred in the impoverished public sector (especially within education and among the miners), again demanding payment of back wages.[64] Even strikes were rarer in Russia in 1995 than in the USA.

The weakness of the Russian workers' response is partly due to the scale and depth of the economic attacks in 1992. They were so generalised and dramatic that millions were thrown back on their heels in shock and their only thought was survival through to the end of each week.

Nevertheless, the reaction, at least of the vanguard, could have been different had the Russian workers not been languishing under the long-term effect of an historic political defeat inflicted upon them in 1920s and 1930s when all independent working class organisation was crushed, when the political vanguard was imprisoned and murdered. Stalinism obliterated the memory of the tradition of the struggle against the Tsar and of the working class' role in leading the October Revolution.

In 1936, Trotsky argued that despite the triumph of Stalinist dictatorship over the Soviet working class, "the social revolution, betrayed by the ruling party, still exists in property relations and in the consciousness of the toiling masses".[65]

By the time of the death agony of Stalinism in 1989, the ruling caste had effectively severed the connection between the property relations and the consciousness of the masses.

In 1992-94 less than 2% of the enterprises experienced strikes. And most of these were initiated or supported by the managers

A protracted anti-Stalinist mass struggle in the 1980s and early 1990s may have gone some way to reviving a tradition of independent working class action. But by the time of the overthrow of Gorbachev, left-wing parties had barely reached the stage of small propaganda groups among the intelligentsia. As for the many workers' committees set up in 1989-91, "in the course of a few years many leaders of the strike committees became successful business entrepreneurs and state administrators."[66]

Lacking independent political parties the working class looked its trade unions. But these were fatally compromised. The old unions, embracing the bulk of the workers, had been no more than appendages of the ruling Communist Party in the factories and state farms. When the CPSU was kicked out of the enterprises, the union bureaucracy drew even closer to the enterprise directors. These bosses allowed the unions to continue to supervise the provision of social welfare, a responsibility inherited from the degenerated workers' state.[67]

The new unions, originating in the strike committees of 1989 that struggled against Gorbachev, were, by and large, labour aristocratic or avowedly and narrowly craftist:

"Their main feature was the refusal to attempt to express the interests of the whole collective . . . often sharply distinguishing their interests from those of the bulk of the employees."

The miners for example, believed that "economic independence" of their own mines would allow them to prosper. Many of them were avowedly non-political and raised the self-defeating slogan, "The Workers' Movement Out of Politics".

But in reality, their leaders often backed Yeltsin and the so-called "democratic camp". When Yeltsin became President of the Russian Federation in 1990 he poured 40 million roubles into the coffers of the Independent Miners Union (NPG) to set up a union in Vorkuta. In the summer of 1991 Yeltsin favoured the miners with a big pay rise that angered many other sectors.

Even after 1991 when Yeltsin launched the "big bang", these unions continued to support him and directed their anger at enterprise directors rather than the federal government. Only with the gradual withdrawal of the subsidies in 1992 and after and the realisation that "independence" under the market would not bring prosperity but only unpaid wages, did rank and file miners begin to shift their allegiance. While the NPG leaders still supported Yeltsin in his clash with Parliament in October 1993 there was no enthusiasm for this on the part of the mass of miners. From 1994 the NPG would be forced into struggle against the non-payment of wages.

As a result of the ties between the new unions and Yeltsin, it was the old trade unions, during the "big bang" of 1992/93, that many Russian workers looked to for protection. These unions, organised inside Russia in the Federation of Independent Trade Unions (FNPR), survived the big bang organisationally intact. In 1993 more than 90% of all firms had recognised trade unions.[68] In 1994 the number of workers in unions was still 74%, after two years of decline. The FNPR claimed 56 million members, 60% of all adults.

The problem was not the numerical

strength of the trade unions but the role played by their bureaucratic leadership. In short, the unions continued to thwart the emergence of independent class struggle politics as they continued to carry out the functions that they had under the old Stalinist system:

"A survey of presidents of enterprise trade union committees in 1993 found that 95% of them saw themselves as part of management."[69]

On the other side, the enterprise directors continued to be members of the trade unions rather than members of employer organisations, further weakening the unions.[70]

Surveys indicate that the unions failed to prevent the collapse of wages in 1992-94 and they had some effect in maintaining occupational and gender wage differentials; but they also limited the growth in the numbers of the very low paid.

In these circumstances what would explain the high level of union membership? As Boris Kargalitsky argued:

"The traditional unions continued performing the role of consumer cooperatives and of a 'safety net', helping people resolve numerous everyday problems from purchasing cheap sugar to organising places in children's summer camps; in conditions of acute economic crisis, these functions were valued more highly than ever."[71]

This role accounts for the high unionisation rate. All surveys show that factories with unions were more likely to provide benefits than factories without unions. So important was this function that the new unions that emerged in opposition to the CPSU and old trade unions in 1989-91, and which had initially refused to be part of the social welfare system, scrambled for such a role after 1993. However, the power to preside over the allocation of food, consumer goods, holiday vouchers etc., rested with the management, which devolved this responsibility onto the trade union bureaucracy in the knowledge that they could always take it away from them.

Despite their continued existence as an extension of enterprise management (or possibly because of it) the unions did organise strikes in 1993 as the effects of the big bang took their toll on the working class. Matters came to a head when the government refused to honour a collective wage agreement with the FNPR in August 1993. During the first ten days, one and a half million people went on strike at different times. Kargalitsky said of these strikes:

"For the first time since 1905, workers' protest actions were occurring simultaneously in various sectors and regions, in response to calls by the trade unions and on the basis of general all-Russian demands."[72]

But the trade unions were weakened by the outcome of the clash between Parliament and Yeltsin in October 1993. The FNPR strikes abated while the political struggle between Yeltsin and Parliament intensified. The FNPR sided with Parliament but only threatened action "right up to the use of the strike weapon." This did not frighten Yeltsin:

"Following the bombardment of the White House, real panic broke out among the FNPR leadership. The government confiscated the social insurance fund from the trade unions, and in some regions the authorities attempted to seize trade union property."[73]

The national leadership of the FNPR resigned and the whole defeat led to a significant erosion in union membership inside the factories in 1994[74]. Strikes continued in 1994 (especially in March and October) but they were "warning strikes" which were largely ignored by the government. Only an all-out offensive by the unions would have been enough, but the leadership

Footnotes

1 A Aslund quoted in the *Financial Times*, 28 April 1997

2 L Trotsky, *Revolution Betrayed*, London 1973 pp253-54

3 Some 95% of Russian land is still state-owned. The 1992 agrarian "reform" offered to give land to the state farm workers but given the lack of credits for machinery and the fact that they could not sell it, few took up the offer. Meanwhile, the state farms are deprived of subsidies and investment. Output collapsed, 3 million have left the land in the last four years and those on the farms are impoverished, existing on subsistence and "selling" food to factories that cannot pay for it. See *International Herald Tribune*, 20 March 1997

4 Perhaps Gregor Yavlinsky and his Yabloko Party with its open pro-imperialist economic policy is the best example of such an anti-nomenklatura party, followed by Gaider's Democratic Choice. Between them they got 23% of the vote in the December 1993 elections for the Duma.

5 The unique conditions of the first reverse transformation from planned economy to capitalism in history, and the prolonged, contradictory character of the process, obliged us to refine the Marxist analytical vocabulary. Trotsky had referred to Stalinist Russia as a degenerated workers' state. Our use of the term moribund workers' state drew predictable criticism from those too enmeshed in reliving the mistakes of the past to care about innovating within the Marxist method.

6 G Standing, *Russian Unemployment and Enterprise Restructuring*, London, 1996, p7

7 Poverty, ill-health and suicide led to a fall in the birth rate, a rise in the death rate and consequent fall in total population in 1994.

8 G Standing *op cit* pp20-24. Other official figures show that total employment fell 1990-94 by over 5 million while the overall labour force grew, thus refuting the unemployment figures.

9 *ibid* p19

10 L Trotsky, *op cit* p250-51

11 United Nations, *World Economic and Social Survey*, 1996 p119

12 Local government was mollified by being given the revenues from cash sales of most shops and some small firms. As Trotsky predicted, light industry (textiles and food) was forcibly privatised, while larger manufacturing firms needed Chubais' permission; key strategic industries (defence, energy) needed cabinet approval. Finally, privatisation of education, health, rail and space exploration was banned.

13 The board consisted of four members: the director, a trade union official and one representative each from national and local government. The ministries were thus sidelined.

14 *Kremlin Capitalism*, J Blasi, M Kroumous, D Kruse, New York 1997, p36-37. Another account by Chubais' deputy confirmed that " . . . the sectoral ministries started advocating the idea of a new privatisation mechanism through the creation of financial-industrial groups, which would be very large clusters of enterprises linked to supply chains and co-ordinated by the ministries." see *Privatising Russia*, M Boycko, A Shleifer, R Vishny, London 1996 p81

15 *ibid*, p36-37

16 "One calculation indicated that it would take decades to privatise Russia this way. Another . . . that the whole process could be accomplished in 150 years!" see *ibid* p39

17 ibid, p42. After the privatisation process was complete "the implied aggregate value of Russian industry was under $12 billion" (see M Boycko et al, *op cit*, p117), less than the value of BT alone in the UK. No wonder the *Economist* called it the "sale of the century". Gazprom, the Russian natural gas monopoly eventually fetched $228 mn in voucher auction, one thousand times less than the value put on it by foreign investment banks! *(ibid*, p109)

18 The government retained an average of 10-20% of the shares in privatised firms (more in strategic industries), to be sold for cash at some future date.

19 Russia was not alone in devising a voucher privatisation scheme but it was unique in giving these vouchers a cash value (as opposed to points) and for allowing them to be traded on an open market. This allowed people to sell them for cash they needed (at a big discount). Each voucher was worth about $84 in June 1992 when the average monthly wage was then about $50. But more importantly from the point of view of restoration the move allowed big funds to buy up blocks of vouchers and hence shares, helping to concentrate ownership.

20 Not least of the results was to destroy the influence of the ministries. According to Boycko, writing in 1995, "The sectoral ministries, which only two years ago were still making decisions for firms from Moscow, have faded into irrelevance and obscurity." M Boycko et al, *op cit*, p122

21 J Blasi et al, *op cit*, p51-52

22 Vladimir Konovalov quoted in *Financial Times*, 28 April 1997.

23 Quoted in the "Survey on Russia" *Financial Times*, 9 April 1997.

24 "A change in ownership from public to private can no longer be seen as a sufficient condition for comprehensive enterprise restructuring." EBRD, *Transition Report*, London, 1995, p128

25 K Marx, *Capital* Vol 1, Harmondsworth 1976, p990. This law applies equally to the actions of the banks in extending loans to firms.

26 EBRD, *op cit*, p5

27 It is not surprising therefore that one survey of

refused to countenance this since it would have challenged the government and they had no alternative to propose.

During 1994 united fronts began to emerge between the old and new unions and rank and file disillusion in the leaders became widespread, though it did not lead to any effective challenge to them.

The last two years have been the worst from the point of view of active resistance to Yeltsin.

Political hostility has been channelled by a revitalised Communist Party and by Lebed's nationalism. On 27 March this year, however, the FNPR organised national protests under the slogan, "For labour, justice and social guarantees." The strikes were generally token stoppages of an hour or two to allow people to attend demonstrations throughout the country.

Many of them took place with the permission and co-operation of management who wanted to deflect the protests away from themselves and direct them at the government. Tens of thousands, rather than hundreds of thousands, was the norm. The FNPR claimed over 20 million workers participated in protests, with 5.1 million workers joining strike action for part of the day.[75] Crucially, however, 94 of the 100 Kuzbass coal mines worked normally.

"Seizing officials as a way of demanding payment is gaining popularity in the Kuzbass"

The main demands were for immediate payment of wage arrears, but in a few protests political demands for the resignation of the government were prominent. Reflecting growing frustration with the fact that strike actions are limited and remain ignored by the government, miners in Kiselevsk seized the town hall on 7 April in their fight for the payment of wage arrears:

"Seizing officials as a way of demanding payment is gaining popularity in the Kuzbass."[76]

Reports of similar actions have been made in Prokopyevsk and Soloir. Most recently:

"In Ustllimsk, Siberia, unpaid teachers and doctors briefly took a group of local bankers hostage in an effort to extract their unpaid wages from the regional administration."[77]

The Russian working class has suffered terribly these last six years; but some of the biggest attacks lie ahead. Chubais' anti-monopoly legislation and his plans to increase shareholder power quite simply means a huge push to restructure the 35% of Russian industry that is "technically bankrupt". This will lead directly to mass unemployment.

Yet these impoverished workers will find it more difficult than ever to survive once "released" from the enterprise, with its informal lifeline to certain essential goods.

Chubais' call for "sound public finances" has been concretised into a proposal for £10.7 billion to be slashed from public spending to balance the budget. Rent subsidies and child allowances will be cut or eliminated just at the time that the Russian masses are having to endure below poverty level state handouts and mass non-payment of wages.

The grandparents and great-grandparents of today's Russian working class made a revolution that changed the course of world history. Rediscovering that tradition, embodied in a party and programme that stands in direct revolutionary continuity with 1917, is critical if the impending catastrophe is to be avoided.★



CHUBAIS AND NEMTSOV

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the Czech republic revealed; "only half the managing directors felt that a 'very important' goal was to maximise profitability; among board members less than half shared this view." (see OECD, *1995-96 Survey* Paris, p72). The majority of those surveyed thought that "supervising assets" was their main responsibility.

28 Vladimir Ilyin, "Russian Trade Unions and the Management Apparatus in the Transition Period", in *Conflict and Change in the Russian Industrial Enterprise*, ed S Clarke, London 1996, p67

29 EBRD, *op cit*, p119

30 United Nations, *op cit*, p136

31 EBRD, *op cit*, p99

32 G Standing, *op cit*, p88

33 *ibid* p139

34 J Blasi et al, *op cit*, p142

35 *ibid* p143

36 *ibid*, p109

37 BBC, *Russian Broadcasts*, 27 March 1997, pC/1

38 J Blasi et al *op cit* p111

39 World Bank, *Economic Survey*, October 1996, p55

40 G Standing, *op cit*, p56

41 *ibid* p8

42 As a result transactions between enterprises often became demonetised and replaced by barter arrangements. One survey showed that barter increased year on year from 1992-94, accounting for as much as 10% of output in the construction materials industry in 1994. *ibid*, p43

43 J Blasi et al, *op cit*, p176-77

44 *ibid*, p178

45 M Boycko et al, *op cit*, p131

46 After lobbying from the enterprise directors, central bank credits spewed forth again in the late summer of 1994 leading to a collapse of the rouble and a further squeeze. After that federal government credits became more selective, aimed at defence and agriculture. In addition, "in many cases where the central government has reduced its control over firms, local governments have stepped in and increased theirs, largely because social services continue to be provided through firms." *ibid* , p122

47 J Blasi et al, *op cit*, p178

48 In Russia "up to half the judgements of Russian courts go unenforced" according to the United Nations, *op cit*, p93

49 J Blasi et al, *op cit*, p178

50 *Financial Times*, 2 January 1997

51 *ibid*

52 Quoted in *Financial Times*, 19 April 1997

53 *Financial Times*, 28 April 1997

54 *Financial Times*, 22 April 1997

55 *Financial Times Russia Survey*, 9 April 1997. This compares with $11.5 bn in tiny Hungary between 1989-95.

56 By 1997 a mere 20-30 of these new banks dominated the bulk of commercial lending. Although 66% of total banking assets are held by the new banks, by far the largest bank is Sberbank, the state-owned Russian savings bank which has 25% of all bank assets and is six times the size of its nearest rival bank. see *ibid*

57 United Nations, *op cit*, p141

58 *ibid*, p140

59 J Blasi et al, *op cit*, p156. Examples of this kind of merchant banks are Alfa Bank, Inkombank, Bank Menatep, ONEXIM Bank.

60 Nearly 200 major investment programmes worth $3bn have been undertaken by the FIGs. But they still only own about 3% of the Russian economy.

61 J Blasi et al, *op cit*, p157

62 *ibid*, p156

63 G Standing, *op cit*, p209-210

64 J Blasi et al, *op cit*, p114

65 L Trotsky, *op cit*, p255

66 B Kargalitsky, *Restoration in Russia; Why Capitalism Failed*, London 1995, p138

67 V Ilyin, "Russian Trade Unions and the Management Apparatus in the Transition Period" in S Clarke ed, *op cit*, p82

68 G Standing, *op cit*, p194.

69 *ibid*

70 In 1994 only 8% of managers reported that they were in an employers' organisation and all of these were also in the trade union. *ibid*, p227

71 B Kargalitsky, *op cit*, p140

72 *ibid*, p143

73 *ibid*, p145

74 G Standing, *op cit*, p194

75 Predictably, the Interior Ministry claimed only 1.8 million took part in action across 1,280 towns at 1,286 rallies. BBC, *Russian Broadcasts*, 31 March 1997, pC/4

76 *Russia Broadcasts*, 8 April 1997 pC/1

77 *The Guardian*, 19/20 April 1997, p2

China: Stalin near their ca

The last five years have seen a major change of gear in the Stalinists' drive towards capitalism, argues **Peter Main**

TWENTY YEARS of market reforms in China have produced some of the highest economic growth rates in history as well as the bloody massacre of Tiananmen Square. Both the growth and the massacre have been carried out in the name of "socialism with Chinese characteristics" by the ruling Stalinist bureaucracy.

Neither the economy nor the repression have anything in common with socialism, with or without "Chinese characteristics", unless socialism is to mean nothing more than state ownership of ailing heavy industry and finance, and a jealously guarded monopoly of political power.

The real reason for the reforms was that "paramount leader", Deng Xiaoping, hoped that by reforming the economy he would forestall the kind of mass mobilisations that had marked the fights between the factions of the bureaucracy in the 1960s and 1970s.

At the outset there was no agreement on overall goals nor on the means of achieving them.

The official Chinese policy was expressed in the phrase "crossing the river by feeling for the stones", meaning a policy of pragmatism and experimentation. The only objective of the Chinese Stalinist bureaucracy was to remain firmly in control.

Now after nearly 20 years of pro-market reforms in agriculture, rurally based industry and coastal enclaves, measures taken over the last five years to "reform" the labour market in the cities and to restructure the hitherto dominant state industrial sector and banking have brought China to the verge of capitalism.

The Stalinist caste is determined to carry this process through to completion and to transform itself into a substantial part of the new capitalist class.

Stagnation and a legacy of failed experimentation

By 1978, economic decline across all sectors threatened the survival of the regime. Unlike the USSR, only 3% of the country's 348,000 industrial plants were directly controlled by the central planning authority, the State Planning Commission. The remainder, though also subordinate to central planning decisions, were actually administered by provincial and city governments.[1]

True to Stalinist norms, the centrally directed plants were huge. Approximately 1,000 plants employed more than 5,000 workers each and between them employed some 14 million. Another 3,000 employed over 1,000 workers each and this sector as a whole had 64% of all fixed assets, produced a shade under 50% of all industrial output and employed some 20 million workers.[2]

For reasons of strategic defence, most of the giant plants were located deep in China's interior. The giant iron and steelworks in Wuhan, for example, were over 1,000 miles up the Yangzi river from Shanghai. This dispersal of productive capacity had a dysfunctional effect on the national economy. Because of the distances involved and the inadequate development of transport, local, small scale plants tried to produce all their equipment needs themselves.[3]

This proliferation of small scale plants hindered technological advance. For example, 27% of China's pig iron was produced in small plants which, on average, needed 400 tonnes of coke per ton of pig iron more than large plants and their product, "grey" pig iron, was highly unsuited to processing into high grade steels.[4]

As in the Soviet Union, heavy industry had been the priority of China's planners. It accounted for the lion's

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share of investment because the never-ending demand for increased production was met by extensive development rather than intensive improvement of technique and labour productivity.

As a result, by 1978, returns on investment were very poor and declining. For example, in the First Five Year Plan period, 1953-7 for every 100 yuan of investment national income rose by 0.32 yuan, but in the Fourth Plan period, 1971-5, this had fallen to 0.16 yuan.[5] Overall, "capital productivity" fell between 1957 and 1978 by an average of 0.8% per year. [6]

Agriculture on the eve of reform

In the late 1970s, agriculture accounted for 70% of the national workforce and 10% of investment. Although radical collectivisation had been relaxed in the early 1960s to encourage private production to overcome the famine that followed the Great Leap Forward, from the mid-1960s, collectivisation within a stable administrative system based on the three-level commune had been re-established.

The commune was a very large unit, comprising many thousands of households and an entire rural district. Below the commune, the production brigade grouped together perhaps 100 households and, at the lowest level, the production team consisted of a handful of families with boundaries typically determined by pre-existing hamlets and villages.

Within this structure, work was organised and remunerated at team level but decisions over what to produce were taken at commune level in conformity with local quotas laid down by the planning authorities. In 1978, 90% of agricultural trade took place at prices laid down by the plan.

This system brought a number of advantages which ensured that food production kept ahead of the increase in population. Knowledge of improved techniques, fertilisers, seed strains, for example, could be disseminated rapidly and extensive irrigation works could be organised more efficiently at the commune level.

However, its bureaucratic rigidity also brought serious disadvantages. In particular, concentration on single crop production to meet quotas did not bring the expected economies of scale and militated against the optimum use of land.

Instead of each team producing a range of crops, taking advantage of local knowledge to specialise and producing most of their own immediate requirements, scarce resources had to be used to transport food crops between districts which could have produced all their own needs, and an inadequate range of crops was produced.

By 1978, 45% of arable land was irrigated and modern fertilisers were used routinely; there were few further advantages to be gained from this system. This could be seen in the fact that throughout the 1970s, the rate of growth of grain production failed to keep pace with population growth.[7]

Market socialism or primitive capitalist accumulation?

That the economy had to be revitalised by the late 1970s was not in question and new measures were introduced by the third plenum of the Central Committee in December 1978. The leaders of the CCP had every reason to favour a very cautious approach to economic "reform". After the convulsive disasters of the Great Leap Forward of 1958-60 and the "Cultural Revolution" of 1964-74, the majority were agreed on the need to proceed on the basis of compromise and consensus. After these failed experiments in Stalinist economic adventurism a degree of pragmatism prevailed.

As one Chinese official noted, "the first law of liberalisation, [is] first establish the practice, then declare the policy."[8] Small-scale experiments were first carried out and then those policies or techniques which increased output were adopted as national policy and generalised across the country.

At the heart of the reform programme was the belief that relaxation of planning controls would stimulate production if linked to material incentives. Deng's dictum, "To be rich is glorious!", was most immediately put into practice in the countryside where it created the economic and social currents that have since become the single biggest influence on the direction of the economy.

At the outset of the reform process the major divide within the ruling stratum was between those who wanted to accelerate the marketising reforms and those who feared that this would end up unravelling the whole economic system and thus lead to the common ruin of all bureaucratic groups.

Time and again the tensions within the bureaucracy were resolved only through common subservience to the bonaparte Deng Xiaoping.

For all their apparent pragmatism, the adopted policies were the result of the competing forces within China, mediated through the party, army and state institutions.

By 1978 there was no prospect of turning the economy around via the existing bureaucratic administrative mechanisms and, like the Hungarian, Yugoslav and even Soviet leaders before them, the Chinese looked to

1 Figures from Zhou Xiaozhuang, "Industry and the Urban Economy", in R.Benewick and P.Wingrove (eds),*China in the 1990's*, London, 1995, p.155.

2 Figures from Nolan and Ash, "China's Economy on the Eve of Reform" in *China Quarterly* 144, London, 1995, p.992 By contrast, Zhou, *ibid.*, reports that in 1978, 344,000 industrial plants had less than 1,000 workers each.

3 see Nolan and Ash, *ibid*, p.992

4 Figures from T.Pairault, "Ideology and Industrialisation in China," in Feuchtwang, Hussain and Pairault (eds), *Transforming China's Economy in the 1980s*,London 1988, p.30

5 see Nolan, *op cit*. p.48

6 Figures from Chen et al, "New Estimates of Fixed Investments and Capital Stock", *China Quarterly* 114, Oxford, 1988, quoted in *ibid.*

7 Figures from Feuchtwang et al, *op cit* p. 72

8 Quoted by D.J.Salinger in *China Quarterly*, No 145, Oxford 1996.

market mechanisms to invigorate their flagging economy.

Unlike their European counterparts, the Chinese found that their economy was, perhaps uniquely, very well positioned to take advantage of the reforms. Unlike the Soviet Union, where the Liberman reforms of the 1960s were rapidly stifled by the resistance of entrenched bureaucratic satraps, the far more decentralised Chinese system provided a structure much better suited to local experimentation and initiative.

Most enterprises, for example, although subordinated to central planning decisions, were actually administered and directed at provincial, county or city level.

Deng Xiaoping's pragmatic shift was a response to political pressures mounting in the countryside. Peasants were already breaking up their production teams

This much greater decentralisation resulted initially from the dispositions of party and army commands at the end of the civil war, when local self-sufficiency had been a priority, and partly from Mao's support for decentralisation of production during the Great Leap Forward.

Above all, there was a growing recognition that the potential of China's rural economy was being severely restrained by bureaucratic planning. This insight led to a fundamental change of strategy and a break with Stalinist orthodoxy. The primacy of the heavy industrial sector was rejected and agriculture was promoted as the lead element in the national economy.

Deng Xiaoping's pragmatic shift was a response to political pressures mounting in the countryside. Peasants, especially in Sichuan and Anhui provinces, were already breaking up their production teams and brigades and taking their own decisions over what crops to grow.

That this immediately raised output should not have been surprising since, as in other degenerate workers' states, Chinese peasants had generally retained their household plots, primarily for growing vegetables and raising poultry, and they knew that these were far more productive than the collectively farmed fields which were starved of the necessary technology to exploit their potential.

The agricultural reforms of 1978 legitimised such local decision-making without laying down any precise controls over land use. Within a matter of four years, however, one system had become almost universal, that of "Household Responsibility". This was the most liberal of the various systems that developed after 1978.

Peasant families were granted control over a plot of land, decided upon at the old production team level. The land itself remained the property of the team (i.e. approximately the village) but how it was used was now the farmer's decision. Obligations to the state were retained through mandatory sales of quotas of specified crops at fixed prices.

The benefit to the farmer was that all production above quota could be sold on local markets, or to the state at what were called "negotiated prices" fixed between the quota price and the local market price. The state, fearful of a shortfall in essential crops such as grain, guaranteed to buy all production above quota.

This reform produced an immediate increase in production both in per capita output and in terms of diversification; grain yields increased at an average annual rate of 3.7% between 1978 and 1984; cotton rose by 18% per year, meat by 8.9% and fish by 3.6%. Overall, peasant incomes saw an average 12.3% rise, per year, throughout this period.[9]

The visible success of the reforms encouraged further liberalisation in the early 1980s. In terms of their subsequent importance in facilitating moves towards capitalist restoration, the most important of these was the relaxation of controls over small scale industry, forestry, animal husbandry and local markets.

This not only stimulated production but also commercial activity throughout the rural areas where, at the time, some 75% of the total population worked. The number of rural markets increased from 38,000 in 1980 to 67,000 in 1993. Recent research suggests that cash income, as a percentage of total rural income, rose from 52% in 1980 to 68% in 1993.[10]

The long term economic significance of these reforms lies in the fact that they began to create market prices for foodstuffs and for many of the raw materials of light industry at the same time as increasing the income of farmers. This itself created effective demand for the products of small scale, locally owned, "industry".

In addition, although the maintenance of the state's powers of procurement at planned prices was designed primarily to ensure a dependable supply of essential produce, it also created the model of the "dual pricing system". In the course of further development, as the state reduced the range of crops it controlled, and a steadily greater percentage of each was produced for, and sold on, the market, so the state brought its "planned prices" more and more into line with those of the market.

This process was by no means always smooth. In 1984, for example, oversupply of grain meant that state procurement prices were far above market prices and state warehouses were overflowing. Because the government was committed to relatively low sale prices for food supplied to urban industry, the state was, in effect, subsidising the rural grain producers to the tune of 22 billion yuan, 14% of total state revenues.[11]

It is significant that to rectify this, the state did not return to tighter controls but rather liberalised procurement still further to cover only wheat and rice.

Everything else, even cotton, would be bought either by the state at "negotiated prices" or could be sold on the open market at prices which would reflect demand. Very importantly, these higher prices for both food and raw materials were passed on to the industrial sector.

In the event, this reform over-compensated and the following year there were serious shortages of staple crops as farmers switched to the more lucrative "industrial crops". The state then responded by re-introducing a range of compulsory quotas.

This episode shows that the social forces behind commercial agriculture were not strong enough at that time to force the state to relinquish its controls. However, the re-imposed controls were not as wide-ranging as the original system and market-oriented agriculture had been firmly established.

In subsequent years, against a background of generally steady increases in agricultural output[12] further reforms were introduced which allowed different sectors of state industry to buy agricultural raw materials at market prices, rather than obtaining them only from the state's procurement agencies.

In the early 1990s, a further relaxation of controls on grain allowed local government authorities to phase out both compulsory deliveries and the provision of grain rations to urban areas.

By 1993, 90% of China's provinces had dropped rationing altogether and, although many maintained mandatory contracts for producers, the prices for these deliveries were now determined by the market.

However, even as recently as 1995 the state could still intervene to "correct" market-induced disequilibrium when serious reductions in grain deliveries led to the reimposition of nationwide mandatory deliveries.

The transformation of local industry

The reforms introduced in the agricultural sector began to alter the role of public administration from provincial

9 Figures from M.Blecher, "The Reorganisation of the Countryside", in *Reforming the Revolution*, London 1988, p.100

10 Figures from T.Sicular, "China's Reforms in Agricultural Commerce", P.1027, in *China Quarterly* No.144, Oxford 1995

11 *ibid.* p.1023.

12 Nolan cites the World Bank Development Reports' figure of an average 5.7% increase per annum throughout the 1980s



1989: TIANANMEN SQUARE MASSACRE USHERED IN A PERIOD OF CONSERVATIVE REACTION

level down to the village and, consequently, the role of the Communist Party officials who ran it.

In China, local government had always had a greater degree of autonomy than in the USSR. The institutions of central planning were never as developed as those in the Soviet Union. This played an important role in institutionalising party and state involvement in economic decision-making at local and provincial levels.

As has already been noted, much of the state sector was administered at local level, and here the CCP's traditions of local self-reliance reinforced the tendency to interpret central instructions in the light of local priorities. Into the bargain, the inevitable inadequacies of bureaucratic planning required constant resort to local solutions. In all of this, the role of the party cadres was central in achieving not only a balance between local and central priorities but also in co-ordinating policy at all levels.

This degree of self-reliance in pursuit of centrally determined policy objectives was officially recognised long before the advent of Deng's reforms. From 1972, for example, county level administrations were allowed to retain 60% of profits from State Owned Enterprises (SOEs) within their jurisdictions in order to fund development, diversification and infrastructural improvements.

Such retained funds in the hands of counties were the equivalent of 35.6% of the state budget, a figure which points to a very significant sector of the economy being operated, if not entirely separately from the central planning institutions, at least at arm's length.[13]

After the introduction of the reforms of 1978, it is not difficult to imagine how government and party officials adapted this culture, developing local small-scale industry, improving transport provision, establishing markets and utilising their connections within state and party further afield to open up trade and commerce.

With the development, after 1978, of the Township and Village Enterprise (TVE) sector, such "entrepreneurial activity" became the norm for all officials, not in counterposition to the central government's directives, nor even as a means of making good the insufficiencies of central directives, but with full official encouragement as the means of implementing central directives. The roots of this sector lay in the communes' local workshops and local industrial enterprises which produced or processed the everyday needs of the communities.

The removal of the stranglehold of the commune, after more than 20 years of Maoist austerity, and a sudden increase in incomes from commercial farming, opened up a vast range of possibilities for development. The increase in marketing created a demand for motorised transport that individuals could not afford but a community could; rising incomes stimulated demand for new housing, furniture, textiles and a higher level of meat consumption, which itself required slaughterhouses and so on.

Indeed, some of the biggest businesses in China are now found within the TVE sector. For example, the *Far Eastern Economic Review* recently reported on the history of the "Sunshine Group", a textile manufacturer set up as a township enterprise in 1986. It has become China's leading producer of worsted wool, using the most advanced machinery available to produce cloth up to the standards laid down by the International Wool Secretariat.[14]

Financially, every level of government had an incentive in what became the fastest growing sector of the Chinese economy, because each was entitled to retain a percentage of the funds generated in its jurisdiction as it passed on revenues to its higher authority. At the same time, each unit had only limited resources at its disposal so every investment decision had to be carefully considered. Each had to calculate how to allocate its resources between its social and welfare responsibilities and the development of "industry" and infrastrucure.

The close links between state, banks, industry and agriculture, personified in the form of the party secretary, meant that welfare spending could be subsidised out of retained funds. Investments in one sphere were funded by transfers from existing enterprises, losses were made good from other enterprises' profits and so on in a system that could be called "local corporatism".

All of these enterprises remain, officially, "collectively owned". In statistics they are referred to as "non-state" because they are not owned by the central state. However, many commentators suggest that behind the formal "collective" ownership, many have become, in reality, private businesses operating on a share-holding or co-operative basis.[15]

The authorities that control the decisions within TVEs know that they can only increase their income by realising a profit on that part of their investments which has been put into production. Other considerations, including the provision of local welfare, for example, continue to have a signifi-

13 S.Goldstein, "Political Foundations of Incremental Reform", in *China Quarterly*, 1995, p.1114. Note that this figure does not only refer to rural administrations but also urban.

14 See *Far Eastern Economic Review*, 1 May,1997, p.51

15 This puts in question Goldstein's assertion that, "The ownership structure that has emerged out of China's partial reform demonstrates that the vibrant, rapidly growing "non-state" sector that has developed outside the plan cannot be considered anything other than one dominated by public ownership and management", *op cit*, p1117

cant influence but, throughout the reform period, the tendency has been towards the transformation of this "non-state" industry into capital.

The inputs to TVE industry, for the most part originating in deregulated, family-based agriculture, are themselves bought at market prices that have to be passed on in the final product. It is true that for many years energy costs were kept low by virtue of state subsidies to the coal and fuel industries but, since 1994, even these have generally been allowed to rise to market prices, or "scarcity prices", as they are known. All these inputs to production, then, conform to capitalism's norms.

Finally, although much of the infrastructure of production and much of the original fixed assets of bigger enterprises were the product of investment undertaken before the reform period, this cannot any longer be the case. By 1992, the TVE sector accounted for 38.2% of the value of industrial output.[16]

Its products were traded not only beyond the boundaries of the towns and villages where they were produced but beyond the shores of China. The scale of increase in output suggests that most of the now existing fixed assets must have been funded by retained profits generated during the reform period.

What remains true is that this sector does not conform to the capitalist norm of private ownership of individually identifiable and legally autonomous enterprises.

This, however, does not disqualify it as capital. In any economic system developing towards capitalism from within a centrally planned economy such a norm would not be expected. On the contrary, transitional forms of ownership with a high degree of "public" supervision could be expected.

This is particularly so in the rural economy, where the prevalence of single surname villages underlines the continued importance of pre-capitalist, clan-based social formations. Hence, the question of individual private ownership is not necessarily of central importance in a period of what is essentially primitive capital accumulation.

What matters is that within this sector, no longer restricted to a role within the nationally dominant command economy, hundreds of thousands of production units are increasingly basing their operations on the dictates of the market: the law of value.

Crucially, this hybridised capital is now sufficiently established to reproduce itself spontaneously. Whereas the market reforms introduced to avert the famine of 1961-63 could be reversed when Beijing decided the danger was past, the TVE sector is now too strong for such a reversal.

Millions of decision makers, prominent among them the cadres of the Communist Party, are adjusting their expectations, their assumptions and their decisions in accordance with market criteria. Capital, as Marx observed, can only exist as many capitals, and many capitals have come into existence in China.

However, while reproducing themselves on a capitalist basis they do not yet constitute a "system", because they are not yet integrated through the mechanisms of capitalist regulation, above all the discipline of having to compete for most of their investment needs on a national or international capital market. Moreover, property rights in the TVEs are often still nebulous and investment flows are influenced by local political considerations.

Thus, the TVEs and the "non-state" collective sector, significant as they undoubtedly are, do not constitute the heart of the Chinese economy and do not determine the class character of its dominant property relations.

Their importance within the analysis of the Chinese economy as a whole is twofold; they have created the raw material of an indigenous capitalist class and they have established market criteria and market forces that could in time transform the heavy industrial core of the economy.

Special Economic Zones

At first sight, to suggest that the generally small scale and unglamorous TVE sector could generate the forces necessary to transform the heavy industrial core of the economy might seem perverse when the whole world has been marvelling for many years now at the astronomical growth rates and the physical transformation of the Special Economic Zones (SEZs) such as Shenzhen, adjacent to Hong Kong. This is to misunderstand the role that such SEZs have played in China's economic development and their relationship to the domestic economy.

The first four SEZs were set up between 1979 and 1981 to attract investment from Chinese capitalists in Hong Kong, Macao, Taiwan and South East Asia. It was hoped that by providing infrastructure and cheap labour, together with attractive tax concessions, China would be able to gain foreign exchange, transfer of high technology and access to foreign management techniques.

The zones were certainly successful in attracting foreign firms and in less than a dozen years Shenzhen went from a small fishing village to a huge conurbation with a population of millions and a physical appearance akin to any of the financial centres of the western world.

Double digit growth rates were the norm and economic activity steadily shifted from the original cheap labour, low-tech assembly of plastic toys, through textile manufacture, to assembly of consumer electronics. Then, as labour costs rose, they increasingly focused on the service sector: real estate management, insurance and banking.

However, the greater part of production was for re-export, and foreign firms were not enthusiastic about transferring technology that would obviously be used to create future Chinese rivals. China maintained very high import tariffs, averaging 35%, to protect its own industries and, therefore, foreign firms, even within the SEZs, had little access to the huge domestic market.

In addition, although Chinese workers in the SEZs remitted earnings back to their families, China had to bear the cost of providing infrastructure and the demands for energy and construction materials, in particular, produced serious shortages in the internal economy.

Consequently, although China was certainly influenced by the SEZ's in terms of knowledge of foreign markets, quality standards, management techniques, access to foreign exchange and remitted earnings, the zones did not have much impact on the structure of the Chinese economy as a whole – at least in their first decade of operation. It was experience such as this which prompted the World Bank itself to conclude:

"Special foreign investment regimes create enclaves that benefit the rest of the economy little. These may be useful at the beginning of transition if they send the message that the country is serious about reform but special tax breaks, exemptions from customs duties and other incentives for foreigners can put domestic investors at a disadvantage and cost governments much-needed revenue." [17]

There is no doubt whatsoever that production within the zones was capitalist production, although not a chemically pure form of it since there were considerable subsidies from the national economy, but this was part of the circuit of capital in the international economy, not part of a new circuit within China as a whole.

What has been said about the SEZs could also be said of Foreign Direct Investment (FDI) in general until the last few years. Once again, this is an apparently surprising conclusion because much has been made of China's success in attracting FDI and the steady increase in her role as an exporter of manufactured goods. By 1994, China was second only to the USA as a recipient of FDI with inflows reaching US$33.7bn, and was the world's eighth largest exporter.

However, for most of the 1980s, FDI amounted only to hundreds of millions of dollars per year and was per-

16 *ibid*, p.1116
17 World Bank, *From Plan to Market*, Washington 1996, p.65

mitted only in very tightly controlled areas outside of the SEZ's. Once again, it was largely concentrated in enterprises which were assembling or processing imported materials for re-export and at this time, therefore, had only a limited impact on the Chinese economy itself. In 1992, earnings on exports from the SEZs were actually less than the cost of imports in the late 1980s.[18]

But the growth in exports from foreign owned enterprises has been rapid in the 1990s, from 8.3% of total exports in 1989 to 28.7% in 1994.[19] Trade on that scale does have an impact on the domestic economy not only directly, in terms of foreign exchange earned, but also in more fundamental ways.

Since the late 1980s, restrictions on where FDI can be located in China have been greatly relaxed as have the limits on which sectors of the economy can receive foreign investment. Thus, practically every county in China now has some foreign invested enterprises (FIEs) and sectors such as retailing and electricity generation are now open to foreign investment. The biggest shift came after 1992 and Deng Xiaoping's "Southern Tour" after which the Party Conference in November of the same year agreed to accelerate liberalising reforms throughout the country.

By and large, foreign investment outside the SEZs has gone towards the TVE sector because its smaller scale is easier to develop, equip and supervise than are the enterprises of the "state owned" sector, primarily heavy industry, fuel and energy. This means that it is within the expanding TVE sector that international standards of management, production, marketing, design and investment are most integrated.

By definition, management in this sector is entrepreneurial and operating completely outside the remaining constraints of the planning ministries.

Some indication of the financial sophistication already achieved within this sector is given by a World Bank calculation that as much as 25% of the FDI flowing into China in 1992 was actually capital recycled by (mainland) Chinese firms who transferred funds offshore in order to gain the concessionary advantages accorded to foreign investors when it was re-invested within China![20]

This also demonstrates the developing integration of the indigenous capitalist class into the world market. What is more, the expansion of this sector provides the Chinese state with criteria by which to judge the performance of the sector that is still centrally directed.

Both the SEZs and FDI, then, played a minimal role within the Chinese economy in the 1980s but they have now become an important adjunct and stimulus to the most dynamic sector, the "non-state", "collectively owned" but increasingly capitalistically organised and oriented TVEs.

State owned industry

The process of capital accumulation and penetration in China has both deepened and accelerated over the last five years. Its final phase lies ahead, the capture and transformation of the hitherto decisive economic sector – state owned industry. For the first ten years, economic reform made little impact here. An emphasis on plant and managerial autonomy had little meaning in the context of a system within which investment levels, product mix, prices and "profits" were laid down by the State Planning Commission.

Nonetheless, although production was largely unaffected, the new orthodoxy did draw attention to performance at enterprise level. Differences in efficiencies between plants were highlighted and loss-making enterprises were identified. But, at the same time, managers could legitimately defend themselves, and their plants, by pointing to the illusory nature of their supposed autonomy within the system. Such arguments led to proposals for further reforms in 1983-84 which promised to alter the fundamental relationships within the state sector.

Initially, these centred on the creation of managerial incentives to increase production and profitability. Previously, profit margins were built into the pricing structure of an enterprise's products by the central planners. As in the original USSR model, the key regulator in planning was achieving the designated physical output targets ("the materials balance") and prices were essentially an accounting mechanism that passively reflected the movement of goods through the system.[21]

Consequently, the "profits" earned from production were very poor indicators of actual productivity in the plant and in any case were remitted directly to the state and were not retained by the enterprise that had earned them. Virtually all fixed investment, and most of the working capital

18 Y.Y.Kueh, "Foreign Investment and Economic Change in China", *China Quarterly* 13 1 cited by Thoburn and Howell *op cit* p.175

19 Figures from N.Lardy, "Role of Foreign Trade in China's Economic Transformation" in, *China Quarterly* 144, p.1074

20 cited by N Lardy, *ibid*, p.1067



THE STATE-OWNED WUHAN STEELWORKS EMPLOYS MORE THAN 280,000 WORKERS WITH JOBS, HOUSING AND SCHOOLS

of state industry, was simply funded out of state revenue as direct grants. This revenue itself was largely derived from the earnings of state industry.

From 1983, however, this system was dropped in favour of a form of enterprise income tax. This echoed the incentives offered in agriculture and the TVE sector. Management could retain a percentage of the income earned and was also encouraged to find ways of raising the level of income.

This illustrates a general point about the whole reform period; marketising measures in one sphere influenced procedures in other spheres, legitimising themselves and, in the process, creating imbalances elsewhere which appear to be correctable only by a further extension of the market.

Thus, SOE managers, seeking to increase plant earnings, looked for cheaper sources of raw materials within the TVE sector, as opposed to traditional centrally planned suppliers, and saw the possibilities of changing their own product lines to take advantage of demand from TVEs.

This tendency was strengthened by an experiment introducing management incentives into the 300 "joint ventures" which were allowed to receive foreign investment before 1985. As in agriculture, these enterprises were allowed, indeed encouraged, to expand production beyond the plan "quota". They could choose to contract with the planning ministries for a certain percentage of their output as their contribution to centrally determined targets.

Beyond that, however, the choice of what to produce, how to produce, where to obtain supplies, and where to find markets was left to management. Various tax incentives ensured that profits earned in this way benefited the enterprise. [22]

However, even in these select enterprises a central obstacle to greater profitability was the initial impossibility of shedding "surplus" labour under the legal code and norms of the Chinese degenerate workers' state. Reforms introduced between 1978 and 1981 then gave management the right to advertise for new labour and select by examination.

At the same time, voluntary labour mobility was encouraged through the establishment of labour agencies to help workers find jobs that suited them. The same reforms were also intended to give management the right to dismiss workers for reasons other than violation of the labour or criminal codes, but the balance of forces within industry ensured that this was rarely put into practice.

As a result, a potentially much further reaching reform was introduced in 1982. Its significance was emphasised by the fact that it was championed by Zhao Ziyang, the Premier and, at the time, Deng's chosen heir apparent. This was the "contracted labour" system under which workers were to be employed for specified lengths of time, by contract, after which they could be dismissed on the grounds of their work record, the completion of the project on which they had been employed or if the labour requirements of the enterprise had changed.[23]

In the event, the new system remained a dead letter for the greater part of industry, only really being implemented in the construction industry where the idea of limited contracts was relatively compatible with the character of the work.

The underlying reason why the contract system could not be enforced was that society as a whole lacked the means to support its operation. Workers' hostility to the scheme was widespread and found extensive support throughout society, including within management, because losing your job meant losing all the "welfare" services provided through the enterprises – housing, medicine, rations, pensions, even children's education in the very large plants. Consequently, although one study in 1983 suggested that up to 30% of labour in the SOEs was "surplus to requirements"[24] dismissals remained rare.

The problem with all such reforms was that they could not tackle the source of the malaise within large scale industry. In agriculture the existing levels of technology and technique were best suited to family-based farming. Consequently reorganising production on that basis could, virtually by itself, lead to considerable increases in productivity, even if these were one-off gains.



CCP DELEGATES RUBBER STAMP ECONOMIC REFORM IN EARLY 1990S

In industry, the existing techniques of production (not simply manning levels but the division of labour, failure to specialise, lack of economies of scale, duplication of production etc.) could only increase output by expansion of existing technology. Effective demand for industrial goods did rise as the TVE and SEZ sectors developed but this was met by increased investment into industry, extensive, rather than intensive, development. K. C. Yeh has contrasted the difference between managements in the SOEs and those in the TVEs:

"In the private and rural industries, the predominant motive [for increased investment] was clearly profit. [But] for state enterprises, the emphasis remained on the growth of output as the main performance indicator, with the tendency to increase output through investment."[25]

The failure of all these early reforms to make any impression on the SOE sector was already apparent in 1984 and led to a reappraisal of the entire planning system. Supporters of the most radical reforms argued for a programme that linked the transformation of the People's Bank of China (PBC) into a body independent of the State Planning Commission, issuing funds to industry on commercial criteria, with a rapid liberalisation of prices within the industrial sector. This, they argued, would redress the balance that had traditionally favoured heavy industry over light industry and agriculture.

However, the powerful entrenched interests within the heavy industrial sector opposed this unless the PBC was prepared to guarantee compensation for their resulting loss of revenue. When the bank refused such an open ended commitment, the proposal for price liberalisation had to be shelved.

Instead, increased powers were

21 Within the centralised planning system, banking and financial institutions played an entirely passive role. Their task was to allocate funding in accordance with the decisions of the State Planning Commission and its subordinate ministries.

22 See C.Smith and P. Thompson, *Labour in Transition; The Labour Process in Eastern Europe and China*, London 1992, p.233/4.

23 See G.White, "Evolving Relations between State and Markets in the Reform of China's Urban-Industrail Economy", in Feuchtwang et al, *op.cit.*p.16.

24 cited by White, ibid, p.15

25 K.C.Yeh, "Macroeconomic Issues in China in the 1990's", in *The Chinese Economy Under Deng Xiaoping*, Oxford 1996, p.45 For this period, 1980-88, Zhou Xiaozhuang gives an SOE factor productivity growth rate of 2.4%, approximately half of the average in TVE sector, see "Industry and the Urban Economy", in R Benewick and P Wingrove, *op.cit.* p.154

given to provincial level government to decide upon investment priorities for the SOE sector within their jurisdictions in the belief that:

". . . this would extend the reform coalition into the provinces whilst simultaneously removing power from the conservative bastions of central planning and finance."[26]

Changes in the status and role of the PBC were adopted. In 1984 it became, at least in formal terms, a fully fledged central bank, charged with overseeing both monetary and financial policy. Its previous role as the supplier of funds to industry under the plan was transferred to a new Industry and Commerce Bank which was responsible for issuing funding in the form of loans which were repayable with interest.

The intention was that such interest rates would be varied in order to influence industrial development policy to conform to central government plans. The package of reforms was completed by devolving a lot of decision-making responsibilities to local branches of the bank.

To match these changes, other measures were adopted which gave much greater autonomy to enterprise managers. This was expected to complement the financial changes because the managers would be held responsible for profit and loss and their success would be a function of the efficient use of the loans extended to them by the banks.

Factions in the bureaucracy

The fate of this ambitious reform project illustrates the contradictions with which Chinese economic and political policy makers have grappled ever since. Much of the reform package was not implemented because it fell foul of the factional combat within the party and state. This was, in part, fuelled by the same inter-departmental antagonisms that have been seen in other centrally planned economies when similar "market socialist" reforms have been proposed.

Ideologically, the battle lines have been drawn between "conservatives", typically associated with heavy industry and the armed forces, and "modernisers" anxious to expand light industry, consumer products and overseas trade. In China, however, these were exacerbated in the mid-1980s by serious economic instability resulting from the market reforms already undertaken in the agricultural and TVE sectors.

Two aspects of this were particularly important. First, as noted above, greater decision-making powers had been devolved to provincial governments and these proceeded to use their powers to expand industrial investment in their regions. Through a combination of grants, retained profits and pressure on banks to extend "soft" credits, these governments responded to increased demand from light industry (predominantly in the TVE sector) by simply increasing the size of existing plant.

Viewed on a national scale this was both highly irrational, duplicating capacity, creating bottlenecks and shortages, especially in the construction materials industry, and highly inflationary.

Second, the decision to extend finance to industry only in the form of interest-bearing credit was negated almost immediately by the escalating price of agricultural produce. This rapidly fed through into increased "subsidies" to SOEs which the switch to greater autonomy now made more visible.

Food rations, supplied via the workplace, were a central element in the income of the urban workforce and enterprises were legally obliged to maintain supplies. To pay for them required ever greater subsidies from the state or, (which is the same thing) ever decreasing revenues remitted to the state.

Since the TVE sector did not have to carry this burden, the contrast between its profitability and the losses of the SOEs was exaggerated. For the conservative wing of the bureaucracy this simply proved that market reforms were unravelling the entire economic system while, for their opponents, it was more evidence of the need to disentangle the web of the planning system so that the "real" costs of production in the different sectors could be accurately gauged.

Characteristically for a Stalinist state, this debate was suppressed and carried on via coded exchanges and elaborate metaphors. The inflation that resulted from the imbalances, however, could not be kept secret and these were the circumstances which led to the political instability in late 1986. Hu Yaobang was eventually blamed for this was sacked from his post as General Secretary of the Party in January 1987.

Although this showed that the conservatives were still a force to be reckoned with, the fact that Hu retained his seats on both the Politburo and the Standing Committee underlined the fact that the factions were relatively evenly balanced. The following two years, up to the fateful days of May and June 1989, witnessed increasingly open calls for further reforms but no substantial changes in the economic system.

In the aftermath of the Tiananmen Square massacre and the countrywide crackdown that followed it, the conservative wing of the bureaucracy really did become dominant and this had consequences on the economic front as well as the political.

The State Planning Commission, in particular, benefited from the new political climate as relatively independent economic institutes, which were regarded as having contributed to the political instability, retreated into the background. It is an indication of how much had altered in the previous years that in seeking to re-establish greater central control over the economy, the planners no longer operated via the central allocation of materials.

Rather, they pulled various macro-economic financial levers such as setting aggregate quantities of budgetary investment in conjunction with the Ministry of Finance, allocating grants for capital construction and bank credits for fixed investments.[27]

By 1993, only 10 light industrial



DENG ARRIVES IN GUANGDONG ON HIS 1992 SOUTHERN TOUR

27 B. Naughton, "China's Macro-economy in Transition", in, China Quarterly 144, p.1095

26 S.Breslin, "Centre and Province in China", in R Benewick and P Wingrove op cit. p.66

products were subject to central plan orders, whereas in 1978 there had been 158. In heavy industry less than 100 centrally allocated products remained from an original figure of over 1,000.[28]

This use of financial measures, while maintaining central controls over the statified industrial heart of the economy, was already a long way from the original system of Stalinist "command planning". Political priorities still determined the objectives to be pursued but, in addition to greater managerial autonomy and the increasing influence of the "competitive sector" in setting market prices for many of the inputs even to state-owned industry, the planners were no longer hegemonic.

The period in which the conservatives were dominant, perhaps for the last time, ended with Deng Xiaoping's symbolic Southern Tour in 1992

They were still the most powerful agents in shaping how the state sector developed, but they were no longer the only powerful agency.

For two years after the suppression of the democracy movement in Tiananmen Square, a very tight rein was kept on all financial policy. Price controls were re-introduced and new investment was kept to a minimum. The measures were successful in bringing inflation under control but this retrenchment was not in itself a solution to the underlying problems.

This period, in which the conservative faction was dominant, perhaps for the last time, ended with Deng Xiaoping's symbolic Southern Tour in 1992. His public support for the most commercially minded provinces, summed up in his praise for the resumed high growth rates in Guangdong, marked the opening of a new round of even faster growth than that seen in the 1980s.

In retrospect, it is now clear that this was the point at which Beijing made a qualitative change of policy. The Fourteenth Party Congress removed one-third of the Central Committee, including an important grouping of conservatives around Chen Yun. Their places were taken by a stratum described as "technocrats" who favoured economic reform coupled with continued strengthening of the centre. These included General Liu Huaqing of the PLA High Command and Qiao Shi, head of party security. The most prominent, Zhu Rongji, became senior Vice Premier with responsibility for economic policy.

The policy documents of the Congress, while obviously including economic targets, were the first to make no mention of the plan, as such, and to identify the creation of a socialist commodity economy as the long term goal. Whereas previously policy had been intended to dynamise the planned economy through market stimuli, it now aimed to replace planned relations within the core of the economy with market relations.

The experience of the previous two years appears to have convinced the leadership that the reimposition of centralised planning controls was no longer a viable option. The available mechanisms had proved inadequate and, worse still, political stability was threatened by a return to very high growth rates in the "competitive sector", especially in Guangdong. Although the mechanisms for "marketising" the core economy had yet to be defined, there was no longer an overriding need to hold back the "competitive sector" in order to protect the planned sector.

Internally, the green light was given to provincial and lower levels of government to expand production by all means possible. Externally, controls over the permitted sites for FDI were dramatically relaxed and it was made clear that there was now official support for forms of investment into the SOEs such as joint ventures. This was the beginning of the record breaking figures for inward investment. The export trade was also boosted by measures to bring the yuan closer to convertibility, but at a devalued rate.

This frenetic economic activity pulled into the whirlpool large areas of China far from the coastal provinces, placing the most severe strains on the ability of the government to steer the economy as a whole in the direction it wanted. This was felt most acutely in the financial and banking institutions.

The inflationary period prior to 1989 left the banks with legions of debtors in the state sector who had received subsidies in the form of loans but were in no position to repay them. After 1992, two new factors added to the banks' problems. The first was an increase in pressure from local governments for soft loans to industry and the second was the rising numbers of SOEs which were making losses year on year. By 1995, this was the case with 40% of SOEs and their combined debt equalled 14% of GDP.[29]

At first sight this combination of political pressure and loss-making SOEs might appear similar to the problems experienced in Eastern Europe and the former Soviet Union after their "big bangs". In fact the situation was quite different.

Much of the pressure from local government for funds for industry was a response to the boom conditions unleashed by Deng's "Southern Tour". Unlike credits to Russia's rustbelt, which keep afloat firms which are barely capable of production, these are funding increases in productive capacity and the resulting increase in money supply is not necessarily inflationary.

Within the centrally administered SOE sector, however, the risk of inflationary pressures arising from credits simply being used to maintain the status quo is greater. In this period, after 1992, the share of total investment going into this sector actually increased[30] but, given the long lead times in the kind of industry involved, whether or not this investment proves to be a further inflationary factor cannot yet be judged. What is clear is that losses in the SOE sector continued to rise, to Yn 36.9 bn in 1992, Yn 45.3 bn in 1993, Yn 48.3 bn in 1994.[31]

However, as the World Bank has recognised,[32] even the losses in SOEs are not an entirely negative phenomenon since many of them result from more rigorous financial discipline and can, therefore, be seen as a necessary precondition for subsequent improvements in efficiency. It could also be the case that managers are maximising their losses to avoid taxation, thereby accumulating funds for an uncertain future.

The factor which was previously responsible for SOE debts – food subsidies – is no longer a significant problem. By 1993, food rations had been phased out and workers had to pay market prices for their food, thereby removing this significant drain on banking funds. Direct price subsidies amounted to only 1.5% of GDP in 1993, not a serious problem.[33]

At the same time, "planned prices", for energy supplies and heavy industrial products, for example, were brought into line with the market prices that had been established in the "competitive sector". This meant that some SOEs, for example petrochemical plants and electricity generators, became substantial profit earners.

After 1992, the new rounds of investment, an increase in prices and other factors such as increased consumer spending and a frenzy of buying novel financial products led to a rapid increase in money supply in 1992-93. As in previous bouts of inflation, the central authorities' principal weapon was the introduction of price controls which were quite rigorously enforced and brought consumer price inflation down from some 25% in 1993 to nearer 15% in 1995.

However politically important, such measures do not deal with the underlying problems. Central government authorities recognised that they had still not achieved their objective of transforming the state sector via the creation of effective levers of financial discipline. Consequently, in 1995, they turned their attention to propos-

28 Figures from T.Sicular, *op.cit.* p.1035

29 Figures from, "China in 1995", in *Far Eastern Affairs* 4/96, Institute of the Far East, Moscow 1996

30 B.Naughton *op.cit.* p.1091

31.Figures from State Statistical Bureau, quoted in *Financial Times*, 25.4.97

32 See *Plan and Market*, op cit, p.47.

33 B.Naughton, *op.cit.* p.1100

als for further reform of the banking system and rationalisation of the SOE sector.

The central objectives of the reforms in the banking system undertaken since 1994 echo those of ten years earlier, namely the creation of a genuinely independent central bank with the responsibility and the means to supervise the currency and maintain strict discipline throughout the country's financial institutions.

It could be argued that the reforms also contain the same seeds of their own failure. The People's Bank of China remains subordinate to the State Council and can be obliged to finance projects prioritised by the planning authorities, irrespective of commercial considerations.[34]

However, much has changed in the decade that has passed. Control by state authorities is not in itself necessarily an impediment to the operation of a central bank. That depends on whether the policies adopted by the state are in themselves inimical to the objectives of financial discipline and monetary rigour.

Ten years of marketising reforms have created mechanisms for evaluating relative efficiencies as well as improved accounting systems. Although the lack of such things has been characteristic of the degenerate workers' states, their creation does not in and of itself represent the decisive moment in the restoration of capitalism.

A revolutionary, non-bureaucratised workers' state would also insist on real money, real prices and strict accounting. The question is, for what purpose are those mechanisms to be used? The reforms that have been introduced are clearly intended to complete the transformation of the economy back to capitalism.

The most important institutional reform within the banking system was the division between banks which were intended to operate on a strictly commercial basis – Industrial Commercial Bank, Agricultural Bank, Construction Bank, Bank of China (not to be confused with PBC, this one operates overseas) – and "policy lending banks", such as the State Development Bank, which were to be responsible for non-commercial financing of prioritised projects.

A division along these lines would allow a distinction to be drawn between credits to the SOE sector for restructuring, re-equipping or even mergers and those which were simply subsidies to maintain loss-making production for policy reasons or very long term investments in, for example, infrastructure.

As in other spheres, this dual track policy was intended to create two visibly separate spheres of operation, not as an end in itself but as a means to eventually re-integrateing them on a transformed basis. Thus, while old debts are put to one side, new proposed investments within the SOE sector will be judged by commercial criteria. Any profits made will not be used to pay off historic debt but to pay interest on the investment loan or extend production, as in any capitalist corporation.

In the longer term, it is expected that means of dealing with the "historic debt", plus any new loans from the "policy banks", will be developed, varying from simply writing off at least a percentage to long term repayment at low interest rates or even nationalisation of the whole SOE sector's losses as a "national debt", following the experience of Eastern Europe.

A further fundamental reform which was intended to rationalise the financial system was the introduction in January 1994 of a new taxation system. Prior to that, the greater part of state revenues came from the earnings of the SOEs which were a declining source anyway. As we have noted, the system also allocated local government a share of revenues and these "extra-budgetary" funds[35] were entirely outside the control of the central state and this severely limited the effectiveness of all attempts to regulate the economy via either fiscal or monetary policies.

The new system is based on VAT, the classic means of indirect taxation by which the working class and the poor peasantry are forced to bear the burden of financing the state machine. From Beijing's point of view, its attraction is twofold: it extends the tax base beyond the SOE sector, thus securing revenues from the burgeoning non-state sector; and it removes a revenue source from the industrial ministries which, like local governments, were not averse to utilising revenues accrued from "their" industries for purposes which contradicted central government policy.

A share of VAT will still be retained by local governments but the new system should have greatly increased not just central revenues but, even more importantly, central control over funding. However, actually achieving the improvement depends on the successful collection of the tax and progress on this front has been slow, even though Beijing claims that it has improved during the transition period allowed for its introduction.

Figures for 1995 show an increase in tax revenue of 24% on the previous year but this has to be set against a GNP increase of 27%.[36]

The reforms proposed for the banking system were accompanied by reciprocal reforms within the structure of the state-owned industry sector. The content of the proposals, and the terms in which they were presented by Jiang Zemin, give some insight into the intended direction of this key element within the national economy:

The bureaucracy points away from privatisation as a solution to the problems of the state sector and towards a concentration on the bigger plants

"The aim of reform of China's economy is to construct a socialist market economy, not a capitalist market. It is important to develop and consolidate state enterprises and other forms of public property in the economy, and also the basic role of state property. If the last two elements are lost, the construction of Chinese socialism will be impossible. Therefore, improving the situation at state enterprises, and especially at large and medium-sized enterprises, is both an important economic issue, on which the development of the national economy as a whole depends, and also the political issue relating to the fate of socialism in China. In the process of building a socialist market economy, the public sector and state enterprises must become stronger, and not weaker."[37]

Since "socialist" in this context means little more than "state owned", this plainly points policy away from privatisation as a solution to the problems of the state sector and towards a concentration on the bigger plants, "on which the development of the national economy depends."

If current policy for these plants is implemented successfully, it will mark the creation of what could only be called a "state capitalist" sector. This does not mean a single block of capital competing against both domestic and foreign capitalist rivals but rather "many capitals", each ultimately owned by the state but operating as autonomous entities.

The attraction for the Beijing Stalinists is obvious. They hope to remove the inefficiencies and rigidities of their inadequate and bureaucratic planning system while retaining a role for an important part of their own power base, the state bureaucracy.

Since Jiang's speech in November 1995, it has become clearer what this means in practice. Beijing has taken as its model the conglomerate corporations, known as chaebol in South Korea and keiretsu in Japan. These group together in one corporate structure a huge range of subsidiary companies dominating entire economic sectors.

In China, these are to be created out of the component parts of the "centrally planned sector" which, as we noted earlier, includes the biggest industrial units which are still the "centre of gravity" of the whole economy.

Starting with approximately 100 which are already considered economically efficient, the government agencies previously responsible for implementing planning directives are being "incorporated" as shareholding companies which own all the assets of their industry.[38] For example, the oil and petroleum sector is now owned by the China Petroleum Chemical Industrial Company (Sinopec). It has no responsibility for administering the plants and refineries within the sys-

34 See *Far Eastern Affairs*, No4, *op cit* p.31

35 Naughton calculates these to be approximately equivalent to the total investment funds allocated via the banking system. see Naughton, *op cit*. p.1096

36 Figures from *Far Eastern Affairs*, *op cit*. p.33

37 *ibid*, p.35

tem, each of which appear to become wholly-owned subsidiaries with their own managements, but it is charged with maximising the assets under its control.

Such national shareholding companies will form the centres of the new industrial conglomerates, which will then incorporate those enterprises "downstream" from the core industries that are already efficient, numbering in all about 2,000 enterprises which between them produce 25% of gross industrial output.

Other large and medium enterprises, which are not profitable at present, will be reorganised. This could mean transformation into joint ventures with domestic or even foreign capital or mergers with related enterprises, as well as changes in management, products and marketing. The intention is that, once efficient, they will remain within the public sector, possibly via absorption into one of the conglomerates.

At the level of provincial and city-controlled state industry, a similar pattern of transforming administrative institutions into shareholding companies is already under way. In Qingdao, for example, what was previously the

The Chinese working

IN 1978, the urban workforce constituted just 20% of the whole national workforce.[1] All urban workers were entitled to employment and new labour was allocated to plants by local Labour Bureaux without much reference to either the individual's wishes or management requirements. Enterprises had an ever-expanding workforce, irrespective of their need for labour and the wages bore no relation to output or productivity.

Once employed, the workers had tenure of their jobs and pay was fixed in accordance with an eight point scale based on skill and seniority. Workers were also entitled to housing and medical care and this has been calculated to have been worth 81.7% of the average wage.[2]

Outside of the towns, the rural workforce did not have the same rights to employment or wages. This sector, in 1978, consisted of some 1.5 million enterprises, employing an average of around 19 workers.

The reform period has seen repeated attempts to remove from the working class those partial gains which served to obstruct the free operation of market forces, which the bureaucracy increasingly saw as the only means to revivify the economy as a whole. The principal targets have been the payment system, job security and the provision of "welfare" benefits through the workplace.

Early attempts to initiate root and branch changes, such as the 1984 proposed introduction of "contract" employment as a universal norm, failed to make any immediate impact on the system as a whole. This was partly because a market-oriented managerial culture was missing. The importance of this should not be underestimated because it both expressed and underpinned the reality of property and social relations within the huge enterprises of the planned economy.

For example, one of the earliest reforms introduced was that of profit retention within plants. This was expected to increase management's commitment to profit-maximisation and, therefore, to cutting labour costs. What actually happened was that managers used the retained funds to increase wages through bonus payments. Across industry, retained profits increased by 172% between 1980-84 but bonus funds increased by 400%![3]

In addition, the implementation of reforms within industry needed the introduction of complementary reforms externally, most especially with regard to unemployment insurance and social security. As long as these did not exist, it would inevitably be very difficult to enforce a regime of (market) efficiency through large scale "rationalisation" of labour resources.

However, although these across-the-board packages did not achieve their immediate objectives, each of them, against a background of rapid proliferation of market forces, did set in train changes and dynamics which, over the years, have effectively transformed the character of the working class of China. Although it obviously retains some unique characteristics, it is no longer qualitatively different from a working class under capitalism.

This can be demonstrated both in its objective circumstances and its subjective consciousness, although the latter is necessarily a more nebulous, less quantifiable phenomenon.

The subsequent history and role of the bonus payments already referred to illustrates the way in which the "logic" of the market has penetrated into the previously planned sector, the industrial core of the whole economy. In his study of labour reforms, Lau presents figures that show bonuses increasing from 2.4% of standard wages (and all wages were standard at that time) in 1978 to 23.3% by 1993.

The importance of this steady increase, as circumstances changed, was that while the standard wage had to be paid irrespective of productivity or, indeed, production, bonuses were not automatic, even though they made up such a substantial portion of take home pay. In 1993, the Central Committee resolved to abolish the national standard wages system in favour of a productivity-based scheme pioneered in a number of SOEs during the later 1980s.

This finally replaced nationally uniform wage scales with locally imposed systems and abolished any automatic entitlement to the basic wage. It could also be argued that it is a measure of the scale of the political defeat of the working class after Tiananmen that the bureaucracy was able to destroy this system without serious opposition.

A renewed push for fixed term employment contracts instead of "jobs for life" was undertaken in 1987. This sought to get round the problem of the 1984 attempt, namely that there was no real social provision for those workers openly unemployed. The new scheme allowed SOEs that had identified redundant workers to create new subsidiaries which then became the employers of the redundant workers, who were paid only a percentage of their former basic pay.

Through this mechanism, which recognised the employment rights of established workers but emptied them of any real content, the onus for finding work at an acceptable rate of pay was shifted to the individual worker. Further, it effectively divided the workforce between those who were "needed" and generating profits and those who were surplus but still drawing from the enterprise's retained funds.

At the same time, employment contracts, at least for new workers, were more rigidly enforced so that existing workforces were steadily "diluted" by new entrants who had no job security. This meant, on the one hand, that younger workers could be used as cheap labour to replace older workers, and on the other hand that those "employed" in the "redundancy collectives" could only find new jobs on better pay if they gave up their employment rights.

In 1992, the bureaucracy moved to eradicate "jobs for life", or the "iron rice bowl" as it was known in China once and for all. Their aim was to reach 100% contract-based employment by the end of 1996. It appears that 88.7% of all workers were on contracts in May 1996.[4]

Alongside all these changes within the enterprises, a rudimentary system of unemployment insurance has gradually been established within the SOE sector. Payments are set at 70-80% of the local minimum wage, and only those dismissed from SOE employment are eligible. Between 1992 and 1994, figures for those receiving this dole rose from 0.34m to 1.0m and then 1.87m which indicates a gathering tide of sackings.[5]

This figure should not be mistaken for

municipal industrial administration has become the Qingdao Yiqing Industrial Company which operates the fifteen light industrial enterprises in the city, each of which is a wholly-owned subsidiary company with limited liability.

Through such "incorporations" a distinction is established between ownership of assets by the state, and management of the assets by the company. The structure mimics that of any conglomerate firm except that instead of the ultimate owners being shareholders who "delegate" operational control to a management board, the owners are a shareholding company granted title by the state. The component companies have the right to restructure their assets, in order to maximise them, by agreement with their superiors within the shareholding company.

The shareholding companies, nationally and locally, are free to raise capital and some have already sought listings on the developing stock exchanges. Applications for shares in one of these "red chip" companies, Beijing Enterprises, were oversubscribed by a factor of 1,600 on the Hong Kong stock exchange in May this year, with a total of £18bn offered by would-be shareholders.

Finally, some 66,000 smaller plants which are currently owned by the

38 Japanese Export Trade Organisation, (Jetro) *Newsletter* No.127

class today



total unemployment. In 1995, the totals, including 5.6m in the "redundancy collectives" and 4.8m laid off with no pay, came to 20 million. Even this figure, however, excludes all rural unemployment. There are at least 100 million landless and unemployed rural workers on whom the TVEs can call.[6]

The crucial years of labour "reform" were clearly those of the economic boom of 1992-94 when the working class, cowed by the repression that followed Tiananmen and divided by the insidious operations of earlier reforms, found itself faced by a restabilised bureaucracy determined to take advantage of the flood of foreign investment with which it was rewarded for the bloody maintenance of its rule.

Against this background of past defeats and unprecedented economic growth, the working class of China responded with a rapid increase in "economic" disputes and protests. Lau gives figures for plant registered collective disputes rising from 2,978, involving 84,760 workers in 1993 to 8,357 disputes and 296,000 workers in 1994. Similarly, the number of collective disputes registered at county level for arbitration rose from 1,897, affecting 53,992 workers to 4,885 disputes and 173,503 workers.

These figures, for disputes, not stoppages, break down further to show that SOEs accounted for 27.8% of the county level figures in 1994, whilst the Foreign Invested Enterprises (FIEs) saw 40.3%. This clear disparity reflects the worse conditions in the foreign enterprises, most of which have no trade union representation, and, perhaps, the greater volatility of the typically first generation workers employed in them.

Classes are not only reflections of the objective circumstances in which people find themselves. In part they are formed from the common struggles that people wage against those circumstances. What we are witnessing in China is a combination of the destruction of the property and social relations which created the industrial working class after 1949, together with a sustained period of primitive capital accumulation which is creating an entirely new working class. Moreover, the impact of imperialist penetration is revolutionising the technical basis of production and, therefore, creating new strata within both the old and the new working class.

Given the nature of the ruling regime, which of course still proclaims its commitment to something it dares to call socialism, it is not surprising that those organisations which aspire to speak for this still developing class at best express a "trade unionist" consciousness which does not in principle reject marketising reforms but does insist that workers should be treated "fairly" within the new economic system.

On example is, "The League for the Protection of Labourers' Rights" which has declared:

"The soul of the market economy lies in fair competition between equal subjects under just principles" and sees "The right to strike as a constraint on the 'operation of capital running out of control' [which] was important, 'to maintain society's stable development'."[7]

The same group is in favour of the privatisation of SOEs into joint stock companies via the issue of shares to "labourers" (by which they mean, with the French nineteenth century sociologist Saint-Simon, "everybody contributing mentally or physically to society's spiritual and material wealth").

Another group, the "Wage Workers' Federation", while demanding equal rights and respect, also explained that it had "no antipathy to the labour contract system".

In China, as in Eastern Europe, there are no grounds for expecting workers to mobilise in defence of what remains of post-capitalist property relations that were created and imposed on them by an essentially rural-based Stalinist bureaucracy.

However, the combination of an established urban working class that is being stripped of its traditional rights and a new generation of the working class that is being organised on an ever bigger scale by the booming market sector of the economy, could prove an explosive mixture when the inevitable downturns pose anew the need for collective organisation and expose once more the harsh realities of a class-divided capitalist society.

Footnotes

1 78.5% of the total urban workforce was employed in the large, state owned enterprises (SOE's) and 21.5% in the smaller, collectively owned enterprises (COE's) which came under lower level government authorities such as communes and cities.

2 See note 6. R. Lau, "China: Labour Reform and the Challenge Facing the Working Class", in *Capital and Class* 61, London, 1996.

3 *ibid.* p.47

4. *ibid.* p.49

5. *ibid.* p.51

6. Moreover, the guarantee of employment, food rations and a pension never extended to rural workers.

7. *ibid.* p.64

state at local level but which are not seen as viable in their present form may be sold off, turned into co-operatives within the TVE sector, transferred to the conglomerates or simply closed down altogether.[39]

Within the state-owned conglomerates, the "vertical" linkages that already exist from the days of planning will allow production to be rationalised while gaining significant economies of scale. What makes the model state capitalist rather than "state socialist" (i.e. that classically associated with a bureaucratically degenerate workers' state), is that the "horizontal" linkages between them will be broken and the overall development of the sector will not be determined by any integrated plan. In theory, at least, the role of the state as director of production will be removed even though its role as ultimate owner will be retained.

We should not, however, conclude from this that the state will play no role within the economy. Apart from the fact that this is not the case in any industrialised economy, experience from Eastern Europe and the former Soviet Union shows that forceful state intervention is necessary to complete restoration.

Without it, the state sector will continue its spiral of decline as each enterprise attempts, unsuccessfully, to maintain its existing suppliers and markets, drawing soft loans from the state banks to finance mounting losses.

State intervention is necessary for two related reasons. First, because there is no functioning capitalist system by which market signals can indicate the necessary direction of capital flows, there has to be an agency which can take decisions over that direction.

Secondly, directing investment in order to centralise and concentrate capital means raising the rate of exploitation of labour by destroying the jobs and living standards of huge numbers of workers and peasants. This will inevitably generate social conflicts, and to enforce the decisions will require a state force able to suppress such conflicts.

The result of current policy, therefore, would be a capitalist system in which the state itself plays an important part in determining economic decisions throughout industry and banking. For this, it will need institutional and ideological mechanisms by which such "interference" is justified both in terms of its influence on the direction of the economy and in its repression of working class opposition.

If we look closer at the system of conglomerates created out of the planned economy, we see, clear as day, the institutional mechanism by which the existing state intends to oversee the restoration of capitalism and the maintenance of social order: the Communist Party. At every level, decision-making is to be in the hands of the boards of shareholding companies.

Only one stipulation appears to have been made about membership of these boards:

"For shareholding companies completely owned by the government, the board members will be the top leadership of the Party committee. At least fifty percent of the board members in subordinate enterprises must be from the Party committee."

To complete the relationship, "the Party committee must be made up of at least one-third of the enterprise managers."[40]

In the city and provincial level corporations, the shareholding company (established by the state) "will appoint the director of the board, the auditor – and the Party secretary, and, the Party secretary of any subordinate enterprise joins the board by law."[41]

Although these huge corporations, which are intended to dominate the national economy, will not be subordinated to any plan and will be free to pursue their business interests according to the demands of profit maximisation, the state will, nonetheless, be able to supervise their development.

Where corporations, or other economic actors, perhaps Hong Kong or Taiwan-based companies, oppose Beijing's interpretation of the national interest it is not difficult to imagine the role of the Party in mobilising "public opinion" on the basis of a rampant nationalism against them. In short, what the Beijing Stalinists intend to create corresponds very closely to the corporatist economic model of fascism.

Capitalism with Chinese characteristics?

Over the next decade China will be one or three of four countries which will exercise a decisive influence over the fate of global economics and politics in the next century. Despite all the unevenness and contradictions within the Chinese economy, it is already reckoned to be the second or third largest economy after the USA and Japan. Were it to prove possible to develop the interior provinces at anything approaching the rate already achieved by those on the coast there can be little doubt that China would move into first place within the next two decades.

Economic development, however, is rarely a straight line. Although it is possible to iron them out by reducing growth rates to long term averages, the last twenty years have seen dramatic fluctuations within the Chinese economy, reflecting above all the swings of official policy as Beijing



THE MILITARY OWN SOME OF CHINA'S BIGGEST BUSINESSES

tried to reconcile uncontrolled surges of investment and production in the "competitive" sector with sluggish performance in the central state sector.

As we have seen, the reform period has created powerful social class forces whose further development is likely to lead to greater unevenness, destabilisation and conflict. The TVE sector, which has provided most growth, has reached a stage where further development implies going beyond the stage of primitive accumulation in which quick profits could be made by taking advantage of the gross inefficiencies of bureaucratic planning.

Attracting the capital necessary for modernising the technical basis of production will dictate an end to much of the free-wheeling "frontier capitalism" that has characterised the sector. The closing down of opportunities for "soft" loans, the drive to win foreign investment and markets, restructuring production to less labour intensive techniques, will all tend towards a sharpening of class tensions within this sector. Property rights, in particular, will have to be more clearly defined, priorities as between local employment and company profits will have to be decided.

As the scale of production increases, so the competition for markets will sharpen, not only within China but internationally. This will stimulate a degree of "rationalisation" of production on a national scale, bringing to the fore the extreme disparities between the different regions of China. Already there are reports of firms transferring production from Guangdong's Pearl River region, near Hong Kong, to the less developed province of Shandong in the north where labour costs are 30% lower.[42]

The consequences of such moves are contradictory bringing progress and modernisation to the interior but, in

39 *Far Eastern Affairs, op cit.*p.36

40 *ibid.* p.5

41 *ibid.*

42 See, for example, *Far Eastern Economic Review*, 15 May,1997 which reports the transfer of Evento Hair Products which employs 2,000 people.

the process, tending to establish a national market for capital and labour. In addition, enterprises remaining in the south, for example, have to invest in more capital intensive technology or go bust.

In the state owned sector, too, there is the prospect of imminent major changes. The proposed transformation into conglomerates is not just a matter of reorganisation but the first step in a programme to modernise and re-equip the heavy industrial sector, including not only iron and steel and the related heavy engineering sector but also oil and the petrochemical industry, the chemical industry, aircraft, railway and shipbuilding.

This will require capital on a huge scale for a long time. If it is to be found from within the Chinese economy, this will mean big increases in taxation or massive government intervention in the capital markets. Either course would have both economic and political implications for the further growth of the "non-state" and private sectors.

If, on the other hand, the capital is to be found abroad, then the terms of investment will have to be satisfactory to international capital which remains suspicious, at present, of the probity of state finances and fearful of China's record of macroeconomic instability and inflationary cycles.

Implementation of the state capitalist policy in the state sector also means a major offensive against the core of the industrial working class. Already there are reports of a mounting wave of workers' demonstrations and strikes across China. According to Hong Kong sources, Li Peng reported to the Central Committee in April that there had been "rallies, demonstrations and disturbances as a result of sackings and threatened redundancies in 230 cities in the previous three months. He gave official estimates of 2,350,000 people involved, hundreds of serious injuries and 42 deaths."[43]

In the past, fear of such unrest has forced Beijing to slow down or even give up plans for restructuring and this has exacerbated tensions within the bureaucracy. In the aftermath of Deng's death it is likely that Jiang Zemin will attempt to consolidate his own position by forcing his policy through. The first occasion for this will be the Party conference in November.

A further dramatic change, now underway, is the recovery of sovereignty over Hong Kong. Although Beijing means what it says when it promises not to overthrow capitalism in the territory, the idea that the former colony will be allowed to carry on in the same old way is not tenable.

But what will be the content of the new relationship? Will the bureaucracy exert political pressure on the city-state's financial conglomerates to buy government bonds? Will Beijing take advantage of the wealth of Hong Kong, intervening minimally in the day to day government but drawing tribute from the economy via taxation? Funds from this could be used as a resource to turn the best of the SOEs into viable capital while creating a minimal social welfare network for the "surplus labour" expelled from the failed ones.

However, Hong Kong's capitalists are likely to oppose such a bias and will look for allies against "unfair competition" and in support of the "rule of law" on the mainland.

In the longer term as important a question will be how the existing Chinese bourgeoisie, based not only in Hong Kong but also in Taiwan and across South East Asia, will decide to relate to Beijng. Government plans to focus industrial and commercial development in the five "central provinces" on the banks of the Yangzi River upstream from Shanghai and the new SEZ of Pudong, are a considerable threat to the pre-eminence of Hong Kong's role as an entrepot and commercial centre. But they also threaten the new capitalist sector, both TVE and private, that has established itself under Hong Kong's influence in Guangdong province. Who will ally with whom?

Further afield, there is another force that will ensure that China's economic development is not straightforward. In 1995, China's exports grew by US$ 28 bn. her foreign exchange reserves rose from US$51bn to US$73.5bn and foreign trade accounted for 40% of GDP[44]. These figures underline two things; firstly, the extreme importance of foreign trade to China's internal economic development and, secondly, the impact of that development on other countries' imports.

To date, China's trading partners have been willing to accept the imbalance of trade as the price to be paid for access to investment in China. Reports of Chinese intentions to seek foreign investment for 40 new regional airports, 114 metropolitan light railway systems, scores of ports, power plants, roads, bridges, US$100 bn. worth of aircraft[45], make the logic of their position very clear.

However, trade and investment on that scale can be a powerful lever for forcing internal political change. With the Cold War over, China's biggest trading partner, the USA, is no longer so concerned to maintain a tolerant attitude to Beijing.

In the "new world disorder" there is a strong tendency to regionalisation and this is already having an impact on trading patterns.

In 1996, textile exports from China to the USA rose by 8% to US$5bn, but similar exports from Mexico increased by 34.7%. China was still ahead in gross terms, Mexico's exports were worth US$3.74bn, but the trend is unmistakeable and is caused by Mexican membership of the Nafta block and consequent avoidance of a 17.6% duty on imports into the USA.[46]

Trends such as this are likely to strengthen rather than diminish in the years ahead. Although China will remain a major location for foreign investment, the key players in the international capital markets will have a powerful means of influencing China's internal politics, again the question is posed, with whom will they ally?

From whichever angle they are viewed, the lines of economic development in China are creating contradictory social forces, class forces, which cannot express themselves as competing political programmes because of the continuing bureaucratic dictatorship on the mainland and a century and a half of denial of democratic rights within Hong Kong.

The most important issue is the future of the state owned sector. Is it to be developed through state capitalist trusts, overseen by a party-state machine, like the PRI in Mexico or Golkar in Indonesia, diverting a subordinated bourgeoisie's wealth through a combination of coercion, assimilation and promises of future national expansion? Or will the nascent indigenous capitalist class of the TVE sector make common cause with "overseas" Chinese capital and force a privatisation of assets?

Neither side in this impending contest is an ally of the working class, in China or internationally. The struggle for revolution in China will be bound up with the struggle for a politically independent party. The party's programme must defend state property without accommodating to the Stalinist bureaucracy, and fight for democratic rights and the overthrow of the Stalinists without accommodating to bourgeois forces seeking the restoration of capitalism.

In short, it must stand for the Trotskyist programme of proletarian political revolution as the only alternative to capitalist social counter-revolution.

However, the advanced stage of capitalist development within China means that it is already necessary to combine elements of the programme of a social revolution – the expropriation of capital and its subordination to democratic planning – with the essence of the political revolution, the forcible overthrow of the Stalinist dictatorship and its replacement with a dictatorship of workers' councils.

In the stormy years ahead such a party can only be built as part of a revolutionary International able to draw on the experience of workers throughout the world, from the degenerate workers' states, the semi-colonies and the imperialist heartlands, because China shares aspects of all of these formations, although in a unique combination. ★

The struggle for revolution in China will be bound up with the struggle for a politically independent workers' party

43 *Cheng Ming* No.199, Hong Kong, May 1997

44 Figures from *Far Eastern Affairs, op cit.* p34/41

45 Figures from *Wall Street Journal*, 13 December 1994 and *Financial Times*, 31 January, 1996, both quoted in "Lessons of the Chinese Economic Reform", supplement to *Socialist Action*, London, May 1996

46 Figures from *Far Eastern Economic Review*, 15 May, 1997

AUSTRALIA
Raising the s

Workers Power/Australia explains the cracks in the ruling coalition as union resistance stands at a crossroads and a new far right party is launched

"WE ARE not going to be a pale imitation of the government that we have been elected to replace". These were the words of the incoming Australian Prime Minister John Howard on the night of his party's crushing electoral victory on 2 March 1996. They sent a clear message to workers, Aborigines, students and those on welfare; the new Liberal-National coalition was going to step up the bosses' offensive that the previous Labor government had started.

Looking back over the first fifteen months of the conservative government, Howard will judge he has been successful. In August 1996, the Coalition's first budget slashed over $7 billion from state spending. This was followed by further big cuts in the federal budget of May this year.

In addition, the Coalition has:

- continued the programme of privatisations started by Labor;
- initiated a "work for the dole" scheme;
- declared war on Aboriginal land rights;
- passed vicious new industrial relations laws.

These measures have helped maintain the economic recovery that began in 1992. The ruling class is, on the whole, happy with the Coalition.

However, such success has a price tag. There has been a significant increase in industrial disputes; cracks have begun to appear in the ruling Coalition over the question of title to native land; and the government's popularity is rapidly waning as revealed in a number of recent polls.

The Coalition's problems are compounded by the rise of independent MP Pauline Hanson's "One Nation Party". This far right populist party has been built on a basis of economic nationalism and explicit racism aimed at both Aborigines and Asian immigrants.

The problem for the government is that One Nation's rhetoric appeals directly to the traditional constituency of the National Party which forms one half of the Coalition. Its traditional programme appealed to white Australian economic nationalism and their social conservatism.

The rise of One Nation has seen National's support steadily eroded in its rural heartlands, causing severe tensions within the National Party itself and between National and its Liberal coalition partners.

Labor's defeat

The Coalition was swept to power in March 1996 on the back of widespread disillusionment with the Australian Labor Party (ALP).

Labor had been responsible for 13 years of austerity measures against the working class under cover of an "Accord" with the trade union movement. The Accord was ostensibly an agreement between the ALP and the Australian Council of Trade Unions (ACTU) that there would be wage restraint in return for state guarantees on welfare provision.

There was certainly wage restraint, as indicated by a fall in real wages of between 0.5 and 3 per cent per annum between 1985 and 1996. But Labor reneged on the welfare provision side of the bargain. Instead, it launched attacks on the welfare system – and on the militant trade union rank and file that was geared up to defend it.

This alienated growing sections of Labor's working class base. Yet the very fact that it still had links to the working class through the union movement placed constraints on its ability to speedily deliver the kind of comprehensive restructuring that the bosses began demanding in the late 1980s.

Labor could pursue the neo-liberal agenda on many points, breaking decisively with the old Labor strategy of protectionism in favour of a turn towards integration with the Asian economies. But it could not "do a Thatcher" on the Australian unions.

Hence Labor's bourgeois support was increasingly dissatisified. Unable to please either workers or the bosses, this disaffection eventually eroded Labor's support and led to electoral defeat.

The victory of the Coalition in 1996 marked a decisive turning point in Australian politics. The significance of this turn was initially obscured by the election campaign itself. Using what has become a common trick in modern bourgeois politics, Howard promised very little, preferring instead to campaign against the record of Labor rather than on the merits of his own party's policies. For many, including some on the left, it appeared that there was very little difference between the Coalition and the ALP. But appearances are deceptive.

Insofar as the Coalition and the ALP share a commitment to boosting capitalist profits, deregulation and privatisation, there is little difference between them.

But the ALP, despite its bourgeois political programme and unlike the Coalition, still has a working class base. This organic link between itself and the workers' movement gives the ALP the character of a bourgeois workers' party; it is a pro-capitalist party based primarily on the workers' movement. As suggested above this fact constrains and shapes the way in which the ALP is able to implement its bourgeois policies. The present Coalition of nakedly bourgeois parties is spared such constraints.

Budget 96

Within weeks of being elected, Coalition MPs suddenly "discovered" a "$10 billion black hole" that Labor had left in federal finances. This was the pretext for dramatic cuts in state spending during the Coalition's first year in office.

The Coalition's first budget in August 1996 went way beyond any of Labor's recent budgets in its severity. Areas worst hit included health, education, the public service and Aboriginal affairs.

In the health sector cuts of $4 billion over 4 years were announced (followed by cuts of over $900 million in the

takes

1997 budget). Subsidies for prescription drugs were slashed, the Commonwealth dental programme for the poor was abolished. As a result the general quality of care in the public health sector has deteriorated to an all time low.

In a remarkable example of the twisted logic of capitalism, this decline is now used by the Coalition as proof of the inefficiency of publicly funded health care and the superiority of private medicine. Millions of working Australians are being pushed towards private medicine by a government giving subsidies and tax breaks for those taking up medical insurance. This is nothing less than a direct government handout to the private hospitals and medical insurance companies at the expense of the public health sector.

Similarly, funding to education, particularly tertiary (higher) education, was cut to the bone. $623 million cuts in the Coalition's first year translates into the eventual loss of up to 30,000 publicly funded places for students in the tertiary sector, and thousands of job losses. Students are paying more for a declining standard of education, while lecturers and general staff are being forced to work longer and harder.

The process of turning education into a privilege not a right has deepened, with institutions now able to charge full up-front fees for 25% of the local undergraduate places available.

The government also ravaged the public service with 10,500 job losses announced. If cuts to the ABC (state broadcasting) and Telstra (formally Telecom) are taken into account, the Combined Public Sector Union claims that the job losses are more like 42,000. In addition, the immigration quota was cut by 10,000 and $470 million was cut from the budget of the Aboriginal and Torres Straight Islander Commission (ATSIC).

Targeting union strength

The most significant achievement of the Coalition in its first year in office, however, was the enactment of new industrial relations legislation; the Workplace Relations and other Legislation Act.

Howard's new anti-union legislation outlaws the closed shop, scraps unfair dismissal laws and all obligation to abide by international labour conventions



AUSTRALIAN PM JOHN HOWARD

The Coalition's industrial relations minister, Peter Reith, tabled new legislation in parliament on 23 May 1996. Several days earlier Howard had said:

"The Liberal and National parties have the clear authority of the Australian people to implement practical industrial relations changes enunciated openly and often long before the election."

In fact, the changes had been enunciated neither openly nor often before the election, although it was clear to the more astute observer that the Coalition had its sights set firmly on the unions.

It is not hard to see why. The Coalition is intent on making Australian capitalism internationally competitive by transforming it into a high profit/low wage economy. To do this, the government must attack workers' wages, employment conditions and welfare entitlement, while at the same time undermining their ability to collectively resist these attacks.

This is precisely what the legislation is aimed at doing. After a long delay in the Senate it was finally passed – with the connivance of the left-talking Democrat Party – on 27 October 1996 and came into effect in February this year. The new law has a number of core elements which, taken together, represent a grave threat to the working class.

The Workplace Relations and other Legislation Act outlaws compulsory unionism and the "closed shop", whereby all members on a work site must belong to the union.

It scraps unfair dismissal laws and all obligations to abide by international labour conventions, while limiting awards (wage contracts) to 18 minimum conditions.

These conditions do not require employers to continue providing rostered days off, travel allowances, pro-

tective clothing, meal and rest breaks or even redundancy pay.

Through the introduction of Australian Workplace Agreements (AWAs), which can only be signed by individuals rather than unions on behalf of a group of workers, the law goes much of the way to breaking up the collectivity of the workplace.

Once an AWA is entered into, workers are precluded from taking strike action. Moreover, the law makes it illegal for workers not directly engaged in a dispute to take solidarity action in support of fellow workers, and it outlaws strike pay.

The law provides for stiff penalties for the violation of any of these clauses, including fines of up to $2,000 for individual workers and $10,000 for unions, who will also have to pay costs to affected companies.

Clearly, the new law represents a massive generalised attack on the Australian working class. It goes much of the way towards adopting the range of anti-union powers accumulated by Thatcher or Reagan over a decade of class struggle in the 1980s.

Its aim is to fatally weaken the union movement.

Given that every aspect of the law is viciously anti-worker and anti-union, and given that the ACTU had remained relatively strong compared to the battered trade union movements in Western Europe and North America, many observers – on both sides – expected a generalised and politicised union fightback. Unfortunately that has not materialised.

Seeds of the fightback?

The election of the Coalition and its subsequent attack on workers provoked a sharp increase in industrial disputes. In the first three months of the Coalition's term 340,000 working days were lost due to industrial action. This was almost twice as many as in the equivalent period in the previous year, and four times more than in the three months immediately before the Coalition was elected to power. The number of workers participating in industrial action also dramatically increased. More than half a million workers participated in strike action in 1996 compared with less than 350,000 in each of 1995 and 1994.

The list of lengthy acrimonious industrial disputes during 1996 is a long and telling one. Among others, there were significant strikes of Melbourne Nestlé workers and ACI glass factory workers, New South Wales teachers, Queensland miners, Victorian oil, construction and public transport workers, and public sector and dock workers in all states.

Furthermore, Western Australia has been all but shutdown twice over the last year with tens of thousands of workers taking generalised strike action against their state government's local variation of the federal Coalition's anti-worker industrial laws.

These relatively numerous disputes persisted throughout 1996 and into 1997. On the one hand, these disputes reflect the fact that the bosses are testing the water with a new and more sup-

Rise of the racist right

THE MOST repellent feature of the new political landscape created by the Coalition is the rise of independent MP Pauline Hanson's new "One Nation" Party.

Hanson, a fish and chip shop owner from the Queensland town of Ipswich, began her political life as the Liberal candidate for the seat of Oxley in the 1996 election. Just before the election she was deselected by the Liberals after making virulently racist remarks that not even they could ignore. Nevertheless, she still managed to win the seat as an independent.

Hanson rose to national prominence and infamy after her maiden speech in Parliament. She stated that Aborigines had it too easy and that Australia was being "swamped" by Asians.

This earned Hanson the support and admiration of bigots all over Australia. Her media profile rose, she made speaking tours throughout the country and finally, in early 1997, published a book. Pauline Hanson - The Truth portrays Aborigines as cannibals, claims that Australia is in danger of being "taken over" by Asians and indulges the far right passion for conspiracy theories to explain Australia's decline.



FAR RIGHT RACIST MP PAULINE HANSON WAS EXPELLED FROM THE RULING LIBERAL PARTY BUT HAS BUILT A NEW FAR RIGHT PARTY WITH UP TO 20% OPINION POLL SUPPORT

Hanson has to date been partly successful in coalescing the fragments of the far right around herself. This led to the launching of her new One Nation Party on 11 April 1997. Already the Party claims to have more than 5,000 members, 40 solidarity movements and growing financial support. It has attracted the backing of many far right and fascist groups including the League of Rights, National Action, Australians Against Further Immigration (AAFI), Australia First and the Citizens Electoral Council.

Whether or not the new Party will be able consolidate itself and hold these diverse right-wing groups together remains to be seen. But it is significant, and very worrying, that in a poll in early May the One Nation Party registered 20% support. This is causing tremendous headaches for John Howard, his deputy Tim Fischer who is leader of the National Party, and the Coalition in general.

First, Hanson is attracting former National Party supporters at an alarming rate. There is almost unanimous agreement among political commentators that the vast majority of Hanson supporters are coming from the National Party's traditional rural support base.

This is driving a wedge into the National Party and the Coalition which, in the short term, threatens Fischer's leadership of National, and in the medium term threatens the very existence of the Coalition.

While Hanson's racist raving initially served the Coalition well in that it helped conceal the extent of their own racism, it is now generating pressures to take an even more hardline racist position on issues such as native title and immigration.

This, however, is contradicted by a second pressure on the government. Howard has had to appease Asian politicians from Kuala Lumpur to Tokyo who have noted with alarm the rise in racism and anti-Asian sentiment in Australia.

In the decades since the end of the Conservative Menzies era in the 1950s and 1960s, the priorities of Australian capitalism have steadily shifted eastward away from Europe. The destiny of Australian imperialism is now firmly rooted in the growing markets of Asia.

This makes the autarkic white Australian nationalism pedalled by Hanson, and embraced by many of the Coalition's social base, increasingly untenable for the big bourgeoisie attempting to tap Asian markets and attract Asian investors.★



PROTESTERS BREAK THROUGH TO PARLIAMENT IN ANTI-BUDGET DEMONSTRATION 19 AUGUST 1996

portive government in power. On the other hand, they underline the widespread frustration and anger that workers feel at the escalation of attacks, coming on top of years of earlier measures from Labor.

This anger boiled over on the steps of parliament on 19 August 1996. Thousands of unionists joined Aboriginal and student activists in a rally against the government's budget and its industrial relations legislation.

They attempted to storm the entrance of parliament but were eventually repelled by police who arrested and injured dozens of protesters. This was only the most visible and spectacular of a whole series of actions aimed at the government.

But working class anger, as expressed in sectional disputes and isolated protests, has not been channelled into action that will be effective in defeating the government attacks. Indeed, effective action has been sabotaged by the trade union leadership, who have responded to the Coalition's measures with empty blustering, servile grovelling and pious appeals.

Commenting on the ACTU's strategy for fighting the new laws, ACTU President Jennie George said that employers would be asked to "reassert their commitments to enterprise bargaining and to undertake not to introduce the Coalition system of individual contracts once the legislation is passed". This cringing appeal to the very people who will benefit from the new law is indicative of the union leadership's bankrupt reformist perspective.

It is echoed by ACTU Secretary Bill Kelty. Not long after the tabling of the Workplace Relations Bill in parliament, Kelty stated on ABC radio that, although he "would have preferred a little slower reform", changes are needed in industrial relations to increase labour productivity:

"Australia has got to bite the bullet. Australia has got to be part of the rest of the world, its got to be internationally competitive and we've got to do so sooner rather than later to create wealth for the nation".

"What I have to put in place to survive this government is to remove any suggestion that I cannot deliver on productivity"
Maritime union leader, John Coombs

One could be forgiven for mistaking these words for those of a Coalition cabinet minister rather than a leader of the labour movement.

Unfortunately, "leaders" of the labour movement are only too willing to buy into the logic of the neo-liberal spin doctors employed to justify the government's drive for greater productivity and competitiveness.

Maritime Union of Australia secretary, John Coombs, unashamedly revealed how he perceived his role: "The fact is, what I have put in place to survive this government is whatever I can do to remove any suggestion that I cannot deliver on productivity".

In other words, like Kelty and George, he has a preference for delivering productivity to the bosses rather than delivering on the defence of the rights and conditions of the workers who pay his wages.

As the union leadership tried in its own way to contain the militancy of the working class, the Coalition itself was working hard to divert attention from its anti-working class policies. They mounted a systematic racist campaign against Aborigines and immigrants to provide white workers and those suffering in the rural areas with scapegoats for the problems that government policies are causing.

Racism, Howard's Way

In the run up to the 1996 election bigoted anti-Aborigine and anti-Asian remarks by Coalition members such as Bob Katter and the then Liberal parliamentary candidate Pauline Hanson poured forth. Straight after the election a series of measures aimed against non-Anglo peoples was tabled.

Immigration was an early target. The immigration quota was first slashed by 10,000 for the current year and then by a further 20% for 1998, while the waiting period before immigrants are eligible for welfare benefits has been extended to two years. A new immigration test favours English speakers and new regulations make it harder for non-English speaking refugees to receive information about their legal rights.

Various academic reports have estimated that these measures could halve the numbers of non-English speakers allowed into Australia. There are no prizes for guessing that the vast majority of these non-English speaking immigrants will also be non-white.

Aborigines were the other main group to bear the brunt of the Coalition's racist agenda.

The $470 million slashed from the ASTIC's budget will mean the decimation of many Aboriginal programmes, together with the closure of organisations in the community dependent on them.

Not content with cutting Aboriginal funding, the Coalition also distinguished itself by refusing outright to pay compensation to the thousands of Aborigines who were forcibly removed from their families under the policy of "assimilation" from just after the last war up until 1971.

Aboriginal affairs Minister John Herron even had the racist effrontery to suggest that Aboriginal children stolen from their families actually "benefited" from the experience.

Finally, the Coalition intensified the drive against recognising Aboriginal rights to land that has been stolen from them for more than 200 years. Howard's ministers argued that the piecemeal gains that Aboriginal people had made in recent years were a burden on mining companies, pastoralists and tax payers and so would have to be "reformed".

The Native Title Act was passed after the 1992 Mabo decision which recognised Aboriginal rights to land. This, according to Howard, now needed to be amended to make it more "workable". The Act, which already sets very restrictive criteria if Aborigines are to successfully claim land, was tough-

ened.

All of these measures were accompanied by a veritable outpouring of vile racist rationalisations and historical revisions. Howard condemned "political correctness" (anti-racist attitudes), the "Aboriginal industry" (Aboriginal welfare programmes) and what he called the "black arm band view of history" (views that acknowledge the historical injustices perpetrated against Aboriginal people).

Although he supported the removal from the Coalition of the extreme right-wing bigot Pauline Hanson, whose association with the Coalition was beginning to cause harm, he refused to speak against her xenophobic outbursts. Instead he applauded and encouraged the new climate of "freedom of speech" (where it is acceptable to speak openly as a racist).

Howard and the Coalition have fuelled racism throughout Australia. This was both predictable and necessary for the bourgeoisie.

It was predictable because racism has always been the cover capitalist governments have used while imposing austerity measures on the working class.

It was necessary because, in addition to dividing the working class, it provided the ideological justifications for the Coalition's attacks.

"Wik", "One Nation" and Coalition troubles

Several developments early in 1997 strengthened the active racism that the Coalition unleashed in 1996.

To begin with, there have been the responses generated by the High Court's so-called Wik ruling. On 23 December 1996 the High Court set a precedent when it ruled that the native title of the indigenous Wik people of northern Queensland, could coexist with pastoral leases.

This sent racists from one end of the continent to the other into paroxysms of indignation. Massive agribusiness concerns, millionaire cattle and sheep barons, giant mining companies and smaller prospectors and farmers all spoke with one voice in condemning the ruling.

Queensland Premier Rob Borbidge, the Queensland branch of the National Party and the National Farming Federation have been most vociferous in their denunciations.

They claim that it undermines security of tenure, creates uncertainty in the rural sector and ultimately detracts from investment into Australian agriculture. They are demanding total exemption of all land leased from the Commonwealth from the claims of Aboriginals.

Their demands have been backed up by a multi-million dollar racist advertising campaign featuring a black child and a white child. It portrays the typical racist myth that Aborigines, who are still the poorest of the poor in Australia, are somehow privileged. They are presented (as personified by the black child in the advertisements) as being greedy land grabbers that undermine the interests of the whole Australian nation (as represented by the white child).

Such pressure from the big business lobby in the rural sector has created severe strains within the Coalition. Borbidge and other National MPs are threatening that unless Howard bows to their wishes and extinguishes native title they will split the Coalition.

In an attempt to placate the Coalition's right wing while appearing to stop short of full "extinguishment" (exemption), Howard released a "ten point plan" in late April.

The plan guarantees that all existing exclusive land tenure extinguishes native title.

On leased land Aboriginal access would be limited to traditional purposes such as hunting, fishing, foraging and conducting ceremonies. Access would only be granted if Aborigines could show a "physical continuity" with the land. In a huge number of cases this will be impossible – as the government well knows.

Pastoralists and the capitalist state have conducted a 209 year war against Aborigines to sever the physical continuity that Howard now insists is to be the central criterion for determining native title! This is extinguishment by stealth.

But not even this is good enough for Borbidge and his big business backers. Sensing that they have Howard on the run they are insisting that extinguishment must be all or nothing.

The reason is clear. Full legal extinguishment will open the way for pastoralists to acquire freehold possession of leased land: private property in its full sense. This will remove all restrictions on the most profitable use of land. And, as always, profits are the bottom line under capitalism.

Conclusion

All of these developments – the Coalition's cuts to welfare, its new industrial relations law, the explosion of racism and the growth of the far right – are intimately linked. They flow from the contradictory economic, political and ideological tendencies of Australian capitalism at the end of the 20th century.

The necessity of restructuring to make the Australian capitalist economy more internationally competitive and profitable is driving the Coalition's anti-working class agenda.

Its chosen weapon to divide the workers has created divisions within the ruling coalition and, beyond a certain point, become dysfunctional to Australian capitalism's international project.

And the ruling class offensive is simultaneously generating powerful currents of resistance: in the factories and offices, on the campuses and amongst the Aboriginal communities. The coming months will be crucial for determining whether or not these currents develop into a torrent that can wash away the Coalition government and the vile One Nation Party that Coalition policy has been instrumental in creating.

The key to this is an alternative programme and leadership for the Australian working class.

So far the workplace struggles against the Coalition offensive have remained divided and weakened – by sectoralism, by geography and by bureaucratism. At the same time the rise of Hanson has given the union and Labour leaders – together with the fake-left Democrats – the opportunity to present the fight against racism as a more important priority than the fight against the capitalist onslaught.

They have tried to build a passive, mass movement, a cross-class alliance, at the same time as ducking the crucial issues of how to fight racism, how to smash fascism, and how to pull both up at the roots.

It is no surprise that Hanson has found a resonance in National's rural base. The white Australia policy was never challenged by the mainstream Australian labour movement at its height. Indeed, it was an ALP government that introduced it.

A white settler colony, with immigration limited to skilled workers and thus a constant labour shortage and relatively high wages (relative to Asia) was the deal reformism made with Australian capitalism. This, together with protectionism, formed the basic policy of ALP reformism until the 1970s.

As the global economy changes and grows it is clear that Australia's fate cannot be tied to that reformist racist utopia.

The Australian ruling class faces the task of massively restructuring its own operations for integration into a burgeoning regional economy in Asia.

That task demands the drastic undermining of workers' self-organisation and significant reductions in workers' rights and living standards.

The achievements of the first year of the Howard administration are minor compared to the task ahead.

In these circumstances the Australian labour movement has to find an alternative to the vision outlined by Howard and his Labor opposite number Kim Beazley alike.

It needs An internationalist solution, where the struggle against Australian capitalists cannot be diverted into a struggle against Asian capitalists, Asian immigrants and the indigenous survivors of genocide.★

BRITAIN:

SEPARATION FOR SCOTLAND AND WALES?

Richard Brenner puts forward the socialist answer to the debates around nationalism in Scotland and Wales.

ELECTED ON a wave of unprecedented popular enthusiasm, Tony Blair's New Labour government has lost little time in shelving most of its promises of democratic and constitutional reform.

On the firm recommendation of the party's "spin doctors", Peter Mandelson and Alistair Campbell, plans for a Freedom of Information Act to open up the workings of one of the most secretive states of the Western democracies to greater public scrutiny have been swiftly dropped. Another measure making no appearance in the government's legislative timetable is the plan to abolish the voting rights of hereditary peers in the House of Lords, Britain's unelected second chamber.

Electoral reform, which had figured as a vague commitment in Labour's pre-election propaganda, is to be referred to a government commission, where it is conceded that New Labour is unlikely to threaten its own vast majority by making changes to the undemocratic first-past-the-post system which suddenly, to Blair's surprise, worked in Labour's favour.

The sole exception so far to this programme of constitutional backtracking is devolution of power to Scotland and Wales. In the timetable of Bills to be brought before the first parliament of the new regime, is a law for the holding of referendums in Scotland and Wales on the establishment of new national parliaments in Edinburgh and Cardiff.

Scotland

There is every reason for New Labour to believe that the democratic aspirations of the Scottish people need a relatively quick response. Whereas each of the other proposals for constitutional reform mentioned so far have roused few passions, feelings north of the border in favour of a Scottish parliament have been running high.

In 1979, the Labour government of James Callaghan held a referendum on devolution which resulted in a majority in favour of a parliament. The built-in safeguard by which this result was ignored in Westminster was the requirement for the "yes" votes to exceed the combined total of "no" votes and abstentions, a hurdle that was narrowly missed.

Since then, 18 years of Tory government in London proceeded without the support of the majority of Scottish voters, who consistently returned huge majorities of Scottish Labour MPs to Westminster. The consequent sense of illegitimacy felt towards the government by Scottish voters fuelled the mood for greater devolution of power and a parliament that reflected their political choices.

As Blair is well aware, the subsequent total wipe-out of Tory MPs in Scotland and Wales in the "May Day Massacre" of 1997 makes the demand for the wishes of the Scottish people finally to be met all the more urgent if Scottish Labour is not to lose ground to the pro-independence Scottish National Party.

Buoyed by the progress of greater economic and political integration in the EU, the SNP has embraced the call for a "Europe of the Regions" by reformulating its central slogan as "Independence in Europe", thereby aiming to allay fears of economic isolation after separation.

Though the SNP is rightly feared by Labour as its most serious electoral challenge north of the border, it is not so much its present strength as its potential to capitalise on mounting



A SCOTTISH ASSEMBLY NEEDS TO BE MORE THAN A TALKING SHOP, IT MUST BE A SOVERIEGN BODY

opposition to Labour over the coming years that is haunting Labour strategists at Millbank.

Last, but by no means least, Blair has to move quickly because of strong feeling within the Scottish Labour Party itself. Long the main bourgeois party in Scotland, it has until now been under the firm control of a well-rooted local party bureaucracy, exemplified by its foremost product, the late Labour leader John Smith: right wing but relatively untouched by the "modernisation" that has brought the rest of the party under the unrivalled control of the Blair/Mandelson tendency.

Blair has already severely antagonised the Scottish party, and has met with an unmatched level of opposition. Last year Blair provoked a storm of opposition by revising Labour's previous commitment to legislate in favour of a Scottish Parliament. He replaced this firm policy with a promise of a referendum. Shadow Scottish spokesman George Robertson was then left in an unsustainable position when Blair retreated still further.

Socialists should back the SNP's demand for independence to be included as a third question. The people should have the right to decide on secession

Smarting from a Tory campaign to present the devolution proposal as meaning higher taxes in Scotland, and determined to satisfy major capitalists and the petit-bourgeoisie of his "reliability" in rejecting more progressive taxation, Blair declared that the referendum would contain two questions: the first is whether there should be a Parliament in Edinburgh; the second whether the Scottish Parliament should have the power to raise income tax, by up to only 3%.

The SNP predictably seized on Blair's equivocation, and might well have felt poised to make serious inroads into Labour's support when Blair revealed his tactlessness and big-nation chauvinism by attempting to reassure unionist opinion by comparing the new parliament to a "parish council" (the lowest and most toothless level of local authority).

What attitude should working class organisations take towards the proposed referendum in Scotland? A principled answer to this question can only flow from a correct application of a Marxist approach to the national question in general.

In general, Marxists favour the development of the largest possible states, in order to overcome archaic barriers to the most efficient production and distribution, concentrate the forces of the working class, break down parochialism and provide the best material basis for the construction of socialism.[1]

Yet the historical development of nation states does not proceed smoothly, according to ideal norms or a predetermined plan. Where a nation is prevented by another from determining its own future, a fundamental bourgeois democratic right is violated. To prevent or oppose the exercise of this right to self-determination, whether the people of the nation in question desire some form of autonomy or full independence and a separate state, can only exacerbate national antagonisms and undermine the Marxists' programme for the most radical extension of democratic rights possible under capitalism.

For this reason revolutionary socialists must insist that the wishes of the majority of the nation be met. Only in this way can nationalists be prevented from using the reality of national oppression to mask the more fundamental reality of exploitation and class division. We do not, however, positively advocate separation or devolution where the majority of the people have not themselves taken this path.

How should this method be applied to the referendum in Scotland? If the first question asks simply whether there should be an elected parliament in Edinburgh, socialists should call for a 'yes' vote. The feeling in Scotland is already firmly in favour: this has been shown in 1979 and in countless opinion polls since, the last in 1997 recording over 75% in favour.

Scotland may not be disproportionately economically disadvantaged compared to other regions in England and Wales, and is not a colony of England (its bourgeoisie is highly integrated within the UK ruling class as a whole). Yet the absence of a parliament clearly desired by the majority of its population constitutes a form of national oppression which must be ended as quickly as possible.

Blair should not even be putting this to a referendum. But to boycott Blair's referendum would play into his hands, particularly if it led to the result appearing artificially lukewarm. The largest possible 'yes' vote would make convocation of the parliament even less postponable.

As to the second question, the very fact that it is being put is an affront to the democratic rights of the Scottish people. A parliament without the right to raise revenue through taxation would be a mere talking shop, Blair's "parish council" made reality. Socialists should demand that any such parliament should have unlimited powers, including the right to raise taxes, and even to separate from Britain should it wish. Without tax raising powers, there is no way that it could be used to carry out simple reforms to rebuild the crumbling infrastructure of Scotland's cities and housing schemes or to tackle unemployment.

Certainly there is a possibility that the framing of the second question will present voters with an unfair choice: e.g. "Do you agree that the Parliament should have powers to raise taxes limited to 3%?" The option of choosing a sovereign parliament will certainly not be on the ballot paper. In such circumstances, socialists should advocate a 'yes' vote for the choice which would leave the parliament with the least limited powers, whilst campaigning against all Westminster-imposed restrictions on its authority.

To abstain, boycott or even vote "no" would spare the bourgeoisie from additional taxation, give additional support to Blair's plans to restrict public spending, and would result in an even more toothless assembly.

Further, socialists should back the SNP's demand for independence to be included as a third question. The people should have the right to decide on secession. But here socialists should campaign for the biggest possible "no" vote.

Of course, if a majority were to vote for independence, then socialists would immediately uphold the right to separate and struggle alongside nationalists to achieve it, whilst fighting independently for a Socialist Republic.

But today only a minority of the population support national independence and a separate state. There is no reason why socialists should strive to turn that minority into a majority. The Scottish proletariat has nothing to gain from separation: indeed its ties to the English working class movement could well be weakened by taking this step.

The SNP

Although the SNP doubled its representation at Westminster in 1997, gaining a total of 6 seats, its overall share of the Scottish vote rose by only 0.4% to 21.9%. This very substantial support is not adequately reflected in Parliament due to the electoral system, but it is impossible to ignore and is certain to grow should Blair appear to be procrastinating on devolution.

What is more, should the eventual Scottish elections take place by proportional representation, as has been widely mooted, the SNP will be a large and vocal opposition to Labour in the Edinburgh Parliament.

The Scottish National Party was founded 63 years ago on a programme of full independence for Scotland, as a result of a fusion between a party of traditional patriotism and gentry (the Scottish Party), and the more radical



GLACIER WORKERS ON STRIKE: SEPARATION WOULD DIVIDE THE BRITISH WORKING CLASS ON NATIONAL LINES

petit-bourgeois National Party of Scotland.

The years following the 1979 debacle saw the party locked in internal strife, with the exclusion of a small proto-fascist tendency and subsequently the suspension of the party's vocal "left-wing", including its present leader, Alex Salmond.

It was the surge in radicalism and class struggle in Scotland in the late 1980s that provided the spur to a further change in 1990. After years of mass opposition to and organised non-payment of the hated Poll Tax, which was introduced a year earlier in Scotland than elsewhere in Britain, Salmond and the left wing sensed their chance, and took control of the party.

Faced with a mass movement of civil disobedience, which it had done nothing to organise, the SNP supported the tactic of non-payment (though its councillors were still prepared to prosecute working class non-payers) and began to attempt to position itself to the left of the Labour Party, a process made easier by Labour's ever more frantic charge to the right.

Thus, in 1997, the SNP stood on a platform that would have made conservative former party leader Margaret Ewing's hair stand on end – to say nothing of Tony Blair's. Nevertheless, the party's left-wing and social-democratic policies should not be taken as evidence that the SNP is a working class party, let alone a socialist one.

Each of its policy pledges is hedged with guarantees to big business. As its 1997 manifesto boasted: "The SNP is the only party in a generation to enter a General Election fully committed to a reduction in business taxation." The SNP promises to cut corporation tax and to prevent business rate rises for large companies. Its minimum wage would be "with consensus" (of the employers presumably?). This "consensual" approach contrasts with their attitude to trade union rights, a code for which would be combined with "ensuring that their responsibilities are enforceable at law" – a threat which is revealingly absent from stipulations on a minimum wage.

in 1997, the SNP stood on a platform that would have made conservative former party leader Margaret Ewing's hair stand on end

Beyond the sphere of policy, the SNP derives its organisation, active membership and support not primarily from the working class or its organisations. It has no formal connections to the trade unions, merely a trade union department like any other bourgeois party. In May 1997, each of its 3 gains was won from the Tories, not from the Labour Party – indeed, the SNP took votes from Labour in only 2 constituencies.

This is because Scottish voters backed Labour for class reasons: the class identification with the Labour Party is as strong north of the Border as elsewhere in Britain. The vote for Labour's devolution plans – despite Blair's "parish" gaffe – represented the Scottish working class' desire for an Assembly as a means of meeting their class demands, not as a means of achieving national independence or separate statehood.

Unlike the Labour Party, the SNP's natural constituency is not the working class. Rather it derives its base of support for independence from those strata of the bourgeois intelligentsia that work in specifically Scottish institutions and are striving for more direct control over their own budgets: in Scotland's separate legal system, its education service, its administration, sporting and arts funding bodies and press.

The Left and Scottish nationalism

Some sections of the far left – notably Scottish Militant Labour – have been engaging in a systematic adaptation to Scottish nationalism. Their perspective received little succour at the polls in May. The Scottish Socialist Alliance, of which SML is the major component, did very badly, losing their deposits in 15 of the 16 seats in which they stood.

The sole exception was Glasgow Pollock, where SML's popular leader Tommy Sheridan continued to win votes as a result of his firm stance during the Poll Tax rebellion, which resulted in his imprisonment, and his continuing activity against water privatisation and most recently against savage spending cuts being carried out by Glasgow's Labour council. Sheridan won 3,639 votes.

But elsewhere, SSA candidates scored derisory results. Alan McCombes did least badly in Govan (a seat once held by Jim Sillars of the SNP) with 755 votes. Former Labour leader of Dundee council, Mary Ward, standing for the SSA, won only 428 votes, and results elsewhere were similarly low.

In the run up to the referendum, the SML's adaptation to nationalism is set to deepen. Alan McCombes of SML has written in an internal document of 10 February 1997 (printed by the Weekly Worker 10 April 1997) that the party should vote yes to independence alongside the SNP should the opportunity arise. He claims that to:

"line up with Labour against independence" would allow the SNP

"a completely free hand to influence and lead the most radicalised sections of the working class."

This is sheer nonsense. What evidence is there that the "most radicalised" workers support independence? There was a massive swing to Labour in the working class areas, not to the SNP. The most radicalised workers are engaged in direct action against cuts in Glasgow and Edinburgh, and are among those putting pressure on the Scottish TUC, which has demanded of the Labour government that it bring in a minimum wage of half male median earnings and abandon the Tories' miserly limits on public spending. They are not in the main among those calling for independence.

The former Militant Tendency has decided to abandon its years of adaptation to Labourism, but not the idea of political adaptation itself. The parasite has merely switched host, from reformism to nationalism. SML will suffer further disorientation and crises as a result.

Instead, revolutionary socialists in Scotland should remain part of an all-British organisation. They should oppose the reactionary utopia of bourgeois independence whilst upholding the right to self-determination. But

above all, they should focus not on blurring the distinction between nationalism and socialism, but on a fight for direct class action against Labour's plans for Scotland, and to mobilise Labour's working class voters in a fight to put demands on the new government that go well beyond what capitalism can afford and begin to pose the question of which class rules in Britain as a whole.

In response to Labour local authority cuts in Scotland's main cities, revolutionaries should fight for local committees of delegates from workplaces and estates to co-ordinate direct action – such as the occupations of council chambers earlier this year and workplaces like Glacier last year. An inventory of necessary spending should be compiled by these committees to identify the scale of work that needs to be done to repair what the Tories have done to Scottish workers' lives.

Strikes and occupations should demand that central government underwrite this spending by taxing the rich and confiscating the profits of the privatised utilities. They should demand that the incoming Scottish Parliament impose a swingeing tax on unearned wealth and businesses.

In the years to come, New Labour will fail the Scottish working class. Left reformism and Scottish nationalism are both poised to grow. Only by refusing to adapt its programme to either false path can revolutionary socialism also take advantage of the impending crisis of expectations and rally the Scottish working class for socialist revolution and a Socialist Republic of Britain.

Wales

In Scotland the call for independence has always been louder than in Wales. But this does not obscure the reality of the Welsh National Question, a reality reflected in the 10% of the popular vote won by Plaid Cymru (PC) in the 1997 British general election. The new Labour government has pledged that there will be a referendum in Wales on proposals for "the establishment of a Welsh Assembly".

Despite the PC's vote, however, nationalism is weak in Wales outside of a few areas of the country. The Labour Party was the real victor in the general election, taking a record 34 seats in Wales out of a total of 40. Its closest rival was the Liberal Democrat Party not PC.

While Wales is clearly a nation, it is one that has developed as part of the multi-national British state. It was never a sovereign state. This feature of Wales' historical development explains the weakness of nationalism. The aspiration to gain sovereign control of its territory has never been strong or generalised amongst any of the classes – bourgeois, petit bourgeois or working class – in Wales.

In the Chartist movement, the trade unions, the Labour and the Communist Parties, the Welsh working class provided key leaders and always sought to promote cross-Britain unity

From the departure of the Romans until the Norman conquest, Wales was divided into clan-based societies which slowly evolved towards feudalism. The Normans established a series of semi-independent Marcher lords along the border to protect their western flank. Faced with an increasing number of raids from the Marches and from England the Welsh did unite, briefly, under Llywelyn, the first Prince of Wales. This rebellion was quickly suppressed and Llywelyn lost all his lands to the English in 1282.

Welsh nationalists cite this defeated rebellion as the beginning of the oppression of the Welsh nation by the English. It was not. It was part of the evolution of the British feudal state in a period when nations and nationhood, in the modern sense of the words, did not exist. It was feudal aggrandisement by the monarch not national oppression of the Welsh.

The ruling class was as "foreign" to the English peasantry and lower gentry as it was to the Welsh. Norman French was the language of the court and the various languages and dialects of English and Celtic throughout England and Wales were largely unintelligible to each other as well as to their feudal lords and masters.

The nationalists often cite the later rebellion of Owain Glyndwr from 1400 to 1412 as another major example of how Wales was oppressed by England. But this was no nationalist uprising either. Although Owain did manage to unite most of the Welsh aristocracy behind him, and even establish a parliament in Machynlleth, his aim was to forge a feudal realm based on personal allegiance to himself. It was not to create a Welsh nation. His military campaign demonstrated this. The defence of Wales itself took second place to the accumulation of territory for Owain, including in England.

The Acts of Incorporation (1536 and 1543) were actually welcomed by the Welsh ruling elite since for the previous two centuries Welsh and English societies had grown increasingly alike. Inter-marriage, trade, the assimilation of customs and mutual politico-military interests, were all pointers to further assimilation. Active participation in Parliament and in administrative office were lucrative gains for the Welsh and Anglo-Welsh gentry.

Despite their under-representation in Parliament and their relative lack of wealth, compared to their English counterparts, they gained financially and politically from assimilation into the thriving and more affluent English economy.

Generations of Welsh officials and capitalists worked, served in the armed forces and socialised with their English and Scottish counterparts throughout Britain and the British empire. The British nation state and the British empire were gateways for the Welsh ruling class to amass wealth, not barriers as they were for the Irish, the Indians and the other nations oppressed by British imperialism.

The Industrial Revolution dealt the final blow to what was left of the old Welsh society. The capital which built the mighty empires of coal, iron, tin, copper, flint and steel originated primarily from England. In Wales itself, there was a scarcity of surplus capital for such giant enterprises. But this English capital was an instrument of economic growth in Wales not an instrument of national oppression. It paved the way towards the total assimilation of the Welsh working class into the British working class movement. This working class was militant, resourceful and increasingly cosmopolitan.

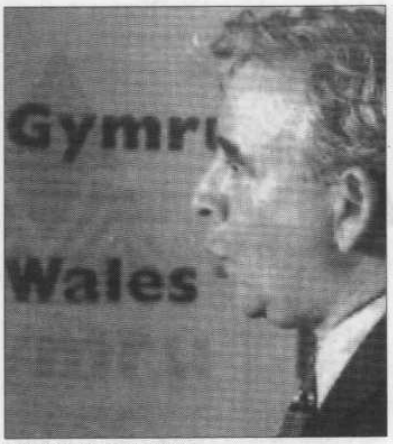
Although it was primarily Welsh speaking until World War One, it looked towards the British workers' movement as a whole. It saw in the English and Scots, allies, not foes. In the Chartist movement, the trade unions, the Labour and the Communist Parties, the Welsh working class provided key leaders and always sought to promote cross-Britain unity.

This historical development demonstrates that Wales is not an oppressed nation. The question is, then, why has there been any sort of nationalist revival given this development? Academics and nationalists often cite the Nonconformist movement of the nineteenth century as the starting point of modern Welsh nationalism. Although Nonconformism attracted 80% of the population of Wales to its ranks, this was largely due to its ability to preach in the Welsh language and thereby penetrate the new communities while the Church of Wales was hampered by its use of English.

The political aspirations of Nonconformism were the disestablishment of the Church, the abolition of church tithes and the widening of the political franchise. These were the concerns of the tenant farmers and the professional petit bourgeoisie, rather than the demands of a nationally oppressed people.

Cymru Fydd was the first modern Welsh nationalist movement, but it was largely the invention of the Liberal Party. It was never a mass movement inside Wales and its Welsh Home Rule Bill was a half-hearted manoeuvre based on party political considerations rather than the embodiment of a nationalist sentiment among the masses.

Nevertheless, the lasting monuments of Cymru Fydd's "official" nationalism – the National Museum



DAFYDD WIGLEY

and Library, the National Eisteddfod, state provision of education in Welsh (the Welsh Not policy had, by then, broken the hegemony of the Welsh language) and the University of Wales – provided the basis for the more populist oriented nationalism of Plaid Cymru when it was set up in 1925.

For the first time since the collapse of the Council of Wales at Ludlow Castle in the sixteenth century, there was a centre for Welsh academics and administrators to meet and exchange ideas. Based on the Welsh speaking farmers of the North and West and the intelligentsia in the University, Plaid developed the first truly national ideology and movement in Wales.

The strongest appeal of this ideology was, and remains, the defence of the Welsh language. But even today this has mainly been viewed as the defence of the legitimacy of the Welsh language for conducting the economic and legal affairs of the petit bourgeoisie rather than as a struggle against oppression.

Indeed, a sign of the weakness of Welsh nationalism is its over-reliance on the Welsh language to define Wales and its culture. This contrasts with Scotland where nationalism is much stronger despite the Celtic language having virtually disappeared. Today, Welsh is spoken by less than a quarter of the population, though this is growing due to the growth of Welsh teaching in schools and of a Welsh language media.

Of course, we defend the right to speak Welsh at work and call for bilingual literature where relevant. We are for the elementary democratic defence of the use of the Welsh language. But we do not treat the language as the defining feature of the Welsh nation and the proof of its oppression by England. Nor do the vast majority of the working class who have chosen not to speak Welsh and on whom the spread of the language in the media has had minimum impact.

Plaid's ideology is reactionary and utopian. It looks backward to a non-existent Welsh golden age and forward to a reactionary goal of a small nation in retreat from the modern world that capitalism has created in Wales. Such a nation would be a recipe for economic misery for the Welsh working class.

Mindful of the overwhelming advantages for both the bourgeoisie and the working class of the British multi-national state, Plaid has always couched its nationalism in pro-imperialist terms and even dodges the question of separatism and the monarchy in its programme. PC's emergence in the twentieth century is not such a surprise given the growth of nationalism generally. Its timidity and lack of support is more of a surprise.

Welsh nationalism entered a new stage in the 1960s. Cymdeithas was formed in 1962 and soon grew into a large, petit bourgeois, but urban based, movement. Gwynfor Evans was elected as MP for Camarthen in 1966. In 1970, Plaid won 12.5% of the vote and in 1976 won control of Merthyr council, a working class stronghold. The development of the European Union (EU) and the collapse of Stalinism – spawning as it did many nations – sustained this growth of Welsh nationalism. Nationalism was further strengthened by the concessions made to it by the labour movement and sections of the left culminating in the call by the unions, Labour Party and many left parties and groups for a Welsh Assembly.

However, the 1997 election demonstrates that nationalism's base in Wales remains weak, stalled at the 10% mark and unable to seriously challenge the hold of Labour despite the occasional protest swings towards it among the working class in the aftermath of Labour betrayals. This remains the case despite the growing number of Welsh speaking bureaucrats and professionals brought into existence by the labour movement's concessions to nationalism.

Welsh nationalism is a trap for the Welsh working class. Its policy for small scale industrial development (within the EU) cannot eradicate the low pay and unemployment that the Welsh workers suffer from. It will make such conditions many times worse. Plaid's commitment to the welfare state is confined to election time promises for workers.

It has no policy for the progressive development of Wales because it remains tamely tied to capitalism's priorities. As such nationalism, if it seriously infected the working class, would tie it to those priorities and take it backwards from class independence and unity with its English and Scottish brothers and sisters. An independent Wales would see workers encouraged to hold back on the fight for their own interests and make sacrifices "in the interests of the nation", despite the fact that such a nation would not be "theirs" in any real sense.

We support, unconditionally, the right of the Welsh to self determination, up to and including separation. The "up to", in this case, could be an assembly short of separation. If, as in Scotland, this was the clearly expressed will of the majority of people in Wales, we would support the immediate establishment of such an assembly.

Yet the call for an assembly is weak. Devolution was overwhelmingly rejected when the last Labour government (1974 – 1979) put it to a referendum. All the evidence suggests that since, even today, this is not the demand of the majority there can be no justification for supporting a "yes" vote and we will argue for a "no" vote in the coming referendum on the Welsh assembly.

The task in Wales is to build on the class hostility to the Tories expressed in the recent election, taking it forward towards a revolutionary break with reformist Labourism, not diverting into the fight for an assembly that would, at best, be a nationalist detour, at worst a centre from which nationalist ideas could spread and become strengthened in Wales.

There is no need to make concessions to Welsh nationalism. Its emergence in small sections of the Welsh working class is a symptom of the crisis of leadership in the British labour movement. Nationalist sentiment can best be defeated if the working class movement upholds the right of the Welsh people to self-determination, up to and including the right to a separate independent state or to lesser reforms such as an assembly if they so decide.

Nationalist sentiment can best be defeated if the working class movement upholds the right of the Welsh people to self-determination, up to and including the right to a separate independent state

But before making that decision the task is to combine a fight for democratic demands over language rights and against any attempts to delay or restrict the questions, or introduce undemocratic quotas in the promised referendum, with a campaign for a "no" vote in the referendum itself.

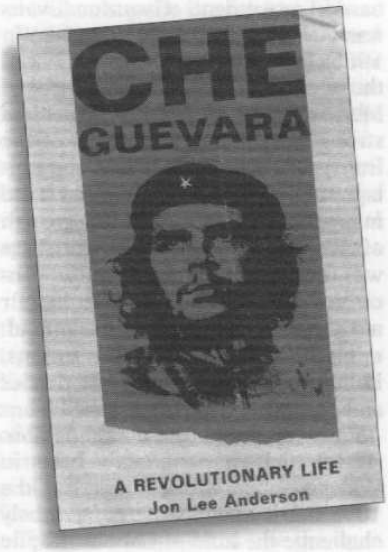
The answer is not a Welsh assembly, it is a programme of revolutionary class struggle for a workers' republic of Britain and for a British revolutionary party as part of a revolutionary communist International, to lead that struggle.★

1 See D. Stockton, "The Bolsheviks and the National Question" in Trotskyist International 13/14 , and LRCI "Marxism and the National Question", Trotskyist Bulletin 6.

GUEVARA'S LEGACY

Mark Abram reviews

Che Guevara: A Revolutionary Life, by Jon Lee Anderson
Bantam Press, London 1997
£25



THE CONDITIONS for writing a biography of Ernesto "Che" Guevara have improved dramatically since 1989, though for reasons its subject would hardly have welcomed. The overthrow of the ruling bureaucracy in Moscow has released many Stalinist officials, agents and diplomats involved in Cuban affairs from their vows of silence. Even in Cuba there has been an increased degree of Glasnost. The friends and family of Che Guevara are now prepared to share documents and reminiscences in a way unthinkable before.

Anderson's book takes advantage of this changed climate to put together a fascinating account of Che's life. It fills in many gaps, lifts the veil of secrecy around certain key political events and brings new testimony to barely explored sides of Che's character and personality. While not indulging in the cult of the personality, Anderson's book bears witness to the power of Che's personality; a driving, self-sacrificing, utterly demanding character. It is a portrait of a fierce disciplinarian but at the same time of a man of action capable of inspiring remarkable devotion, not least through his own ability to overcome the disability of severe life-long asthma. It is also clear that throughout his life he renounced all material privileges, either as guerrilla leader or as minister in the Cuban state.

It is not an iconoclastic biography; nor is it a critique of Guevara's ideas. It does not challenge Guevara's writings on guerrillaism, nor his positions in the debates among the Cuban leaders over the transition to socialism, for example. But it does provide new information that allows a clearer appreciation of Guevara's relations with Fidel Castro, with Cuban Stalinism and his changing views on the USSR and China. His disastrous campaigns in the Congo and Bolivia are painstakingly presented, based on hitherto unpublished diaries and first hand accounts from those who were active with him and even those who were responsible for his death.

Since 1967, Guevara has been different things to different people: icon of the Cuban revolution against Batista; architect of the Cuban Stalinist counter-revolution; implacable anti-imperialist fighter willing to sacrifice his life in another country's cause; or even, as the man who lost a volume of Trotsky's writings in a skirmish days before his death, an "unconscious" advocate of "permanent revolution".

Anderson's book allows us to understand more exactly both the man and the ideology of "Guevarism", the nature of the "Marxism" Che evolved towards from the mid-1950s to his death.

From scepticism to Marxism

Ernesto Guevara was born on 14 May 1928 in Rosario, Argentina, into a family of Cuban aristocratic background which had fallen on hard times. But they were not short of money and Guevara had a comfortable middle class, somewhat bohemian, upbringing. A voracious reader and debater, he was certainly politically aware but remained stubbornly aloof from commitment well into his twenties. He earned the nickname "Sniper" for his barbed remarks aimed at others' convictions.

He studied medicine and qualified at the age of 22. He interrupted his studies with travel, first into the interior of Argentina and then throughout South and Central America. His diaries and letters reveal a gradual but growing awareness of injustice, poverty, and oppression. In this period he also read widely, including Lenin, Marx, Engels, Stalin and Freud. But despite the fact that his adolescence and early manhood coincided exactly with the "heroic" years of the Peronist movement in Argentina (1944-52), he stood aside from all political activism for or against Juan and Eva Peron and their movement.

However, history was about to present the young doctor with an opportunity to take sides. In Guatemala Jacobo Arbenz, a leftist colonel, had just been elected as President. In 1952 he signed a radical land reform into law, nationalising the property of the major US company in the region – United Fruit – as well as attacking the land holdings of the local oligarchy.

Arriving in Guatemala on a post-medical school trip in December 1953, Guevara found himself in the middle of momentous events. Hundreds of Latin American leftists arrived to witness this "socialist experiment" first hand.

On his way to Guatemala Guevara wrote to his family:

"Along the way, I had the opportunity to pass through the dominions of the United Fruit, convincing me once again of just how terrible these capitalist octopuses are. I have sworn before a picture of the old and mourned comrade Stalin that I won't rest until I see these capitalist octopuses annihilated. In Guatemala, I will

perfect myself and achieve what I need to be an authentic revolutionary." (p126)

The US State Department and CIA spent 1953 planning the overthrow of Arbenz. A showdown was inevitable. But what to do about it? Guatemala was a cauldron of debate among various groups.

Guevara denounced the bourgeois nationalist parties, such as the Peruvian APRA and Bolivian MNR, for their refusal to espouse violent revolution. And while his reading had already made him an admirer of the achievements of the USSR, he was critical of the region's Communist Parties (CPs), holding that no party that participated in elections in Latin America in the current conditions could remain truly revolutionary:

"...he was critical of the Communist Parties, who he felt had moved away from the 'working masses' by engaging in tactical alliances with the right in order to gain a quota of power." (p132)

He refused to join the PGT (the CP in Guatemala) for this reason, even though this would have helped him secure a job as a doctor for Arbenz's government.

Anderson notes that:

"For the first time in his life, Ernesto openly identified with a political cause. For better or worse, he had chosen Guatemala's leftist revolution." (p.128)

In marginal notes in his travel diaries, he wrote of his decision in somewhat hysterical language which testified to an intellectual's long struggle with his own scruples:

"I, the eclectic dissector of doctrines and psychoanalyst of dogmas, howling like one possessed, will assault the barricades or trenches, will bathe my weapon in blood and, mad with fury, will slit the throat of any enemy who falls into my hands." (p124)

As CIA activities increased Che became critical of Arbenz for his failure to organise and arm a peoples militia to defend the government. Just after his 26th birthday celebrations, the bombs of US mercenaries rained down on Guatemala City announcing the start of Operation Success; an invasion force entered from Honduras. Che signed up with the health brigades during the day and the militia patrols at night. At end of June he tried to reach the war front but was forced to help out in a hospital. All the time he was agitating for Arbenz to arm the people to overcome the impending treachery of the armed forces.

By 3 July the US had won and Arbenz resigned. Guevara went into hiding in the Argentine embassy as a witch-hunt of leftists began. By mid-September he was able to get a visa for Mexico and leave to join thousands of other exiles and refugees there.

By December 1954 he was writing to his mother explaining his conversion to Communism:

"The way in which the gringos... treat America had been provoking a growing indignation in me, but at the same time I studied the theory behind the reasons for their actions and I found it scientific. Afterward came Guatemala." (p165)

Yet his yearning for adventure still held him back from making a commitment to an organisation:

"...sooner or later I will join the Party; more than anything else what impedes me from doing it now is that I still have a fantastic urge to travel through Europe, and I couldn't do that submitted to an iron discipline." (p165)

Che the petit-bourgeois guerrilla

In Mexico City Guevara met up with the Cubans he had known in Guatemala. In July 1955 he was introduced to Raúl and Fidel Castro who had arrived after being released from jail in Cuba for their part in the 1953 attack on the Moncada Barracks. Fidel Castro made a powerful impression on Guevara and when they invited him to join their guerrilla movement as a medic Che (so nicknamed by the Cubans for his habit of always using this Guaráni word for "mate") "accepted on the spot". From that moment, until his death 12 years later, Che submitted himself and all those around him to the "iron discipline" that he had previously avoided.

From the beginning Che was aware of an important difference between himself and Fidel Castro. For Guevara "politics were a mechanism for social change, and it was social change, not power itself, that impelled him" (p177), whereas Castro's July 26 Movement (J26M) had no consensus at all about what, if any, fundamental social change was needed in Cuba. It was united only by the desire for an armed struggle to overthrow the US-backed dictatorship of General Batista.

This difference was highlighted in July 1956 when the Mexican police arrested the Cubans and Che. Hitherto "carefully guarded papers" reveal that under interrogation Che "now openly admitted his Communism and declared his belief in the need for armed revolutionary struggle, not only in Cuba but throughout Latin America." (p198)

In November 1956, 18 months of preparation and training culminated with Castro, Che and 80 others setting sail for Cuba on the Granma. The trip and landing in Cuba were a disaster. They were two days late arriving and the J26M group awaiting them had left. They were ambushed, shot up and dispersed. Che was wounded and only 18 survived to find their way up into the Sierra Maestra mountains near Santiago. It was not until end of March that they regained their numbers.



GUATEMALA'S JACOBO ARBENZ

Che's differences with the majority of the J26M were confirmed once the guerrilla struggle was under way and Castro was able to assemble what Che called "these young, mostly upper-middle class urbanites" (p234) who were the core J26M leaders. Anderson remarks:

"In general Che already viewed Fidel's July 26 colleagues as hopelessly bound by their middle-class upbringings and privileged education to timid notions of what their struggle should achieve, and he was correct in thinking that they held radically divergent views from his own. Lacking his Marxist conception of a radical social transformation, most saw themselves as fighting to oust a corrupt dictatorship and to replace it with a conventional Western democracy . . 'Through isolated conversations', he wrote in his diary, 'I discovered the evident anti communist inclinations of most of them'." (p235)

I have sworn before a picture of the old and mourned comrade Stalin that I won't rest until I see these capitalist octopuses annihilated

Given the history of Cold War and Catholicism in Cuba, the (mainly rural) rank and file of J26M were also "overwhelmingly anti-communist" and Castro refused to appoint Che as political commissar for this reason. He did not want to give ammunition to the US administration and Batista.

The course of the two-year guerrilla war hardened Guevara and he forged a well-trained, highly motivated guerrilla column. He undertook the same duties as all the others, endured immense suffering as a result of his asthma, which often immobilised him. He was not afraid to take responsibility for enforcing harsh discipline. Within a few days of the campaign the rebels seized a traitor, the first of the war to be executed. In what was a "closely guarded secret for 40 years" Che's private diaries reveal that, "the situation was uncomfortable for the people and for E, so I ended the problem giving him a shot with a .32 pistol in the right side of the brain..." (p237). Anderson notes:

"This incident was seminal in the growth of Che's mystique among the guerrillas and peasants in the Sierra Maestra. From then on he acquired a reputation for a cold-blooded willing-

ness to take direct action against transgressors of the revolutionary norms." (p238)

Building support for the guerrillas was critical for the success of the war. At the beginning peasant support for J26M was grudging and precarious and given for reason of the narrowest self-interest; some were paid smugglers or provided food for money. But Che used his medical skills to hold clinics and this helped to draw support from peasants. More importantly, he soon came to understand that, as with Mao's Chinese revolution, practical, on-the-run agrarian reform was critical.

Although various decrees were "proclaimed" by the Rebel Army, in practical terms agrarian reform only really took off in the autumn of 1957 with the widespread rustling of cattle from landowners and their distribution among the peasants, "one of the rebel army's most popular measures" (p305) according to Anderson.

Che's "Marxist" convictions strengthened as the war progressed and this brought him into increasing conflict with right-wing of the J26M who dominated the urban cells on the plains ("llano"). By the end of the first year the relationship between Che and the llano leaders reached the point of open acrimony. Amando Hart and "Daniel" were alarmed that the radical Marxist Che was in command of his own column and his own supply lines to the city.

It was Che who led the Rebel Army in the decisive battle for Santa Clara in December 1958. With this victory the Cuban army and state collapsed in disarray and Batista fled abroad

Things came to a head in a fierce row over the Miami Pact (November 1957) signed by all Cuban oppositionists, which gave a majority of leadership positions in a new Cuban Liberation Junta to the J26M. The right-wing had signed it for the J26M, but in so doing they put their names to a pact which called for the dissolution of the J26M movement after the downfall of Batista, and "pandered openly to Washington".

In a letter to Daniel, Che made it clear that "I belong to those who believe that the solution of the world's problems lies behind the so-called iron-curtain, and I see this Movement as one of the many inspired by the bourgeoisie's desire to free themselves from the economic chains of imperialism." (p757)

Daniel replied for the llano Directorate:

"We want a strong America, master of its own fate, an America that can stand up proudly to the United States, Russia, China, or any other power that tries to undermine its economic and political independence. On the other hand, those with your ideological background think the solution to our evils is to free ourselves from the noxious 'Yankee' domination by means of a no less noxious 'Soviet' domination." (p758)



CHE (SEATED CENTRE WITH STICK) CELEBRATES ONE YEAR OF THE WAR

After Castro repudiated the Miami Pact Che became more open about his "Marxism". Contrary to the official Cuban view that the path towards socialist ideas within the J26M evolved as a result of an "organic fusion" with the life of the masses during the war, it was clear that Che was, from the outset, a systematic propagandist for his programme. In the summer of 1957 the Cuban Stalinist party, the PSP, sent a young cadre, Pablo Ribalta, to work with Che and set up a political education school in the Sierra.

Anderson notes that "the young fighters were clean slates upon whom Che made a lasting impression" and one young fighter recalled a conversation among them at the time:

"...there is a great mystery surrounding his books, and they read them at night in a closed circle. That's how he works, first he recruits those closest to him, and later they go filtering it through the troops." (p298)

Castro's attitude to Marxism was equivocal. He was neither a communist nor an anti-communist. While Che was ideologically committed to the Soviet model of the economy at this time, Castro was writing articles in late 1957 defending free enterprise, arguing against nationalisation and for a junta of middle-class professionals to lead the new Cuba. In an interview in mid-1958, Che explained to a journalist that Fidel was a "revolutionary nationalist" and he a "Marxist" (p309).

On the other hand, Castro understood the importance of working with the Cuban Stalinists since they controlled important trade unions in the towns and cities and even had significant support among the small farmers. Although the PSP opposed the guerrilla war at the outset they soon went from solidarity with it to actively seeking to work with the J26M in the llano and sending members to fight in the Sierra Rebel Army.

But the right-wing opposed collaboration with PSP. Things came to a head when the general strike, called for April 1958, ended in failure not least because the llano leadership refused to work with the PSP. After this Castro moved against llano leaders on the Directorate, removing them at its meeting on 1 May. Castro understood that if the political revolution against Batista was to succeed then the popular front had to include the PSP.

Che used the changed balance of forces to deepen collaboration with the PSP in the final months of the war. In autumn 1958, Che's column moved down into the Las Villas and Escambray plains, and forged close ties with the PSP's own columns which had previously been shunned by J26M leaders.

It was Che who led the Rebel Army in the decisive battle for Santa Clara in December 1958. With this victory the Cuban army and state collapsed in disarray; Batista fled abroad. A general strike ensured that Havana fell into the hands of the Rebel Army relatively easily.

The creation of a degenerate workers' state in Cuba

Che arrived in the capital on 2 January 1959. For the next 18 months a government embracing left-wing pro-Stalinists and pro-landlord nationalists held office. It was in effect a popular front. At this point the majority of the J26M leaders, including Castro, had no intention of overthrowing capitalism in Cuba. But while Castro appointed members of the right-wing of the J26M into key ministries and

the US immediately recognised the new regime, real power did not lie with these government ministers. It lay with the Rebel Army and the rebels were determined that in Cuba there was not going to be a repetition of the Arbenz fiasco. The pro-US right were allowed no share in power.

In the first months of 1959 Che and Raúl Castro were in charge of overseeing the reconstruction of the state machine, particularly the army. Purges of those who could not be re-educated and re-integrated into a new armed force were widespread. The G-2 was set up as a new secret service, with a PSP politburo member as its deputy chief. Che also began political education classes of the remaining officers in the Cuban army in March 1959 which covered the social structure of the USSR, Lenin's life etc.

Che was directly involved in dispensing revolutionary justice against those guilty of the worst crimes under the Batista regime. Over 1,000 prisoners of war were held in jail. Trials, which Anderson calls "above board if summary affairs" (p387), were organised with proper defence and prosecution counsel. Victims were not allowed to preside over any of these trials which often lasted six to eight hours. Che was supreme prosecutor on the appellate bench. During the first months, several hundred were tried and executed by firing squad for their role in torture and killings. Eduardo Galeano, a Uruguayan journalist, called Che "the Jacobin of the revolution" (p609).

The reconstruction of the state apparatus in Cuba went alongside the implementation of a series of social reforms. Che pressed from the start for more radical measures than the official government policy. In a 27 January speech, "Social Projections of the Rebel Army", he called for a more radical agrarian reform, a programme of industrialisation, protectionism and the diversification of markets away from the USA.

He urged that Cuba's mineral wealth, electricity generation and the US telephone company (ITT) should all be nationalised. He also argued for measures such as a shortening of the working day to increase employment, which Castro rejected.

But the measures that were undertaken during the first year were enough to cause major divisions within the popular front government. Over the summer of 1959 the agrarian law caused ructions inside the J26M and a polarisation occurred between Castro and Huber Matos, the latter championing the landowners. Castro realised such measures were necessary if he was to preserve his social base among the rural supporters of the J26M. Resistance forced Castro to sack a clutch of bourgeois ministers in June. In July Castro provoked strikes and demonstrations to demand the resignation of President Urrutia for giving credence to "Communist infiltration" charges by the USA.



GUEVARA, RAUL AND FIDEL CASTRO MARCHING THROUGH HAVANA

All the ministers were replaced by J26M Castro loyalists. For the moment Castro allowed bourgeois figures to remain in charge of the economic ministries. A further round of US inspired attacks and criticisms in October and November, however, forced Castro to break up the popular front government once and for all. He expelled the remaining bourgeois ministers except one; he purged the Defence Ministry and reduced the army by 50%. Che meanwhile undertook the creation the first peoples' militias.

The new government, built around the left-wing of the J26M and PSP, was still pledged to defending Cuban capitalism even though it attacked the big landowners and aggressive US interests. It undertook a series of radical measures transforming land ownership. In January 1960 the government expropriated all large cattle ranches without compensation and all sugar plantations, including US-owned ones. On 19 January all large land holdings were taken over.

Despite its radicalism and its control over the armed forces the government's commitment to defending capitalism marked it out as a left version of what the revolutionary Comintern described as a "bourgeois workers' government". But the Cuban revolution now stood at a cross-roads. This period of a bourgeois workers' government formed a watershed between the original maximum programme of Castro and the more radical social transformation envisaged by Che from the beginning.

The actions of the US in the first half of 1960 forced Castro to move further in Che's direction. Attempts to diversify Cuba's trade links, by selling sugar to the USSR and getting oil in return, led to resistance by the USA. When the oil companies refused to refine the incoming Soviet crude oil the government seized all oil refineries on 29 June; this was swiftly followed in July by a decree allowing the nationalisation of all US property in Cuba. Between August and October, 166 US companies were nationalised as was all private Cuban industry. By the end of the year 80% of all Cuban industry was in the state's hands.

The actions of the US in the first half of 1960 forced Castro to move further in Che's direction. Attempts to diversify Cuba's trade links, by selling sugar to the USSR and getting oil in return, led to resistance by the USA

At no point was the Cuban working class involved in this process as an independent force. At no point did the initiative for these sweeping measures come from the workers' own organisations. Independent and democratic workers' councils, such as those that made the revolution in Russia in 1917, did not exist. In Cuba the role of the working class was limited to that of a stage army, responding to the government's call to demonstrate in favour of the measures taken by the leaders.

The precedent for this development lay not with the Comintern's categories of workers' government, nor with the Russian revolution of 1917. It lay with the Stalinist bureaucratic revolutions that followed world war two. In the face of imperialist pressure the Stalinists had been compelled to act against capitalism in order to ensure their own survival. But their overthrow of capitalism was a bureaucratic act, which totally excluded the working class from political power. They set up what we have designated bureaucratic anti-capitalist workers' governments. The same process was now unfolding in Cuba.

The fact that during the summer of 1960 the government passed over into a bureaucratic anti-capitalist workers' government was not simply the result of the hostility of the US. It had been prepared for by a long period of consolidation of a reconstructed state machine and a one-party structure under Che and Raúl Castro's direction.

But it was also possible because the

USSR itself was increasingly prepared to provide the economic, diplomatic and military framework for Cuba to become a degenerate workers' state once the decision had been made to expropriate Cuban and US capitalist property.

Once again Che was at the centre of events, forging this new relationship with the USSR and the Cuban government. Anderson's book brings forth new evidence on this score.

Involvement of the USSR

Anderson notes that "a mystery that has endured over the years is the question of when the Soviets became involved with the Cuban revolution." The official line of those involved in Kremlin's Cuba policy at the time now says that, "the Soviet ball started rolling only after Castro's rebel victory"(p414), although initial informal contact between Kremlin agents and Che go back to Mexico City in 1955. But Anderson argues that all the evidence suggests that the Kremlin began to take an active interest in the fate of the Cuban revolution from mid-1958 when victory appeared possible, precisely at the time that the PSP began to throw its weight behind Castro's wing of the J26M in the Sierra.

At this time, however, the CPSU leadership was very "sceptical" because "the revolution was not the result of PSP strategy, the party was not in control" (p415).

The Latin American Department of the CPSU Central Committee naturally saw it as a bourgeois revolution, even though it welcomed its anti-US stance. When the PSP arrived in Moscow in 1959 to convince the Kremlin that a "socialist course" was open to Cuba the Kremlin remained unconvinced. Moreover, relations between the USA and USSR were relatively stable at this time.

Only on 1 October 1959, did the first Kremlin official arrive and speak with both Che and Castro. Both sides agreed on a slow opening up of diplomatic and trade links with the USSR. Deputy Prime Minister Mikoyan visited Cuba in February 1960 on a trade visit which led to the signing of a new sugar deal and the securing of credits for industrialisation.

According to Anderson's interviews, Mikoyan's talks in Cuba indicated that both Che and Castro "wanted a socialist Cuba and needed USSR aid to do it." At this stage they did not ask for military help but a month later when a ship full of Belgian arms was blown up in Havana, Castro asked for arms. Khrushchev agreed and this was swiftly followed by the restoration of diplomatic relations in May.

It was at this time, with military aid secured, that Castro's government "felt strong enough to take on the Americans" (p466). Over the summer of 1960, with arms and advisers arriving every week, the Cuban government began to expropriate US and Cuban industry.

Che cemented the new ties between the Cuban bureaucratic workers' government and the Kremlin by attending Moscow's 1917 celebrations, followed by a two-month tour of Eastern Europe and China in November and December 1960.

Throughout 1961, Che was in the forefront of further overseeing the domestic consolidation of the state and party apparatus consistent with a one-party Stalinist state: the attacks and repression of the left-wing Trotskyist critics of Stalinism; the fusion of the old PSP and J26M apparatuses into a new party (ORI) in July 1961. Che commanded forces just outside Havana in April when the new military machine saw off the challenge of the US backed invasion force at the Bay of Pigs. Following this clash it was Che who pressed time and again for USSR missiles to be sited in Cuba, travelling twice to Moscow to negotiate the deal.

His Stalinism led to the belief that the interests of the people and its state were identical and the "vanguard" – that is, the leadership – was best placed to interpret those interests

Anderson reveals that in August 1961, during a trip to Brazil, Che met an aide of US President Kennedy for secret talks and gloated that the Bay of Pigs fiasco had put the final seal on the fate of the Cuban revolution – its Stalinisation. The aide's report noted Che's view that "they will establish a single party system with Fidel as Secretary General of the party. Their ties with the East stem from natural sympathies, and common beliefs in the power structure of the social order." (p518/19)

Above all Che, as head of the National Bank and INRA, was in control of the two decisive economic agencies that helped prepare a single economic plan for the Cuban economy from early 1962. The implementation of this plan marked the last act of the bureaucratic workers' government in its task of creating a degenerate workers' state.

Che's support for the "single party system" in Cuba in 1961 expressed his Stalinist attitude to democracy in the transition to socialism. Castro refused to consider holding any kind of elections, believing that any democratic assembly would merely be the "mirror of our discord" and aid the enemies of the Cuban revolution. "Unity" around Fidel as the revolutionary bonaparte was the only, and essential, safeguard of the revolution.

Che agreed with the refusal to hold elections. However, he believed that the transition to socialism did require an institutionalised role for the masses. In 1961 he told Maurice Zeitlin, "our task is to enlarge democracy within the revolution as much as possible and ... assure channels for the expression of the popular will."

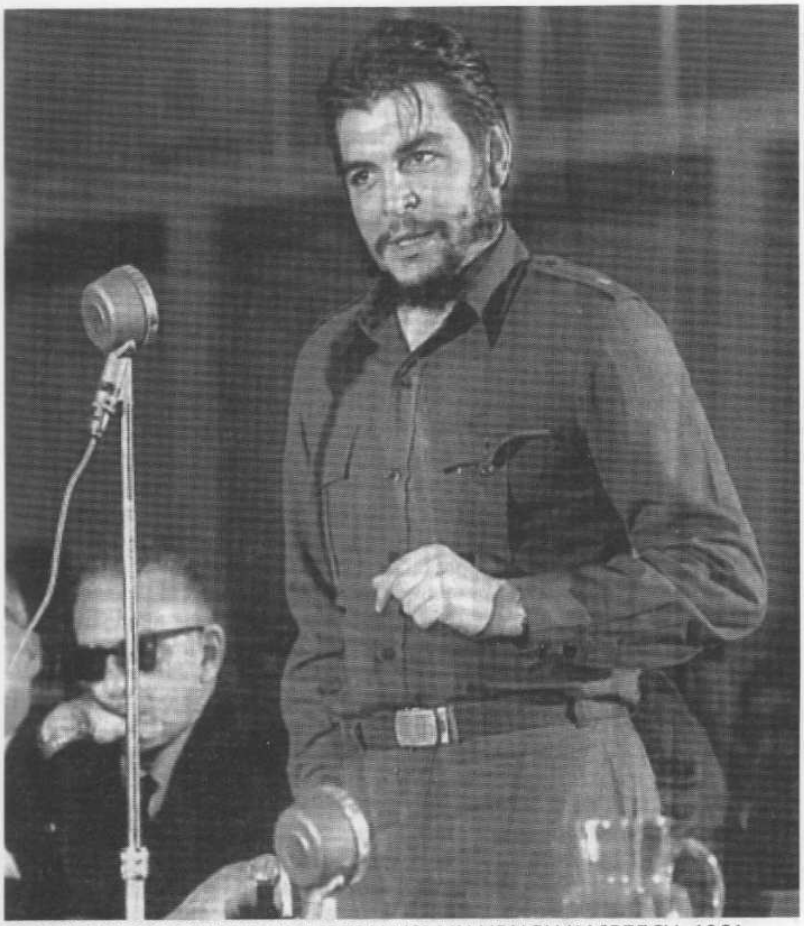
But what kind of "expression of the popular will" did Che have in mind? As K Karol points out in his book *Guerrillas in Power*, when Che convened the 1961 "Convention on Production" during the whole three days, "no one so much as raised the question of popular democracy or workers' control."

The fact is that Che did not believe in workers' management of industry or that the state should be immediately and directly accountable to the mass of workers through sovereign workers' and peasants' councils. His Stalinism led to the belief that the interests of the people and its state were identical and the "vanguard" – that is, the leadership – was best placed to interpret those interests.

But Che did believe in something more than just secret police supervision and the odd plebiscite. He was instrumental in creating from scratch various forms for the "expression of the popular will". The neighbourhood courts and the Committees for the Defence of the Revolution (CDRs) were instruments of control and supervision but they were also forums for dialogue. But it was a dialogue between the organised leadership and the disorganised and atomised masses. Without the right to form groups, factions and parties, the all-powerful leaders could never be replaced. These were not organs of power and control but rather channels of communication from the top down to the masses and safety valves for registering elemental discontent.

By the time he left Cuba in 1965 Che's views on the role of the masses in democracy had become even more paternalistic. In *Man and Socialism in Cuba*, he provides an example of how this "direct democracy" worked:

"We are using the almost intuitive method of keeping our ears open to the general reactions in the face of the problems that are posed. Fidel Castro is a master at this . . . In the big public meetings, one can observe something like the dialogue of two tuning forks whose vibrations summon forth new vibrations each in the other . . . a dialectical unity which exists between the individual and the mass."



GUEVARA DENOUNCES US IMPERIALISM IN URUGUAY SPEECH, 1961

This patronising attitude to the Cuban masses, this refusal to allow them real power in the decisions that effect their lives is one of the worst aspects of Che Guevara's legacy.

Che's disillusion in the USSR and sympathies with Maoism

Unlike Che, Castro refused to declare himself any kind of socialist before 1961. Anderson suggests, however, that Castro was probably committed to the "socialist course" of the revolution very soon after the ousting of Batista (if not before) but that he played a clever game of buying time for the Cuban revolution in 1959/60 by making soothing noises to the USA. This way he could restructure the state apparatus and build up Cuba's military defences before he (not the USA) provoked the inevitable breach with Washington.

In reality, Castro tried to carry out the programme of the "olive green" revolution and the "third way" between communism and capitalism for a full two years before US and Cuban capital's obstruction of the J26M programme of radical agrarian reform and trade diversification posed Castro with the dilemma: abandon it or go further than he himself wished.

He chose the latter and finally announced the "socialist" nature of the Cuban revolution during the Bay of Pigs invasion of April 1961. During the next two years Castro was to overtake Che in his loyalty to the USSR while Che underwent a process of disillusion in the "socialism" of the USSR and made sympathetic noises about China.

After the public Sino-Soviet split in October 1961 the old Moscow-loyal Stalinists in the Cuban PSP used their influence to get their people into jobs in the state apparatus and party in Cuba. Castro had no intention of being a figurehead for the Cuban Stalinists, to be pushed aside when they had consolidated a grip on power. In March 1962 Castro attacked the PSP leaders' "sectarianism" and purged the party's chief Anibal Escalante. Che was very pleased at this action since, "he loathed the holier-than-thou party apparatchiks who sought to impose themselves and their own ideological guidelines throughout Cuba..."

As early as his December 1960 visit to China, Che praised the Chinese revolution as an example for Cuba, something that irked his USSR sponsors at a time when a rupture was in the making between Moscow and Peking.

Indeed the only Chinese technicians in Cuba were those attached to Che's ministry and Che gave jobs to people who had lost theirs as a result of PSP purges. As Minister of Industry he rapidly became disillusioned with the poor quality of USSR technical aid and equipment. From his first trip to the USSR he was shocked and annoyed at the level of material privileges of the Russian bureaucracy and in 1964 he called Russia a "pigsty" because of the conditions it kept the workers in.

The Cuban missile crisis of October 1962, when the Kremlin backed down in the face of Kennedy's ultimatum, was a turning point for Che. He repeatedly urged the use of the missiles against the USA and insisted that if he had been in charge of them he would have fired them off. Che denounced the Kremlin sell-out.

He repeatedly urged the use of the missiles against the USA and insisted that if he had been in charge of them he would have fired them off. Che denounced the Kremlin sell-out

By 1963 the differences between Che and Castro had grown significantly. In a visit to Moscow in the spring of that year Castro came out squarely for Moscow over the Sino-Soviet split. Castro went to Moscow again early in 1964 and came back more Moscow loyal than ever, going out of his way to praise the policy of "peaceful co-existence" with the USA.

Che, on the contrary, denounced the strategy of "peaceful co-existence". Anderson also notes that Guevara became publicly "extremely critical of the western Communist Parties for adopting a 'peaceful parliamentary strategy for power'. He said this would deliver the working class bound hand and foot over to the ruling class." (p545).

While Castro, right up to the time of Che's death, was prepared to support Che's "foreign adventures" on a tactical basis as a bargaining tool with the US, Che was strategically committed to a generalised programme of anti-imperialist wars aimed at US-backed states. To this end, in 1962 and 1963 Che stepped up his efforts to organise the guerrilla forces for wars in Argentina, Nicaragua, Dominican Republic, Bolivia and Peru. This alarmed the Kremlin, since they wanted to avoid another run-in with USA after the missile crisis and were afraid that Che's guerrilla warfare perspective for Latin America would do just that.

Anderson writes:

"To Che the term 'peaceful co-existence' was anathema, mere appeasement of the imperialist system dressed up in diplomatic language. For the moment he kept his mouth shut, but there was no longer any doubt that his and Fidel's path had begun to diverge. Fidel's goal was to consolidate Cuba's economic well-being and his own political survival, and for that he was willing to compromise. Che's mission was to spread the socialist revolution." (p587)

Castro went on an appeasement offensive in the summer of 1964 in an attempt to influence the outcome of the impending US presidential elections. In his 26 July speech he offered to end aid to other revolutionaries and live within the "norms of international law" (p602). He offered to end support for Latin America's revolutionary movement if hostilities against Cuba ceased.

Che ignored this and made a public speech at the same time in Santa Clara, arguing that it was the common

duty of all Cubans to fight imperialism "whenever it appears and with all the weapons at our disposal" (p603). On 15 August in Havana Che argued trenchantly against peaceful co-existence and once again called for nuclear war, if necessary, to defeat imperialism.

Naturally, the Kremlin was highly distrustful of Che by the summer of 1964:

"In direct contradiction to the policy of 'peaceful co-existence', his ceaseless calls to armed struggle, his emphasis on rural guerrilla warfare, and his stubborn determination to train, arm and fund Communist party dissidents – even Trotskyists – over the protests of their national organisations had led to the growing suspicion in Moscow that he was playing Mao's game." (p579)

Eventually, CPSU CC member, Metutsov, went to Cuba and met with Che. He concluded that although he thought Che was a sound "Marxist-Leninist":

"...one could truly say that, yes, Che Guevara was contaminated by Maoism because of his Maoist slogan that the rifle can create the power. And certainly he can be considered a Trotskyite because he went to Latin America to stimulate the revolutionary movement..." (p585)

Che's own views of the transition to socialism were thoroughly Stalinist in that they were based on its central starting point of socialism in one country, an impossibility in principle and an utter absurdity for a small backward island such as Cuba

By 1964 Che's relationship with his old comrade Raúl Castro, now a close collaborator with the USSR's defence chiefs, "had steadily deteriorated to the point of becoming adversarial." (p597)

The ideological schism between Che and the Kremlin was also evident in the debates over Cuba's economic policy. From 1961, as head of the National Bank, Che had argued that Cuba could achieve socialism and communism simultaneously by organising industry and agriculture according to a single economic plan. He argued for a model of planning which was highly centralised and bureaucratic, the budgetary finance system, which was similar in structure to the command economy of the USSR under Stalin in the 1930s, but with one major difference.

Guevara was highly critical of using *material incentives for the workers as the main stimulus to higher productivity and performance. Rather, once* again drawing on Maoism, he urged that the "new man" and "communist consciousness" could only be achieved if the working class understood and acted upon the notion of sacrifice for the collective good. To this end, Che introduced "voluntary labour brigades" on Saturdays.

In addition, during 1961-64 a theoretical debate raged which was a reflection of this issue; namely, whether the "law of value" operated in the transition to socialism. Che offered no new insights on this debate but was generally correct in his criticism of the PSP economists who echoed the Stalinist line that it did and that it was just more "transparent" and therefore controllable under socialism.

One of Che's last works (still unpublished) was a savagely critical set of marginal comments to Stalin's textbook on political economy for the USSR. Che rightly understood that this theoretical error had a larger purpose; namely, to justify the growing trend in the Eastern bloc to use market indicators (such as profit of the enterprise) as a tool for an economic policy which Che argued led back towards capitalism.

Nevertheless, Che's own views of the transition to socialism were thoroughly Stalinist in that they were based on its central starting point of socialism in one country, an impossibility in principle and an utter absurdity for a small backward island such as Cuba. But like Mao, he gave a strong voluntarist emphasis to this process. Che severed the development of consciousness from its material underpinnings in the massive development of labour productivity which would be necessary to overcome the generalised scarcity of goods and which would at the same time allow for a massive reduction in the working week. The latter two conditions are critical for any qualitative leap in communitarian and solidaristic notions and for making egotistical and selfish economic motives redundant and counter-productive.

Che's belief that the mass of workers could leap over this by an act of subjective commitment to extra work was of a piece with his generally adventurist, as opposed to routinist, bureaucratic approach to leadership and the pure mobilising and transforming power of the leadership's example.

By 1964 Che's ideas were under increasing attack within the Cuban state, reflecting the Kremlinisation of the ideology and structure of the bureaucratic apparatus. Finally, as a result of Castro's visits to Moscow in 1964 Che realised that the material basis for his programme of transition – a stepped up industrialisation for Cuba – was being sidelined in favour of Cuba's continued dependency on sugar.

Che visited the USSR in November 1964 for the last time to argue the case for anti-imperialist wars in Latin America but while the Kremlin were prepared to tolerate low key practical assistance to guerrilla forces in those countries where the CPs were outlawed, they would not sanction or tolerate a general strategy of guerrilla war, especially not in the USA's backyard.

Che was summoned to see Vitali Korionov, deputy chief of the Central Committee's America's Department, and was told that the Venezuela and Bolivian CPs had protested to the Kremlin about Cuba's proxy wars. Che was intransigent and Korionov concluded:

"The Argentine was determined to push ahead with the armed struggle in Latin America, he distrusted the Kremlin's policy of peaceful co-existence, and in the Sino-Soviet schism, he was on the Chinese side." (p615)

On returning to Havana Che boycotted the Congress of Latin American CPs being held there and spoke elsewhere in Cuba, castigating the region's moderate strategy. According to Anderson's sources in Cuba, on returning to the country in November Che had made his mind up to resign from the government, "having determined that the Soviet pressure on Fidel to accept the Kremlin's socialist model in Cuba was overwhelming." (p616)

Che's final struggles

In a farewell letter to his parents, written in March 1965, Che Guevara said:

"I return to the trail with my shield on my arm. Nothing essential has changed, except that I am more conscious, my Marxism is deeper and more crystallised. I believe in the armed struggle as the only solution for the peoples who fight to free themselves and I am consequent with my beliefs." (p633)

On 1 April 1965 he left Cuba, headed for the Congo. On 24 April Che and 13 Cubans arrived in the central African state to work with the Chinese-backed Congolese Liberation Army (CLA).

It did not take Che long to realise that the CLA was ill-disciplined, ill-motivated, poorly managed, badly trained, and abused the peasants in "liberated territory" that bordered the west flanks of Lake Tanganyika. On the few occasions he could get the CLA to attack the enemy they often ran away, or fired randomly at enemy and friend alike.

It did not help that an internal struggle was taking place within the CLA, mainly in Cairo and Dar-Es-Salaam (Tanzania), which kept the commanders away from the front. Che was by and large contemptuous of the CLA

leaders (like Laurent Kabila) who preferred to be driven around the capital cities of friendly African states in their Mercedes than actually participate in the fighting.

By September the situation on the ground was a fiasco. By October Che gave up hope of reforming the existing rebel army and proposed setting up a new one, recruited from peasants and under his command. But he was blocked from doing this.

In October the government offensive began, led by white mercenaries, which quickly gained territory. On 13 October a coup within the Congo government led to an OAS brokered deal between it and the rebels, one which involved the withdrawal of foreign troops.

Crucially, in the light of the OAS deal, the Tanzanian government ended its political and logistical support for CLA from the other side of the Lake and the Kremlin followed this up with an appeal to the Cubans and Che to end their intervention. Che stalled but on 24 October his main camp was overrun. The final month was one of more Cuban deaths and a complete rout before their final evacuation on 22 November.

After this disaster Che was holed up secretly for three months in the East German embassy in Dar-Es-Salaam where he wrote up his diaries. These have only been made available recently in Cuba and Anderson uses them to piece together the story of the campaign. The opening page states: "This is the story of a failure." (p672)

However, it did not shake his belief in his chosen strategy. He insisted that, "I have come out with more faith than ever in the guerrilla struggle." He was to make one more attempt at anti-imperialist war. After a further three months hidden away in Prague, Che returned to Cuba secretly in July 1966. His presence was never admitted but Castro allowed him to make preparations for his last, fateful adventure.

Castro urged Che to go to Bolivia rather than Peru which was Che's preference. On hearing of it the Bolivian CP complained to the Kremlin but failed to prevent Che leaving for Bolivia in November 1966.

By New Year's Eve 1965, Che still had only 24 men with him (nine Bolivians). Almost from the start, Guevara's campaign was fraught with bad luck, ill-judgement and open treachery from the local Communist Party. In what his wife was to call "an act of conscious treason" by "the man who betrayed her husband", Bolivian CP leader Mario Monje, the Stalinist chief first pledged support for the war but then urged all Bolivians in the group to leave. He failed to provide the promised logistical support from the towns.

Next, the French journalist, Régis Debray and the Argentine guerrilla, Roberto Bustos, who were, respectively, Che's communication links with Cuba and Argentina, were arrested leaving the rain forest, effectively cutting the guerrilla column off from outside help.

Finally, Che was forced into a premature war for survival when the column's presence was discovered by unsympathetic peasants.

As if this was not bad enough, once news of Che's campaign got out internationally the Czech Communist Party denounced his actions in Bolivia. When the Hungarian CP followed this up with criticism of Che and praise for the Chilean CP, Che denounced them for being "cowards and lackeys".

In the final weeks, starving, ill and losing men and equipment, Che made the fatal error of moving into exposed country in the foothills of the Andes. The guerrillas moved around in daytime and the army knew from peasants where they were.

By 8 October there were only 17 guerrillas left when the final firefight broke out in a little gully near the village of La Higuera. Most of Che's column were killed; Che was captured when his automatic rifle seized.

Bound and bedraggled Che was kept overnight in the village schoolhouse. A CIA agent, Félix Rodríguez, who flew in when news of Guevara's capture reached him, told Anderson that the CIA was opposed to Che's execution as they wanted him interrogated and paraded to the world's press. But the Bolivian general staff in La Paz ordered his execution.

A sergeant, Mario Terán, volunteered and on 9 October at 13.10 he entered the school and emptied the magazine of his machine gun into Che.

His body, minus his hands which were amputated for proof and verification, was hurriedly and secretly buried two days later near a small airstrip in the nearby town of Vallegrande. They have still to find his remains.

Anderson reveals that "in Cuba, it is acknowledged off the record that Che's Bolivian operation was a total catastrophe from beginning to end"(p767). Even Che is said to have told his captors that he failed "due to the effective organisation of Barrientos's political party, that is to say, his corregidores and political mayors, who took charge of warning the army of our movement." (p767)

Officially, of course, in Cuba there is no such frank acknowledgement of either the Congo or Bolivian fiascos, still less any attempt to draw up a bal-



When Che marched into Havana on 2 January 1959 he was a sincere anti-imperialist. He was also a convinced proponent of the guerrilla strategy. Thus in his fundamental method he was a revolutionist, albeit a petit bourgeois one. Unfortunately he was also a committed Stalinist

ance sheet of guerrillaism as a strategy, why it succeeded in making a political revolution in Cuba and failed so abysmally in the Congo and Bolivia, not to mention the failures of other Che-sponsored guerrilla interventions into Argentina, Nicaragua and the Dominican Republic between 1961-64.

The failure of the strategy is clear and even some of Che's supporters were opposed to his "focist" policy in predominantly urban and proletarian societies, such as Argentina, where Che insisted it could also work. Focism elevates the role of the small, mobile, rural based guerrilla band – the focus – into the absolute leadership of the struggle. All other aspects of struggle are subordinate to the foco, are primarily a means of support for it. Mass action is stimulated by the foci, who of course, are not accountable to the masses they are trying to stimulate into struggle. The foci are "the soul of the revolution" as Che said.

The root and branch problems with this strategy were cruelly exposed in Bolivia. It could not work in Bolivia because the working class, particularly the tin miners, had already established themselves as the vanguard revolutionary force in society, strongly influenced by centrist Trotskyism and left-MNR nationalism. Furthermore, the peasantry had been turned into a small landowning class by the land reforms which followed the Bolivian Revolution of 1952. The foco was therefore unable to ignite a peasant war for land or intervene in the politics of a highly organised and class conscious workers' movement.



CHE AND RODRÍGUEZ HOURS BEFORE HIS DEATH

Revolutionary Marxists do not reject any form of struggle. If the class struggle develops into an outright war for territory then guerrilla warfare may play an essential role, particularly as a defensive harassing operation against a stronger enemy, where the open engagement of an enemy military force would be suicidal.

As a strategy for seizing political power the guerrilla war, with strong auxiliary support from the towns and its urban working class movement, has succeeded twice in post-war Latin America in bringing down a hated dictator. These were exceptions. Both in Nicaragua and Cuba this success was due to the incredible weakness of the state machine the guerrillas faced, the lack of support for the ruling oligarchy from US imperialism and the fact that the main part of the national bourgeoisie had gone over to the guerrillas.

As Robin Blackburn stated, the Cuban state fell apart under the challenge of less than 3,000 armed guerrillas in January 1959 because the state had disintegrated long before and "lacked any decisive institutions or ideological structures."

Even where the geographical terrain is best suited to protracted guerrilla war (easily defensible terrain in which movement is hard to detect), it still requires a set of minimal social and political conditions to make it possible to survive and grow. Che himself acknowledged that in Bolivia, the MNR's policy of land reform and organisation among the peasants had created a layer who were mistrustful of their so-called liberators.

The successful guerrilla armies have been able to secure significant liberated territory in which the army of the state has been banished and therefore incapable of exacting heavy reprisals against the peasants for supporting or supplying the guerrillas. Moreover, in this territory the peasants' trust has been won on the basis of land reform, medical help or literacy campaigns which have brought tangible improvements to their everyday lives.

From the political standpoint guerrillaism cannot rock the foundations of the state in societies which are fundamentally urban and industrial and in which the great social power rests in the working class and the cities, or in which the national bourgeoisie and institutions of social and ideological control are strong. The fate of the EZLN in Mexico today proves this.

But even despite its few exceptional "successes" (the Cuban revolution degenerated along the path of a degenerate workers' state, the Nicaraguan FSLN government did not overturn capitalism, demoralised its social base and lost power), guerrillaism must be rejected as a strategy. It is incompatible with the strategy of proletarian socialist revolution – revolution made by the mass of workers through their own democratic organisations, their own councils and militia, and led by a revolutionary workers' party.

Guerrillaism is intrinsically elitist. That is, it is a strategy for political power which, even where successful, as in Nicaragua or Cuba, leaves the masses – especially the urban working class which has to make socialism – politically expropriated from the start. Che himself provided an ideological rationale for this.

Che was always clear that the Cuban revolution was made for the people not by the people. In his focist strategy leaders were not elected but rather selected by dint of their actions. They initiate the struggle, battle against the odds and by their victories earn their right to be followed and obeyed.

Che believed that the masses could be drawn behind this narrowly based "vanguard", but since they could only begin to overcome their backwardness and oppression in the transition to socialism and not before, the working class, as a class, could not expect to be conscious of its historic mission under capitalism. Therefore, they must be led by the nose. Such an ideology, while it may under exceptional circumstances win political power for the guerrilla army, inevitably leads to bureaucratisation and oppression.

Guevara's Marxism

When Che marched into Havana on 2 January 1959 he was a sincere anti-imperialist. He was also a convinced proponent of the guerrilla strategy. Thus in his fundamental method he was a revolutionist, albeit a petit bourgeois one. Unfortunately he was also a committed Stalinist.

He had admired from afar the "achievements" of the USSR under Stalin and was committed to emulating them in Cuba, after the seizure of power. But he had long been critical of the Latin American CPs for their rejection of the armed struggle. As a member of Castro's Rebel Army he grafted his Stalinism onto the tradition of revolutionary petit bourgeois nationalism in Cuba exemplified by Jose Marti.

After political power had been won Che became an architect of the degenerate workers' state in Cuba, having been a key figure in the incorporation of Cuba into the economic and military orbit of the USSR.

Together with Raúl Castro, Che was pivotal in drawing the PSP more and more into leading positions within the Cuban state and economic apparatus and fusing the elements of the J26M and the PSP under Castro's leadership into a new party in 1961.

Like Stalin after 1924, Che believed in the possibility of "socialism in one country". His programme was thus incapable of leading to a successful proletarian socialist revolution based on sovereign workers' councils. He

opposed the idea of political power residing with the workers themselves, as opposed to its self-selected vanguard. He was a willing repressor of criticism and, having eliminated the right-wing enemies of the Cuban revolution, went on to persecute and jail the left-wing vanguard, such as the Cuban Trotskyists in 1962.

But throughout all of this, his "socialist" strategy, both for Cuba and the rest of the world, were not entirely compatible with the programme and ideology of Russian Stalinism as it emerged in its fully counter-revolutionary guise after 1933.

Important differences remained even when Guevara was helping construct a Stalinist state in Cuba, differences which deepened during the years 1961-64.

The Kremlin was prepared to tolerate (as was Castro) the limited use of armed struggle in the search for a better balance of forces within the framework of peaceful co-existence. Guevara was an enemy of this core Stalinist counter-revolutionary strategy.

In the Congo the Kremlin backed a deal which left Che isolated. In Bolivia it was the Communist Party that did much to sabotage his effort and must take a share of the blame for his death.

His anti-imperialism stemmed not from a narrowly nationalist struggle against imperialism. As a Cuban fighting in foreign lands he set his stall out wherever there was an internationalist duty to fight imperialism and its local agents.

The question remains then, in his disillusionment with the Kremlin did he merely shift allegiance to Beijing? The influences of Maoism are there to be seen: the lessons he drew from Mao's guerrilla war for his Cuban and other campaigns; his emphasis on moral incentives in the building of socialism; his sympathy for China in the Sino-Soviet split; his collaboration with the Chinese-backed CLA in the Congo; and Beijing's rhetorical denunciation of the foreign policy of the Kremlin seemed to coincide with Che's own hatred for the doctrine of "peaceful co-existence".

But Guevara was not a representative of the foreign policy of the Chinese bureaucracy anymore than he was of the Kremlin, or even the Cuban bureaucracy. In breaking with the Kremlin he was moving to the left. His anti-imperialism clashed with the imperatives of Stalinist foreign policy. Insofar as he remained faithful to the anti-imperialist struggle wherever it was being waged, his evolution was towards a form of centrism.

While it was not identical to the centrism of Stalin in the latter part of the 1920s, it was similar to this brand of "bureaucratic centrism". That is, Che's opportunism was manifest in his adherence to the programme of socialism in one country, but his leftism was manifest in his genuine belief in the need for an implacable struggle against imperialism using methods of revolutionary violence. And this leftism was a partial break with post-1933 Stalinism.

As Trotsky said of Stalin's policy in the Chinese revolution in 1926, subjectively Che wanted to see the victory of revolutions against imperialism and its local agents.

Che was not, like Brezhnev or Mao, a counter-revolutionary, willing to drown revolutions "abroad" in blood to protect a bureaucratic dictatorship in one country.

Indeed, Che was an implacable opponent of the strategy of "peaceful co-existence", the hallmark of post-1935 Stalinism. Not only did he not believe in watertight stages between the democratic and socialist revolutions, he underestimated the importance of the democratic tasks even in Latin America.

But this does not make Guevara a Trotskyist nor even that he was moving towards Trotskyism. At best Che believed in an "uninterrupted" revolution, from the revolutionary democratic anti-imperialist "stage" to the fight for a bureaucratised degenerate workers' state.

The continuity between them was represented by the guerrilla organisation and its leadership, not by the masses consciously fighting for and passing beyond democratic and anti-imperialist objectives to socialist goals, creating in this struggle the organs of a new, higher form of democracy—soviets. Che had no conception of proletarian democracy and counterposed to this a mixture of paternalistic populism and supervised institutions of the "popular will".

Che's mystique remains, in part, because he died in action at the hands of a brutal class enemy; in part, because he died before he became a consolidated member of a fixed social strata – the bureaucracy of a degenerate workers' state. He excoriated the Russian bureaucracy for its privileged lifestyle. In Cuba he renounced all such privileges for himself and his family while a key member of the government.

But his reputation endures too because he never had to confront a working class-led revolution. If he had in any of his campaigns, then on the basis of his politics at the time of his death, he would have had to derail and defeat such a revolution. Either that or he would have had to break definitively with Stalinism.

It is possible that, had he lived, had he reflected upon the failures of his Congo and Bolivian campaigns, he might have done so.

Above all he would have had to recognise that the real failure of his last campaigns was due to the fact that he based his strategy on the wrong class.



CHE'S BODY DISPLAYED BY HIS EXECUTIONERS

How should history judge him?

For Anderson Che is "an enduring symbol of passionate defiance to an entrenched status quo." While this undoubtedly captures something of his timeless appeal to rebellious youth it turns our attention away from what we can learn from Guevara's shifting doctrine as well his actions.

The Mexican sociologist, Jorge Castañeda, who has also published a new biography of Che, insists that, in ideological terms:

"There is no room in Latin America today for ideas of armed struggles, of the collective good, not even of sacrifice."

For Casteñada, whatever merit Che may have had, the end of the Cold War, and the shallow "democratisation" of the region's states, mean there is nothing to be gained from a study of Guevara's life.

But he is wrong. The violent and persistent struggle to overthrow oppressive and exploiting regimes and the system of imperialist alliances that underpin such regimes is as relevant as ever. Che may have had a false strategy for seizing power but there was hardly ever, if at all, a better non-Trotskyist at pinpointing the crimes of imperialism. He told us never to make our peace with imperialism since it will strike back at us until we consign it to the grave.

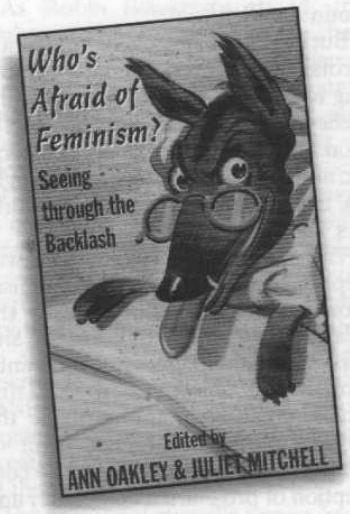
Sartre said Che was "the most complete human being of our age". We need not resort to a philosopher's flattery for the man of action. But Trotskyists, who disagree fundamentally with Che's strategy, and indeed his goal—a bureaucratically degenerated workers' state—can well recognise and respect his character and his attributes. His intransigent struggle against imperialism, his physical courage and daring, his utter selflessness, his breadth of intellectual curiosity and his dedication to ideas, held out of genuine conviction not dogmatism, are qualities every revolutionary must strive to possess.

If he did not finally break with Stalinism as an ideology he remained, at the end, a subjective revolutionist and not a bureaucrat.★

But his reputation endures too because he never had to confront a working class-led revolution. If he had in any of his campaigns, then on the basis of his politics at the time of his death, he would have had to derail and defeat such a revolution

REVIEW

BACKLASH FRACTURES FEMINISM



Clare Heath reviews *Who's Afraid of Feminism? Seeing through the Backlash* Edited by Ann Oakley and Juliet Mitchell. Hamish Hamilton, London, 1997. £20

THIS IS the third in a series of collected essays edited by Oakley and Mitchell. The books have been published at roughly ten year intervals, reflecting on developments within the women's movement. The current volume looks at the effects of the backlash against feminism and how feminists have responded to it.

In Western Europe and North America women's lives have changed dramatically over the past three decades in terms of abortion and contraceptive rights, legal independence and participation in the workforce.

When they return home from work, however, women are still faced with the bulk of cleaning, shopping, and the care of children, the sick and the elderly. This leaves many women more stressed and exhausted from their double dose of drudgery.

However, taken as a whole these developments have brought greater independence. Most surveys show that women value their jobs, enjoying their increased economic independence and the companionship of the workplace.

While these changes in women's position have been substantial, the benefits have been very unevenly distributed between women of different classes. A small number of middle class women have a much easier and more rewarding life. The majority of working class women still suffer the basic oppression and exploitation that they have always done.

But even such limited changes have provoked a reactionary response from many sides. Right-wing institutions, politicians and sections of the media have variously blamed working women for the educational failings of children, the collapse of the social fabric of society and rising crime.

Recently, the press and education "experts" have created a moral panic about the failings of "boys". Now that girls are doing better than boys in major exams in virtually all subjects, all the talk is about the need to reverse this trend. Amongst the reasons given for the eclipse of the male is that the girls are now altogether too self-assured! Boys, it seems, can only do well for themselves if women stick to cookery!

Capitalist society is indeed killing off full time jobs in industry (predominantly male) and creating mainly part time service jobs (predominantly female). But feminism gets the blame. Women are presented as driving men out of the workforce and being responsible for the resulting loss of male self-esteem.

Feminism is portrayed as the witches' spell which has led women to dump their children in 24-hour nurseries, steal men's jobs and – at its most absurd – to undermine men's virility through excreting oestrogen from constraceptive pills into the water supply, leading to a falling sperm count.

In practical terms, there have been concerted attempts to reverse gains in abortion and divorce legislation, to resist the effective application of equal pay and anti-discrimination legislation, to reduce benefits to single mothers. There is a general trend to shift ever more responsibility for welfare from the state to the family, thus increasing the burden of domestic work on women.

This combined social, economic and ideological offensive makes up the backlash that has thown feminism into crisis. This book offer a series of perspectives on the backlash, from a collection of activists, academics and journalists.

While mostly centred on the western European experience, there are diverse essays such as a thought provoking piece on the experience of women after the fall of Stalinism and the active cultural responses of Asian women to their changing situation.

One of the few chapters to address the backlash from a broad theoretical perspective is by Ann Oakley, an academic sociologist credited with introducing the concept of "gender" into social science. This concept was central to theories of the feminism of the 1960s and 1970s but came under attack in the last two decades, both from feminists and anti-feminists.

For Oakley, "gender performs an invaluable role in analysing how women and men are made rather than born; these processes cannot be understood in terms of sex and sexuality as attributes of the natural body." (p30)

Oakley takes up the cudgels against those anti-feminists who deny gender and argue that essential, biological differences between the sexes are fundamental to the family and stable social life. Feminism, these reactionaries argue, has done a grave disservice to women and to society in general by trying to deny these differences.

These arguments are hardly new, but in their contemporary form they fit neatly with the current attempts to reverse the gains made by women.

Oakley insists that these arguments are to be found among feminists like Betty Friedan and Germaine Greer, who have attacked earlier feminism for undermining and undervaluing women's role within the family. Oakley suggests that they too have forgotten the essential understanding of gender that sees women's role in the family as socially constructed, an expression of oppression rather than an of innate caring instincts.

Oakley takes exception to "difference feminism", or as others have called it "gynocentric feminism". This development within radical and liberal feminism asserts that there are fundamental differences between men and women, not all of which could or should be explained by social construction.

Difference feminism "celebrates" what are regarded as women's traits – nurturing, being peace loving, adopting a "moral perspective" on the world's problems. One political offshoot of this outlook was the women's peace movement; it considered men as inherently violent and women as inherently peaceful.

This is a short sighted distortion of the role of women over the centuries. It is a model which will fit only the more privileged strata and societies, where "peaceful protest" is tolerated. Faced with brutal oppression and exploitation, when peaceful protest is of no earthly use, women have been in the forefront of militant and revolutionary struggles.

The problem with "difference feminism" is that while it may start with the intention of seeing these peaceable female characteristics as being more valuable than those of men, in stressing their "natural" or biological origins it justifies women having the central role as nurturers and carers.Today that can only be a justification for their social subordination.

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Another strand that Oakley confronts is "victim feminism" which depicts women as victims of men, capitalism and patriarchy. Oakley takes issue with those who see women as victims because it denies seeing them as "agents" – as responsible for their position and having the capacity to act to change it. Portraying women in this passive way has turned a whole younger generation of women away from feminism.

Naomi Wolf is cited as arguing that this type of feminism is responsible for alienating young women by suggesting that all men are rapists. Similarly Camille Paglia, Katie Roiphe and Rene Denfeld have castigated victim feminism.

They point to the contradictions between feminism's early identification with sexual liberation, and its more dominant 1990s profile as being anti-sex, anti-men and as conflating rape with consensual heterosexual sex.

Oakley points out, however, that these libertarians, while correctly rejecting the reactionary conclusions of many "victim feminists", themselves frequently downplay and minimise the extent and impact of sexual assault and abuse.

The libertarians also tend to reject the concept of "gender". Camille Paglia asserts the centrality of biological difference and argues that "academic feminism is lost in a fog of social constructionism . . . leaving sex to the feminists is like letting your dog vacation at the taxidermists". (p42)

For Oakley, the most overt feminist critic of the concept of gender is Catharine MacKinnon. MacKinnon is a right wing "victim" feminist with considerable influence in universities in the USA, and many of her texts are standard reading for women's studies courses.

MacKinnon argues that feminism has not changed the status of women, and that the language of gender has served to obscure the fact that inequality is fundamentally about sex. The gender differences women suffer are imposed by force, rather than being a social construct of difference. She argues that the idea of gender difference has served to sustain male dominance.

MacKinnon's theoretical positions lead her to the kind of reactionary, anti-sex and anti-men position that many see as having "invited" the backlash against feminism. It was MacKinnon who, along with Andrea Dworkin, drafted anti-pornography laws for Minneapolis City Council in 1983, which outlawed pornography as a practice of sex discrimination, and defined pornography as "graphic sexually explicit subordination of women through pictures and/or words".

These laws, eventually overturned by the US Supreme Court, were at one point used to seize feminist and gay publications.

The corrosive influence of MacKinnon is one target of the chapter by Margaret Walters – "American Gothic: feminism, melodrama and the backlash". In a sustained attack on the moralisers, Walters argues that their insistent note of strident self-righteousness actually makes it harder to think or act about urgent issues like rape and domestic violence.

The media has been able to make stars of MacKinnon and Dworkin, setting them against the libertarians like Camille Paglia, who defiantly styles herself a pornographer. The media has a ready made tale of sex, violence and feminism. Both trends, argues Walters, "form part of a backlash within feminism that's perhaps as great a threat as any backlash against it". (p56)

In their contributions, both Oakley and Walters demonstrate the deep theoretical divisions and confusions within feminism itself. Unfortunately, this series of essays fails to go beyond a description of trends within – and responses to – feminism and does not provide any coherent understanding of why these changes have happened.

Feminism has been unable to satisfactorily explain women's oppression, has not sustained a movement for liberation, and has not even been able to take credit for those changes that have occurred in women's lives.

At the same time as it became more and more internally riven – between radical and reformist feminists, separatists and socialist feminists, difference and equality feminists, victim and power feminists – it has been less and less able to provide a coherent strategy for change. This inevitably invites an ideological "backlash" from outside, which has occurred at a time of more generalised attacks on women's and workers' rights.

The "backlash" against women is part of a general reactionary offensive that has occurred in response to struggles and gains of workers, women, lesbians and gay men, black people and nations and peoples oppressed by imperialism. After a number of major struggles and gains in the 1960s and 1970s, a series of defeats occurred.

The later 1980s and 1990s have been a period of reversals of many earlier gains, including health care and social services, all of which have a major impact on women. The backlash against women can only really be understood in this broad context.

Changes in feminism also need to be considered in context. The growth of reactionary elements within feminism, particularly those that stress the family, censorship and conservatism, are reflections of these wider social trends.

Similarly, the move away from attempts to situate women's oppression within a general understanding of social oppression (that can incorporate differences by class, sex, nationality and ethnicity) is part of a rejection of materialist understandings towards idealist, and increasingly post-modernist, theories that reject generalised analyses.

While the concept of "gender" has proved a useful tool in understanding some of the methods by which women's oppression is reproduced in society, specifically within the family, it does not answer the questions raised by many women who have found feminism unsatisfactory – it does not simultaneously explain exploitation of women workers, the racial and sexual oppression of black women, the oppression of lesbians.

The family and women's oppression are part of the total social relations of capitalist society. Unable to understand the role of the working class – and in particular of working class women – in overthrowing that society, feminism will fail to build an effective movement to fight for liberation.★

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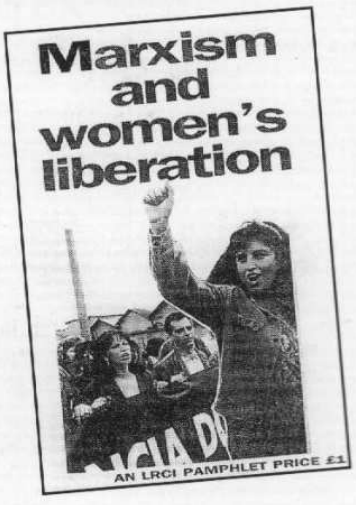

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