

## Cronies or Capitalists?



Cronies or Capitalists?  
The Russian Bourgeoisie and the Bourgeois  
Revolution from 1850 to 1917

By

David Lockwood

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**P U B L I S H I N G**

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## INTRODUCTION

On the night of 25 October 2003, black-uniformed Russian security forces surrounded and stormed a privately chartered aircraft in the city of Novosibirsk. The object of their attentions aboard the plane was Mikhail Khodorkovsky, the major shareholder in the giant Yukos oil firm, and reputedly Russia's richest private citizen. Seven charges were laid against Khodorkovsky of massive theft and tax evasion. He was taken to a Moscow prison, where he joined Platon Lebedev, his business partner who had been arrested the previous July. There they remained until their trial in 2005. Found guilty, they were each sentenced to nine years in gaol (later reduced to eight).

Khodorkovsky's arrest was only the most spectacular aspect of a concerted government campaign against Yukos that continued until the company was destroyed in December 2004. The Russian authorities let it be known that all large private companies were under scrutiny and it was even hinted that the privatisation process that brought those companies into existence might itself be reviewed.

The ironic thing about the persecution of Khodorkovsky and his company by the state was that it was the state that had originally brought him, and those like him, into existence.

In the twilight years of the Soviet Union, the Gorbachev regime launched a number of desperate schemes to steer the economy away from the abyss into which it was heading. One of these was a series of controlled forays into the market economy. The Soviet experience under Gorbachev had shown that, no matter how much the economy was modernised, or how much technology was grafted onto it, or how much it was shifted from military to consumer spending—while it remained under state control, it would not produce the efficiencies or the intensive growth that free markets seemed to generate. The Soviet system was designed to produce administrators, not entrepreneurs. A solution might be—on a small scale and in a quite unofficial way—to manufacture some. At the top of the Soviet elite, this was seen as a controlled experiment in defence of the overall system. Further down, the motives may have been more venal. In

fact, opinion is divided to this day as to which was the more important motive. Some argue that it was a genuine attempt to start controlled pockets of capitalism. Others contend that it resulted from the Soviet elite preparing their (and Russia's) exit from "socialism"—swapping Party power for private property.<sup>1</sup> The scheme may well have been transformed in some cases from the former to the latter as the situation became more desperate. Either way, "controlled" Soviet capitalism was soon out of the control of its Soviet sponsors.<sup>2</sup>

The official communist youth organisation, the Komsomol, because it theoretically contained the Soviet Union's best and brightest, was chosen by the reformers as a suitable testing ground for the experiment. By the late Soviet period, the organisation was in the doldrums. Moscow had stopped enforcing binding enrolment targets and membership numbers had plummeted. The departing members took their dues with them and therefore the Komsomol bureaucracy had to find other ways of making money. The fact that local Komsomol units had been made "self-financing" (allowed to manage their own money) in 1987, plus the discreet green light from elements of the Soviet leadership practically drove the remaining young Komsomol enthusiasts into business. Small enterprises in commercial and technical services, travel and youth employment emerged under Komsomol auspices. These were soon followed by cafes, discos and the establishment of "Centres for Scientific-Technical Creativity of Youth" (NTTMs).<sup>3</sup> By 1991, four thousand successful enterprises were operating under Komsomol auspices.<sup>4</sup> Some of the erstwhile *komsomoletsy* had shrugged off those auspices and moved on to bigger ventures.

Such a one was Mikhail Khodorkovsky, who had been deputy chief of the Komsomol at the Mendelev Institute of Chemical Technology in Moscow. In 1987 he set up an NTTM in the Institute. But after that he moved very rapidly out of the Komsomol orbit and into huge business operations that revolved around buying up state credits and turning them into hard currency. He established his own bank, Bank Menatep, in late 1988.

Other emerging businessmen came from other backgrounds. Boris Berezovsky came from the Soviet scientific elite. Aleksandr Smolensky worked in the Moscow construction industry. They were not the *nomenklatura* of the Soviet state moving smoothly from a position of power based on the Party to one based on property. They were people

who, being at the right place at the right time, were able to take advantage of the Soviet economy's cautious openings to the market and move considerably beyond them.

After the Soviet collapse, they were helped in their endeavours by the active encouragement of the post-Soviet Yeltsin administration. There was, at this time, a general sense of urgency about transferring state-owned assets into private hands, since it was believed that such a transfer would constitute a guarantee against a revival of the communist system. Privatisation of the economy proceeded along two tracks. For the corner shops, obsolete factories, small workshops and food retail outlets, it was a fairly transparent process. All citizens were issued with privatisation "vouchers" (worth 10,000 rubles) that they could use to buy shares in privatised businesses at privatisation auctions. For the big, viable and profitable assets (mostly in the natural resource area) however, it was a different story. Deals were done between the government and emerging businessmen (especially those lucky enough to have set up banks) and the assets were "sold" quickly, quietly and efficiently – at a fraction of their real value.

Some fifteen major businessmen, or "oligarchs", had emerged, mainly in the financial sector. Between 1995 and 1998, their power—both economic and political—rose steadily.

As their power increased, that of the Russian state declined. The decline had begun in the twilight years of the Soviet regime as the republics and regions asserted their autonomy, tax revenues dwindled and disorder spilled into the streets. The coercive elements of the state (including the armed forces and the KGB) found themselves short of funds and recruits.<sup>5</sup> In the post-Soviet era, the Russian state faltered as it attempted to face the full blast of world market forces let loose upon the economy and still retain some kind of political authority. The oligarchs recruited their own security forces and went to war with each other, while the state looked helplessly on. Furthermore, the attempt to integrate the economy into the world market lessened the state's ability to control the economy. Reaction against the centralised Soviet model gave rise to a suspicion of state activities in general. And regional interests continued to assert themselves—interests that had been encouraged by the leaders of the Russian republic as a weapon in their struggle against the Soviet Union.

For perhaps the first time since Ivan IV, the Russian state was critically weakened. In order to achieve the only kind of stability that was possible in the 1990s, the state became dependent on the oligarchs.

That dependence was illustrated by the “loans-for-shares” scheme in mid-1995. By this stage, the state was facing an acute revenue crisis. The “voucher” stage of privatisation had been completed in a ramshackle sort of way. This left the state still holding substantial economic assets. The Yeltsin team decided that the oligarchs should be invited to lend the government a large sum of money (in the end about US\$2 billion). Security for the loan would be major shareholdings in leading industrial companies. If (as seemed very likely) the government defaulted on the loans, the oligarchs would be allowed to sell the shares-to themselves, at cut-price rates. They would then have gained control of important industrial assets at a significant discount. The deal was made even more alluring to capital by allowing the oligarchs’ banks that held the shares to organise the eventual share auctions, eliminating bids that competed with their own. Bids from foreign investors were ruled out from the start. The scheme was approved by presidential decree at the end of August 1995.<sup>6</sup> It was through this scheme that Khodorkovsky took control of Yukos. Bank Menatep made its contribution to Yeltsin’s administration, held the shares, organised the auction, refused other bids and accepted its own-which was not the highest.

Kryshtanovskaya & White argue that loans-for-shares was “a Rubicon separating two stages in the formation of the business elite.” Up to then, the oligarchs exercised great political influence but, as financiers, played no great role in the real economy. Once the scheme had gone through, they disposed of real economic power-which strengthened them in relation to the state.<sup>7</sup>

By 1996 however, that power was under threat-not from the state, but from the Russian people. Bitterly disappointed by the results of the Soviet collapse, they approached the presidential elections in that year in vengeful mood. It seemed entirely possible that Yeltsin would be defeated by Gennadi Zyuganov, the Communist Party candidate. The interests of Yeltsin’s administration and capital converged. The new Russian state could not countenance relinquishing power to a man and a party widely seen as representative of the old Soviet order (even in a much-diluted form). The oligarchs genuinely feared that a Communist Party victory would result in the loss of their assets through renationalisation-and would

certainly bring to a halt the unfinished business of loans-for-shares. In spring 1996, Yeltsin met five of the oligarchs (Berezovsky, Gusinsky, Khodorkovsky, Potanin and Fridman). “The Communists will hang us from the lampposts,” they told him. It was agreed that Russian business would swing its considerable resources and expertise behind Yeltsin’s campaign.<sup>8</sup>

Yeltsin eventually won the election. Berezovsky pointed out:

It is no secret that Russian businessmen played the decisive role in President Yeltsin’s victory. It was a battle for our blood interests.<sup>9</sup>

The oligarchs were now at the height of their power. Politically dominant and economically robust, they towered over a weakened state and its ailing leader. Yeltsin wrote later that the election had transformed “financial capital” into “political capital”. The oligarchs then “tried to run the country behind the backs of the politicians.” Their influence on government and society had become harmful.<sup>10</sup> Nevertheless, the government seemed unable to reassert its authority. As late as the summer of 1998, the prime minister (Sergei Kiriyenko) was meeting with “major Russian businessmen” and appealing for help.<sup>11</sup>

Had the Russian bourgeoisie remained primarily as financiers, the August 1998 financial crisis (in which Russia defaulted on her international debts) could have severely weakened it. A number of the original oligarchs were eliminated. But those with strength in the real economy survived. In fact, “the role of major businessmen in society tended to increase still further.”<sup>12</sup> That group continued to include Mikhail Khodorkovsky.

The Russian capitalists now felt pressure from another source. The real economy which they had entered revolved largely around natural resources. The big money was in exports and therefore the new Russian bourgeoisie had to engage with the world market. The world market demanded law, regulation, commercial competition and transparency.<sup>13</sup>

Khodorkovsky and Yukos were in the vanguard responding to this pressure. Yukos’ Deputy Director of Corporate Finance (Sergei Drobizhev) said in March 2001:

We realised in the winter of 1999-2000 that unless we took specific steps to address the market’s concern about our corporate governance, our stock would continue to be punished. At this point, we set out to create a true

global public company with full transparency and western-style investor relations.<sup>14</sup>

To that end, the Yukos Board of Directors passed a resolution on “Good Corporate Governance” in June 2000. The company adopted international accounting standards, started issuing three-monthly financial statements, paid dividends to its share-holders and brought a whole team of foreign directors onto its supervisory board.

Yukos negotiated a merger with the Sibneft oil company which would have been the largest deal in Russian corporate history and would have created one of the biggest oil companies in the world. The company was also involved in joint-venture negotiations with the US firms ExxonMobil and Chevron-Texas.<sup>15</sup>

Khodorkovsky and other Russian business leaders wanted to be able to take independent economic decisions, based on the criterion of profit rather than the strategic interests of the state. He attacked state interference in the economy-especially its monopoly over oil pipelines and their routes, as well as the preservation of state control of the Gazprom and Rosneft companies.<sup>16</sup> He called for more democracy-a parliamentary instead of a presidential republic. To that end, he donated funds to the liberal Yabloko party and to the Union of Right Forces, crossing the dangerous line into active political involvement. He announced that he would quit business at the age of forty five to pursue “other interests”.

As if in preparation for this, Khodorkovsky took various initiatives that could be seen as an attempt to speed up the development of civil society in Russia. He established Internet centres in schools, took over the Moscow State Humanities University, supported the New Civilisation youth organisation and established the Open Russia charity foundation.<sup>17</sup>

None of this was simply altruism. Khodorkovsky said in an interview in June 2002:

Of course to some extent our struggle for business ethics is of a mercenary character. Yes, we do profit from that ... I will repeat though that today in general the whole society benefits from our position.<sup>18</sup>

Khodorkovsky’s policies in Yukos demonstrated what Russian business had to do in order to pursue capitalist objectives. They also put the advanced elements of the bourgeoisie on a collision course with the state.

Though briskly transformed, radically weakened and a shadow of its former Soviet self, the Russian state was by no means down and out. The historic need for a strong state in Russia had not been swept aside by the excesses of untrammelled capitalism. Questions of internal order, social stability, border protection and defence parity forced the state to reassert its central position in Russian society-and in so doing to push back the power of capital.

The state saw its chance after the financial crisis of 1998. It was widely expected that the oligarchs would be badly damaged by the financial collapse.<sup>19</sup> The Russian government unleashed a number of official investigations into the oligarchs' dealings.<sup>20</sup> Yeltsin wrote later that, by early 1999:

A new era was emerging in Russia, the era of economic repression when economic regulations were used to intimidate and control people. It had begun gradually, unnoticed. But now it was already acquiring the status of a state ideology.<sup>21</sup>

But the process gained momentum with the arrival of Yeltsin's successor. Vladimir Putin was an ex-KGB officer and a former (pre- and post-Soviet) administrator in St Petersburg. He became prime minister in 1999 and took over from Yeltsin as president at the beginning of 2000. With his background and outlook, he was a promising candidate to restore state power.<sup>22</sup>

Putin represented the sections of the Soviet state that had lost out in its collapse and the subsequent redistribution-the KGB (which had considered itself not only the guardian but also the elite of the Soviet system), members of other Soviet security services, as well as serving and retired personnel from the upper ranks of the armed forces. These people were known as *siloviki*-those from the *silovye struktury*, the "force structures".<sup>23</sup> Over the next few years, he and his supporters installed *siloviki* into positions of power. Kryshtanovskaya and White argue that Putin was determined "to place the tasks of national government within a military-security framework", and that he used the *siloviki* to do it. Furthermore:

... a change in quantity must necessarily lead to a change in quality. In this respect the authoritarian methods that are inherent in military structures might be transferred to society as a whole.<sup>24</sup>

At the centre of the project was a strong and centralised state. That state should reassert its interests in the economy, if necessary taking control of its “strategic” elements. Society should serve the state; elements unwilling to do so should be curbed. All this was necessary to raise Russia up once again as a Great Power in Europe.<sup>25</sup> The new president, asked in September 2003 about democracy, replied: “If by democracy one means the dissolution of the state, then we do not need such democracy.”<sup>26</sup> A *Kommersant* editorial commented later, “The new system ... is designed to revive the state’s domination in all spheres of life”.<sup>27</sup>

Conflict with the bourgeoisie was inevitable. The Putin administration was clearly keen to take strategic sectors of the economy back under the state’s protective (and directive) wing. Russian mineral resources should belong to Russian companies, said its Minister of Natural Resources, Yuri Trutnev. “I would not mind if a certain number of our companies returned to the bosom of the state. This would be a normal patriotic move.”<sup>28</sup> Putin himself lectured the Federal Assembly in April 2005 on the need for state control over “certain infrastructure facilities and companies in the defence and mineral extraction business that have strategic importance for the country’s future.”<sup>29</sup>

Business, on the other hand had quite a different view of where the “national interest” lay—and it was primarily with them. Berezovsky had said in December 1996 (just after Yeltsin’s re-election):

I think that if something is advantageous to capital, it goes without saying that it is advantageous to the nation.<sup>30</sup>

Just before his arrest, Khodorkovsky declared “It’s clear that a politician and a businessman have completely different purposes.” The state, he said, wants to reproduce and spread its power, while business (and the people) want “a highly effective economy.”<sup>31</sup>

With an acute sense of this difference, Putin went into action against business shortly after assuming power. A series of police investigations into Russian companies began: tax evasion at Lukoil and Sibneft; privatisation irregularities at Norilsk Nickel; illegal share sales to foreigners at Unified Energy Systems. Valdimir Gusinsky’s media empire (sections of which ran critical coverage of the administration) was taken apart. Berezovsky felt himself to be next in line and fled the country.<sup>32</sup> Putin stated in March 2000 that “those people who fuse, or help [the] fusion of power and capital-oligarchs of that kind will not exist as a



class.”<sup>33</sup> He met with representatives of business on 29 July 2000 for over two hours. The press release issued afterwards began reassuringly:

The President said that the authorities would not review the outcome of privatizations. At the same time, it was unacceptable for competing companies to use state structures and law enforcement agencies to achieve their goals.<sup>34</sup>

Thus business was warned to keep away from the structures of the state, including its political structures—a warning that Khodorkovsky, in the pursuit of his business interests, felt forced to ignore. His arrest, as a demonstration of the resurgent power of the state, was almost inevitable.

From this brief introduction, three themes emerge.

Firstly, the continual reappearance of a strong state in Russia. In the late twentieth century, the Soviet state was brought down. It was geographically and administratively shattered. Yet a mere ten years later, the state re-emerged with enough force to make Russia’s mighty business empires tremble and to subordinate the seemingly anarchic political process to itself. This book concentrates on the overthrow of the pre-Soviet state, the Tsarist autocracy. That was replaced first by republican and then by Soviet government. Yet both of these carried within them the seeds of the strong state, which emerged in a virulent Soviet form over the next few years. The strong state in Russia then seems to march on, even when its outward forms are destroyed.

Secondly, the state summoning up its own nemesis, in the shape of the bourgeoisie. In the 1980s and 1990s, the Russian bourgeoisie emerged in the interstices of the Soviet system, called into being, sometimes by the opportunities afforded by *perestroika*, sometimes directly by Soviet officials. It was at first a reluctant and then a desperate attempt to unleash forces that might help preserve the existing power structure. In the mid to late nineteenth century, the Tsarist regime needed industrial development to fulfil its military obligations as a great power in Europe. Incapable of the initiative and zeal needed for industrial advance itself, it was forced to allow the development of a bourgeoisie. In both cases the state was aware that in helping to create a bourgeoisie, it was creating a potential rival to itself.

Thirdly, the inevitability of conflict between the bourgeoisie and the state. In late Soviet times, the bourgeoisie had to fight to exist. After the

collapse, it aggressively pushed back state power in order to strengthen itself. When the state put business back in its place, elements of the bourgeoisie could not just accept a new subservience-to survive and grow, future challenges to state power were and are inevitable.<sup>35</sup> In the nineteenth century, every advance of the bourgeoisie meant a step back for the autocracy-until it could step back no further. The conflict ended in the destruction of the autocracy-but then the emergence of a new state and the destruction of the bourgeoisie.

These themes lead to a number of questions:

Why does the strong state keep coming back, regardless of the changes in economy and society?

Why, in apparent defiance of its own security, does the state sanction actions that create a bourgeoisie?

Why does the bourgeoisie, similarly reckless for its own safety, feel forced into conflict with the state?

In the following pages, I shall attempt to examine the themes and answer the questions using a particular set of theoretical tools that will be explained in the first chapter.

This is not a work of archival discovery. Most of the inner workings of Russia's great bourgeois families were thrown open for inspection by a Soviet government only too willing to expose their inner secrets to the light of day. It is a work of reinterpretation which seeks to put forward an alternative view of events before and after 1917. The first chapter explores the nature of the bourgeois revolution and that of the state. Chapters Two and Three consider the crises of the Russo-Japanese War and the 1905 revolution and their effect on the bourgeoisie: a major reconsideration by the progressive bourgeoisie of the bourgeois revolution in Russia and how it might be achieved. Chapter Four examines the effects of the Great War, which both strengthened state power and gave birth to the Provisional Government-a new state that had been formed within the shell of the old. Chapter Six details the final demise of the bourgeoisie when confronted with Soviet power. The last chapter reinserts the Russian events into the European history of the period and outlines the effect on the bourgeois revolution in Europe and the world.

## Notes

<sup>1</sup> For the former view, see D.E. Hoffman, *The Oligarchs: Wealth and Power in the New Russia* (New York: Public Affairs, 2002), 100, 104; for the latter O. Kryshatanovskaya, & S. White, "The rise of the Russian business elite." *Communist and Post-Communist Studies* 38, 3 (September 2005): 296; C. Belton, "Khodorkovsky's High Stakes Gamble." *Moscow Times*, 16 May 2005; P. Klebnikov, *Godfather of the Kremlin: Boris Berezovsky and the Looting of Russia* (New York: Harcourt, 2000), 75.

<sup>2</sup> See Anton Surikov's comments in Belton, "High Stakes," *Moscow Times*, 16 May 2005. As Fortescue points out, if the scheme was designed to create a front for continuing *nomenklatura* power, "then it would appear that the front men did the dirty on their patrons and sponsors ... there is no evidence that they [the *nomenklatura*] have or ever had real power behind the scenes." S. Fortescue, *Russia's Oil Barons and Metal Magnates: Oligarchs and the State in Transition* (Houndmills: Palgrave, 2006), 36.

<sup>3</sup> S.L. Solnick, *Stealing the State: control and collapse in Soviet institutions* (Cambridge, Mass.: Harvard University Press, 1998), 111-115; Hoffman, *Oligarchs*, 104-5. For a contemporary official view of the NTTMs see T. Vasil'eva, *Soviet Youth: Creativity and Initiative*, (Moscow: Novosti Press, 1988), who tells us that "they enable young people to find an outlet for their creative ambitions." (n.p.)

<sup>4</sup> Solick, *Stealing the State*, 116.

<sup>5</sup> O. Kryshatanovskaya, & S. White. "Putin's Milotocracy," *Post-Soviet Affairs* 19, 4 (October-December 2003):290.

<sup>6</sup> M.S. Salter, & J.N. Rosenbaum, *Field Study: OAO Yukos Oil Company* (Harvard: Harvard Business Publishing, 2001), 4-5. See also Hoffman, *Oligarchs*, chapter 12; Klebnikov, *Godfather*, 200.

<sup>7</sup> Kryshatanovskaya & White, *Russian business elite*, 297.

<sup>8</sup> In his account of this meeting, Yeltsin is at pains to assure the reader that this was "my first-ever meeting with representatives of the major banks and media groups" and that "The meeting took place at their initiative." B.N. Yeltsin, *Midnight Diaries*, trans. C.A. Fitzpatrick (New York: Public Affairs, 2000), 20-21.

<sup>9</sup> Interview with Berezovsky, n.d. in Klebnikov, *Godfather*, 218.

<sup>10</sup> Yeltsin, *Midnight Diaries*, 91-94.

<sup>11</sup> "At this meeting they agreed to form a sort of economic council attached to the government in which all the heads of the major banks and companies would participate." Yeltsin, *Midnight Diaries*, 172.

<sup>12</sup> Kryshatanovskaya & White, *Russian business elite*, 302. See also Fortescue, *Oil Barons*, 9.

<sup>13</sup> Salter & Rosenbaum tell us that "for equity analysts covering Russian stocks, the quality of a company's corporate governance was a top priority." So the burning question facing companies like Yukos was: "what additional corporate governance measures needed to be taken in order to receive a higher valuation by the capital market?" (Salter & Rosenbaum, *Yukos Oil Company*, 1-2.

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<sup>14</sup> Interview with Drobizhev, 6 March 2001 in Salter & Rosenbaum, Yukos Oil Company, 9. See also Khodorkovsky's comment on the same page.

<sup>15</sup> A. Jack, *Inside Putin's Russia* (London: Granta Books, 2004), 209-212.

<sup>16</sup> C. Belton, "The Friends and Foes of a Rising Oilman." *Moscow Times*, 27 May 2005.

<sup>17</sup> Andrew Jack, *Inside Putin's Russia*, 213-214.

<sup>18</sup> Natalya Gevorkyan, "Mikhail Khodorkovskii: Rokfelleru bylo namnogo tyazhelee", *Kommersant*, 1 June 2005, [www.kommersant.ru/doc.html?docId=582013](http://www.kommersant.ru/doc.html?docId=582013).

<sup>19</sup> Fortescue, *Oil Barons*, 9.

<sup>20</sup> Andrew Jack, *Inside Putin's Russia*, 176.

<sup>21</sup> Yeltsin, *Midnight Diaries*, 231. Yeltsin writes very much as though this offensive was entirely beyond his control. He cheerfully admits that under Russian law, prosecutors could issue a warrant for the arrest of any businessman "as long as there is the political need to do so." By spring 1999, as arrests, searches and confiscations involved an increasing number of banks and companies, "the Russian business community was seized with a fear of people in uniform." (*Midnight Diaries*, 232.)

<sup>22</sup> To that end, it certainly strengthened Putin's position—and may well have been no accident—that his rise took place against the background of the Moscow apartment bombings in September 1999, allegedly the work of "Chechen terrorists".

<sup>23</sup> For definitions, see I. Bremmer & S. Charap, "The *Siloviki* in Putin's Russia: Who They Are and What They Want," *Washington Quarterly* 30, 1 (Winter 2006-07): 86; S.W. Rivera, & D.W. Rivera, "The Russian Elite under Putin: Militocratic or Bourgeois?" *Post-Soviet Affairs* 22 (2) (2006): 126.

<sup>24</sup> Kryshtanovskaya & White argue that this process was not just "a few generals" moving into politics, but "a wholesale migration" of *siloviki* into various elite groups (O. Kryshtanovskaya & S. White. "Putin's Milotocracy," *Post-Soviet Affairs* 19, 4 (October-December 2003): 303). For contrary views on *siloviki* influence see B. Renz, "Putin's Milotocracy? An Alternative Interpretation of *Siloviki* in Contemporary Russian Politics," *Europe-Asia Studies* 58, 6 (September 2006); Rivera & Rivera, *Elite under Putin*.

<sup>25</sup> See Bremmer & Charap, *Siloviki*, 89; Kryshtanovskaya, O. & S. White, "Inside the Putin Court: A Research Note," *Europe-Asia Studies* 57, 7 (November 2005): 1073.

<sup>26</sup> Quoted in Peter Baker & Susan B. Glasser, "Putin Foes see Erosion of Liberties," *Washington Post*, 26 September 2003, AO1.

<sup>27</sup> Kirill Rogov, "My nash, my staryi, my postroim," *Kommersant*, 30 December 2005, [www.kommersant.ru/doc.html?docId=639687](http://www.kommersant.ru/doc.html?docId=639687).

<sup>28</sup> Trutnev quoted by Irina Rybal'chenko, "My shutkami na rabote ne zanimaemsa," *Vlast* 21 February 2005, [www.kommersant.ru/doc.html?docId=548960](http://www.kommersant.ru/doc.html?docId=548960). See also *Den'gi*, number 9, 7 March 2005.

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<sup>29</sup> Nikolai Vardul' & Dmitrii Kamyshev, "Op-pozitsiya," *Kommersant*, 26 April 2005, [www.kommersant.ru/doc.html?docId=573453](http://www.kommersant.ru/doc.html?docId=573453).

<sup>30</sup> Interview with Berezovsky in December 1996 in Hoffman, *Oligarchs*, 360. He had said a year earlier: "All over the world, government helps business. More than that, capital controls the government, though here in Russia that is still ahead." (Interview in *Kommersant*', 5 October 1995 in Klebnikov, *Godfather*, 195.

<sup>31</sup> Mikhail Khodorkovsky, "The Rich are Duty Bound to Fight," *Moskovskie Novosti* 2 July 2004, [www.khodorkovsky-info/docs/mn\\_7-2-04.pdf](http://www.khodorkovsky-info/docs/mn_7-2-04.pdf).

<sup>32</sup> Andrew Jack, *Inside Putin's Russia*, 191.

<sup>33</sup> In *Current Digest of the Post-Soviet Press*, volume 52, number 12, 7.

<sup>34</sup> Andrew Jack, *Inside Putin's Russia*, 193.

<sup>35</sup> On the possibility of capital rising again, see Rivera & Rivera, *Elite under Putin*, 130-131, 141; Kryshatanovskaya & White, *Russian Business Elite*, 306.



# CHAPTER ONE

## THE RUSSIAN REVOLUTION AND THE RUSSIAN BOURGEOISIE

This book examines the history of late Tsarist Russia, culminating in the revolutions of 1917. It uses the analytical tools provided by orthodox Marxism—the Marxism of Marx and Engels, of Karl Kautsky, Georgi Plekhanov and the Russian Mensheviks.

The book is based on an orthodox version of historical materialism. It proceeds from the assumption that the level of development of the productive forces provides the basis for the existence of a particular set of production relations (the economic structure), which in turn gives rise to a legal and political superstructure.<sup>1</sup> The economic structure exists *because* it has the ability to advance productive power—that is, to promote the tendency of the productive forces to develop. On the relationship between forces and relations of production, Marx wrote that “At a certain stage of development, the material productive forces of society come into conflict with the existing relations of production ...”. The latter restrict (or “fetter”) the development of the former.<sup>2</sup> Historical advance then, is a continuing process of productive force development, production relation fettering, and eventual change in the latter forced through by the former. This kind of change affects the nature of social classes and their relationship to each other. Specifically, it affects which class will be dominant within a set of production relations.

Why then is this a book about the Russian bourgeoisie? And in what sense was the Russian revolution ‘bourgeois’?

Marxists long assumed that capitalism proper—mature, market (rather than state) dominated capitalism—is manifested, led and shaped by the bourgeoisie. In *The Communist Manifesto*, Marx and Engels go to some lengths to demonstrate that, following the destruction of feudalism, it was

the bourgeoisie that (eventually) created new relations of production, after the old ones had been cast aside by the developing productive forces.<sup>3</sup>

However, the development of the forces of production cannot arrange the elements of the future economic structure in advance. Its forward movement can destroy the relations of production that stood in its way, but as a blind, unconscious force, it cannot ensure that the elements it unleashes are necessarily those that can (in an immediate sense) create new relations of production, conducive to further development.

Creation is the realm of the conscious—of classes and class struggle. It may not immediately proceed from the act of destruction. The destruction of dysfunctional production relations may not simultaneously produce a class that can create new ones. While the basic economic ground may have been laid in the old society for the emergence of a new class—up to and including the destruction of the old production relations—it may not fully emerge before a rather messy transition period. The historical experience of the emergence of the bourgeoisie is a case in point.

A study of bourgeois revolutions before the one in Russia, of both the “classical” variety (England, America, France) and those “from above” (German and Italian unification, the Meiji Restoration)<sup>4</sup> reveals three things. Firstly, the foundations of the bourgeois revolution and for a capitalist economy were not laid by the bourgeoisie itself. In fact, it may have been the case that prior to the revolution a bourgeoisie proper does not exist at all. Secondly, bourgeois revolutions were not made—led or fought for—directly by the bourgeoisie. And thirdly, it followed from these two points that a victorious bourgeois revolution may not immediately result in a society dominated by the bourgeoisie. Let us examine these features more closely.

The conditions for the bourgeois revolutions in Europe were generally created by states in pursuit of military advantage, unaware of what they were creating.<sup>5</sup> The emergence of the first shoots of capitalism was a by-product of the need of states “to maximise both their military investments and the efficiency of these investments”.<sup>6</sup> Engels argues that in late fifteenth century Europe, far from the putative bourgeoisie putting in the essential groundwork, it was the centralising monarchies (with urban support) that broke the power of the feudal nobility and established national states “within which ... modern bourgeois society came to development ...”.<sup>7</sup> At the time of the English revolution, a capitalist class



was only just beginning to emerge from the bigger farmers (who produced for the market) and the greater craftsmen (who employed wage labour).<sup>8</sup> That class had a long way to go, even after 1640 and 1688. Engels believed that it was not until the Industrial Revolution that “a class of large manufacturing capitalists” was created.<sup>9</sup>

Bourgeois revolutions were not the work of the bourgeoisie, in terms of either leadership or foot-soldiery.<sup>10</sup> It has been suggested that this has been because of the fractured nature of the bourgeois class, and because bourgeois revolutions are *political* transformations which establish production relations conducive to capitalist development and therefore do not necessitate “the self conscious action of the capitalist class.”<sup>11</sup> One of the earliest observers of the French Revolution, Edmund Burke, asserted that it was the work of “moneyed men, merchants, principal tradesmen and men of letters”.<sup>12</sup> From what we know of the leadership of the revolution, only the last category would seem to be justified. While the revolutionary stage was occupied by the Jacobin and Cordelier petit-bourgeoisie on the one hand, and the sans-culottes on the other, the moneyed men and merchants adopted a relatively low profile. A more recent historian, Lynn Hunt, nevertheless supports Burke’s contention. The revolutionary officials, she says, were “the owners of the means of production”: merchants, professionals, artisans and landed peasants.<sup>13</sup> For our purpose (the question of actual bourgeois leadership), only merchants matter here; the other groups are only potentially bourgeois at most. But Hunt’s own study reveals that merchants, at the national level of leadership, were a declining force—declining more rapidly as the revolution’s radical petit-bourgeois leaders stormed ahead.<sup>14</sup>

As for those who made bourgeois revolutions in a physical sense, the bourgeoisie itself had again been noteworthy for its absence. In the English Revolution, Engels says, “The middle class of the towns brought it on, and the yeomanry of the country districts fought it out.”<sup>15</sup> This divergence between those who (eventually) benefited from the revolution and those who did its work led to what Callinicos calls “a gap between the intentions of the revolutionary actors and the objective consequences of their struggles.”<sup>16</sup> That gap was evident in both the urban and rural settings of the English Revolution. Christopher Hill tells us that the rank and file of the New Model Army and the Levellers were “far indeed ... from fighting to make a world safe for capitalist firms and merchants to make profits in”, and that they protested vociferously “when they realised that such a world was in fact coming into existence.”<sup>17</sup>

Not only was the bourgeoisie not fully formed before the bourgeois revolution, and not in its vanguard, it may not emerge immediately in its wake. It had taken the bourgeoisie a considerable historical period to develop. For Marx and Engels, it was “the product of a long course of development, of a series of revolutions in the modes of production and of exchange.”<sup>18</sup> In the English Revolution, according to Manning, the emerging bourgeoisie was not strong enough to assume power. When the old order was overthrown, it could only be replaced by military rule.<sup>19</sup> Engels describes “the long fight of the bourgeoisie against feudalism” in Britain as proceeding from the Reformation, through Calvinism and the English Revolution, encompassing the ‘Glorious Revolution’, inspired by the French Revolution, right up to the 1832 Reform Act—a period of some three hundred years.<sup>20</sup>

Bourgeois revolutions then, were not dependent on the existence of a fully formed bourgeoisie; they were not made by the bourgeoisie; and generally they did not present the bourgeoisie with (anything like) exclusive power. They were “not ... revolutions consciously made by capitalists, but ... revolutions which promote capitalism.”<sup>21</sup>

So if, in late nineteenth century Russia, an embryonic bourgeoisie was only just beginning to emerge, if it were only dimly conscious of itself as a class and if it showed no interest in political rule—we would still, in Marxist terms, be justified in discussing a “bourgeois revolution” in Russia. But by the late nineteenth century, Russia had moved beyond such qualifications. As this book will seek to show, Russia had a bourgeoisie that was prepared to move against the fetters of Tsarism—and elements of that bourgeoisie were acutely conscious of their role in future Russian development.

## **Marxism and Russia**

Until the First World War, Marxists were generally agreed that the coming revolution in Russia would be one in which the productive forces (which needed capitalist production relations in order to advance further) would come into conflict with the Tsarist economic structure. Tsarism would be destroyed and Russian capitalism would be created. In other words, it would be a *bourgeois* revolution. Such an analysis had an impeccable Marxist pedigree.

Marx argued that, for a social order to be destroyed (for the production relations to be changed), the level of development of the productive forces which had brought it into being had to be prevented, by that social order, from rising any higher. The future production relations ‘matured within the framework of the old society.’<sup>22</sup> Thus “the means of production and exchange, on whose foundations the bourgeoisie built itself up, were generated in feudal society.”<sup>23</sup> If the production relations are to continue to develop, a capitalist economic structure is necessary: “free competition, accompanied by a social and political constitution adapted to it, and the economic and political sway of the bourgeois class”.<sup>24</sup> Capitalism requires a certain level of development of the productive forces to come into existence.<sup>25</sup> Marx therefore listed the “modern bourgeois mode of production” following feudalism in his broad outline of “epochs marking progress in the economic development of society.”<sup>26</sup>

The level of development of the productive forces is sufficient to sustain a particular kind of economic structure. The latter is dependent on the former. The productive forces of late Tsarist Russia had developed to the point where they strained against the economic structure. For further development, capitalism was required—it could not be avoided. Society, wrote Marx in 1867, “can neither clear by bold leaps, nor remove by legal enactments the obstacles offered by the successive phases of its normal development.”<sup>27</sup> Engels tells us, with Russia in mind:

... it is an historical impossibility that a lower stage of economic development should solve the enigmas and conflicts which did not arise, and could not arise until a far higher stage.<sup>28</sup>

Furthermore, an economic structure would not be removed “before all the productive forces for which it is sufficient have been developed.”<sup>29</sup> Feudalism had had to run its course before it could be replaced by capitalism. Likewise, capitalism has to develop the productive forces to a high level before socialism is possible.<sup>30</sup>

The productive forces that existed under feudalism *could not* develop to a level that would sustain socialism because the existing economic structure would restrain them from doing so. They could only develop to a level suitable for the beginnings of capitalism. Further development required a capitalist economic structure.

Attempts to “speed up” the historical process by the premature overthrow of capitalist production relations or the establishment of “socialist” ones

on an underdeveloped economic base were condemned by Marx and Engels as a departure from the premises of historical materialism. In 1850 they criticised their erstwhile comrades in the German Communist League for seeing the revolution “not as the product of the realities of the situation but as a result of an effort of *will*.”<sup>31</sup> They regarded it as fortunate that their “party” could not yet come to power, since “If ... the proletariat overthrows the political rule of the bourgeoisie, its victory will only be temporary, only an element in the service of the *bourgeois revolution* itself ...”.<sup>32</sup> Such a victory, Engels warned, could end in disaster:

The worst thing that can befall a leader of an extreme party is to be compelled to take over a government at a time when society is not yet ripe for the domination of the class he represents and for the measures which that domination implies ... he is compelled to represent not his party or his class, but the class for whose domination the movement is then ripe ... He who is put in this awkward position is irrevocably lost.<sup>33</sup>

On Russia, however, Marx and Engels were, at one stage, prepared to concede that, in a very specific set of historical circumstances, society might have a chance of avoiding “all the vicissitudes of the capitalist regime.”<sup>34</sup> This was due to the survival of common property in the Russian countryside. The likelihood of such an escape depended partly on events in Russia and partly on developments in Western Europe. It could only occur if the Tsarist regime discontinued its programme of industrialisation—otherwise, as industry developed, communal property would weaken and eventually disappear. In the meantime, *only*:

If the Russian Revolution becomes the signal for a proletarian revolution in the West, so that both complement each other, the present Russian common ownership of land may serve as the starting point for a communist development.<sup>35</sup>

By 1894, in his “Afterword (On Social Relations in Russia)”, Engels was prepared to rule the possibility out. Russia could not skip capitalism and “convert Russian peasant communism straight into modern socialist common ownership of the means of production”. Nor could it appropriate the productive forces of capitalism “as social property and a socialist tool” before capitalism was established. Rapid industrial development was bringing about the disintegration of communal property: “To lament this fact is now futile.”<sup>36</sup>

Marx and Engels' most able pupil in Russia, Georgi Plekhanov, starting out from the same premises, went into political battle with the Socialist Revolutionaries (SRs)—those who had raised the question of Russia sliding past capitalism—in the late 1890s. “What does the future hold out for Russia?” he asked:

It seemed to us that first and foremost it held out the triumph of the bourgeoisie and the beginning of the political and economic emancipation of the working class.<sup>37</sup>

The nature of the Tsarist regime necessitated capitalism and ruled out socialism. The overthrow of the regime and the establishment of socialism were, wrote Plekhanov, “fundamentally different matters”.<sup>38</sup> In addition, the Russian working class—let alone the peasantry—was not sufficiently conscious to achieve socialism at that stage.<sup>39</sup> Were the working class to “seize power”, a “disgraceful fiasco” would ensue. It would be confronted in short order by its inherent weaknesses, the hostility of the urban and rural bourgeoisie, popular resistance and Russia's own lack of development.<sup>40</sup>

At the 1903 Congress of the Russian Social Democratic Workers Party (the scene of the Menshevik/Bolshevik split) the bourgeois nature of the coming Russian revolution was so taken for granted that it was not even raised in discussion. The Party Programme (adopted in that year and unchanged until 1919) declared “as its immediate political task the overthrow of the tsarist autocracy and its replacement by a democratic republic.”<sup>41</sup>

Karl Kautsky, the foremost exponent of Marxism after the death of its two founders, took up the question of Russia during the 1905 revolution. The Russian revolution would not initiate a new mode of production—it would sweep away the political obstacles that prevented capitalism from attaining its full development. The most important thing that the revolution would yield up was “*democracy*, initially still on the basis of the present society.”<sup>42</sup> Kautsky argued that, in backward Russia, while the bourgeoisie was weak, the working class was very strong. The revolution against Tsarism therefore would be led by the urban working class. However, “the effects ... could only be bourgeois”—not least because of the huge peasantry, for which a bourgeois-democratic agrarian revolution was needed.<sup>43</sup>

Since the leadership of the bourgeois revolution fell to the working class, it might *temporarily* become the dominant social force. Such a situation should be used to establish as strong as possible a position for working class power within capitalism. The happiest result of a Russian revolution for Marxists, Kautsky believed, would be an extremely democratic political system and a functioning capitalist economy.<sup>44</sup>

Meanwhile, the Mensheviks, meeting in Geneva from April to May in 1905, reiterated the bourgeois nature of the Russian revolution and declared themselves against either sharing power with the bourgeoisie or seizing power themselves. They were to be a party of extreme revolutionary opposition in a capitalist democracy.<sup>45</sup> The Menshevik leader Pavel Axelrod told the (newly fused) Party Congress a year later that, since “Social relations in Russia have not yet matured beyond the point of bourgeois revolution”, it was not the Party’s task to overthrow the bourgeoisie in Russia, but to destroy the social and political system that prevented the bourgeois from becoming the dominant class. He concluded: “history impels workers and revolutionaries more and more strongly towards bourgeois revolutionism, making them involuntary political servants of the bourgeoisie ...”.<sup>46</sup>

I think then it is safe to assert that pre-1914 Marxists, on the basis of Marx’s method and through their own analysis, expected a bourgeois revolution in Russia which would both consolidate and develop a capitalist economy. I will leave the last word on this to Engels, writing in 1874, once again with Russia in mind:

The revolution that modern socialism strives to achieve ... requires not only a proletariat to carry [it] out ... but also a bourgeoisie in whose hands the social productive forces have developed so far that they permit the final destruction of class distinctions ... But the productive forces have reached this level of development only in the hands of the bourgeoisie. The bourgeoisie, therefore, in this respect also is just as necessary a precondition for the socialist revolution as is the proletariat itself.<sup>47</sup>

This book therefore concentrates in part on the political history of the Russian bourgeoisie in order to discover whether the expectations of that analysis could have been fulfilled. It will also focus on the relationship of the bourgeoisie to the Russian state. For although the Russian bourgeoisie played a major role in the bourgeois revolution, it will become evident that elements of the state played a part as well. The Tsarist state unwillingly