Chapter Two: Theoretical Aspects on Class and Capitalism

2.0 Introduction:
To understand the aspects of class and its various units within a society, many authors have contributed greatly towards this end. Some of their work aims purely to understand the nuances of class, while others have concentrated their efforts to understand its various units and their functioning within a given society. Here the research aims to understand the contemporary meaning of ‘class’, the ‘form of capitalism’ and ‘capitalist class’. However all this is done with the aim of examining the Russian capitalist class. This chapter therefore contains a detailed review of relevant theoretical and empirical literature. It will attempt to explain the theories and meanings of the terms involved. While examining the theories related to class, capitalist class under social stratification, we realize that no author has been able to achieve a final definition and analysis to these respective terms. However, their contributions contain grains of truth along with helpful insights. In short, the second chapter is a kind of reference to some of the key discourses on class and capitalist class.

2.1 Social Stratification:
‘To find the position of a man or a social phenomenon in social space,’ Sorokin (1959: 4) claimed was, ‘to define his or its relations to other men or other social phenomenon chosen as the “point of reference”.’ Social stratification or social ordering has found currency in almost all the societies. Traditionally, especially in pre-industrial societies, stratification was termed natural and divinely predetermined. The Hindu caste system in India has religious connotations with a rigorous ‘ascriptive system of ritual status’, thus differentiating castes on ‘ritual heredity bases’ (Smith, 1966[2005]: 166-167). The place of an individual depended upon his/her parent’s descent; the individual remained within the caste with thin chances of social mobility between castes. Hence, it is easier to define caste system and ones place within the same. Moreover, research in this area allows identifying the actual members belonging to the various groups within the caste system. Likewise, ascribed statuses are differentiated based on age, sex, and kinship. Much was the same with feudal Europe wherein an individual’s condition within the
stratified society, through religious and moral justifications, was determined by access to land (Crompton, 1998).

Movement of persons within a traditional society structure was restricted or the scope of mobility limited. However, during the industrial period and the consequent development that caught up, especially in the Western countries, led more to the mobility of people within the social structure. Second, 'new occupational roles and positions of leadership' (Smelser and Lipset, 1966[2005]: 2) were created and filled, giving rise to new classes or groups. Third, it also led to the urban movement. Fourth, this led to specialization of skills and learning of techniques. Most importantly, though radical or drastic changes are not to be expected, it has led to breaking of traditional class structures or closed societies.

Industrial revolution, which changed the dominant stage of capitalism, has broken down the traditional social rigidity within most of the European society. There is great social mobility as ones place in the society is no more restricted due to birth or descent, religiously defined hierarchies or access to land. Social mobility today depends on education, acquiring of requisite skills, specialization in various fields, aptitudes, talent, etc which allows for mobility within the social structure. In the twentieth and twenty-first centuries with most of the countries opening their economies, social mobility is taking place along with economic development, though at a slow pace in the developing countries. Within developing countries, mobility is higher in urban areas or metropolitan cities when compared to the rest of the country. However, it must be noted that ascribed statuses-age, gender, caste and race (with exception to very few tribal groups\(^8\) who have refused assimilation into the industrialized society or are ignorant about the industrial world)-still act as efficient barriers to social mobility despite industrialization within every country. Even the developed countries of North America, Europe, and Australia cannot claim they are free from racism.

\(^8\) There are some un-stratified systems especially in some societies in East Africa, among the Pygmies, Bushmen etc. Michael G. Smith (1966[2005]: 151) says that the Ituri Pygmies and Kung Bushmen 'are weakly differentiated that stratification is impossible'.
Every social system goes by certain social ordering. Every civilization—be it in the ancient, medieval or modern times—reorganizes its society in a particular pattern. Hence, societies are stratified based on caste, class, status, estates, income groups etc. However, to give a definition for social stratification or the basis for stratifying a society, which can remain constant during the course of research, is a tough and never-ending task. This is because every society has different basis and pattern of stratifying.

Sociologists agree to the fact that there is no clear theory on social stratification. Tom B. Bottomore says that 'social stratification', "may be used to refer to any hierarchical ordering of social groups or strata in a society; and sociologists have generally distinguished its principal forms as being those of caste, estate, social class, and status groups." (Bottomore, 1965: 15) Since the concerned research here is on the 'capitalist class', our occupation is only with the term 'class' and not caste, status or estate though they are intertwined in one way or the other. Hence, the focus would be on explaining the class dimension of social stratification.

Social stratification, to Sorokin, means 'the differentiation of a given population into hierarchically superposed classes.' (Sorokin, 1959: 11) Such stratification, he held, is a permanent characteristic of any organized social group. There are other concrete forms of stratification but within sociology economic, political and occupational stratification are important ones. Industrialization and the post-industrial period have largely replaced traditional ascribed statuses.

Smelser and Lipset (1966[2005]: 4) explain the meaning of social structure from development point of view as, 'organized bundles of human activities oriented to the directional tendencies of a social system.' Here by directional tendencies, they mean exigencies like the production, allocation, and consumption of scarce commodities; the coordination and control of the collective actions of the society as a whole or a collectivity within it; the creation, maintenance, and implementation of norms governing interaction among members in a system; the creation, maintenance, and transmission of the cultural values of a system; etc. In contributing to such functions, these structures utilize the resources of social systems.
The basic units of social structure are roles and social organization within which interactions happen in a social system. Smelser and Lipset ([1966]2005: 4) say that the important defining features of social structure is in which the ‘interaction is selective, regularized, and regulated by various social controls’ like values, norms and sanctions. When the elements of social structure—roles, collectivities, values, norms, sanctions, etc are combined into a single complex, then institutionalization takes place.

Today one of the dominant forms of social stratification is ‘class’. It has come to occupy an important place for academic consideration. This impetus was provided and provoked by Marx’s writings on class struggle and the exploitative nature of capitalism. Thence on many authors repeatedly have tried to understand the nuances of class and specify indicators to measure it. Class is one such grouping and mostly associated with market economy. The industrial society gave into new social structures, sometimes overlapping with the traditional structures. Hence here we will be examining the one of the dominant forms of social stratification – class.

A. On Class:
Sociologists have employed different strategies to investigate the class structure. Class structure can be examined as hierarchical or gradational structures. In addition, one can attempt to measure the societal ranking or worth of particular types of occupations within a society through indexes of occupational prestige or status. The most popular are the relational or theoretical class schemes like the Marxist class scheme of Erik Wright, and the neo-Weberian class scheme of John Goldthorpe (Crompton, 1998).

In order to conceptualize the capitalist class, a prior examination of the concept ‘class’ as such needs to be done. Under stratification, the concept of class seems to be amorphous and riddled with ambiguity unlike terms estate or caste (Bottomore, 1965). There is no single factor or a set of fixed factors to define class. It is difficult to come up with definite parameters by which class in any given society to be measured or defined. This problematic is expressed by Joseph Schumpeter (1953: 43) where he asserts that the class theory is beset by four sociological problems which are more scientific and sociological rather than philosophical or economic.
respectively. These four problems of class are its ‘nature’, ‘cohesion’, ‘formation’ and that the class problem is different from series of problems concerned with ‘concrete causes and conditions’ of an individual determined, historically given class structure.

However Schumpeter (1953: 45-46) makes some assumptions which are very true in present times i.e., that there is bound to be shifts in the family position within a class and class barriers are surmountable. Both the family position, the process by which the individual family crosses the barriers and the process by which the family content of the classes is formed and determined by the virtue of the same qualifications and modes of behavior. Therefore, the process is same. He says classes themselves rise and fall according to the nature and success with which the respective members fulfill their characteristic function and accordingly rise and fall in the social significance of this function. These circumstances, says Schumpeter, explains the evolution of individual families, the evolution of classes, and why social classes exist at all.

Concluding from these statements, Schumpeter says, the ultimate function on which the class phenomenon rests consists of individual differences in aptitude with respect to those functions that the environment makes ‘socially necessary’ at any given time. Class structure is the ranking of such individual families by their social value in accordance, ultimately, with their differing aptitudes. Entrenched positions, which constitute the class stratification of society, are attained or created by behavior, which in term is conditioned by differential aptitudes. However, Schumpeter’s explanation of class phenomenon relates to only one of the aspects of class and cannot explain all class situations. Despite the class problematic, class-consciousness enters into daily debates and common talk of an academician or a politician or a janitor so much so that one cannot ignore its importance. So far, indicators like occupation, income index, standard of living, status, prestige, power etc or a combination of these have been used to explain the concept of class. Sociologists in analyzing this concept by using a single factor have not rejected the relevance of other factors or parameters.

Author Crompton (1998:11) says that three different meanings of the class concept can be identified by over-simplifying: ‘Class’ as prestige, status, culture or ‘lifestyles’ (relating to the works of the early theorists on class like Weber, Marx, etc.); ‘Class’ as structures of inequality
related to the possession of economic and power resources (endorsed by the structuralfunctionalists); and ‘Classes’ as actual or potential social and political actors (dealt by conflict theorists).

(i) Class as Prestige, Status, Culture or Lifestyles: As mentioned earlier, the term ‘class’ found currency during the industrial period. One of the first thinkers to connect industrialization and classes was Karl Marx. Though he never, in any of his works, explains the meaning of the concept ‘class’ directly, however his works extensively dealt on this aspect. For Marx, capitalism was one of the stages, which later culminated in a classless society, nevertheless a necessary stage. He puts it in the paradigm of ‘class struggle’ without clearly explaining the meaning of class. He attempted to finally deal with the concept class, but the manuscript was never completed (Marx, 1953). However, sociologists like Bendix and Lipset (1970) gave expression to Marx’s theory of class as ‘any aggregate of persons who perform the same function in the organization of production’. This meant that persons who were in the same work situation formed a class group. Dahrendorf clarifies that Marx’s theory of class was not a ‘theory of social stratification, but a tool for the explanation of changes in total societies’ (1976: 19). Marx looked at structural changes in the society and not as it is.

Stanislaw Ossowski (1953: 89) criticizes that the term ‘class’ was used by Marx and his associates to describe social structures of other “formations”, without troubling about the fact that “class” was burdened with a meaning linked with a narrower range phenomena. According to Ossowski (1953: 91) the three assumptions which appear to be common to all conceptions of a “class” society: the classes constitute a system of the most comprehensive groups in the social structure; the class division concerns social statuses connected with a system of privileges and discriminations not determined by biological criteria; and the membership of individuals in a social class is relatively permanent.

Moreover, the Marxian interpretation of the class was within the ambit of production. This explanation leaves out many categories of people like housewives, children, the old and the

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9 Original can be found in the “Chapter LI: The Classes” of Capital, Volume III.
invalids, persons pursuing independent professions like doctors, teachers, lawyers, etc. who have nothing to do with the industrial system. Moreover if we are to understand that persons who are in the same work situation form a class, then considering the differentiation of functions and the consequent occupations in the present times the study would be flooded with many work groups. However, Marx lived in a time when the conditions under which the workers toiled were not liberal. Therefore, his theory of class struggle within the context of production and exploitation was relevant then, though it still holds good for the present too. His work found better expression to explain class within the contemporary post-industrial societies through Erik Olin Wright’s works on class, which is dealt in the latter part of the chapter.

Max Weber’s study of the economy enabled a continuation to the debate of class and added to the meaning of the same. He defined class, as a group of people who were in the same class situation, in terms of ‘life chances’ which is determined by the amount and kind of power, or lack of such, to dispose of goods or skills for the sake of income in a given economic order (Joyce, 1995). For Weber, class is broadly associated within the economic order in relation to the market; class situation was ultimately market situation. Weber (1978: 927) says, ‘In our terminology, “classes” are not communities; they merely represent possible, and frequent, bases for social action. We may speak of a “class” when (1) a number of people have in common a specific causal component of their life chances, insofar as (2) this component is represented exclusively by economic interests in the possession of goods and opportunities for income, and (3) is represented under the conditions of the commodity or labor markets. This is “class situation”.

His theory can be summed up as, “Class” means all persons in the same class situation. (a.) A ‘property class” is primarily determined by property differences, (b.) A “commercial class” by the marketability of goods and services, (c.) A “social class” makes up the totality of those class situations within which individual and generational mobility is easy and typical... “Class situation” and “Class” refer only to the same (or similar) interests, which an individual share with others. ...Mobility among, and stability of, class positions differs greatly; hence, the unity of a social class is highly variable.’ (Weber, 1968: 302).
Though Weber’s work was much similar to that of Karl Marx, Weber treated ‘class’, ‘status’, and ‘party’ separately as related sources of power, ‘economic or otherwise, within its respective community’. Therefore power to him meant ‘the chance of a man or a number of men to realize their own will in a social action even against the resistance of others who are participating in the action’ (Weber, 1978: 926). Here Weber, by power does not refer only to the political power but to all its aspects. Each of these had different effects on people’s lives.

C. Wright Mills follows very closely on the heels of Weber’s theory on class. His theory on stratification derives on the latter’s famous class-status-power trichotomy. Mills added Thorstein Veblen’s (an American sociologist) emphasis on occupation (Tilman 1984: 19) to show that ‘power position of groups and of individuals typically depends upon factors of class, status, and occupation, often in intricate interrelation. Given occupations involve specific powers over the people in the actual course of work; but also outside the job area, by virtue of their relations to institutions of property as well as the typical income they afford, occupations lend power’ (Mill, 1972a:185).

While explaining the position of the “middle class”, Mills (1972a: 183) pointed out that ‘selling of services in the labor market, rather than of profitably buying and selling their property and its yields, now determine the life-chances of most of the middle-class’. For Mills, therefore, ‘class’ was related to the amount and the source of income, for a class is a set of people who share similar life choices because of their similar class situations. His trichotomy is explained well while dealing with the white-collar pyramids11, ‘as sources of income, occupations are connected with class position; and since they normally carry an expected quota of prestige, on and off the job, they are relevant to status position. They also involve certain degrees of power over other people, directly in terms of the job, and indirectly in other social areas’ (Mills, 1972a:183).

11 In the category of the new middle class, Mills includes managers, salaried professionals, salespeople, and office workers. For more see Mills, C. Wright, “White Collar: The American Middle Classes”, New York: Oxford University Press, 1951, pp. 63-76.
Mills utilized the parameter of power to understand the status of the elite in the society, thus calling them as the ‘power elite’ wherein he includes political (political directorate) and military (warlords) elites along with the economic (corporation chieftains) elite. The power elite comprised of individuals whose mettle was unlike the ordinary people, whose decisions result in major consequences arising out of the ‘pivotal’ positions that they occupy and their failure to act and make decisions have far-reaching consequences (Mills, 1972b: 278). When these three domains coincide, it is then when their decisions have a total impact on the society, they form the power elite. Hence power elite, according to Mills (1972b: 288), refers to, ‘those political, economic, and military circles which as an intricate set of overlapping cliques share decisions having at least national consequences. In so far as national events are decided, the power elite are those who decide them.’

Though Mills had included only three groups within the ‘power elite’, this cannot hold so while presently identifying the members of the power elite. New groups have entered the power elite. Aron (1953: 209) criticizes Mills power elite theory by suggesting that the ‘diversity of power groups is the first relevant datum, the relations among these upper strata have a specific character in each regime’. For example, in the Western regimes there are various groups that act as checks on the on the elite institutions and it gives scope to various groups for dialogue and bargaining with the state.

Since the turn of the twentieth century the class structure was ridden with changes and complexities. The developing interest in class theory (from the 1950s) paralleled the developments in sociological methods within an increased use of data processing through computer technology. As a consequence of these parallel developments, ambitious programs of ‘class analysis’ were devised during the 1970s in which developments in class theory and survey analysis were combined. One such work is by Erik Olin Wright, who departed from the polarized (capitalists and workers) Marxian way of analyzing the concept of class structure, by elaborating it further through the incorporation of new changes within it. He pointed out four

broad changes or problems: 'the "middle class" within the class structure; people not in the paid labor force in the class structure; capitalists’ assets owned by employers; and the temporal dimensions of class locations. (Wright [1997] 2000: 15)'

John H. Goldthorpe’s work is far removed from that of Mills but more closer to that of Weber’s. While investigating the thesis of working-class embourgeoisement and the relationship between working class affluence and working-class politics in Luton, in the contemporary British society, Goldthorpe et al (1972: 79), through their findings asserted that the position of a group within a system of social stratification is not decisively determined by the income or possessions of its members. Their position is determined by their characteristic life-chances and experiences and by the nature of their relationships with other groups.

(ii) Class as Structures of Inequality: ‘Social stratification’ according to structural functionalists is a general term, which describes the systematic structures of inequality in terms of distribution of societal resources. Structural-functionalists, like Talcott Parsons, argued that a hierarchically ordered society ensures stability and functional proficiency of society. In that, material inequalities in a society through unequal rewards provide a structure of incentives, which ensure that talented individuals will work hard, and innovate. This kind of approach finds currency in many of the countries that follow capitalism that is the market economy variant, like United States of America, Japan, United Kingdom, France, Germany etc.

In this very context, Kingsley Davies and Wilbert Moore (1953), support institutionalized inequality, by opining that a society should distribute its members in some manner in order to induce them to perform their duties respective to their positions. Rewards guarantee that the members are motivated to both achieve positions and perform their respective duties well. Therefore, to them, the manner in which the rewards and the method of distributing these rewards according to the respective positions of the individuals in the society become a part of the social order and this gives rise to stratification. Similarly, like the structural functionalists, neo-liberals like Hayek support inequality. Capitalism is dynamic as it allows individuals to pursue their self-interests, to be innovative and make strides in technology. This also causes
inequality. This is the reason why the neo-liberals support inequality as the society benefits and the individuals take initiative. Therefore to the structural-functionalists, classes are structures of inequality related to the possession of economic and power resources.

(iii) Classes as Actual or Potential Social and Political Actors: In contrast to the functionalists, conflict theorists\textsuperscript{14} of stratification have emphasized the significance of power and coercion in the explanation of inequality. They examined the social relations in relation with the means of production wherein the classes were the primary social actors within the stratification system of the industrial societies. Although they stressed on the persistence of conflict and were skeptical of the emergence of any genuine agreement concerning the existing structure of inequalities, they do not envisage the imminent break-up of the social and stratification order. Ralf Dahrendorf through his analysis concludes that today the conflict within the relations of production is within the industries and not within the society. Hence, the whole state is not involved. Thus, a breakup of the social order is not the likely outcome.

B. Social Structure within the Economic Organization of USSR:
One of the dominant national systems of the 20\textsuperscript{th} century was socialism with a command oriented economic system, which was an alternative to the market-oriented economic system under capitalism. Simply put 'command-oriented economic systems', as Haitani (1986:18) says, 'are those in which economic activities are organized predominantly along vertical lines of authority relationships between superiors and subordinates.' Socialism involves this kind of an economic system with social ownership and control of productive assets. One of the nations to follow this in toto was the erstwhile USSR for seven decades.

Within the command economy, there were essentially two sectors in the economy: the state productive sector and the household sector. The two sectors interact through two markets: the consumer goods market and the labor market. In the consumer goods market, the state is the supplier (seller) and the households are demanders (buyers). In the labor market, households supply labor services, which the state producers purchase.


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The management was vertically formed top to bottom—macro-management, industrial management, and enterprise management. They were coordinated through state planning. The state productive sector was looked after by industrial ministries. Each of the industrial ministries was divided into number of industrial departments responsible for administering different branches of industry. All-union ministries and their industrial departments directly supervised their enterprises, whereas union-republican ministries and their industrial departments controlled enterprises under their jurisdiction indirectly through republican ministries and their industrial departments. Following Figure 2.1 is representation of this system.
Enterprises were divided into three groups (Haitani, 1986: 127-28) depending on which ministries have authority over them. The first group consists of enterprises that were under the jurisdiction of all-union ministries, directly subordinate to the industrial departments of the ministries no matter in which republic they were located. Industries included automotive, aviation, chemical, communications equipment, defense, electrical equipment, electronics, gas, instrument making, automation equipment and control systems; machine building (in 11 ministries); medical, petroleum, pulp and paper, and shipbuilding. The second group of enterprises belongs to the industries that are under the authority of union-republican ministries, which control enterprises in republics through corresponding ministries on the republican level. Industries included agriculture, coal, construction materials, ferrous metallurgy, food, meat and dairy, nonferrous metallurgy, petroleum refining and petrochemical, timber and wood
processing, and light industries. The third group of enterprises, about 3000 in number, is subordinate only to the republican ministries; these enterprises provide for purely local needs.

Paralleling and crisscrossing the direct, vertical structure of ministerial decision-making authority are the planning and supply channels of some state committee. Two such important committees are the Gosplan and Gossnab. The State Planning Committee (Gosplan) is a planning agency coordinates the planning activities of ministries on both the all-union and republican levels. It controls planning of output and supply allocation, through the ministerial system, of about 2000 key industrial materials that account for about 70 to 80% of the value of industrial output. The State Committee for Material and Technical Supply (Gossnab), wholesale supply organization, also has a union-republican structure paralleling that of Gosplan. It handles the actual distribution of commodities, either through its nationwide network of warehouse facilities or by matching suppliers and users on a long-term contract basis. Gossnab, through its regional supply offices and bases, allocates some 14,500 less important items, as well as the “funded” materials allocated by Gosplan.

The chairpersons of these commissions have the rank of a cabinet minister. The importance of Gosplan and Gossnab is signified by the fact that, in 1982, the chairmen of Gosplan and Gossnab were on the 15-member Presidium of the USSR Council of Ministers. Besides Gosplan and Gossnab, several other state committees of ministerial rank are subordinate to the Council of Ministers of the USSR and are responsible for providing supportive services in plan formulation and execution. These economic commissions are the State Committee on Prices (Gosten), the State Committee for Science and Technology (Gostekhnika), the State Construction Committee (Gosstroy), and the Board of Governors of the USSR State Bank (Gosbank).

The above representation of the economic organization and management shows that the state controlled the economy and the property. The organizational structure of a socialist economy like that of the Soviet Union is quite different from that of a market economy. There, all the means of production are owned and controlled by the state. Under the Soviet law, Ownership of personal property (as distinguished from income-generating private property) was permitted. According to Article 13 of the 1977 Constitution, ‘Personal property may include household objects, articles of personal need, of convenience and auxiliary household economy, a house and earned savings.’
In this regard, Soviet citizens could use plots of land allocated to them by the state or collective farms for growing vegetables, raising livestock and poultry, and building individual houses. Personal property of citizens and rights of its inheritance were protected by the state.

There are virtually no property-based incomes accruing to households: the only types of household incomes are labor income (i.e., wages paid by the state sector) and transfer payments from the government and state enterprises (e.g., pensions and social welfare benefits) to households (Haitani, 1986). The State Budget has two sources of revenue: the household sector and the state productive sector. From the household sector came personal income taxes, social insurance premiums, and household purchases of government bonds and savings bank deposits. From the state productive enterprises came payments out of profits, turnover taxes, and other payments including amortizations of capital assets. On the expenditure side of the State Budget were the social and government consumption, financing of the national economy, and transfer payments to the household sector.

In order to establish an egalitarian society - a society of workers - the Soviet society first task was to abolish private ownership. This meant nationalization of property, seizure of land and factories. This change in the property relations also changed the class structure. Nationalization and collectivization led to the doing away of the 'old possessing classes and the middle strata associated with them' (Lane, 1985: 145). Collective relations became the norm within both industries and farms. This was to do away with status, power, wealth, and income differentials. Towards this end, also, higher education became accessible for all sections of the society, position of women was improved, and wage differentials bridged. Hence, the Soviet society was guided by the Marxian ideology, led by the CPSU the vanguard of the working class. Article 10 the Soviet Constitution of 1977 stated, 'Socialist ownership of the means of production in the form of state (belonging to the whole people) and collective farm- cooperative is the foundation of the economic system of the USSR."

The kind of transition from a monarchial state to a socialist state shows the changes in social structure and emergence of various occupational groups as listed in Table 2.1.
Table 2.1: Composition of Soviet Population by Broad Groups

<table>
<thead>
<tr>
<th></th>
<th>1913</th>
<th>1928</th>
<th>1939</th>
<th>1959</th>
<th>1979</th>
<th>1983</th>
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<td>Manual and non-manual</td>
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<tr>
<td>Workers</td>
<td>17.0</td>
<td>17.6</td>
<td>50.2</td>
<td>68.3</td>
<td>85.1</td>
<td>87.1</td>
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<tr>
<td>Of whom, manuals</td>
<td>-</td>
<td>12.4</td>
<td>33.7</td>
<td>50.2</td>
<td>60.0</td>
<td>61.2</td>
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<tr>
<td>Collective farmers and</td>
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<td></td>
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<tr>
<td>cooperative handicrafts persons</td>
<td>-</td>
<td>2.9</td>
<td>47.2</td>
<td>31.4</td>
<td>14.9</td>
<td>12.9</td>
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<tr>
<td>Independent peasants and</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>handicrafts persons</td>
<td>66.7</td>
<td>74.9</td>
<td>2.6</td>
<td>0.3</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Bourgeoisie</td>
<td>16.3</td>
<td>4.6</td>
<td>-</td>
<td>-</td>
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The Table 2.1 proves that the rapid economic growth achieved under the Soviet Union, led to changes in the occupational patterns and consequently the social structure. What we also see is that the bourgeoisie society, though a very small percentage even before the 1917 revolution, decreasing towards the end of the NEP period and its complete elimination thereafter. The New Economic Policy period (1921-1928), was the only period, which allowed private ownership and private trade. This meant the property-owning class existed—the private traders (nepmen) and rich peasants (kulaks). These along with the technical intelligentsia, clergy and members of the royal family had restricted political rights (Lane, 1985). However if we examine the whole of the Soviet period one cannot rule out the fact that it was an unequal society. Occupation, status, privileges and power positions stratified this society. However, unlike the capitalist societies, it lacked a property owning class and business elite.

Most of the population of Tsarist Russia was of peasants (80%). Rest was artisans, nobles, clergy etc. Though the industrial and post-industrial period has led to changes within the social structures of different societies, the socialist countries—most importantly the erstwhile USSR—also contributed to these changes. Here the ideology that was enforced and forcibly adopted resulted in a crude egalitarian society, shorn of aristocrats, private entrepreneurs, land owners, rentiers, etc. Even if one is to examine Inkeles (1953) gradations, one would find classes existing
in Western countries absent. Lane (1985: 187) points out an important fact: ‘What is absent in the USSR is a class of persons deriving their income and social position from money capital and ownership and ancient title, and this makes a considerable difference to the structure of the system of social stratification’.

Post 1917 revolution led to a different kind of mobility. The Soviet Union leaders officially, especially Stalin\(^\text{15}\), acknowledged that there were only two classes-workers and collective farm peasantry. The third group that is, the intelligentsia was called the stratum or prostoika (Inkeles, 1953 and Nove, 1979). Status and power within the Soviet system was derived from the rank one held within the hierarchical order. Raymond Aron (1953: 204) says that every regime has a political class. The fact, or iron law, of oligarchy can be emphasized aggressively with respect to ideologies. He argues that naïve democrats imagine that the people govern in the West, although the electors are actually “manipulated” by the “cunning” politicians. The Communists, whether true believers or cynics, affirm that the proletariat is in power in the Soviet Union. In reality, of course, the party, the Central Committee, the Presidium, actually the secretary-general of the party, “manipulates” the masses, and in the name of the proletariat exercises a power more absolute than that of the kings or emperors of the past. They comprised of some 20 to 25 men. At the pinnacle of the party-government apparatus were the members of the Politburo and/or the Secretariat of the Communist Party.

However, the Soviet Union could not produce and sustain an egalitarian society for long. The gradations that Inkeles (1953: 517) approximately has described and Stalin’s grant of medals, titles etc., led status, power, income, occupation and authority to become the basis for group categorization\(^\text{16}\). Social structures are present in all kinds of societies. The difference is regarding role-differentiation and functional-differentiation. Simple societies have minimal differentiation and complex societies have high differentiation. Societies like socialist countries are somewhere in the middle, as they lacked classes related to property, rentiers, commercial classes etc.

\(^{15}\) Stalin’s 1936 report to the VIIth Congress of Soviets on the draft constitution affirmed that the USSR had ‘no longer any exploiting classes’ because it had eradicated private ownership in the means of production. Leninism (London: Lawrence & Wishart, 1940), pp. 561-567.

\(^{16}\) No mention or any sort of acknowledgment about the existence of classes or groups was made.
Incomes in the USSR were all earned and not derived from property or unearned and therefore there was an absence of the leisure class.

Under Stalin certain inequalities were embraced in terms of social, political and economic inequalities. Gradation between skilled and occupations was introduced. Wage differentials existed. Formal ranks, awards, and medals were introduced. Fees were charged for higher education. Lane (1985: 148) justifies these actions that though 'Stalin personally created a system of severe social inequality; it is more accurate to view the changes in social stratification of the early 1930s as determined by the demands of industrialization and the forces to which they gave rise'. Therefore, even if the Soviet society was free from private ownership, it was not free from inequality. There existed unequal incomes, privileges associated with consumption and political positions, status differences, status and privileges associated with power positions etc.

Alex Inkeles (1953) examines the Soviet society especially the Stain period where the political and economic changes gave rise to differential economic reward, grading between various skill-categories. He identifies ten major social-class groups whose stratification is not made on the basis of skills and economic rewards alone, but also the status that entails with. He recognizes these social-class groups in a rank order of very rough approximation: ruling elite (1); superior intelligentsia (2); general intelligentsia (3); working class aristocracy (4); white collar (5.5); well-to-do peasants (5.5); average workers (7); average peasants (8.5); disadvantaged workers (8.5); forced labor (10) (Inkeles, 1953: 517). The main elements for determining the membership in any one of these major social-class groups was occupation, income, and the possession of power and authority were the main elements, i.e. , functions performed by individuals in the productive process, the administrative apparatus, and the power structure within the Soviet system.

Lane (1985: 187-188) based on his research on the various groups found within the Soviet society, classifies and not grades the society as follows- (1.) Ruling political leadership, (2.) Superior creative, technical and academic intelligentsia, (3.) Engineering/technical/managerial personnel, (4.) Skilled non-manuals, (5.) Skilled manual workers, (6.) Unskilled non-manuals, (7.) Skilled agricultural workers/collective farmers, (8.) Unskilled manual workers, and (9.) Unskilled agricultural workers/collective farmers. The working class within the Soviet state was
differentiated as employees (rabotniki) and the workers (rabochie), i.e., the non-manual and the manual respectively. The manual workers were employed in the state-farms; industry; agriculture; transport and communications; building; trade, catering and supply; housing and utility services; and health, education, culture and administration. (Lane, 1985) The Soviet working class was stratified in terms of wages and conditions and by level of skill.

The Farmers within the Soviet society were of two types-those employed in state-farms (sovkhozniki) and collective farmers (kolkhozniki). The former were paid wages and the produce was acquired by the state. Therefore, they were identified with the working class and not the peasantry. The latter collectively tilled and owned the produce. They did not own the land like the state farmers. Although all land was owned by the state according to the Soviet Constitution of 1977, Article 12 stated that ‘the land held by collective farms is allocated to them free of charge for an unlimited time’. Collective farms’ productive properties other than land (machinery, tools, farm buildings, and so on) were regarded as owned by the farms. However, before 1966, the state farmers received wages, whereas collective farm peasants received residual shares of the farm’s income. Since 1966 onwards, the collective farmers started to receive wage payments at state-farm wage rates.

Hence, Lane17 (1985: 173) appropriately says than conceiving the Soviet social structure as being composing of ‘two friendly classes (workers and peasants) and one stratum (intelligentsia), it is more appropriate to conceptualize a continuum of social groups, ranging from the field workers among the collective and state farmers through the manual trades to the upper professionals and “top dogs” in authority. It is a system of hierarchy and stratification’.

A better insight as to the other strata groups within Soviet Union that is not related to the nomenklatura is provided by the Soviet sociologist Tatiana Zaslavskaya (1987, April 21). In an interview, she argues that there are a number of groups and strata within USSR which differ in their status. She says at first glance, it would seem that we are talking only about occupational

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17 For a better understanding of the various groups within the working class, peasantry, political power including position of women, see David Lane’s “Soviet Economy and Society”, especially chapter five on social relations called Social Stratification and Class.
groups, but in reality they are social groups, because they differ from one another not only in the type of work they do but also in deeper respects: for example, in their place in the organization of social labor, their level and sources of income—naturally, each such group has its own interests, along with the common interests. She gives examples like the highly skilled workers, housekeepers, workers on the assembly line, economic managers ranging from chairman to general director, diplomats and foreign trade personnel, rural seasonal construction workers or migratory workers, trade officials, wheelers-dealers, high ranking Moscow officials, writers, actors, artists, teachers, physicians etc.

An understanding of the Soviet social structure is not complete if one is to ignore the ruling stratum. Moreover the Soviet society’s ruling class enjoyed a privileged position and the status attached to these positions. Alec Nove (1979: 195) defines the ruling stratum as ‘all those persons holding appointments deemed to be significant enough to figure on the central committee’s establishment nomenclature of such appointments, i.e., who are on the nomenklatura’. This covers all spheres of economic, social, cultural or political significance. The institution by which the Soviet power elite was known as the nomenklatura system. The term nomenklatura simply means the list of positions that are under the jurisdiction of a communist party committee (Haitani 1986: 71). Party committees at all levels—from all union to rural district—have authority to appoint (or nominate in cases of elective offices) individuals to the positions on their own nomenklatura.

The hierarchy of the nomenklatura was as follows. The highest rank in the Party and the state pyramid was occupied by the general secretary of the CPSU Central Committee, followed by members of the Politburo of the CPSU Central Committee, candidates for the membership in the Politburo, and secretaries of the Central Committee. The next rank was the nomenklatura of the Politburo of the CPSU Central Committee, that is, those on the list of positions appointed at Politburo sessions. This nomenklatura group included first and (sometime) second secretaries of the central committees of the Republics’ Communist parties, first secretaries of regional committees and of municipal committees in the largest cities, Union ministers, top-level military men, ambassadors of all the socialist countries and the countries of the “Big Seven,” directors of
the largest factories of the military-industrial complex, directors of the artistic and literary
societies, and editors-in-chief of the central Party publications.

The next rung on the ladder was the nomenklatura of the Secretariat of the CPSU Central
committee. It comprised officials of the next descending rank: deputy ministers, second
secretaries of regional committees, the first secretaries of regional executive committees, and so
on. These upper ranks were followed by positions requiring the consent of the departments of the
CPSU Central committee, and below these were slots in regional committees, municipal
committees, district committees, and even the lower-level Party organizations. All persons of the
top-level nomenklatura occupied positions approved by the Politburo or Secretariat of the CPSU
Central committee. In short, the nomenklatura included key executive positions in the party
apparatus, government bureaucracy, the Soviets, the military, and such public organizations as
trade unions, mass media, and unions of scientists and artists. In all, the nomenklatura system
covers some 3 million positions.

The managerial and political elites within USSR enjoyed perks and privileges: foreign currency
payments available for purchase of superior quality goods in foreign currency shops; other
special shops and restaurants were provided for senior officials; special holidays and medical
facilities were available to certain managerial and executive groups; occupational groups had
access to housing which favor the academic, political and industrial elites; access to cars was
also given to people in high-level posts (Lane, 1985: 180). Lane (1985: 180) however points that
one must not ‘ignore the equally important point that the general tendency has been towards the
reduction of income differentials.... among the working class, miners and others in heavy
industry receive[d] benefits in terms of better pensions, shorter working hours and superior
welfare and holiday facilities’.

Piirainen (1997) points out that status-based stratification can be related to understand the USSR
society and classes to understand the present Russia. This is because the Soviet society did not
have classes, only status groups. Weber’s stratification was twofold—in that one was (1) class
based stratification in relation to the market and (2) status related to honor. Weber (1978: 932)
defined ‘Stände (status groups) are normally groups. They are, however, often of an amorphous kind. In contrast to the purely economically determined “class situation,” we wish to designate as status situation every typical component of the life of men that is determined by a specific, positive or negative, social estimation of honor.’ Therefore status-order meant ‘stratification in terms of honor and styles of life peculiar to status groups as such’ (Weber, 1978: 936).

Since political power was the source of the privileges of the Soviet nomenklatura, not its success on the market, Piirainen (1997: 23) justifies that the nomenklatura should not be seen as a class but ‘as a status group with its distinct virtues, privileges, obligations, functions, lifestyle and symbols marking its position in society’. Thus the common factors that decide that the Soviet society was stratified in terms of groups are occupation, income differentiation, power, status and privilege. In the erstwhile USSR, the decision-making authority within the organizational structure of the economic system was in the hands of the highest echelons of the hierarchical structure. It must be noted that being a command economy and following a Marxist-Leninist ideology, the political elites could not be differentiated from the economic elites. Therefore the limitation in role differentiation, though still authors as Inkeles, Lane, Zaslavskaya, etc give us a list of social groups.

Gorbachev’s reforms towards political restructuring shook the very foundations of the nomenklatura and especially weakened the role of CPSU. In the post 1991 period, the role differentiation had to happen on definite lines due to adoption of changes in political and economic spheres. Many authors tried to differentiate the economic and political elite, the lines between these two were blurring (Zudin, 2000). This was because of the economic elite continued their presence in the political elite and some members of the business elite were trying to become independent from the economic elite. This examination of the emergent business elite needs to done in the light of the adopted market-oriented economic system of Russia (Chapter 3). However as Russia made a second transition to a market-oriented economy, an examination of the capitalist economy becomes imperative. This is because market economy is one of the dominant forms of capitalist system.
2.2 The Capitalist System:
Traditionally, the methods of classifying national or economic systems include capitalism-
socialism and market-command dichotomies. Capitalism has come to dominate 20th and
especially the 21st century. The dynamics of capitalism have changed over time beginning with
the long distance trade to merchant capitalism only to take over by manufacturing capitalism and
industrial capitalism and ultimately the post-industrial society. Industrialization focused on
production of goods, but in the late 19th and the early 20th century financial capitalism was to
raise its head bringing in new meaning to capitalism. Traditionally capitalism involved trade in
goods, but presently it involves services and financial markets too.

A capitalistic economy is an economy in which productive resources are owned by private
individuals, who use these resources to earn profits and in which the state intervention is
minimum so that economic activities are mostly unplanned and uncoordinated. However, Haitani
(1986: 18) defines capitalism as a ‘market-oriented economic system in which productive
properties are predominantly privatized and individualized.’ The basic model of capitalism
consists of production, distribution and consumption as in any economic process. Production
consists of the factors or inputs namely land, labor, capital, technology and organization.

A. Features of Capitalism and Market Economy:
A normal capitalist society is characterized by production for profit and capital accumulation of
capital. Capitalism is commonly defined by features like private property and private ownership
(Screpanti, 1991), right of inheritance, freedom of enterprise and occupation, freedom of choice
for consumers, price or market mechanism, competition, profit motive, self-interest, minimum
government interference, risk taking etc. to name the important ones. Individuals own the
productive forces (like land, factories, mines, machinery and other resources) and have the right
to acquire, possess, use and sell property and productive forces. This means that the owners take
important decisions, like what and how to produce, the amount of saving and investment in
economy.
One of the main and defining characteristics of capitalism is ownership. Some of the board members of a corporate or companies tend to own the shares of the concern along with the authority to decide for the company. The authority may rest with chief executives and managers. However, who remains the owner of the concern in a large scale company decides the capitalist. Ownership of property can be tangible and intangible or both. Considering intangible property would involve venture capitalists, owners of securities and stocks i.e, who are not involved in the production directly. Therefore, within a capitalist system, rights of the individuals need to be protected, so that individuals and groups of individuals acting as “legal persons” (or corporations) can trade in a free market.

Legal institutions and law add on as important factors of capitalism, especially to safeguard private property; safeguard shareholder rights, worker rights and provide better working conditions, regulate business associations and unions; regulate market, taxes, contracts, capital and labor; to curtail the formation of monopolies and encourage competition; ensure transparency and promote healthy business practices etc. The modern capitalist state performs tasks related to defense, education, health care, welfare, regulation etc towards which it taxes consumption or profit. The capitalist state can steer the economy through the traditional ways of fiscal and monetary policy, and influence the economy through regulation and industrial policy (Swedberg, 2005).

Adam Smith in his seminal work *Wealth of Nations* strongly advocated for the “invisible hand” of the market. He criticized monopolies, tariffs, duties, and other state enforced restrictions and believed that the market is the most fair and efficient arbitrator of resources. Adam Smith in his work implied three key characteristics of capitalism—competition, profit, and concept of free market where prices are determined by law of demand and supply. Marx viewed capitalism as an exploitative system and an all pervading system-i.e., it affects the entire social system of a state and not just its economic system. Unlike Marx, Weber considered market exchange, rather than production, as the defining feature of capitalism; capitalist enterprises, in contrast to their counterparts in prior modes of economic activity, was their rationalization of production, directed toward maximizing efficiency and productivity.
Market is the central institution in capitalism presently as it is used for both exchange and production. Swedberg gave credence to Weber’s theory on market exchange. He justified that within the capitalist economy, exchange, as the way of distribution, or passing on what has been produced, is the key aspect that distinguishes the former from the rest of the economic systems (Swedberg, 2003 and 2005). Hence, here exchange alone is primarily driven by the profit motive, which makes capitalism unique when compared to economic systems based on redistribution and reciprocity. In light of his above justification the ‘two most important social mechanisms in capitalism are consequently exchange and the feedback of profit into production…. The only sector that is squarely based on exchange and profit is consequently the corporate economy’ (Swedberg, 2003: 57 and 2005: 7, 9). This type of economy is distinguished from other forms. Hence, profit and the continuous reinvestment of profit in production makes capitalism a dynamic process.

Moreover, the factor of money plays an important role in that it is used both as the medium of exchange and as a facilitator of credit. It helps the ‘market to operate smoothly and cheaply. Money also plays an important role in the capitalist process in the form of capital, that is, as resources devoted to profit-seeking’ (Swedberg, 2005: 13). A corporation or a firm acquires capital in variety of ways—from the capital market, borrowing—either by selling bonds or borrowing from banks and other financial intermediaries, venture capitalists, selling equity shares etc.

One of the dominant forms of capitalism today is the market economy, which is unlike the laissez faire or the pure form of capitalism. As capitalism originated from its mercantilist and laissez affaire form, it has evolved presently into a market form. Market economy is a system of allocating resources based only on the interaction of market forces, such as supply and demand. Market economies do not exist in pure form, as it is subjected state regulation, presence of central banking, welfarist policies of the state, and also protectionist tariffs.

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According to the Oxford Dictionary of Economics ([1997] 2002: 289, OUP, Indian edition), 'A market economy is one in which markets play a dominant role in coordinating decisions. The prices formed in markets convey information and provide motivation for decision-takers. Market forces are the supply and demand factors which determine prices and quantities in a market economy. An efficient market is one where prices reflect all available information about the good or asset concerned.' The market arena is characterized by a decision-making principle based on individual maximization and on the membership principle of free entry and exit (Groenewegen, 1997: 339), private property, profits, competition and institutions.

The chief driver of market economy is the price mechanism. Price mechanism is the process through which the prices of goods and services are determined by the market forces of demand and supply. Prices indicate consumer’s choice and preference. Price mechanism is fundamental in the operation of the capitalistic economy. It determines how the available productive resources are to be used for the production of different types of goods and services, thus organizing production; plays a major role in the distribution of goods among different individuals; coordinates the economic activities and involves rivalry between participants in the market. Hence, it is called invisible hand.

Therefore, capitalism is an economic system in which the means of production are all or mostly privately owned and operated for profit, and in which investments, distribution, income, production and pricing of goods and services are determined through the operation of a market economy. Most of the countries that are capitalist have market-oriented economies. However, each country has its specificities.

B. Dominant Types of Capitalism:
Forms of production, exchange, and regulation have evolved since the laissez faire days and are still evolving. Economic transformations in production, consumption, technology and ideas has given rise to globalization which in turn has brought in changes in the dominant socio-economic systems i.e., in capitalism. Don D. Marshall (2006: 94) lists the most visible effects of
globalization as, ‘the increase in the speed and flow/flight of capital in money form; the expansion of offshore financial markets; the transition to computerized technology; and the move towards international regionalization.’ New stage in the world capitalist system involves close capital linkages between financial institutions and investors in core economies and spaces in the rest of the globe (Gwynne 2003: 21).

There are different forms of capitalism (Lippit, 2005 and Groenewegen, 1997) on the basis of how the economic power and wealth are concentrated and methods of capital accumulation, nature and extent of state interventions in the allocation of economic resources and the structure of the capital market. Most developed countries are usually regarded as capitalist, but they are also often called mixed economies due to government ownership and regulation of production, trade, commerce, taxation, money-supply, and physical infrastructure.

Contemporary capitalism comes in various forms and varieties, and despite broad commonalities, capitalist economies, such as those of the US, UK, Germany and Japan differs in many ways from each other. Michel Beaud (2004:5) aptly says that mere study of capitalism, as economic systems or mode of production alone is not enough; capitalism, whether Dutch, British, American, or Japanese, has most often been understood as a national phenomenon. There is no single model of capitalism considering the variants that have grown and developed over centuries in various countries having a market economy. As each capitalist system tries to borrow elements from other systems of capitalism, it is driven by efficiency by introducing new institutions into ‘existing systems to correct failures’ (Groenewegen, 1997: 340). Following are the few broad models of capitalism:

(i) Anglo-Saxon Market-oriented Type of Capitalism: It is called Anglo-Saxon economy because it is supposedly practiced in English-speaking countries of UK, USA, Canada, New Zealand, Australia and Republic of Ireland. It is marked by private-ownership, innovations, great openness from entrepreneurs and financiers who provide capital and incentives necessary for the development of innovative ideas. This model is considered as more liberal and free-market oriented than other capitalist economies. However differences within Anglo-Saxon economies
are found in the manner of taxation and the welfare state. UK has significantly high level of taxation than US and spends more on welfare state as a GDP.

US is considered nearly pure model of free market economy and hence it is dealt more in detail as most economies try to model after it. Since the 1980s, UK is the only country within Europe who has aligned its laws and policies to the USA model to create market for corporate control. Other economies to follow this model are Canada, New Zealand, Australia and Ireland. The very factor that led to the emergence of an independent capitalist society in particular in US, and it’s very independence in general, was the “oppressive restrictions...laid upon [its industries] to protect the monopoly position of the rising British bourgeoisie” (Rochester, 1936: 121). This reflects in its political choice of being a liberal democracy. It was an open society which is largely due to its being free from ‘traditional institutions and historical legacies’ (Lipset and Bendix, 1958) and absence of feudalism and the class of nobility. The American capitalists started their ventures and in the ‘late 19th century ....marked by its [age of Robber Barons] drive toward concentration, toward monopoly in large-scale industries and banking’ (Josephson, 1962: viii-ix). Though capitalism in US has undergone changes, it has not changed its individualistic value orientation.

Their fame was also notoriously known for waste of natural resources, political corruption, indulgence in rate wars, increase and decrease of freight rates at will, duplication of inefficient track and terminal equipment among railways, and the similar duplication in iron and steel industry etc. The capitalists depended on the state on for making legislations that suited their interests and needs. Josephson (1962: 305) points out in his work that the robber barons resorted

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to means like use of federal subsidies of cash as well as land; use of collusive practices such as pooling and rebates; refusal to repay the government mortgage etc.

The American market today is highly characterized by corporate economy so much so that one finds it difficult to see firms largely driven by ownership by families or holding companies. One of the reasons why the American stock is diffused giving rise to corporate economy has to do with the banking crisis too. The banking crisis of 1930s led to the change of policy wherein investment banks were separated from commercial and wholesale banks, along with insurance companies according to the new laws could not hold stocks in the firms. Thus stocks were open for the public, leading to its diffusion with regard to ownership too. Since 1950s, firms relied less on banks for money and moved to selling bonds to investors (the public). In USA financial control over corporations by banking institutions is limited. The banks are interested more in the creditworthiness and earnings records of the corporations that in their management.

Since the move to a corporate economy, the institutions making huge stock investments in major corporations are today more interested in having ‘a portfolio of assets, not as an object of control’ (Haitani, 1986: 211). Therefore, today the control of firms lies with the managers who are in turn monitored by the board of directors, in turn chosen by the shareholders with the task to monitor and evaluate management. Furthermore, management function is to cater to the shareholders’ interest in earning highest profit (Groenewegen, 1997). Failure to ensure this will result in the owners selling their stock and hence the share prices of the firms decrease in the equities market which will culminate in hostile takeovers. The replacement of the ‘finance conception of the firm’ by ‘shareholder value conception of the firm’ (Fligstein, 2005:124) today describe the chief characteristic of American capitalism i.e., profit.

‘Shareholder value conception of the firm’ came into the forefront as the American market was besieged by stagflation (high inflation, low economic growth) and by increased foreign competition especially from Japan. This led to low stock prices, undervalued assets and with firms strapped with cash. Therefore the 1980s led to the deregulation of product markets and labor markets. Deregulation led to the layoffs, breaking up of firms and sale of assets. This led to
the motive of making money for owners, i.e., to make profit, regardless of the concerns of workers and consumers. Due to all these changes today the American corporation, as Lippit (2005: 62) says ‘is vastly different from its counterpart of half a century ago. It is increasingly focused on profitability and shareholder interest, with the interests of other stakeholders minimized (except when they coincide with the interest of shareholders).’ American economy survived the stagflation that hit in 1970s and therefore new institutional changes took place in the 80s and 90s which Lippit (2005: 54) lists as:

1. ‘The strengthening of capital relative to labor.
2. A change in financial institutions favorable to investment.
3. Deregulation.
4. Institutional change in the nature of the corporation marked by restructuring, downsizing, and reengineering, as well as by ongoing reforms in corporate governance.
5. Limited government.
6. An increase in international agreements to facilitate international trade and investment.
7. Capital markets favorable to small, entrepreneurial companies.’

One of the new features of American capitalism is the evolution of venture capitalists and their correlation to IT knowledge-based industries. Firms related to IT and knowledge-based industries are more open based processes or products (related to computers, software, telecommunications, and internet industries) rather than proprietary or custom based as in Germany. Relating to these kinds of industries, the US federal government (especially the defense department) was the first client, who also supplied money for R&D (Research and Development) and underwrote research and education at many universities (Fligstein 2005: 129-135). These industries within USA are today mostly funded by venture capitalists and less by the government.

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20 The origin of venture capital industry (being one of the features of the Silicon Valley) owes to Frederick Terman, the then dean of Stanford Business School in the initial period of the Silicon Valley in the late 1930s. Venture capital is an economic institution which helps firms and industries, related with the application of science and technology, with start-up capital through sponsoring and managing entrepreneurship. This institution has its origins in the US and John Freeman’s article ‘Venture Capital and Modern Capitalism’ in Victor Nee and Richard Swedberg’s, The Economic Sociology of Capitalism (Princeton and Oxford: Princeton University Press, pp. 119-143) gives an in-depth analysis towards this end.
In this type of economy the government makes it difficult for firms to protect themselves against hostile takeovers; the information management has to provide to shareholders is strictly regulated; cross-stockholdings are strongly discouraged; concentration of power and close relationships between industry and finance are discouraged; transactions involving labor, intermediate goods, capital, and technology are all governed by classical contracts; formal contracts, in which duties and obligations are described in detail, conditions are well specified, and sanctions are clearly described govern transactions of all kind (Groenewegen 1997: 336).

Especially the American government with regard to the economy plays the role of a supervisory and regulatory state to maintain stability in the economy, employment, and prices, and in safeguarding minimum economic security for its citizens. The state government in the USA has not intervened in terms of owning means of production, but has intervened in terms of policies like anti-trust laws; banking policies and anti-merger laws since 1930s crisis; merger policies of 1960s and 1980s; deregulation of product and labor markets of 1980s; reduction of corporate income taxes under the Reagan administration to encourage new investments; providing tax incentives and patent laws that favor producers and investors in risky ventures like the IT, etc. The state here regulates markets, contracts, taxes, labor and capital. It protects shareholder rights over workers and hence the role of the unions is undermined.

Firms and trade associations deal with executive departments, regulatory agencies, legislators, and political parties on an ad hoc basis. The American business interest groups target their activities primarily on Congress and regulatory agencies. That is there is no dialogue at the federal level between the federal government and the business organization. The firms in major American industries or corporations form trade associations. These associations are staffed with public relations specialists and professional lobbyists. The task of the specialists and the lobbyists is to compile and present statistical data for the industry and provide them as perspectives to the government advisory boards and regulatory agencies.

(ii) Continental European Type of Capitalism: Capitalism found in continental Europe (mainly France, Germany, and Italy) is based on private ownership, modified by the introduction of
institutions aimed at protecting the interest of “stakeholders” and “social partners”. It is highly characterized by welfare state and social democracy. The welfare measures include health care system for the entire population, pensions, high wages, benefits related to childbirth and childcare. The main countries to advocate this type are France, Germany, and Italy. Most countries on continental Europe possess a macro-economic model called continental capitalist also called as Rhine capitalism. Rhine capitalism or Rhenish capitalism is generally associated with the German version of “social market economy”, founded on publically organized social security. This is associated with other Northern European economies like Switzerland, Austria, the Netherlands, Denmark and Sweden. Japan is also regarded somewhat as this type.

Michel Albert (1993) was the first to coin the term “Rhine Capitalism”. Rhine capitalism is characterized by: finance dominated by the banks instead of the stock exchanges, close relationships between banks and companies, well-adjusted balance of power between shareholders and managers, social partnership between employers and unions, high loyalty of employees towards the firms they work for, better educated employees due to the dual education system\textsuperscript{21}, more regulated markets, and most importantly, shared values by most of the citizens regarding the ideas of equality and solidarity (Albert, 1993).

Hence, the countries that practice this type of capitalism are characterized by principles of social legislation where it provides social security in illness, unemployment, etc. It is praised for reducing economic inequality. Unlike USA, these countries have strong banking system, but weak equity market, solidarity based insurances, a large public sector, and far reaching labor laws. They believe strongly in protection of social rights. Wages are more constant and take into consideration qualifications, seniority and nationally agreed pay scales (Albert, 1993). The rights of the workers are secure, as it is difficult to close plants or fire workers. Housing costs are often subsidized (Albert, 1993).

Germany, like Sweden, is one such institutional economy, characterized by high-wage, high-cost, high-quality and limited wage differentiation. Banks in Germany, like Japan, own equity

\textsuperscript{21} Dual education system combines apprenticeships in a company and vocational education at a vocational school in one course.
and are provider of loans to the firms. Even the Japan is termed as an ‘institutional’, ‘organized’ and ‘corporatist’ economy like Germany and other states that come under the Rhine model. This is because like European institutional economies, Japan has unified organization of private corporations and industries. However, as some features which are unique characterize Japan, it is dealt separately.

European-style state-led capitalism is strong in guiding complicated technology projects in which research, production, and commercialization (Groenewegen 1997: 338). France form of economic organization is known as statist. Germany, Sweden, Austria, Denmark, and the Netherlands are called ‘social market capitalism’ (Groenewegen, 1997: 336). The value system is not individualistic, but focuses on cooperation and consensus building. Strong organizations of labor and employers negotiate at the national level about wages, social security, work conditions, and the like. The firm is an organization with two stakeholders i.e., shareholders and employees. In Germany, the stakeholders are represented by law within the supervisory board (“Aufsichtsrat”), which supervises management (“Vorstand”) (Groenewegen, 1997).

Within Europe families, banks and governments control much of the stock of corporations. Share crossholding exists here. Hence, stock is not available in the market so easily and hostile takeover becomes difficult. However, the disadvantage of this type is high level of taxation; discourages innovation, employment, and effort. Firms here tend to opt for automating production, create new facilities abroad, and outsource production and services. This has led to unemployment among the youth (Lippit, 2005).

In the European style of capitalism, there exists the system of cross-stockholding and interlocking directorates whose purpose is also to strengthen long-term commitments. Co-determination gives labor voice, and relational contracts open the way to long-term specific investments (Groenewegen, 1997). The government regulation supports market organization and long-term specific investments. Hence, European economies along with Japan today are known for specialization in consumer electronics, automobiles, luxury goods, and high end precision machines, unlike the United States. The latter lost its competitive advantage in these
manufactures to the Japanese and the Europeans by attempting to maximize “shareholder value” Fligstein (2005: 127).

Sweden from 1932 to 1976 was led by a social-democratic government, thus terming their economy as ‘welfare capitalism’. New world economic order of the 1980s has largely been market oriented. The European countries too were affected, which has given rise to changes within these economies too. The changes that the Swedish political economy has undergone post 1980s is in terms of ‘market mechanisms to allocate productive resources, income, and consumption (Pontusson, 1997: 68). The compromises that are made to their welfare state are in the form of ‘curtailment of public spending and employment and a series of efforts to render the provision of welfare benefits, services as well as transfer payments, more market conforming’ (Pontusson, 1997: 68).

However, this does not means that the European economies are converging on the patterns of the market-oriented capitalism of USA. The 1960s was dominated by the convergence theory of ‘pluralist industrialism’, whose assumption was that the economies were converging on one pattern, i.e., the economy that best incorporates the best features. Tinbergen was the pioneer of the theory of convergence of systems, those of the communist economies and free economies. He used factual analysis to find common ground regarding by list changes within both economies contrary to their respective ideologies and also the problems that their systems. The crux of this theory is that each system heads in the direction of change i.e., towards convergence through two factors: each system learns from its own flaws and each increasingly influences the other.22 Counter to the convergence theory was the diversity of economies argument that resulted from the differences in the institutional structures of various states. The most recent advocates of the divergence theory are the Varieties of Capitalism (VoC) School who debate against the neoliberal model on convergence, arguing that comparative institutional advantages enable to maintain institutional stability as well as diversity within different national economies (Hall and Soskice, 2001). As Groenewegen (1997: 340) says, each capitalist system tries to borrow

22 Original article: Tinbergen, J (1961), ‘Do Communist and Free Economies show Converging Patterns?’ Soviet Studies, Vol 12, pp. 333-341. The other supporters were Doel, J. van den (1971), ‘Konvergenterie en Evolutie’, Assen. 70
elements from other systems of capitalism for achieving efficiency by introducing new institutions into ‘existing systems to correct failures’.

(iii) Japanese Model of Capitalism: Before the Allied Occupation, the Japanese industry was controlled by the huge industrial and financial conglomerates, known as zaibatsu (literally, “financial cliques”). They were hierarchical organized and family-owned holding companies. There were 10 predominant groups, like Mitsui, Mitsubishi, Sumitomo, and Yasuda. The holding company in turn held controlling interests in the key zaibatsu firms in each group—a bank, a trading company and several large companies in manufacturing, mining, and finance. During the Allied Occupation, the Japanese government under the directive of occupation authorities dissolved the zaibatsu holding companies. The stocks were sold to the employees and the public. However, since the 1960s enterprise groups having roots in former Mitsui, Mitsubishi and Sumitomo zaibatsu became significant enterprise groups. Each of them has their own bank and trading company. Other large corporations that had no previous zaibatsu ties are also organized in this manner. These enterprise groups are commonly referred to as keiretsu (literally, “alignment” or “affiliation”).

Japanese economy is characterized by lifetime-employment status, the seniority-based system of wages and promotion, and the enterprise-union system. The values that shape Japan’s economy are their people’s ability and willingness to work very hard as a group. In their bid to seek their goals, there is cooperation, consensus, and harmony. Unlike US where individualism as a value is valued the most, here it is based on values of communitarian-ism. Cross relations exist between shareholders, employees, suppliers, customers, members of the business group (keiretsu), and (local) government. Hence, they are all stakeholders within a corporation (Groenewegen, 1997).

Japanese model is influenced by institutions namely., ‘the leading role of the state in the economy, the keiretsu (corporate group) system, “lifetime” employment and the seniority system, the educational/career path system, and the family system’ (Lippit, 2005: 37). Each of the keiretsu groups has sought to be represented in every major industry. The keiretsu or the corporate group is characterized by interlocking shareholding where even the banks are part of
the shareholding. Therefore, the Japanese corporations largely borrow funds from the financial institutions, primarily commercial banks. In Japan, the corporation's debt-equity ratio is very high (Haitani, 1986), wherein the corporate bonds provide only a fraction of external financing and bank loans constitute only a small portion of its total debt structure.

One of the key features of Japanese economic system is the big business leadership (Haitani, 1986) known as zaikai (literally, the financial or business circles). They are the leading members of the four major business associations in Japan. The trade associations of all major industries, together the major corporations and several public corporations form the very powerful peak business organization, the Federation of Economic Organizations (Keizai Dantai Rengo Kai, or Keidanren for short). Along with three other top business organizations (the Japan Federation of Employers' Association, or Nikkeiren; the Japan Chamber of Commerce and Industry, or Nissho; and the Japan Committee for Economic Development, or Keizai Doyukai) the core of Japan's zaikai, or big-business leadership. Some of the zaikai persons are officials of trade associations, while others are top executives of Japan's largest corporations. Haitani (1986: 209) says 'the private business sector in Japan is hierarchically organized. Japan's large corporations form enterprise groups, which, through trade associations and peak business organizations, establish close, symbiotic relationships with departments and agencies of the key industrial ministries of the Japanese government.' That is the reason why Japanese economy is called organized economy.

Zaikai persons are recognized as such because they promote the interests of the business community through their close ties with key politicians. They are part of the key advisory councils attached to many ministries and agencies. Hence it is a common phenomenon wherein the political leaders them on key policy matters. In turn, the zaikai members raise campaign funds for politicians for expensive elections. Many of the high-ranking government bureaucrats obtain positions within the corporate sector post-retirement. Hence, there is triangular relation between the bureaucracy, political parties, and the business leaders.

Outside the government, the Keidanren is the most powerful organization in Japan. No major economic or political decisions, including the selection of key economic ministers and drafting
of the national budget, are made without consultation with the president of Keidanren and other zaikai leaders. Keidanren's primary function is to speak with one voice to the political and bureaucratic leaders conveying the desires and preferences of the business community for influencing the content and direction of public policy decisions. The business groups in Japan tend to focus their lobbying activities in the highest levels of the national government bureaucracy and the top leaders of political parties. Often the Keidanren and the other key business organizations forming zaikai are often referred to as pressure groups or special interest group. Haitani (1986: 267) says such a designation is not appropriate as they both do not 'represent the parochial interests of specific industries or regions' and the zaikai leaders 'regard themselves as defenders of the general interests of the Japanese business community, which they equate to the general interests of the Japanese economy and society'.

C. Case for Divergent Models:

Thus; the capitalist form of economy is associated with the West (i.e., North America and Western Europe) and Japan. This forms the core triad. Other core members are Canada and Australia. These countries are called the main capitalist economies. There are significant variations in the nature of capitalism practiced by these states as observed in the above mentioned models. However, more and more countries are getting into the fold of the world system dominated by these core countries of the global economy.

The Washington Consensus' brought many countries of the 'Second World' (after the end of the Cold War and with the disintegration of the erstwhile USSR) and the 'Third World' towards the adoption of the 'market economy'. There were several crises that triggered a shift in almost all the economic systems especially that of the Second and Third World countries. Gwynne and others (2003: 3) give four main crises that acted as catalyst: one, at the global level in 1980s, the crisis was associated with the end of a long-wave business cycle where profit rates declined leading to a search for new stimuli for economic expansion. This affected the world economy. The other three multifaceted crises were in relation to the Second and Third world countries. They were associated with foreign debt both in the Third World and in Eastern Europe, decline in traditional primary exports, and the collapse of state socialist regimes in the Soviet Bloc.
Since these emerging economies (excluding the core-economies) had their own form of economy before they embarked to practice the principles and to establish the institutions of market economy, the kind of capitalism they would follow invariably will be a variant or of different form and not a model fashioned after the West. The very fact that the core countries themselves do not follow a similar model of capitalism, but rather have variations, itself proves the point that the emerging economies (a term given to the second and third world countries, also called as emerging regions.) are bound to have different variants. Gwynne et al (2003) express it as ‘alternative capitalisms’—economic and associated developments which, while assuredly capitalist, differ in various ways from those typical of the capitalist West or ‘core economies’ of North America and Western Europe.

Ernesto Screpanti (2001: 267) explains with the help of a model as to how there are different forms of capitalism, as given in Figure 2.2 (given in the next page) which delineates the notions of a ‘property rights regime’ and an ‘accumulation governance structure’. He identifies five broad forms of capitalism: classical capitalism, market-oriented corporate capitalism, bank-oriented corporate capitalism, decentralized state capitalism and centralized state capitalism.
Unlike classical capitalism where private property was concentrated, today private property is diffused. Today Russia finds itself having a mix of corporate-bank-state capitalism. This type of Russian capitalism needs to be elaborated as it witnessed a change in the policies of the state towards banks and enterprises. This type will be discerned in Chapters 3 and 4. Moreover Screpanti cites that the presence of the managerial class and the presence of the state in owning the stock of certain industries or controlling certain sectors of the economy has given rise to different forms of capitalism.

Moreover, the respective history and culture affects the economic development of these emerging economies. Since the Washington Consensus also involved structural changes both in the economy and polity, neo-liberalism had come to dominate the political-economy worldwide. Neo-liberalism has been the bedrock of the ‘Washington Consensus’ principles. The World Bank created the neo-liberal model through the principles of the Washington consensus through which the concept emerging markets was formed or created. Neo-liberal package of ‘Washington Consensus’s fundamental commitment is to open borders for free movement of capital. These
neoliberal ingredients of ‘Washington Consensus’ were prescribed to the countries of erstwhile USSR. Out of which Russia was among them.

Since we are dealing with the capitalist class in Russia, we need to examine the emergent capitalist class. To do this it is not quite possible to simply define the kind of capitalism and capitalist class in Russia by examining the theories associated with capitalism and capitalist class. The examination of theories is to discern the contemporary forms of capitalism and capitalist class. In addition, to infer the contemporary changes that has taken place. As mentioned earlier, Chapters 3 and 4 will deal with the internal and external factors that have given rise to market economy or capitalism within Russia and also the Presidentships of both the leaders have contributed to the growth of capitalism. And, Chapter 5 will attempt to give a clear understanding of the kind of capitalism that has developed in Russia and consequently the capitalist class.

2.3 Changes in Capitalist Class:

When it comes to the stratification of society, the concept class is usually referred in a market economy. Weber aptly said that class situation is ultimately market situation. The capitalist class is found where the dominant mode of production is in the hands of private individuals rather than the government and is based on market exchange. In an individual or family owned enterprise the organizational assets belong to the owner of the business (entrepreneur), but in a large corporation, the organizational assets are usually turned over to the managers for, who manage the corporation in the interests of the owners. The owners and major shareholders retain the ownership.

Kanji Haitani (1986: 226-227) says that a fundamental fact of modern capitalism is that the large corporations are not firms in the textbook sense of having the unified will, goal, motivation, and self-interest of an individual owner. He points out one of the characteristics of corporate organizational sector that the corporate property has lost much of its ‘privateness’ wherein they have acquired a semiprivate and semipublic character. This has resulted in the phenomenon of separation of ownership from control. However, it must be noted that the question of ownership
still determines the characteristic of capitalism. There are the members of the managerial class, the technicians, skilled laborers whose lot is much better since post-industrialization. Some of the board members of a corporate or companies tend to own the shares of the concern along with the authority to decide for the company. However, whoever remains the owner of the concern through major shareholdings in a large scale company decides the capitalist. While dealing with the capitalist class we do not refer to the medium and small entrepreneurs. The focus is only on the large entrepreneurs as Mills (1972b: 288) says they share in the ‘decisions having at least national consequences’.

Social class has been conceptualized by using factors like property, prestige, status, income, consciousness etc. Each conception, which is utilized to define class, is bound by limitations. The differentiation of membership of the intermediate strata or the middle class has given rise to more complexities in stratifying a given society. Scientific and technological advances, changing economic conditions, specialization of knowledge, differentiation of skills, etc has brought in a certain kind of relativity to the roles played by each individual in a social system. As the society grows complex with every passing year, individuals perform differentiated roles, which makes it difficult to determine or fix the membership of any class.

To understand the concept of class especially in a capitalist state in contemporary times involves an understanding of the changes in the society. The traditional notion of capitalism or according to the classical economists, capitalism is a mode of production based on private ownership of capitalist assets. However, the modern meaning of capitalism has changed because of the division between ownership and control. Between the strata of owners and the workers, we find managers and the specialists whose position is much better when compared to the workers both skilled and unskilled.

Erik Olin Wright’s class analysis is similar to Weberian ‘class situation’ in terms of former’s class location. He explains the changes within class structure regarding contemporary post-industrial societies (mentioned earlier), through his seminal work on class. Though he has attempted to theorize and empirically examine them towards the capitalist countries of the world,
the map of class locations becomes useful in the study of this research. However, Piirainen (1997: 30-31) suggests a note of caution wherein the applicability of neo-Marxian and Wrightian class mapping to understand the transitional society of Russia is flawed. When Russia embarked on the path of being a market-oriented economy, the living standards of 2/3rd of the people was reduced to below poverty line and the salaries were not sufficient to make ends meet even for professionals. He points out that when the so-called middle class sank below the poverty line in the first decade of 1990s, the mapping of Wright’s locations makes no sense. This mapping can explain the Russian society much better when the class locations are firmly embedded. What should be noted from Figure 2.3 is that incorporates the developments that have taken place in capitalism in relation to class. Most importantly through this he explains the dilemma of managerial and technocratic being part of the ownership or capitalist class.

Wright (1997) uses a twelve-location class structure matrix as given in Figure 2.3 (given below) to explain this predicament. He refers to the cells within the typology not as ‘classes’, but as locations within class relations, which he calls as the ‘class structure of capitalism’ (Wright, [1997] 2000: 20). He calls it the ‘contradictory locations’ within the class structure-the managers and supervisors, experts, skilled and non-skilled workers, small employers and petty bourgeoisie. The managers occupy contradictory locations due to ‘authority’ through domination and privileged appropriation location within exploitation relations (Wright, [1997] 2000: 16). Hence, he attributes authority to the managers and not ownership. Employees, like managers, who possess scarce skills and expertise and have control over knowledge and skills occupy a privileged appropriation location within exploitation relations (Wright, [1997] 2000: 19).
Figure 2.3: Elaborated Class Typology

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Owner</th>
<th>Employees</th>
<th>Managers</th>
<th>Supervisors</th>
<th>Non-management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Many</td>
<td>Capitalist</td>
<td>Expert managers</td>
<td>Non-skilled managers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Few</td>
<td>Small employers</td>
<td>Expert supervisors</td>
<td>Non-skilled supervisors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>None</td>
<td>Petty bourgeoisie</td>
<td>Experts</td>
<td>Skilled workers</td>
<td>Non-skilled workers</td>
<td></td>
</tr>
</tbody>
</table>


Factors that have led to the changes or differentiation in the capitalist roles: rise of joint stock companies; emergence of the managerial class leading to separation of ownership and control; predominance of corporate economy that has resulted in the wide dispersion of the stock, i.e., division between stockholders and stakeholders (owners) etc. Enterprises owned and managed by an individual or family has long ceased to be the dominant pattern of economic organization. Large enterprises are mostly in the form of corporations. Managers do not own significant amount of shares. Managers or experts (including the supervisors) exercise ‘delegated capitalist class powers in so far as they engage in the practices of domination within production’ (Wright, [1997] 2000: 16). Moreover, the definition that Ernesto Screpanti arrives upon is compatible with the forms of modern capitalism. However, if the firm chief executives or the managers (i.e., the management) own majority-voting shares then they come under the ambit of the business elite or capitalists. If this is the case then Screpanti’s definition is more compatible to explain this situation. He defines capitalist class as a ‘group of individuals who are endowed with that particular kind of “capital” called “capacity to control”, and who therefore can exert command on the use of the firm’s assets and the worker’s “human capital”’ (Screpanti, 2001: 282).
2.4 Conclusion:
Amongst the economic hierarchies within the society, the capitalists occupy the topmost position. It is one of the economic classes. However since they are involved in the major decisions of the state when it comes to the matter of business activities that affect the nation, then their position is also important as Mills (1956 and 1972b) puts it, though not as significant as the political class, though their decisions are not as significant as the latter.

The following chapters three and four will be dealing with the two presidents who served as the executives of Russia during the time-period that is being examined. Chapter 3 will deal with former Russian President Boris Yeltsin and Chapter 4 with the second President of Russian Federation, Vladimir Putin. They are dealt in separate chapters to make a comparative study of both the persons and their rule vis-a-vis the capitalists. Secondly, constitutionally, the chief executive of Russia wields more powers than in any other power structure within Russia. Thirdly, during both their tenures there was the threat of reverting to socialism and command economy: during Yeltsin’s tenure, his popular ratings were low at 6%. The communist party had won the 1995 Duma elections. The capitalists boosted him to win the second term in the second round of election. The confrontation of oligarchs by Putin on being the president threatened a reversal and sounded the death knell for the business elite. However, they have survived during both the times and prospered only to be hit by in 1998 by financial crisis and in 2008 by recession respectively. There seems to be a pattern, which may not be linear, but it exists nevertheless.