

Privatization of exploitation in Russia

Magoroh Maruyama

As Hakamata [1] has pointed out, the current crisis in Russia cannot be understood or remedied by economic theories and methods because it stems from the ethos of reckless cheating by “entrepreneurs” and other businesspersons. Because of the rampant practice of cheating, firms as well as consumers cannot count on honesty in business activities. Maruyama discussed [9–11] that the hidden purpose of the communist regime was exploitation of the poor under the pretext of protection of the poor, as will be explained below. During the communism era, the state government system exploited the poor and the powerless. The current post-communist “entrepreneurship” is a privatized continuation of exploitation.

During the tsar regime, many foreign intellectuals had been employed by the Russian nobility, and French was spoken among upper class Russians. The anti-tsar revolution was instigated by foreign intellectuals. Even Lenin was Jewish, as was officially recognized in the early 1990s. Communists, who included Russians as well as foreigners, organized illegal and often violent activities to overthrow the tsar regime and gain political power. They used the rhetoric of advocating the improvement of the life of the lower class.

After the revolution, communists instituted a dictatorial system which was enforced by terror, secret arrests and executions. Their purpose was accumulation of wealth and power. While factory workers could be easily indoctrinated, farmers remained quite autonomous and resistant to communism. Communists purged and executed a great number of farmers. The following example illustrates their method. A farm boy needed a new shirt and went to a neighbor to work for a few hours in exchange for a new shirt. A communist agent, dressed in an expensive fur coat, arrived and demanded the boy to sign a statement that the neighbor had exploited him. The boy first refused but was forced to sign. The farmer was arrested and executed. The agent confiscated the farmer’s possessions.

It is often assumed that communist systems provide no motivation, incentives, rewards or opportunities for expertise. But this assumption is incorrect [10]. The communist systems were based on allocation [6,7]. For example, for a factory, the “profit” consisted of monetary and material allocations from the government. It was not necessary to make a profit on sales. Since the delivery of allocations could take several years, clever managers overrequested the allocations and accumulated excess inventory, and side-traded it with other factories in order to obtain urgently needed items. Expertise was necessary in the wheeling-dealing, and efficient managers gained material reward, social recognition and psychological pride. Furthermore, since all materials were considered as “state property” which belonged to “people”, individual workers in many of the communist countries felt no guilt in stealing officially stocked materials. In such systems, it was quite logical and “legitimate” to steal. Therefore the current rampant cheating in business activities is a logical extension of the communist ethos. Exploitation and cheating became privatized. China was an exception, where in the 1950s the communists subverted the traditional Chinese concept of humbling into confession of guilt [12]. In their brainwashing sessions [4], the Chinese competed in confessing sins: the more confessions one made, the more prestige one gained, and for that purpose, one invented fictitious sins that he/she did not commit. Until 1980 [2], any individual gain was considered to be a “crime against people”.

In Russia in the 1990s, not only individual entrepreneurs but also semi-official organizations such as cooperatives as well as administrative collective entities such as “nomenklatura” which continued to exist after privatization were highly exploitative. For example, in order to enable individuals to purchase stocks of state-owned factories, “coupons” were issued to individuals, supposedly exchangeable with stocks. But cooperatives and “nomenklatura” deceived the inexperienced members by saying that if the members gave their “coupons” to the cooperative administrators who would act like stock exchange agents, the members

would get a large return. Of course, these deceived individuals received nothing, not even a receipt for their “coupons”.

As a reaction to the present chaos in Russia, a return to controlled economy is gaining popularity. Of course, even in the “west”, economic planning and regulatory agencies exist which set bank reserve ratio, interest rate, and watch out for illegal activities such as insider trading. Such planning and regulatory activities are needed. But if the mentality of exploitation and cheating persists, any economic reform will fail.

In some societies, personal connections provide trust relations to counterbalance the otherwise untrustable impersonal “outsiders”. Landa elaborated in detail [3] how personal connections among “overseas Chinese” businesspersons provide exclusive network of information vital to decision making.

Will the solution to the Russian chaos be achieved by expansion of trustable personal relations, or can some method be devised to change the reward structure in such a way that business relations outside the personal connections can become trustable? Expansion of personal relations is likely to lead to favoritism, unfair trading, insider trading, and various types of corruption [8,13]. In fact, “exclusive information” which in some countries may include such items as the file by secret police can be used as bribe instead of money [5]. Therefore change of reward structure to create trustable *impersonal* business relations is necessary.

Some aspects of the current Russian crisis can be remedied by economic methods. But other aspects cannot. The diversion of foreign investments and monetary aids such as loans from foreign or international official agencies, and the preference for nonproductive quick profit strategy are economic problems. In a way, we can learn from the economic situation of Germany in the 1920s, when inflow of foreign credits was used for quick gratification and self-indulgence such as cabarets, theaters, drugs, etc. in Berlin which created an illusory luxury. The first autobahn was built with foreign credit to connect Berlin with the lake resort of Wannsee. Meanwhile the ordinary citizens suffered from astronomical inflation resulting in a loss of savings. This happened because of economic mismanagement, not because of exploitation. The same kind of mismanagement is occurring in Russia apart from the problem of the ethos of cheating.

Another economic problem is nonproductive quick profit strategy by individual entrepreneurs. This prob-

lem exists not only in Russia but in many other Central and East European countries such as Magyarország (in Hungary). Entrepreneurs prefer creating a trading firm or distribution firm which requires less capital than building a factory. This happens even without the ethos of cheating.

But Deutschland (Germany) and Magyarország (Hungary) did not have the history of reckless exploitation. In Germany, communists had no major political power, and in Hungary, communism was politically imposed while the tradition maintained itself under the surface. Thus Russia has an additional problem which is difficult for outsiders to understand or believe. Economic aids and advices from foreign countries not only are misdirected but may even aggravate the problem.

References

- [1] S. Hakamata, A commentary published in *Nippon Keizai Shinbun*, 11 September 1998.
- [2] S. Ide, Value changes among the Chinese since Mao's death, in: *Chugoku no Mirai zo ni Kansuru Kenkyu*, Aoyama Gakuin University Institute of Integrated Studies Project Report, Tokyo, 1995.
- [3] J. Landa, Trust, social capital, and gift-giving: Chinese middleman-entrepreneurship. Paper presented at the World Congress of Sociology, Montreal, 28 July 1998.
- [4] R.J. Lifton, *Thought Reform and the Psychology of Totalism*, Norton, New York, 1961.
- [5] M. Łoś, Privatizing the communist legacy of governance-through-corruption. Paper presented at the World Congress of Sociology, Montreal, 28 July 1998.
- [6] M. Maruyama, Cultural models of international borrowing, *Human Systems Management* **8** (1989), 213–216.
- [7] M. Maruyama, Some management considerations in the economic reorganization of Eastern Europe, *Academy of Management Executive* **4**(2) (1990), 90–91.
- [8] M. Maruyama, Contracts in cultures, *Human Systems Management* **10** (1991), 33–46.
- [9] M. Maruyama, *Management Reform in Eastern and Central Europe*, Dartmouth, Aldershot, 1993.
- [10] M. Maruyama, *Mindscapes in Management*, Dartmouth, Aldershot, 1994.
- [11] M. Maruyama, Misconceptions regarding communist regime, *Human Systems Management* **14** (1995), 263–265.
- [12] M. Maruyama, Post-totalitarian deconversion trauma, *Human Systems Management* **15** (1996), 135–137.
- [13] M. Maruyama, Bribing in historical context, *Human Systems Management* **15** (1996), 138–142.