

The path of Russian reforms

by D. Lvov, V. Grebennikov, V. Dementyev

The following, Working Paper WP/96/014, was prepared by the Central Economics and Mathematics Institute of the Russian Academy of Sciences. We reprint it with the authors' permission. The English translation, prepared by the Russian Academy of Sciences, has been edited by EIR.

Introduction

Two experiments—two failures in efficiency

In the twentieth century, Russia became an object for two ruthless economic experiments: after the planning experiment, came liberal radicalism.

Shouts about the failure of the first experiment are heard from every corner. Russia was defeated in global strategic competition with the U.S.A. It has given way to Western countries, in the ability to sustain a high level of innovation, and to utilize all possibilities for advance. There was to be no end of the century worth celebrating for Russia. And that is the fault of the country's own ruling elite.

That elite initiated—and has failed in—the biggest campaigns, which were described as a kind of second wind for a society weakened by overexertion. The hysteria of the anti-alcoholism campaign; of the “strategy of acceleration”; of “electoral democracy” at enterprises; of “social re-orientation” of the economy, i.e., of spending all the money of an exhausted budget on food; of “regional self-financing,” which became a first step in the disintegration of the U.S.S.R.—all these things failed to solve problems such as the Soviet economy's increasing technological lag, the decrease of its efficiency and ability to compete, the growing disproportions (between supply and demand, income and expenses of citizens, income and expenses of the state), the growth of the shadow economy, and corruption trampling upon the principles of social justice and humanity. The losses imposed on the financial and material balance of the economy turned out to be sufficient for the total disruption of the market, planning, and the wage system.

A decisive contribution was made by the leadership of the former Russian Socialist Federation of Soviet Republics (R.S.F.S.R.) when it appropriated the right to control taxes and issue credit. The race between the Soviet Union and the R.S.F.S.R. on the issuance of credit led to a domestic depreciation of the ruble, disruption of the system of settling ac-

counts, and the institution of a barter system for the exchange of goods. The ultimate illusion was aroused, that “other regions are robbing us,” and that it was necessary to separate from the Union in order to improve one's economic position. The subsequent events were thus pre-determined. The majority of the population perceived the disintegration of the U.S.S.R. positively, or neutrally, being fascinated with slogans about Russia's taking leadership in a social-economic transformation, which would allegedly guarantee an increase of living standards, price stability, and social security for the disabled part of the population.

Since the beginning of 1992, the experiment to spur the economy began with radical measures, in the liberals' sense. However, that experiment, too, insofar as it was wrapped up with the political self-interest of the ruling elite, has proven no more economically effective than its “socialist” predecessor, which shaped the present elite.

Among the manifold symptoms of failure of that latest experiment, we could note the following:

- weakening of fundamental enterprises in promising branches of the economy;
- slowing down of modernization in the majority of industries;
- underutilization even of modern capacities, undermining the competitiveness of the goods produced there;
- reducing the potential for internal accumulation;
- a lack of demand, given the technological level of many enterprises, for the skills of a considerable part of their employees.

The catastrophic decrease of the production of industrial products (two times), including science-intensive ones (three to four times), of the gross domestic product (two times), including material production (two and one-half times), means that there has been a sharp decrease of production efficiency, and of opportunities to invest and to support standards of living, without a significant decrease of energy consumption or of the number of employed, which increases the inflation potential in the economy.

Higher rates of taxation, the putrefaction of the state apparatus, the ineptitude of the state administration, the pauperization of the population, and the ideological crisis have led to the criminalization of the economy, establishing organized criminals' domination over many of its spheres, and a merger of corrupt elements of the state apparatus with the criminal business world.

The authors are:

Dmitri S. Lvov, Academician, Academician-Secretary of the Economic Department of the Russian Academy of Sciences.

Valeri G. Grebennikov, Ph.D. (Economics). Head of Laboratory, Central Economics and Mathematics Institute, Russian Academy of Sciences.

Victor E. Dementyev, Ph.D. (Economics). Head of Laboratory, Central Economics and Mathematics Institute, Russian Academy of Sciences.

ЦЕНТРАЛЬНЫЙ ЭКОНОМИКО-МАТЕМАТИЧЕСКИЙ ИНСТИТУТ
CENTRAL ECONOMICS AND MATHEMATICS INSTITUTE

РОССИЙСКАЯ
АКАДЕМИЯ НАУК

RUSSIAN
ACADEMY OF SCIENCES

Д. Львов, В. Гребенников, В. Деметиев

PATH OF RUSSIAN REFORMS

Working Paper # WP/96/014



МОСКВА

The cover page of The Path of Russian Reforms.

All that defines the necessity of changing the present course. A strategic turn is needed, based upon comprehending the pattern of our past, present, and future in a world which is far from serene. The present report is one attempt at such comprehension.

1. Russian reforms in the global context: Tectonic dislocations in the world economy

The post-war decades have fundamentally changed the character of the world's economy. The world has entered into a new period of its development. It can be characterized by the following strategic elements:

A restructuring of the institutional grounds of the modern economy is occurring. Local and national economies are gradually losing the potential for self-development; they are beginning to be integrated into a single, planetary economic organism with a kind of universal control system, which is called, out of habit, "the market system" or "the free enterprise system." The transnational corporations have come to play a decisive role in defining the character of further development. A total of 37,000 transnational corporations (TNCs), with about 200,000 branches, has embraced the whole planet. It represents a single network, a single system possessing one-third of all the production facilities of our planet, producing more than 40% of the worldwide product, implementing more than half of the international trade turnover, more than 80% of trade in high technologies, and controlling more than 90%

of capital exports. The volume of international trade has increased 10-fold over the last two decades!

The market has acquired the character of a universe, in which technological leadership emerged as the most important factor for success. Countries have divided into some quickly progressing ones, the productivity of which has been higher than the worldwide average, and backward countries, with lower than average productivity. But the market remains the market, and that is why it makes mercilessly short work of those countries whose labor productivity has not been able to rise above the average level.

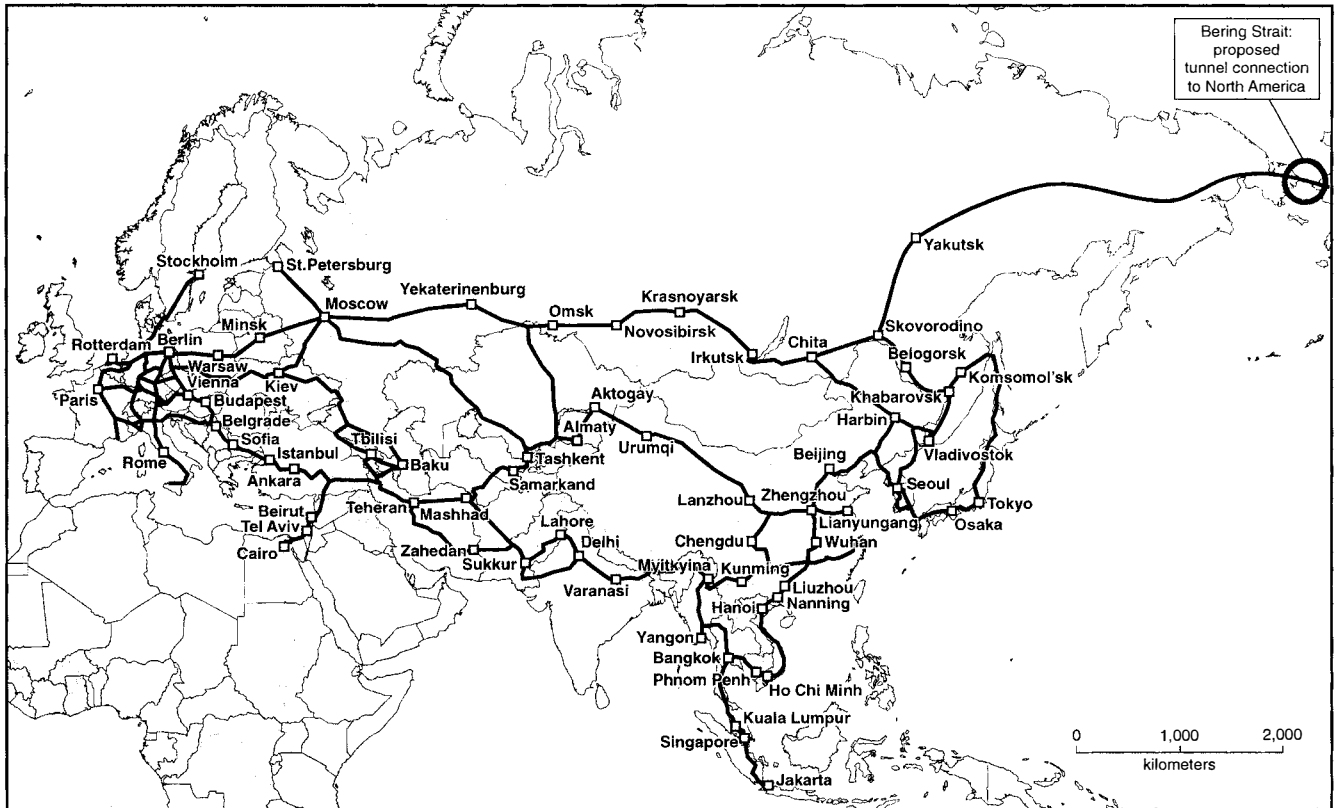
Capital is concentrated in those countries where social labor productivity is higher. What happens with capital in those countries that are usually called backwards, is no exception. Thus, those countries not only are deprived of external investors, but also their own capital will inevitably flee to more successful countries. This process affects not only material capital, but intellectual: More energetic and more talented people emigrate to countries of the "golden billion," draining backward countries of the best they have.

So, as long as the established world order exists, this inexorable process will continue, and intensify, pumping capital, natural resources, and talent out of the backward countries. The action of that pump leads to a steady increase in the stratification of nations. While relatively recently—30 to 40 years ago—backward countries were truly called developing, because they had definite chances for development, and for narrowing the gap with advanced countries, now the backward countries are "behind forever."

Indeed, in order for a backward country to rise to the surface, an increase in labor productivity is necessary. And that requires considerable investments and qualified personnel. They are needed not only to re-equip industry, and to make use of new technologies, but more to create an active and qualified entrepreneurial community. The latter is an absolute condition: No upswing is possible without it. That condition is, at the same time, a consequence of modern technological breakthroughs, and requires an absolutely new understanding of the term "the national intellectual potential."

Whereas, previously, people who were usually counted as part of the intelligentsia—i.e., research engineers, designers, and scientists—were associated with the concept of intellectual potential, now this potential is implicit in many workers' specialized skills. Indeed, there is a whole array of "high technologies," which require an engineer's training to service. That means that only those nations can have pretensions to the development of modern high-technology industries, which are capable of providing a high level of education (and discipline) for the population. These are needed for those who can teach others. And precisely these are lacking in backward countries. The developed countries, however, are able to attract precisely those people who possess the necessary types of skill and training—and yet another form of exploiting backward countries arises!

Eurasia: future main routes of the Eurasian Land-Bridge



One of Russia's "main trumps," is its "unique geographical position in the world community. Russia, occupying the north of the Eurasian continent, offers the shortest and most necessary link (for everyone) between the countries of the Atlantic and Pacific regions: via airplane, railroad, highway, ship, and fiber optics. . . . Large-scale infrastructure programs will enable us to provide a global link between two powerful combinations: the energy-minerals one, and the military-industrial one, on a new macroeconomic basis."

The existing planetary market mechanism doesn't elevate, but destroys, the economies of backward countries, transforming them, at best, into raw-materials appendages of countries with high labor productivity.

These profound transformations are taking place in a world financial system which is currently experiencing a crisis that has become drastically more severe. Its main causes are the arbitrarily expanded scale of fictitious capital: augmented volumes of speculative "paper" assets, groundless increase of external and internal debts of countries participating in world integration, etc. As a result, the financial resources that would be used to sustain the vital activity of physical production are depleted.

Today, more credits go into the U.S.A.'s financial and real estate sphere, than into production. The share of purely financial futures, based on speculation on interest rates, foreign exchange, and securities, in the total volume of futures transactions, increased between 1973 to 1993, from 1.8% to 64.8%. While the Gross Domestic Product of the U.S.A. has increased during the last 10 years only by one-quarter, and

is approximately \$6 trillion, the total volume of derivatives transactions, giving birth to fictitious assets, has increased from zero in 1984, to \$36 trillion in 1994. The rate of increase of total debt in the U.S.A. is also unprecedented. That debt grew slowly between 1956 to 1970, and didn't exceed \$2 trillion. It rose to \$4 trillion by 1980, and, in 1990, passed the \$14 trillion mark. Already in 1990, the total sum of interest payments on debts had reached 35% of the Gross Domestic Product (GDP) of the U.S.A., and it has increased considerably since then.

The debt crisis has gripped the rest of the world. The state debt of Sweden is today \$15 billion, or 90% of its GDP. In Italy, \$1.2 trillion, or 112% of GDP. The state debt of Germany is equal today to 2 trillion marks, or 70,000 marks for every German family. The same crisis has been known for a long time in countries of the "Third World," and lately in the countries of the Newly Independent States (NIS) and eastern Europe.

All those debts exist in the form of nominal financial assets, under whose stormy pressure the first cracks have already

spread across the foundation of the world financial system.

Here is a short chronology of events for only the last few years: the bankruptcy of a series of municipalities in the U.S.A. which invested tax revenues into dubious securities (December 1994); the most impressive crash of the Mexican financial system (December 1994-January 1995); the crisis of the Spanish peseta, Swedish kroner, and Italian lira, as well as the fall of the dollar to the lowest point in its history, in comparison with the Japanese yen and the German mark (first half of 1995); the bankruptcy of the well-known British bank, Barings, caused by the failure of its speculations, as well as the crisis of the biggest insurance company, Lloyd's of London, (February-March 1995); the teetering on the brink of the precipice by the biggest bank in France, and one of the biggest in the world—Crédit Lyonnais (second half of 1995); and, finally, in the autumn of 1995—the series of bankruptcies of the biggest financial institutions of Japan (credit unions Cosmo and Kyushu Shinyu Kumiai and banks Hyogo and Daiwa). The general causes: on the one hand, “bad” debts, investments in low-grade bonds, the crisis on the currency markets and in real estate; on the other hand, the stagnation of the material goods production sphere.

Such are the processes fraught, with conflicts and global menaces, occurring in the world economic system, into which we are striving to be integrated. This striving is without any doubt justified. But what may await us on this path?

What place in the world community is being prepared for us by the present course?

Russia has actively plunged into world business circulation, having widely opened its internal market to the West. But the country turned out to be unprepared for this responsible step. Entering the world market with technological backwardness in many industries, and monopolism remaining from before *perestroika*, Russia has put its economy in a most unfavorable situation. It most certainly has no basis on which to count on an adequate place in world commodity exchange. More likely, its interface with world market will lead to the pumping out of its natural and intellectual resources. The gap between leading countries and Russia in standards of living will steadily increase.

Already, Russia has not only increased its backwardness vis-à-vis the U.S.A. in the size of GDP (from 3.5 in 1987 to 7.2 in 1994), but has been passed by such countries as China and India, which traditionally were among the “outsiders” in the world ranking. So far, Russia remains ahead of these latter countries only in GDP volume per capita. To estimate the prospects for the future, within the present system of coordinates, it is necessary to take into account a number of serious elements which our economy must encounter in the very near future.

First, the extensive exploitation of deposits, their considerable distance from the main consumption markets, and the increasing transportation costs for hydrocarbons, make them among the most expensive in the world.

TABLE 1

Russia at the red line

Indices	Threshold value	Existing in Russia
I. Economic		
1. Decline of GNP from starting level	30-40%	>50%
2. Level of food dependency (% of food imported)	30-35%	50%
3. Funds for science (% of GNP)	2%	0.32%
II. Social		
1. Ratio of income of richest 10% to poorest 10%	10:1	15:1
2. Number of crimes (per 100,000 population)	5	6
3. Level of depopulation (ratio of births to deaths)	50:50	50:63
4. Number of mental pathologies (per 100,000 population)	284	280
III. Political		
1. Level of legitimacy (% of citizens not trusting central government)	40%	60-65%

Persian Gulf oil turned out to be 10 times cheaper than Tyumen oil. And this is true everywhere, even for diamond production. Thus, as we approach world prices, we confront a new problem—limited possibilities to compete in the world energy, mineral raw materials, and metals markets.

Second, we have lost a part of the arms market: 1991 was a turning point, when our arms exports decreased during one year by more than three times! At the same time, arms exports from the U.S.A. had mounted, and at the moment are approximately twice as large as Russia's. However, you see, in 1980 we had identical volumes of sales, somewhere around \$10 billions. This traditional Russian export sphere was curtailed.

Third, the shock liberalization of the Russian economy has led to a situation where now many important sectors, vital for the country, have fallen below the “red line,” where the degradation of the national industrial and labor potential begins (see **Table 1**).

The structure of industrial production has undergone enormous systemic deformation. The share of the raw materials industries has more than doubled during the last five years, whereas machine building's share has decreased by more than 20%, the textile and footwear share by 62%, and so on. The domestic market share of those sectors of national industry has been slashed, and actively taken by foreign industrial corporations. As a result, the multi-sector Russian economy

has lost the self-sufficiency necessary to provide for its own security.

The most anxiety is provoked by the sharp decrease of the share of GDP spent for science and scientific services. The real share of expenditures in that sphere, of decisive importance for the future of Russia, is six times less than the threshold level.

Fourth, investment in modernization and technical re-equipping has become extremely ineffective. The reproduction of capital goods is sharply slowing down, and in some industries, everything is “spent for food.” Wear and tear on basic plant and equipment has reached the critical mark. As a result, the secure function of production-technical systems is quickly decreasing. More and more bottlenecks appear in the economy, in which the probability of accidents of a strategic nature reaches a maximum. The economy is becoming absolutely unreliable. It is constantly in some pre-accident state.

Such are the realities and immediate consequences of the present liberalization of the Russian economy. Its continuation condemns Russia to long years of vegetating in conditions of chaos and internal instability. Moreover, it will be forced to play the role of petitioner before “donors,” who are apt to see economic benefits from Russia’s loss of its industrial potential.

The people of Russia will scarcely agree to such a prospect. That is why other principles and approaches to the reform of the Russian economy, which would be able to make a break with this dangerous course of events, should be put onto the agenda.

Support for recovery

Above all, it is necessary to have a purpose which unites the people, which corresponds best to its historical experience, ideals, and the values incarnate in the culture.

A house with a grass lawn and a car is not suitable as a national dream. A national idea understood literally as a “strong Russia for Russians,” is not creative by its nature, and is dangerously explosive. Russia as a country of the third way (synthesis of East and West), is too dim an idea, and not a specific pattern.

A unifying idea should go back to the principle of “tolerable collectivism” (i.e., collectivism, but of a type that does not attempt to absorb the individual), as a counterbalance to American “tolerable” (not aggressive) individualism and to “intolerable” collectivism, which was cultivated by us in the Soviet period, and was more organically developed within the tissue of Japanese and Chinese societies. Tolerable or personalist collectivism cannot be linked strategically to the values of the American standard of a consumer society. The latter is oriented to a race in standards of consumption which has no limits, and to individual success (or mass, as in Japan) in that race. To produce for the purpose of consuming everything which could be produced, while continually rai-

sing the upper limit with the aid of scientific and technical innovations—that formula of a modern society, “consumption for the sake of production,” provided a powerful motive force for the post-war economic rise of leading countries of the West.

The global threats, with which a further expansion of the consumption society is fraught, are evident. It leads to ecological and social catastrophe, to the demarcation of a world of the poor and a world of the rich. An international movement called the “doctrine of sustainable development” seeks a way out of such a situation.

Enthusiasts of that movement naively believe that, having introduced appropriate international norms, it will be possible to pacify the consumption society: The latter would limit itself, i.e., would saw off the limb on which it sits. Another option is more realistic and more appropriate: the appearance, in the role of leaders, of countries of a new social type, with different systems of values and different ideals, proposing a more attractive way of life to the people than the way of life of the American type. The possibility of Russia becoming one such leader has not yet been lost.

This is a question of a way of life, and the corresponding organization of production and consumption, which can be expressed with the formula “society of spiritual and physical health.” There are investments into a human being, and a system of new standards of living (level of health, education, provision of other social benefits, including security and individual freedom—i.e., a whole set of living conditions in the widest sense). Science and the entire scientific-engineering sector of the economy are oriented to the growth in effectiveness of such humanitarian investments, and to the accessibility of the new living standards.

The high quality of life, provided by the new society, is of principal importance. It is the quality of life that must attract people, in order to pull them away from the idols of a consumption society. The guarantee of the ability to compete, of survival, of strategic victory in the historic evolutionary process—this is where the driving force of economics and society lies, which provides the forward motion. That driving force will come to replace the force of corporate and organized enterprise, in the production and consumption race.

Thus, a new image of Russia in the world, the perspective that would unite its people, appears to be a society of tolerable collectivism, providing a high quality of life.

It is impossible to achieve that image, without a clear understanding of the resources, which would help the country to get up off its knees, to rejoin the family of leading powers of our planet, and to acquire the feeling of self-respect without which people cannot feel they are fully human and provide for the future of their children in their own country. All that is not a nationalistic myth, but a set of real opportunities, which will help us to stay afloat in the harsh whirlpool of passions, in the planetary game for survival.

So then, what are our main trumps in that game?



The Lenin, the world's first nuclear-powered icebreaker, under construction in 1958. (Inset) The Lenin under way in 1961. "The Russian polar route is 2 times shorter, and 1.6 times cheaper, than any other sea route 'from the British to the Japanese.' Its year-round exploitation could breathe new life into our nuclear fleet, into the development of the northern regions now living in poverty."

First, there is the nation's intellect, its education. Surely, many people have been thinking about how it could have happened that, after the most horrible war known to mankind, after incredible disaster and the loss of many millions of lives, our country, in the unbelievable space of 10 years, became the second-ranked scientific-engineering power in the world. There are many reasons for that, and the national education system is not the least among them.

Russia deserves a future, but only on the path of preserving and developing education. All-round education of the population is the main support of the nation.

Second, there are scientific schools which have traditionally defined the image of Russian science.

Only because of our scientific schools, did our higher education have such an excellent level, from the time of the very birth of universities. That explains much about the post-war recovery, about our ability to compete with the U.S.A. in the newest technologies over decades.

One of most important conditions for reviving Russia, is to preserve our scientific schools. Society, the state, must follow an old peasant principle: "If you want to have a good crop, keep the seeds safe at all cost."

Third, there is the unique geographical position of Russia in the world community. Russia, occupying the north of the Eurasian continent, offers the shortest and most necessary link (for everyone) between the countries of the Atlantic and

Pacific regions: via airplane, railroad, highway, ship, and fiber optics. The Russian polar route is 2 times shorter, and 1.6 times cheaper, than any other sea route "from the British to the Japanese." Its year-round exploitation could breathe new life into our nuclear fleet, into the development of the northern regions now living in poverty. And, the creation of necessary infrastructure would open a way to storehouses of as yet unexploited mineral resources. Large-scale infrastructure programs will enable us to provide a global link between two powerful combinations: the energy-minerals one, and the military-industrial one, on a new macroeconomic basis.

A new industrial image of Russia will be formed step by step, the idle capacities of defense enterprises will begin to work, there will be a demand for the scientific potential of the country, and life will be stirred up in collapsed territories and branches of industry.

Fourth, the accumulated production capacities in different branches of industry, which are able to satisfy a considerable share of internal demand, and to provide large supplies for export.

Now, those capacities are idle, for the most part. That is a very difficult problem of our reality. Indeed, the capacity of the domestic market depends, first of all, on the population's living standard. When the population is continually growing poorer, market capacity steadily falls, too, and the wealth of the country inevitably leaks abroad. And how could the

population not grow poorer, when the production of virtually all kinds of commodities is collapsing?

Life in its present menacing form unites all the productive forces of society in common misfortune: Today production is curtailed, tomorrow a banking crisis appears, a little bit later it will be the turn of the small businessmen, and the unique specialists will remain out of work. There is common root for that misfortune: the decline of our internal market.

Today it is fashionable to talk about how inefficient labor is more damaging, than the combination of overt unemployment and some assistance to its victims from the state or private benefactors. And how it is better for everybody, if full employment is sacrificed to the so-called principle of the "maximization of the wealth" embodied in the exchange value of production. So, step by step, society's perception of this striking picture is blunted—of whole sectors, territories, and cities decaying, not to mention professions dying out, and the national productive forces coming to a standstill on an enormous scale.

Reconstruction and revival of the internal market, and the preservation of employment, must be raised to the rank of priority tasks of economic policy.

Those are the supports for a renewal of Russian economics. A renewal of economic doctrine is required to turn reforms toward raising the effectiveness of the existing economic potential, for the sake of Russians; it is necessary to refute the myths that obscure the essence of the ongoing social-economic processes, and that pull in the wrong direction, away from the real purposes and methods of transforming the economy and society.

2. Dead ends of the reforms: myth and realities

Privatization without creation of an efficient owner

Privatization is a key element of the new mythology being implemented in the official Russian reform policy. A forced shift of the greater part of former state property into private hands was proclaimed as a main, if not decisive, prerequisite for the "transition to the market."

It may be noted that that purpose has now been achieved at an unprecedented pace, and on an incredible scale. In fact, the state has withdrawn from the full exercise of even those property rights which it has not handed over to private juridical and physical persons *de jure*. The elimination of obstacles to commercial activity by officials—from the executive branch and those working in management of enterprises which formally remained state property—opened the road to the embezzlement of public funds, and to plundering of state property by mutual efforts of the privatized and unprivatized sectors of the Russian economy. The state, unable to effec-

tively defend its property (to implement with respect to its own property, the "holy" principle of property which it proclaimed) is trying to compensate for that by violating the rights of private owners, and applying purely authoritarian means of economic pressure—through tax pressure, manipulations of budget spending, and direct participation in "fights" between opposing economic groups of "new owners."

Russian privatization has fulfilled the task of dismantling the economy's centralized control mechanism. It put the vast mass of national property at the disposal of a narrow circle of persons, without any supervision (for that reason, it was catastrophically devalued). This was done partly by transfer of the right of ownership to them, but chiefly by securing effective control over joint-stock companies, in contrast to the atomized property rights of millions of stockholders.

It is understandable that privatization of this type could not create a mechanism of mutual responsibility among private subjects of the economy, which would substitute for the mechanism of responsibility by state enterprises in an economy directed by command. As a result, the image of the "efficient owner," as a central figure of the advertising campaign for the government privatization policy, turned out to be hollow. It is out of place to put the blame an insufficient consistency in the privatization policy.

From the very beginning, a false aim was stated: Instead of the creation of conditions for free civil circulation of property rights (use, management, deriving profit, etc.) the accent was put on the "distribution of property," the transfer of the owner's title.

The dogmatic idea behind this, was that the main problem in property relations was the owner's title—to whom a thing belonged—and that private ownership of property is the most efficient.

There are no decisive scientific arguments behind this sort of belief. World experience doesn't give us any convincing examples of preference for private property over other forms, except for family and small businesses. As for large industry, which defines the face of the modern economy, private property, in a certain sense, becomes a brake on its development.

Actually, the problem lies elsewhere. It was necessary to create a free, competitive market of property rights (rights of access to a property). The owner's title could be calmly excluded from civil circulation, without any consequences for the efficiency of production. Moreover, it could be monopolized by the state. The form of state-titled property is preferable to private ownership, and it is understandable why. Lacking any palpable advantages, given modern methods of economic activity, privately titled property is associated with noticeable losses for society. Those are, first of all, comparatively higher transaction expenses for defending the property title from a variety of persons; second, there is the burden of rent payments to the owners of the property title, the source of which is the relevant sort of "artificial monopoly" which is not justified by any useful economic function.

It is well known that this fate has a monopoly on the universally accepted sign of exchange value, or the right to issue paper currency; the evolution of market relations led to a split in the economic functions of money, so that one of those functions (to serve as an instrument of circulation and payment) assumed the appearance of a simple symbol. Should we have the right to make an analogy between that process, and a combination of factors pushing the state to monopolize the property title as well? After all, its economic content is being gradually “compressed” to a purely symbolic function, as property rights are dispersed, and a subsequent sprouting of rights to use, to manage, etc. occurs from the property title onto which they were organically grafted at the outset.

We should recall that, simultaneously, the evolution of economical institutions has given rise to the fiction of a “juridical person.” The usual arguments on behalf of the so-called holy right of private property do not apply to it. The privately titled property of a juridical person is one of the many chimeras of the modern market society which, without a doubt, plays a certain role in its mechanism of function, but only for as long as that mechanism preserves its enigmatic image as seemingly sensible and indisputable.

The widespread thesis about the key role of private property in a modern market society doesn’t correspond to the present situation in highly developed Western countries. The historic function of private property is to help the process of economic autonomization in a differentiated social-economic system: the separation of the direct producer from the means of production, or the initial accumulation of capital. Nowadays, that historical function has been exhausted. The corporation, as the leading institution of modern private, state, or mixed state-private enterprise, is based on the separation of property from management. Diverse forms of interaction of corporations are based on this separation; further divisions continue already, within the realm of property rights themselves. The property title is separated from the right to use, to sell, to lease, or to manage in trust. The rights themselves are allowed to function separately from one another. The future belongs to the shift of the property title into the hands of public authorities, while preserving the free circulation of all the other property rights in private economic turnover, i.e., the property institution as such. That is a condition of no small importance for the effective use of national property on a huge scale.

Liberalization of economy without efficient management

The total destruction of the state monopoly over economic activity was the main concern of the liberal-privatization course of reforms. It was believed that there was no other possible way to construct a new economy, with enterprises of different property forms competing. Freedom of self-organization, according to “civilized” market rules rigorously obeyed by all participants, is supposedly a necessary and suf-

ficient condition for lifting the economy to the level of leading modern countries.

However, that scheme provokes some serious doubts, even if one supposes that the transition from an economy controlled by directive, to a free enterprise economy, takes place under ideal conditions: “As we wish, so we shall do.” Obviously, the real course of the reforms could not fail to strengthen the positions of the opponents of the liberal doctrine of non-intervention into the economy.

At the same time, some other, no less important facts of the present economic-political situation, were obscured in discussions about the necessity for state control.

The state’s intervention into the Russian economy under the new economic conditions, has scarcely decreased in comparison with the directive planning system. Violence against the economy is continuing, but now in a new, liberal guise. Moreover, the real course of events actually confirms the inverse—a decrease in the controllability level of the economy. A gap has formed between the degree of state intervention and the degree of controllability from the top. The first remained essential in recent years, while the second has sharply narrowed.

The continuing intervention of the state into the economy is not accompanied by any improvement of results which would be useful to society. And that is the main thing, as everybody knows. Why is this so?

First of all, it is so because limitation of the possibilities of controlling the economy from the top has not been accompanied by the development of “organic” control systems from below. The market can not function without that, no matter how much we were to broaden the functions of the top control level. The modern market shows the inverse picture: reduction of the functions of state intervention, while they are compensated for by developing functions from below. Such compensation has not occurred in the Russian economy. First, the controllability failure from above is so essential that it can not be compensated for at the organic level in principle, even under the most favorable conditions for that. Second, those conditions in Russia are very unfavorable, at least so far. They are discussed as factors hindering the development of market institutions, or even blocking such a path of development.

But one reason should be mentioned especially. It is impossible simply to delegate control functions downwards. Something must be given upwards in exchange. That “something” is not only the obligation to follow the law, to pay taxes regularly, etc. We are talking about such fundamental concessions by business, as willingness to cooperate with the state in attaining national goals, and voluntary self-limitation of the freedom to pursue private interests, for the sake of the interests of society. This cooperation is impossible, in principle, to define in a market form of economic contract. The development of institutions orienting the business community’s activity in that direction, and controlling it with both

non-market methods and, at the same time, indirect administrative-authoritative methods, is a constant line in the social-economic evolution of countries with highly developed market economies. It is possible to assert that those institutions have served as a counterbalance to the destructive factors rooted in market mechanisms, much more than as means of direct state control of the market.

Cooperation between the business sector and the state, expressed in mutual obligations (side by side with social partnership between employers and employees), is usually associated with the idea of corporativism. The increasing number of its supporters in our country should pay attention to one important circumstance. Corporativism as a system of institutions for social responsibility on the part of business, bears fruit only in conjunction with a mechanism for its economic responsibility, when a good intention "to serve the motherland" is implemented basically at one's expense, at one's own risk. If this is not the case, corporativism cannot be evaluated otherwise than as an ideology of consolidated cooperation among a bureaucratic class, a financial-industrial elite, and a segment of employees fed by them, in plundering budget funds and other national property. Here, there is a question of voluntary self-limitation, but now it is on the part of the state, for the sake of the mercenary interests of some persons.

It would seem that present Russian conditions confront us with a similar phenomenon, and that the ideal of loyal corporativism is, in turn, the next myth. It looks very attractive, in the eyes of the broad Russian public, as a liberal myth, associated with national ideals of conciliation, collectivism, or the so-called Great-Power-to-be. That does not make it any less dangerous.

Russian corporativism as a joint venture for plundering the state treasury

Doctrinal feuds between consistent liberals and consistent advocates of the revival of an economy controlled by decree, are more and more muffled by a growing chorus "for an idea" of the corporatization of Russian society. The thesis about the necessity of consolidating the economic and political interests and tasks of the state, and large centers of economic power in the private sector, up to and including their merger into various notions of organizational economic structures, stands at the center of the corresponding programs and political streams, which pretend to be integrators of social forces, for which the extremities of radical positions, from one side or the other, are unacceptable. For that purpose, the state should, in every way possible, help to create such centers, and to build up their power under the wardship and control of the state.

Today many voices are heard on behalf of state support for national enterprises, from which a turning point in the economy is awaited. Under present conditions, however, in the absence of a favorable investment climate, the major part of monies allocated by the state for good purposes is misap-

propriated by a retinue of corrupt officials and cunning pragmatists. But the most important thing is that those "privatized" funds don't remain to work in the country's economy, but are exported abroad.

When one refers to a positive experience of state support for advanced branches of the economy in dynamically developing countries of the "new wave" (South Korea, Taiwan, Thailand, etc.), then, first of all, it should be noted that the corresponding programs were adopted under conditions of a favorable investment climate, and the financial support was obtained by efficient entrepreneurs.

Does it have to be said, that state support programs which ignore those absolutely necessary conditions, under a banner of restructuring the relevant branches of the economy, are mostly condemned to failure? Moreover, they are profitable, first of all, to "pressure groups" competing with each other for pieces of the state pie, the purpose of which is to edge competitors out by means of lobbying for their quasi-programs (providing some privileges to controlled enterprises) of economic restructuring, and to parasitize successfully at the expense of the state. One should not close one's eyes to the possibility of the same kind of degeneration, in the movement for forming financial-industrial groups, with all the indisputable arguments existing in their favor.

Russian monetarism as an instrument and a victim of the destruction of the financial system

An attempt at fast transition to the liberal market economy has driven Russia into an unprecedented financial crisis. There is a lack of money for literally everything: wages, pensions, payments for defense orders, debt service, investments, and research and development. The basis for the country's existence is undermined, not only for the immediate future, but for the foreseeable future.

Meanwhile, the financial crisis is created to a considerable extent artificially; it is not conditioned by a lack of production capacity, raw materials, and labor resources. Merely, the mechanism of the economy built by the reformers is not capable of bringing together present resources, so as to create a maximum of products and profits.

The Gross Domestic Product of Russia in world prices in 1990 was approximately \$400 billion, now, about \$200 billion. The main reason for the fall in industry and agriculture was the unprofitability of enterprises, in terms of world prices and lack of competitiveness in the international market.

However, unprofitability is not yet the final evaluation of one or another product. If it provides some added value, then that is good as a contribution to a final product—and through that, to the country's finances.

We shall hardly come out of the crisis without making use of unprofitable industries, which are able to create some added value. The money for current expenses and development is needed immediately because, some time later, there will be nowhere to invest it. At this point, attention should not to be



Students in Russia explain their experiments at a science competition. The nation's intellect, its education, is a key asset. "Surely, many people have been thinking about how it could have happened that, after the most horrible war known to mankind, after incredible disaster and the loss of many millions of lives, our country, in the unbelievable space of 10 years, became the second-ranked scientific-engineering power in the world."

paid to the technological backwardness of present production facilities; we have no others. The backwardness is to be overcome, in the long term, on the basis of scientific-technological progress and targeted investments.

Unfortunately, we have to note that the money-credit sphere is not capable of satisfactorily fulfilling the main function, for the sake of which it exists—to provide for the efficient use of resources. This is evidenced by the absolute dominance of short-term credits on the money markets, which are given with such high interest rates, that their use for other than speculative purposes is effectively precluded. By virtue of that, the banking system itself is very unstable, which is confirmed by the recent crisis on the interbank credit market. The danger remains of a large-scale “collapse,” fraught with grave consequences for whole country (new losses for depositors, paralysis of the payments system, new “barterization” of the economy, a return to administrative methods of resource distribution, up to and including a rationing system).

Such a situation is, to a considerable extent, a result not so much of particular errors in shifting the banking system onto market rails, as of fundamental defects in the Russian model of economic reform. The chosen method of transforming property relations has led to the regular phenomenon of distinct groups of persons having large capital (state-owned, in the first turn), not belonging to them, at their uncontrolled disposal. It is understandable that the credit service to the process of “spending on food,” the economic potential created over decades, on a broad scale and in various forms, yields a

much higher return (of course, from the standpoint of the banks, not society's) than investments in production. The absence of clarity in many property relations cases, and imperfect procedures of collateralization, led to the creation of some barriers in the path of issuing credits for production, which are difficult to overcome. The general circumstances of very high inflation rates, subject to constant change, make it impossible to estimate adequately the effectiveness of long-term investments. Finally, the state's ever-increasing borrowing on the credit market led to a growth in interest rates and to the “edging out” of private investments.

The character of the current economic policy carried out by the authorities cannot but influence the functioning of the money-credit system. So, an attempt to solve all questions by means of tightening monetary and fiscal policy unavoidably leads to a conflict among the goals (coming up short for everything) promoted by the government: Some improvement in the struggle against inflation and the stabilization of the exchange rate of the ruble are accompanied by an intensification of the investments crisis, threats to the effectiveness of export activity, and narrowing of domestic demand, while considerable production capacities remain. Thus, the tight-money policy itself, under conditions of restriction only by monetary and financial instruments, creates the conditions for a retreat from its consistent implementation.

Certainly, there do exist problems connected to the Russian banking system's development. Actually, the commercial banks turned out to be unprepared to function, when the

possibilities for speculative investments sharply narrowed, first of all in connection with stabilization of the ruble exchange rate. A situation when the rate of the ruble rose, while a high level inflation persisted, was especially unfavorable for them. The balance sheets of many banks are burdened with a large amount of “bad debts,” which creates a long-range menace to their solvency. A considerable part of those debts is connected with the irresponsible financial behavior of the Russian executive branch, which believes that it is normal not to pay for products it ordered to be produced, for the production of which, credits were received from banks. Not infrequently, especially in small banks, there is no professional staff that would be able to make competent decisions. There is a widespread pattern, where big industrial enterprises happen to be charter members of banks, and those enterprises are used to receiving credits under privileged conditions. Such a practice, as a rule, leads to a deterioration of the balance sheets of the banks involved, and pushes them to take risky decisions in order to compensate for “a lack” of money from their privileged clients. It stands to reason, that this all leads to an allocation of resources that is not rational, on the scale of society. Finally, it is rather typical that the stockholders of a bank don’t maintain any control over its activity, and the latter, consequently, is oriented mainly to material problem-solving for the personnel, and to forming of auxiliary attributes of a well-to-do company.

It should be kept in mind that, because of the features of the banking sphere—control over huge resources belonging to millions of depositors, and the direct impact on the state of monetary circulation in the country—it is everywhere under special control of the state. Some ideologized approach, in the spirit of *laissez faire*, is the least admissible here, because its consequences can be extremely grave for the economic and political situation in the country. It is significant that when the Pinochet government in 1982-83 discovered that, because of the hasty liberalization of banking activity, and the absence of proper control over the banks’ credit policy, the money-credit system was at the edge of collapse, and the interests of depositors and foreign creditors were threatened, then the nationalization of the commercial banks was accomplished vigorously, which enabled them to put themselves into a normal state over several years.

Unfortunately, today, one forms an impression that nobody knows about the real situation in the banking sector, about the depth of the crisis which overwhelmed it. Such a situation is utterly inadmissible and must be overcome.

Russian anti-communism as an ideology of anti-social market economy

A slogan was put forward at the crest of the struggle against totalitarianism: No ideology! The idea of socialism was rejected all at once, as having been discredited over the decades of totalitarianism in the U.S.S.R. and its satellites.

But it is preferred not to speak about capitalism as a goal, rather to shield it carefully with advertising about a “socialized” or even “social” market economy. A simple formula is drummed into the masses: The market economy is based on private property, and that means it is incompatible with any ideology. And, in general, the market gets along without any ideology, because it is governed by day-to-day interests, not by utopian fantasies about the brilliant future.

The presence of ideological nihilism as the mood of some part of our society is an unavoidable product of our past, when distrust in the propagandistic exhortations of the authorities was advisable, and the gap between the propaganda and the real situation provoked a natural disgust at the turgid words issuing from the mouths of the authorities, which were customarily identified with ideology. But the ostentatious ideological nihilism of the ruling elite is a hypocrisy that poorly conceals its adherence to its own ideology; it is easier to hold power, either with the aid of everybody’s trust in some single, governing system of higher values, or, if that is not possible, by means of the deliberate humiliation of the ideological form of thinking, as such. The old formula, tested long ago in application to political and economic interests—“divide and conquer”—sounds, in this instance, like “belittle and conquer.”

Man needs ideology, for orientation in a swiftly changing process. It not only answers questions like “where and why?” but helps him broaden his “circle of solidarity,” and occupy an active place in the life of society. The freedom of ideologies, and of associations according to ideology, is one of the highest values of democracy.

To remove the taboo from ideology, as a supposedly false form of social consciousness bred by totalitarianism, means to remove from socialism the disparaging label of harmful “ideologization.” And, to go back and discuss it in its essentials.

Today it is no secret to people without a special economic education, that one of the decisive factors in productive competitiveness is the educational and professional level of the employees, the degree of development of their creative inclinations.

Modern production attaches great economic significance to the state’s care for the quality of life of the labor force. “Civilized” capitalism recognizes it as an obligation of society, in the person of state power that is responsible before all the citizens, to provide by all lawful means, the right of citizens to sustain their life, either by aid in finding employment, or by adequate material support for the unemployed. That is the basic principle of the “state of general welfare” (or, welfare state), which gradually came into existence since the middle of the last century, and in the present one has advanced further, in the form of the imperatives of the “social market economy.”

Such imperatives are:

- maximum development of the physical, intellectual, and spiritual-ethical potential of the country;
- formation of a firm layer of labor motivation, which responds to market requirements and is oriented to the positive reproduction of “human capital”;
- creation of the institutional and social-economic prerequisites for self-realization of the citizen’s capabilities.

Who could seriously discern even weak traces of those imperatives, in the activities of the Russian authorities?

The condition and effectiveness of utilization of human capital in Russia is one of the painful points of the nation’s transformations.

Our society is sliding down into a demographic, labor force, and industrial catastrophe. The weakest link here is the factor of the labor force.

Of course, the physical, industrial production apparatus is in a dangerous condition of disrepair, badly needing maintenance, repair, and modernization of various degrees of complexity, duration, cost, and influx of investments.

Only the existing trained specialists are capable of handling all that in a professional way. But they are threatened with either directly dying out from poverty, or disqualification due to a forced shift to other occupations, or emigration, i.e., the loss of their capabilities for the country.

It is not possible to postpone an urgent and radical increase in the standard of living of valuable personnel, as well as that of the population’s non-protected sex/age groups (because of irreversible changes in demography) until some future recovery. That improvement must be a prerequisite for a recovery, not a result expected afterwards, otherwise there will be nobody left to restore the economy.

The most dangerous manifestation of social irresponsibility by the state, is that it essentially entrusted people’s fate to some forces who are building up their wealth by ravaging and degrading society; it connived at an anti-social undertaking, marking time before taking a decision to introduce tough graduated taxation of personal incomes (which happens to be the customary civilized practice of countries that have been able to achieve a turnaround from collapse to recovery) and, what is most important, it replaced the task of radically transforming the country’s management system into a healthy condition, with chasing the chimeras of financial speculation.

Russian radical reformism as the latest stage of ‘real socialism’

The radicalism, in many respects, of the Russian reforms of 1992-1995 cannot be denied. During all those years, however, there was a deliberate deficit of radicalism in a key sphere of the economy—the effective functioning of enterprises, and production as a whole.

Neglect of increasing the efficiency of production characterized the entire Soviet era. Although attention was paid to

reducing costs, the efficiency of investments played a subordinate role, by comparison with the achievement of a high rate of production. The growth of scale, however, under conditions of limited natural and labor resources, inevitably leads to a decrease in economic efficiency. As a result, the Soviet economy lost its competitiveness in the growth of productivity, which is a key issue for success in the long run. It is necessary to recall those factors, since many people have already forgotten why the present systemic crisis arose.

In a sort of “relay race,” the habit of ignoring the interconnections among the structure, growth rates, and efficiency of production, was picked up by the government consisting of liberal-democrats and liberal-bureaucrats. That alliance lasted for a surprisingly long time, insofar as they were united on only one issue—declaration of the rights and freedoms of the state, while its obligations and responsibility to the people were absent. Actually, neither one nor the other repudiated the right to impose taxes (and, consequently, tax privileges as well), to issue money, and to control the monetary and credit system. But the state’s obligation to obey the law and to provide for the growth of production, investments, and the standard of living for all social groups was denied, until the next election of the head of the executive branch.

That is evidently the explanation for the fact that the economic indices (labor productivity, energy and material consumption, rate of profit, efficiency of investments, competitiveness, etc.) were dropped from government documents. What remained were inadequately informative indices, such as the rate of inflation, budget deficit, and volume of the Gross Domestic Product. At the same time, an evaluation of the dynamics of labor productivity provokes no optimism.

It is seen that 1995 was not a turn-around. The share of profit in GDP is especially alarming. It should be noted that this is chiefly an accounting effect. The system of accounting, in recent years, has led to an essential overstating of profit, given the rate of inflation. That means that if an accurate calculation of all indices were made in constant prices, many sectors and regions would show negative profit. Thus, the state, by collecting the profit tax without taking inflation into account, has taxed de facto losses, thereby undermining the economy’s ability to accomplish even simple reproduction. That phenomenon is widely known, in the form of enterprises spending their depreciation sums “for food” [on current expenses], or using their net profit to replenish devalued working capital, or incorporating into their prices an excessively high profitability rate, necessary to ensure even simple reproduction, with the attendant growth of the inflation potential in the economy.

On the whole, the conclusion can be drawn that in 1991-1995, the action of the basic factor which led to the Soviet economy’s collapse increased—the decline of economic efficiency. That conclusion is clearly confirmed by the data on productivity dynamics (see **Table 2**).

TABLE 2

Labor productivity (calculated according to Gross Domestic Product)

(1991 prices for sectors of the economy in 1990-95)

Indices	1990	1991	1992	1993	1994	1995
Economy as a whole						
Labor productivity (thousands of rubles per capita)	19.4	18.8	16.6	15.4	13.8	13.5
Annual index	96.9	88.1	92.6	96.0	98.0	na
Index, 1990=100.0	100.0	96.9	85.4	79.0	71.1	69.7
Index, 1992=100.0	117.0	113.5	100.0	92.6	83.3	81.6
Industry						
Labor productivity (thousands of rubles per capita)	24.3	23.4	20.2	17.6	15.6	16.2
Annual index	96.7	86.2	87.1	88.5	103.7	na
Index, 1990=100.0	100.0	96.7	83.6	72.6	64.2	66.2
Index, 1992=100.0	120.0	116.1	100.0	87.1	77.1	79.9
Agriculture						
Labor productivity (thousands of rubles per capita)	24.3	19.7	17.3	16.6	14.8	14.8
Annual index	96.7	87.8	95.9	89.4	100.0	na
Index, 1990=100.0	100.0	95.0	83.3	79.9	71.5	71.5
Index, 1992=100.0	120.0	113.9	100.0	95.9	85.8	85.7
Construction						
Labor productivity (thousands of rubles per capita)	15.1	15.2	11.1	9.7	9.2	14.8
Annual index	101.0	72.1	101.6	87.3	95.0	na
Index, 1990=100.0	100.0	101.0	72.8	74.0	64.6	61.4
Index, 1992=100.0	137.4	138.7	100.0	101.6	88.7	84.3
Transport and communications						
Labor productivity (thousands of rubles per capita)	17.9	17.2	14.8	12.3	10.2	9.9
Annual index	96.1	85.8	83.3	82.8	97.0	na
Index, 1990=100.0	100.0	96.1	82.4	68.7	56.9	55.2
Index, 1992=100.0	121.0	116.6	100.0	83.3	69.0	66.9
Trade and public services						
Labor productivity (thousands of rubles per capita)	27.1	26.8	25.8	22.3	22.6	20.9
Annual index	99.1	96.1	86.4	101.3	92.8	na
Index, 1990=100.0	100.0	99.1	95.2	82.3	83.3	77.3
Index, 1992=100.0	105.0	104.1	100.0	86.4	87.5	81.2

Moreover, the quantitative decline in efficiency has already become qualitative, irreversible, and lethal for certain sectors and enterprises.

The special menace of the future is the condition of our national science, which is the sphere where the whole foundation of progress in science and engineering is laid.

3. Urgent anti-crisis measures: restoration of living standards

Russian citizens today are living under such conditions, that no strategy of reforms, even the most effective one, can be implemented without an immediate decision to alleviate

the crisis condition of the country's intellectual and labor power.

That is the distinctive feature of the current moment, reflecting the dead end of the reform policy being implemented.

But to change it now, not just one, but two interconnected problems have to be solved. First, urgent measures are needed to restore the pre-reform standard of living, and second, to provide for the stable growth of people's wealth, which is possible only on the basis of a no less stable raising of productive capacities and the efficiency of their utilization. The solution to the first problem is a necessary prerequisite for solving the second one.

What are our real possibilities to create such conditions; what is the essence of the urgent next stage for the rebirth of Russia?

It is clear that tinkering with the budget is an ineffective tactic, suitable only for social demagoguery.

But, the real source of a quick mobilization of the resources for survival is to close the huge breaches in our resources and stop the plundering of our means of sustaining life, which is due to the dense growth of a thicket of uncontrolled criminalized business, and to legal forms of anti-social cooperation between officials and the private sector; and, to effect a radical termination of the most dangerous social polarization, which has redirected the flow of profits and essential goods to the benefit of anti-social groups (looters, contraband smugglers, second-hand dealers, etc.), who make their fortunes by ravaging the national economy.

The reversal of the dangerous parameters of poverty could be accomplished, as was done in many countries, by the redistribution of aggregate personal income (API) through graduated taxation of groups having high income, and transfers to the benefit of the indigent. Such measures have all the more solid foundation, the greater the polarization of incomes "achieved." By the most modest estimates, the unevenness index in Russia has grown three times over the last three to four years. A vast part of the API, sufficient to normalize the standard of living for the majority of the population, is misappropriated by a numerically small layer of the *nouveaux riches*. The artificially created poverty of the masses has become one of the main hindrances to reviving production and the domestic market.

The necessity for urgent measures to improve the life of the masses in a general form, and the usefulness of a progressive redistribution of income, are acknowledged willingly enough. But particular proposals in that area encounter a wall of silence, and suffer from the inaccessibility of reliable information. Nevertheless, present data are sufficient to estimate the possibilities of the proposed program.

While in 1989, 55% of the API was earned by the "lower" layers of the population layers (which may be termed "middle class"), now, that figure is only 31.4%, and 57.5% of API is earned by the "upper" layers of the population. Their share may be significantly understated, due to the fact that the statistics do not take into account the actual amount of the API. While API in western countries is up to 80% of GDP in Russia that figure is less than 50%. Nevertheless, the redistribution of 13.3% of only the "visible" amount of the API would enable us to increase the wealth of 60% of the population 1.5 times, at the expense of retention of less than 24% of the income of the high-profit layers, and thus to eliminate that poverty level, below which up to 40% of the population is now living.

The advantages of the proposed approach to "starting" to overcome poverty are:

Self-sufficiency. One should not resort to redividing the miserable state budget, or to foreign aid. Greater pressure on the super-profits, to make it possible, besides giving allowances to poor people, to boost the revenue side of the budget

through taxation of individuals, would not be an excessive measure, either (in the U.S.A. and in Western Europe, 44-46% of budget revenues are derived from personal income taxes).

Fast results (if the tax service and the social support systems are strengthened).

Non-inflationary character. The issuance of instruments of payment is not required, because the same amount of money is redistributed.

Favorable conditions for developing the domestic market and national production. The rich layers are bad purchasers of articles of mass consumption, because of the scarce supply and their preference for expensive foreign goods and services.

Avoidance of a "crude levelling" approach. (Although even rich countries, under crisis conditions, intensify leveling measures, up to and including going onto a rationing system.) The proposed model preserves the stimuli to move into a higher income bracket, which can be intensified to the extent that it furthers the growth of GDP. The differentiation of incomes would take into account the real contributions of given population groups to the economy's growth. So far, it is very doubtful that the *nouveaux riches* would help the economy's recovery, as surely as they have helped its decline and destruction.

Evidently, there are also other sources for financing urgent anti-crisis measures.

The distancing of the public and private sectors of the economy

The most important measure is (as well as in the whole business of the economic revival) a radical restoration of a healthy state system of state and economic management.

What should actually be done, first of all, is to protect the treasury against plundering, by fully restoring the state's right to state property, and putting an end to all parasitical forms of "cooperation" between the state and private sectors of the economy, for the benefit of distinct persons and their corporate organizations.

To do this, it is necessary to grasp a fundamental change in the concept of a two-sector economy.

- The private sector should function in a market regime, which would be, to a maximum extent, independent of arbitrary state actions, while following the standard rules of interaction in the market;

- The state sector should be governed administratively, and its structures (institutions and enterprises) should work in a regime of hierarchical coordination according to planned tasks. Every activity by the heads of state sector enterprises, which is oriented to obtaining profit from operations not connected to fulfillment of planned tasks, must be excluded;

- Commercial relations between sectors should be carried out by means of open auctions and tenders.

The auction-tender barrier between the state and private sectors, and administrative control of state enterprises, would serve as a protection for the budget. All transactions in which

the state is the seller, must be carried out through open auction. All transactions where the state is the buyer, through tenders. That would make it possible to narrow official possibilities for profiting from unscrupulous transactions with the private sector. Moreover, the auction form would increase revenues to the treasury, because the products and other property of the state sector, including the rights of leasing, licenses, quotas, etc., would be sold at the maximum price. The tender would decrease treasury expenses, because it would identify that supplier or contractor who provides real quality at the least price.

The withdrawal from financial subsidies to private enterprises, should serve as a budgetary protection from socially useless spending, too. Under our conditions, the vast majority of these businesses are in the hands of inefficient owners, and all budgetary (and non-budgetary) money directed to their support will unavoidably fall into the pragmatists' hands and, as a result, be exported abroad.

The complexity of the problem consists in accomplishing this distancing, without unacceptable losses to the implementation of structural investment priorities.

As long as a community of efficient entrepreneurs and a climate for favorable investments are created, the ordering of interactions between sectors may be corrected. At the present time, however, the state must participate in restructuring the private sector, first of all, by indirect methods:

- investing state investment resources into infrastructure as a key sector of future modernization, and financing it by means of selling the right to use the infrastructure networks, to the private sector;
- forming a favorable investment climate, by simplifying the conditions for directing resources into priority segments of the economy.

That is, the interaction of stabilization methods with the restructuring of the economy. Not denying the monetarist technology, but rightly defining its place as an addition to the instrumentarium of structural policy, is the key to the ultimate success of the reforms in Russia.

Only after having closed the channels for leakage of budget resources, by creating the auction-tender barrier and de-commercializing the state sector, can one provide the financial resources to consumers which are necessary for the purchase of 90-95% of the products of all active state sector production. Having the state control prices and wages will not lead to inflation, but will create the payable demand, adequate to the state sector's economic potential.

We are speaking about a very considerable sum (about 500-700 trillions of rubles). To expect to receive such money by means of borrowing is quite senseless, and unnecessary. External borrowing to get additional currency for the country does not stimulate our own production, but rather imports. Internal borrowing doesn't broaden, but only redistributes total demand.

The only appropriate source for obtaining additional

money is to issue it. If this is designed within the limits of real production possibilities and objective requirements, then it is not the issuance of worthless paper. That is a reasonable policy for overcoming the crisis.

Bringing health to the financial system and rationalization of the budget

Along with the decline in economic efficiency, the payable demand for credit resources is shriveling sharply. Businesses are in need of grants (or, what is almost the same—preferential credits), but not of credits with positive real interest rates. That is why it is necessary to find the solution to a twofold problem.

First, the Central Bank should index the remaining funds in the correspondent accounts of commercial banks in the Central Bank. That will enable it to avoid "credit dumping" and provide a positive real interest rate for deposits, and will create stimuli for the population and enterprises to save.

Second, the profitability of state securities must not exceed the discount rate, otherwise the budget would be pumping out free money, making it senseless to invest in production. The profitability of state bonds in Russia is obviously too high. The mechanism for refinancing the state debt itself, by means of these short-term bonds, is on the decline. It would be appropriate to issue long-term, indexed bonds, paying an annual interest rate of 5% (the interest rate, of course, should be indexed). Such bonds must be counted in the mandatory reserves of banks, insurance companies, etc., on the deposit side (because they don't entail any monetary issuance, but only the transfer of money for temporary use by a borrower). That is easy to substantiate, since investment monies which the banks have attracted into state bonds should be considered the most reliable placement, not requiring any reserves.

The most difficult problems arise with the currency exchange rate and the balance of payments. Flight capital leads to a decrease in the national currency exchange rate, with very catastrophic consequences: intensifying cost-push inflation and "inflation by competitive imports of finished goods."

On the other hand, the recession in production by the manufacturing industry, and the decrease in the population's income, investment demand, and budget expenses, cause a temporary reduction in demand for important equipment and semi-finished products, while the potential for exporting raw materials and energy expands. In 1994-1995, that led to a too rapid rise in the rate of the ruble, which boomeranged against domestic production of finished goods. The production and export not only of textiles and footwear industry products is becoming inefficient, and of domestic equipment, electronics, and instrumentation, but also of the products of a number of the raw materials industries that have high transportation costs. In other words, the decline gives birth to an active increase of the trade imbalance, the increase of the real exchange rate, and, again, intensification of the slump. The reasonable policy in this case is obvious.

It is not possible to take foreign credits to “improve” the balance of payments, with a positive trade balance equal to 40% of exports. Conversely, it is appropriate to increase capital exports by the state, by extending credits to the countries which consume Russian machinery and military-technical products. The problems of financing the budget deficit should be solved by internal borrowing, but mainly by increasing the tax revenues from exporters and importers. That is quite possible to do, having once abrogated the privileges of specific importers and “loopholes” in the payment of customs fees. But the main source of increasing the budget revenues is the increase of the tax base and a decrease in arrears, with increasing ruble profits from exports.

It is necessary to introduce strict currency controls for export and import, with a corresponding withdrawal of customs fees. At present, exporters may delay paying duties for up to 180 days, if they have not received payment for products supplied. It is clear that with stricter currency control, the stimulus to export will be decreased, which will enable us to avoid an increase in the balance of trade surplus, and “denudation” of the domestic markets. But the budget revenues will grow 1.5 to 2 times, due to our ability to reject IMF credits (which certainly doesn’t mean a refusal to cooperate with it).

As a whole, the currency policy should provide the national industry with competitiveness and a positive trade balance, equal to the interest payments on the external debt. Of course, attaining that objective is impossible without increasing the tax burden, which in turn means abrogation of the most inflationary taxes (on value added, and the tax on the wage fund). Excise duties on alcohol should be established at an absolute amount per unit of alcohol.

Measures should be taken to bring health to the banking sphere, on the basis of an accurate analysis. Evidently a rather large number of small banks will close, after taking care to minimize the losses of their clients. Special clean-up programs should be adopted for many big banks, as far as one can see.

Should it become necessary, there must be no place for ideological doubts about such measures as bank nationalization, for the purpose of preventing the collapse of the whole monetary and credit system. This can be relatively painless to accomplish under our conditions, where most of the large banks were formed on the basis of state capital.

Most likely, as in the Central and East European countries, we will implement a special program to bring about healthy bank balance sheets, freeing them from “bad debts.” Finally, to prevent a loss of public confidence in the commercial banks, and other institutions which transform savings into investment, the question of state guarantees for private deposits deserves the most serious attention.

The creation of conditions requiring potential clients to present broad and authentic information about their financial and economic status (i.e., confirmed by an accurate audit), will create a rational basis for the banks’ credit activities.



This building was part of the Russian Academy of Sciences, founded in 1725 according to the plan Leibniz gave to Tsar Peter the Great.

Organizations of commercial banks and businessmen might become the initiators for a company (similar to the American “Dun and Bradstreet”) which would gather and publish average financial-economic indices for the branches of production, which would enable the banks to compare the corresponding indices of their potential clients, and to estimate their possibilities more precisely.

Measures directed to creating favorable macroeconomic and institutional conditions for efficient banking activity are necessary.

First of all, it is necessary to radically change ideas about the state as an irresponsible financial partner. With that aim, it is perhaps necessary to take an unprecedented step, which would, by legislation, oblige the government to fulfill its financial obligations, including at the expense of forced borrowing from the Central Bank (in the event of a lack of financial assets).

In those cases, when commercial banks are simply conveyors for government credits, a government guarantee of their return must be given.

Perhaps the most difficult problem is non-payments and insolvency. The non-fulfillment of obligations and delay in the payment of creditor debts (to banks, suppliers, employees, the budget, clients, depositors, bond-holders)—the reflection in a “dual space” of the inefficiency of production and of currency circulation, the discontent of the financial management, economic imbalance, plundering of property (of depositors, stockholders, suppliers, clients) by managers (directors, partners, financial institutions)—are all real. It is impossible to liquidate the insolvency crisis without strict financial control.

While the banks' balance sheets are somehow monitored by the Central Bank, other enterprises may have liabilities a thousand or a billion times exceeding their equity. In general, the extension of credit to unprofitable enterprises must be forbidden, because they don't have sources either for the payment of interest, or the return of principal. That is why credits granted by the Central Bank at low interest rates, should be disbursed exclusively through reliable banks and to reliable borrowers. By "reliable," we mean that the liabilities of banks and enterprises should be less than their liquid assets, taking into account the terms of repayment. That means for the banks, that they may be given credits only on terms which are less than the terms which attract depositors' money. And productive enterprises must limit their liability to approximately half the amount of their liquid assets. Naturally, that is impossible to do, if products are supplied without banking guarantees for customers, or credits extended to those who, by charging dumping prices or diverting monies abroad, are plundering enterprise assets, and so on. But it is impossible in principle to overcome the systemic crisis, without putting everything in order.

It is clear that the transition to settling of accounts by letters of credit, forbidding of commercial credit barter, reducing non-payments, indexation of monies remaining in the correspondence accounts of commercial banks in the Central Bank, stopping of financial machinations, counterfeiters, and the issuance of monetary surrogates, by the Central Bank's removing foreign currency from domestic circulation and depositing it in accounts abroad, from which the interest rate payments will be for servicing the foreign debt—all will require the colossal issuance of money. But, since the reason for this will be the growing demand for money, one should not fear a jump in inflation. On the contrary, decreasing the tax pressures and increasing the scale of production will make it possible to stop the inflation of expenses and, by rationing the issuance of money, to prevent demand inflation. Essentially, the state can repossess a part of income from money issuance, which it had refused during recent years for the sake of ultra-liberal imperatives.

Today a radical revision of the basic principles of the budget policy is required. Rationalization of the budget system would make possible an essential increase in economic activity, stimulation of demand, creation of the conditions for investment activity growth, achievement of a higher level for the least well-off layers of the population—and all that, without excessive loss in the total volume of budget revenues. It is possible to implement a new budget policy only through the creation of powerful alternative sources of revenue. Under Russian conditions, revenues from state property can become such a source and must come from its sale, as well as from its exploitation. The strengthening of financial discipline should produce just as great an effect, and so should the cessation of individual tax privileges. It is also necessary, as well, to bring some order to the spending of budget funds, to the issuance

of credit, to currency policy, and to the strengthening of tax, payments, and banking discipline. The indicated measures should be accompanied by a rationalization of the tax system. But hardening of tax discipline under conditions of excessive tax pressure and of chaos in tax collection, is as impossible as it is senseless. The main accent should be on economic measures providing for economic recovery on a new institutional-technological basis.

4. Strategic tasks: The national property system

Despite the "selfless" struggle of Russian privatizers against state property, the latter remains of considerable size. In first approximation, it may be estimated that the state's share of the total value of the country's production capacities is not much below 50%, even today.

This points to the essence of the problem, insofar as to get rid of this property as soon as possible, privatization must be continued, but now on a virtually free-of-charge basis. Actually, the efficiency of state property is very low. Both the pre-perestroika experience and that of the reform period itself, confirms that there are huge expenses associated with its utilization. There is a large degree of inertia embedded in state property, and it lacks the safety margin, necessary for rapid adaptation to market conditions.

But, at the same time, the same experience confirms that changing the form of property does not solve the main problem—to ensure that economic objects function with high efficiency, in accord with the rules of the market. The further continuation of privatization will be accompanied by interminable disputes about the criteria, according to which some enterprises should be among those privatized, and others not. Given an underdeveloped capital market, it is inevitable that there will be interminable discussions about how correctly a given property has been assessed, and, hence, suspicions (well-founded, in many cases) about corruption on the part of those who made the appraisal. There is certain to be a pre-ordained struggle among different departments, for many years, also involving commercial entities, for a place at the "privatization trough."

A radically different approach is proposed, based on a national system of property.

The first step toward its implementation is to establish the right of the state as the owner of that 50%, the essential portion of assets, which has not yet been dissipated during the perturbations of 1992-95. This is, first of all, land, natural resource deposits, large industrial enterprises of strategic importance for the whole economy, as well as national infrastructure (productive, and social).

These objects are allowed to be maintained either in the form of public enterprises, or with the assignment of user

rights—for management, or other rights, granted to commercial or non-commercial enterprises, created by private persons, state agencies, or jointly. Thus, the rights to state property—excluding the owner's title—become objects of economic circulation, regulated by the norms of civil law that hold for all subjects (including public authorities).

Let us, then, sum up our position on all the basic questions of reforming the Russian economy, in the realm of property relations.

The initial principle is freedom of entrepreneurial activity, i.e., the right of private persons, and the commercial and non-commercial organizations they organize (for a certain period, non-state ones only), to create enterprises—to the extent to which that freedom does not limit other rights of the citizens, and does not prevent the state from fulfilling its functions and obligations, envisaged by the Constitution and by laws in effect.

The activity of enterprises should be endowed with the institution of property, i.e., with legislative acts and protection of the complete set of rights, regarding the appropriation of property and incomes from its use, and excluding any property claims by anybody (including the state) not confirmed by court decision.

Any discrimination against the rights of physical persons, in relation to juridical persons, in the sphere of entrepreneurial activity is intolerable; on the contrary, entrepreneurial activity by juridical persons, above all of enterprises with limited responsibility, should be given a stricter framework of legislative and administrative control.

The sphere of property rights, protected by civil legislation, should be steadily broadened to embrace more and more new kinds of assets of enterprises and/or juridical persons, such as “know-how,” the ecological safety of housing, and so on.

The exclusion of private enterprises from access to some kinds and spheres of activities, and the exclusion of certain kinds of property, or related property rights, from free civil turnover (i.e., the state monopolies), must be established only by law and within limits established by legislation. The government's competence to abolish such limitations temporarily (but, not to expand the list of them) is admissible, but should also be strictly defined by law.

Land resources should be excluded from the sphere of free civil turnover (being now in the possession of the Russian Federation, its subjects, and municipal authorities). At the same time, all necessary conditions should be provided so that the rights to utilize land, for commercial and consumer purposes, be maximally accessible and susceptible of free circulation among private and juridical persons, with due status for inherited rights, and so on. The same regime should be established for natural minerals and other deposits beneath the Earth's surface (envisaging priority and privileged user rights for their discoverers), water resources, and the country's marine and air space.

Property that is within the framework list defined by legislation (including the property rights embodied by state holdings of stock shares, user rights belonging to the state, rights in foreign assets, and in objects of industrial ownership, and others), out of everything that remains state property at this moment, are not subjected to further privatization, and access to its exploitation should be carried out by forms of leasing or management in trust, or other rights granted to enterprises, of all forms of ownership, and to private persons. The list of property, and the conditions and procedures for its transfer for purposes of utilization, trust, or other exploitation regime, should be established by a special Law on National Property, which should replace the legislative acts on privatization.

As Western experience shows, a leasing system based on the assignment of leases turned out to be very profitable, both for owner, and exploiter. It should be kept in mind that there is no problem of the efficient distribution of risk among the partners in an investment process, that cannot be solved by an appropriate choice of leasing conditions, without any loss of ownership title—barring the problems that so excite speculators in land and other real estate.

A national property system will make it possible to revive the collective leasing movement, which had accelerated at one point, but is now sickly.

A system of national property opens up wide opportunities for a rapid increase in the efficiency of state property utilization. Certainly, it is impossible to leave out of account, in this, those powerful counteracting forces, which have an interest in preserving the existing order of uncontrolled appropriation of profits from the exploitation and direct plundering of state property.

But, if one proceeds from the national interest, then that resistance, whatever ideological clichés it might be covered with, should be broken down—the sooner, the better.

A new system of taxation

The tax system now in effect is a classic example of how people can be forced not to work and not to invest their capital in the development of production, but rather to export it abroad. Having put the working population in an unprofitable position, and making commodities very expensive, that system limits the economic activity in the production of material and spiritual values. In this way, there will never be sufficient resources to restructure production according to national economic interests.

In contrast to many other countries, Russia has a fundamental revenue source, which today remains unused. That is, rent from natural resources. Russia could cover its priority expenses for defense, to support defense industry conversion, for science, education, culture, and maintenance of the state apparatus.

A transition of state revenue collection to a rent system promises advantages not only of an economic nature, but also social. It will make it possible to organize a system of financial

transfers between profitable and unprofitable, but promising, sectors of the economy, between poor and rich regions, to provide powerful social supports for the population, and to create a system of supplementary social payments for wages and pensions.

From the standpoint of the principle of strategic orientation, it is necessary already now to think about another, no less important aspect of rent payments into the budget. This is a way of ecologization of the taxation system.

In today's world (especially, tomorrow's), not only diamonds or fertile land will be the main sort of natural wealth. The assimilation capacity of the natural environment—its capability of withstanding anthropogenic impacts, and of self-restoration after unavoidable interference with natural processes—is now becoming not merely wealth, but a main condition for the existence of the human race.

Today, Russia has advanced further than other countries in the practical application of a new economic instrument for environmental protection—payments for pollution of the environment. During the past three years, experience has been accumulated in levying such payments in the majority of regions of the Russian Federation. But the existing payments, mainly in the form of penalties, in no way correspond to the rent income, which the still huge assimilation capacity of our national ecosystems can provide. Russia still has a chance to restore and to preserve this national wealth, to become an example for other countries in the transition from words to deeds, in the economic protection of nature. For this, the introduction of an ecological tax on the exploitation of the assimilation capacity of the environment is required. Like other payments for natural resources, that tax doesn't require a general increase of the tax burden on the national economy, but will lead to its redistribution in the interest of ecologically safe and nature-preserving types of activity.

Russia could become a pioneer in the creation of a system of mandatory ecological insurance, by which the economic responsibility for accidental contamination of the environment would be shared by the polluting enterprises and the insurance companies. In that case, it would become possible to attract the financial resources, as well as the supervision and inspection capabilities, of such companies, to solve urgent ecological problems.

One should keep in mind that a "shock" transition to the system under consideration, is not admissible. That might lead only to a further aggravation of social tension, and to discreditation of the aforementioned concept of a natural-resources tax.

Taxpayers must have time to prepare for a global "re-evaluation of values," dictated by new rules of taxation. There must be a strategy in stages, for the gradual shift of the tax burden to nature consumption. Such a strategy should be made as a programmatic document, adopted by the higher authorities in Russia. The prospective taxation rate levels should be indicated in that document, and measures for the

gradual adaptation of taxpayers to the new conditions should be envisaged—development of tax credits, granting of privileges to certain categories of taxpayers, a displacement of the center of gravity of taxation from buildings and structures, to the land component of real estate, reduction of direct and indirect subsidization of nature-consuming types of activities and those harmful to the environment. It is important to reform comprehensively the legislative "branches" for taxation and natural resources, and monitoring systems, and to interconnect them with advanced scientific support.

It would be appropriate to study giving the right to subjects of the Russian Federation [the provinces, territories, major cities, and other jurisdictions, making up the Russian Federation—ed.], as well as local (district, town) authorities, to increase the amount of such payments to the budget within those territories, provided that the territory has fulfilled all obligations, regarding the amount and terms of taxes and other payments to higher-standing budgets and extra-budgetary funds.

During the first stage of transition to a new taxation system, more attention should be paid to the necessity of changing the present taxation structure, up to and including abolition of some taxes. Already now, taxation of producers should be structured in such a way as not to provoke an artificial growth of costs, with a consequent increase of prices on products.

Some research shows that a value added tax and a wage depreciation tax (VAT and WDT) are the most burdensome for production, and provoke an automatic increase of prices, which makes it more difficult for our producers to go into the world market. The WDT has been abolished. Now it is the turn of the VAT. The tax on profits, and its various modifications, should become the main method of taxation, in the first stage of tax reform.

Taxes of this sort are not charged against current costs of production, and are levied only on profitable enterprises, because of which they have a negligible impact on inflation. The optimal level for the tax on profit, according to calculations, is in the range of 50 to 60% (provided there is no VAT or WDT).

Further improvements in the taxation system are connected with the transition from a tax on profit, calculated in percentages, to fixed payments. Such payments don't undermine the interest in increasing profits, and they enable a simultaneous distribution of the tax burden, in correlation with the real possibilities of the producers. This is especially important in the case of nature-consuming enterprises, which have very specific conditions of work.

Accelerated housing construction

The most important and highest-priority task, of the whole long list of long-term development tasks, is housing construction.

The existence of considerable savings, as well as the re-

sults of sociological polls of the population, indicate that housing is the object of most persistent demand. It may be expected that not only in the immediate future, but in the longer term, there will be a stable, effective demand for housing in Russia. Moreover, housing enjoys higher consumer preference than other goods.

Investment in housing construction, provided there are reliable, persuasive guarantees, will be preferable to investment in currency, not only for those who need housing, but for persons interested in generating income, and those who want to obtain real estate for the purpose of leasing it. Such guarantees would create a favorable climate for attracting back the capital that has been exported from Russia, as well as attracting considerable foreign investments.

Housing construction, as an anti-crisis locomotive, will pull a train of related manufactures: construction materials, machinery, lumber, furniture, sanitation equipment, electrical appliances, household equipment, and other durable goods. All of that opens up wide prospects for industry. The existence of virtually inexhaustible reserves of mineral resources, for the production of construction materials, vast expanses of forest, and a half-idle production base, make it possible rapidly to broaden or to organize anew the production of many of the above-listed types of products. A considerable part of this production could be done at converted enterprises of the military-industrial complex. This would provide for its most efficient restructuring, under market conditions.

Accelerated housing construction will make it possible to optimize the number of households that have separate dwellings, which implies an intensive development of infrastructure, above all of the road network, which is inadequate in Russia.

The development of the housing complex, related products, and infrastructure, will stimulate additional demand for labor, which will help to solve the unemployment problem. This is a new and painful problem for Russia, because increasing unemployment can seriously destabilize the social-political situation, since the mentality of the population was shaped under conditions of full employment.

There is no alternative to housing construction, for solving the unemployment problem—all the more so, because housing is a unique product, closely related to a territory, and, therefore, somewhat removed from competition. Housing cannot be replaced by imports, which is what usually leads to the loss of jobs; with housing construction, the number of jobs is increased.

Implementation of a housing construction program will make an essential contribution to the development of federalism, and will help to increase the role of regional management and self-management. To give accelerated housing construction the role of a locomotive, objectively means an expansion of the economic possibilities of regional administrations and municipalities, which strengthens democracy and activates the power of the people.

A strategic maneuver in industry

The following three-stage scenario may be proposed as a strategy, corresponding to national economic interests during the transformation of Russian industry. It does not boil down to a complete redirection of resource flows at the point of transition from each stage to the next, but rather envisages a certain shift of priorities over time.

The task of the first stage could be to raise the investment possibilities in the country by:

- a national export policy, oriented toward expansion of large-scale primary processing of fuel and energy, and raw materials, resources;
- “economic” conversion of the military-industrial complex [MIC]. The latter, in contrast to “physical” conversion, means, not a literal switching of the MIC to satisfy the demands of the population, but rather the import of those goods, balanced by arms exports;
- the use of appropriate mechanisms to redirect the resources of low-efficiency and ineffective industries into industries where resources are used more efficiently.

Another important task of the first stage is to support science to the maximum possible extent, to support the most promising research and development, and prevent or reduce the “brain drain.” This requires direct budget support, and a flexible system of stimuli for the commercial sector.

It follows from this statement of the problems of the first stage, that it is impossible for it to be governed solely by forward-looking production criteria (export potential, tendency to increase efficiency indices), in the distribution of resources between traditional and new sectors. Those traditional industries should be supported, which 1) block the import of consumer goods, 2) are characterized by high efficiency, in world prices, 3) have a positive effect on other sectors, and, in particular, provide resources for the formation of new sectors. Regarding such industries, it is necessary to take into account the wave-like technological evolution of the world economy, skillful integration into which can provide considerable advantages for the national economy. Such skill takes the form, in particular, of exploiting some hitches in the development of leading countries, surges in the demand for products of basic industries, and the opening up of niches for the production of the latest components.

The main reason for the collapse of industry and agriculture was the unprofitability of enterprises in world prices, as they were made uncompetitive by the liberalization of foreign trade. Unprofitability, however, is not the last word on this or that industry. If it produces added value, then that is good, too. Because the increment of added value contributes to a final product, and thereby to the country’s finances.

The task of the second stage is the transition of industries to resource-saving technologies, on the basis of a reconstruction of the national machine-building industry. In order to provide not only specific achievements in resource-saving, but to change the situation as a whole, this line of conversion

is just as important as is the participation of the MIC, for modernization of the national reproduction base of machine-building.

The task of the third stage is to use the investment opportunities that have been created, to connect pioneering technological advances, with broad reproduction of such innovations. Thus, the task is for Russia to enter the group of technologically leading nations, and consolidate that hold.

Special attention should be paid to a strategic maneuver, to orient MIC production capacities toward servicing export-oriented branches of Russian industry.

This is precisely how the dangerous gap between those branches and the national manufacturing industries can be overcome.

The Russian economy has inherited huge raw-materials and military-industrial complexes—(abbreviated as RMC and MIC). The lion's share of the industrial, natural-resource, and ecological potential of the country, and enormous efforts of the entire people, were spent to expand them. When military-strategic competition with the West, and the increase and improvement of armaments, was a main concern of the political leadership, the MIC was the leading party in the interaction of those two monsters. It would be more precise to speak about subordination of one to the other, rather than about interaction. That was the main reason for the non-uniformity of resource and technology capacities, in the sectors of the economy as a whole. In other words, the large part of the products of the RMC, and, at the same time, the most important ones from the standpoint of modern technologies, were directly or indirectly spent on MIC activities, i.e., were included in the macroeconomic contour of arms production.

One could add that the surplus product, created in the extractive industries (which was very high, because of natural riches and low wages), served as the economic basis for the entire system of macroeconomic contours, which made it possible to maintain a high intensity in military-strategic programs over many years.

What, in fact, has happened to the structure of economic reproduction during the years of the reform? Perhaps the most noticeable fact, is that the MIC is now essentially on an equal footing with other sectors, saddled with burdens that came like a bolt from the blue, with the destruction of the former planning system of management and control. The most important new economic reality, was the destruction of the reproduction connection between the RMC and the MIC. In and of itself, that is natural, and would be no cause for negative emotions, were it not for one essential circumstance. The large part of national economic profit, formed in the RMC, was diverted not only from MIC channels, but from all channels connected to the high-technology sector, the science that traditionally serviced that sector, and from many related branches: the metallurgy, chemicals, petrochemicals, electrical engineering, and electronics industries. As a result, the multi-sector production structure of industry is gradually becoming mono-sectoral.

The main source of Russian income, two-thirds of which is formed in the RMC, was cut off from industrial production, and the national economic profit from exploitation of the most important natural resources, was increasingly expropriated by criminal and quasi-criminal structures.

This resulted from a one-sided approach to the processes of market transformations, and a naive belief in the omnipotence of purely financial methods of economic management, ignoring another, no less important aspect of the market—the system of methods of state regulation, including planning.

Suffice it to look at the experience of post-war Japan, where planning procedures were widely used, as well as mechanisms for the identification and implementation of priority directions of industrial policy. An important feature of the Japanese experience, was that state support of priority sectors applied basically to those industries, the development of which produced a larger cumulative effect, along a whole technological chain of related industries. The essence of this approach was the mutual coordination of industries, whereby the development of one advances the intensive development of others.

The concrete application of this interconnection to Russia might look like a chain of mutually complementary RMC industries, the machine-building industry, and metallurgy. The machine-building industry and metallurgy act as the main consumers of fuel and energy. At the same time, the RMC enterprises are the main consumers of machine-building and metallurgy products.

The interconnection of the machine-building industry with the RMC will make it possible not only to halt the decline of production, utilize defense industry capacities, and avoid unemployment, but to save currency resources by being able to refuse a considerable part of imported supplies of machines and equipment.

Switching to metallurgy means not only a large import-substitution effect, but also possibilities that open up for that branch of industry to use energy-saving technologies, thanks to a supply of new equipment from defense sectors. That, in turn, will make it possible to increase the volume of fuel and energy from the RMC for export.

The combination of the military-industrial and extractive complexes should become the framework for new inter-sectoral interaction, reoriented in accord with the changed macroeconomic conditions. Of course, if we speak seriously about demilitarization, then the MIC can no longer have pretensions to its former leading role in that duo. That does not mean that it loses any essential significance. There is no alternative to the connection of the two aforementioned powerful complexes, on a new macroeconomic basis, at least for the next decade or two.

The fuel and energy sector should become the leading party in the duo. To make it simpler, let's express it this way: That complex should assume the role of main customer, for the products and services of the MIC.

The economic reference point for such interaction could



A crumbling residential facade in Moscow, in June 1995. The CEMI specialists propose a national housing construction program, as a centerpiece of the economic recovery.

be the technical re-equipping of the raw materials branches: implementation of new technologies for extraction and primary processing of raw materials, providing a higher level of economic exploitation of already developed deposits, and the required scales of exploration and development of prospected reserves, where large-scale industrial exploitation is not rational, or even possible, without extraordinary technical solutions and cost-reduction.

The financial basis for the new interaction between the fuel and energy sector and the MIC, could be the profits from raw materials exports, a considerable part of which would be directed into payment for orders from defense enterprises, and direct investment in the creation or development of corresponding capacities in the machine-building industry and metallurgy. On the other hand, MIC participation in the profits of the extractive enterprises could be organized through mutual control of those enterprises' property.

It should be recalled that a large portion of the enterprises of the fuel and energy sector and the MIC remain federal property. It is just that they are not controlled at the present time, and not managed by their owner (the state), because of the general collapse of the system of economic management. Uncontrollability in the economy has gone so far, that ideas of a return to administrative control are becoming more and more popular.

It may be possible for the federal authorities to keep the "commanding heights" in the basic sectors of the economy (either keeping their enterprises completely as federal property, or the state's retention of controlling blocks of shares in

privatized enterprises), by means of creating a network of trust companies, with which the state concludes agreements on the management of federal property. The use of financial-industrial groups (FIGs) is most suitable as the basis for such companies. One should keep in mind that the enterprises included in a FIG are situated on the territory of different regions. Interaction and negotiations among regional administrations and the leadership of corporations (provided they are independent of each other, and of the federal authorities) will lead to the rationalization of the disposition of industry, which will create conditions for general economic growth. It is important to note that this transfers economic contracts from the vertical plane (regions-center; enterprises-ministries), preferably to a horizontal one: federal authorities can assume the role of arbiter in difficult cases, and, basically, economic problems will be decided in negotiations between the territorial representatives and those of the FIG. Thus, an element of competition can be created (between FIGs, as well as between regions of the country), which will define many structural shifts in the economy.

The creation of several inter-sectoral FIGs, which unite in their composition the enterprises of the fuel and energy complex, the machine-building industry, and metallurgy, will make it possible to solve several of the most important problems: increase of manageability, stimulation of investment, acceleration of conversion, increase of export potential, etc. It will be of great importance for the development of such cooperation, for the banks to participate broadly in the share capital of industry; that is, when a mediation link in manage-

ment, so lacking today, will appear in industry. Such an approach to the matter should be considered a very important line of a new industrial policy.

Programming scientific and technological development

The reform policy has driven Russia to a remote place in civilization. The holy of holies has been destroyed: science and education. Quite recently, we were approaching the world level of scientific achievement, and had surpassed it in some places. Today, where there used to be active scientific research, and a complex of fundamental and applied problems had been solved, chaos and decline reign. The scientific schools are being destroyed, without which Russia has no future.

But it is still possible to stop that catastrophic course of events.

Oases of high technology still exist in the country. These are not only the centers in or around Moscow, like Zhukovsky or Podlipki, but also a whole number of outlying centers (Arzamas-16, Chelyabinsk-70, Omsk, and many others). These are unique collectives, of the highest professional level, collectives which are capable of creating unique facilities and unique technologies, including of non-military significance. The fact that they are unable to mass-produce them, is another matter. So far, they work according to Levsha's principle: one or several copies of something unique. But the important thing is that those collectives are still alive (to be more precise—barely alive), and have not lost their craftsmanship. That is surprising, but it is a fact. It is demonstrated by exhibitions that have been staged.

But now, another step is necessary—to unify those relics of the past, with the production base of the MIC, with research centers like the Physical-Technical Institute, the Moscow Higher Technical School (MVTU), Moscow University, and the creation of corresponding technological parks, with broad diversification of lines of research and applied development.

The preservation and build-up of the high-technology centers require the solution of a whole complex of problems of economic organization. Transformations in that sphere, which are of vital importance for the country, are connected with a large time horizon, and huge volumes of financing. There can be no expectation of some quick return. But, one should begin now, because otherwise it will never be able to be done. The market, with the financial self-regulation mechanisms intrinsic to it, is a poor assistant for that. Those mechanisms work under conditions of a stable, balanced economy, with a fully elaborated production structure, low inflation, adequate utilization of facilities, and employment. We are situated, at present, in a different phase of the reproduction cycle—in the phase of deepest economic crisis. It is opportune here, to compare it with global crises in the economy of a society during war-time. In order to set things right, and bring the country out of such a deep crisis, a different mechanism

is needed, which has already many times demonstrated its undisputed advantages, by comparison with the market mechanism, in periods of catastrophe. This is the mobilization mechanism, based on planning methods and the corresponding institutional structures.

The situation in the economy is now so explosive, that we cannot permit ourselves any dogmatic narrow-mindedness about ostensibly depraved methods in general, and the inadmissibility of their use during the transition to the market, in particular. The market per se is a chimera. It is important for us to find a correct solution to the problem of bringing the country out onto the main route of social wealth and scientific and technological development. And that means not to deny either of the two known management mechanisms in the world—market, and mobilization—but to use them skillfully in conjunction, and in doses. Taking one or the other in excess, is equally bad for the economy.

What do we propose?

First, as we have already tried to substantiate in the preceding section, the distinct division of the economy into two non-intersecting management contours—state, and commercial or market.

Within the state sector, interaction among the economic subjects is accomplished not on a commercial basis, but through a system of state orders. The interaction of these subjects with the market sector is accomplished according to strict rules—on the basis of open auctions and tenders.

Second, the sphere of fundamental science, including the Russian Academy of Sciences and high-technology scientific-production centers, are “embedded” into the first, state contour; i.e., they function in conditions that maximally approach those of a planned economy. But not that deformed parody of planned regulation, when everything was prescribed, down to the last nail, but rather one that is fully capable of effective interaction with the market.

The most important function of management in the state sector is the establishment of priorities for the development of science and technology. Today, there are no institutions in our country that would fulfill that function. At the same time, world experience reveals broad representation of such institutions in the upper echelons of management in the leading capitalist countries, such as the U.S.A., Japan, Great Britain, France, etc.

Third, to form a Presidential Council on science and technology, consisting of prominent scientists and specialists. Scientists from those departments of the Russian Academy of Sciences, who are bringing up the rear in world scientific and technological development, should not be burdened with participation on such a Council. There is no point in inviting scientists or specialists who have only narrow interests. It is more necessary to make a good selection of those who have taken an active role in politics or business. Representatives of the humanities would scarcely have a useful contribution to make here, either.

The main task of the Council would be to estimate the

long-range priorities, for the country to have a stable niche in world scientific and technological development. This would be a "brain headquarters" for the Russian President. The Council should carry out, chiefly, a conductor's functions, with respect to a widely ramified, bureaucratically well-adjusted system of extra-departmental expertise. For this purpose, a Center of State Expertise for basic directions of scientific and technological development would be created.

Fourth, to create a Targetting-Programming Committee, to which the development and elaboration of Presidential programs for implementing the priority directions of scientific and technological development should be put. The latter come under a framework of planned management of scientific and technological development.

Of course, the implementation of each Presidential program presupposes the balancing of necessary resources with present production resources. This balancing, which depends on how the program is implemented, is in the nature of a guideline, and has nothing in common with the previously developed formal indices of national economic balances.

Fifth, each Presidential program should be subjected to separate consideration, evaluation, and approval by a higher organ of legislative power. Programs should be developed, adopted, and corrected, as necessary, with clarification of how the relevant problems are to be solved. The procedure of preparation, approval, and correction of the programs should be synchronized with the procedure of development and consideration of the state budget.

The state order takes on a due content, within the technology of program-oriented planning. Its nomenclature should be defined not only by the key role of the relevant manufactures, but, first of all, by their ability to initiate large-scale changes and to provide an avalanche-like return, and, second, by the absence of demand for some production, because of underdevelopment of the corresponding markets. State orders should play the role of a kind of bridge, connecting social consumption to new technological possibilities, or of a detonator that sets off explosive technological changes.

Because of the uncertainty of the priority directions of scientific and technological development, the programs for their implementation cannot be specified down to an exhaustive list of measures. For that reason, the programming management agency will have to structure a program continuously, and to refine it as its tasks are realized. Because of that circumstance, the state order cannot become an exhaustive instrument, or even a dominant instrument in these tasks. Methods for gradually decreasing uncertainty will play a big role—risk credits, targeted grants, and partial redemption of risky investments, as well as methods of indirect stimulation of the activity of economic subjects in priority directions: tax privileges (including exemption of R&D expenditures from taxation, as well as capital investments in new technologies, and accelerated amortization), preferential credits, targeted subsidies to consumers of new, expensive products, etc.

Sixth, to create a network of scientific foundations in the Russian Academy of Sciences, which receive funds for the research part of Presidential programs and distribute them for particular projects and grants.

Seventh, to introduce a tax-free regime for all Russian Academy of Sciences organizations, for educational research and experimental production complexes, as well as for MIC enterprises that participate in the implementation of Presidential programs; the entire amortization allowance should remain at the disposal of those organizations, and be used in a targeted way for the restoration and development of the scientific and production base.

Bibliography

- Manifesto of the Arbat Club, Moscow, 1995.
 "Economy and Society"—Proceedings of a theoretical seminar. Moscow. CEMI, 1996.
 D.S. Lvov. "Toward a Scientific Grounding for a Concept of Economic Reform in Russia," in *Economics and Mathematical Methods*, 1996, No. 3. Also, in *EIR*, Aug. 25, 1995.
 V.L. Makarov, "On the Russian Model of Society." (Ms.).
 N.N. Moiseyev, "Does Russia Have a Future?" (Ms. of monograph).
 A.I. Golubev, "Problems of Rational Reform in the Russian Federation." Moscow-Kaliningrad, 1995.
 D. Lvov, K. Gofman, et al. "Strategic Course of Russian Revival." *Nezavisimaya Gazeta*, 1994.
 Yu.V. Sukhotin, "Socialism and Unearned Incomes," and other papers. (Author's materials).
 A.D. Nekipelov, "On the Question of the Nature of the Transformation Shock in Post-Socialist Countries." Moscow, 1996. "The Monetary and Credit System." (Author's memorandum).
 V.F. Pugachov, D.S. Lvov, "The Russian Economy in the Trap of Monetarism. Where Is the Exit?" (Ms.).
 V.F. Pugachov, A.K. Pitelin. "Analysis of Variants of Anti-Inflation Policies." (Analytical memorandum).
 J. Tennenbaum. "The Process of Disintegration of the World Financial System." Translation from English, in *Russian Analytic Review*, December 1995.
 A.E. Varshavsky, "Problems of Preserving Russia's Scientific-Technological Potential." (Analytical memorandum).
 V. Zotov, V. Presnyakov. "On the Financial System." (Ms.).
 V.S. Sokolov, "On the Urgent Cardinal Change in Russia's Social-Economic and Financial-Budgetary Policy." (Scientific report). "On the Question of Using the Experience of Post-War Restoration of the Japanese Economy." (Analytical materials).
 A.A. Guseyev, "Basics of the Ecological Mechanisms in a Sustainable Development Economy." (Analytical memorandum).
 V.S. Perminov, "Industrial Policy and Investments." (Analytical memorandum).
 Yu.V. Ovsyenko, "Necessary Conditions for Social-Economic Transformation." (Ms.).
 S.Ya. Chernavsky, "Regulating the Activities of the Natural Monopolies." (Analytical memorandum).
 Yu.I. Chernov, "Economic Mechanisms of Employment of the Population, Processes Management." (Ms.).
 V.D. Belkin, "On Accelerated Housing Construction in Russia, as a Locomotive to Overcome the Crisis." (Ms.).
 V.I. Danilin, "New Structures of Industrial Management." (Analytical memorandum).
 M.R. Levinson, "A Model Substantiation of Changes in the Tax System." (Analytical memorandum).
 A.N. Anisimov, "Liberal Privatization Doctrine in the Context of World Tendencies." (Analytical memorandum).
 Yu. A. Petrov. "Reproduction Collapse of the Russian Economy, 1991-1995. Causes and Ways to Overcome It." (Ms.).
 V.Ye. Dementyev. "Economic Reforms in Russia and a New Industrial Policy." (Ms.).