

## The Ishayev Report: An Economic Mobilization Plan for Russia

by Jonathan Tennenbaum

There presently exist, at the highest level of the Russian government, at least two, widely divergent economic programs for the coming decade. The first is the program drawn up by Minister of Trade and Economic Development German Gref, which has been revised and amended countless times over the last year, but never given explicit approval by Russian President Vladimir Putin. The second was authored last year, at the request of Putin, by a group of leading Russian economists under the auspices of Khabarovsk Gov. Viktor Ishayev and presented by Ishayev on Nov. 22 at the first full meeting of President Putin's newly formed State Council, a top-level policy body bringing together representatives of the central and regional governments of Russia.

The Ishayev program is summarized in a 100-page document entitled "Strategy for Development of the State to the Year 2010." This document, although widely circulated in Russia and the subject of heated behind-the-scenes debates, remains unpublished, and very little of substance has been written about it in the West until now. Given its obvious importance, and the likelihood that it will exert a significant influence on the economic policies of the Russian government in the coming period, we present below a fairly thorough summary of its key points, followed by some comments from our side; at the end of our article we provide extensive excerpts from the original, in our translation.

### The Ishayev Program vs. Gref's

Officially, Ishayev's program is supposed to "complement" but not contradict the Gref program, which at least pretends to represent current government policy. In its introduction, the Ishayev paper characterizes itself as "an impor-

tant supplement, and a new basis, for the current and medium-term macroeconomic program, which the federal government is developing and carrying out in practice." In reality, the axiomatic principles underlying the Ishayev document, are *fundamentally and irreconcilably opposed* to those embodied by Gref and the rest of the neo-liberal group dominating the government of Prime Minister Mikhail Kasyanov. This fact was emphasized in public by one of the main contributors to the Ishayev program, the noted opposition economist and head of the State Duma (lower house of Parliament) Committee on Economic Policy, Sergei Glazyev.

Where the Ishayev report bases itself implicitly on a notion of the "general welfare" of the Russian population, Gref's outline emphasizes "the rights of property." In the former, the state has the immediate responsibility to launch a forced recovery of physical production and consumption, mobilizing the resources of the nation to that purpose, and channelling investment in a dirigistic fashion into infrastructure, agriculture, and industry. The latter, on the contrary, would degrade the state to the status of legal arbiter, setting and enforcing rules of competition among private businesses and leaving the rest to the supposed magic of the "invisible hand." The Gref program is oriented toward attracting foreign investment, the Ishayev program toward expanding the nation's own productive forces.

In a word, Gref's conceptions embody the axiomatics of the "British System," while the Ishayev document reflects, in a certain approximation, the standpoint of what the great 19th-Century economist Friedrich List termed the "American System"—a tradition historically best represented in Russia by Sergei Witte's *Lectures on National Economy*. That said, the



*A grocery store in Moscow. The economic program proposed by a group under Khabarovsk Gov. Viktor Ishayev, at the request of President Vladimir Putin, sets the yardstick for economic growth as the increased well-being of Russia's citizens—a polemic that, implicitly, flies the face of the neo-liberal monetarist "reformers."*

Ishayev program does not address issues of principle per se, but rather sets forth a series of concrete policy criteria and practical measures to be implemented by the Russian government, starting at the earliest possible moment, in order to realize an economic mobilization of the country over the years immediately ahead. With this limitation, it is doubtless the most competent document of its kind to have emerged so far in the internal economic debate in Russia.

The document has particular significance, not only for its intrinsic merits and for the obviously considerable support it now enjoys—including, notably, among many liberal circles in the country—but also because it reflects the problems and viewpoints of Russia's vast regions. The latter aspect is exemplified in the person of Ishayev himself, who represents a strategically important region bordering on China along the Trans-Siberian Railroad, and who has been associated with efforts to develop the Eurasian Land-Bridge system of infrastructure corridors stretching from Europe through Russia to the Pacific. Ishayev's presentation to the November 2000 State Council meeting, presided over by Putin personally, occurred in the wake of several breakthroughs in Russian's eastern diplomacy, including the President's visits to China, India, and Japan. It was these and related developments, coming in the context of the growing evidence of an ongoing collapse of the Anglo-American-centered world financial system, that provided the context for Putin to, publicly at least, entertain the possibility of a radical shift in economic policy in Russia.

Unfortunately, according to press reports, President Putin has now called for the Gref and Ishayev programs to be "har-

monized" into one—an axiomatic impossibility!—reflecting once again Putin's well-known tendency to maintain ambiguity and avoid decisive actions as long as possible. But time is running out for Russia. The catastrophic collapse of energy and other infrastructure in the Far East and other regions of Russia, leaving tens of thousands of Russians to freeze in their homes, is one of many signals, that the country might not survive another year of vacillation. The time has come for an all-out economic mobilization.

We now turn to the content of the Ishayev report.

### **People First**

The introduction to the paper emphasizes the need to define not only the quantitative but also the qualitative characteristics of economic growth. The criterion for growth is improvement in the concrete well-being of the population—an implicit polemic against the use of merely nominal or monetary measures of growth by the so-called liberal reformers. The key to high rates of real growth is investment in the technological modernization of the economy.

The first chapter, on "Social Consolidation as the Basis for the State's Development," is a thoroughly worked-out argument to the effect that the consolidation of a strong Russian state—a declared goal and evidently main policy criterion in the mind of President Putin—is possible only on the basis of an economic policy which guarantees the well-being of the *majority* of the population, and not simply a minority class of entrepreneurs and businessmen.

The paper notes the growing split within Russian society, not only in terms of income and living standards, but also in

values and perceptions. This gap is undermining the very basis of the state. Russia has taken on a “two-tier” social structure, typical of a Third World country. A large part of the population is now living in permanent poverty and without motivation. Without a strong middle class, there can be no basis for stability.

Two approaches to resolving the problem of the two-tier social structure are reviewed. The first is basically for the state to increase overall social expenditures in order to alleviate the hardship of the population. But even apart from the scarcity of budget resources, this by itself would hardly eliminate mass poverty. The second approach (favored by Gref et al.) is for the state to cut back on many categories of social expenditures, concentrating on ensuring a bare existence for the most needy, and leaving it to the citizens to pay the rest themselves. But this approach is illusory, the paper points out, because there is no broad middle class able to pay for the services now covered by the state.

Echoing the concept of “harmony of interests” put forward by Abraham Lincoln’s economic adviser Henry Carey, the Ishayev paper proposes still another alternative: the realization of high rates of real economic growth oriented toward improving the life of the majority of the population, creating a “mass middle class,” as a new basis for social solidarity. This requires close cooperation among the citizenry, the state, and entrepreneurs.

As opposed to the idea of a minimum, subsistence level of existence, this means to ensure that a majority of the population can achieve a normal or standard consumption level corresponding to decent living conditions, including quality housing, consumer durables, the traditional summer cottage, an automobile, education, and health care. Making such a living standard attainable by the majority would provide a major stimulant for the economy, as well as an urgently needed increase in the motivation of the labor force.

Reaching the proposed level of consumption, however, dictates the need for high rates of growth of the real, productive sector of the economy, which in turn depends on achieving a “break-out” in terms of investment. This means a “forced increase in capital investment” on the order of 8-9% growth per year, as well as state support for key sectors, including agriculture and infrastructure areas such as electricity, which are not able to generate the required rates of investment themselves.

The key to high rates of real growth, the paper emphasizes, is the domestic capital goods (machine-building) sector.

### **A Three-Stage Economic Mobilization**

In a chapter on “The Concept of Development,” the Ishayev paper makes very clear, that the modernization and development of domestic manufacturing and processing industries are the key to the nation’s future—and not the mere export of energy and raw materials. Only the development of industry can provide a decisive improvement in the life of

the citizenry.

Not raw materials, but the manufacturing sector, including the export-oriented branches of industry, constitutes the most important material resource of Russia.

Especially important, in a period of economic recovery, is a mobilization of existing technological potentials in industry, construction, and transport. Besides exploiting those potentials in full, it is crucial to stem the flow of capital out of the country, estimated at \$15-20 billion per year, and to recycle all available capital in a mode of expanded reproduction of the economy as a whole.

The paper goes on to “inventory” the potentials still existing in the country, which could be tapped in an economic mobilization. These include:

1. Unused production capacities, especially machine tools and infrastructure, which could be brought on line as soon as demand is created.

2. Energy supplies, metals, raw materials, and transport capacity will not present major bottlenecks for an economic mobilization. The only really serious limitation is insufficient amounts of qualified labor, especially in the manufacturing sector. Industry has lost a major part of its workforce as a result of the last ten years’ economic collapse. Recovering the labor force will take resources and time.

3. The increased income in some traditional export sectors of the Russian economy (for example, petroleum and military technology).

The main task of economic policy is to assemble these growth factors. With proper policy, the physical output of the Russian economy could be increased by 25-30% in the next two to three years alone.

There are also limitations, however. These include insufficient internal demand, and the extreme scarcity of financial resources in the real sector. Furthermore, the increased income of export-oriented sectors over the last year has mainly fed into the capital flight. A large percentage of companies in the real sector operate at very low (or negative) profit.

Apart from the issue of foreign debt, there are serious internal obstacles standing in the way of rapid expansion of investment. Chief among these is the loss of strategic development orientation in most branches of production, which have been forced to operate in a mere “survival mode,” at best, over the last ten years. The worst affected is the technological core of the machine-building and capital-goods industries, and agriculture. In addition, large amounts of resources are not readily available for internal development, because they are “tied up” in the consumption and investment cycle of the exporting sector, which, because of the crisis, has a structure unfavorable to the development of Russia’s economy.

All of this means that in an economic mobilization, the scope for expansion of production without large-scale capital investment is limited to the first two to three years; after that, available margins of unused productive capacity will have

been exhausted. The mobilization could not be continued, at that point, without large-scale investment, above all in the capital-goods sector.

Only the state is capable of initiating the required investment process, on the basis of a long-term program.

One aspect of this is the necessity of state regulation of prices charged by the “natural monopolies” (including energy). The Ishayev paper states in no uncertain terms, that the task of these companies (including Gazprom) is to “provide a foundation for the economy of the Russian Federation”; their right to profits is a function of fulfilling that task. In other words, the natural monopolies have no right to loot Russia’s economy; instead, their interests must be subservient to those of the national economy as a whole.

A key bottleneck for increasing investment in the real economy, according to the Ishayev paper, is the lack of development of the financial sector. The financial system of the country must be built anew, it states. More broadly, it is necessary to restore the basis of trust, which is needed in financial and other agreements, including guarantees on bank deposits and measures to ensure the honoring of contracts. (These aspects are developed more extensively below.)

Provided the required policies are implemented, an economic recovery in Russia will occur in three successive stages.

In the first stage, existing idle production capacity would be brought on line and fully mobilized. During this stage, lasting not more than three years, a yearly growth of 8-10% will be realized. Decisive for the success of economic recovery, is to set into motion, parallel with the mobilization of idle capacities, a huge wave of new capital investment into the productive sector of the economy.

The second, transitional stage is marked by the exhaustion of margins to increase production on the basis of existing capacities. Emphasis shifts toward developing new capacities. Nominal growth slows to 2-4% per year, but the quality of the growth improves with the influx of higher levels of technology. Provided the investment process has already been properly initiated during the first phase, the second stage should last two to three years.

The third stage, which might begin in 2005, is a transition to a “steady trajectory” with solidly sustained growth of 5% per year.

## **The Responsibility of the State**

The Ishayev report puts forward an axiomatic standpoint directly opposed to that of the Gref program and the so-called liberal reforms of the 1990s. Noting the disastrous effects of the “illusions of the 1990s” concerning the supposed benefits of deregulation and privatization, the report lays out the urgent requirements for intensifying and expanding the scope of state intervention into the economy and social spheres, as the precondition not only for the economic recovery of Russia, but also for the creation of any truly functional market

structures. The key areas of intervention must include not only “traditional” spheres such as defense, education and scientific research, essential social services, etc., but also an increase in the scope of state responsibility for the economy as a whole. This includes exclusive state responsibility for the military-industrial complex, and the agricultural and infrastructure sectors.

Notable is the emphasis on state support for the development of “dual-use” technologies (i.e., technologies with important civilian as well as military application), including “new means of transport” in the context of state support for a thorough modernization of the military-industrial complex. Development of basic physical-productive infrastructure— heating and electricity, pipelines, electricity, road and railroad transport, water transport— should be the central focus of the attention of the state. The rights of the population to essential infrastructural services and the basic unity of Russia’s vast territory must not be sacrificed to irresponsible plans for privatization of infrastructure. State financial support for rural electrification, gasification, road-building, and education and medical facilities is proposed as a key method to promote the rural economy which involves one-third of Russia’s population.

In addition, it is necessary to draw up an appropriate strategy for developing the state sector itself, which includes much strategic industry and infrastructure. The state sector is crucially important, not only because of the commercial goods it produces, but above all for its role in the formation of strategic markets, in generating employment, and expanding the tax base. At present, it is important to make an inventory of the state sector and to draw up strategic investment plans for its development.

In this context, the state is a very special sort of investor. It judges investment projects not only in terms of their direct profit, but in terms of the overall benefits of their realization for the economy as a whole. For this reason the state has a special interest in projects for development of infrastructure. This point is further developed in another section of the paper.

The report also calls for the formation of a “civilized market for land” (at present, sale of most land is prohibited), but only once a broad infrastructure of land banks under state patronage has been created in the country.

## **Productive Investment**

Under the heading “Basic Elements of Economic Policy,” the Ishayev paper addresses a number of basic problems affecting the productive sector of the Russian economy, which must be resolved if the economic recovery policy is to be successful.

A key problem is the lack of a financial and investment structure able to meet the needs of large-scale industrial development. Industrial investment is crippled by the crisis of confidence in the economy, and by the excessively high risks in the investment cycle, especially in the science-intensive

branches of industry.

It is proposed that the state create several new financial institutions and instruments, including institutions for evaluation of debt quality and of investment projects. These would have the included function of reducing financial and economic risks of investment and increasing the reliability of cooperative agreements; mediating between entities participating in the investment cycle; providing banking, insurance, and commercial information and technological support needed to reduce the losses in investment and production in the real sector of the economy; and restoring a “system of confidence” in the economy.

### Some Final Comments

Apart from technical aspects of secondary importance, I do not think there could be competent objections to the essential approach, outlined by the Ishayev document, *as far as it goes*. It is also clear, that Russia would be in an incomparably happier situation today, had something like the indicated approach—some elements of which were already on the road to being implemented, when Yevgeni Primakov was removed as Prime Minister in May 1999—been adopted by Putin from the very beginning. In the meantime, a great deal of precious time has been lost.

The problem, from our standpoint, is not what the Ishayev document says, but rather, what it does *not* say—at least, not in the version which has been widely circulated and discussed since the end of last year. Let me give some examples.

First, it is not sufficient, in Russia’s present situation, to merely insist that investment be channelled into the productive sector—infrastructure, industry, and agriculture. A successful economic mobilization must be developed around certain key strategic tasks, which define a least-action pathway of successive breakthroughs in rates of development of the economy as a whole. A focus on selected, breakthrough areas, including specific areas of technological development, provides an instrument by which the state can drive the entire economic process forward. It is necessary to go beyond mere macroeconomic generalities, and to identify such areas in a precise manner.

One such, very obvious example is the role of nuclear energy. Without a large-scale use of nuclear energy in advanced forms, there is no possibility that Russia can attain the levels of overall productivity needed to reverse the effects of the ten-year economic collapse and rebuild the economy over the medium term. In particular, nuclear energy—for electricity, district heating, and industrial process heat applications—is key to the future of vast regions of Siberia, the Far North, and Far East of Russia. At the same time, the design and production of advanced nuclear energy systems provides an ideal context in which to mobilize the capabilities of the military-industrial sector, and to rebuild crucial machine-tool and machine-building sectors. Furthermore, with adequate development of suitable technologies such as modular high-tem-

perature reactors (HTRs), the export potential of Russian nuclear technology to China, India, Iran, and other developing nations of the world, could be multiplied many times over.

By the same token, even a relatively short-term economic program for Russia, must locate Russia’s development in the context of the future of Eurasia as a whole—a context in which Russia is destined to play a decisive role. The necessary parameters for Eurasian development, including most emphatically the Russia-India-China “Strategic Triangle,” the pivotal role of Central Asia as well as Russia’s relations to Western Europe, are very precisely defined; they center on the necessity of large-scale infrastructure development, including such things as transcontinental high-speed rail and maglev systems, energy systems, water systems (canals, irrigation systems, flood control), and so on, in the course of the coming decades. The essential parameters have been set forth in the strategic conception of the Eurasian Land-Bridge, put forward by Lyndon LaRouche and his collaborators.

This leads us to a more profound point, which we can only hint at here. To conduct an economic mobilization, to uplift Russia out of the depths of economic and social disintegration into which it has fallen during the last ten years, requires more than merely “objective” economic measures. It is not a purely technical issue, but depends on the ability of national leaders to mobilize the population around an appropriate set of ideas—ideas that must center on a notion of the *national mission of Russia* in the world as a whole (see Lyndon H. LaRouche, Jr., “The U.S. Strategic Interest in Russia,” *EIR*, Dec. 15, 2000).

That mission is defined, among other things, by the urgent requirements of the vast populations of Asia, for the kinds of scientific and technological developments which Russia is uniquely situated to supply. But Russia’s mission has a more universal aspect, which is perhaps best identified by reference to the great Vladimir Vernadsky’s notion of the *noösphere*.

The universe, as Vernadsky showed, is governed by three absolutely distinct sets of physical principles—principles of non-living or inorganic nature, the principles of living processes, and the higher principles manifested in human Reason. The demonstrable, hierarchical relationship of those three domains, demonstrates the existence of a *universal principle of creativity*, subsuming all three. Thus, man and the *noösphere* did not emerge out of the biosphere by virtue of the principles of living processes; rather, the universal principle acted, already *before* the emergence of man, to bring about, in advance, the conditions under which man’s existence became possible. The reflection of that universal principle of creativity into the economic process, which is the subject of LaRouche’s Science of Physical Economy, cannot be properly ignored in the context of projecting an economic mobilization such as that which Russia must accomplish now. The intrinsically nonlinear character of such processes, and the apparent “time reversal” which is a leading feature of them, cannot be mastered in any lesser terms.