

## Russia: The Emerging Consensus on National Reconstruction

The political situation that has emerged in Russia in recent years is still prompting our economists and sociologists to conduct a debate about the country's future prospects primarily in a spirit of confrontation and mutual non-recognition: the left-wingers against the right-wingers, the socialists against the liberals, the dirigistes against the monetarists, and so on. But politics and the struggle for power have their own laws. It is hardly surprising that politicians of all leanings strive to make maximum use in their own narrow party-political interests of any, even invented, differences of opinion with their rivals merely so as to gain even the slightest political advantage and thus to strengthen their influence within society. Indeed, how can things be different in a situation where the public barely has time to memorize the surname of the latest prime minister before he is dismissed. However, all societies, including Russian society, is not just about politics and politicians. It is in fact a consciousness, a view on life and the ideals and aspirations of the »silent majority«, or put differently, that predominant »non-political« section of the population, who does not perhaps outwardly have a great bearing on the present situation but on whose moods and preferences, in the final analysis, everything depends.

The Russian public is tired of division and is demanding agreement. I can confirm that at least in the economic and social spheres, such a consensus is possible. Moreover, it already exists not only in words but in deeds, the only problem being that it is either deliberately or involuntarily not noticed. It is probably difficult for the stunned Russian, having lost all his sense of orientation, to notice that a national consensus in these areas is taking shape or has already actually emerged. After all, in the political arena and in the mass media he primarily hears extreme views being voiced. The far left is calling for a return to the past, to an economy based on a totalitarian dictatorship and uni-

versal shortages, whereas the far right is still, after all the mistakes and failures of the policies of reform, talking about the healing force of »social Darwinism« and the dog-eat-dog struggle in the free market – what sort of consensus is that?

However, the point is that if we look at things rationally, if we remove all the extremism and ignore the marginal forces on both the right and the left, which are absorbed by their mutual political destruction, we cannot help but recognize that Russia, which in the late 1980s entered a phase of protracted socio-economic transformations absolutely unprepared either theoretically or practically, has not lived through these recent years for nothing. It was not enough to comprehend and realise that the former totalitarian system was completely ineffective economically and therefore not viable – it seems that everyone agrees with this view today with the exception of the most extreme marginal forces. It was not enough to extol (unfortunately, almost a century late) social standards such as freedom, democracy, human rights, a civil society, the free market and social management as supreme values, because there are currently no serious (i. e. non-extremist) political forces and no social groups of real weight and influence to push those standards through. It was still necessary, having experienced such suffering, destruction and shattered illusions, to arrive ultimately at an understanding of the specific tasks to be tackled by Russian society so that it can emerge from the present national crisis and at last embark on the path that most of the rest of the world is already proceeding along.

I am convinced that such an understanding has been reached in Russia. Of course, it is possible and necessary (so as not to repeat the mistakes already made), to argue about the »price« that the whole of Russian society has had to pay for this understanding. But with each day that passes, it is becoming increasingly evident that in the eco-

nomy and the social sphere Russia now knows what it has to do, at least in the next 15–20 years. As to further into the future; by then it will be clear what is needed and how this can be achieved.

## **The economy**

Thus, in Russian society, it seems that in the minds of the public at large, a high level of consensus has already formed on certain basic policies, which in their totality determine the reasonably clear contours of a most expedient and most probable national economic strategy on the threshold of the 21st century. Why? Because the basic national economic tasks are objective and clear to society as a whole. If these tasks are not tackled, the country will not only fail to recover and make further process, it will simply not survive. Any responsible political force cannot, based purely on its instinct for self-preservation, avoid the need to tackle these tasks.

## **The Settled Issue of Ownership**

The structure of ownership in the country has changed radically over the past decade and, in all probability, irrevocably. Today, about 30% of national assets are owned by the state whereas 70% is in private or mixed public-private ownership. Of course, the methods of privatization used in Russia deserve the severest possible criticism from a social and moral point of view and the actual transfer of state property to the private sector has resulted (at least at present) neither in increased efficiency in privatized companies nor in the emergence of effective investors or private entrepreneurs within them. Nevertheless, it is a fact that the structure of property today in Russia is in principle already close to the optimum and very reminiscent of that in leading Western countries.

In the next few years some growth in the share of state ownership at the expense of mixed state-private ownership is likely if the relevant court procedures result in the cancellation of the worst privatization rulings and if owing to the apparent weakness of private investors and their reluctance to invest in the real economy the state is forced in the coming years to take on a more substantial

share of investment efforts than at present. On the other hand, a certain level of growth in the private sector is to be expected, especially of small and medium-sized businesses, whose uncontrolled investment activity may grow quickly and sharply in the foreseeable future if the country's further movement towards the free market continues and becomes consistent.

However, the fundamentally new demarcation of economic power has already been achieved: science and education, defense and the bulk of its industry, electric power generation, roads, transport, communications, the health service, municipal housing and support for the northern territories all largely belong to and are under the authority of the state at all its levels. The remainder is in private ownership from the street stall to the major financial and industrial groups. There is every indication that Russian society has accepted such an ownership structure and even the majority of left-wing forces appear to have come to terms with this situation.

The main links both within and between these two sectors are, and no doubt will continue to be, conducted primarily on the basis of free-market principles, which above all stipulate the independence (and consequently responsibility) of all economic units and the reduction to a minimum of all forms of direct state subsidies and grants. The property structure that has emerged does not run counter to the growing objective need for state regulation of economic processes. Planning and programming, as everywhere in the world, can be carried out much more effectively than by direct administrative dictate, primarily through indirect market-based methods including state orders, anti-monopoly practices, monetary policy, movement of the discount rate and the exchange rate of the national currency, the budget, taxes, loans and social legislation.

## **Industrial Restructuring**

Also evident are shifts in public opinion about the kind of economic structure in material and industrial terms that Russia will need in future. No one is seriously disputing the view, which until only recently seemed nonsense, that a significant share of the country's economy was created for

nothing in previous decades: about one third of our industrial potential is simply of no use to us and it cannot and will not be viable under any circumstances and is therefore condemned to closure sooner or later. Roughly another third of this potential needs radical and very expensive restructuring in order to be competitive and effective in an international context. Also, no more than one third of Russia's present industrial potential has a chance of integrating into the world economy and its scientific and technical progress.

I am convinced that this restructuring of the country's entire industrial potential is the main task for the present generation and more likely, the future generation of Russians. Either we tackle this task or, as it was once put, »we will be buried«. In this respect, today's frequent contrasting of the two possible directions of »re-industrialization« seems artificial, namely the stress on the whole spectrum of consumer industries (i. e. foodstuffs, light industry, manufacture of domestic appliances, residential housing construction and car manufacture) and the development of high-tech industries as a priority without a direct link to the consumer market. Both are essential: the life of the country and its people is determined not only by the nature and volume of mass consumption but also by its task of ensuring worthy survival in a constantly changing world.

Today, almost a decade since the start of our far-reaching reforms, it is difficult even to understand how we set out into such stormy waters with no compass and not even a rough idea of who was fated to live or who to die in the Russian economy. All this happened without a main, long-term strategy, such as a plan for radically restructuring the country's economy and, correspondingly, an all-embracing structural (industrial) policy. But even more surprising is the fact that we still do not have such a policy up to this day and the process of discarding some production facilities, modernizing hopeless enterprises and offering inducements to promising industries is proceeding as it did before, i. e. in a completely uncontrolled manner without any well thought-out guidelines for state bodies or private investors, without an effective »social security net«, and largely owing to clashes between various lobbying groups and spontaneous speeches by interested social groups.

According to the most conservative estimates, Russia will need to invest some US\$500 billion in the coming decade to tackle its structural problems. Where is it to get this money from? This is a very difficult task which could become the key to the »national idea«, now being sought so urgently by the left-wing, the right-wing and the center. Thereby it is strengthening the signs of an emerging consensus in Russian society.

However, finding and mobilizing these resources is not the end of the story. They have to be distributed sensibly and directed to areas where they will have the most effect. Is this possible without a well thought-out state strategy, without the relevant policies, without a department in charge of the Russian economy, whatever it may have been called, without even Gosplan? Indeed, the very process of moving these resources and channeling them into the most promising industries will remain impossible for a long time to come within the framework of a strictly free-market mechanism. Since we have no real stock market and it is not known when it will take shape, the private banks are still too weak and too corrupted by years of unbelievably high profits to invest in the real economy. There are not even any investment companies and essentially no pension trusts or other such funds.

It will probably take a long time before major investors in Russia will accept the modest level of profit that usual (i. e. non-speculative) investment in the development of the real economy can provide them with objectively. The country cannot wait until then. The hope of direct (and of portfolio) investment, as experience has shown, is weak and unreliable, especially after 17 August 1998. Today even convinced liberals, if they are capable of maintaining a minimum level of objectivity, must, I think, acknowledge that for years to come there will not be a more serious source of investment in the real economy than the state budget and state loans in one form or another. This will require, in turn, the relevant state mechanism for distributing such funds. This is without doubt a major point in the national consensus that is emerging today by degrees.

## Emphasis on High Technology

After the bombing of Yugoslavia had started, the whole of Russia (including, it seemed, even the most zealous »pro-Westerners«) realized, in my view, how naïve our recent illusions had been of the final emergence of universal peace-making and how nationally irresponsible the reform policies of recent years had been in bringing destruction and degeneration to Russia's scientific and technological potential.

A nation's instinct for survival prompts an absolute and indisputable priority for the country for the foreseeable future: the imperative to preserve the main national capital and the chief guarantee of a fitting existence for Russia's future, namely its brain power. We have to face the truth: in science, research and experimental design, Russia (even if at first only inefficiently) must, in the interest of national security, preserve its Academy of Sciences, its leading applied research institutes, its universities, and its 70 »numbered« cities, where more than three million people – the flower of the Russian nation – live.

Correspondingly, primarily through budget support (which must not impede their usual commercial activities), the whole complex of high-technology production plants, which provide the country with its reliable nuclear shield and its mobile, compact and technologically well-equipped conventional armed forces, must not only be preserved but where possible further developed.

Of course, Russia cannot do everything. However, it could not only maintain but also build on its leading position in a number of high-tech industries such as nuclear power generation, space exploration, aircraft construction and arms manufacture. All the arguments that we are doomed to the role of an energy provider and raw material resource for the post-industrial world are at best merely alarmist and at worst criminal.

## A Long-term Approach to Land Reform

Maybe the most disputed and most unclear issue for the whole of Russian society today is what can be done with the country's agricultural sector. Should the collective farm system be preserved in some form or other or is the future of Russian agri-

culture, as almost everywhere in the world, linked primarily to the private sector? Or can the collective farms that proved completely impractical develop with time into something resembling agro-industrial joint-stock companies? Or will something productive ultimately result from the personal plots and other small-scale farms based mainly on manual labor which presently only provide a little less than half of the country's whole agricultural output and occupy no more than 2–3 % of all cultivated land?

I think that, considering our past, this issue cannot be resolved at the top and certainly not quickly. Decades will probably be required and at least two generations before some sort of new way of life and predominant form of production clearly take shape in the Russian countryside. An attempt to put forward another speculative model before this occurs would be, firstly, unrealistic and, secondly, dangerous. It seems that it is for this reason that leading political forces in the country are not linking themselves to any excessively binding projects and assurances right now. That is obviously the right approach. »Something will emerge of its own accord« – this may sound like »popular wisdom« but for a national consensus (at least today) it would be hard for anyone to propose something more reliable.

It must be born in mind that reliance on uncontrolled market processes in forming new socioeconomic structures in our villages, (deserted and disfigured by collectivization) certainly does not mean even the simple possibility of rejecting direct state support for various forms of management that arise again in rural areas. Without state administrative, tax, credit, insurance, scientific, technical and other support, nothing would succeed – everyone understands that now. It is merely a question of the scale and criteria of such support and through which mechanisms it is to be implemented. Clearly, it would be pertinent to start discussing this now. As is known, »the devil is not in the principle, the devil is in the detail«. However, this problem is so huge and complicated that it alone is enough to keep the whole of Russian society on tenterhooks for years to come.

There is no need to seek a »national idea«. We have always had one: the idea of creating, developing and modernizing Russia and, correspondingly, the lives of the people inhabiting it. If completely unlimited entrepreneurial activity in all its forms is the main force behind the country's regeneration and further progress then the key condition for such activity is a well-developed infrastructure – roads, ports, airfields, power networks, reliable communications, housing, schools, hospitals, law-enforcement agencies, and so on. Apart from the state, in today's Russia there is no other real force capable of tackling such tasks and there can be no doubt that there will not be one for a long time to come. Surely it is obvious, notwithstanding the fierce debate about the problem of »more state – less state«, that in actual fact the limits of the dispute are set by the realities themselves and the country's objective needs. In that sense isn't this whole debate essentially aimless? From the point of view of common sense, there can only be one answer: the state should be as big as needed.

As an illustration it is possible to cite the recent episode relating to railway tariffs for transporting freight to the country's remote regions. An attempt was made to transfer such freight operations on a solely commercial basis and do without the traditional state subsidies. Nothing came of this. Life showed convincingly that even free-market liberals can learn a thing or two and sooner or later they too will realise what is realistically possible and what is not.

Also, whatever changes take place in Russia's political life, whatever forms of socio-economic organisation come and go, one of its main national tasks will remain from one century to the next – developing the country's vast expanses of land and huge natural resources. It is true that in recent years views have been expressed by our society's extreme liberal wing to the effect that we do not need such large territories and there is no point in supporting Russia's North and Far East (regardless of its inhabitants). However, I think we ought not to take such sentiments and statements seriously.

Judging by many statements to the left and to the right of our political spectrum in Russia, it would seem that at last a general conviction is emerging that the greatest historical mistake committed by the Bolsheviks and by Gorbachev's »perestroika« as well as the free-market reformers was the traditional neglect of the opportunities offered by small and medium-sized private enterprise. Throughout the world, from the USA to the People's Republic of China, such private enterprise is now the mainstay of economic, scientific and technological progress and the main employer in all sectors of the economy. Russia, which is comparable with leading countries in terms of the size of its industrial giants, has a small and medium-sized business sector which is only about one-tenth of that in the USA.

Meanwhile, this problem is more pressing for us than for probably any other country in the world. Firstly, if any sector in the Russian economy in the 1990s has shown any signs of spontaneous survival and growth in severe market conditions, it is small and medium-sized businesses. This is despite the fact that it seemed as if the authorities were doing their utmost not to support and protect this sector but, conversely, to suppress and obstruct their activities in every possible way. The fact that recovery has taken shape and is being maintained despite all the crises in the domestic Russian market is largely due to conventional private enterprise and not to our industrial giants (perhaps with the exception of car manufacture which is sheltered under a mighty roof of tariffs), irrespective of whether they have remained in state ownership or been transferred to big business.

Secondly, unemployment in Russia has already reached the official figure of 13–14 % and is estimated at 25–30 % (more than 20 million people). During the Soviet period, one in three of the country's workforce was superfluous meaning that they were only employed artificially. It is clear that the pressure on political and social stability from such an acute problem will only grow in the coming years and this pressure has already reached a dangerous level. There are no grounds for hoping that our industrial giants can somehow cope with growing unemployment. Russia's major

industries, as throughout the industrialized world, face the prospect of having to dismiss more and more workers in the 21st century as they strive to modernize and improve. Only small and medium-sized companies in all sectors of the economy can provide employment to those who have lost their jobs and are re-entering the labor market. Ideology has no place here. There is simply no real alternative to the classic private sector in present-day conditions. It is essential for the state not to bring pressure to bear upon this sector but to support it in every way possible. This is understood today by the liberals, by the social democrats and to a greater or lesser degree by moderate communists, that is virtually everyone.

### Reviving the Money Economy

Nowadays, there is no serious organized force on the Russian political scene that would oppose the market per se. There appears to be sound understanding of the fact that market conditions are the natural state of affairs in any normal healthy economy. However, it is unlikely that anyone would claim that what we have now is a market. What we have are the mere rudiments of the market but not the main ingredients, which ensure the market's supremacy over all known methods of direct distribution of resources – we do not have a developed market infrastructure. It is clear that building a market with a developed and all-embracing infrastructure is one of the country's main tasks for the foreseeable future.

It is necessary to restore a normal balance in the Russian economy between the quantity of money in circulation and the mass of goods so that the artificially created chronic shortage of money would be eliminated and working assets that were lost during the years of reform would be returned to companies. The quantity of money in circulation (cash plus deposits) does not currently exceed 12–15 % of GDP whereas in other transition economies this indicator is at a level of 40–50 % and in highly developed countries, it stands at 70–100 % and even higher.

Secondly, no economy can develop normally if the money in it ceases to be effective and barter increasingly becomes the preferred form of exchange. The Russian economy has, to all intents

and purposes, now returned to the »Stone Age«: no more than 20–25 % of the country's economic transactions are conducted using money whilst the remainder takes the form of barter or various kinds of monetary substitutes including employees being paid in kind. General non-payment and bartering are the top problems facing the present-day Russian economy, they are the main reasons for the »thrombosis« in the country's economic organism. No government and no political force of whatever persuasion can expect an appreciable improvement in the country's socio-economic situation (including its tax and therefore budgetary options) while this growing mountain of non-payment and universal barter system continues to prevail. As experience shows, there is only one solution to this problem: the state, as the main source of non-payment, must finally start to meet all its commitments, including its debts, contracts, pensions and wages to employees.

### Acceptance of Moderate Inflation

The Russian economy must learn to live for a sufficiently long period in conditions of moderate controlled inflation of about 25–30 % per year. There would otherwise be really no hope of an investment recovery of increased economic dynamism and of enhanced public welfare. Achieving moderate inflation (as many countries even including our own have seen for themselves) is not as frightening in practice as it is sometimes depicted in public debate. If everything is indexed (current and basic capital, debts, deposits, interest, wages, pensions) regularly in the economy in line with the price rises, there is no socially unacceptable redistribution of income and assets. The real value of liabilities is preserved and incentives to work and engage in business activity are not weakened. Prime importance is attached, of course, to keeping the budget deficit under tight control and, secondly, to effective anti-monopoly regulation because our experience shows that »cost inflation« is actually a more serious factor behind the general price rises and depreciation of money than monetary reasons.



## Lower Interest Rates

The discount rate of interest (followed by the loan rates offered by commercial banks) must be reduced to the level required for economic recovery, this means to 2–4 % above the annual rate of inflation. Long-term investment loans must finally become affordable for the economy.

The extent to which the policy of unjustifiably inflated interest rates (and simply fantastical interest rates with the state's short-dated bonds) was deliberate or forced by circumstances is a separate debate. However, it is a fact that the country's banking system was primarily »dealing in air« throughout the reform years, not only failing to provide the real sector of the economy with additional resources but like a vacuum cleaner sucking up all the money remaining in that area. The apotheosis of this highly destructive process was the »pyramid« of state short-dated bonds that duly crashed.

A realistic interest rate level, all other factors being equal, will inevitably enhance the attractiveness of the Russian share market and especially corporate securities, which will in turn allow the transfer with time to share trading as the basic means of mobilising the flow of capital both between and within industries. The unbelievably low and unstable value of corporate securities today (including that of blue-chip stocks) is determined not so much by the poor profitability of the companies issuing them as by the risk factor involved and the ultra-high level of current interest rates in the country. Another promising factor for the creation of a flourishing fund market in Russia would probably be the transition to a three-tiered organisational structure for banking comprising of the central bank, commercial banks and investment banks. It is high time to make investment business an independent sphere of activity, initially with tangible, and perhaps predominantly, state involvement.

### »Dedollarization«

The normal and natural interests of domestic manufacturers and exporters require from the authorities not just that ruble convertibility be preserved but also that its exchange rate in relation

to the world's leading currencies be kept at an appreciably low level compared with its real purchasing power.

This is only part of the issue. The reformers made a major mistake in their time: instead of launching a national convertible currency alongside the ruble as an »anchor« for the country's economy which would have been known as the »chervonets«, they invited the dollar to assume this role. Today we have an absolutely unnatural situation where a foreign currency is playing the part of the »anchor« and to all intents and purposes the country's chief national currency. Any serious political force in Russia today cannot but have as one of its objectives the »dedollarization« of the Russian economy – at least in the long term. Personally, I have the impression that as the Russian reforms progressed the stature of those who from the outset favored a parallel national currency actually gained in the eyes of the public.

## Channeling Savings Into Productive Investment

The country's priority task is generally recognized as the restoration of the investment process based on strengthening society's ability to save and on the productive use of existing savings. It is not a matter of how much the country saves (savings are at a respectable level according to various estimates ranging from 25 to 30 per cent of GDP) but of where and how these savings are used.

Firstly, budgetary options must be increased considerably. There are many ways of doing this but taken together their consistent and decisive application can yield very good results. This means, first and foremost, conducting a tax reform, reducing the tax burden and, as a consequence, returning between 45–50 % of the Russian economy to the tax system. The share that currently pays no taxes at all (known as the black economy) would shrink dramatically. This also means correcting the huge strategic mistake of the past 15 years, namely state policy on alcohol. Even today after a number of attempts to change the situation, the illegal trade in vodka deprives the state budget of US\$ 6–7 billion every year. This is roughly equivalent to 30–35 % of its current income. Finally it means improving the very technology of tax activity and management of state property, includ-

ing increasing tax discipline, working with natural monopolies, restructuring the tax debt, mutual clearing and effective control of the state package of shares.

Secondly, an exemption from tax is needed for all production investment made from profits and amortization and all investment by companies when overhauling their production facilities or introducing technological innovations. What political force would object if – as in Japan or Korea – considerable state funds were to be made available on favorable long-term credit terms to the small and medium-sized business sector and especially to venture companies? Of course, new forms of bureaucratic control and corruption are inevitable in this case but everything on earth has its downside and other countries have managed somehow to reduce to a minimum the adverse social costs of this necessary cause.

Thirdly, a key issue for the whole of the Russian economy and the indicator of its good health or otherwise is the level of confidence of the ordinary Russian in the country's banking system and his national currency, the ruble. According to various estimates, the public is still keeping a serious amount of money under the mattress; a sum which is estimated to be in excess of US\$100 billion in hard currency. The second major confiscation during the reform years of savings held in banks, which the government could not resist in August 1998, has left this major investment resource within the country completely inaccessible for use in production. No conceivable strong-arm tactics will help here. Terror on a truly Stalinist scale would be required but no one in the country has the strength for that. The only steps or rather processes that will help to restore confidence involve bringing about general political calm in the country, restoring the banking system, (which it seems will take at least 7–8 years), allowing foreign banks to operate in Russia's money markets, an appreciable – and even better the full – indexing of the public's lost savings and finally the adoption of a law on state guarantees to protect savings in all the country's banks. The very absurdity of the present situation is obvious to everyone: there is money in the country but people do not deposit it in the banks.

Fourthly, an even bigger investment resource is the funds that have been transferred from Russia

abroad during the 1990s. Here estimates now vary from US\$150 billion to 300–350 billion. My own view in this case is that notwithstanding the appeal of this resource we have to simply forget about it for the time being so as not to get upset for nothing. Of course, economic blood-letting on such a scale is a tragedy for the country. However, there are no valid measures, such as an amnesty, for tackling this problem. It is possible and necessary to sharply reduce this outflow of funds (such attempts are being made), but the only way to reverse this trend is an appreciable improvement in the overall economic climate in the country, a well thought-out system of legal guarantees for investment, a high level of openness in the Russian economy and stable relations between Russia and the outside world. Of course, first and foremost is the non-material factor of simple confidence on the part of domestic and foreign investors in the Russian government generally.

### Defining the Extent of Regional and Local Autonomy

In Russia the process of transferring tax and budgetary powers and socio-economic responsibility from the center to the regions and then onto the provinces is uncertain and to a great extent flexible. This process is not completed and not laid down in legislation even at the upper levels of the power pyramid. Take for example relations between the center and the regions, the taxes collected in the country are currently distributed roughly 50:50 between them, the variations being each year (and in each specific case) the object of fierce battle. The share of local government is minimal (Moscow: 1–1.5 per cent of regional tax revenue).

However, modern society cannot fully develop without relying on regional autonomy and local government whose prototype is the *zemstvo* system from prerevolutionary Russia. But a viable and effective ladder of relations between the center, the regions and the provinces has simply not yet been built. Of course, no one can say how much time will be needed to build such a ladder. However, bearing in mind its complexity, this problem must be dealt with and no political force can shy away from this issue either today or in the future.



## Controlled Exposure to Foreign Competition

The reforms have given an appreciable impetus to the Russian economy's integration in the world economy. But if the general vector of Russia's emergence from lengthy international isolation at the present time is determined, many specific problems caused by the economy's growing degree of openness are still anything but clear and require further interpretation.

Firstly, it is not completely clear which geographic directions of cooperation are Russia's priority, on which markets Russian manufacturers and consumers should focus and where, to put it simply, people are waiting for us and where people are not waiting for us. However, the impression is forming that after the short-lived euphoria of independence which was taken to absurd lengths after the collapse of the USSR, after the persistent and generally unsuccessful attempts by post-Soviet states to re-orient their economies to the markets of »third countries« and finally after a period of deliberate withdrawal by Russia from the real and potential opportunities of economic integration with the former Soviet republics, things may be brightening up somewhat.

Diverse century-old links which joined together what was until recently a single state into an organic whole, cannot, it seems, be severed and replaced by something fundamentally different – at least not in the space of a few years or even decades. In these third markets no one is waiting for the new exporters (including even the oil exporters) with outstretched arms. Partners from the former Soviet states are viewed there principally from one angle; as a seller's market. As of yet, none of the former Soviet states has had the strength to carry out radical restructuring of its economic potential and their existing production capacity can be operated at full strength only with an understanding of their mutual options and needs. Otherwise, none of these states, including Russia, will be able to maintain their basic industrial potential. It appears there is now growing public awareness of this fact in virtually all CIS states.

Secondly, the events of the 1990s showed that Russian reformers had put too much into opening up the economy to foreign competition. Russia's economy turned out to be totally unprepared for

such an influx of foreign goods and started literally to drown, unable as it was to adapt (virtually overnight) to foreign competition of such ferocity and on such a scale. In addition, the reformers did not set (obviously for reasons of prestige) a lower ruble exchange rate, as would have been fully expected in order to protect national producers and encourage domestic exporters. On the contrary, they preferred to waste tens of billions of the country's much-needed dollars in supporting the artificially inflated (up to August 1998) ruble exchange rate, thus financing our competitors out of the state budget and the reserves of the central bank. Incidentally, that is how the conversion of the defense industry to civilian production was ruined, the country's light and foodstuffs industries were dealt a colossal blow and domestic car manufacture was on the point of being severely damaged and was saved only by a timely introduction of protective tariffs by the government.

As experience has shown, custom tariffs are also a double-edged sword. The Russian car industry, for example, was allowed to become totally uncompetitive under this excessive protection. Now it can only rely on modernization with direct foreign involvement. Strictly speaking, this is the crux of the whole problem for the future: where to find the dynamic »happy medium« between protectionism and openness which would allow the country to keep its own industrial base while not depriving it of the favorable impact of foreign competition. We must also bear in mind that if Russia seriously intends to enter the World Trade Organisation, it will retain only one effective form of protectionism and that would be the artificially low ruble exchange rate.

## Non-reliance on Foreign Capital Inflows

For any political force Russia's external debt will remain one of the most serious problems. The point is not just that it is time for the country to give up artificial stimulants in the form of chronic foreign cash injections to cover its current budget needs. It is also not just that given the present state of affairs the need to constantly prolong interest and basic payments on loans will always make the life of any Russian government extremely difficult. For Russia and its foreign creditors, the time has

seemingly come to try to discuss the whole problem of the present reciprocal flows of finance in principle. The outflow of resources from Russia in the 1990s (considering the debts accrued to us by other countries in previous decades) was at least twice if not three times the total Soviet and new strictly speaking Russian debt in relation to the outside world. I think that a type of »zero option« would be of benefit to domestic and foreign investors whereby everything would be written off and no-one would owe anything to anyone, all Russia's attempts to repatriate the funds that disappeared abroad either legally or illegally would cease and one dollar of Russian debt would to all intents and purposes be »repaid« for two or even three dollars of our debt and our money circulating abroad.

However exotic such a proposal may seem, it would appear to be »mad enough to be right«. If the G7 countries, Russia and the World Bank accepted it for debate one day, the world financial community would, I am sure, treat this not with irony but with understanding.

The events of August 17, 1998, undermined the confidence of foreign investors in Russia so severely that it would be unrealistic to expect a quick return to the flow of private investment and especially an increased flow in line with the country's potential needs and opportunities. Even the present fantastically cheap Russian assets, especially industrial assets, cannot overcome this fear of risk. Without doubt, a great deal of additional work and complete political calm in the country will be needed before sound investors start to view Russia as a promising and attractive area of activity.

However, Russia's swift return from the position of outcast (at best as a magnet for the most desperate speculators) into the normal even commonplace sphere of international expansion is hardly possible for the following reason. If the country's main political forces today agree in principle that the involvement of foreign capital is desirable for Russia's recovery, this cannot be said at all about the various oligarchies. The history of the protracted process of getting the laws on the division of production through the Duma convincingly shows that rapid progress can not be expected from that side. In such an atmosphere, it would be unrealistic to hope that the flow of foreign capital, even given the most favorable con-

ditions, would be able to play a part in the foreseeable future that would be comparable with that of China, Vietnam or the states of Central Europe.

Yet it is revealing that optimistic forecasts have recently started to emerge again (i.e. from the Ministry of Natural Resources), which presuppose that in the event of the actual coming into force of the division of production law, there would be an inflow of direct foreign investment into Russia in the next two years amounting to some US\$10–12 billion and within 3–4 years of up to US\$40–50 billion. This is comparable, for instance, with the Russian Federation's total budget for 1999, which came to about US\$22 billion.

## **The Social Sphere**

Under present conditions it would probably not be an exaggeration to say that Russia's main social policy tasks have not much to do with ideology. They are shaped by everyday common sense that is comprehensible to everyone.

## **The Need for Income Redistribution**

During the years of the current crisis, in this country and especially beyond its borders, there was a widespread view that Russians were poor workers. This is a complicated issue. In analyzing whether this is true or not, and if so then why, we cannot help but recognize one fundamental fact: after 1917 the work of virtually five generations of Russians was paid and continues to be paid at a paltry level which verges on slave labor – tens and even hundreds of times lower than the work of the relevant qualification and intensity in other industrial countries. In such conditions it would be very unrealistic to expect that with the arrival of democracy and the free market the peculiar »concordat« between Russian workers and their employers – we work when you pay – to disappear of its own accord. In fact the situation in the given area would merely deteriorate and actually it would seem that it has already become a real threat to the very existence of the Russian nation.

It is essential to raise average earnings, pensions and other social benefits considerably (several times over) in Russia in the next few years. It

seems that all of the country's political forces agree on that today. How can this be done and can it be done without waiting for the corresponding rise in productivity? It would be useless simply to issue an administrative order because it would be dangerous to prompt a sharp rise in inflation and relying on a spontaneous increase in incomes would take too long and be socially unjust.

It would be unjust because the citizens of Russia to this day have had no clear answer from the authorities to the following question: where is all that new value added that workers are continuing to create through their labors? In the 1990s, Russia stopped subsidizing the former Soviet republics which represented a saving of some US\$50 billion a year; it stopped subsidizing the Comecon countries and its customers in the third world (another annual saving of around US\$25 billion); the country's military expenditure was reduced to about a fifth, whilst spending on science and education fell by more than 90 percent; average earnings, especially since 17 August 1998, have declined to about one third, pensions and benefits to one fifth, but the relative burden on the economy has almost doubled. Where has it all gone?

I think that if a new radical redistribution of property in Russia is unlikely, then the redistribution of income already created is not just essential but inevitable. Otherwise Russia can count neither on prolonged social stability nor on the revitalization of the nation nor on sustained economic growth. A wide variety of methods of stealing cannot be the main long-term source of enrichment in a viable society. Sooner or later the Russian businessman must get used to an annual profit rate on his capital in line with the worldwide average of 5–10 %, the Russian official to a decent salary and not various kinds of gifts and extortion and the Russian worker, in all sectors of the economy and society, to a decent living wage and social security provision to which he is just as entitled as any other worker in the rest of the world.

In short, this is also a national task of top priority for the foreseeable future and also a compulsory element of the emerging national consensus in economic and social policy. Neither the traditional cynicism of left-wing extremists nor the extreme right's cruelty and complete indifference to the man in the street have a future. The Russian

man can no longer bear either camp in his state of abject poverty.

### **The Need for Job Creation**

Rapidly rising unemployment in the country also calls for approaches based on pragmatism rather than on ideology. Based on worldwide experience, they can be classified into three main approaches: firstly, the Keynesian strategy of universal stimulation of demand by printing money and controlled inflation; secondly, the Roosevelt-Hitler-Stalin method of launching mass public works programs especially in various infrastructure sectors; thirdly, the Deng Xiaoping strategy of providing every possible incentive to small businesses as the most effective means of achieving a natural rise in employment with a working population of many millions.

In present conditions, common sense dictates the need to use all three strategies. Indeed, with such an important issue for the country, no political force can afford just to rely on the course of events: Russian society is not stable enough to put up with the prolonged existence of such an explosive problem.

### **Welfare State Reform**

Today, the need for social policy reform is accepted. But two problems give rise to doubts and protests: a) the attempt to implement these reforms hurriedly while preserving the present meager level of income of the masses; and b) by the contrast between the market-based forms of provision (housing and municipal services, the capital-based pension system, medical insurance and the social services provided by companies) and the traditional forms of social consumption.

It is obvious that compromise constitutes the only solution here. The left wing will have to accept (and they already do so) the expediency and legality of the gradual development of ways to meet social needs that are based on individual responsibility. The right wing will have to come to terms (and they appear to have done so already) with the fact that in our specific conditions social reform will require, so as not to destroy society,

decades for its effective implementation. They will also have to come to terms with the fact that for the foreseeable future the co-existence and cooperation in Russia between market and non-market forms of tackling social problems is inevitable. It is my opinion that the future of Russia will resemble the future of social-democratic European countries, of course with adjustments to its national characteristics.

### **Eliminating the Economic Base of Organized Crime**

The problem of crime and especially organized crime in present-day Russian society has its own and, unfortunately, growing significance. Not being an expert I will not delve into this problem. However I would like to make one comment. This problem obviously can neither be tackled by purely left-wing (administrative) nor purely right-wing (market-based) methods. Of course, it is difficult to imagine significant progress being made in this matter without the overdue resolute intervention of the law-enforcement agencies (if they have still the strength to make such an intervention). However as long as the economic basis of organized crime is not eliminated, there will be no solution. The conditions on which crime has thrived include the practice of privatization virtually for nothing, the tax system that forces businessmen into the black economy, the provision of state funds free of charge, etc. It would probably be unrealistic to halt the present total onslaught by the criminal world. Nonetheless, on this most acute of social issues a national consensus is already mapped out.

### **Encouraging Signs**

For many years now our mass media and many ordinary voters have been complaining that it is difficult and sometimes even impossible to distinguish between our political parties and their respective leaders if one goes by the content of their manifestos. They all, it is argued, write, say and propose more or less the same things. This tangible similarity across the political spectrum is in my view a positive indication that the country is gradually coming to a general or, rather, predominant view about what has to be done.

Many (especially on the right wing) have criticized the government policy pursued since 17 August 1998 for its inertia. But I think this is encouraging not only because the country simply needs a respite and time to »process« the consequences of the August crisis and assess all the achievements and mistakes of the past decade, it is also encouraging because the sentiments of moderation, unhurriedness, sober judgment and consideration for the interests and preferences of the man in the street are returning to Russian social life again. If that means shifting from unbridled Jacobinism to Thermidor, then long live Thermidor. ◀