

# FROM THE CHIEF EDITOR



**Vladimir Aleksandrovich  
ILYIN**

Doctor of Economics,  
Professor, Honoured  
Scientist of the Russian  
Federation,  
ISEDT RAS Director  
ilin@vscc.ac.ru

## Russia must go its own way

The title of this article is a concluding statement by Academician Dmitrii Semenovich L'vov, an outstanding Russian economist. It is taken from the work “Economic manifesto – the future of the Russian economy”<sup>1</sup>, written at the end of 1999, when our country was completing the first political cycle of post-Soviet market transformations.

It was based on neo-liberal approaches to reforming the social system, economic and social life in Russia. These approaches were implemented through a shock therapy, on the recommendation of the “Washington consensus” and international financial institutions, which see their priorities in the reduction of the regulatory role of the state in the economy, accelerated privatization and primacy of financial tools.

By destroying effective management mechanisms in the shortest possible time and failing to create new ones, the reformers led the country to a severe economic crisis: the gross domestic product of Russia in 1998 decreased by 44% compared to 1989. Engineering and agriculture were breaking down; science, education and healthcare were deteriorating. The real incomes of the population decreased twice; the demographic situation became unfavorable.

Academician D.S. L'vov was one of those Russian scientists, who drew attention to the anti-popular content of liberal reforms from their very beginning. Under the conditions showing various signs of impending national disaster, he managed to show a large-scale anti-humanistic character of the reforms and to substantiate a scientific hypothesis of the ways to overcome the decline of the Homeland and the main ways of its progressive development. He wrote in “Economic manifesto...”: “Analyzing the flow of the events, we will be able to realize what cannot be done, and what has to be done in the future; so that the Russian society and its

<sup>1</sup> L'vov D.S. Ekonomicheskii manifest – budushchee rossiiskoi ekonomiki [Economic Manifesto – the Future of Russia's Economy]. Moscow: Ekonomika, 2000. 54 p. References to this work are given hereinafter in this article within brackets.



*Dmitrii Semenovich L'vov (February 2, 1930 – July 6, 2007) – RAS Academician. He worked at the Institute of Economics of the Academy of Sciences of the USSR (1966–1972), Central Economics and Mathematics Institute of the Russian Academy of Sciences (since 1972, since 1991 – Deputy Director). In 2003–2007 he was Head of the Economics Section at the Social Sciences Department of RAS. The main spheres of research of D.S. L'vov are connected with the study of socio-economic development and economic growth issues.*

*Dmitry Semenovich contributed a lot to the establishment and development of academic science in the Vologda Oblast. He made a significant contribution to the training of scientists at ISED T RAS and the creation of its material and technological base. He was Chairman of the Organizational Committee of research-to-practice conferences “Strategy and tactics of implementation of economic reforms” that took place in Vologda.*

economy would begin to recover, and would, finally, find a firm basis for their revival” (P. 3).

Unfortunately, socio-economic policy carried out in Russia is still based on the neo-liberal approach adopted in the first political cycle. Some adjustments were

introduced in this approach during the second, third, fourth and one third of the fifth political cycles (2000–2014); however, they did not lead to the creation of an economy, the effectiveness of which can be matched with that in developed and developing countries. Furthermore, the gap between Russia’s economy and that in other countries increased in many respects. The country managed to restore its GDP to the level of 1990 only in 2012; and that was achieved at the expense of the services sector, while industry and agriculture still did not recover. The pace of economic development in recent years has been falling (GDP growth in 2011 was 4.3%, in 2012 – 3.4% and in 2013 – 1.3%). Russia’s backwardness in science and technology development and in labor productivity is becoming more pronounced.

And in this regard, at this stage of the country’s development, we think it would be very useful to consider Academician D.S. L’vov’s vision of opportunities “that will help Russia to rise from its knees, and once again take a worthy place among the leading countries of the world” that he dwell upon in “Economic manifesto...” (p. 21), to assess the implementation of these possibilities in the last years of market transformations.

In “Economic manifesto...” D.S. L’vov attaches special importance to the disclosure of the essence and content of the doctrine, which is the basis for his vision of the future of Russian development.

He provides a concise description of the history of the capitalist society. Capitalism, as the Academician underlines, has liberated an individual, has relieved people from the

*“Neo-liberal slogans and political appeals to build capitalism on the ruins of the socialist system could not stir the energy of the masses, direct it from destruction to creativity. People’s conscience was deaf to the call. And even then, in the first years of perestroika, in the frenzy of a pseudo-market euphoria one could see clear signs of social fatigue and disappointment of the society in the reform. A moral component, which the reformers tried hard to conceal, started to show itself more clearly...Unfortunately, the ruling elite failed to understand the fundamental thesis – every authority does not have and will never have the secret of building a fair society on other bases than the beginnings of spiritual and moral revival” (p. 8-9).*

bondage of traditional relations, customs and beliefs, and has endowed people with a freedom of choice in the application of their work and distribution of their income. But man became a hostage of the industrial system of his own creation, of huge monsters of modern authorities and the media. Capitalism has not eliminated the reasons for a sharp stratification of society into rich and poor; it has not created conditions for revealing the spiritual potential of a person. The idea of individual freedom for creativity, production and spiritual elevation is reduced by the capitalist system to the idea of individual enrichment and even direct acquisitiveness. The capitalist world is plagued by contradictions more and more; it facilitates social conflicts, regional clashes and local wars (p. 11).

According to unbiased experts, Russia is currently dominated by the worst stage of capitalism – oligarchic capitalism<sup>2</sup>. Under the influence of foreign capital, which under the guise of “free competition” has made every effort to destroy Russia as its strategic competitor, post-Soviet capitalism has degenerated into a kind of comprador capitalism characterized by the growth of economic currency dependence, enrichment of the oligarchic minority and impoverishment of the working majority, the sliding down to a society of injustice and poverty.

Currently, the ratio of the income of the richest 10% to the poorest 10%, which reflects economic inequality in the country (decile ratio), is 16 in Russia, while it is from 4 to 6 in EU countries, Southeast Asia and Japan; the critical threshold value is 8–10. The richest decile group in Russia has 31.9% of the resources of all households, while the poorest has 2.6%. In Russia, according to the tax reporting (as of July 31, 2013), there are 100 thousand dollar millionaires and more than 100 billionaires, who made a fortune mainly in trade, financial and other services<sup>3</sup>. Why are the interests of individuals more important than the interests of the country with the population of 140 million? What will young people seek in such a society?

Criticizing the weakness of modern capitalism, D.S. L’vov proves why the socialist System created in the has been USSR collapsed. The Academician states that it had

<sup>2</sup> In this regard see the arguments presented by S.S. Gubanov in the article “Neo-industrialization of Russia and the poverty of its sabotage critics” published in the current issue of our Journal.

<sup>3</sup> Rossii nuzhna drugaya model' razvitiya: sb. trudov “Shkoly upravlyaemoi ekonomiki” [Russia Needs a Different Model of Development: Proceedings of the “School of Controlled Economy”], no.1. Ed. by P.P. Lobzunov. Moscow: LENAND, 2014. Pp. 9293.

nothing to offer but a collective austerity and the preservation of commanding heights for those few in power (p. 8).

The author of “Economic manifesto...” concludes: “The road that leads Russia to the future, has no return to the socialist System. But it will not cross the path, where it can be absorbed by the capitalist System. In the global conflict between the System and the life World of man Russia should stand on the side of the latter” (p. 12). The spirit of Western European ideology enshrined in Protestant ethics – individual chosenness to salvation – is not compatible with the spiritual heritage of our people, its desire to resolve core issues together, collectively (p. 7).

In this regard, an extremely important fact is that the idea of development based on Russian identity is currently gaining official recognition. It was publicly announced by Russia’s President V.V. Putin<sup>4</sup>.

This idea was clearly manifested in the fact that the majority of Russia’s population had supported the accession of the Crimea to Russia, and rejected the nationalist actions of the current Ukrainian authorities toward the Russian-speaking population in its South-Eastern territories.

Relying on his conceptual doctrine, Academician D.S. L’vov has outlined the main provisions that must be implemented for the future of Russia.

Has the Russian authorities made any progress in the implementation of these provisions?

Professor R.S. Dzarasov in his article published in the Herald of the Russian Academy of Sciences gives a most objective

<sup>4</sup> Putin V.V. Speech at the Meeting of the Valdai International Discussion Club on September 19, 2013. Available at: <http://www.kremlin.ru/19243>.

analysis of the solution to this issue on the example of the modern condition of science-and-technology and educational potential<sup>5</sup>.

He writes: “In recent years the Russian authorities began implementing a whole range of reforms that challenge not only the future modernization, but also the preservation of educational and scientific level inherited from the Soviet period. An important position among the reforms is occupied by the reform of school education, in particular, the introduction of the Unified State Examination, reduction in the number of universities and sharp reduction in teaching staff. These reforms caused a profoundly

<sup>5</sup> Dzarasov R.S. Ekonomika “nasazhdeniya otstalosti” [The Economy of “Cultivation of Backwardness”]. Vestnik Rossiiskoi akademii nauk [Herald of the Russian Academy of Sciences], 2014, vol. 84, no.4.

*“...We need to focus, first, on the intensive formation of the basic layer of the nation. This is the layer for which creativity and creation are the prime norm of life, and not only and not so much a means of existence. In the true sense of the word – these are the masters, who create scientific school, transmit knowledge, training people for new jobs; they are manufacturers of rare products, who support and restore people’s health; they are keepers of spiritual and cultural values; they are workers, able to create and build and not only to distribute what was already accumulated...The whole experience of the post-war development confirms that the role of leaders in the socio-economic competition was always claimed by countries with the highest levels of education, science, health and culture and, of course, spirituality” (p. 21-22).*

negative attitude of the public, but this did not prevent the government from completing the list of its ignominious initiatives with the so-called “reform of the Russian Academy of Sciences”.

The draft law elaborated by the RF Ministry of Education and Science became a final step to the collapse of domestic science, initiated by radical market reforms of the early 1990s. In Russia in 1990–2007 the number of personnel engaged in scientific research and development reduced by almost 60%<sup>6</sup>.

At the same time, the concept of rent-seeking behavior of Russian big business motivated by the desire to derive profit from the control over financial flows of the companies is growing stronger. The source of rent is found in the decline of the share of wages of workers and salaries of managers in the production costs, in the reduction of investment, tax evasion, plundering of amortization fund, and misappropriation of loan resources. A comprador character of Russian big business is evident in its offshoring. According to some experts, Russia is the only country where 90% of large business is registered in offshore zones, 80% of transactions for the sale of Russian securities is conducted through these jurisdictions<sup>7</sup>.

D.S. L'vov gives quantitative indicators in price parameters that were in force at the time, when “Economic manifesto...” was written. At present, they are outdated. Nowadays, Russian business has less and less trust in the capacity of the government and exports capital abroad in greater amounts. In 2009 the export of capital from the country

<sup>6</sup> In some region of Russia the reduction in the number of people engaged in research and development was significantly larger. For instance, in the Vologda Oblast it decreased from 3.5 thousand to 450 people, i.e. almost in 8 times.

<sup>7</sup> Dzarasov R.S. Op. cit. P. 297.

*“...Our priority is the efficiency of using natural resource potential of the country and its territory... As calculated per capita, Russia’s resource potential 2–3-fold exceeds the resource potential of the USA, 6-fold – that of Germany, 18–22-fold – that of Japan. Natural deposits in Russia are estimated at trillions of dollars. The annual revenue from the use of the natural resource potential is estimated at 60–80 billion dollars. It is 3–4 times higher than the total budgetary resources available to us at present. Unfortunately, the budget receives only a small part of this total financial flow. The main part of it falls on shadow turnover and is exported; that is, it is working on the development of Western economies... This is the monstrous mechanism of criminalization of the economy, due to which such a rich country like ours, functions in such distorted parameters of reality” (p. 30).*

reached 135 billion U.S. dollars. For the first quarter of 2014 the capital exceeding 60 billion U.S. dollars has already been exported from Russia.

The current liberal-market model used in Russia has a fundamental defect: this model excludes the most effective methods and instruments used by the government in state-managed economies (like Chinese), and in particular such as economic planning and forecasting, organizing, coordination and control. The domestic economy and the state budget became unacceptably dependent on external market factors such as petro-dollars and speculative foreign capital. The private capitalist economic system of the country keeps the intermediate production in isolation from the end production and does not allow the aggregate

*“Russia is a unique geopolitical space. Russia occupies the north of the Eurasian continent: it is, first of all, the necessary and the shortest connection between the countries of the Atlantic-Pacific region: aviation, railway, automobile, sea, fiber communications. The elaboration of alternatives for the development of infrastructure in Russia’s geographical space could become the analogue of the GOELRO plan, which played such an important role in the history of this country. Today as never before we need this kind of far-reaching plan, based on the organization of a huge territory in the framework of modern Russia” (p. 30).*

multiplier of value added to be increased cardinally. The structural diversification of the economy is impeded.

However, such focus on the accelerated growth of the Russian economy, highlighted by D.S. L’vov, has not actually been used by the federal government for nearly two decades. Moreover, there was a reduction of labor resources in the vast territories of the Far East. And only recently, the inclusion of this resource into the Common cause has been reconsidered as a possibility. We are talking primarily about the implementation of the Customs Union programs covering Russia, Belarus and Kazakhstan, and the measures for its extension. A major impetus is created by recent strategic agreements between Russia and China, which include not only multibillion-dollar contracts, but also intentions to double trade turnover between these two countries.

The turn of the Russian foreign policy from West to East is an optimistic trend. But in order to enter an equal strategic union, our country should, first of all, change itself.

It should actually embark on the path of innovation development, implement new industrialization, and abandon the raw material bias in the economy. It has not happened so far. If in the 1980s the share of mechanical engineering and metal working production in the USSR in the total amount of export was 35%, and raw materials – 23%, then in modern Russia the situation is the opposite: over 70% falls on raw materials and only about 5% – on machinery and equipment<sup>8</sup>. In short, the scale of our work aimed at utilization of the benefits, which our Eurasian geographical position gives us, is huge and it requires considerable administration skills.

We must pay tribute to the activities of V.V. Putin, who, during his third presidency is implementing the interests of Russia in the foreign policy and at the same time is seeking to ensure internal political stability. After assuming office in May 2012, the President issued a number of decrees to increase the efficiency of economic and social development in the country. Unfortunately, they have not had a desired impact on the real situation in a number of areas so far. Why is it so? In our opinion, it is because the right guidelines do not correspond to the existing system of public administration.

We are convinced that it is necessary to change the insolvent neoliberal model with the model of controlled mixed economy, but the one which would reflect Russia’s own way, that is the one, which Academician D.S. L’vov points out in “Economic manifesto...”.

<sup>8</sup> Kozhemyakin S. Demonstratsionnyi visit [Demonstration Visit]. Sovetskaya Rossiya [Soviet Russia], 2014, May 24, no.36 (14004), p. 3.

*«It's time to stop thinking of this country as a virgin land, which must be periodically reploughed, losing each time the layers of fertile soil, accumulated by the previous development. The unique diversity of Russian climatic landscapes and ethno-cultural features should be carefully mastered, transformed into regional diversity of living forms, including economic. We must focus on our own resources and opportunities for growth, the new economic policy, the system of national property, rent, new industrial policy, the activation of social factors. It will guarantee the success of Russia promotion along its way» (p. 54).*

In this regard, it is gratifying that in the recent years, students and followers of Academician D.S. L'vov have been developing his ideas about the need for an active role of the state in economic management and give well-grounded recommendations on the enhancement of public administration efficiency. This position has a detailed substantiation in the scientific report of Academician S.Yu. Glazyev<sup>9</sup>, and in a new report by the Russian Academy of Sciences “Russia on the way to a modern, dynamic and efficient economy”, edited by Academicians A.D. Nekipelov, V.V. Ivanter, and S.Yu. Glazyev<sup>10</sup>, where many reasonable proposals in relation to economic policy are

<sup>9</sup> Glazyev S.Yu. O tselyakh, problemakh i merakh gosudarstvennoi politiki razvitiya i integratsii: nauchnyi doklad [About the Purposes, Problems and Measures of State Policy for Development and Integration: Scientific Report]. Moscow, January 29, 2013.

<sup>10</sup> Rossiya na puti k sovremennoi dinamichnoi i effektivnoi ekonomike [Russia on the Way to a Modern, Dynamic and Efficient Economy]. Rossiiskaya akademiya nauk [Russian Academy of Sciences]. Moscow, 2013.

put forward. But let us face it: if an efficient administration model is not established, these proposals will remain on paper. And it is no coincidence that articles published in our Journal pay more and more attention to administration issues<sup>11</sup>.

It is also gratifying to know that the President of the Russian Federation V.V. Putin pays more and more attention to the opinion of the Russian Academy of Sciences' associates. In recent months he has had long meetings with the leadership of RAS, researchers from economic institutions under RAS on the issues related to the development and implementation of the strategy of accelerated socio-economic development of the country, on the increase of the role of science in the transition of the Russian economy to innovation path. Several important solutions in this regard were adopted at the recent meeting of the Presidential Council on Science and Education. All this once again testifies to V.V. Putin's desire to implement the large-scale tasks outlined in his pre-election articles and speeches, and in the May (2012) decrees.

<sup>11</sup> Editorial Board attaches special importance to the coverage of aspects related to the improvement of public administration efficiency, especially in the sphere of fiscal policy, and which have been discussed many times in the articles published in our Journal. For example, in 2013 the Journal published works such as: Glazyev S.Yu., Fetisov G.G. On the strategy of sustainable development of Russia's economy, no.1; Ilyin V.A. National and regional security: a view from the region, no.3; New agenda and state management efficiency, no.5; Povarova A.I. Regional budget for 2013 – 2015: stability or survival?, no.1; Savchenko Ye.S. On the necessity and content of the change in macroeconomic policy, no.5; Selin V.S., Selin I.V. Assessment of opportunities and factors promoting innovation development of the regional economy, no.4; Uskova T.V., Selimenkov R. Yu. On the issue of formation of development institutions in the region, no.2. The previous issues of 2014 contain the works: Lapin N.I. On the strategy of integrated modernization, no.1; Minakir P.A. On the key tasks of Russia's economic development (following the Address of the RF President to the Federal Assembly), no.1; Ilyin V.A., Shabunova A.A. Sociological assessment of public administration efficiency, no.2, etc.