

# THEORETICAL ISSUES

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## Neo-industrial development model and its system algorithm\*



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### **§ 1. The urgency of neo-industrialization: the case of new realities**

Post-reform games with the history are over: the current state of affairs proves that the turn to neo-industrialization can not be delayed any longer. Economic and geopolitical contradictions have intertwined and formed the Gordian knot of such an acute system crisis, which can be resolved only through extreme and truly alternative outcomes: either the collapse of our country, which is a historically negative result or its neo-industrial rise – a historically positive result.

The domestic economy, beginning in 2013, has experienced alternations of

stagnation and autonomous recession. The raw-materials-exporting model reached the tipping point: it stopped generating even nominal monetary growth provided by the inflation of the petrodollar, and is now unable to replenish the gold and currency reserves and the budget, or to support investment demand and final demand. Earlier there was growth without development; now there is neither development nor growth.

In late 2013 drastic changes occurred in the foreign political situation, adding one more terrible and painful contradiction to the others. The rapid deterioration in the situation concerning Ukraine requires

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Russia to be the *subject* of geopolitics, while economically Russia is ready to be no more than a geopolitical *object*.

As it has already happened before, our country is facing a hardest historical challenge at precisely the moment when it is least prepared to face it. Indeed, deindustrialization has not been overcome yet. The dollarization of the national wealth and the process of its offshoring are continuing. The structural diversification of the national economy is in stagnation. The raw-materials-exporting model has not been abandoned yet, despite its obvious inefficiency. The domestic economy and the state budget still depend on external market factors: petrodollars and speculative foreign capital. The economic system, being a private capital system of the lower order, is absolutely hopeless, for it is disintegrated from top to bottom, it keeps the intermediate production in isolation from the end production, it does not allow the aggregate value added multiplier to be increased cardinally. Domestic sources of economic development are disabled and inactive. There is no catch-up in labor productivity.

The post-reform Russia has reached the stage of the lowest capitalism that is disintegrated and oligarchic. Under the influence of foreign capital, which under the guise of “free competition” made every effort to destroy its strategic competitor, the post-Soviet capitalism has quickly degenerated into a kind of unproductive, intermediary, *broker* and *comprador* capitalism. It is only capable of transferring the resources and national wealth of our country abroad, i.e. trivial selling of Homeland, which results in the strengthening of foreign multinational

corporations with an infinite weakening of the domestic industrial capital, the growth of economic and monetary dependency, enrichment of oligarchic minority and impoverishment of working majority, sliding down to a society of injustice and poverty.

The post-Soviet practice has fully proved the strength and effectiveness of classical economic laws, in particular, the law of production price. The lowest capitalism, or colonial periphery of the world economy, actually drags on its existence with enslaving dependency on the highest capitalism, functioning as a controlled vassal of the latter, i.e. the imperialist center.

Although some corrections were introduced during the 2000s, they were unsystematic and they only dimmed rather than eliminated the large-scale system crisis that was transformational in its origin and socio-economic in its consequences. The disintegration of reproduction, deindustrialization, system and social backwardness, comprehensive external dependence, the work for the benefit of foreign capital instead of working for our own benefit, extreme social differentiation and polarization of the population, internal splitting of the society on national, religious, linguistic, territorial, property and other bases, bourgeois-ethnic nationalism and centrifugal tendencies are visible manifestations of the system crisis constantly eroding the foundation of the federal unity.

Russia, burdened by a bulk of system problems, weakened by long deindustrialization and multi-stage regression, nevertheless, is deprived of an opportunity to evade the geopolitical challenge launched

against it. Russia's backwardness and weakness are disadvantages only for the country itself, meanwhile, it is these features that the neo-industrial powers, possessing a tremendous system advantage over the post-Soviet regime, intend to benefit from in the geopolitical respect. After the Great Recession the neo-industrial world, driven by the U.S., has become the subject of extremely aggressive geopolitics. And now it has transferred all the burden of geopolitical pressure directly to Russia that is underdeveloped and backward economically – by the stage of capitalism, the level of development of productive forces, forms of their organization and management, industrial-and-technological, scientific-and-technological and personnel potential, productivity and quality of life of the population.

There several fundamental reasons exist, due to which the American neo-imperialism has to launch a direct attack on the Eurasian space. On the one hand, it has to strengthen the imperialism of the dollar by foreign property at all costs, on the other hand – it views Russia as a country that is already weakened and undermined sufficiently from within; this fact would help to block it thoroughly around the whole perimeter of the state border, moving the imperial march of NATO further eastward, next to our south-western borders.

Undoubtedly, the bloody “chaos” unleashed in the end of 2013 by the Ukrainian clan of oligarchies and compradors, controlled by the overseas puppeteers with the aim of complete abolition of the non-aligned status of Ukraine, was quite predictable. The point is not the corruptibility and rottenness of post-

Soviet political regime, or rather, it is only part of the point. The essence lies in constant reproduction of this corrupt and rotten regime, and also in the reasons and conditions of such reproduction, running nonstop, from some quasi-democratic elections to other. Despite the election process, the real choice is always made by the ruling comprador oligarchy that is nurtured, controlled, appointed and supported by foreign capital.

It is not only academic interest that urged us to pay close attention to a “new reform” of the U.S. Federal Reserve System, which seems like a purely technical and Keynesian one. Appearances are deceptive: it turned out that in fact the U.S. launched an unprecedented global expansion of dollar imperialism in 2008 associated with cardinal expansion of *dollarization and Americanization of property in the rest of the world*.

With the help of the Great Recession of 2008–2009, the U.S. struck the world economy with its new move aimed at global property redistribution, as always, to the benefit of the USA. Due to denationalization, the property of the former Soviet republics – Russia, Ukraine, Kazakhstan and Belarus – became the primary target of dollar imperialism. And any property redistribution, as we know from history, is associated with armed violence, the scope, intensity and number of victims of which is directly proportional to the scale and significance of captured objects and heights of the economy. This is why American imperialism wages one regional war after the other imposing a totalitarian world order – with the political enslavement of all those countries, whose property

it seizes with the aim of dollarization, Americanization and offshoring, with the establishment of direct pro-American dictatorship comprador regime in these countries. This, unfortunately, is happening now in Ukraine.

The U.S. propaganda mill presents the wars over *desovereignization* of foreign property as the wars “for democracy”. At that, the American propaganda uses purely abstract slogans about democracy and freedom in general, without clarifying any of its specific content. Intentional evasion of specifics is quite understandable, since the American imperialism views a democratic country as identical to a pro-American country that is totally dependent on its overlord, i.e. Washington. Using the power of dollar imperialism and military potential, the U.S. place the world not under some abstract and vague democracy, but under the concrete, *vassal democracy* the sole purpose of which is to hold “reformed” neo-colonies on a leash of the “Washington consensus” with the help of the controlled comprador regime. Accordingly, freedom in the eyes of Washington means nothing but a free hand for the USA and American capital in any country, anywhere in the world.

Therefore, the essence of the actual unipolar globalization is simple: *vassal democracy* in the rest of the world serves as a solid guarantee of *suzerain freedom* for American imperialism, including the imperialism of the dollar.

The inner imperialistic side of globalization shows itself instantly, wherever the American military, including its bases on the European continent, tramples on countries and regions. But the truth does not consist in the imperial interests of the U.S. That is why Washington’s rhetoric

rests on empty abstractions of freedom and democracy without specifying their actual content and genuine social subject. However, it is certainly clear that the freedom of corrupt pro-American oligarchic-comprador minority placed in charge of some neo-colony is equivalent to the slavery of the majority of its subjects.

Therefore, the Ukrainian crisis now occupies a special place in the context of American imperial globalization. It has been initiated clearly in the interests of American imperialism, which sees Ukraine as its economic neo-colony and a puppet state, stuffed with NATO bases for the sake of geopolitical blockade of Russia. Our country, already isolated after the collapse of the USSR, has nowhere to retreat. It does not have a choice: it is now compelled literally to consolidate all its efforts for protecting the vital borders of its geopolitical security. It is clear that Russia is the ultimate goal of the American imperialism, and it is getting close to Russia through Ukraine.

It stands to reason that it will not be possible for quite a while to cope with the geopolitical pressure brought to its extremes by the neo-industrial bloc headed by the American imperialism, on the basis of deindustrialization. At that, some tactical success is still feasible, but not a strategic wins.

The laws of history are inexorable: an economic pygmy will never become a geopolitical titan – this mismatch is obviously unnatural and short-lived. It suggests that there always be a return to compliance, and, therefore, it is necessary to choose one of two things: either the rapid emergence as an economic titan – neo-industrial by definition, or transient

transformation into a geopolitical pygmy, divided into spheres of influence and vassalage.

So, in modern conditions Russia has no positive alternative to neo-industrialization and cannot have any. Only the negative alternative is possible: an economic and political collapse like that of the Soviet Union. Either dynamic neo-industrialization or internal disintegration by the comprador capital and after that – a collapse – this is what the current situation may have in store.

Naturally, our country needs a historically positive outcome. And from this viewpoint, the choice is unambiguous and crystal clear: *first, neo-industrialization in Russia has no alternative, second, it should be implemented urgently.*

## **§ 2. Fundamental question of neo-industrialization: on property**

Of course, everything said above is a matter of common knowledge. Five, ten, and even twenty years ago these statements were valid, and they still are. In confirmation I offer a small digression on the history of the issue.

For the first time Russian researchers, as far as it is known, formulated and promulgated directly the urgency of *re-industrialization* in 1992, when the national economy had not been swept off by deindustrialization and there still remained production capacities suitable for high-tech modernization. The comprador devastator, breaking loose, ruined Russia's domestic production of machinery production facilities; as a result, re-industrialization in Russia lost its object completely, and substantive meaning along with that.

By that time, however, some scientific evidence had been accumulated, which was sufficient to bring up and substantiate a *neo-industrial* paradigm. Its foundations had been laid by 2000. Since then the prospects of Russia's recovery were associated exclusively with *neo-industrialization* as the technetronic phase of industrialization and the process of formation of knowledge-intensive production. In corroboration we can recall one of the conclusions of that time: "Technological backwardness is intolerable for Russia. The actual rise is possible only when moving to knowledge-intensive production and only through neo-industrialization. The strategy for its implementation should be based entirely on Russia's own economic potential".

After the default in August 1998 there may have existed an opportunity to turn to a neo-industrial economic model, but the choice, alas, was made in favor of a raw-materials-exporting model with only a partial nationalization of revenues from raw materials export. The share of monetary and rental revenue that was previously almost entirely appropriated by the oligarch-compradors, started flowing into the budget and various extra-budgetary funds.

Although this decision raised the issue of property rights, it turned out a halfway and unsystematic compromise. The private-oligarchic comprador capital still owned the main strategic resources of the economy in exchange for an amicable distribution of export and foreign currency revenues.

As a result, the economic system remained disintegrated, unable to link intermediate production to final production in order to provide the work for the machine-

building complex and manufacturing industry by streamlining the creation of high-tech jobs. The government got monetary resources, and with them the ability to support aggregate demand, but it started to pay an exorbitant price in the form of aggravating deindustrialization and backwardness. The system crisis continued to smolder, while on the surface it was hidden by a fictitious *growth or growth without development* backed by inflation of petrodollars.

Now, after more than a decade was lost, the situation has been changed dramatically. First, the raw-materials-exporting model has quite obviously collapsed when inflation growth ceased; second, the geopolitical confrontation with the neo-industrial bloc moved into a critical stage and requires the utmost effort. Consequently, the present-day challenge is to launch a new industrialization as a national cause, rather than only to speculate on its urgency.

What ought to be done is clear. Discussions and debate concern the question of how it should be done: what form of ownership it should be based on, what economic system and what specific methods should be used.

The situation would be less complicated, if we had an opportunity to do without the reorganization of the diversified structure of ownership. But any illusions are futile: the path of least resistance in this case simply does not exist. Neither the private capitalist property itself, nor its oligarchic-comprador form can be the economic foundation of neo-industrialization. The same can be said about the comprador economic system that only weakens our country by strengthening our geopolitical competitors by moving profit *centers*

*abroad* and leaving the *centers of costs, expenses, losses and debts inside the country*.

It is known that every historical epoch recognizes only its own objective laws, patterns, and trends. And woe is the country that goes against them. The post-Soviet Russia had been playing with the history long enough so that it ended up in the present difficult situation.

To put it briefly, whether we want that or not, we cannot evade the issue of ownership. It is currently a fundamental question in the full sense, for it is only its solution that will be crucial for the existence or non-existence of a neo-industrial Russia, with all that it implies, including geopolitical consequences.

It is clear that the oligarchic-comprador clan is strictly against the property-related issue, thus openly revealing itself as a social force that is hostile to the neo-industrialization of this country. Therefore, for Russia the comprador oligarchy is a problem rather than a solution; in contrast, it is a solution rather than a problem for the imperialism of the dollar.

Such is the specific contradiction of the present situation. If this contradiction is not eliminated, the large-scale neo-industrial transformation will be impossible, since the forces aimed at its hampering and disorganization prevail in the society. In addition, the existing private capitalist property makes it impossible to eliminate the comprador economic system that also works against Russia by supporting the discriminatory exchange of commodities for non-commodities, real for virtual, providing the foreign capital with a significant share of gratuitous imports of our resources to the disadvantage of Russia's manufacturing industry.

In the conditions of the comprador system that was established in direct unconformity to the requirements of the law on vertical integration, the profitability of Russia's property offshoring, the transactions associated with export of raw-materials and exchange speculation will always be much higher than the profitability of the machine-building production. The 2013 performance results proved it. For instance, the speculative foreign capital invested in transactions with domestic property brought to its foreign owners a fabulous profit – at the level of at least 75% per annum. It is comparable to the yield of other financial intermediary and stock exchange operations. The investments required for high quality and highly automated production of machine-building industry under these system conditions turn out to be economically unprofitable.

The fact remains that the comprador system adjusted to act as an intermediary in the strategic and geopolitical interests of foreign capital makes a new, technetronic industrialization economically unprofitable. That is why this country needs an economic system that is totally different, not comprador, sovereign in nature and the interests that it implements; a system, under which neo-industrialization becomes profitable and secure.

It has been offered and even promised to improve the situation through different "tax maneuvers". But they are known to be unrealistic, diverting on the wrong path; leading to a waste of time and distracting from the core issue of the property. We should not deceive ourselves: while the inefficient macroeconomic system is not changed, it is hostile to a

new industrialization. Tax-related and other methods of indirect regulation are absolutely powerless since the dominant comprador-oligarchic capital will inevitably reduce them to nothing but a cipher.

In any case, it will not be possible to avoid the issue concerning property rights. Moreover, it has become especially acute.

The experience of the last decade shows that partial nationalization of raw materials export rent conducted in the early 2000s through the mineral extraction tax lever was minor and insufficient. It is pointless to keep dividing this rent between the government and oligarchic capital, because a prerequisite for development is to re-focus the Russian economic system on the internal and entirely neo-industrial sources and chains of value-added production. And this requires transition to a fundamentally different, progressive economic basis, i.e. to the most advanced ownership forms and relations that are able to combine the intermediate and final production.

### **§ 3. Diversity of forms of ownership and highlighting the main link**

Modern capitalism is heterogeneous as well as the structure of the forms of capitalist ownership: each of them is characteristic of the definite capitalist mode.

Unfortunately, in the Soviet period beginning from the 1930s the understanding of diversification and inconsistency of the current epoch was not given proper attention in economic thought. One of the major reasons was a widely known constitutional provision of 1936 concerning the victory of socialism "in general", and, consequently, a successful completion of the transition period.

The aforementioned provision turned out completely inconsistent with the reality, being theoretically and politically incorrect. It was given the constitutional and directive status and caused far-reaching negative consequences by substituting the correct guidelines of socio-economic development with false ones, disorienting ideology and humanitarian education, dismissing the question about the real contradictions, leaving the USSR without clear development prospects. The society of historical truth and rightness at once became a society of falsehood, and the Communist Party of the Soviet Union ended its existence ignominiously as the party of miserable lies and shameless fraud, disintegrated to the core and deprived of any social foundation.

The truth is already on the surface: actually, the Soviet society did not rise above the transition period that was incomplete in absolute and relative terms. Can this conclusion be disputed? Or is it indisputable? It is unquestionable. For, unlike a false one, it is based on the indestructible foundation of scientific classics.

Let us recall that according to the classical criterion, the complete and final victory of the new socio-economic system over the old one becomes a fact only when the unconditional victory has been achieved in the productivity of social labor. This criterion is the only one and it is indisputable. There is no other criterion with regard to this occasion and there can be none. A similar perception runs through all the classical heritage of A. Smith, D. Ricardo, K. Marx, V.I. Lenin, forming the core of scientific, dialectic-labor schools of political economics. It is enough to cite just one, but exhaustively clear,

provision: “Capitalism has created labor productivity that was unprecedented in the times of serfdom. Capitalism may be finally defeated and will be finally defeated by the fact that socialism creates new, much more efficient, labor productivity”.

It is labor productivity and nothing else that really influences the development in the historical aspect: the economic system is considered more advanced if it is capable of ensuring the historically higher labor productivity of its workers. All other moments, no matter how important they may seem, are secondary in comparison with this generalized and ultimate criterion.

It may be surprising, but it is a recorded fact of 1936: the groundless conclusion about the victory of socialism “in general” was justified by I. Stalin in a non-scientific manner, in the spirit of pure “leftist” notions like those advocated by N.I. Bukharin, probing incompetently too far into the future, without any mention of labor productivity, let alone the comparison with the major capitalist countries. The paramount was silently ignored, while the minor was emphasized and even played up frivolously. The USSR was declared the society of socialism, though it neither surpassed, nor even came close to the performance level of the American capitalist system.

From a scientific viewpoint it is inconceivable that one could disregard the basics of the classics and Lenin’s direct testament that the main goal for the Soviet Union is to ensure higher and higher labor productivity. Yet, the inconceivable happened. There cannot be even a slightest doubt about such an outrageous neglect of the classics; the fact is documented reliably and it is indisputable.



The laws of history are harsh, but fair; and he laughs best who laughs last. Ironically, the last word remained with the very classic criterion, which was so carefully avoided and ignored in 1936. The result is known: the practice still exposed the deception and fraud. The Soviet *pseudo-socialism* lost its social support and collapsed precisely because it was unable to rise to the heights of labor productivity and workers' quality of life. The society is filled with disarming disappointment: what kind of socialism is that, which is no higher or better than the capitalism of advanced countries? The ideology of lies and deception undermined the backbone of ideological and moral and political unity of the Soviet State and led it to the bourgeois-nationalist fragmentation.

It is worth mentioning that the Soviet people did not even think about the "third world" capitalism or backward capitalism. When comparisons were made, it was industrialized powers: the U.S., Germany, France, the UK, Sweden, etc. that were the objects of such comparison. It is only later, as anti-Soviet reforms continued their triumphal advancement, the attention shifted to Portugal, Argentina, Brazil, Mexico, and now the IMF experts set before us an example of impoverished African countries that lack any industry and survive mainly by subsistence farming.

It would be easier to substitute the name "capitalism" with "socialism", using the philosophy of nominalism, as it was done in 1936. But nothing is more grave than those historical consequences resulting from the replacement of the real content by the empty and lifeless name.

The complete destruction of ideals that was painful for the Soviet people, the

collapse of the Soviet Union, Comecon and Warsaw Pact; undeserved discrediting of socialism; the period of post-Soviet oligarchic-comprador reaction, bourgeois-nationalist ethnic strife and clashes between fraternal peoples; the present-day problems of post-reform Russia— these are not all the challenges that Russia faced. In addition, this country is reaping bitter fruits of disorientation of the public conscience imprisoned by false dogmas of the past and present, the loss of social prospects, misunderstanding of where it is and what it has to do.

Political and economic damage caused by the false thesis about the victory of socialism "in general" is incalculable and largely irreversible: it is not possible to undo the harm that lies did to the previous generations. But the time has come to restore the scientific truth, to put an end to lies and distortion that are crippling the present and future generations, which, despite everything, are destined to become the generations of a new technetronic industrialization and achieve breakthrough to the most advanced stages of social progress.

We will not analyze in detail the actual socio-economic nature and a complex, zigzagging evolution of the Soviet society — it is a very important topic for a separate discussion. Let us proceed from an axiom that the USSR was a society in transition that was very far from completion, if we count on a scale of real labor productivity and the rate of free time.

The Soviet transition period was particularly diverse and had the set of its own specific contradictions. It was not something static and unchanging. In his very first days there were certain economic structures and economic contradictions, and in its end they were largely different.

List of different ways of economic life, their dialectics and arrangement at the time of the initial state in 1918–1921 were more than once highlighted by V.I. Lenin and they are well known. We are interested in the final result of Lenin's analysis, which turned out so unexpected and so amazing that sparked a long debate with the "leftist" Bukharin group, and after 1924, was hastily, within one year, consigned to oblivion dictated by the directive policy.

What is the point? Having achieved independence from foreign capital after the civil war, the young Soviet State entered a period of transition from capitalism to socialism. It would seem that once the socialist construction started, the main contradiction would exist only between socialism and capitalism.

That was how the near future was assessed by the group of N.I. Bukharin. But they were badly mistaken. Against their expectations, V.I. Lenin pointed out quite a different contradiction. Surprisingly, it did not mention socialism at all, i.e. the socialist system fell out of it. The contradictions were identified as existing inside the formation itself rather than between the formations. At that stage the clash was between the similar economic structures and forms of ownership and not between different ones. At that time such ideas were not expressed at all.

It was not socialism against capitalism, but it was capitalism against capitalism – such was a contradiction, revealed by Lenin in his analysis of contemporary realities. And it is properly specified. No play on words, no dialectic games.

Unlike dogmatists, who later presented themselves as "true Leninists" and swept

scientific criteria aside, V.I. Lenin did not acknowledge the abstract capitalism, for he proceeded from the teaching about the stage-wise character and phases of capitalist evolution. Therefore, he identified two stages or two economic modes – private-capitalistic and state-capitalistic. Their detailed study showed their common and specific features. They turned out to be actually extreme stages – the lowest and highest, old and new, conventional and unconventional; and they were also relatively opposite, since state capitalism in one of the essential points acts as the first negation of capitalism as such, expanding the aim from surplus (s) to the newly created value (v + s).

The result was Lenin's innovative conclusion that in conditions of the upcoming transition period there was the fundamental contradiction between the two economic structures: private capitalist and state capitalist. And it was precisely indicated that the main enemy of the Soviet power on the economic front was the lower, older, conventional capitalism, acting under the auspices of free trade, i.e. capitalism *laissez-faire*. As for state capitalism, it, on the contrary, forms solid economic foundation for the Soviet power, creating conditions necessary and sufficient for direct socialist transition.

Lenin considered the state capitalist structure to be pro-Soviet, while the private capitalist structure – anti-Soviet, and this was right. Knowing the empirical result, we note that all subsequent history of the USSR has become one solid confirmation of the truth of this fundamental and deeply scientific, dialectically verified, status. The only thing V.I. Lenin could not assume was

that the private capitalist way of life would acquire its best disguise over time in a self-supporting form.

Without state capitalism, without organization and adjustment of the work of the large state-capitalist monopolies, the immediate transition to socialism is unthinkable – that was Lenin’s viewpoint. From here, by the way, proceeds the famous formula for the whole transitional period: to socialism through state capitalism. This formula, derived in 1921–1922, was completely renounced in 1925 by I. Stalin’s faction that joined Bukharin’s “leftist” group at that time. And a decade later, in 1936, the faction speaks, no more, no less, about a mythical victory of socialism “in general” – without a victory on the level of labor productivity, and without a victory of fundamental economic basis of the very capitalism.

Meanwhile, however, the main contradiction of the Soviet era, being unresolved, continued to do its work as if nothing had happened. The movement was still determined by the struggle between the private capitalistic and state capitalistic structures. No subjective tricks, no ideological taboos could abolish the dialectic of objective reality.

As our analysis shows, state capitalistic principles prevailed in 1933–1957. There was, however, one key feature: their prevalence was ensured not so much by organizational and economic factors as by non-economic factors, for the *planned economic system lacked an appropriate economic foundation*.

At that time the planning and centralized system of state capitalism considered the highest general economic profitability to be the most important; the profitability of an individual self-supporting enterprise was considered to be the lowest, subordinate profitability. However, unlike self-supporting decentralization of enterprises, planned centralization did not have its economic basis. The latter relied solely on nationalization, nationalization of property is a legal and political act but not an economic act. It was a prerequisite for the planned economy rather than its basis.

The Soviet planned economic system depended basically on political and legal superstructure, while the self-financing of separate enterprises had economic support in the form of division of labor, commodity turnover, balance sheet property, and reproduction of profit. As a result, the contradiction between state capitalist and private capitalist structure adjusted itself, it took a Soviet shape and became the contradiction between the plan and self-financing.

It was a very specific contradiction: the planned system had primarily political and legal levers and measures at its side; as for the separation of enterprises and self-financing, they had economic ones, including the production and appropriation of profit. The superstructure existed in irreconcilable opposition to the basis. A sharp discrepancy between the Soviet political superstructure and an essentially anti-Soviet self-supporting market economic basis was established

and increasing. The compliance could be restored through economic victory of the Soviet political principles or through political victory of anti-Soviet economic principles.

The struggle was not on equal terms, since the constitutional provision on the mythical victory of socialism not only disoriented public consciousness, but eliminated the very statement of the question about the necessity of high quality, basic, organizational-economic strengthening of the planning and centralized economic system. Thus self-supporting principles received tremendous ideological and political advantage. Afterward, their subjects had only to increase it constantly. The process was going on, of course, under the growing demands of decentralization and autonomy of self-supporting enterprises, freedom of pricing, appropriation of profits and self-financing.

The first reversal act followed in 1957 together with the shift from the system of higher profitability to a system of lower self-financing. The program adopted by the CPSU in 1961 was reversal, ignorant and false in all other respects; it guaranteed the profitability to every self-supporting enterprise that was working “normally”.

The reform of 1965 marked the second reversal act, securing the outcome of the first one. The self-supporting profitability of an individual company became primary and dominant, and economic profitability became secondary and subordinate. The appropriation of property by private economy became large-scale.

That reform was followed by the fading of state capitalistic principles and the growth of private capitalistic principles that had been covered by the self-financing form. The dual power was still hanging

on until mid-1970s, and then the state capitalistic structure was overthrown by “self-financing of an enterprise”, which predetermined the fate of the USSR in a decade later.

The third reversal act happened during perestroika in 1985–1987. The fourth and final one took place in the form of the final collapse of the USSR. The private capitalistic structure threw away self-financing and revealed its own inhuman, primitive and archaic form.

As V.I. Lenin warned in 1921–1922, the very lowest, old, outdated, pre-revolutionary capitalism became the grave-digger of the Soviet Union; it managed to employ the planned self-supporting form, then it muscled up under its protective shade, after that it restored its social base; then it undermined the ruling party and the Soviet State economically, ideologically and politically; after which it dealt the final blow.

Since the 1990s Russia has again fallen under the yoke of the lowest, most backward capitalism; the country again suffers not so much because of capitalism, but because of its underdevelopment. But, again, objective contradiction between the private capitalistic and state capitalistic stages still exists. It is only its poles that have changed places: the private capitalistic principles rose and now dominate the state capitalistic ones.

At the same time, it would be naive to think that the pre-revolutionary past repeats itself. It is impossible to step into the same river twice: the historic development of society proceeds along dialectical spiral. The Soviet transition period has already become history. As for the post-Soviet period, it is now characterized by its own diversity, or stage-wise character.

What has changed compared to the data of Lenin's analysis? Since then much water has flown under the bridge, for almost a century has passed. The capitalist evolution has not stood still. And it has added the state-corporate stage, which was previously unknown.

At present, the internal formational stages or modes of the capitalist production structure are known from the experience of the USSR and industrialized countries; these stages are as follows:

- private capitalistic;
- state monopolistic;
- state corporate;
- state capitalistic.

As we can see, both the first and last stages – private capitalistic and state capitalistic – are separated from each other by the two intermediate stages. The Soviet political economy had one of the intermediate stages – state-monopolistic, although it is absent in Lenin's list of diversified structure of the Soviet economy. As we understand, V.I. Lenin assumed that the state-monopolistic structure was homogeneous with the state capitalistic structure, because he often spoke about the state capitalistic monopoly considering it the basis of state capitalism. As for the state-corporate stage, there existed neither theoretical nor empirical data on the subject in his time.

What is the difference between intra-formational, historically identified stages of capitalism? They differ from one another on a number of fundamental criteria, among which the most significant ones are: the dominant form of ownership, the main subject of property, the main link of reproduction, its target function, the scale of reproduction planning, the phase

of industrialization of productive forces.

For convenience, the generalized classification of the four main stages of capitalism, except for manufacturing, is summarized in a separate *table*.

A detailed description of the essential features of each of intra-formational stages of capitalism and their comparison requires too much space and will take us far beyond the subject of this discussion, so we shall consider only the essentials in our case.

First of all it is expedient to pay attention to the general vector of the entire capitalist evolution: from the disintegrated to the system-integrated form of ownership, from a personified capitalist – to a non-personified aggregate capitalist; from a separate private enterprise to a unified national economic complex; from private profit to total purchasing power of society; from reproduction elements and absence of plans – to general economic planning; from the age of productive forces based on steam power – to the era of fully automated ones; in general: from private capital to the social, economically socialized capital.

If we briefly summarize the above features, we can see the following: they all indicate that as capitalism rises from lower stages to higher stages, it little by little turns into its opposition, into its own negation. In other words, capitalism demonstrates the dialectic, transient nature of its historically multi-stage evolution.

We are, of course, particularly interested in that stage of capitalism, which is associated with neo-industrialization, i.e. with the science-intensive and technetronic phase of industrialization. As you can see, this is not the lowest, disintegrated and most backward stage; and not even the state monopolistic one, which corresponds only

Stages or structures of capitalism and their specifics

Stages of capitalism, from the lowest to the highest	Form of ownership	Subject of property	Main link of reproduction	Target function	Scale of planning	Phase of industrialization
Private capitalistic	Disintegrated, atomic	Personified: private capitalist	Sectoral enterprise	Profit	Local, factory	Period of steam engine (prerequisite for industrialization)
State monopolistic	Horizontally integrated	Personified: sectoral capitalist	Sectoral monopoly	Monopolistic profit	Sectoral	Electrification (primary industrialization)
State corporate	Vertically integrated	Mixed: corporate capitalist	MNC	Value added	Macroeconomic	Technetronic industrialization (secondary)
State capitalistic	System-integrated	Non-personified: aggregate capitalist	UEC (unified economic complex)	Total purchasing power	National economic	Full automation and waste-free production

to the period of primary industrialization of productive forces, or their electrification. It is only a stage that is *not below the state-corporate* stage that meets the requirements of neo-industrialization.

Thus we received a thorough answer on a question of principle, concerning the direction, in which our country should move in order to ensure successful implementation of neo-industrialization of domestic productive forces, endowing them with technetronic quality. It is crystal clear that a vertically integrated form of ownership should dominate; MNC should be the main reproduction link; value added (and not only profit) should be the target function of reproduction; the type of planning should be macroeconomic, consistent with the form of ownership.

Meanwhile, I think it is necessary to clarify the *essence of capitalism* in brief. It seems that at present there is no longer any such stage of capitalism, which would give rise to so many false doctrines, beliefs and views, as state capitalism did.

In modern Western literature and periodicals, and in liberal-comprador cohort the puppets of U.S. imperial globalization are almost crying about the establishment of “Putin’s state capitalism” in Russia. A telling example can be found in an unscrupulous trick demonstrated by A. Illarionov, who is notoriously known by his mediocre attempt at econometric falsification of state influence on economic growth. In 2000, when he was Advisor to the President of the Russian Federation, he was asked a direct question by Americans, who fuelled the notions of the state capitalism in Russia; Mr. Illarionov answered reasonably that there was no need to use ideological labels. But as soon as he left the post of Presidential Advisor, and took a job as an associate at the Washington-based Cato Institute, he promptly defected to the American side and screamed about the movement of this country to state capitalism.

The country’s political leadership still has to assure everyone that we are not

building state capitalism. That is right – unfortunately, for it would be objectively a great good for this country if it were wrong.

Actually there is nothing farther from the truth than the assumption that the present-day situation in Russia is similar to state capitalism, which is historically the highest and final stage of capitalism. This senseless comparison stems from a completely non-scientific and purely ideological mixture of state capitalism and its classical counterpart – crony capitalism that is private-oligarchic, comprador, inferior and backward.

*The theory divides state capitalism into formal and real.* A basic premise of formal state capitalism is the prevalence of nationalized property. *Real* capitalism is based on the collectivized, or system-integrated, form of ownership, that is economically implemented as a nationalized one, with complete domination of the social productive capital that is able to minimize all kinds of social costs required to meet the energy, industrial, infrastructure, environmental, etc. demands of society. In short, legal nationalization, *de jure*, is connected with the formal state capitalism, and economic nationalization is connected, *de facto*, with real state capitalism.

Note that in the Soviet Union the nationalization of the most important means of production, established on a legal basis, was a flop from economic viewpoint. In fact, under the guise of “self-supporting enterprise”, the nationalized property that was called “state-owned” only formally was actually used since the 1960s as the private economic and anti-governmental property. Therefore, the USSR, despite its planned economic system, could not rise above the formal, superstructural and non-economic state capitalism.

To move from the formal to the real, it was necessary implement the vertical integration of nationalized property, to make the planning and economic system in conformity with the law of vertically integrated reproduction.

In comparison with the 1920s, the present-day reality has one fundamental change: it was industrialized states that were much closer to state capitalism, since they are characterized by the vertically integrated capitalist stage with the core formed by *the economy of multinational companies*. The post-reform Russia, by contrast, is characterized by an old, outdated private capitalist economy with the domination of oligarchic-comprador, disintegrated, personified forms of capitalist property. In general, Russia still has a long way to go before it can reach the stage of state capitalism, and it is not possible to skip the state corporate stage on this way.

As for the personified form of ownership, one cannot build the foundations of neither state capitalism, nor even state monopoly on its basis. And it is time to think not so much about neo-industrialization and full automation of production, but about how to preserve at least the achievements of the Soviet electrification. By the way, a sad testimony on this subject can be found in the rates of energy consumption for the population, or energy rations, absurd for any electrified country.

In fact, advanced neo-industrial countries that have reached the state corporate stage, are very close to state capitalism, while the post-reform Russia is separated from state capitalism at least by two stages – the state monopolistic and the state corporate stage.

So, the implementation of the neo-industrialization of productive forces suggests, at the very least, the dominance of state-corporate structure, its leading position in the hierarchy of modern multi-structural economy. In turn, a key feature of the mentioned structure consists in the fact that it is subject to a *special phased law of supreme capitalism, the law of vertical integration*. This law is the law of system interrelationship between intermediate and final production, such relationship, in which the maximum speed of the total productive capital circulation is ensured due to zero profitability in intermediate links.

Accordingly, in today's world, an economic system can be competitive and effective only if it is built and operates in full compliance with the law of vertical integration, with the supremacy of the vertically integrated form of ownership. Otherwise, the economic system is not state corporate, and therefore, is inferior, backward, inefficient and uncompetitive.

If we proceed from the dialectical analysis of the evolution of capitalism and capitalist diversity of economy, it is quite clear, what form of ownership is now historically advanced and is suitable for the neo-industrialization of productive forces. It is a vertically integrated or state corporate form, the planned functioning of which is organized in accordance with the law of vertical integration, according to the principle "just in time", in order to increase the aggregate multiplier of value added.

#### **§ 4. About the algorithm of transition from the raw-materials-exporting model to the neo-industrial model**

The necessity and urgency of neo-industrial reform does not mean that we should act at breakneck speed or in a

come-and-go manner. On the contrary, adventurism and voluntarism should be excluded, because they will result in the loss of precious time, which we lack already. And only the combination of precise and calculated measures implemented in the correct sequence can ensure the correct result. In general, the better the algorithm of neo-industrial transition, the higher the rates and shorter the terms, the more economical and effective the program for its practical implementation.

We do not speak about the launch of the program for neo-industrialization of our country – it is a special task, which involves the consolidation of efforts of all the scientific and economic community that realizes the importance of neo-industrial reconstruction of the national economy and adheres to the ideology of national economic interests. Our function is limited to the presentation of the main and priority points of the neo-industrial transition algorithm.

The starting point and the head principle presuppose that it is necessary to avoid all kinds of shocks and bifurcations: price, tax, budget, investment, infrastructure, currency, debt, export-import, etc. Well, falling into a systemic crisis and de-industrialization was shocking, but the withdrawal should be controlled and regulated, i.e. clearly managed and precise.

Related to the head one, the principle concerns the choice of priorities or the combination and sequence of steps.

Firstly, it is required to liquidate economy de-industrialization, uniting mining industry with processing complexes, especially machine-building. The basis for their management-economic connection is vertically integrated property, with the form being inter-sectoral production



of final products with high value added multipliers.

Thus, *the first basic step* of algorithm is set: strategic nationalization of the economy commanding grounds, their sovereignty, de-dollarization and de-offshorization – formal and informal, direct and indirect, in the form of redemption and tax de-privatization.

Taking into account the proprietary forms diversification, strategic nationalization objectively cannot be total, as some critics believe primitively. It is only limited by commanding grounds of the economy.

What is more, strategic nationalization does not involve non-economic, decreed or directive expropriation. To avoid misunderstanding we should note that nationalized objects are strategically important means of production, starting from land and energy, and not personal use items of citizens.

And, nationalization is necessary not for the sake of nationalization. It is required to boost domestic production of final demand with high added value on the basis of strong and indissoluble connection between production and industrial processing of raw materials, primary resources, i.e. on the basis of vertically integrated property.

*The second step* after strategic nationalization of the economy commanding grounds is vertical integration of formal and informal nationalized property, particularly, development and implementation of the national economic plan to create vertically integrated, nationwide chains of value added production, which unite all phases of reproduction of competitive goods of final demand. The process is based on the principle “in time”. As a result of successful implementation of the

plan, Russia will get *the economy of domestic transnational corporations*, competitive to the largest foreign ones.

At the same time, it is supposed to restore a vertically integrated form of infrastructure monopolies management – electricity, railway, aviation, sea and river transport, fishing and housing.

*The third step* involves disengagement of domestic prices and pricing from the influence of the ruble exchange rate, speculative foreign capital, imported inflation and other external market factors.

For this purpose it is efficient to use the measure, proposed by a number of experts, to create an authorized federal agency, which would buy most important products of mineral-raw export by internal prices, export them and allocate currency earnings to the special capital fund and, thus, increase resources real savings.

It is necessary to establish a national Agency for foreign investments. Its main function is to expand the inflow of long-term, industrial-technological and infrastructural investments, not taking into account the inflow of short-term speculative, bestowing and monetary ones.

At the same time, the Central Bank ends the policy of ruble emission, proportional to currency returns, introduces regulation of money supply proportionally to the growth of domestic production of the commodity mass, vastly expands the scale of non-cash payments and payments of enterprises and the population, and creates the national payment network.

The stabilization fund is abolished. The amount of gold and foreign currency reserves is reduced to the normative value, equivalent to the semi-annual volume of goods import. The annual foreign debt payments are taken into account.

*The fourth step* involves the transfer of the state budget entirely to the internal sources of the revenue side and cardinal increase in its investment potential. Key measures are introduction and selective application of turnover tax, progressive income tax, tax on speculative gains and estate tax.

Turnover tax in those sectors or activities where it is effective, should not be used together, but instead of value added tax.

The more detailed and comprehensive plan of tax reorganization is also subject to justifying calculations. It is connected with the plan of systemic changes in trade, banking and industrial sectors, pricing and depreciation deductions.

Particularly, it is advisable to set up a national fund of depreciation deductions and develop mechanism to control its activity. It is long-term resources, which should be covered in the aggregate domestic savings fund and target lending of global neo-industrial projects.

Tax measures are important and suitable for increasing the investment value of profit. Tax limiters are possible.

*The fifth step* concerns pricing and assumes its gradual transformation into the planned management.

At the first stage the regulation is established with regard to prices and tariffs of the state-corporate sector, infrastructure monopolies and housing and utilities. The order of price formation is introduced: prices are set on the basis of cumulative costs for a 5 year period due to principles of the common market and the break-even; the profit and investment components are excluded from prices; the management mechanism and incentive system are set to reduce costs; the centralized fund of total

accumulation acts as a source of planned capital investments.

*The sixth step* ensures the planned level of the domestic savings share, the payback of capital investment, their contribution to the increase in labor productivity and standard of living.

To do this aggregate domestic savings are centralized. They include: a specific capital fund to import machinery equipment and job; a single amortization fund; plow back profit; an investment part of the state budget; some types of bank deposits; production, machine-technical and technological foreign investment.

The aggregate savings fund allocates targeted money according to the single plan of capital investments and the principles of vertical integration and intersectoral contingency. The first five-year period is focused on the investments required for successful implementation of the national economic plan to form vertically integrated value chains or largest domestic transnational corporations, as well as for the neo-industrial plan of high-tech knowledge-intensive import substitution.

The branch principle of investment lending is excluded; the private one remains for private-capitalist way of life within the planning of credit standards and limits of the banking sector in conjunction with the unified plan of capital investments.

The payoff of the planned investment is evaluated by the size of an aggregate value added multiplier, reproductive jobs multiplier, hourly labor productivity and wages.

*The seventh step* concerns the management of a new model of economic planning, connected with the macroeconomic planning at the level of nationwide corporations.

The starting and transparent principle of the new model of economic forecasting and planning can be a level of productivity and wages, but not a price conjuncture of oil export.

Inter-industry balances are a tool basis, such as labor, value, product, job places, fixed assets, capital investments, export and import balances, etc.

*The eighth step* is development and implementation of the national plan of neo-industrial import substitution, together with the plan to form the domestic economy of transnational corporations. The import substitution plan should ensure domestic production of technologically advanced microprocessors and micro-processor devices, super computers, aviation and other engines, robotics, operating systems and software, equipment for post-oil energy, automated complexes, machines, devices and exclusive scientific and educational laboratories.

*The ninth step* is to restore and update the unified system of mandatory state standards of the quality of production and consumer goods; to introduce strict environmental regulations and standards, as well as planning standards of recyclable resources. It presupposes the transfer of the mentioned system into the system which promotes quality, ecological purity of industries, housing and utilities services, recycling of resources and production without waste.

*The tenth step* indicates de-commercialization of health care, education, physical culture and sport; restoration of special and vocational education; participation of secondary and higher educational establishments in national programs; de-Americanization of humanitarian education, particularly, economic.

*The eleventh step* concerns the transfer to the hourly system regulating labor productivity and wages on the basis of development of planning standards of hourly capacity of cars, jobs and workers.

*The twelfth step* is to develop and implement the economic model of economic costs reduction that relies on the system of incentives. Administrative staff should get increased hourly wage rates and bonus regulations.

*The thirteenth step* touches upon reorganization of the distribution system of agricultural and food products on the basis of direct and licensed access of producers or cooperatives to regional and national trade networks. Trading licenses can not be provided to mediators and secondhand dealers.

We have mentioned and briefly outlined the crucial points of the algorithm stipulating specific transition from a raw materials export model to a neo-industrial one. Each of these items is a summary of the more detailed program, i.e. it can be explicated into a target program within the national economy plan.

In our opinion, all items in the transition algorithm coincide with the original principle of inadmissible shock excesses in the process of transition from the old economic system to the new one, which considers tasks and requirements of knowledge-intensive industrialization of Russia.

Thus, this algorithm encourages neo-industrialization of the national economy.

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Neo-industrialization has firm theoretical grounds; it has no alternative; it is urgent and realistic; it is ideologically and politically connected with national economic, social and labor interests. The

algorithm to transfer from the raw material export model to the neo-industrial is described in the most fundamental points. We know, of course, that it requires broad discussion, clarification and improvement.

However, there is a neo-industrialization platform which should be approved by the public. Society should consolidate while discussing the neo-industrial platform, which is already developed and appropriate to the personnel reconfiguration.

In the economic community that clearly understands the urgency of new high-tech and knowledge-intensive industrialization it is important to bring together the approaches and positions on topical issues of Russian neo-industrial policy, such as the pace of socio-economic development, property and vertical integration, combination of indirect and direct methods of centralized control, setting up a national coordination agency, organization of system conditions and incentives to ensure dynamic and qualitative growth of the national economy.

We think it is time to clearly define what Russia expects, what society it seeks, what place in the world it wants to have and what the value of the neo-industrial reconstruction is. Special attention should be given to specific measures and decisions to replace the raw material export model by the model of neo-industrial development of our country. Institutional, organizational and personnel provision of such a responsible system maneuver should be taken into account.

In our opinion, it would be advisable to prepare and hold subject *all-Russian economic meeting on new industrialization*. The system solutions on the issues of neo-industrial reversal of Russia are of importance. To organize it properly, state bodies, scientific and public structures, economic publications should closely interact. No doubt, the results of the work done would encourage our country's transition to the path of dynamic economic growth.

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