

Systemic crisis and the choice of the way of development for Russia



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Abstract. The article considers the reasons that led to the systemic crisis in the modern Russian economy, and highlights major factors that impede the transition to the innovation type of the country’s development. The article pays special attention to the losses caused by a comprador nature of the current economic system, and in particular – by its modification focused on export and raw materials. Besides, the article substantiates the author’s viewpoint that at present our country needs an economic system, which is ready for a new and comprehensive industrialization.

Key words: systemic crisis in the economy, comprador nature of the economic system, new industrialization.

§ 1. Reasons for the crisis

When analyzing the causes of the current economic situation, it is impossible not to notice the momentous roll call of the times. As we know, in 2015, our country celebrates the 70th anniversary of the victory of the Soviet people in the Great Patriotic War. This national holiday has, of course, its ideological, political and spiritual-patriotic

moments, but here we are interested more in the economic aspect. The point is that the great Victory of our people was based on a particular, historically innovative economic foundation and was also the economic victory of a system scale. Indeed, we recall that on the verge of the Great Patriotic War our country was not quite ready for that: when the Nazi launched

their treacherous attack, the young Soviet industry had not yet managed to provide the armed forces with military equipment of a new generation. Nevertheless, the state-planned economic system of the Soviet Union allowed the country in a very brief period of time to adjust the economy to the needs of the war and bring the military-industrial potential of the country in line with the challenges of wartime.

Today there is no Great Patriotic War, but from the historical viewpoint the situation is largely similar. Indeed, at present the country faces very complex geopolitical challenges and not only with regard to Ukraine, but also around the perimeter of Russia's borders. Now we have to cope with unprecedented strategic and geopolitical challenges in the Arctic and Far East, in China, and Central Asia, in the Middle East, and the Mediterranean area. And the main problem is that the post-reform Russia's economic potential is inadequate to the challenges that we are facing. As a result, life puts before us a major and urgent question: will we be able just as quickly to adjust our economy and cope successfully with the strategic and geopolitical challenges of our time?

Certainly, such challenges in the history of our country are not the first and not the last. For more than a thousand historical period, our country has not once been subject to such fateful tests, and it always came out of them with honor – even when our opponents believed that Russia had already turned into a “hopeless” state, torn, collapsed, broken, weak, etc.

Our people have always found the strength, wit and capabilities to deal with

challenges. Undoubtedly, they will do the same today, although it does not mean that the coming trials will get sorted out by themselves or they will not require that we apply considerable effort. On the contrary, we will have to work very hard to solve current historically important tasks. But they will be solved, because, unlike in many previous periods, we now have a fairly accurate understanding of what to do and how to do it in order to move forward, and, first of all, to raise Russia's economic potential.

Thus, the main task of 2015 is to make the decisions and to implement the actions at the federal and regional levels so as to bring the economic potential of the country in line with strategic and geopolitical challenges.

There are different assessments regarding the current socio-economic situation. And we note that none of them is positive. TV, radio, scientific and analytical literature makes different conclusions about the scale and nature of the crisis: they call it stagnation, stagflation, depression, autonomous recession, a default of the raw materials export model, and systemic crisis.

Which of the specified set of expert estimates is correct as of the year 2015? Regarding the question about what has caused the crisis in the national economy, all the opinions are reduced to two basic positions. Conventionally, they can be called “external” and “internal” because one of them considers external, non-Russian causes of the crisis to be decisive (international sanctions, including sanctions related to the Ukrainian crisis, the accession of Crimea, as well as the decline

in oil prices), while the other considers domestic reasons to be the most important. In fact, two principal positions have been identified.

Of course, these opinions are disputable. The question about the nature of the crisis is not a trifle. It is extremely important for Russia to find the correct answer. If there is the right answer, there will be right actions. And vice versa, wrong notions entail wrong actions, which only aggravate the consequences of the current crisis, which are already difficult.

Again, the task of economic science is to give an accurate answer to the question, what kind of crisis we are facing and what are the reasons, external or internal, that have caused it. As it has been already mentioned, now there are two main positions, and they are opposite. To clear up what we are talking about, let us call them by their proper names: one is the comprador position and the other is the sovereign position.

It is not a coincidence that we mention the 70th anniversary of the Victory in the Great Patriotic War, because it was also a victory for the sake of our country's independence, so that it would not suffer under a "foreign yoke". During the Great Patriotic War the Soviet Union fought not only for military independence, and the preservation of political sovereignty of the state, but also for its right to choose the path and the way of its socio-economic development, so that the multinational Soviet people worked for themselves, and not for Nazi Germany or some other foreign power.

What is the essence of the comprador position? What is "comprador" from the point of view of the classical definition? Some refer this concept to the category of "abusive" words, which became common, like, for instance, "liberalism", "democracy" etc. Actually, the term has a very clear scientific content: it represents an intermediary between foreign capital and national wealth. The comprador (oligarchic) layer includes those who transform national ownership in transnational, that is, foreign, ownership, serving the interests that are foreign and alien to Russia.

There is the term "offshoring" of ownership, when the Russian property becomes an offshore, that is, non-Russian, property. Accordingly, the comprador type of economic system means that the country works not so much for itself, but rather for foreign capital; and the comprador social layer helps to adjust the national economy in favor of foreign capital. Needless to say, if the country works for foreign capital, then the country works for its own economic depletion. In the end, the country grows poor along with the enrichment of foreign states with its national resources.

Why do we have to talk about the comprador position? We still have the raw-materials exporting model. This very model is comprador in its essence. Naturally, the comprador ideologists and representatives find it completely unprofitable that the sources of the current crisis situation in the country were associated with the raw-materials exporting model, i.e. with internal factors. Therefore, they prefer to associate the slowdown of economic growth and

the so-called investment pause primarily with the decline in oil prices, i.e. with external factors, which are not and cannot be controlled by the Russian government. According to the comprador position, the raw-materials exporting model itself has nothing to do with this, and it is not at all responsible for the current difficult economic situation: they say, oil prices, international sanctions and other external factors bear the blame.

The comprador position is opposed by the sovereign position, which claims that Russia should work exclusively for itself: not for someone outside, but for its own development and enrichment, enhancement of the purchasing power of its citizens, enterprises and the state budget. It is quite natural that from the point of view of the sovereign interests of our country the crisis is caused not by the sanctions, or the foreign trade situation, but by the raw-materials exporting model that works for foreign capital.

Indeed, if the raw-materials exporting model, which serves, *inter alia*, the model of Russia's deindustrialization, the situation would be radically different. For example, it could be like that in China with its industrial exports supported by the planning and economic model of the export-industrial type. Due to this fact, the decline of commodity prices does not only affect the Chinese economy in a negative way, but, on the contrary, it stimulates the reduction of fuel and energy costs and promotes industrial growth. Likewise, judging by the statistics, we can see that when raw materials prices are reduced, the pace of industrial

production has increased significantly in the European Union, as well as in Anglo-Saxon countries. If prior to 2012, when there was a rapid speculative rise in the prices of oil, metals, fertilizers, grain and food products, the average annual growth rate of European industry was about 0.3–0.5%, then today it is 2% (in the U.S. – 3–4%), unlike that in our country, where the current pace of industrial growth is either zero, or even negative. Thus, due to the dominance of raw-materials exporting model, the decline in oil prices helps foreign industrial developed countries, but does not help Russia, just like the high prices for oil, gas, metals and fertilizers did not stimulate industrial growth in Russia in 2012–2013.

In our opinion, such a contrast asymmetry in itself should make us think about what kind of crisis we are facing, why a downward trend in the prices of raw materials is favorable for industrialized countries, but damaging to the dynamics of our economy; why in the main oil-producing countries the decline in oil prices resulted in the peak devaluation of the currency that did not exceed 13%, and in Russia it exceeded 100%; and why our internal pricing system reacts so dramatically to the exchange rate of the ruble and to its devaluation.

The fact remains: when the price of oil and raw materials fall, the advanced industrial countries rapidly upgrade their high-tech industrial capital. And what about Russia, with its comprador system? In contrast, it falls into a crisis. GDP, budget, domestic demand, capital investment, social spending, etc. are declining.

According to statistics, despite the 2–3-fold fluctuations of stock market conditions for the commodity group of products, domestic prices in the EU countries (except for Greece) have changed over the past 5 years by -0.5–0.0%. This fact indicates the controlled stability of purchasing power of the euro (that is, the national currency of the European Union).

Now the question is: what has happened to the purchasing power of the ruble during the last 5 years? It has declined, with the devaluation being almost 50%. In other words, the purchasing power of the ruble has decreased almost twofold. Naturally, for the economic science it is in itself an indicator that is sufficient to raise a basic question: what is this economic system, which leads to the collapse of the main means of circulation – the national currency? And why the euro, unlike the ruble, is the currency which is a long-term incentive to save, earn and accumulate money.

Savings in euros, despite very low interest rates, are quite rational, because the person who put the savings in euros, is quite sure that after 30 years their purchasing power will not be lower than in the moment when he/she made the savings.

Now try and apply this strategy to the ruble. Try to preserve the purchasing power in rubles for 30 years. It will not work. And it is understandable why – due to the rapid depreciation of the ruble. What does it mean? It means that the ruble is not a long-term economic stimulus.

Meanwhile, the hard currency is the first thing, which any competent economic system starts from. We have already given the example of the euro. We can also point

out the Soviet gold chervonets (10-ruble coin) after the 1924–1925 currency reform, the Soviet ruble after the 1947 currency reform, the German mark after the currency reform of L. Erhard, the post-war Japanese yen. The former Soviet ruble is the only one that does not fit into the range of the classic examples of hard currency associated with rapid economic progress or rise. It is the only currency that does not perform its system function.

From the viewpoint of fundamental economic characteristic, the main difference of the comprador economic system, and in particular, its raw-materials export modification (raw-materials exporting system by its nature belongs to the class of comprador systems), is that it is a dependent economic system. Any economy that is of a comprador nature is not independent.

No doubt, it is the economic independence of our country that can be the only starting point in dealing with very serious problems, such as high-tech development, the strengthening of political sovereignty and geopolitical standing.

However, how can we achieve economic independence of Russia, if our economic system is dependent on foreign capital? Here we have to deal with an obvious current contradiction of the most drastic nature: Russia needs independence in its domestic politics and geopolitics; but, at the same time, it is critically dependent on foreign capital in its economy. Let us say it clear: this contradiction enhances the system-wide gap between the economic base and political superstructure, and, therefore, must be eliminated.

The same context raises a very important question: if 70 years ago on the verge of the Great Patriotic War our country had the current raw-materials exporting economic system rather than the Soviet planned economic system, what would we do, would we be able to win what was then the crucial test, extremely difficult for our country?

During the war years the Soviet planning system managed to exceed the economic potential of the Nazi Reich, and did it “on the go”, in front-line battles, so to speak. Thousands of enterprises had to be evacuated from the European part; tens of millions of civilians, livestock, property, etc. had to be resettled; machines, equipment, electricity, chemical industry had to be relocated. In addition, in 1941–1942 the best European grain-producing regions were lost, but the country managed to organize grain production beyond the Urals. The trans-Ural agrarian territory, which is among the most unfavorable in terms of grain production, fed the entire Soviet Union during the war.

It is the then economic planning system that helped to solve the most difficult problems of organizing the military economy. Moreover, the quality of Soviet military equipment – tanks, artillery, planes, etc., was the best in the world by the end of the Second World War.

And if we had an export-oriented raw commodity model and unplanned comprador economic system when the Nazi came? In that case, I believe, no enterprise could have been moved from the European part of Russia to the Volga region and the Urals. Indeed, how is it possible to move

the enterprises that are left to their own devices and that work not even for private (internal) interest, but for foreign profit? Obviously, it is one of the instructive lessons of the Russian history, which is very relevant today and it really indicates the roll call of the times.

§ 2. Who is holding the commanding heights?

The main characteristic of any economic system depends on the fact, who is holding the commanding heights of the economy. The commanding heights of the economy are electric power industry, infrastructure, fuel and energy complex, agro-industrial complex, food security, scientific-and-technological security, banking system, land, and strategic enterprises. Who controls all this?

Are the commanding heights of our economy really in the hands of the state? No, they are not in the hands of our state, and even not so much in the hands of the domestic oligarchic-comprador clan, but they are in the hands of foreign capital, which has seized the commanding heights of the post-Soviet economy through oligarchic and offshore structures.

Let us give one concrete example, so that what we say would not be a hollow generalization, but a specific and clear argument. Let us have a look at our civil aviation: what percentage of the fleet is domestic aircraft? Less than 5%. Almost 95% of passenger traffic is carried out with the use of foreign machines. Here a simple question arises: whose property is the Boeings and Airbuses that Russia uses? Can we consider them to be our

property? No, we cannot, because they are all in the lease. Russian air companies only rent them from foreign owners – together with spare parts and consumables. But the aircraft fleet is also part of the commanding heights of the economy.

Or the banking system, the so-called bank payment and settlement technology, cards, protocols, standards, servers, super-computers. Who owns them? Who owns the operating systems? Who owns SWIFT? Is it ours? No, even this system is not ours, despite its operation in our territory. It is therefore hardly surprising that when the issue of the sanctions comes forward, the ultimate threat would be to block the payment and settlement infrastructure on the territory of Russia, including SWIFT. And if we had a national, sovereign payment and settlement system, would such sanctions bother us? Of course, they would not. This is the specific importance of the question “Who is holding the commanding heights of our economy?”, and the nature of the current economic system.

Based on the paradigm of the commanding heights of the economy, the causes of the crisis are identified as wholly internal. In fact, the post-Soviet Russia has been living in a state of systemic crisis from the very beginning, i.e. the crisis of the comprador economic system. Of course, with the falling prices of commodity exports, the exacerbation of systemic crisis reaches its climax that is most sensitive in the budgetary sector. So there is no reason to blame the sanctions of foreign partners of our oligarchic-comprador clan, because the crisis is systemic in nature.

Although today some economists, who support the comprador ideology (A.L. Kudrin, E.T. Gurvich, V.A. Mau, A.V. Ulyukaev, B.Yu. Titov), somehow defend the raw-materials exporting model and the comprador economic system. They stick to the opinion that the raw-materials export model can be modernized, and it is only necessary to cut or remove the share of the state, that is, to ensure that the whole rent from the export of raw materials goes to the hands of oligarchs, rather than to the state budget.

Here we see a very interesting and remarkable moment, again of the system nature. Technically the share of the state in the export-resource rent rests on export duties and mineral extraction tax (MET). It is proposed to reduce the budget share under the guise of the so-called further liberalization, de-bureaucratization and privatization.

But what does the reduction of the public sector mean? What does the abandonment of state support of domestic demand mean? It is worth noting that state support of domestic demand is carried out by indexing social spending and pensions, financing defense contracts, which give jobs to many defense enterprises, financing energy and transport infrastructure, construction of highways, for which there is always not enough money, housing construction, including that for young professionals, agro-industrial complex, etc. All the articles of budget spending from investment to social and environmental ones, provide state support to the aggregate demand.

Supporters of the comprador position interpret budgetary support to the domestic demand of the population and businesses as the “economy of demand”, which is necessary to abandon. But to leave would mean to pull out and exclude budget expenditures from support to the aggregate demand. How can they be excluded? Obviously, if we want to do away with budget expenditures, it is necessary to remove budget revenues. What revenues? First of all, oil and gas export duties and mineral extraction tax.

Indeed, the comprador clan has now opened the real budget front. If we look closely at what is the object of a serious fight, we see the following innovation – owners of oil and gas fields propose to shift from export duties and mineral extraction tax incremental income tax, which is easily brought to zero through the offshoring of income and capital. At the same time, of course, oil and gas revenues, and budgetary expenditures aimed at supporting aggregate domestic demand are reduced to zero. The state, left with an empty treasury, would have to resort to foreign loans, and in fact – to accept another external debt bondage, like that in the 1990s.

Behind all these seemingly technical issues there is actually the main system question: who will control the commanding heights of the economy, and in whose interests will oil and gas revenues be used? Therefore, the cutting edge of our economic science today is not the elimination of state support to the aggregate demand, but, on the contrary, its enhancement. Moreover, this requires cardinal support not at the

expense of redistribution of export and resource rents, but due to the fact that the fuel and energy complex initially works for the budget and budgetary revenues. Russia needs such an economic system, in which revenue is not divided between the state and private interests in the oil and gas complex, but belongs to the budget from the beginning. This system construction must be the goal of the current debate and struggle between the sovereign and comprador positions.

In January 2015 the Russian Government adopted an anti-crisis program, also called the anti-crisis plan. Of course, the list of proposed measures is not yet a plan. Rather it is a set of declarations and promises of financial investments, primarily in the same oligarchic-comprador banking sector, which deals with the withdrawal of money capital abroad. The main flaw of the government program consists not in the fact that little money is allocated to combat the crisis, but in the fact that its authors do not take into consideration what kind of crisis we are dealing with now.

The point is not what growth rate our economy is demonstrating now, but that the government expects economic growth from the raw-materials exporting model that is completely useless. Now it does not matter whether the prices of commodity exports are high or low. The specific feature of recent years speaks for itself: the raw-materials exporting model is unable to provide even the nominal growth of the budget and the economy, regardless of the level of prices for oil and gas. Oil prices can fall or rise – it does not matter

for the raw-materials exporting model. It has failed completely; it is high time to renounce it. It is useless to demand growth from this model. Indeed, it is pointless: first, to demand to revive what is already dead; second, to waste time; third, to proceed from the comprador utopia that the exporting model can be retained for another 10 years.

This approach is absolutely wrong, because it is useless to expect growth rate from the raw-materials exporting model. But the most interesting thing is that there is no need to wait, because it will still be a fictitious growth.

It is known that the 2000–2008 period is figuratively called the “fat years”, because supposedly the most impressive growth rates of the economy were achieved in this period. This view is represented, for example, by A.L. Kudrin and E.T. Gurvich in their joint article¹. The authors call the specified period “impressive”, referring to the fact that Russia’s GDP has increased in 7 times in dollar equivalent. But their enthusiastic assessment is groundless. In fact, is it the purchasing power of people that has increased in 7 times? The real value of the purchasing power of workers does not make them 7 times richer in 2008 compared to 2000.

True, in dollar terms, Russia’s GDP has indeed grown in 6.95–7 times – these are the official data. However, the sevenfold increase in dollar terms reflects nothing

but the mad inflation of the petrodollar. If we exclude it, we will get the real dynamics of the aggregate purchasing power: it has really grown, but not in 7 times, but only in 1.5 times. Taken apart from the petrodollar inflation, the illusion of the “impressive” growth in 2000–2008 vanishes into thin air.

Currently, in fact, there is a system of two dollars. The first dollar is the one that is in the internal circulation in the USA, in fact, it is by 99% a non-cash dollar circulating through electronic transactions. Its purchasing power is held very tightly. The maximum annual inflation rate in the U.S. is 2.2%. And in recent years the greatest fear of the U.S. Federal Reserve System is the reverse process of deflation.

The second dollar is external, aimed for export, for the rest of the world. Primarily, it is the petrodollar. The U.S. does not support its purchasing power, because the petrodollar deals with the resources of the rest of the world, and not American.

So, in terms of the internal dollar, the purchasing power is supported by the American goods. The purchasing power of the petrodollar is provided by oil, other raw materials and resources of the rest of the world, including Russia. the U.S. is not at all responsible for the purchasing power of the petrodollar, the country simply does not provide the petrodollar with its goods. The most important thing, with the help of which the U.S. forces the world to use the petrodollar, is the seizure of oil-producing provinces around the world, the control of maritime communications and tanker fleet, setting up puppet regimes in

¹ Kudrin A., Gurvich E. Novaya model’ rosta dlya rossiiskoi ekonomiki [New Growth Model for the Russian Economy]. *Voprosy ekonomiki* [Economic Issues], 2014, no. 12.

oil-producing countries or countries rich in resources. Recent examples are the overthrow of the regimes in Iraq, Libya and Ukraine that the U.S. considered undesirable.

All the planet's regions rich in oil are now subject to American control or involved in the struggle for American control. As for our oil provinces, the United States also has strategic plans of putting them under its direct political, economic or currency and monetary control. When people talk about the sevenfold growth of Russia's GDP in dollar terms, they actually mean the petrodollar expression and see nothing but the outcome of the import of the petrodollar inflation.

Here is another important difference between the internal and external dollar. The internal dollar has the deflator index, while the external dollar has no deflator index. It is impossible to bring GDP, expressed in dollars, to the comparable dollar volume, because there is no appropriate deflator index. It turns out that the country that has a raw-materials exporting economy is not able even to calculate the real dynamics of its petrodollar purchasing power.

Of course, there exists the method of analytical calculation. It is no accident that we name the value of real GDP growth in Russia in 2000–2008 years. It is assessed with the application of a proven Soviet method of calculation using the balance of the national economy. It serves as the most accurate algorithm and the calculations show that the real purchasing power of the population, budget and enterprises increased by not more than 1.5 times.

Certainly, we cannot speak about any impressive period, because the 1.5-fold increase is still below the twofold increase, which was discussed in 2003. But the most important thing that the real purchasing power of the society is still two times lower compared to the Soviet, pre-reform level. So far the post-Soviet capacity of the domestic market is two times lower than its capacity during the Soviet era.

From the viewpoint of fundamental factors everything is natural. In the Soviet period the capacity of the all-Union market was filled with domestic goods: planes, trains, TV-sets and machinery.

Now, unfortunately, the country has to fill its domestic market without its own goods, as in the case of airplanes and high speed trains, only on the basis of extraction of raw materials, according to the scheme: raw materials in exchange for food and equipment.

Can the domestic market under de-industrialization be larger and be filled with more goods than in the Soviet period, when industry was working at full power? Of course, it cannot. In the context of de-industrialization we just cannot rely on the ability to restore the Soviet level of saturation of the domestic market with goods, not to mention the Soviet quality of the food and industrial products.

Moreover, in the currency and monetary terms, the raw-materials exporting model guarantees a typical zero-sum game for Russia, even if we divert our attention away from the import of inflation and a huge outflow of capital abroad. When we sell oil and gas at higher prices, then we buy more

expensive cars and food. If we perform a simple analysis for the period of 2000–2014 by multiplying the volumes of export and import by the index of export and import prices, we will get a zero balance. We export as much as we import.

Let us give a visual comparison. The question is: what is heavier in physical measurement: 1 kg of nails as of the year 2000 or 1 kg of cotton as of 2015. The question is purely rhetorical, since in both cases the weight is the same.

The situation is similar with the raw-materials exporting model: in terms of physical units neither the export of oil, nor the export of gas or metals and fertilizers has increased in 7 times. It is only the inflation of the petrodollar that has increased manifold. The more petrodollar are issued by the U.S. Federal Reserve System, the higher the price for oil and the higher the petrodollar-based Russia's GDP.

But as we make the deflation of macro-economic dynamics according to all the rules, the sevenfold growth rate turns into a complete fiction. Ultimately, Russia remains only without another portion of its national wealth, and becomes pure commodity lender to foreign multinational corporations and imports inflation in exchange.

Therefore, those who understand a simple scheme of a non-equivalent exchange of the real for the virtual and fictitious, advocate for the elimination of the raw-materials exporting model, for the transition from the comprador and unplanned to a sovereign and planned economic system. This position is logical and justified: the

crisis of the comprador system is overcome by the transition to a sovereign system, and the crisis of the unplanned economy – by establishing the planned one.

However, the administrative resource is, unfortunately, concentrated in the hands of a group of economists with the comprador ideology, who stand for the idea of reliance on foreign capital and assure that the West will help us. Now they have put forward a program for modernization of the raw-materials exporting model through privatization and tax maneuvers.

However, as we have already shown, to upgrade the raw-materials exporting model means the same as to upgrade the system-wide crisis in Russia. In the best case it will mean only a continuation of a zero-sum game.

It is absurd to call for the modernization of the raw-materials exporting model, because this very model is damaging and useless for Russia. Our country needs a neo-industrial model of development, with first-class high-tech industry for processing raw materials into finished products with high added value (and not only high profit). Russia needs an economic system that will provide the country with domestic machinery, aircraft, high-speed trains, TV sets, gadgets, payment and settlement systems, basic and applied science, high technology, computer workstations. The entire strategy aimed to “have everything our own” in the commanding heights of the economy is effected on the basis of new industrialization. From this follows the fundamental conclusion that our country now needs an economic system, designed

for the planned implementation of the new industrialization of the entire domestic economy.

§ 3. The essence of the new industrialization

It is appropriate to recall briefly what the new industrialization is. It represents the second phase of industrialization, understood as a process of substitution of labor-intensive production by science-intensive or machine-intensive production.

As we know, the essence of the first phase of industrialization was the electrification of industry, agriculture, transport, housing and utilities, and social infrastructure. The primary industrialization consists, therefore, in the electrification of productive forces.

The main objectives of electrification have been mostly achieved. But we note that it is not yet completed. A number of tasks, and very large ones, are still waiting for practical solution. They are: electrification of agricultural machinery, automotive, marine and river transport, aviation, etc. Therefore, it is too early to speak about the end of even the first phase of industrialization.

It was less known that industrialization has not one, but two phases, that industrialization does not end with the electrification of workplaces and continues with their computerization and automation, up to the formation of a unified automated system of productive machines, which are mutually integrated with microprocessor-based or digital technologies.

Both phases of industrialization – the first and the second – are logically linked to one another, because there is a simple but inexorable law of their connection: you can automate only that what has been previously electrified.

Thus, neo-industrialization means the creation of computerized and automated productive forces, linked into a single automated system of machine production and distribution of material and social goods.

If the basic product of electrification is kilowatt-hour, then the basic product of neo-industrialization is a microprocessor. Accordingly, the readiness of a particular country to a neo-industrial stage of development is determined by the presence of the domestic production of microprocessors and microprocessor machinery. A country that has its own production of advanced microprocessors, is prepared to large-scale neo-industrialization in all respects: scientific-technological, technological, innovation, industrial, information, personnel, organizational and system-wide.

Therefore, various concepts of scientific and technological progress, innovation way of development, “knowledge economics”, “information society”, “new economy” or “digital society” represent only point, sometimes very superficial, sections of a neo-industrial reality, which is now emerging.

The proportion of automated workplaces, primarily in agriculture, industry, construction and power generation can serve as a simplified, but specific quantitative indicator of neo-industrialization progress. The proportion of these workplaces in the

most advanced industrial countries varies from 12 to 24% of their total number in the relevant sectors. This means that the most developed countries of the planet have indeed entered a stage of large-scale neo-industrialization.

Russia should launch large-scale neo-industrialization as quickly as possible. In other words – to form a technetronic, highly automated, fully “digitized” science-intensive production method that allows us with minimal manpower and resources to meet existing financial, social and environmental needs of people, while working in accordance with the principles of minimization of human presence, waste-free technology, resources recycling and restoration of the environment.

In addition to Russia’s lagging behind in the neo-industrial development, the situation in the Russian economy is complicated by deindustrialization.

Deindustrialization in Russia has its reason, which lies in the disintegration of the mining and manufacturing industry. In turn, their disintegration is supported by the export-commodity economic system based on the rule of oligarchic property in the resource and infrastructure sector of the national economy.

Of course, there are no alternatives of neo-industrialization. The neo-industrial stage of development is equally necessary for Russia like the stage of electrification.

And, of course, it is not about the formal or verbal acknowledgement of the need for a new industrialization. It is important to develop and practically implement specific government solutions, adequate to

the requirements and prospects of neo-industrial development.

One of the prime and fundamental requirements has already been named: it is the organization of the automated production of advanced microprocessors and microprocessor devices. From the viewpoint of a neo-industrial perspective, the organization of such production is a priority in every sense of the word.

Let us note another, target priority of neo-industrial development – labor saving. Computerization and automation of workplaces entail the increase of human potential (the share of highly skilled, expensive labor force engaged predominantly in intellectual work) and labor productivity; after that labor saving increases proportionately, due to which working time reduces (in France, Germany, Switzerland, Nordic countries – to 35 hours per week or less) and leisure time increases.

The more highly qualified, more productive and more expensive labor force, the greater the incentive to replace labor-intensive production by capital-intensive, i.e., the greater the interest in neo-industrial progress. Then the production becomes a sphere that attracts science, research and development, innovation and long-term scientific and technological programs, rather than repulses all this. Thus, the process of neo-industrialization, focused on labor saving, can involve the potential of its expanded reproduction by becoming self-reproducing.

The right choice of target priorities in the reproduction aspect is crucial for economic policy. Now, for example, energy efficiency

is called one of the priorities. But can it be achieved in isolation from labor saving and without neo-industrialization? It cannot.

The high energy intensity of Russia's GDP is due to two factors: too high domestic energy prices and deindustrialization, because of which there is too little industrial value added per unit cost of raw materials and fuel.

§ 4. Economic system for the new industrialization

The practical implementation of a new and science-intensive industrialization of Russia is possible only on the basis of a new economic system, sovereign and planning-regulated.

The new industrialization will not happen on its own. It requires the recovery of all the commanding heights of the economy in the sovereign ownership, the vertically integrated form of organization of our national economy and planned methods of concentration of human, material and financial resources in the priority directions of development. Only if such system conditions and prerequisites are established, the domestic economy will rise, develop and grow.

We present the formula of the real economic growth that is achievable only on the basis of the neo-industrial economic model:

$$E = (Y_{t+1}/i - Y_t)/K_t; \quad A = K_t/Y_t; \quad (1)$$

$$g = 100\% \times (Y_{t+1}/i - Y_t)/K_t \times K_t/Y_t; \quad (2)$$

$$g = 100\% \times E \times A \quad (\text{in comparable prices}), \quad (3)$$

where:

E – efficiency of capital investments;

g – economic growth rate;

A – share of accumulation;

i – inflation level;

Y_{t+1} – GDP in current prices;

Y_t – GDP of the previous year;

K_t – accumulation fund.

According to the above ratios, economic growth rate is directly proportional to the efficiency of capital investments and to the share of accumulation, and inversely proportional to the deflator index. The first part of the formal record means that the difference between GDP in current prices, adjusted by the deflator index, and the GDP of the previous period divided by the value of the accumulation fund, expresses the efficiency of capital investments. Accordingly, the proportion of capital investments in GDP means the share of accumulation. In the final record, which is the shortest, the values are taken in comparable prices; that is why the formula for economic growth is reduced to the efficiency of capital investment multiplied by the share of accumulation. Here we see the internal and fundamental parameters that should be an object of planning control and management.

Let us substitute the actual values of the parameters in this formula: the efficiency of capital investments – 2.5% per year at the inflation of 7%, the share of accumulation – 20%; with inflation being 16% the efficiency of accumulation becomes negative and is equal to -3%. Taking into consideration these

values, the real range of macroeconomic dynamics is from 0.5 to -0.6% per year, i.e. within arithmetic zero. This is the true efficiency of the comprador economic system from the viewpoint of economic growth.

There is another aspect connected with the fact that inflation exceeds the efficiency of capital investments. Let us take a domestic investor who invests 100 rubles and receives 2.5% in the form of investment yield, while inflation is 16%. What is his real income? It is negative and is equal to -13.5% as calculated per 100 rubles. At the same time, the deposit rate abroad is 1–2%. It seems a very low percentage. But let us compare it to our terms and ask a question, what is better: to lose 13.5% in Russia or to gain 1–2% abroad? What would a domestic investor prefer? Undoubtedly, the withdrawal of his funds abroad. This option will be the main one under the comprador economic system that allows neither for any regulation of cross-border movement of capital, nor for the planning and regulatory mechanism to reduce production costs or eliminate de-industrialization.

We present only one elementary calculation, but it shows quite clearly why the amount of capital investment in our economy is reducing. Needless to say that without investment there is no development and no future. Russia's GDP under the current system conditions tends to decrease, because the comprador economic system does not include methods of planned impact on key driving forces of economic growth, which are the efficiency of capital investments and the share of total accumulation.

In addition, the target function is also inadequate. Indeed, what should a new, sovereign and planned economic system maximize? Let us take GDP or final demand, from the point of view of its most important internal parts. There are three of them: wages, or the interest of the employee; profit, or the interest of the owner; and the state budget, or the interest of the total, social capital.

$$Y = v + s + f, \quad (4)$$

where

v – wages;

s – profit;

f – state budget.

What element of the three does the economic system need to maximize: profit, wages or budget? In order to answer this question, it is necessary to analyze system-wide impact taking into account the maximization of each of these elements. Then some very interesting features can be found. In particular, the maximization of profit in the Russian conditions means the minimization of wages and budget. The “output” is a rich oligarch, a poor worker and an impoverished state.

$$[AX + (s \rightarrow_{max})] + (v + g) \rightarrow_{min}, \quad (5)$$

where

AX – intermediate output;

s – profit (derived from intermediate production, and not from final production, as is the case with vertical integration);

v – wages;

g – state budget.

Let us now return to the current geopolitical status of the country. The question is, does the situation when the workers and the state are poor suit our political and geopolitical tasks? No, it does not.

Therefore, any economic system that aims to maximize profit, deliberately contradicts the challenges that the country is facing. Meanwhile, the principle of maximum profit with its marginal efficiency of capital is the main dogma and the sacred cow “economics”. All the suggestions of comprador ideologists proceed from the fact that we need to work for profit. But then who will work for wages and for the state budget? They offer us to leave a wide target function of the economic system subordinate to a narrow and comprador function, i.e. private profit. Actually, the formula of the economic system adequate to our economic and geopolitical challenges is quite different:

$$AX + [(v + f)_{\rightarrow \max}] + (s_{\rightarrow \min}), \quad (6)$$

where

AX – intermediate output;

v – wages;

f – state budget;

s – profit.

According to this formula, the domestic economic system should be radically restructured and adjusted to the maximization of wages and the state budget while minimizing private profit. In fact, this is how it is possible to overcome the systemic crisis. It can be done only with the use of a radically new, sovereign and planned-regulated economic system.

The system transition that we describe and that is objectively required once again is at odds with the doctrines and postulates of the ideology of the free market, because, it turns out that it is high-paid labor rather than cheap labor that is the competitive advantage in the framework of the neo-industrial economic model. The priorities are high wages, a strong and rich state that is able to control the efficiency of capital investments and the share of domestic savings.

The paradigm of the new industrialization in the system aspect implies a revolution in our views. A specially organized economic system with new organizational forms and methods of planned management is the one that is suitable for the new industrialization. A vertically integrated form of organization of the national economy becomes the leading form. It makes it possible to establish the economy of its diversified corporations, with no less degree of centralization and concentration of industrial capital, than in the largest foreign multinational corporations.

So, the system alternatives are clear: either a disintegrated “economy of demand”, or a disintegrated “economy of supply” or an integrated economy of its diversified corporations, that is, vertically integrated chains of value added. “Economy of demand” means a raw-materials exporting model with the government support of aggregate demand. But today it is impossible to maintain such option even if we wanted to, because the raw-materials exporting model has ceased to replenish the state budget. Since 2013, the demand has to be supported by spending gold and currency reserves, and

the rate of their depletion is such that they will be enough only for 44 weeks, less than a year.

In any case, the resource of the raw-materials exporting model is exhausted. As for “economy of supply”, it implies the elimination of state support of aggregate demand and the maximum deregulation presented under the guise of de-bureaucratization and another “liberalization”. In fact, “economy of supply” covered the call for a step backward to the chaos and lawlessness of the 1990s.

The comprador pseudo-liberals have a surprisingly asocial way of thinking: they consider the raising of the retirement age to be an anti-crisis measure. It turns out that for Russia to overcome the crisis in the economy, it is imperative to increase the retirement age. The country needs neither investments nor organizational revolution to shift from disaster and anarchy to inter-sector interaction; it also does not need skilled labor, or automated workstations: it is sufficient to have elderly pensioners, when men retire at the age of 65, rather than at 60, and women – at the age of 60. How does the increase in the retirement age ensure the growth of labor productivity and reduce unemployment? They do not even think about that, as well as about the years that pensioners are left to live and about the quality of their life.

It is clear that such an awkward, anti-social and non-economic measure does not only solve, but also exacerbates the systemic crisis. However, this measure is advocated by the above-mentioned economists, who have the administrative resource. They are looking

in the wrong direction, they are actually on the wrong side of history. The real future of Russia is seen in a vertically integrated economic system, or integrated economy of diversified corporations.

In conclusion, let us once again return to the formula of the real economic growth. The deflator index is inversely proportional to the growth rate. What is the meaning of this correlation? The outcome is obvious. For the sake of the genuine economic recovery of Russia it is necessary to ensure that the purchasing power of the ruble remain stable for at least two five-year periods, to avoid the depreciation of the ruble, to make it an incentive for savings, accumulation and earning for a minimum term of 10 years.

It is just a fantastic requirement for a comprador economic system. And when pseudo-liberals talk about the free market, which is supposedly small, then they become as absurd as the Native Americans with their wild notions that glass beads are more expensive than first-class gold. What kind of commodity-money circulation can we talk about, when the purchasing power of the ruble as a medium of exchange, annually falls by 20–30%? Since the early 1990s there has been no basic payment incentive to accumulate and earn money; now there is only one incentive for the majority of people, and it is to get the ruble and immediately spend it in order to avoid inflation losses. And pseudo-liberals, who cannot ensure the stability of the purchasing power of the ruble for at least 10 years, even dare to argue about the market. We will not mention the well-known classical notions that the market is

expanding only along with with the division of labor, that the industrial production of tools, machinery and equipment is the most important in the division of labor, and the comprador economic system has eliminated this link, having ruined its own manufacturing industry and the production of machine means of production, i.e. group "A". As a result, the division of labor, the capacity of the domestic market, and the purchasing power of the ruble are cut off.

History has never known such a fact that the transition to the market was implemented through the elimination of commodity production and national currency. In our opinion, it is high time to end all speculations concerning the market and free competition.

The system-wide crisis in Russia requires a change of economic system: instead of a comprador and unplanned system we need a sovereign and planned system. It is the only way to get a neo-industrial economic model that ensures the success of the new industrialization of our national economy. And we must act quickly, because time is ticking away.

Accordingly, the main strategic priority is to replace the oligarchic-comprador and decentralized economic system by the state-corporate and centralized and planned system. In order to implement this cardinal system modernization it is necessary to do the following specific activities:

- nationalization of commanding heights of the economy: land, fuel and energy and mining complex, infrastructure monopolies, foreign trade, banking sphere;

- vertical integration of ownership of mining and manufacturing industries and applied science within the national inter-industry corporations, specialized in the production of innovative and high technology products of final demand;

- formation of a powerful state and corporate sector as the core of the entire Russian economy;

- creation of a new system of national and corporate planning, the target function is the productivity of labor, and which provides coordinated interaction between the state, vertically integrated corporations, and small and medium enterprises for the continuous improvement of the purchasing power of the population, primarily of the working population;

- organization of the financial-banking system based on national plans for domestic accumulation, capital investments and providing loans to industry as well as export-import plan;

- integration of production relations between corporations and enterprises on the principle of the system "just in time";

- transition to the system of wage management and labor productivity on an hourly basis, with reference to the hourly rate of the subsistence minimum, pensions, scholarships, social benefits and payments; the hourly system will connect labor remuneration with the results and labor productivity, and will ultimately enhance the interest of the state and workers in efficient work, encourage them according to the results, rather than costs;

- computerization of payments and settlements, with consequent reduction of

the share of cash circulation; this will make it possible to adjust the measure of labor and consumption, to use progressive taxation, to limit the scope of corruption among civil servants, to raise the level of social justice in society;

- standardization of production capacities, products and technologies, from the products of consumer demand, primarily food products; the abolition of the state standard for consumer products was a strategic mistake, resulting in a dramatically increased mortality due to mass consumption of counterfeits, surrogates, expired, defective and unhealthy food; as long as there are no strict standards, it is necessary to restore the Soviet system of state standards on food and other consumer goods without delay;

- development and implementation of the national plan for neo-industrialization of Russia's productive forces, so that our country would have its own production of critically important high technology, beginning with the production of advanced microprocessors and technetronic engines; it is only the smoothly functioning production of technetronic means of production, and a high-tech automated machine-building complex that will allow our country to achieve technological independence.

We have listed specific measures that are entirely consistent with the strategic priorities of Russia's neo-industrial development.

A state-corporate economic system instead of a comprador economic system; a planned-industrial policy instead of

monetarism; a neo-industrial and vertically integrated model instead of an exporting model – this is how it should be.

Our country has reached a turning point. And the problem is not that the country is in a systemic crisis; the problem is how to set Russia on the right path of development, on the path that ensures the increase of Russia's economic potential, its military and industrial power and makes it work for itself and not for foreign capital. What has to be done and how, what economic system should be the basis – all this has been scientifically substantiated and defined. But the system-wide change is not made easily.

Accordingly, it is necessary for our society to understand, consolidate and support the sovereign and planned economic system. We can find the right way only if the majority acts together. If only one person goes along the right way, then it will result in the increasing split in the society. Meanwhile, we need social consolidation, and it involves a clear understanding of who is pushing the country forward, and who is pulling it back under the guise of progress, and also in whose interests the ideas and suggestions work.

It is only the neo-industrial development that can lead Russia forward, to the progress, but it is possible to go this way only through the sovereign ownership of the commanding heights of the economy. Based on them, our people survived and won the Great Patriotic War; based on them, we will surely reach new achievements and victories in the modern world.