CHAPTER III

ECONOMIC TRANSFORMATION AND PROSPECTS

"The new economic strategy of development for the erstwhile USSR proclaimed by M. Gorbachev in April 1985 at the Plenary meeting of the Central Committee of the Communist Party of the Soviet Union" (CPSU)\(^1\), is summed up in the new political concepts of "uskorenie" (acceleration), "perestroika" (restructuring) and "glasnost" (openness).

At the root of this new economic strategy lies the concept of uskorenie, the acceleration of social and economic development. This revolutionary strategy is in contrast to the tendency of zamedlenie, the slowing down of development of the last 15 years.

The term "acceleration" is used precisely in this sense by mathematicians to characterise the rate of growth. But here the meaning of "acceleration" has a different socio-economic sense, which includes not only quantitative but qualitative aspects. Moreover, "the qualitative side of the concept of acceleration is more important than the

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\(^1\) Gorbachev at the February 1988 plenum of the Central Committee of the CPSU, Press Release, Information Deptt. USSR Embassy in India, New Delhi.
quantitative because it includes the transition and a new quality of growth in the erstwhile "Soviet economy."  

In the renewal of economic life through accelerated growth, acceleration of socio-economic development embraces not only the sector of economics, but affects the whole of society. This does not mean a short-term campaign or an acceleration during just the next five years. This is a long-term strategy, not just until the end of the century but for at least the next 20-30 years. Thus the programme of the CPSU, the new wording of which was accepted at the 27th Congress, is directed at the whole of this era. Running through this programme is the concept of the acceleration of the long-term socio-economic development of the country.

"To guarantee advance in society as a whole, perestroika must be realised in the economy. This is a new term in political and economic practice. Formerly in the Soviet Union, the notion of "perfection" of the economy was current. Perestroika is somewhat juxtaposed to this. Perfection implies the improvement of individual aspects and elements of the economy. Here the premise is that the economic mechanism reflects overall the conditions and tasks of development and needs only to be directed,

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2 Aganbegyan, A.G. Perestroika V Economy, Moscow, 1988, p.52.
improved and perfected. This is, an evolutionary path of change.\textsuperscript{3}

Perestroika is different. It signifies profound qualitative changes. It is inevitable when existing economic conditions do not respond to new conditions, formed by the needs of the development of society and the demands of the future. Here it is necessary to change the economic system, to transform and renew it fundamentally. For this transformation, restructuring is necessary not only of individual aspects and elements but also of the whole economic system, all aspects and all elements together, in order to achieve a qualitative leap. The essence of the matter is that this is a revolutionary form of change in contrast to an evolutionary form. The term perestroika expresses a revolutionary qualitative transformation. This term is many-sided, synonymous in many ways with terms such as radical reform, major reconstructing, radical change, transition to new quality and a breakthrough.

Perestroika in a society affects everything and everyone. It is universal, many-sided and all-embracing. It is not only in the economy that profound reforms are being undertaken. Political system, ideology, party working and

\textsuperscript{3} Ibid.
the whole superstructure rooted in the economic base of society are undergoing tremendous changes. It is important that economic reform does not occur in isolation from other sectors of social life but strengthens the transformation of these sectors.

**TRANSITION TO INTENSIVE DEVELOPMENT**

In the past, to a considerable degree the economic growth occurred through significant increases in the use of resources. The Soviet Union was enormous, and rich in resources, and it was natural to develop through extending the involvement in production of the work-force, of fuel and raw materials, of capital investment and funds. If earlier it gained a quarter of all growth in production through quantitative growth, then in the 1986-90 period it was the first time in Soviet history that the increases in production had to be met by growth in the productivity of labour, for the numbers in these branches could not grow. In the 1990s the rate of growth of labour productivity exceeded the growth of production so that some of those involved in branches of production were freed and transferred to other branches providing services to the population. The future plans anticipate that in the 15-year period to the year 2000, with the intended doubling in the national income, the growth of productivity of social
labour in the national economy will be of the order of 2.3 to 2.5 times. This means that the number of workers in branches of production will substantially fall. "By way of comparison one can introduce the figures of 1981-85. During this period national income increased 1.8 times. As is evident we must, through accelerated growth of productivity, compensate for the fall in the number of workers and besides this, ensure a rising rate of growth of national income. In this way a trebling of the growth in productivity is anticipated. This would be unprecedented in the erstwhile Soviet history."  

In the 1986-90 period, two thirds of additional needs were being covered by better use of resources. In the 1990s, this proportion was be getting up to 75%-80%. Thus the growth in extraction will decline in the future. This is worldwide tendency and was also characteristic of the Soviet Union. Here too "one must transfer from the extensive path of unrestrained increase in the size of fuel and raw material requirements to a more intensive use of resources and more effective economies." 

Besides this, the mobilisation of organisational, economic and social reserves is very important for obtaining efficiency in the use of the new technology.

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4 Aganbegyan, A.G., Sovetskaia Economika, Moscow, 1988, pp.31-32.
Indeed the new technology requires that people take greater interest in its use and at higher levels of organisation and management. Often this technology is more expensive and can give results only when it is fully and intensively used by qualified personnel.

Technological progress is many-sided. It includes an evolutionary process in the perfection of technology as well as revolutionary, generational changes in technology i.e. in the transition to totally new technological systems. In the last fifteen to twenty years in the erstwhile Soviet Union, the evolutionary way of technological progress prevailed. Progress was sluggish and poorly reflected in the growth of efficiency in the economy. Existing technology was being renewed slowly, old systems were retained, equipments became obsolete and as a consequence, efficiency and growth rates declined. "The renewal of machinery and equipment and of the whole capital stock of actual enterprises was only taking place at a rate of 2% to 3% per year." 6

The idea of acceleration of the socio-economic development of the country requires a qualitatively different approach. "As an example, in the Soviet machine

5 Ibid., p.312.
6 Aganbegyan, A.G. V. Pervom Eshelone, Perestroika - A New Perspective, 1989, p.34.
building sector in the 1981-85 period only 9% of all, equipment was renewed while in 1986-90, 40% changed. This meant a rise in annual rate of planned renewal for the range of machinery produced from 3.1% in 1985 to 13% in 1990. If, moreover, in 1985 only 29% of machine building production has been up to best international standards, in 1990, with this high rate of planned renewal and with the introduction of a whole new generation of technology, it arrived at a figure of 80%-90% being up to worldwide standards."

This required a major redistribution of capital investment and other resources into machine building and the guarantee of the priority development of this branch. Whereas in the 1981-85 period the volume of capital invested in machine building grew by a total of 24%, in the 1986-90 period the plan was to ensure a growth of 80%. These new approaches are being realised through the new structure of investment proposed. "The proportion of capital investment directed at the technical reconstruction and renewal of existing capacity has been raised sharply and the share for the construction of new enterprises reduced. Earlier, only a little over one third of capital investment went into technical reconstruction. "In the

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1986-90 period more than half of all capital investment was earmarked for this. Correspondingly, the structure of capital investment in production is changing, and the proportion accounted for by equipment and machines within it is substantially rising. The volume of construction work is falling. 

STRENGTHENING SOCIAL PROVISION

In the erstwhile Soviet Union, a big gap existed between industrial power, science, culture and the educational level of the population on the one hand and the level of satisfaction of the material and social needs of the population on the other. In the beginning this situation was associated primarily with difficult history and the destruction brought during the First World War and the Civil War. It was necessary to rebuild the economy. The country was backward, agrarian, and without advanced heavy and armament industries. In conditions of imperialist encirclement and of political pressure one had, in the shortest time possible, to undertake the country's industrialisation and create a modern industry.

In the last fifteen years, as an aspect of the negative processes the fall in the rate of growth and in economic efficiency has been especially painfully reflected

8 Ibid., p.12.
in the inability to resolve social problems. Resources were allocated to the social sector according to the so-called "residual principle whereby capital investment was firstly directed towards industrial goals while housing, the raising of living standards and other improvements in people's lives only received what remained".  

The development of agriculture, food and light industry has seriously fallen behind and the service sector has not developed. Provision of housing has been poor. Pensions, introduced in 1956, were progressive for their time, but through 30 years they have hardly changed, causing an acute problem. In so far as old equipment has basically been retained, industrial renewal has proceeded at a slow rate and has not been comprehensive. Working conditions have barely changed, and the number of manual workers remains almost static. "Half of all workers, including collective farm workers, must still be classified as manual workers, and there is still a significant proportion of unskilled labourers." The ageing economic system of administrative 'commands from above' aggravated this unbalanced development, neglecting the social sector, 

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and exacerbating the gap between consumer demand and supply.

The stagnation of the economy in the 1981-85 period and the economic crisis implicit were accompanied by a growth in such anti-social processes, speculation, bribery, and the use of one's position for personal ends. The phenomena of stagnation and apathy, consequences of the negative tendencies of development, led to the loss of interest in work among part of the population and reinforced negative attitudes to public property. Even worse, a tendency to hoard and be greedy developed. Social justice was systematically violated. Plans to boost welfare were not fulfilled while hidden price increases occurred. The tendency towards levelling out of differentials and arbitrariness in establishing their scale together with privileges for certain categories of workers did enormous harm. "Widespread drunkenness undermined the healthy population and this is one of the reasons that life expectancy in the USSR has failed to rise in the last 20 years and that the death rate for males of active age has actually worsened."\(^{11}\)

The new economic and social policy of the party has given top priority to overcoming these unfavourable social

phenomena. The whole social sector and the welfare sector of the people have to be brought into line with the industrial achievements of the country and the actual needs of society. From the enumeration of negative processes and phenomena it is evident that a great deal remains to be done.

**RADICAL REFORM OF MANAGEMENT**

This element of *perestroika* in economic life is the determining one. The existing system of economic management does not correspond to new conditions or to the goal of the acceleration of social-economic development. Indeed the existing system of management is out of date and acts as a brake on the development of the economy.

All other efforts to transform the economy are now coming up against the absence of solution to the problems of management in the working of the economic mechanism. At present this mechanism encourages extensive and impedes intensive development. It further complicates the problem by making scientific and technological progress unprofitable and failing to guarantee advantage to those who raise the quality of production. It encourages new construction but makes work on technical reconstruction unprofitable. This system hoards the depreciation funds, perpetuates the output of old products, and does not push
enterprises to renew their funds and products. It hinders perestroika.

The existing system of economic management, based on the command system, represses democracy, initiative and the creativity of workers and does not encourage the potential for work or social activity. It does not make workers interested in the final product of their labour. The unjustifiable levelling of wages, the shortages, the gap between supply and demand for individuals and society, the residual principle in the allocation of resources for the development of the social sector - these are all products of the old economic system.

The essence of this perestroika lies on the transition from administrative to economic methods of management. For this the basic element in production is the transfer of associations and enterprises to full economic accountability, self-financing and self-management. "The dynamic development is economic democracy, the workers being widely involved in management, and now able to elect their own economic managers."

Transition to economic methods greatly increases the role of prices, finance and credit and enhances motivation and incentives to work. Therefore, the immediate task of

perestroika of management is the fundamental reform of the pricing system and the financial credit system. This will create the "preconditions for a broad and universal transition from centralised allocation of funds for the supply of goods to numerous options for trade between units of production. Simultaneously, a direct relation is established between the size of the enterprise wage fund together with its material incentive fund and the end results of the workers labour."\(^{13}\)

Changes in the structure of rates and wages are taking place. "A broad transition is occurring towards collective forms of organisation and work incentives."\(^{14}\) Work collectives have received the right to determine wages.

It further requires radical change in the central system of planning and management. Instead of detailed directive of tasks, planning is being concentrated on the "establishment of norms of economic proportions with economic incentives,"\(^{15}\) while a system is being developed for consumers to order products from producers. Among these consumers will be state organisations, placing state orders.

\(^{13}\) Abalkin, L.I., Perestroika, Moscow, 1988, p.11.
\(^{15}\) Ibid., p.35.
All these ideas and measures for radical reform characterise a universal, fundamental transformation of the system of management, a perestroika of all component parts of the economic system. "This perestroika was undertaken mainly in the next two to three years, so that by the 1991-95 period the country had entered a new and interlocking system of management."16

GLASNOST, DEMOCRACY AND SELF-MANAGEMENT

Democratisation of the whole of society including the development of glasnost is an important aspect of perestroika. As it applies to the economy, "debate is proceeding on an increased role for workers collectives in the resolution of economic question, and in the transition to self-management."17 In the Law on Socialist Enterprises, workers collectives have been granted extensive rights in framing the plans of economic development for their enterprise, deciding on the way incentives should be offered, on work conditions and salaries, and the social development of their collectives.

Of particular significance is the right of workers collectives to choose their economic leaders, at enterprise


and association level. Earlier, under the administrative system, directives on the conduct of the plan, even the smallest dairies, were handed down from above. Now, with full economic independence and self accounting, the welfare of the collectives depends above all on work organisation and levels of productivity.

Perestroika is a difficult and painful process. Its success is determined by the socio-political climate of the society in which it occurs. The most complex question concerns the perestroika of people's thinking and consciousness. For, the consequence of perestroika in thinking and consciousness defines the way they work towards the transformation of society. "An idea becomes a material force when it takes hold of society."\(^{18}\) The idea of perestroika must come to grip society for perestroika to move into gear. But how can this transition to a new way of thinking and an understanding of new tasks be assured? Here the media of mass information are of inestimable help. Glasnost, truth, criticism and self-criticism are the instruments that will effectively prepare for the new consciousness. Change in the sphere of ideology is thus the inspiration for perestroika of the economy and of other parts of society.

This is what is happening in Russia now. Enormous changes are apparent in publishing, television programmes, the activities of writers, film makers and theatre directors. Freedom of expression has been expanded. Ongoing changes are being analysed critically and past experiences are being assessed. All this is directed at working people. Everyone feels that it has become easier to breathe, and that the socio-psychological climate in the country is receptive to perestroika. Thus glasnost is working and encouraging reform of the economy.

THE FIRST STEPS

Most attention in this first stage has been directed towards the social factors affecting acceleration. It was necessary to convince working people of the need for perestroika. A great job has been done here and its results lie in the psychological preparedness of broad masses of the workers for perestroika. On the other hand, the challenge of discipline and order, accountability and initiative, the improvement of economic management and the change to experiment, to work with greater independence, have all positively affected the development. "In the preceding six to seven years up to 1985, the growth of industrial production in the country was on average between 3% and 4% a year. After the April Plenary it reached about
5%. This additional growth for industrial production was achieved due to the acceleration in the growth of productivity, the previous rate of 2%-3% having risen roughly to 4.5%. In the most recent period, for the first time, the whole growth of industrial production has been achieved through growth in productivity without any increase in the number of workers."^{19}

It has managed to overcome past difficulties. So while a pronounced shortage of fuel and energy resources was experienced in the previous two years the situation has corrected itself. "The fall in oil extraction has also been stopped (extraction fell from 616 million tonnes in 1983 to 595 million tonnes in 1985). The oil industry recently began to increase extraction and for the first time in many years fulfilled the plan: in 1986, 615 million tonnes were extracted. Steady growth continued in 1987."^{20} Despite the Chernobyl accident the supply of electricity to the economy remained constant.

Problems with metallurgy have also been corrected. Technological reconstruction work has begun to be carried out more intensively. "The volume of production has grown, above all of highly cost effective rolled steel and pipes.


^{20} Ibid., p.117.
Machine building is being restructured. In 1986 alone the volume of capital investment in the reconstruction of the machine industry increased by 30%, even though this has still not been reflected in the renewal of products of the machine-building industry.\(^{21}\) This is still not enough. Generally, perestroika in machine building is proceeding with difficulty. The changes in policy and the extension of state quality control have disturbed part of the machine building industry, and their work has slowed down. These are temporary difficulties connected with reorganisation.

As to the remaining branches of industry, those of light industry still work unsatisfactorily. "In 1986 their rate of growth was only 2% overall. It did not improve much in 1987."\(^{22}\) It should be taken into consideration, however, that light industry has been transferred to a new system of planning, whereby the enterprises' plans are now wholly determined by commercial orders. "Many enterprises have had to change their range of products in response to consumer demand. This has resulted in trade stocks not merely remaining constant, but actually declining. Overall, such a
low rate of growth in this sector negatively effected the
growth of commodity circulation."

Agriculture has developed better than other branches in the past two years, mainly as a consequence of changes, and of fundamental changes in the management system and economic organisation. "In 1986 the volume of agricultural production grew by more than 5% including a 1% increase in the private plot economy, and 7% in the state economy. All this has made 5% increase in the volume of production in the food industry possible, including an increase of meat and dairy products by 6.3% in 1986 compared with 1985. This enabled it to cut by half the imports of grain and meat from the West." 

Other branches of the economy have also started to work more successfully. Overall there has been a certain acceleration, but a turning point has not been reached. The fact is that there is yet no firm base for it in scientific and technological advance. "Stopgap measures alone are being undertaken in this field. And while there is no firm base, development is not permanent. Hard frosts in January and February 1987 immediately affected the growth rates. Growth came to a half during these months, and although

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agriculture increased production in the following months by between 4% and 5% overall for the first half of this year, the volume of production has increased by only 3.5%.”

As before, it is proving difficult to satisfy consumer demand with the sum of money available for purchases. The retail trade finds it difficult to guarantee a supply of goods. It has not been possible to improve the financial indicators of internal trade significantly either. Additional difficulties had arisen because in 1986, during the fall in the prices in the West of fuel and of the goods that were exported, the USSR’s external current trade balance fell by 7.9%. In the first six months of 1987 exports fell by a further 4%. These are now temporary difficulties, although it demonstrates in what difficult circumstances perestroika is being undertaken.

"Against all these difficulties and setbacks, perestroika is gathering force and now Russia is entering a new and crucial stage during which the large scale transition is being implemented in all branches of the economy in new economic conditions.”

25 Ibid., p. 31.
The "social perestroika" is also gathering force. The residual principle for the allocation of resources to social needs has been ended. This is particularly noticeable in housing construction. "In 1986 for the first time in a number of years 118.2 million square meters of living space were completed, 5.2 million more than in the previous year. Measures for the improvement of education and health care are being taken. The death rate fell from 10.6 to 9.7 per 1,000 people. Death by accident, poisoning and trauma fell especially sharply (by 22%). Persistent efforts by society to combat drunkenness have had some effect. In a word, work on perestroika continues, and there are changes for the better, but there has still not been a breakthrough."  

It is clear that Perestroika is revolutionary in character and that its full realisation will alter and renew the whole society. The economy will be qualitatively different. Above all, "a transition is envisaged from an economy of shortages, with power in the hands of producers rather than consumers, to an economy of social production, oriented to the satisfaction of social needs, working to

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the demands of the consumers and ending all shortages."^{29} It cannot have "an economy of shortages if from a socialist perspective efficiency is defined as the full satisfaction of social needs."^{30} Also the excessive power of the producer in condition of shortage in conditions, that is, where the consumer has no choice-leads to deformation of the structure of the economy and to the development of production by producers pursuing their own interests. As a result the economy of shortages produces many goods in excessive quantities.

"The problem is, however, not only one of excess production. Much more important is the fact that in circumstances of shortage the demand for quality falls."^{31} Producers who barely give a thought to consumer demand have articles turned out to suit their own convenience. Purchasers of machinery and other goods are often obliged to undertake additional work to adapt them to their needs, and a great deal of energy and resources are directed to this. Shortages are the outcome of an inappropriate economic system and not of any lack of resources or other means. "Indeed the country has resources of all types at its disposal, yet demand is not satisfied. One of the

^{29} Ibid., p.193.

important tasks for the radical reform of management of the whole economic system consists in ensuring the subordination of production to consumer demands. This will lead to the most fundamental changes in the structure of production and the quality of product". 32 It will be necessary to cut down production of certain types of goods, and in contrast, to increase the production of others. Overall this will lead to a considerable increase in efficiency, and to a fuller satisfaction of social needs.

Among social needs, the satisfaction of people's consumer demands is of special importance. Until recently the economy was oriented towards production. Everything connected to the development of production was accorded priority status. Resources for the social sector were allocated in such a way as to protect the development of production. This also distorted the structure of the economy. A gap formed between the level of industrial development in the country and the degree of satisfaction of people's social needs. Today this gap is being closed. "We need to transfer from a resource-producing economy towards a social economy, to an economy for the individual

31 Abalkin, L., "Restructuring the economy", vol.32, no.8, pp.7-18.
with priority development of the whole welfare service and social sector." 33

Another task, closely related to the first, is the "transition from a predominantly extensive economy to a highly intensive economy in which the main factors of economic development are increased efficiency and quality." 34 For this a breakthrough has to be achieved in the use of resource and in the transition from a wasteful economy to a resource saving economy. The main path of intensive development is via "scientific technology progress." 35 Here a transition is required form evolutionary scientific-technological revolution. Thanks to the intensive development of technology, the economy will gain flexibility and adaptability to changing conditions.

A very important goal is the effective inclusion of Russia into the international division of labour. Russia's share in international trade does not correspond to its economic might. The structure of its exports appears undeveloped, it is dominant by fuel and raw materials. There is an irrational import structure where a large share is made up of foodstuffs and metals, while the major share

consists of machines and equipment. However, many of the machines purchased are serial products, which could be produced internally. "It is envisaged that the erstwhile Soviet Union should move from this position to a more open economy." The development of international exchanges should accelerate faster than the growth of production.

"We are against autarky and for equality and mutual benefit in the development of international economic exchanges. Two goals relate to this. First of all, external economic exchange can be used as an additional lever to increase efficiency in Soviet economic development. Secondly, the development of economic cooperation between countries strengthens mutual trust and facilitates the efforts of peace." To implement fully the enormous plans of acceleration of socio-economic development in the former USSR, involving the wholesale renewal of its economy, naturally needs peace. Disarmament, if it occurs, will free additional resources to accelerate domestic changes and, above all, ensure growth in the living standards of the erstwhile Soviet now Russian people. At the same time, the leaders have insisted that "part of the economic resources

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36 Andie, V., "Beyond the administrative system", Detente, no. 12, pp. 16-23.
released by disarmament to be used for assistance to underdeveloped countries."\(^{38}\)

In the end it is moving from a command economy with mainly administrative methods of management, towards a democratic, independent, self-managing economy, to an economy in whose management the broad masses of working people are actively participating. All this will fundamentally change the look of economic system. The advantages of socialism within the economy will become apparent. The need for a highly efficient economy to reach the highest productivity levels in the world, to be at the forefront in technology and quality of production and at the same time to avoid unemployment, it is a must to preserve the short working day and strengthen the social achievements of working people all on a broad democratic foundation.

"Its goals cannot be achieved in the short term. The largest leap was made in the period up to the year 2000. By this time the material-technical base of its society got renewed. The scientific technological revolution has unfolded widely in the country and, using its achievements

it should advance to the foremost position in the world.”

But the backwardness compared to the most developed countries in the world is too great to be overcome before the end of the first decade of the 21st century.

“Major efforts will have to be made to improve the quality of products and their competitiveness. By the year 2000 differences between Russia and other countries has been largely eliminated.”

Increases in labour productivity and other indicators of effectiveness and quality of products will create a material basis for an end to the wide differences which currently exist in Russia in levels of real income, food and consumer goods, housing health provision and many other aspects of the standard of living. In a few years however it is hardly possible for Russia to reach the highest standards of living in the world. This will be especially difficult to achieve in the service sector, which is extremely underdeveloped, and also in the housing sector of the economy. But it is clear that with the high rates of growth planned, the gap will rapidly close and it will come near to the indicators of the most advanced countries. All this will secure a higher standard of living, together with the social achievements of socialism.

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Talking of perestroika and mentioning its difficulties and especially its inspiration raises the following obvious questions: Where are the guarantees that all this will happen? Is perestroika real and lasting? On these questions many critics refer to the previous efforts to restructure the economy in the mid-1950s and to undertake economic reforms in the mid-1950s and in the mid-1960s which ultimately failed and were abandoned. Will this perestroika not end in the same way? These questions are reasonable and the answers are difficult. It is not easy to see into the future and to be absolutely certain. But it appears that this perestroika will be successfully completed. Serious arguments for it can be put forward. Above all, one can undertake to complete an important task when that task has become a necessity, much overdue, like this perestroika. "It is not an invention of the leadership, nor a subjective wish of a group of individuals, but a real need for development. This perestroika has been prepared by the whole course of previous history." 41

But such an answer is of course too general and will satisfy no one. Therefore other arguments for an optimistic viewpoint need a thorough analysis.

FIRST ARGUMENT

A litmus test of real efforts towards perestroika lies in attitudes to the past. "If one really wishes to undertaken a restructuring, then one must critically assess the past and extract lessons for the future from it. This is never easy. Criticising the past is, in effect, being critical of oneself. On the other hand, when one makes criticisms of the past, feelings inevitably arise that all the failures are the responsibility of one's predecessors and this is not really in order. For in the past, not only bad but also good things happened and when one criticised the past, a sense of inner protest arises in some people." 42

Yet one cannot help it, one can only move confidently into the future taking one's past into account. In this respect this is very special period in the erstwhile Soviet Union. The past 10-15 years have been characterised by serious negative tendencies and it is not easy to face up to this. Of prime importance is the fact that for the first time in the "CPSU Programme" reasons have been shown for the negative tendencies of the 1970s. It might seem out of place in a Party Programme, a document that looks to the future. But the criticisms were included in order to clear
the way forward. Criticism of the past, extracting both positive and negative lessons, are signs of a desire to leave behind the failures of the past, to avoid repetitions of past mistakes and to complete perestroika.

SECOND ARGUMENT

At the April 1985 Plenary Meeting of the Central Committee the idea of acceleration of Soviet socio-economic development was voiced for the first time and the need for perestroika discussed. At the June 1985 meeting on the question of accelerating scientific-technological progress, positions taken in the April meeting were considerably developed. Here a new scientific, technological, investment directed and structural policy for the current stage was established, as a starting point for a reworking of the 1986-90 period. Suggestions for the perestroika of management were made in greater details.

The most important next landmark was the XXVII Party Congress which developed and approved the broad ideas of perestroika. For the first time, questions of perestroika in the social sector were specifically posed; the analysis of perestroika’s direction and route and the methods to implement it were further considered. All this was recorded

in both the new CPSU Party Programme and in a document titled 'Main Direction of the Economic and Social Development of the USSR in the period 1986-90 and the Prospects up to the year 2000'.

The January 1987 plan introduced at the Central Committee Plenary Meeting was of great significance. It worked out in details questions on the development of democracy in Russian society. Fundamental reasons for the failure of past attempt at perestroika were uncovered. It was concluded that the attempts were not undertaken on a genuinely democratic basis and did not establish democracy as necessarily the most important phenomenon in the transition to self-management.

In June 1987 the Central Committee adopted a programme for the implementation of radical reforms in the whole system of management of the economy. It was declared that at the Plenary Meetings of the Central Committee the ideals for the period 1991-95 would be considered. This was the first five-year period when the new economic system was in place, and therefore the plan must be innovative. The burden of relating the structure of production directly fell to social needs. This was also a five-year period of major acceleration in scientific-technological progress, of broadening the intensive methods of production and securing
the production for high-quality goods. Work for this began in the period 1986-90. The 1991-95 period was to see the deepening and development of the general effort toward perestroika and the acceleration that goes with it.

The most important future step was the convocation of All Party Conference at the end of June 1998. Such an All-Union Party Conference had not taken place for almost fifty years, and return to this democratic form of Party forum is in itself significant. But even more important are two key issues on the agenda, consideration of which must give a powerful impulse to the basic direction of perestroika. One concerns the route of perestroika and the tasks involved in its development. The second concerns the democratisation of society and of the Party.

THIRD ARGUMENT

Critical analysis of previous reforms in the economy shows that they were not successful because they were not all-embracing. On the one hand the economy did not coincide with reforms in society and on the other hand in the economy itself, these reforms embraced only individual branches of sector(s). The overall system of economic management was based on the old principles. Therefore ultimately a relapse occurred with the old ways preserved.
These crushed the new methods and gave them no chance to develop.

What is important in this Perestroika is that it has an all-round character, it embraces the whole of social life, not just the economy. Perestroika is inspiring new economic thinking, and creating a new socio-psychological climate of change in society, which in itself assists economic reform. The perestroika of economic life has an all-embracing, many-faceted character and affects all elements, branches and sectors of the economy. It is very important that the Perestroika of management goes hand in hand with the introduction of new investment and a new structural policy with the acceleration of scientific technological progress and with a new approach to the selection and development of personnel. Old elements cannot suppress the new since perestroika is occurring on many fronts. Everywhere old methods are being replaced by new. Perestroika in one area reinforces Perestroika in another, mutually enriching each other.

FOURTH AND MOST IMPORTANT ARGUMENT

This concerns the drawing of the broad masses of working people into Perestroika, Secret attempt at perestroika - reforms from the top, in which the working people themselves are not involved and which touch only
individual sectors of the economy - are doomed to failure. Such reforms from the top are easily rescinded and undone. Things are quite different with a powerful popular movement. A strong desire for change, if it captures the masses, is very hard to check. Thus the development of democracy and the direct involvement in perestroika of the whole population and the working people are the best guarantors of the irrevocable renewal of society. Although it is proceeding slowly, with difficulty, and many mistakes have already been made along the way, with more probably yet to come; nonetheless, as Gorbachev said, "there is nowhere for us to retreat. We must move forward, increasing speed as we go." 43 Boris Yeltsin, as the new incumbent led the forces of democracy and market economy albeit with loose control over the system. This brought about uneven developments owing to haphazard processes of transformation one of which relates to the working women in the new Russian Federation.

**Working Women in Russia During 1990s and the Middle Class**

The actual course of gender process in the reformed economy of Russia does not conform to the proclaimed policy and ideology of the reforms. Traditionalism is growing stronger in socioeconomic relations. This is reflected, for

43 Ibid.
example, in the patterns of employment by spheres of ownership: "just 6 percent of women and 8 percent of men are not working for hire, including 0.6 percent of women and 1.2 percent of men who are employers", with the rest forced to sell their labour. Women make up just 30 percent of employers, and they are represented by and large by small business. There is no marked change in the economic, and primarily the social and labour status of women.

Furthermore, there are exceedingly negative trends here. Of 12 million people who lost work in 1991-98, 8 million were women, and, moreover, that gap was especially typical of the start of reforms. Women were displaced primarily from the sphere of skilled labour - management, research and development, instrument building, and electronics. The position of employed women is declining steadily for all sectors of the economy as a whole (from 51 percent in 1990 to 48 percent in 1998). Even in traditionally 'female' sectors, where the proportionate share of women has always been large, such as finance, communications, trade, housing, and municipal services, a process of the displacement of women by men has begun. Even though, after the first 'female' surge, the wave of layoffs rolled over 'male' sectors as well - construction, coal

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mining, defence industry, timber industry, and so forth and unemployment started to take on male outlines, the process of adaptation of the economy to the new market conditions proved to be clearly segmented by gender and is largely represented by the middle class who have newly emerged.

The Russian economy has not become the foundation of real equality for women, nor has it offered women opportunities equal to men's in the choice of career strategies. There have been unfavourable shifts in the pattern of women's employment. The jobs held by women dropped significantly (by almost half) in absolute terms. But the share of the services sphere (chiefly trade, as well as services and housing and municipal services) rose to 23 percent versus 16 percent in 1990, and there has been an absolute as well as a relative gain in employment. "The share of the social sectors - health care, education, culture - has grown in relative terms (30 percent, versus 24 percent in 1990), but the number of jobs held by women has remained the same. Science sector set a record for cutbacks: there were 1.5 million women employed in it in 1990, but only 645,000 were left in 1998 (men suffered to an equal extent however)."  

The professional sector structure of female employment is more confirmation of the strengthening of traditional precepts in the socio-economic sphere that had been quite successfully beaten back in the recent past. Even at well-off enterprises, the sphere of application of female labour continues to be, as a rule, those position that do not require high levels of skill while men hold positions that require a high level of general and professional education.

But new spheres of employment have also appeared in Russia associated with the development of the information and market infrastructure, where women have been able to win a worthy place in competition with the opposite sex. Women make up 40-50 percent of the workforce at organizations supporting the functioning of the market, as well as specialists in advertising and image-makers. Professional groups of women have appeared that support election campaigns, and 10 percent of the deputies in the State Duma are women. Furthermore, the army has also become a new professional realm, where women serve as officers, NCOs, and petty officers, and enlisted personnel, although only 3 percent of women serving in the armed forces hold officers' ranks.

However, it must be remembered that at the beginning of reforms the question was actively debated of how
objective the very high level of female employment in the industrial sphere that had taken shape in the USSR had been from the standpoint of the interests of society and the individual. A significant portion of the women themselves wanted to broaden their opportunities to be home, more occupied with their children. Now, when life has actually forced them to face this dilemma, some women have indeed gone back to housekeeping voluntarily, but the number of those who were forced to stay home and wanted to find a job had surpassed those who did not want.

The objective need to increase incomes for the family budget was realized in the form of the powerful segment of informal unemployment. Involuntary partial employment, temporary contracts, subcontracting arrangements and the like have become widespread.

In reformed Russia as a whole, the scope of application of female labour in the economy is still large—about half of those employed. Here one more highly important problem moves to the forefront—the price of female labour, even skilled, remains low. This is the legacy of the USSR, where the centralized pay-scale policies, even though they officially set uniform rates in gender terms, actually gave preference to traditionally 'male' sectors such as the heavy and extraction industries,
construction and installation, and transport. Sectors with lesser national economic significance - the light and food industries, education, and health care, where female employment predominated - were markedly low paid. To a greater extent, men were paid supplements for heavy work and for working in the night, along with overtime pay. The positional hierarchy took shape in favour of the men as well, and, consequently, the earnings of men at virtually any enterprise and organization were higher (by one-third for the national economy as a whole).

The gap formed too long ago and it is one of the traits of the structural economic backwardness of Russia, where the producing sectors were displaced by raw-materials sectors, while the household predominates over the services sphere. It can be explained by the conditions of production, financial reasons, the traditional "second-class status" of female labour, the national socio-cultural background, and many other things, but what is fundamentally important here for gender analysis is something else. In the face of the generally low standard of living and price of manpower in the Russian Federation, the pay for men more often makes it possible to sustain oneself and one's family at a suitable level, while the pay for women, as a rule, is oriented only toward the minimum subsistence level without regard for dependents.
The lack of protections for the socioeconomic status of women is also caused by imperfections in the legal system for the regulation of labour relations, and the problem is moreover associated not so much with the lack of legislative provisions as it is with a failure to observe labour and social legislation. The judicial system is too weak, the opportunities for state labour oversight are limited, and the scope of action of trade unions is constantly narrowing, so women are powerless before the whims of the employer.

**Toward a New Stage of Transformation**

The debates regarding the choice of a development path for Russia that took place at the beginning of 2000 have shown that no serious alternatives to a continuation of the market transformation have been brought forward. The programmes of most political parties have focused on strengthening the role of the state in the pursuit of economic policy and the realization of national goals. This trend reflects some of the fundamental characteristics of the transition period. First, the incomplete restructuring of the old bureaucratic state and increase in the number of employees of the state apparatus during the period of reform and their desire to control economic processes led to the fact that the prior institutions and functions of
government bodies, cohabiting with the market, frequently suppress it. Second, and perhaps most important, the role of the state as the regulator of market processes has not been defined. In the fight against intervention in the economy under liberal slogans, the necessity for it to perform basic functions and the task of reform to create the conditions for the effective functioning of the market, where the state acts as guarantor of the observance of the 'rules of the game', is often lost from view. Third, public associations of the representatives of business still have not been able to ensure a balance between state regulation and market self-regulation. Their complaint of state domination are often unfounded, insofar as they often lobby successfully for sector interests but cannot come together to defined common interests.

In contrast to previous years, in 1999, the Russian economy developed better than was predicted. The reasons for this were the relative isolation of the real sector from the collapsed banking system, high prices for raw materials export commodities, and the strengthening of processes of import substitution. However, it is too soon to speak of steady expansion.
The Triangular Economy

The national economy of Russia is characterized by a much more complex structure than is the case for most countries with transitional economies. Three major sectors - civilian processing, raw materials export, and the military-industrial complex with its basic (non-humanities) sciences - came into the transformation process with different markets, sources of financing, and investment goals, and, ultimately, with differing interests. Under the conditions of Russia, the formation of the institutional basis for reforms clearly lagged behind the real market transformations. Moreover, it was affected by forces that were pursuing narrow interests to the detriment of meeting long-term goals.

The opening of the economy and liberalization of prices, in the face of cutbacks in domestic demand, have had completely different consequences for them. The civilian machining industry of Russia as a whole, got caught in a severe 'squeeze' of international competition, made worse by the high exchange rate of the rouble. The devaluation of 1998 gave the civilian sector of the machining industry an extra chance to develop. The quite intensive processes of import substitution have still not been accompanied by the entry of new Russian items into world markets. Restructuring is taking place in industry,
albeit sluggishly, but the competitiveness of product quality remains low.

The scale of the raw materials sector and the sector that historically united the military-industrial complex and the sphere of the basic sciences has not proved to be commensurate with the requirements of the Russian economy during the period of reforms. This was manifested most noticeably in the sectors of the military-industrial complex, where production volumes have dropped by six to ten times. The cause was the cutback in both the state order and the free deliveries of special equipment abroad that burdened the country, insofar as they were financed by limiting the domestic consumption of the population or raw materials rent. The outflow of resources from the extraction industries in the context of deliveries to the socialist camp at prices below world prices was also very significant. The raw materials sectors facilitated the preservation of goal of military-parity in the pre-reform period to the detriment of economic development, first and foremost in the consumer sectors.

In the 1990s, Russia was able to export enormous amounts of resources on commercial terms. In the face of comparatively low costs of production, the fuel and energy companies were receiving both profits and rent that the state was unable to use for the purposes of macroeconomic
stabilization. In this way, not only was the traditional channel for financing state expenditures and the defence complex narrowed, but also the export sector kept at its own disposal the resources by which state investments, education, and science could have been financed.

The export sectors, and to a significant extent the banks, had a vested interest in the fastest possible liberalization and opening of the economy, reduction in the level of taxation, and minimum state control and regulation. The raw materials sector quickly established business relations with the world banking system, because its own system did not meet routine and investment needs. In contrast to the other two sectors, the fuel and energy complex did not (and does not) depend on the state in the area of investments. So, companies keep a substantial share of their liquid assets abroad, which allows them to make settlements among themselves at Western banks. The correlation of domestic capital investments and exports in the fuel and energy complex is effectively the same as in the machining industry. This testifies that investment policy in this sector is oriented to a large extent only toward the maintenance of its own capacity within the country while the focus is placed on investments abroad.

The strategy of the Russian oil and other export firms could be characterized as the 'positioning' of themselves
in the world as major international companies. They are carrying out projects in various countries and reinforcing their positions in the Commonwealth of Independent States (CIS). The companies are not experiencing serious problems using the principles of corporate management, although the efficiency of the management of the groups they control varies.

In the course of privatization (right up to the collateral auctions), the fight for independence from strategic investors was won precisely in the extraction sectors. Any program to attract foreign venture capital would have led to a strengthening of control on the part of foreign owners. The interests of the military-industrial complex and the raw materials exporting sectors, aimed against the direct sale to foreigners of the assets being privatized coincided here, albeit for completely different and not always purely economic reasons.

The overall factors of the investment climate - political risks, the tax systems, and the levels of tax rates are undoubtedly impacting the situation in all three sectors. The lack of developed financial markets in which export companies could place their passive funds leads to the fact that the accumulations of the sectors are isolated from each other, and, as a result, crossflows of capital are made more difficult. To the extent the political and
economic situation stabilizes and the scale of direct investment increases, one can expect a levelling of investment conditions for these sectors. The wave of mergers and acquisitions that appeared after the 1998 crisis clearly should come to an end. The consolidation of ownership, along with a reduction in the political risks, would facilitate the vested interest of representatives of all three sectors in a uniform tax and trading regimen.

The transformation of the economy and society is far from complete, but the bulk of the institutional problems are of an immediate reform nature. The depth of the crisis of the transition period largely reflected the imbalance in the planned economy, which was manifested as a result of the convergence of domestic prices with world prices. The new era and the country's new strategic tasks to create a civil democratic society and efficient market economy assume an objective analysis of the economic system that has taken shape in Russia in the past decade. In effect, the new stage in the transformation will rely on the institutional basis that took shape in the 1990s.

The complex process of reforming the Russian economy is transpiring significantly more slowly and painfully than in the countries of Eastern Europe or Asia. One can delineate two principal versions of explanations: the focus is placed either on the political difficulties of realizing
programs of transitions (the opposition of the State Duma and the like), or on the problem of the lack of a suitable institutional base. The first explanation appears convincing in terms of any specific episode of reform, but does not suffice for a general description of the transformation process insofar as political difficulties are characteristic of all countries with transition economies; and it is assumed that the actual politics should take them into account in their activity. The second explanation elicited lively international debate in 1999. The problem is essentially reduced to where the reforms have to start: with the liberalization of prices, the opening of the economic, and macro economic stabilization, or with the creation of an institutional basis for reform.

None of the participants in the debate had any doubt that both are necessary. Furthermore, it is well known that the institutional basis is constructed much more slowly than political decisions to open the economy are made. At first glance, the dispute is only about where to place the emphasis. The stance of advocates of the 'Washington consensus' also reflects the opinion of many reformers who feel that the 'window of political opportunity' should be used immediately, while the institutional basis can be finished up later. The later is based on the assumption that the new owners will be acting in their own long-term
interests and will facilitate the formation of a basis for the market economy. The attempts to build a suitable basis first, and only then to carry out the reforms, simply signifies a wasted opportunity to move forward, which was particularly characteristic of Russia in the early stages of reform.

The typical crisis for countries with transition economies was dragged out in Russia and ended with the financial collapse of 1998, which undermined the foundations not only of macroeconomic stabilization, which relied on outside borrowing, but also of the banking system. The country's financial sphere was 'thrown back' to the level where it could exist with the slow evolutionary restructuring of the old banking system. The creation of a mechanism for savings and investment is one of the most important criteria of success or failure in the transitional period and of the formation of the preconditions for stable development. The national banking system and pension funds proved unable to solve this problem which also predetermined the current state of the Russian economy.

The Russian economy was distinguished not only from the economies of the most highly developed nations of the world but even from countries with transitional economies and developing countries with low levels of monetization.
and weak roles of their banking systems in lending to the economy. Unfortunately, economic growth in Russia in 1999 did not rely on the restoration of the national banking system. Quite the reverse, the independence of the export business from domestic lending through banks and financial markets made it possible to overcome the drop in GDP relatively quickly. But the independence of both export and civilian, and the more so, of heavy industries from financial intermediaries does not provide for effective accumulation under conditions of prolonged expansion.

Taking into account the international experience of the 1990s, macroeconomic stabilization seemed to be a highly important key to prosperity. After the very severe inflation of 1992-94, it seemed wholly attainable in 1996-97, but for the poor collection of taxes and the budget deficit. In the face of the high rouble exchange rate in 1996 through the first half of 1998, the transition to economic growth did not occur. One can, of course, place the blame for the crash of 1998 on the world financial crisis, but it was conditioned to a greater extent by the ill-suited nature of the microeconomic level of the economy to the market requirements and by the weakness of the country’s banking system. The crash of August 1998 was needed so that, in post-crisis situation of 1999, there would arise a semblance of macroeconomic stabilization:
comparatively low price increases and primary budget deficits. The problem of budget equilibrium and a considered monetary and credit policy naturally remained unsolved, and only shifted into the sphere of servicing foreign debt and recapitalizing the banking system. The economic growth in 1999 proved somewhat unexpected, but it was entirely explainable. The speculative nature of the banking system and financing eased the blow of the crisis on the real sector of the economy, the twofold real devaluation of the rouble stimulated the processes of import substitution, and the price increases for oil facilitated a sharp improvement in the balance of payments and balance of trade. The moderate growth, albeit exceedingly far from steady and sweeping expansion, signifies a certain turning point in the negative trend of decline in the principal economic indicators.

One of the fundamental problems of the transitional period in Russia was the disparity between the change in the general conditions of business operation at the macroeconomic level in the direction of their liberalization and the transformation of enterprises. While in the area of macroeconomics, the successes and failures of reforms in monetary and fiscal policy find explanation in works by Russian and foreign scholars and politicians, it appears quite a bit different at the microeconomic
level. The general diagnosis of the progress of reform at enterprises is reduced to the inadequate protection of shareholder rights, imperfections in accounting, and the like. The pivotal problems of the ill-suited relations of ownership and corporate management remained in the shadows.

Almost none of the expectation in the area of the reform and behaviour of enterprises has come true. Privatization did not lead to the transfer of the means of production to efficient owners or strategic investors, including foreign ones, either immediately or after five years, nor privatization as a whole could provide for stable corporate control. A trend toward the establishment of rent relations pre-dominates to the detriment of profit maximization. In most cases, 51 percent of the shares provide total control, and 49 percent virtually none.

Capital flight became not only a macroeconomic phenomenon but also a rational policy at the corporate level. Enterprises, wherever possible, have taken their liquid assets out of the country and lessened their dependence on the policies of the Russian monetary authorities. The payments crisis in relations among enterprises and the evasion of tax payments have complemented the asymmetrical but fitting answer at the macroeconomic level of the economy to attempts at
macroeconomic stabilization without considering prevailing interests.

After ten years of reforms, neither the government nor society have been able to figure out into just whose hands the privatized property has gone. State bodies, especially regional ones, continue to play an appreciable role as the holders of certain rent interests. The government and judicial bodies have now taken what is effectively the sole possible stance - they have deemed privatization complete and irreversible. The affirmation of the rights of ownership to the privatized property makes it possible to solve the key problems of stabilization of the legal climate in the country. But a number of simple and important questions remain unanswered. When and how will the consolidation of the rights of ownership lead to the formation of effective corporate control and goal-setting? And in what manner and at what times will ownership pass into the hands of efficient and respectable masters?

Solitary successful examples do not change the overall negative picture. Several generations of foreign investors have effectively been eliminated in Russia in the twentieth century: pre-revolutionary; the concessions of the 1920s; the joint ventures of the 1980s at the beginning of reforms; and the small portion of new investors in the 1990s. At the same time, major foreign companies have
consolidated themselves in trade, the services sphere, and in sectors that were being recreated, especially if they were able to set up relations with the local interest holders.

The redistribution of ownership has been accompanied by a trend toward an enormous concentration of control over sectors of industry. Limited access to resources and high costs of entry into the market for new enterprises, especially small and foreign ones, testify to the complexities of forming a competitive environment. From the standpoint of reducing the effectiveness of management and the opportunities for investment, the desire to establish rent relations is similar to a racket. The term 'Russian costs' has even appeared. It is essentially a synonym for 'an unfavourable investment climate'. The transaction costs of entry into the Russian market are excessive compared to other countries, and not only for foreign but also for Russian businessmen.

One highly serious problem of Russian reforms is the formation of the specific business etiquette of the transitional period, permitting the opportunity for gigantic windfalls as well as deception in business relations. One important element in contemporary corporate management is the removal of assets - to their own enterprises abroad and to affiliated companies - from
production enterprises that were acquired by their owners in the course of privatization. The consolidation of assets under direct personal ownership is not surprising but it has two grave consequences for society: a drop in the level of accumulation and the formation of a new morality not associated with the values of contemporary civilization. The logic of Russian business (owners and managers) of the past decade assumes more than the opportunity not to pay taxes and to extract assets. The practice also simultaneously arose of severe pressure on competitors, even going so far as extra-economic pressure and the use of the judicial and executive branches of power for these purposes to resolve standard economic matters.

The principal task of Russian big business at the end of the first stage of the transitional period has been accomplished: it is entirely legitimate and the question of reviewing the results of privatization does not arise. But aside from the efficiency of business, the question of the prestige of the country and business itself in the world is acute. The real ranking of a company or bank in the international business community affects not only its prestige but also the cost of credit and the possibility of alliances in the world market. This is unclear who will wage a genuine battle for a change in business etiquette in
this country: business itself or the Ministry of Internal Affairs with its judicial bodies.

The Country's Risks and Economic Policy

The macroeconomic policy of Russia, as the experience of the past decade shows, is characterized by exceedingly tight limitations on the choice of solutions, because of the underdevelopment of the private financial system and low levels of domestic savings. Macroeconomic policy effectively remains hostage to several major problems, first and foremost, the ability of the federal budget to preserve a balance between the necessity of solving social tasks and the need to service foreign debt without resorting to emissions and without causing inflation. The desire to raise the standard of living of both the poorest segments of society and the social groups that would strengthen the middle class numerically in the long run will constantly prompt the state to take steps to stimulate savings.

Macroeconomic policy oriented toward economic expansion faces several important questions. The first pertains to monetary and credit policy and inflation. The limitation of emissions remains essential, but inflation still does not pose an immediate threat. Practice shows that the resumption of growth is fraught with the danger of
letting inflationary processes get out of control. Special anti-inflationary measures could then be necessary.

The second question is policy toward the rouble exchange rate. In the first phase of economic growth, it should be quite low to give domestic producers a chance. But the real rouble exchange rate should rise gradually to the extent the economy strengthens, lessening the extent of protection of the domestic market. Increased competition would only work in favour of Russian companies.

A policy of stimulating direct foreign investments, especially taking into account the decline in political risks after the election of Vladimir Putin as president of Russia, would be exceedingly favourable during this period. Such a policy would limit the influx of speculative capital, but would facilitate the receipt of direct investments circumventing price barriers. The opening of access to world capital markets would also signify the restoration of Russian financial markets as well as confidence in national financial institutions. However, a new wave of borrowings should not rely on attempts to guarantee super-high profits for investors. An influx of portfolio capital can be productive only with the proper functioning of the private financial system, financing accumulation.
The policy of a floating exchange rate, with the gradual lessening of administrative controls and restrictions on speculative fluctuations, would be preferable from the standpoint of methods of regulating the currency market. The restoration of industrial production volume in 1999 to approximately the 1997 level is important, because machine building has begun to revive as well. Economic growth could continue on this basis for a certain time, but this does not solve the country's long-term problems. The key question facing Russia in the next few years is the combination of goals; the transformation of the economy and the development of new sectors; the clearing of bottlenecks; an acceleration of growth rates, so as to increase consumption levels; and the maintenance of world power status.

"One of the most difficult problems in the next few years will be the conflict between the goals of the state in the area of transforming the economy and the desire to accelerate development with the aid of state expenditures".\textsuperscript{46} Taking into account the enormous spending for servicing foreign debt, a situation has taken shape in which there are several contenders for each point of GDP increase: servicing foreign debt; raising the standard of living of the population; investing to support a

\textsuperscript{46} Stiglitz, \textit{Whither Reform?}, Washignton, April, 1999, No.7.
continuation of the country’s economic expansion; and spending associated with the pursuit of structural reforms.

In serious terms there are only two economic policy strategies defining the relevant scenarios of the future development of the country. Until now the first was formulated in accordance with the principles of the Washington Consensus, aimed at restructuring developing countries for free circulation of international capital. The other stems from national interests and is based on creating the best conditions for reviving and further developing the national scientific and production potential and increasing people’s welfare. It combines the principles of economic effectiveness with social justice and relies on the country’s own resources and increasing competitive development of the national economy on the world market, as well as the active use of existing and rapidly developing new potentials for economic growth.

Two scenarios of future development correspond to these strategies. The first follows the existing tendencies of degradation of the production potential of the country and its fast transition to the raw materials periphery of the world market, with a disintegrated economy controlled from outside, and a demoralized population split into antagonistic groups.
The other scenario supposes the fast restoration of the scientific and production potential and its further development on the basis of high technologies which combine the fast growth of production, investments and wages.

The current moment, closely linked to the peculiarities of the present state of the scientific and production potential, is crucial. Today’s choice of strategy will determine the future development of the country for many years and perhaps for the coming decades. If today economic policy allows high growth rates (up to ten per cent per year), in a few years the total depreciation of the obsolete equipment will lead the economy to severe resource limitations. If the choice is made in favour of continuing the first strategy, and if the existing level of investment activity is not changed, the gross fixed capital formation will be reduced by one-quarter in three years, and by half in the subsequent three years. According to this scenario, the Russian economy will be specialized in exporting raw materials and will greatly depend on foreign markets. The scenario is characterised by low growth rates, degradation of the present scientific and production potential and, naturally, the loss of possibilities for independent development.

"As this first scenario does not imply an active government policy and is realised without participation of
the latter in regulating the economy, its analysis does not present any particular interests".  According to this scenario, the development of the economy is characterized by the following main macroeconomic indictors:

**The first Stage : 2000-2006**

The main activity of this period is the implementation of the institutional reforms aimed at forced liquidation of non-competitive production enterprises and the strengthening of dominating positions of the export oriented sectors.

The reduction of state expenses and lowering of the living standards will lead, at best, to stagnation of consumption. For seven years the common rates of economic growth will not exceed one per cent a year. The main contribution to the dynamics of the economy will be made by the energy and raw materials branches of industry, since their export potential will be exploited. Their annual growth rates will reach 1.6 - 1.8 per cent. The rates of growth in the consumption-oriented branches (light and food industry) will be close to zero.

**The Second Stage : 2007-2010**

If the production sector and population adapt successfully to the negative aspects of the first stage,

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47 A.R. Belousov, "The Russian Economy: Strategic Threats and Development Alternatives", 172
some economic revival might be expected. It will be based firstly on increasing the competitive development of production and the expansion of the export sector. This will take place at the expense of bigger investments. The average annual rate of growth in the economy will reach 1.5 per cent.

Transition to more dynamic economic growth will be hampered because of structural macroeconomic disproportions. In spite of the high rates of increasing investments, their contribution to the economic dynamics will be minimal. They will compensate for the increase of the capital intensity in the primary sectors of the economy and the large-scale depreciation of the gross fixed capital formation.

The main motive force of the economy, as before, will remain the export of raw materials. Its increase at 3-4 per cent average annual growth will require the growth of investments at 5-6 per cent annually since at this point it will be necessary to modernize the electroenergetics, transport and some other capital-intensive branches of the economy, discover and develop new gas deposits and oil fields. Accordingly, the share of consumption in GNP will be lowered from 67-68 per cent in 2005 to 63-65 per cent in 2010.
The expansion of imports will become another threat to economic growth. On the one hand, the growth of capital investments in the export sector will probably be based on importing the qualitative equipment from abroad. On the other hand, the deteriorating situation in the agrarian sector will cause a rise in the import of food. As a whole, the annual growth rates of the import of food and services at this period are estimated at four per cent a year; this is higher than the export rates.

As a general conclusion it can be seen that export-oriented development is in a crisis which represents a deadlock in the system. Structural problems in the economy cannot be solved at the expense of lowering living standards. This is not only dangerous from the social point of view but also lacking in any perspective.