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THE POLITICAL CONSTRAINTS ON RUSSIA'S ECONOMIC DEVELOPMENT

THE VISIONARY ZEAL OF TECHNOLOGICAL MODERNIZATION AND ITS CRITICS

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1. Russian economic thought: the international, domestic and ideational context

1.1 Economic thought and the politics of translation

To understand the political constraints on Russia's economic development, three dimensions should be explored simultaneously. The relations between Russia and the outside world (where Russia stands in comparison to others, and what it is prepared to do to advance its position), Russia's relations with its own past (the evolution of the Muscovite matrix[1]), and the relations between ideas and political action ("the practical value of ideas in solving political dilemmas"[2]). In this paper I will briefly discuss the first two aspects and then focus more closely on the third.

The purpose of this working paper is to look at how certain ideas, perhaps as yet rather vague ones, as to preferable futures for Russia are interlinked with the specific policies for advancing their implementation. In other words, I am interested in explicating *political* meaning of modernization and hence, emphasis on the relation between ideas and political action. Consequently,

[1] Hedlund 2005.
[2] Checkel 1997, 128.

the research interest is linked with what in academic parlance is known as conceptual history. The key idea of this research tradition[3] as summarized by Melvin Richter is that it "combines the study of the language used to discuss state, society, and economy with identification of the groups, strata, orders, and classes that used or contested this language".[4] As a first step in this direction, I will explore lines of thought considered as Russia's *vision for future*, as put forward by President Medvedev.[5] I will also put this vision into a larger context by presenting nationalist and liberal economist criticism towards the current modernization policies of the Russian government.

Here I will follow Joseph Schumpeter who in his *History of Economic Analysis* provides applicable definition of what is meant by vision. According to Schumpter, vision is a "pre-analytic cognitive act that supplies the raw material for the analytic effort". It precedes the emergence of analytical effort chronologically but it may also "re-enter the history of every established science each time somebody teaches us to *see* things in a light of which the source is not to be found in the facts, methods, and results of the pre-existing state of the science". "It is only through analytical work, conducted according to appropriate, social scientific rules of procedure that we may "crush out ideologically conditioned error from the visions from which we start".[6]

In this paper, however, I am interested in those thoughts that are not yet compressed into analytical form. These ideas belong to what Schumpeter has called *economic thought*, that is the "sum total of all the opinions and desires concerning economic subjects, especially concerning public policy bearing upon these subjects that, at any given time and place, float in the public mind".[7] Sometimes the distinction between economic analysis and economic thought is blurred. For example, the 'public mind' may:

> Border on, or overlap with, analytic work as it has often done in treatises written by members of the commercial or industrial bourgeoisie. So far as it does do the latter, it will of course be our task to pick out as best we can such analytic performances from the common run of verbalizations of the humors of the times that are unconnected with any effort to improve our conceptual apparatus, and hence are without interest for us.

One more point should be raised at this juncture, and that concerns ideology. It would be an exaggeration to claim that the current regime would have

[3] Here I refer in particular to the German school of *Begriffsgeschichte* initiated by Reinhart Koselleck along with Otto Brunner and Werner Conze. See more on this German tradition e.g. Palti 2010.
[4] Richter 1990, 46.
[5] Medvedev 2009a.
[6] Schumpeter 1955, 41-43.
[7] Schumpeter 1955, 38.

something akin to a coherent ideology. As noted by Leonid Polyakov, there is no single ideological supertext, like the works of Lenin, to which the authorities could refer. The "lack of ideological clarity seems to be deliberate", he argues. "Both Putin and Medvedev have in the past gone to great pains to avoid both ideological definition and self-definition, and they continue to do so".[8]

At the same time, the authorities are keen on articulating a vocabulary that would better 'fit' the Russian context and be comprehensible to others. As President Medvedev's deputy chief of staff, Vladislav Surkov, put it in his speech at the Russian Academy of Science in June 2007:

> [Our political culture] has sufficient potential to develop a democratic model for Russia – a political vocabulary that will be our own but will nonetheless be comprehensible to others – and to communicate to ourselves and to the outside world the images and meanings without which a nation has no historical existence. We can then talk about our own experience of democracy in our own words, because he who does not speak listens, and he who listens obeys.[9]

The main concepts in the vocabulary to which Surkov refers are listed in a booklet titled *Plan Putina: glossary of political terminology*. The booklet was published on the eve of the parliamentary elections in December 2007 and it resembles the *short course to Marxism-Leninism* that communicated the party line in the Soviet Union. Nevertheless, due to the above-mentioned reasons, the booklet does not have the same status and is a rather marginal phenomenon altogether. The glossary lists the main concepts of Putin's policy, such as the "fight against corruption", "state corporation", "innovative economy", "national projects", "oligarchs' revenge", and "political enlightenment".[10] The significance of the booklet lies in the fact that, like its predecessor, it provides an explanation of how to interpret and use the listed terms appropriately. In a sense, the booklet shows "where global standards break down as meaning is reinvented".[11]

It is important to distinguish this concern about the appropriate use of language from a parallel, yet very different phenomenon. The official discourse, as noted by Sergei Prozorov, "articulates itself as pure form or

[8] Polyakov 2009, 21.
[9] Surkov 2008, 90.
[10] Chadaev 2007.
[11] Lowenhaupt Tsing 2009, 11. It seems plausible to argue that what the authorities want from the vocabulary falls back on the idea of language as a picture. Language is here understood as "an immense network of easily accessible wrong turnings", as Wittgenstein wrote in 1931. The ideologues (like the philosopher) are the ones holding the 'map' or able to determine signposts "to help people past the danger points". In turn, the very functioning of the glossary is more in line with the later Wittgenstein and his idea of the language game. According to this approach, the meaning of the word is its usage in language. Stroll 2007; Wittgenstein 1958; Wittgenstein 1980, 18e.

style, which can be put into play in any context whatsoever".[12] The discourse becomes clichéd nonsense "filled with meaningless expressions often naming non-existent phenomena".[13] This is often referred to as the "Potemkin village syndrome" of Russian politics.[14] Potemkinization, or 'razzmatazz' as I prefer to call it, refers to the "administration's use of major policy statements to convey an impression of unity and sincerity of purpose that was fundamentally at odds with the real, fragmented and opportunistic nature of a particular policy".[15] What this metaphor purports to say is that the policy statements form a *façade*, the main purpose of which is to hide the fact that there is, in effect, no policy at all.

I hasten to add, however, that no bureaucratic organization's decision-making process is completely devoid of razzmatazz features. Nor am I suggesting that by peeling away the razzmatazz with this analysis, it will be possible to disclose the real politics hidden behind the façade. On the contrary, the razzmatazz is helpful in understanding the Russian Potemkinization in a deeper sense, which goes beyond the assumed duality of reality. For performatives that have features of razzmatazz are not necessarily irrational or parasitic.[16] The term razzmatazz refers to 'razzle-dazzle', showiness that is designed to be impressive and exciting especially in the context of a stage show or spectacle. It also means 'double-talk', a language that appears to be earnest and meaningful but which is, in fact, a mixture of sense and nonsense.[17] Thirdly, the term means "a complex manoeuvre (as in sports) designed to confuse an opponent".[18] The point that I want to make is that it is necessary to take a close look at what is being said – what the visions of the current regime are, but this should be combined with a nuanced understanding of the policy-making process itself. In this paper I will focus, as mentioned earlier, on the reformer's vision of modernization, and examine the reactions to this vision, providing some examples of how the government is tackling the present-day challenges. In the next two chapters, I will first review recent discussion on the impact of global economic crisis to Russian economy, and second, I will present three analytical frameworks with which we may explain changes and continuities in Russian economy and politics.

[12] Prozorov 2009, 73.
[13] Yurchak 2003; Yurchak 2006.
[14] Lo 2002, 67.
[15] Lo 2002, 67; See also Prozorov 2006.
[16] Austin 1965, 22.
[17] The idea of double-talk was a ubiquitous feature of Soviet politics, where ideological literacy increasingly came to be seen as a technical skill. Discourse consisted of prefabricated "blocks" with predetermined and context-independent "literal meanings". Alexei Yurchak argues in his study on the last Soviet generation that in the process "official Party speeches and documents became subject to increasingly meticulous and publicly invisible editing with the goal of producing texts without 'a single step sideways from the norm'". Yurchak 2003, 489-490.
[18] See e.g. Merriam-Webster's Online Dictionary (entries under razzle-dazzle and double-talk) URL: http://www.m-w.com/dictionary/razzmatazz. See also Wikipedia, where razzmatazz is described as meaning "ambiguous language". URL: http://en.wikipedia.org/wiki/Razzmatazz.

1.2 The international economic environment and Russia

The global economic crisis is seen as both a threat to, and an opportunity for Russia. The 'catching up with Portugal' scenario that was openly discussed a few years ago, albeit not without sarcasm, has become politically unacceptable. At the same time, the emphasis has shifted from promoting Russia as a global "financial centre" to the forging of "modernization partnerships" on a bilateral as well as a multilateral basis.[19] The EU and Russia have agreed, in principle, to establish such a partnership. It would be a two-way street, anticipating the smoother transfer of Western technology and know-how to Russia, while obliging Russia to tackle corruption and implement domestic reforms.[20] Commenting on the Commission's initiative in its early stages, Russian diplomat Vladimir Chizhov underlined that "the parties have agreed to focus on the specific content of the programme to ensure it does not remain just a catchy slogan. There is general agreement that the [programme] should be about concrete things, for, given the level of relations between Russia and the EU, we do not need declarative things".[21] The presumption seems to be that the crisis has given Russia more leverage in dealing with its global competitors. The message in the recently leaked foreign policy document outlining the use of foreign policy in modernization is that "Russia wants closer business and political ties with the EU, but on an equal basis".[22]

This interpretation, although not a particularly new one, is supported by the latest figures from the Ministry of Trade and Development. According to Minister Elvira Nabiulina, Russia's national economy is currently at the same level it was in early 2007, whereas the US economy fell even further to the 2006 level, and Japan to the level of 2005. The government's base scenario foresees annual economic expansion of 3.5 to 4.2 per cent in 2011 and 2012.[23] Nevertheless, the global economic crisis exposed the vulnerability of Russia's "export raw-material model of development", as noted by Minister Nabiulina.[24]

The general view is, however, that the scale and depth of Russia's deterioration has been deeper than that of its immediate peers (BRIC countries) and the West.[25] In the first half of 2009, Russia's GDP fell by 10.4 per cent compared to the same period in the previous year. In turn,

[19] Kommersant 11.2.2010; Kommersant 1.4.2010.
[20] Moscow Times 21.5.2010; Kommersant 11.2.2010; Barysch 2010, 2.
[21] Kommersant 11.2.2010.
[22] Russkii Newsweek 11.5.2010; Moscow Times 19.5.2010.
[23] Nabiulina 14.5.2010; The Moscow Times 24.5.2010.
[24] Nabiulina 14.5. 2010; see also Medvedev 2009b.
[25] Hanson 2009; Wisniewska et al. 2010, 3; Sutela 2010; Rutland 2008.

investments fell by over 18 per cent. For the first time in ten years, Russia ran a budget deficit of some 8 per cent in 2009.[26] The plan is to decrease the deficit to 3 per cent in 2012, and to achieve a zero deficit by 2015.[27] Due to the anti-crisis measures implemented in 2008-2009, the Reserve Fund decreased by nearly 45 per cent to US$76 billion, and the central bank's reserves shrank by nearly US$200 billion to US$409 billion. Finance Minister Aleksei Kudrin recently said that the Reserve Fund will run out early next year at the latest.[28]

The relationship between the volatile global environment and Russia's domestic vulnerabilities has been nicely summed up by Phil Hanson: "Russia is quite strongly integrated into the global economy but would be even more integrated if its institutions were in better shape. Its natural resource wealth, the size of its market and its rapid growth in the inter-crisis period have generated a great deal of international business, but they have done so against the deterrents of high corruption, uncertain property rights, weak administration and a weak rule of law.[29] These factors comprise what is sometimes called the "Russian system", the emergence of which I will briefly discuss in the next section.

1.3 Path dependency, interdependency and the mechanism of 'catching up' growth

As Grigory Yavlinsky argued in his book published in 2004, "Russia's economy displays growth without development".[30] The basic arguments come in different guises but what is implied here is that although Russia is currently regarded as a market economy, "Russian reality is capitalism and not exactly capitalism and not capitalism at all".[31] To decipher this riddle, historians have provided us with a rich background that explains the emergence of an unaccountable government and the conditionality of the property rights in Russia, the two most significant features of Russia's capitalism. Anders Hedlund argues that these two features, together with rule through legal regulation instead of political bargaining and the dominant role of the state in the economic sphere, form a "Muscovite institutional matrix". This is a set of historically formed cultural codes of conduct that underlie the

[26] RIA Novosti 25.2.2009; Hanson 2009, 31; Wisniewska et al. 2010, 3.
[27] Putin 14.5.2010.
[28] Moscow Times 21.5.2010; Wisniewska et al. 2010, 3.
[29] Hanson 2009, 22.
[30] Shetvsova 2004.
[31] Shetvsova 2004.

"Russian system".[32] Vladislav Surkov echoed this line of thinking in his speech at the Russian Academy of Sciences in June 2007 when he noted that:

> The differences among what was, what is, and what, we may presume, will be are so striking that we often call our country the new Russia, as though this were a New World – or a new home. We do not live, however, over the sea; we have not changed our place of habitation. The new building of Russian democracy is constructed on the historical foundation of national statehood. We may argue about specific features of layout and decoration. Some like the imperial and others the petty bourgeois [*meshchanskii*] style; yet others are keen on futuristic experiments. But whatever changes we may make to the design of our home, its main proportions and distinguishing features are, it seems to me, predetermined by the fundamental categories and matrix structures of our history, national self-consciousness, and culture.[33]

The "Moscow matrix" provides valuable insight for explaining what makes Russia's capitalism specific. However, analysis should be directed away from the inbuilt determinism of the path dependency theory. A complementary approach to it widens the perspective and looks into the dynamism of global markets and the interdependency between core and periphery. Russian researcher Boris Kagarlitsky has argued that: "what is involved here is not 'specifically Russian characteristics', the 'accursed past' or a 'deviation from the norm'. The division of capitalism into centre and periphery is something quite normal; one cannot exist without the other".[34] For him, Russia's capitalism is different not because of the widespread corruption, but due to the "inefficiency of this corruption from the angle of economic development".[35] This is partly explained by the conceptualization of Russia's capitalism as peripheral. Paraphrasing Rosa Luxemburg, Kagarlitsky states that "the main peculiarity of peripheral capitalism is that 'built into' it are numerous non-capitalist structures. In this sense, all sorts of deviations from the Western 'norm' are in themselves an absolute norm of development".[36] He further notes that "during the past ten years, despite superficial innovations, a monstrous de-modernization of the economy has taken place. We not only produce less, but lag much further behind than in Soviet times. This too is the normal state of affairs for peripheral capitalism".[37] His argument is corroborated by the latest figures, indicating that the Russian manufacturing industry is undergoing a deep decline. In

[32] Hedlund 2005; Hedlund 2008; Zon 2008; See also Procaccia 2007 on Orthodox Christianity's influence on the emergence of property rights in Russia.
[33] Surkov 2008.
[34] Kagarlitsky 2002, 60-61.
[35] Kagarlitsky 2002, 191.
[36] Kagarlitsky 2002, 8.
[37] Kagarlitsky 2002, 63.

2008 the production level of the Russian manufacturing industry was 84.4 per cent of the 1992 level. Few sections of the manufacturing industry had managed to catch up with Russia's own past, let alone their foreign competitors.[38]

Economic theory brings to this discussion a third vantage point that stems from the internal logic of the market economy. From this perspective it is often argued that the 'market mechanism' does function in Russia, but the kind of growth we have witnessed is just the first step in a long journey. As explained by Pekka Sutela, "the shift of resources from inefficient heavy industries that made things most people did not want into more productive manufacturing and modern services has been the true source of Russian growth in recent decades".[39] Although far from optimal, economists do not see this kind of 'catching up' type of growth as a primarily negative phenomenon. "The badly functioning economy with low productivity and income levels", explains Sutela, "can enjoy rapid growth simply by adopting products, technologies, processes and structures that have already been invented, introduced, and tested in more advanced economies with higher productivity and income levels".[40]

But the 'catching up' type of development is feasible only up to a point. This point is not transgressed when President Medvedev orders the government (time and time again) to promptly adopt "European standards in road building".[41] Pragmatic as this approach is, the current system is inbuilt in a way that it does not encourage the free 'spillover' of ideas, policies or technologies, and thus works against the very logic of successful imitation.[42] Writing on the role of institutions in capitalist development, Boyer and Hollingsworth note that:

> […] countries decline because they lack the capacity to mimic the most competitive institutional arrangements. Moreover, the way elites are socialized into the rules and norms of a society tend to blind them to the shortcomings of their own society's institutional makeup.[43]

It is because of this systemic inability to mimic that economic modernization poses a political dilemma for Russia. The dilemma is how to preserve the current system intact and, at the same time, ensure economic growth, or at least safeguard the system against social unrest. In a report recently published by the Institute of Contemporary Development, writers argue that

[38] Yasin 2010, 8-9.
[39] Sutela 2010, 3; see also Kuznetsov et al. 2010.
[40] Sutela 2009.
[41] Medvedev 2009b; The Moscow Times 20.4.2010.
[42] Vedomosti 19.4.2010; Russkii Newsweek 16.5.2010; Vedomosti 2.2.2010; Vedomosti 3.2.2010.
[43] Boyer and Hollingsworth 1997, 455.

the modernization in Russia should be deep, systemic and decisive. Most importantly, it "should be carried out with the 'vision of tomorrow in mind', which to a great extent relies on intuition and political will. This reinforces the need to abandon technocratic illusions, which reduce everything to economics, technologies and 'hands-on' control".[44] The practical value of this "vision of the future" is to solve the political dilemma posed by the very need for modernization and innovation. In the following, I will present the main lines of argumentation presented as Russia's official vision for the future.

2. The visionary zeal of technological modernization

2.1 The potential of empty space

Let's start with the two "verbalizations of the humours of the times"[45] that capture what can be regarded as the official vision of Russia's drive for modernization. This is not to suggest that there are no contradictions in this vision, however. The aim of the following analysis is therefore to open up the undercurrents of that debate, tracing the frictions in the vision and their possible implications for the actual policy-making.

The first trace of the vision to be considered is a story recounted by Viktor Vekselberg, a prominent businessman recently appointed by President Medvedev as the coordinator of Russia's 'Silicon Valley' project. In an interview for *Itogi* magazine, Vekselberg recalled a visit to the outskirts of Moscow. This is where Russia's new *innogorod* – Skolkovo – will be built. The story went as follows:

> Recently Vladislav Surkov and I made a field trip to inspect the land. There were only fields and dirt. So we had to put our rubber boots on. And so there we were standing on the village road. There was not a single soul in sight. Suddenly a *muzhik* plodded towards us – a very typical inhabitant from the outskirts of Moscow. When walking past our group, he stopped and stared at us. 'I saw you on TV,' he said. 'So, are you really going to build a Russian Silicon Valley here?' After receiving a positive answer, the *muzhik*

[44] INSOR 2010, 4.
[45] Schumpeter 1955, 38.

> cheerfully exclaimed: 'Great! Well done! Go for it! We locals have been waiting for civilization to reach us for a long time.'[46]

This is confirmation, says Vekselberg, that "our idea is consonant with the people's frame of mind. That's what is important!"[47] The story he relates plays with the idea of freedom which, according to Dmitrii Likhachev, is not just freedom, but also will, and more importantly, refers to *freedom in space*.[48] In Russian folklore, not least in the writings of Nikolai Gogol, the flat, monotonous and vast territory is transformed into a symbol of endless potential. In this sense, the dirt road near Skolkovo represents a blank canvas on which the initiators of the project can draw.

The notion of the empty space in Vekselberg's story invokes mental models of thinking about space and power in Russia. Emma Widdis has analysed the meanings invested in Russian space and argues that the "empty Russian plain, with its lack of distinguishing features, provides a kind of definition of Russian identity. This Russian emptiness can, implicitly, be invested with whatever significance you choose, and its distinctiveness is apprehended through comparison: De Custine, the foreigner in Russia, sees only chaos. Kliuchevskii's imaginary Russian abroad recollects – by contrast – openness and freedom: a kind of freedom and lack of claustrophobia that more conventionally 'national' landscapes do not offer".[49]

Vladislav Surkov in his above-mentioned address sums up how this 'freedom in space' translates into politics. "In our intellectual and cultural practice", Surkov says, "synthesis predominates over analysis, idealism over pragmatism, imagery over logic, intuition over rationality, the general over the particular". Stemming from this, he distinguishes three "parameters of real politics" in Russia. First, the striving towards political wholeness that manifests itself in the centralization of power functions, that is, the 'power vertical'. Second, the idealization of the goals of political struggle, and thirdly, the personification of political institutions. The very imagination of the *innogorod* is based on the logic of the idealist: the one who thinks up worlds and tries to establish them on Earth.[50] As the main ideologist behind such terminology as the 'sovereign democracy', Surkov is here contemplating how the centralization of power, idealism and the personification of political institutions may serve as an engine for society's striving for change in the absence of real political competition.

Following this logic, the *innogorod* to be built in Skolkovo is a liminal space that exists simultaneously both inside and outside of the Russian cultural

[46] Itogi 26.4.2010.
[47] Itogi 26.4.2010.
[48] Franklin and Widdis 2004, 41.
[49] Franklin and Widdis 2004, 40.
[50] Surkov 2008, 87.

matrix. It is a place for experimenting how to transgress the limits of the system and push them further, without dissolving the system itself. The building of Skolkovo takes place under the close scrutiny of President Medvedev. The project is managed by a special fund and governed by legislation the main purpose of which seems to be to seal off the project from the adjacent administrative and social environment. The government hopes that the technical and qualitative standards that will be implemented in the innovative centre can eventually be extended to Russia as a whole.[51] This is a kind of gradualism to which President Medvedev has referred in his recent speeches. Despite the rhetoric for the 'vision of the future', it seems, based on these details, that the village road at Skolkovo is like the wonderful word "road" in Gogol's novel *Dead Souls*. The road in the story denotes direction (*napravleniya*) that leads somewhere else rather than to somewhere in particular.

2.3 The burden of time

If the first part of the vision has been rather positive, focusing on the potential Russia has (by default, as it is claimed), the second part touches upon Russia's relations with the past. Following Joachim Zweynert, the latter may be conceptualized as the problem of the nonsimultaneity of social development. As noted by Zweynert, this is the "relationship between economic reality on the one hand and the ideas, values and conceptions that people have in their minds on the other".[52] In practical terms, nonsimultaneity is incarnated in the above-mentioned law that ensures the autonomy of Skolkovo from the Russian system.

Vladislav Surkov, presidential aide and member of the presidential Commission on the Modernization and Technical Development of the Russian Economy, seems to be well aware of the importance of this friction and the possible political instability that it may create for Russia. In an interview for *Vedomosti*, he explained that although there is a possibility that funds will be wasted in the process of building Skolkovo, the leap forward has to be made. This is because:

> Today the Russian economy resembles an old armoured train without a locomotive. On the train sit people with computers, wearing ties and with glamorous ladies at their side. The armour has virtually disintegrated and it [the train] is decelerating. A little bit further and it will stop altogether.[53]

[51] Zasedanie komissii po modernizatsii (…) 29.4.2010.
[52] Zweynert 2006, 183.
[53] Vedomosti 15.2.2010.

In Soviet times, the fast-moving train signalled the promise of a 'brighter future' brought about by the Soviet-type modernization. There can be no return to that type of development path, as has been voiced by President Medvedev.[54] The point Surkov makes is a bleak one:

> In our society there is not yet a demand for innovations. We are a raw-material (producing) country, not just in the structure of our economy, but our mentality. Our business does not yet understand that unique knowledge and technologies provide the main competitive edge.[55]

For the political elite, the right reaction is further consolidation and refurbishment (*obustroistvo*) of the power vertical. It is the "lack of time" and the "lack of alternatives" by which the prevalence of the state-driven modernization is legitimized. As stated by Medvedev: "we must begin the modernization and technological upgrading of our entire industrial sector. I see this as a question of our country's survival in the modern world".[56] Furthermore, mimicking the development path of other nations is considered to be a strategy of the weak.[57] It is thus politically necessary to seek the "innovative path of development" which, in the Russian context, translates as a strategy of a great power.

Lastly, and perhaps most importantly, it is held that the two "most persistent problems of Russia", as described by President Medvedev in his presidential address in 2009, namely the "primitive economic structure' and the "humiliating dependence on raw materials", are inherited from the past.[58] Addressing the United Russia Party congress in St. Petersburg in November 2009, Prime Minister Putin added the following to this list:

> In order to move forward, we need to rid the economy of hopeless, outdated and money-wasting industries, and to nurture and support the genuinely competitive core of the real economy […] If we want to live on the profits of a modern economy, and not survive on rent from raw materials, we have no other option. We must recognize that vital factors for development in the coming period will be our domestic resources, optimizing industrial equipment, improving labour productivity, and forming efficient employment structures.[59]

This argument has played out well thus far. It is generally acknowledged among Russian economists and politicians that the country needs to

[54] Medvedev 2009a; Medvedev 2009b.
[55] Itogi 26.10.2009.
[56] Medvedev 2009b.
[57] Putin 2000, 1.
[58] Medvedev 2009b, 2.
[59] Ria Novosti 21.11.2009.

'diversify', that is to restructure its economy away from the raw-material sector. But therein lies a contradiction. The official line of thinking builds upon a kind of historical amnesia, or 'eternal return' to the discourse on 'modernization' and 'innovation'. In other words, it is argued that "we must begin the modernization and technological upgrading of our entire industrial sector"[60], as if there had been no such beginnings in the recent past.[61]

President Medvedev concurs with this criticism in so far as he admits that "almost all of us" fell for an illusion that the "structural reforms could wait" and the actions supportive of innovative products and technologies were the "subject of only random individual decisions".[62] However, the first presumption (that Russia has to act immediately) nullifies the possibilities of major changes with regard to the scale and depth of the state involvement in the economy. At this point, I would like to briefly discuss the critical responses to this vision. Although the two responses discussed here – the nationalist's version of political economy and liberal critique – have very different agendas, they both focus their criticism on the role of the state in the Russian economy and society.

3. Criticism of the official vision

3.1 State intervention and Slavophile economics

The present global economic crisis has forced economists as well as governments in all parts of the world to reconsider the relationship between markets and the state. The crisis has served to reinforce the criticism that was already being directed against the neoliberal market ideology. The recent bailouts (of major companies and even smaller states) signal that the 'markets can't be allowed to reign' alone. It is argued that 'the invisible hand of the markets' is not steered by automation, but may operate only in the presence of strong institutions. Simply put, the mainstream criticism towards neoliberal ideology argues that it does not 'deliver' what it promises, or does so in a way that puts societies under too much stress.[63]

Writing in 1997, Robert Boyer and J. Rogers Hollingsworth noted that, in fact, "the advanced industrialized countries overcame the interwar economic

[60] Medvedev 2009b, 2.
[61] See e.g. Putin 2004.
[62] Medvedev 2009b, 3.
[63] See e.g. Harvey 2008.

collapse by controlling and regulating markets, but not by a blind obedience to mythical market efficiency".[64] The writers point out that the developments since World War II have led to the erosion of the institutions that channelled and contained the markets in the interwar years. In the 1980s a paradox ensued: governments increasingly led the markets to solve the difficult issues they were confronting, while economists were discovering that the "efficiency of markets was restricted to a very small set of products".[65]

With hindsight, Francis Fukuyama, for example, has noted that the problem with the Washington Consensus "lay in a basic conceptual failure to unpack the different dimensions of stateness and to understand how they related to economic development".[66] Steffen Hertog has examined the reasons for the success of state-owned companies in the Gulf States. He notes that "a majority of development theorists now acknowledge that active, targeted industrial policies can play an important role in enabling long-term growth and diversification of late developers. But despite this thorough revision of the Washington Consensus, there still seems to be widespread agreement that states, however "developmental", should not exert direct control over productive assets".[67] In the case of Russia, state-owned enterprises, although favoured by the current administration, are generally seen as less efficient than private enterprises, and even more importantly, as part of the "administrative resource" of the Russian state to be used for political purposes both at home and abroad.

Those in Russia advocating 'national economic ideology' like to refer to this "statist tendency of development among Western countries" as evidence against the advocates of economic reforms in Russia in the early 1990s.[68] They cite Fukuyama's aforementioned criticism and argue that:

> Russian neoliberals interpreted modernization of the state administration as its abolishment. Once again, it seems that behind the market-transformation rhetoric in Russia's case there is an intention to undermine the statehood as such (this time, it is Russia's statehood, not that of the USSR).[69]

The idea of the 'nationalization' of economic theory was most consistently developed by the economist Viktor Kulkov in 2004. He identified "particular national economic laws" on the basis of Russia's unique natural, climatic, geographical, geopolitical, socio-cultural and historical conditions. These laws of Russia included: "state-regulated development, the dominance of

[64] Boyer and Hollingsworth 1997, 435.
[65] Boyer and Hollingsworth 1997, 440.
[66] Fukuyama 2004, 5.
[67] Hertog 2010, 261.
[68] Yakunin et al. 2009, 43; Zaostrovtsev 2008,183.
[69] Yakunin et al. 2009, 73.

state property, moderate social differentiation and the mobilized economy". The point made by Kulkov was that "the existence of these laws limited the laws of the market economy, and might even invalidate them in certain instances".[70] In Kulkov's argumentation, as noted by Zaostrovtsev, there were no general developmental laws against which national 'specificity' could be defined and compared. To Kulkov, the Russian economy was a unique system that had developed according to its own laws. The 'economic man' was thus replaced by the 'Russian economic man'. According to Kulkov, the defining features of this national character included "support for collectivism, etatism, social measures and stability".[71]

More recently, the Slavophile-type interpretation has been advocated by the *Governance and Problem Analysis Center*, headed by the CEO of the Russian Railways, Vladimir Yakunin. The centre argues not just for the restoration of the state's role in the economy, but for the re-establishment of the link between economic theory and ethics. "The practical results of the government policy should be measured not only by economic indicators but also by the ethical criterion. In addition to being used as a criterion, the ethical potential (the ideological and spiritual factor) may be used as a special resource for economic growth and development".[72]

According to these writers, economic success is "civilizationally relative"[73], and accordingly the economic policies in Russia should be based on principles derived from the Orthodox tradition. They argue that the current problems of the public administration are due to the fact that a 'deeper understanding' of this tradition is lacking, or not implemented at the economic policy level.

> The Center has proved mathematically that instability, failures in Russian economic and social lives, the deterioration of Russia's position in the international arena, and many other current development problems are related to public administration. They are attributed to the fact that their foundation is not based on the deep and befitting notion of Russian existence that guided the country throughout its history for a thousand years, but rather on a new version of dogmatic invocations that combine the words from the imposed alien vocabulary. Again Russia is not treated as a distinct country, but rather as a part of Europe or the "civilized world" – the play on words doesn't change the essence.[74]

[70] Cited in Zaostrovstsev 2009, 178.
[71] Cited in Zaostrovstsev 2009, 179.
[72] Yakunin et al. 2009, 228.
[73] Yakunin et al. 2008, 223.
[74] Activity Report 2009, 1.

"Russia's criterion of economic success", according to the writers, "has always been its defence potential, the resources it can mobilize in case of an external threat".[75] This is in keeping with the official definition of the "innovative development", which says that: "innovations, competitiveness and a modern economy [are] the compulsory conditions for reinforcing the military potential and consolidation of the position of Russia in international and foreign economic affairs. Only by modernizing the economy of the country may we attain the main objective of Putin's Plan – the transformation of Russia into a leading great power".[76]

According to Andrey Zaostrovtsev, the Slavophile way of thinking finds more and more adherents among Russian academic economists.[77] The mode of thinking that the Centre represents stands out from the mainstream for its emphasis on religion as a basis for redrawing the economic policy doctrine. The centre also stands out because of the close linkage between the CEO of Russian Railways, Vladimir Yakunin, and Prime Minister Putin. In his position as the head of Russian Railways, Yakunin has argued that the company's management and its foreign business actions cannot be separated from the interests of the Russian state.[78] Typically, this has entailed putting pressure on the Baltic states by insinuating that Russia will withdraw its oil transit traffic through the states.[79] In 2007, the company and the Russian Ministry of Foreign Affairs agreed on terms of cooperation dubbed the "Transport Diplomacy". It basically falls within the above-mentioned document, which outlines the means and ends of Russia's foreign economic relations. Further research is needed to assess how influential this "Slavophile economic" thinking is in Russia's current foreign economic policy. Next, I will briefly discuss the liberal argumentation that dominates the current criticism of the government policies on modernization.

3.2 The liberal argument: "Don't speak – act!"

The liberal opposition and liberally minded economists in general argue that long-term development cannot be facilitated or maintained unless the political confines of the economic system are changed. The crux of the criticism is that the inefficiency of the state bureaucracy and the scale of social inertia should be subject to more complex manoeuvres than politicians simply declaring them "bad habits" of the people.[80] In other words, thoroughgoing political reforms, strengthening the basic institutions of

[75] Yakunin et al. 2009, 223.
[76] Chadaev 2007, 52.
[77] Zaostrovtsev 2008, 183; See also Abdelal 2001.
[78] Yakunin et al. 2009.
[79] Yakunin et al. 2009.
[80] Medvedev 2009a.

democracy and market economy at the expense of the 'Muscovite matrix' are required to put things right.

It is hoped that the state capacity to actually implement the reforms will improve once the situation in which there is 'too much state' (the scale of state involvement in the economy), and not enough institutions (the scope of the state agency) is reversed. The mainstream liberal line of thought has been neatly summarized by the *Vedomosti* newspaper:

> If one thinks that modernization is not just a trendy ideology, but a set of concrete actions, many questions follow. For example, how much money the country is prepared to use to overcome the raw-material dependency and diversification of the economy (the official goals of modernization) and what kind of systemic instruments we have to achieve this.[81]

The so-called "Four Is" programme (infrastructure, innovations, investments, institutions), introduced by Dmitry Medvedev before his election in 2008, provides a convenient checklist for the emergence of "efficient" and "responsible" state bureaucracy in managing the reforms.

The modernization of Russia's transport and social infrastructure, due to its central place in the official discourse and importance in facilitating actual diversification of the economy, is often taken as an example of the current regime's inability to act decisively even when it wants to. The raw data on infrastructure modernization are rather impressive. The Minister of Transport, Igor Levitin, reported recently that the budget spending on transport infrastructure modernization has increased fourfold from 70 billion roubles in 2002 to 283.1 billion roubles in 2009. The total investments in the programme in 2009 were 752.8 billion rubles, almost twice as much as in 2002.[82] However, the concrete results are poor, especially when it comes to the road sector. Vladislav Inozemtsev, the head of the Moscow Center for Research on Post-Industrial Societies, cites Rosstat figures according to which from 1995 through 2007 the length of automobile highways remained practically unchanged. By adding local roads to these figures, the authorities have masked the actual nine per cent decrease in the country's road system.[83]

A comparison with China illustrates the scale of the problem. According to Minister Levitin, 23,000 kilometres of road were built within the programme period (2002-2009). This is less than half the number of roads that China built in 2008 (53.6 thousand km).[84] If the length of the road system is inadequate, the same can be said about the quality of the roads. It has been

[81] Vedomosti 28.1.2010; Vedomosti 2.2.2010.
[82] Pynnöniemi 2010; Pynnöniemi 2008; Levitin 2010.
[83] Novoe Vremya 10.3.2010.
[84] Levitin 2010; Novoe Vremya 10.3.2010.

estimated that only 40 per cent of the federal automobile roads meet the requirements in terms of quality of pavement and road width. In an international comparison, Russia ranks 118th out of 133 countries in terms of the quality of its highways, as indicated in the latest report by the World Economic Forum.[85] According to experts in the industry, this is mainly due to outdated construction practices and massive corruption, a hallmark of the sector.

Few analysts expect that the two commissions on modernization, the one headed by President Dmitrii Medvedev, and the other under the supervision of Prime Minister Vladimir Putin, would lead to consolidated actions. The scepticism towards the government's innovation policies is particularly deep. The low level of budget spending on science and education and the general distrust towards the state-led development projects are among the factors that undermine the credibility of the recent drive towards 'innovative development'. Critics argue that the authoritative modernization method is unlikely to provide for the emergence of the function of the 'innovative entrepreneur', the realization of which is constitutive of the capitalist economy, its "system-specific property".[86] Since there was no 'place' for entrepreneurship in the socialist economy, the innovative potential of the socialist countries was poor. The only exception was the military-industrial complex where technological progress ensued, but in isolation from the rest of the economy and society.[87]

The biggest concern is that due to the rampant corruption and inefficiency of the regime, investments in modernization or innovations produce few concrete results (other than enriching the bureaucrats themselves). In this situation, those 800 billion roubles that have been earmarked by the presidential commission for the five priority sectors of modernization are at the same time both 'too much' and 'too little'.[88] What we may witness in the future is the acceleration of elite in-fighting for power and money. This might be glimpsed by following the building of the Skolkovo innovation centre. The centre may become a typical *dolgostroi*, an unfinished arrangement, or successful in its own right, a *gostroika*, a government-sponsored construction. In any event, the way in which the building process unfolds will be symptomatic of the political constraints on Russia's economic development. In the next chapter I will draw some conclusions based on the discussion in-above.

[85] WEF 2010.
[86] Kornai 2010, 1.
[87] Kornai 2010, 11-14.
[88] Vedomosti 18.5.2010. This process is analyzed in detail by Nemtsov and Milov in their latest report. Nemtsov and Milov 2010.

4. In conclusion: the risk

Much of the discussion on Russia's economic reforms can be placed under the rubric of Russia's relationship with Europe and, more specifically, centres on the disseminating of the ideas first held in the West to Russia. In the 1990s and early 2000s the debate was on how 'normal' Russia is in comparison to a) the western path of development, and b) the trajectories of the reform policies pursued in other developing countries. More recently, the discussion has progressed to the factors that hamper Russia's economic growth potential. In respect of this latter issue, it is argued that "the economy is the decisive factor in determining Russia's future path".[89] The logic goes as follows: Russia needs to ensure stable economic growth to balance the regime's otherwise weak political legitimacy. However, it seems that the current talk about modernization and innovation has more to do with the internal weaknesses of the political system rather than the economy-driven objectives to reform it.

The longer the economic crisis, the more vulnerable the current constellation of power becomes. But the probability that the authorities will opt for a "systemic reform" of the economy is very low. According to Sergei Aleksashenko, it is much more likely that the "manual control" of the economy and politics will continue.[90] There are several explanations for this, one of them being that there is currently no 'counterbalance' to the ruling elite. This is because neither the regional elites nor the so-called oligarchs have a major impact on the state decision-making. In this situation, the Russian government has pursued an anti-crisis strategy that is not so much directed at tackling "the systemic problems of the Russian economy as to reinforce the ruling elite's economic and political power".[91] The report by the *Center for Eastern Studies* concludes that "the stability of the current elite's power does not directly depend on the economic situation in Russia". In fact, the ruling elite has benefited from the economic crisis. Members of this class have been able to consolidate their position in the key sectors of the Russian economy and expand their businesses further.[92]

Nevertheless, the anticipation of the absence of a direct linkage between economic performance and the stability of the current regime in Russia does not imply that there will be no risks involved in the way in which politics unfolds there. Phil Hanson has noted that the deterioration of the Russian economy was particularly sharp because "both Russian and foreign

[89] Sutela 2010.
[90] Cited in Hanson 2009, 34.
[91] Wisniewska et. al. 2010, 34.
[92] Wisniewska et. al. 2010, 40; See also Hanson 2010, 32.

businesspeople involved in or considering involvement in Russia react very sharply to danger signs". For them, the "falling oil price is a signal that a tough environment is about to get a good deal tougher".[93] For businesses, the risks and costs of being in Russia present a calculable uncertainty that could be mitigated by exiting the markets.[94]

The Russian political architecture, the 'power vertical', does not provide a similar 'emergency exit'. With the global economic crisis, the threat of "not knowing", an element of a non-calculable phenomenon, has entered the political discourse. Speaking recently in front of a distinguished audience of 900 elite members, Prime Minister Putin referred to the task of modernization and noted that:

> You know what frightens me? That behind this partition wall we should not forget the main elements of what we ought to do in this direction [of modernization]. We need to pinpoint the main things that interfere with [the development] and to eliminate them by any means. And this depends on you.[95]

This is a crucial moment in one sense, as here the 'vision of the future' is being embodied not just in the person in power (Prime Minister Putin), but in every individual bureaucrat. The statement underlines paradox of the current regime. It is a system that claims to be vertical one but in fact works horizontally: where institutions are personified and work at will.[96] The risk involved is best summarized by Ulrich Beck, who writes that 'the controlling rationality of risk cannot be applied to the uncertainty of the effects, the side effects and the side effects of the side effects".[97]

The vision for future discussed in this paper does not foresee a systemic change in Russia. Instead it appeals to people's belief in 'technological modernization' as an engine of change. An idea seems to be that the current system can be transformed from within, or at least some parts of it. This possibility is criticized both by the nationalist economists and the liberals, who argue that the modernization efforts have been superficial and, as has been voiced by the liberal critics, the system itself is beyond repair.[98] As suggested in-above, the sense of uncertainty has increased among the political elites, a factor that should be taken into account in our analysis of the political constrains for economic reforms.

[93] Hanson 2009, 29.
[94] During the week of May 6-12, investment funds specializing in stocks in Russian companies withdrew a total of more than $200 million. RFE/RL 19.5.2010.
[95] Putin 14.5.2010, 6.
[96] Ledeneva 2009.
[97] Beck 2009, 18. Emphasis in original.
[98] Nemtsov and Milov 2010.

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