

What Concept of Political Economy is Adequate for Strategy of Regional Growth in Russia?¹

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Summary

This paper discusses the theoretical premises of a strategy of regional economic growth. It recommends that attention should be paid to the various types of capitalism, including peripheral ones, for which developmental laws differ from the ones effective in developed economies. A brief overview of the history of the types of "national political economy" allows for establishing alternative options of economic reforms. The conclusion is arrived at whereby the projection of the "mainstream" type will not be in line with the desirable changes of the Russian economy.

Key words: National political economy, peripheral capitalism, history lessons.

JEL Classification: R10, B15, P16

1. Introduction

Today virtually all Russian regions have drafted their own development strategies. They are required to develop these strategies by the respective federal Law for the Russian Federation of June 28, 2014 №172-FZ, "On the strategic planning in the Russian Federation" (hereinafter

Act 172). Moreover, in many universities and research academies Act 172 it is a compulsory discipline. This is justified, as students' ability to navigate this law allows them to easily find a job in government. Knowledge of economic laws (the law of value, the law of supply and demand, and., among other legal instruments) are needed only as a backdrop. It is more important to be aware of the terms and conditions regulating the submission of their strategy to superior authorities for approval. This in turn increases the likelihood of being allocated budget funds for the development of their region.

Particular interest and attention should be focused on article 3, para 23 of Act 172, which reads as follows: " ... forecast of socio-economic development of the Russian Federation - the strategic planning document contains **scientifically based system** (*emphasis added –V.M*) views on the directions and expected results of the socio-economic development of the Russian Federation in the medium - or long-term period". It is pertinent to ask: who develops the "scientific" assumptions about the expected economic development of the region and its place in the world economy? What are the laws of economic development created by the "system"?

¹Article is prepared within implementation of the EF NSU project "Development of tools of an economic assessment of large projects: interactive methods in research and educational processes"

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Who and what research organization develops the theoretical views on the trends of development of the Russian Federation and its regions? Act 172 most often makes mention of the Ministry of Economic Development (MED). Then perhaps the whole "system" rests on the pillars of this ministry. Considering that MED adheres to the mainstream theory, which is in turn clearly and purposefully oriented towards the establishment of a market economy (of course, the best) in Russia, it is evident that the estimates for individual regions do not go beyond this realm. The estimates for the separate ministries and/or corporations further suggest that it is a market economy, especially global, sets the guidelines for the development of Russia's regions.

The construction of any aircraft requires that at least law of universal gravitation is complied with. It is worth abiding by this Act, even though it is not a federal law approved by the Government or approved by the State Duma. If this law is ignored, the aircraft is likely to fall to the ground. The law reflects reality, regardless the different perspectives for its assessment. In its development, the economy is also subject to objective laws. However, there is no general consensus about what laws apply at some point in time and at a specific place. What is more, any shift in power is likely to bring about a shift in the perspectives as which of these objective laws should provide the basis for a specific legislation that is, the theoretical concepts are to be applied to specific action in the field of economic governance.

2. On the question of results of a shock therapy as only way for Post-Soviet Russia's economic recovery

Even long before "shock" approach to applied to Russia's market economy (up to 1992), many researchers warned against the dangers of this approach. A.G.

Aganbegyan saw the future of the Soviet economy as an organic combination of the centrally-planned and market economy, albeit a social-market one [1]. Dr Habil V. N. Bogachyov also highlighted the need to use market tools, though combined with the instruments of centralized strategic planning: "Valuable measuring instruments are provided not only competitive environment of individual producers, but also by the properly developed centralized plan" [2, p. 70.]. In 1991 (back during the communist times of the USSR), V. N. Bogachyov made a critical analysis of the first results of Perestroika reforms, and noted: "Mistakes, mistakes ... There are too many mistakes in the economic policy, so many that you start doubting whether they are mistakes at all. The mistake is something you make by accident, like the missed target: the bullets of the poor shooter would evenly spread across the board. Yet, if all shots are scattered to the right of the center - it is not a mistake, it is the fault of the poorly adjusted gun" [3, p.57]. He warns about dangers of the market euphoria typical of the economic thought of that period: "Economists found a new spillikin – the market. It is advisable to understand that the market does not exist at all at all, its monopoly version is worse than any centralized administration ..." [3. p. 58].

Back in 1993, participants in the debate on "The fate of the economic reform in Russia", which was held on the pages of *The Economy Issues* magazine, raised questions pertaining to the goals of the reform and its theoretical bases. L.I. Abalkin notes that "the importance of theoretical generalizations ... consists in the points of departure they establish for the analysis of the course of the economic reform of the assessment of the taken steps, and, if necessary, the correction of the pursued course." Furthermore, "Any of the goals set at this stage of reform were not yet reached." [4. p.6]. That is, the rise in the price level went beyond all expectations,

output dropped, and the budget deficit grew. On this point we can disagree with L. Abalkin: a goal of the reforms (as if "in brackets") such as the destruction of the command system of governance, the disintegration of the USSR and the collapse of defense industry, and, eventually, rendering the reforms irreversible, has been achieved in any case. As Dr.Ec.Sc. Menshikov put it in a straightforward manner, "That Clinton, and his successor Bush managed to turn their major class and social and strategic rival into a peripheral and economically dependent country, and politically – into a second-rate partner of the United States in their global imperial strategy, is no doubt a colossal victory for Washington. ... Only those who sincerely believed in US intentions of transforming Russia into a normal western country with an adequate economy and welfare state can possibly deem this as a defeat or failure of the American policy. They had no such intentions". [5].

In 1998, the Italian journalist D. Chiesa, who does not see himself as a professional economist but is nonetheless accurate, formulated the essential reasons for the catastrophic failure of Russia's market reforms, based on their "civilization" component. "In the distant past there used to be something referred to as "civilization". They wanted to achieve it at any cost, even by claiming the life of the last Russian, while there was still life on Earth. We should hurry! There is no time to waste! This was a huge mistake, as they should not have hurried... Yet, there was a bigger mistake... unless you could copy this civilization with absolute precision, it is completely impossible to imitate it at a stage when the civilization itself started questioning its goals and "reconsidering" its own flaws and limitations". [6. p. 123]. This is not the first time, and not only with regard to our country,

that the question of the civilization choice in the economic reform was being raised: at what cost and with what ultimate goal are some or other reforms in the country's economic life carried out? Yet, in the field of the theoretical analysis of the economic and social organization, the most comprehensive research was undertaken by Dr.Ec.Sc. V.A. Volkonsky [7]. At the heart of the research was the contradiction between a person's material and intellectual wealth. Economic progress opens up opportunities for the wealthy to become even wealthier, which in turn increases social inequality and destroys the intellectual foundation of human civilization. In this assumption, Volkonsky takes a stance very close to those who make a distinction between economy and *hrematistika*², as the latter term was defined by Aristotle. According to Max Weber, the "spirit of capitalism" requires relinquishing the feverish accumulation of wealth as an end in itself, and requires that profits instead are invariably reinvested into the generation and expansion of production. The capital, whether of Protestant, Catholic, atheistic or any other origin, turned out to be capable of breaking to the effect of the growing inequality between basically equal people not only in terms of consumption, but also with regard to their chances to start up any economic activity. "The experience of the post-war decades reveals that "copying" someone else's economic system rarely generates success, just like copying the homework assignment from the excellent performer in class... Obviously, we can get oriented among the huge variety of economic governance models, only if we draw on some theory". [7, p. 200].

Brightly and figuratively this thought was voiced by professor Lifshits with coauthors in "It is necessary to Dress the Naked King's

²According to Aristotle, the economy is the art to get the useful things to in life, and a *hrematistik* – the art to make money through trade. The goal of the economic development is natural wealth, whereas the goal of *hrematistika* is unnatural wealth, accumulation in a monetary form, possession of money.

Clothes?" They accurately formulated thought is why it is time to recognize that "the king is naked" and whether it was necessary in the early 1990s to put on the western "economic clothes" with regard to our economy. [8, p. 214].

3. Badly forgotten past

If we were to build capitalism, then it would be useful to recognize the existence of all its forms that were much written about but not taught in higher education institutions of the USSR. Is that the case? After all, capitalism exists, according to K. Marx, and this is enough. The USSR did not intend to build capitalism, and after its collapse, there were either aspirations that "advanced" capitalism should be built promptly (like the American or Western European versions), or else, that reformists were simply unaware of the other capitalism theories, given that during their training in the United States, such theories were not taught there. Though we were also warned (including by Nobel Prize laureates) of the dangers of this path of development, another model was preferred. The question of why such a course of development was chosen falls outside the scope of this paper. It makes no difference whether this decision was made out of ignorance or for bad intentions. The mainstream version championed by "Friedman and co" was chosen. A blind eye was turned to the theory of "peripheral capitalism", whether or not deliberately, even though this version was far more appropriate to Russia's economic environment. In the middle of the 20th century, the Latin American economist R. Prebisch critically examined the results and the economic development of the Latin American countries. He then formulated the concept of "peripheral capitalism", and its major theoretical assumption reads as follows: both the peripheral (developing) countries, and the core countries (the industrially

developed ones, relating to so-called "**gold one billion**") are capitalist only in nominal terms. This version presents a basically different form of capitalism. "The specificity of the periphery emerges everywhere - in the sphere of resources and consumption, in the production structure, in the level democratic development, in system of land tenure and formation of the budget surplus, in demographic growth". The researcher further stated that". . . the myth that we could develop just like the core [countries] has been debunked" [9, p.21].

Adam Smith's and David Ricardo's doctrines about the omnipotence of the market, about the benefits of free and unfettered trade and its ability to boost economic growth and increase labor productivity, among other premises, have been known for a long ago. Names of critics of these doctrines, in particular the name of the German geographer Friedrich Liszt (the first half of the 19th century) are less known. His book, "National System of Political Economy", focuses attention on the practical value of the "anti-market" approach for Germany's reunification [6]. In his opinion, for the sake of its national interests, Germany should develop the industries that have no competitive advantages in comparison to the ones in the UK. Liszt further suggests that such a **loss of costs** should be considered only as the alternative price (trade-off) to the nation's industrial education (**it is allocated by me - In, M**). It is worth noting that Otto Bismarck was a fervent adherent of Liszt's views. Perhaps it was this "national political economy" as the economic fundament of regional policy that allowed him to unite Germany. More than 100 years prior to Liszt, similar ideas about the undisputed sovereignty of the domestic market were conceived on Russian soil by our compatriot I.T. Pososhkov. In his "On scarcity and wealth", which he dedicated to Peter the First, Pososhkov suggests halting altogether the imports of goods which can be

produced in the country, though at first sight of not such quality. In his opinion, an active protectionist policy to stimulate the expansion of the domestic industry is needed [11]. The latter would lay the breeding grounds for the Russian exports of ready-made products. We should bear in mind that this assumption was made 300 years ago³. Much closer in time, another compatriot of ours, D. I. Mendeleyev, spoke at the Industrial congress in Moscow in 1882 (on the stage at which the construction of the Trans-Siberian Railway was underway). He called for addressing the need to continue the construction of convenient paths to the east, voicing expectations about the rapid increase in the demand for industrial goods in this region. At the same time he pointed out that: "Without initial [state] protection, naturally it is impossible that the enterprises operating in domestic markets could possibly compete with the ones already operating in the West" [12, p. 141]. Our eyes are now wide open to this historical truth, though in the conditions of the now effective program for "import substitution". Ultimately we locked the barn after the horse had been stolen.

4. Well forgotten history of Russia's/ the USSR's numerous cases of economic recovery

At the end of the 19th century, it was impossible to define Russia as a country of developed capitalism. It was only the country's separate regions that hardly earned their living. We should give tribute to S. Witte, who was among the first to design a new path for Russia's development mostly due to his ambitions to establish a modern (for the time) free market economy in the Russian Empire. Furthermore, Witte's commitment to Liszt's ideas should be emphasized. Witte makes a clear distinction between the real political economy and the cosmopolitan one, which he assumes to be the abstract science in general

that applies to all human civilizations. "It is absurd to require that all economic malaises of a country are treated according to the prescriptions for the cosmopolitan economy, just like as requiring that an engine is designed based on analytical mechanics formulas, without taking into account the quality of the used materials, the role of resistance and atmospheric conditions" [6, p.1]. Witte is adamant that "[i]f the intellectual life of the real century was not under the strongest influence of cosmopolitanism, then undoubtedly, along with the development of political economy, the applied science of national economy would have developed". There is no need once again to recall his role in creation of the Trans-Siberian railway, which was constructed with state budget funding, without any hopes for a return on the investment. The cargo base was established after the Trans-Siberian Railway was commissioned into operation.

In the 1930s, the USSR had no other option but focus on the domestic market, and on the creation of its own viable production, providing practically everything needed, especially with regard to electricity, metallurgy, mechanical engineering, national defense. There was an understanding that productions should be shifted to the different distant regions in the country that are not exposed to external threats. Perhaps it is appropriate to recall the well-known saying of the prince A. M. Gorchakov told after unsuccessful Crimean war of 1853-1856: "They say that Russia has been growing angry. No, Russia is not getting infuriated, Russia is getting concentrated". It is getting concentrated on the creation of an independent economy for protecting national security. In the space of 20-30 years, when the USSR was "fenced off" from the western markets, it was only the art of the Soviet diplomats and the 1929 world crisis that allowed for obtaining useful information about equipment and technologies for the future independent economic development. All this

³ In modern terms – it was offered to pass in policy of import substitution, stimulation of domestic producer for the subsequent production of goods to export with a bigger value added.

was envisaged in the plans for GOELRO, Uralo-Kuznetsk combine, a group of the territorial and production complexes (TPC) of the Angaro-Eniseysk region. And, at last, the creation of the theory of TPK as forms of the organization of labor force was particularly useful for the newly developing regions of Russia's regions in Asia. These decisions of the Soviet leadership were in line with the theoretical views of those who considered economic (more precisely, commercial) efficiency of far minor importance than the goals of defending national security and the protection of the population in this part of the country as an element of social control over the territory. Whether or not it was acknowledged, which is not so relevant nowadays, the policy pursued in this period was governed by the laws of geopolitics: it involved the creation of the basis to counteract the "marine forces", NATO's member states. The post-war recovery period also involved an independent development in the extremely adverse conditions of the highly "unproductive" expenditures in the defense sector. They are seen as "unproductive", given that many technological innovations were implemented namely in the military and industrial complex, while the cosmos and the atom have always been, and still are, the flagman of our industry and of the scientific and technological progress.

The example of Germany's recovery after World War II is revealing. "Germany's economic miracle", that is, the rapid growth of the German economy in the 1950s and 1960s, is an example of how the issues of the preservation of political stability and reasonable state intervention were successfully combined. A basically new model of granting funds was the distinctive feature of the Marshall plan. The US manufacturer was the supplier of the German industry, was granted aid (in US dollars) from a special government fund, while the customer deposited money (the Deutsche Mark most often extended as a loan), in a specially set up European fund for new investments.

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Presumably the Marshall plan also contributed to the implementation of the US government's program to assist the US economy as long as the plan promoted US exports. Yet, what should be paid attention to is the goal of German reforms: the creation of worthy living conditions for all German nationals, while the market was seen only a means to this end. On the contrary, our native reformists took action to the opposite effect.

The mainstream as the driving force behind the world economic development took the offensive along the entire "geographical front", without hiding its rhetoric of justice. As US President Barrack Obama argued, "The world has changed. The rules are changing with it. The United States, not countries like China, should write them. Let's seize this opportunity, pass the Trans-Pacific Partnership and make sure America isn't holding the bag, but holding the pen." (quoting Obama's speech on the ratification of the Trans-Pacific Partnership - the trade and economic organization that would be a boon to American businesses and American workers, and provide the United States the opportunity to dictate rules governing world trade in the 21st century, *The Washington Post* on 3 May 2016). The statement was made openly and with confidence not only in their own justice but their power to mete out justice. This is what we can describe as the geographical projection of the mainstream: it is the global market and its leading players that establish and dictate the rules that each country and their regions should abide by. Russia and Siberia are no exceptions in this respect. Let us assume that "Siberian Damnation", written in line with the concept of the mainstream, is the latter's spatial projection. It is the most powerful, whether an individual, a state or a region, who survive. In a specific region, if production is expensive, that is, if the prices of the final product do not provide for an average rate of return on investment, then this region is bound to either reduce or optimize (which

again suggests reduction) its costs, whether on staff pay, environmental quotas, and other spending items, depending on the benefits for the world or the global economy. Interests of the certain region, its population, or even the entire state are regarded of least importance. This is one of the assumptions on which Paul Krugman based his concept of the new economic geography: it is the global economy that dictates the rules of the economic "game".

5. By way of conclusion

At the time of economic reforms in the 1990s, the actual destruction the state bodies of territorial development⁴, the orientation to the "appropriate" corporations, and the aspirations to burden the latter with social responsibilities, is a mere projection of the policy of the widening gap in the living standards the country's regions. There has been an ongoing process of demographic decline in extensive territories across northern Europe, Siberia and the Far East continues, which in fact reduces the social control over space as element of national security. It should be noted that these processes are perfectly in line with the laws governing the global economy. Whether such developments protect Russia's national interests is a rhetorical question per se.

In the 1960s, mathematical economic methods were introduced in the USSR under the "supervision" of the socialist political economy, that is, the model presumably had to comply with laws of political economy. What is more, this observation is confirmed when we look into the streamlining of the inter-industrial and interregional model (OIIM) as an integral part of system of

economic planning model, proposed in the IEOPP, which was developed by the Soviet Academy of Sciences in 1972 [13]⁵. The criterion for the model's optimization was the fundamental law of socialism, stating that the needs of all people in all regions should be met to the maximal degree, while the balance of production, accumulation and consumption should act as the regulator – the socialist law for the planned and balanced economic development. Regrettably, the economic advisors of the contemporary Russian Government have not yet "matured" to realize that the approach of planning in pursuit of a balanced economic development is a necessary element of any industrial (including post-industrial) economy. The orientation to the "mainstream" as the theoretical grounds of the strategy for the economic development of Russia and its regions continues to foist on the people that the Russian economy is not peripheral and that it is likely to achieve the desirable results and take a stable position.

Figure 1 offers only one of the possible options of a logical model to facilitate the search for of theoretical premises on which regional development strategies will rest. Each country has its own specificity of economic development. Hence the various kinds of theoretical tenets on which regional strategies are based. It is known that "there is nothing more practical than good theory", particularly if this theory is adequate in terms of the place and time of action, and of specific action taken. Only then is there hope that we will not emerge dressed in the "economic clothes" of "the naked king's" tailor.

⁴ Formally there were both Goskom federation, and Ministry of National Policy of Russia, and the Ministry of regional growth and other similar departments, but their role in the definition of the directions of spatial development of the country was minimum: on the one hand pressed interests of multinational corporation (let and with the Russian capital, but comprador structure of their management), and with another – regional leaders, not always capable to reach compromise among themselves or with the federal level of the power.

⁵ At the same time in Central Economical Mathematical Institute functioning of Academy of Sciences of the USSR other system of models which received the name SOFE – System of optimum functioning of economy [14], but also having laws of political economy of socialism in a basis was offered.

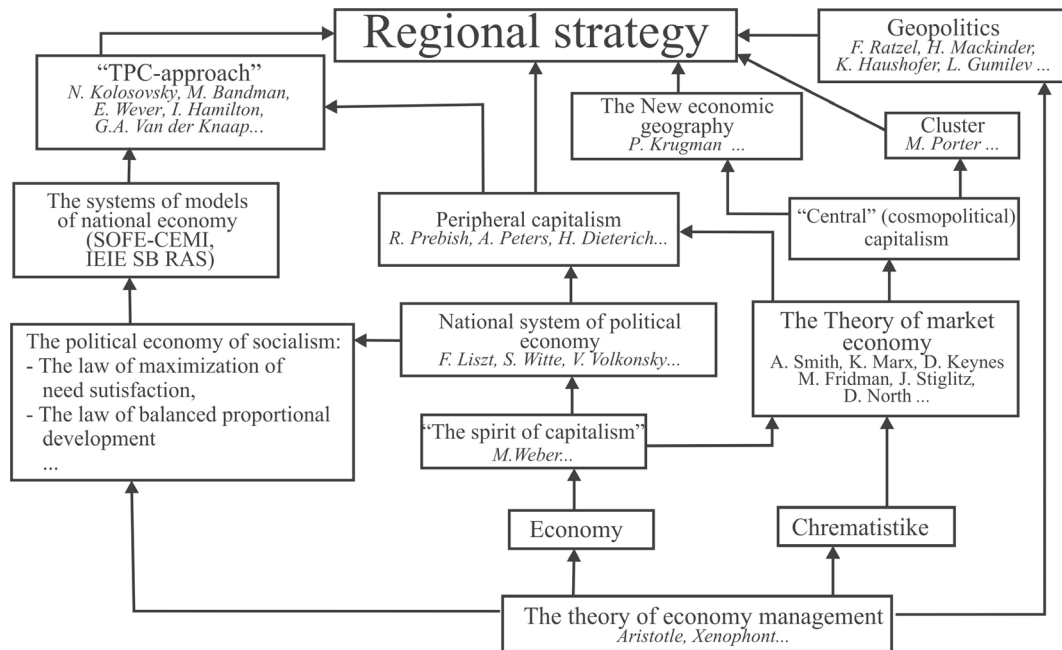


Fig.1. Logical search pattern of the regional strategy

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