

Sergey Dubinin

Russia Wrestles with the Crisis. Game Will Take Place in Any Weather

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Conclusion

The book we are introducing today belongs to the happy genre which gives the author an absolutely free hand. When the publisher discussed the concept of my book with me, his first question was: “What’s your target audience?” My answer was that “the book is addressed to the typical audience of the Ekho Moskvyy (Moscow Echo) radio station, i.e. people who are genuinely interested in a subject but not always well versed in it. This is an audience which expects whoever addresses it to be honest in the first place.”

Even as I was saying it I realized that the genre of my book could best be described as “science writing”.

I consciously sought to speak about present-day Russia, about what has happened and is happening before the eyes of the three generations of adult fellow citizens living today. While Russian writers and readers have traditionally exhibited a keen interest in national and world history, I have tried above all to understand how history is made today and make sure that the text of the book is informed with this understanding.

It is not the task of this book to explain everything to everyone and to come up with answers to all the questions. It would be silly to try on a prophet's robe, to be a sole and unique possessor of sacred knowledge about all and sundry. On the contrary, I try to take a new look at some topical issues that engage the minds of the people with whom I am in daily contact and, proceeding on that basis, express my opinions on specific matters.

I am convinced that the greatest harm to civil society in Russia is caused by those who, seeking to be politically correct, eschew discussing the issues that are of real concern to all Russians. Thus, the refusal of liberal-minded intellectuals to study and publicly address the theme of economic and political reforms aimed at solving patriotic tasks, and at modernizing Russia has left this key area of discussion to vulgar and strident flag-waving patriots. Similarly today we concede initiative to the same ideological adversaries when discussing the problems of inter-ethnic relations and their coexistence within the single Russian nation state. The fact that our European neighbours often make similar mistakes can be no excuse for us.

For all that I would like to express my appreciations to the wide circle of specialists whose ideas and reflections have provided me with invaluable materials for my own conclusions.

I will try to sum them up. In the recent years and decades Russia has seen some improbable, even though not the worst possible, scenarios being played out. Why? From my point of view historical patterns in the life of human society do exist. What the European countries, including Russia, once lived through when huge masses of people migrated from the countryside to the cities is now being experienced by people in Asia and Latin America. This is not a forecast, but a statement of fact. The changes that occurred in the historical past plant the seeds, in the course

of “long” historical time, of alternative variants of possible development of events, as Fernand Braudel and his followers rightly pointed out. Specific future scenarios are not predetermined by the past as rigidly as Karl Marx and Friedrich Engels believed. Development has a probabilistic character. We in Russia are witnessing how such a choice is made by the politically, socially and economically active segment of society, by its elites.

The political system, the fate of states and peoples depend entirely on their own choices. Their life and culture depend on whether they adopt or reject demographic, family, political and social models. This underlies the national specificities which some curse and others worship. But any specificities are the results of human actions. What has predetermined their actions?

The factors that have influenced Russia during the 20th century were so powerful that one can safely say that they shaped our reality today.

First. Russian society moved from predominantly agricultural production and rural society to largely industrial production and society.

Second, and related to the first, was the movement of huge masses of the population from rural settlements (villages in Russia) to urban settlements. The sociology of the city in Russia is a fascinating and vast topic.

Third. Change in the family pattern. Extended families of three and even four generations (the norm in rural life in Russia only 70 years ago) have been replaced by families consisting of two generations living together, parents and their children. A single mother with children has become a very common form of family. Grown-up children and parents wish (mutually) to live separately.

Fourth. In connection with points two, three and one, a change has occurred in the woman’s role and status and her place in production and social life in general. This brought a change to the place of the man, both in family and in society.

Fifth. The drop in the number of children of adult parents to one or two, which is not enough to ensure the growth of the population traditionally inhabiting the European part of Russia. This entailed the admission of migrants as a labour reserve for the economy.

Sixth. The model of the family, the place of the woman in society, the urban lifestyle and the development of healthcare in the modern world predetermined the demographic situation and the norm. A family with two children or even one child has become the norm. This example illustrates how changes due to certain factors trigger mechanisms that turn these consequences into powerful social factors in their own right. The model of the family, demography have presented new requirements to housing, healthcare and education.

Seventh. An economy capable of feeding several billion people is an industrial economy which is evolving into a post-industrial one. It can only develop as an urban civilization.

Eighth. Negative experiments: “the Great Leap Forward” and “the Cultural Revolution” in China, the planned economy in the USSR, the surviving traditional communities in sub-Saharan Africa – people everywhere have faced diminishing effectiveness of the use of economic resources and food shortages. Everywhere it eventually led to the transition to market relations, modern or primitive.

It would be simply naïve to claim that the impact of all these factors has not changed the “matrix” of social consciousness and the basic values espoused by the Russians. All this manifested itself in Russian history not in a “vacuum”, but has been fighting its way through four social revolutions. The last of these we experienced less than twenty years ago, in 1991-1993. Russia has also lived through a devastating civil war, two world wars, the cruelties of forced collectivization and the terror unleashed by a dictatorial government against its own people. As Alexander Tsipko aptly put it, in the 20th century not a single country in the world, with the exception of Kampuchea under the Khmer Rouge, had seen such massive slaughter of its own people.

All the social structures and all the traditions of Russia went through this “mincing machine” during the last century. What has survived is now sanctified by historical memory, but by no means all of it is good for the modern times. Every Russian has the right to have his own view of the past. I would name the following Russian features on the plus side and on the minus side.

The tradition to seek to improve the quality of life for oneself and one’s children through quality education dates back almost to the Middle Ages, certainly to the times of the Archpriest Avvakum and Patriarch Nikon. It determined much of Russian history over the last two hundred years. This is one of the most delectable traditions in our country.

Simultaneously the age-old tradition has been gaining strength of seeking a comfortable perch in the state hierarchy or close to it in order to collect “status rent”, or, to put it simply, to take bribes. A TV programme about a minister of internal affairs who was a personal friend of the head of state and who had filled his home with antiquities, carpets and fur coats in commercial quantities, is not a story about the time of Boris Yeltsin or Vladimir Putin. It happened under Leonid Brezhnev. That custom is alive and will long survive if our bureaucratic system of running society is to be regarded as the “special Russian path of development”.

Belonging in the same category is the fact that much of the Russian elite over the past hundred years has been juxtaposing itself, and our country as a whole, to the North-Western civilization, to Europe and America referred to as the “West” for short. It was a bizarre mixture of an inferiority complex and megalomania.

From what I know about the present-day sociology of Russia, including the demographic studies, we and our social consciousness and behaviour are not simply “Westernized”. They are entirely European. Russia has long drawn closer not to an ideal “West”, but to the real urban industrial society denoted by the word “West”. Our country has left far behind rural society most frequently referred to as the “East” where a person’s identity is determined only through belonging to a tribal or neighbourhood community.

Russian society has long been extremely individualistic, ever since the Soviet times. The “social activity” in which the totalitarian state formally forced people to engage has fallen away like husk. Numerous sociological surveys in the past ten years demonstrate growing acceptance in Russian society of the scale of values and priorities regarded as traditional for the liberal society in the European countries.

Young people put a high premium on such values and intellectual independence, personal professional skills, individual freedom and equality. At the same time sociologists note that the body of liberal values is fairly diluted. They are largely accepted by about 45% of the population, but simultaneously many of the same respondents may support an opposite ideological value (traditional or Soviet). Such a confused system of values when people approve of very disparate, sometimes opposite ideas is characteristic of stormy transitional periods in history. Only the country’s further development will strengthen the new set of values as a sustained system of national self-consciousness.

After four centuries of modernization, it turns out that we again have to struggle to make sure that not only the “windows” but the “doors” to Europe should be not simply open but should ensure a two-way traffic. If we still argue whether Russia is part of Europe or Asia, this argument is not about its place on the geographical map, but about its place on the axis of historical time.

Even so, it is important that we have long made up our minds on the scale of criteria and reference points. Russian society looks at its reflection in the mirror of the European living standards which have been called “Western” in the past decades. Although this is by no means a perfect instrument, it is the fruit of the creative impulses of many national craftsmen and it is undergoing historical modifications. But things are not as simple as that. The Russian popular consciousness is increasingly becoming imbued with profound post-modernist skepticism.

We are finding out to our own cost and by looking at many other countries that the heroine of Lewis Carrolls’s tale was right when she said that “if you want to get somewhere else you must run at least twice as fast as that.” The current attempts to glorify the recent years of rapid economic growth as a “breakthrough” and “regaining of our position in

the world” have run into skepticism and mistrust on the part of the mass “collective subconscious”.

This collective perception of the time and our place in it, I am convinced, is a healthy and mobilizing factor. No references to the “glorious past”, whether imperial or Soviet, can replace a real grasp of the problems facing Russian society. We want again to feel ourselves to be part of the historical flow of time. We want to join the “mainstream” and move forward and not backward.

We live in a historical Russian state, but our country has entered a new stage in its development. The revolution of 1991-1993 in the Soviet Union led to the creation of independent states on the basis and within the borders of the Union Republics. That completed, in Europe, the era of the formation of nation states and renunciation of multi-ethnic monarchies and multi-confessional states of the agrarian era.

Eighteen years after Russia became an independent state the company Bashkirova and Partners asked its citizens several questions about their self-identification. Whom do they consider themselves largely to be? The answers were as follows: 44% of the respondents identify themselves above all with their native town or village. Nine years ago the figure was 50%. The share of those who consider themselves to be Russians first was 29.6%, compared with 25% in 1999. This is a fairly widespread phenomenon in the world. 49% of Ukrainians, 53% of Germans, and 54% of Japanese identify themselves with their locality (and not with the country as a whole), while 29%, 11% and 23% respectively identify themselves with the country.

Today more than 80% of the citizens of the Russian Federation are ethnic Russians. This has not always been the case. During the Romanov Empire and in the Soviet times our state was multinational, or rather multi-ethnic. Neither the Russian Empire, nor the Soviet Union had such a ratio between the titular ethnic group and all the other peoples. If one assumes that Great Russians were the same as modern Russians, in Tsarist times they accounted for less than 60% of the population of the Russian state. The percentage approached 80% only if one included Small Russians (Ukrainians) and White Russians (Byelorussians). According to the 2002 census, there were 130 peoples in the Russian Federation. The share of the non-Russian population was 19.2%, or almost 28 million people. Russians have grapple with the problems that

seemed to have been solved once and for all. Every new generation of Russian citizens has to learn to live in peace with the neighbours both inside Russia and across state borders.

In the course of opinion polls, about 40% of Russians describe themselves as belonging to the middle class, while a more rigorous scientific stratification puts the share of the middle class at 25-30%. Scholars traditionally assume that the middle class is the social base of democratic political development. These people have some disposable income and they do not experience poverty. The middle class tends to support stability in society. However, the positive expectations and the orientation towards ever greater prosperity may run into the consequences of the crisis. Those who have achieved a certain level of material well-being tend to be prey to disappointment and loss of hope more than the poor who see no future for themselves anyway.

Also, one cannot help remembering that the German “petty bourgeoisie”, representatives of the middle class, to use modern terminology, had supported the Nazis. It happened during the period of economic crisis which generated a political crisis. The same mythology of the medieval city, usually extolled as the root of the modern market economy and democracy, provided material for the Italian ideologists of the *stato corporativo*, *stato totale* and *fascismo*. A city corporation is the estate of artisans, and *fascio* is not only sheave of arrows but also a village commune at South of Italy.

Thus, the fact that Russia belongs to the European civilization is not a cast-iron guarantee that we will develop towards a democratic market civil society. Rather, it is a challenge to Russia because totalitarianism (not to be confused with the traditional Russian agrarian “pre-political” community) also grew up in the framework of European historical traditions. In the period between the two world wars totalitarianism spanned a space from the Pacific to the North Sea. Russia cannot afford a repeat of a national tragedy.

If a nation builds its social life in such a way that social opportunities are open to all those who want to make this country their own, if there are effective “social lifts” for individuals who seek success, such a nation becomes a civil community that is truly attractive for other peoples and a model to be emulated. Otherwise, when an ethnic group

builds its social connections on the separation from “aliens” and on punishing “one’s own people” who do not follow the rigid rules of ethnic social life, the situation of intolerance causes growing estrangement from the surrounding world. Reciprocal hostility in this case is inevitable. This holds true of the main ethnic group, the Russians, and of ethnic minorities. Assimilation cannot be the goal of a democratic multi-ethnic state, but bilingualism and abidance by the laws and common rules must be obligatory.

The history of Russia over the past 400 years since the beginning of the 17th century has been one of “convergence” with the European model. I am referring not only to its external forms, but to the meaning of human life as understood by Russian society at every stage in its development. It is the mass consciousness of people that warrants the claim that Russia today is more European than ever. Even those who challenge that statement are likely to use European criteria and categories in their private assessments of behavioural norms, meaning of life, Good and Evil.

At present Russia is simultaneously part of the Europeanized North and of the developing world which is drawing ever closer to the more developed North, the Atlantic and North-Pacific world order. Russia today is an East European country with an emerging market and transition economy. Some of these countries have joined the European Union, others, like the Russian Federation, are members of the Commonwealth of Independent States.

All these countries faced monumental challenges during the 2007-2009 crisis. The crisis exploded in the US financial market, the centre of the modern world economy. The “bubble” blown by the soaring equity and derivatives growth burst. US financial institutions created groundwork for the global markets. The US capital markets crisis is intertwined with the world crisis today. Too much cash has been invested in that sector in too short a time. These moneys are multiplied by credit ‘leverage’. Debts have been spreading and building up. Arguably, this is a manifestation of the inadequacy of modern mechanisms of market assessment of investment risks and the value of assets. However, today’s crisis is not just a plain market overheating. Because US, UK, and all other European financial institutions are part of

the world financial market, the crisis raging in this market provoked not only a surge of bank bankruptcies, but prompted the need to work out a new model of global market regulation.

Many in Russia are mistaken if they take its recovery from the crisis for granted. It will be impossible and unnecessary to relapse into the former operating patterns. And this is not just a matter of the price levels for the traditional Russian exports. It is becoming increasingly clear that overcoming the crisis will take more than simply surviving it. Russia needs to reinvent an economic market mechanism and Russian companies and banks must offer an entirely new generation of goods and services to the internal and external markets.

On the other hand, there are no real grounds for predicting a “second wave” of the crisis. This is no more than the worst-case scenario. Demand for Russian export commodities has bottomed out. So, things can’t get any worse. Protracted stagnation is the real threat looming over our economy. It can be caused by a combination of two intertwined adverse trends, shrinking investment and growing inefficiency of market institutions because legal and economic mechanisms are not doing their proper job.

It is not so much the letter of the law as its enforcement in practice that is critical. When a Japanese investor who set up car production in Yaroslavl shows to an EBRD conference in London a photograph of a five metre high pile of document files filled by his company and approved by the Russian authorities the number of those wishing to work within our economic system drops dramatically.

Creating an investment-friendly climate is again on the agenda. This is not just about creating conditions for small and medium enterprises, necessary though as it is, but above all about attracting private investors, both Russian and foreign.

The latest crisis phenomena have highlighted the fact that properly working institutions are more important for the Russian economy today than the actual amounts of money invested. Nothing new can be invented in this field except the protection of private property, dispute resolution through court procedures, procedures against punitive measures, transparent internal corporate procedures governance and a ban on insider trading. All these institutions have long been known, but

they are performing poorly in this country. Only if the Russian economy and, more broadly – Russian society – emerge from the crisis with new and clearly structured institutions and procedures will economic growth be ensured.

State budget sources and the resources of state-owned enterprises cannot be the main sources of investment nationwide. The public sector cannot tackle social and innovation investment tasks on a nationwide scale. It is a trade-off: the Development Fund is either used to meet social obligations, i.e. to cover the federal budget deficit, or for major investments.

Stimulating investments, obviously, should be the overarching task of economic policy in the period of exit from the crisis. In Russia the state must take part in choosing the structure of investments by sector and region. Government budget money and the money of state-owned enterprises may be invested directly on behalf of the state in infrastructure, such as roads, power grids, pipelines, industrial construction, hydro-engineering and nuclear energy. All the other investment spheres must be provided with a ranked system of tax, amortization and credit incentives for private investments, including free economic zones and production sharing agreements.

Unfortunately, the anti-crisis efforts being taken don't aim at incentivizing investments, i.e. they are not looking to the future. Instead, they are geared to the here-and-now rescue measures for individual corporates and their owners. Such decisions were probably inevitable nine months ago when plummeting production threatened to evolve into a crisis panic. Today, they pose a real threat to the Russian economy perpetuating economic recession.

Company owners and managers continue to blackmail the Russian society and the Russian government by demanding budget subsidies, government-guaranteed loans, protection of the domestic market from foreign competition and state regulation of the prices of their goods.

Curtailment of competition and collusion to divide markets resulted in a one-way price elasticity: prices are growing at varying speeds, but are very seldom officially cut, and if they are, it is in the

field of export. The price ratios between goods depend on the varying speeds at which these prices are rising.

Such appeals to the state come not only from the managers of state-owned corporations, but often from independent entrepreneurs and their associations. At first glance the wish of private entrepreneurs to see administrative arbitrary rule in the economy increase looks odd. But “there is logic to this madness”. Such an economic system would perpetuate the existence of all the firms and enterprises, including the least efficient ones. It would also make the question of investments and innovations irrelevant. Nobody is prepared to accept investment risks if there is no confidence and the rules of the game are opaque. If the Government needs them that much let it raise the corresponding prices and include them in the “investment programme”.

Such an economic system brought about the collapse of all the Soviet economic modernization plans in the 1980s. It doomed all the natural monopolies in Russia in the 1990s-2000s to technological backwardness. Even Avtovaz, which until recently was cushioned against competition in the internal market turned from a driver of technical progress in the economy into a “black hole” of backwardness and waste of resources because of this protection.

The experience of the recent past gives few grounds for believing in future success. Yet even in the crisis 1990s we saw a successful reconstruction of the coal industry which turned from a factor perpetually fraught with a social explosion into a highly lucrative sector. Such public-private partnership in modernizing the economy with the use of World Bank loans is exactly what is needed to overcome the current crisis. The weakness of the Russian banking and financial system is an equally acute structural problem. It is not coping with its strategic task of transforming national savings into investments. The system of public and private debt in Russia withstood last year’s bout of crisis contraction only because of massive injections of liquidity by the state. In the next year or two the country’s banking system will not be able to credit large-scale business projects. It will be under constant threat of defaults on “bad debts,” its main task will still be to ensure regular current settlements of economic operators and households.

Consequently, refinancing of big business and debt coverage of budget deficits at all levels will need to look to international loan markets. That is one further argument that proves the overriding importance of strengthening the international ratings of the Russian state and corporations.

The global financial and economic crisis dispelled the sense of success, the crisis has exposed the strengths and weaknesses of the Russian economy and policy. We have found ourselves again in the company of countries with “emerging markets”, especially in Eastern Europe, which face similar problems. There is a growing sense of moving in circles, of cyclic development and slow progress. We should look for ways of post-crisis development and simultaneous modernization and transition to a new modern system of economic relations. Obviously, it will be a market economy with a large public sector and state regulation of economic growth. However, attempts to use “manual anti-crisis control” everywhere and always are untenable. One cannot turn public-private partnership into a chaotic mixture of decisions on individual issues prompted by expediency. The methods of state economic regulation should be described in laws. The spheres of competence should be clearly defined. The private owner and private business, on the one hand, and government officials, on the other, must be clearly aware of the limits to their powers and use effective methods to influence the economy.

Medical analogies have recently been popular in describing the crisis situation. The former Federal Reserve System Chairman and US President’s advisor Paul Volcker said some time ago that the American economy was alive but was still in intensive care. The same can be said about the Russian economy. The patient has survived a stroke, but his ability to work is in question. What is needed is not only a diagnosis but a rehabilitation course.

Scientists and politicians both in Russia and abroad are reluctant to admit that the world community of states has always existed and still exists in the shape of a hierarchy. Admitting it is thought to be politically incorrect. But this has been the case throughout human history over the last three thousand years. Today it is obvious that inequalities between countries will remain for a long time, if not forever.

At the same time the progress of history does not secure for any nation or social system an honorary prize place in the world hierarchy forever.

Overcoming the crisis recession in the Russian economy should kick-start the resumption of the discussion of Russia's accession to the international organizations and associations within which the civilization of the world's North is developing. Russia has belonged and still belongs to that part of the human culture.

Russia needs reliable and strong allies which will not leave it alone to face another inevitable crisis on its southern borders. Russia needs to make strategic decisions. A US-led unipolar world no longer exists. But the multi-polar world is, for Russia, not a strategic victory, but a new strategic challenge. The world is entering a period of new alliances, revision of old dogmas and regrouping of existing alliances. I am convinced that not only economic, but military-political alliances may come in for revision. Especially since only relations among allies really diminish "political risks".

The world today is changing so dramatically and rapidly that Russia needs to revise all its traditional views of it. To ensure its security Russia needs strong allies. I am convinced that every honest patriot of Russia would make the same conclusion. A multi-polar world is inevitable, but it carries many risks and "many sorrows". One should analyze its future with a sense of responsibility for the destiny of our country. This approach prompts the conclusion that an alliance between Russia and the US best meets the national interests of both states.

To be sober and even cynical, it is incumbent on the Russian elite to achieve a real alliance with the West and to become truly a part of the North. This is dictated by the simple instinct of self-preservation. One can continue sitting on a fence. But one should realize that an admission ticket tomorrow will cost much more than today.