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What Type of Capitalism for Russia?

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With the advent of President Putin, the reconstruction of the former state socialist societies under post-communist governments has proceeded for over ten years and the period of transition has turned to one of consolidation. During this period, the command economy has been destroyed and in its place a market mechanism has installed, prices of commodities and labour are determined by the market, the currency is negotiable on world markets enabling the economy to become a constituent part of the global economy, privatisation of previous state assets has led to over 60 per cent of property being privatised. The economy is set in a mould of capitalism, the President, however, has to construct policies to make capitalism work. The argument of this paper is that the economic formation inherited by Putin is not the most appropriate one for Russia and that policy should move towards a more explicit form of organised market state capitalism.

The most general definition of modern capitalism has been given by Max Weber. For him, modern bourgeois capitalism is 'identical with the pursuit of profit and forever renewed profit, by means of continuous, rational, capitalistic enterprise'[1]. There are of course, other types of capitalism - for Marxists, monopoly and finance capitalism and imperialism. The major distinction for Weber was between 'political capitalism' and modern capitalism. In the former, opportunities for profit are derived from 'the exploitation of warfare, conquest and the prerogative of political administration'[2] - profits are made from various forms of political domination. Modern bourgeois capitalism is based on the private ownership of the means of production and the continuous accumulation of capital derived from profits received through the market. For both Weber and Marx, capitalism was a function of class interests derived from ownership which had developed over centuries, culminating for Marx in the class conflict which brought in bourgeois society. Since the time of Weber and Marx, moreover, different structural types of capitalism have been defined, the three major types being: competitive market-led capitalism (Anglo-American), nationally coordinated negotiated social-democratic economies (Denmark, Sweden), and negotiated corporatist market economies (German-Japanese). These will be discussed in more detail below.

In the case of the post-communist countries, capitalism had to be introduced from above. The revolutions which had brought the new elites to power were essentially 'rejective revolutions'[3] which had 'rejected communism and Soviet power' but were not predicated on class or social forces with a vision of an alternative social system. The early political leadership of the post-communist states had no idea of the type of political and economic system which should be constructed on the 'ashes of communism'.

In the early years of transformation in Russia, radical reformers like Chubais and Yavlinski wanted to reconstruct the economy on the model of the USA. They turned therefore to the West and asked for policy advice on how to construct a capitalist economy and democratic type of society. The most favoured model was what has become known as the 'Washington consensus'[4]. Advisers from the West advocated a transition to an Anglo-American type of capitalism. This involved the introduction of markets for commodities, assets and labour, a low level of government intervention in the economy, exposure to foreign competition, monetary stability and a free exchange rate. Privatisation of economic assets was to be introduced to create a self-motivated business class. The stock exchange would become a crucial institution channelling investment to companies to meet consumer market demand. These policies would preclude the reproduction of the Communist administrative class which, it was claimed, would replicate the institutional features of state socialism.

The adoption of Anglo-American neo-liberalism was a rational strategy for the new radical reform leadership: it legitimated destroying the political and economic base of the old ruling classes as well as the formation of competing units on the domestic market; global competition would promote economic efficiency and industrial restructuring on the basis of comparative advantage.

State activity was to be minimal, its role was to set the rules in which neo-liberalism was to operate. This particularly meant divesting state ownership and a lack of intervention in the market with respect to the protection of national economic interests. The ruble had to be negotiable on world currency markets, and tariffs had to be minimal to allow foreign competition. Such an 'institutional design', moreover, ruled out other forms of capitalism such as that which had developed in Germany, Korea, Japan and Scandinavia.

There were three major policy objectives:

1. To put in place irreversible changes. Any hardships would have to be introduced at the beginning when support for change was greatest. The changes would be such that, if disillusion with reform set in, the costs of moving back to the old system would greatly outweigh any possible short-term improvements.
2. To open windows of opportunity. These would give rise to role-models, and expectations of what capitalist and democratic society would bring. This is particularly where open economic markets to the West came in.
3. Reform policies should be put into effect quickly and simultaneously. The most favoured policy was for a Big Bang . The idea being that it would be better to have all the negative effects of change occur at one time when support for reform was greatest.

Essentially, privatisation of assets, the opening up of the economy to foreign competition (thereby enriching consumer society), the creation of competitive political parties and civil society would make the political ballast in support of the new system. If you could create economic prosperity in terms of a market society, then stability, prosperity and political democracy would follow. The intended model is summarised below.

THE INTENTION: COMPETITIVE MARKET-LED CAPITALISM

KEY COMPONENTS

<u>Driving forces</u>: internal political elites, foreign advisers and

institutions (IMF), (intended) competitive market-led forces
Institutions: initially state committees, (intended) private business, stock exchange
Ideology: consumerism (lacking)
Basis of solidarity: new civil society (lacking)
Culture: new competitive electoral process, new supportive capitalist culture (business class, consumer society)

In the period 1990 to 1993, in all the post-communist countries significant reforms took place along these lines. The major elements of neo-liberal policy have been adopted: free exchange rates, relatively low tariffs, price liberalisation, opening up of internal markets, privatisation of assets, an emphasis on monetary regulation and a considerable weakening of the state's economic activity.

The Outcomes

How successful in creating modern capitalism have been the former communist countries of Eastern Europe and the USSR? What were the outcomes of these policies? Let me briefly consider the economic outcomes in the former communist countries of eastern Europe and the USSR.

The first five years (1989-1995) of transition were characterised in all the post communist countries by severe transformation recession[5]. Only Poland which had declined to 80 per cent of its 1989 figure in 1991 had recovered to nearly 100 per cent by 1995. Hungary came next, with a maximum decline to 80 per cent of the 1989 level and by 1995 had recovered to 82 per cent. Severe depressions had occurred in Russia: GDP declined to 58 per cent of its 1989 level by 1995 and Ukraine had fallen to 40 per cent. By way of comparison, the decline of GDP in the Great Depression the USA in 1933 (1929 = 100) was only to 70 per cent and in the Second World War GDP declined in the USSR to 75 per cent ((1942 compared to 1940)[6].

Even 10 years of transition had not significantly improved the situation for most of the post-communist countries. By 1998 only Poland and Slovenia, had surpassed the 1989 levels and these by not much -only 18 per cent higher in Poland. They were followed by three other countries which had recovery rates of over 90 per cent: Slovakia, Hungary and Czech Republic. Much less successful are the countries of the former USSR. Nearly all having GDPs of less than 60 per cent of the 1989 level. Russia and the Ukraine with massive falls to 55 per cent and 38 per cent of their previous levels[7].

Not only has gross domestic product declined, but also the inequality of income distribution has increased markedly and there has been a significant rise in levels of poverty. The gini coefficient is a measure of income inequality, the higher the coefficient, the greater the inequality; a coefficient of 0 would show a completely equal distribution of income. Before transformation, income inequality was fairly modest and relatively constant between all the countries. After the collapse of state socialism, however, inequality became more regressive in all countries (except Slovakia) and the differential between countries increased significantly.

For Russia, in 1987-88 the index was 22 in whereas in 1993-5, it had grown to 48. Similarly in Ukraine, the growth was from

21 to 47; at the other end of the scale more modest rises experienced by Hungary - from 21 to 24 and Czech Republic from 19 to 28[8]. In all the unequal societies, real income decreased, between the two time periods, by between a third and a half, and inequality rose: in Russia the top quintile increased its share of income from 19.45 per cent in 1988 to 39.52 per cent in 1993[9].

There has been a steep increase in poverty. According to data collected by Milanovic, in eighteen central and east European countries, before the transition, there were 14 million people in poverty (4 per cent of the population), this figure rose to 168 million or 45 per cent of the population in 1993-5[10].

	BEFORE 1987-8	AFTER 1993-5
Less than $120 per month	14 MILLION PEOPLE	168 MILLION PEOPLE
Per cent of Population	4 per cent	45 per cent

TABLE 1. LEVELS OF POVERTY

18 Central East European countries.
Source Branco Milanovic. Income, Inequality and Poverty during Transition from Planned to Market Economy.
World Bank: Washington DC 1998. p. 45.

Map 1 [hard copy only] shows those countries combining high inequality and high levels of poverty on the one hand and those with low levels of both on the other. These countries are also the ones which had relatively unsuccessful levels of recovery and are also characterised by higher levels of unemployment and crime.

Structural Changes in Polity and Economy

How then are these outcomes related to the move to capitalism and to democracy or polyarchy? Transformation was to herald a shift in organising principles: politically, from hegemonic party control to political pluralism and polyarchy and economically, from central planning and state owned assets to the economic market and private property. In scope, this was a revolutionary transformation.

To measure the success of building capitalism in terms of the movement to a market and to a pluralist or polyarchic type political system, I have utilised data from two sources which claim to monitor economic and political developments. These are biased towards the values of Anglo-American societies. While they might be criticised as a measurement of 'real democracy' they are good enough for our purposes. They tell us how far neo-liberal ideals have been reached.

The Fraser Institute's Economic Freedom of the World 2000 Index[11] ranks countriess on a 10 point scale (0 the least free, 10 the most free)[12]. This index is quite sensitive to different elements in the development of market capitalism.[13] It measures the magnitude of price controls, exchange rate controls and the size of the private sector. The extent of private sector share of GDP is regularly monitored by the EBRD[14]. On the development of political pluralism, the Freedom House Index has devised two measures of 'freedom' in terms of levels of political rights and civil liberties. Political rights include the prerogative of adults to vote and compete for public office and for 'elected representatives to have a decisive vote on public policies'. Civil liberties include the rights to 'develop views, institutions and personal autonomy' independently of the state[15]. The results are shown on Table 2 which combines countries by extent of political transformation and economic transformation.

TABLE 2. POLITICAL AND ECONOMIC TRANSFORMATION

EXTENT OF POLITICAL TRANSFOR-MATION				
GREAT			Romania	Hungary CzechRep Estonia Latvia Lithuan Slovenia Poland Slovakia
PARTIAL	Mongolia Macedon		Bulgaria Ukraine Georgia Russia Croatia Armenia Moldavia	
LITTLE	Bosnia Yugosl Cuba Vietnam	N.KoreaT urkmenBe larus	Tadjiki Kyrgyz Uzbekist Kazakhst Azerbaij	China
	NO DATA	LITTLE	PARTIAL	GREAT

EXTENT OF ECONOMIC TRANSFORMATION

To facilitate discussion, I distinguish three different sets of countries. First, the top right hand corner: Poland, Hungary, Czech Republic, Slovenia, Lithuania, Latvia and Estonia which have relatively successfully extricated themselves from state socialism. These countries have founded pluralistic political regimes, have restructured their economies in the direction of private ownership and marketisation and, in doing so, have achieved modest though positive rates of growth. Second, is a group of countries which have extricated themselves from state socialism but only share some, but not all, of the features of Western type societies. They have been relatively unsuccessful in achieving a transition to capitalism. They have encountered severe economic and social deterioration. These include the countries of the former USSR which have experienced high levels of poverty, excessive income differentials and low levels of per capita income. Russia is typical of this group. They also have weak pluralistic political structures. We may also note that some have managed partial and great economic transformation (e.g. China) with very little political transformation.

Map 2 [hard copy only] shows a distinctive geographical pattern to these changes. The more successful countries all border on the NATO and European states of West Europe.

How then can we explain these differences? Why have some countries done relatively well and others disastrously badly? And finally, what policy could be adopted to improve the conditions in the transition failures, particularly Russia?
There are three major explanations of these differences.
1. Faulty implementation of system change.
2. Initial conditions and political geography
3. Failure of system transfer.

<u>1. Faulty Implementation of System Change</u>
The first argument is put by those who supported the neo-liberal policy in the first place. Their argument is that the policy was basically correct but that the implementation of system change was faulty. Consider Russia as an example of transition failure. The main arguments here are those put forward by Anders Aslund (a former economic adviser) and Joseph Stiglitz (formerly chief economist at the World Bank).

Aslund's argument is that in the transition failures, such as Russia and Ukraine, liberalisation was only partial. In the successful eastern European countries, 'The credo of radical reformers appears empirically robust'[16]. Aslund argues that price decontrol was only partial and allowed managers to extract rents from the difference between controlled internal and free export prices. Economic policy then promoted rent seeking. Enterprise managers in the Soviet system were able to secure privilege for themselves and, following 'elite enrichment from the Soviet collapse, made it extremely difficult to impose a radical market reform...'[17] 'Corruption or state failure, as opposed to market failure, appears to be the fundamental problem of the transition countries'[18]. Rent seeking then dominated the transition period in these transition failures, and rent seeking institutions were able to buy politicians. 'Crony networks' between business and the state prevented the development of a proper market system.

Stiglitz's position is that the form and extent of privatisation were premature. His prognoses was that the method of privatisation of property was a major cause of transition failure in Russia. Stiglitz's argument is that 'if privatisation is conducted in ways that are widely regarded as illegitimate and in an environment which lacks the necessary institutional infrastructure, the longer-run prospects of a market economy may actually be undermined. Worse still, the private property interests that are created contribute to the weakening of the state and the undermining of the social order, through corruption and regulatory capture'[19]. As there was no legitimate sources of private wealth to accomplish privatisation, the government allowed private entrepreneurs to create banks which then lent private parties money with which to buy enterprises. 'Robber baron' privatisation consequently took place.

The allocation of property did not lead to the development of a capital market which in turn did not allow allocation of assets to proceed in an efficient manner. Managers remained in control and impeded capital-market regulation and competition. The new controllers rationally stripped assets of companies rather than 'redeploying assets in a way that would provide the foundations of wealth creation'[20].

Enlarging on Stiglitz's approach, the ownership share of financial companies in Russian industry in 1999 amounted to only 10.4 per cent[21]. Non-financial companies owned the assets of commercial banks, rather than the other way around. An implication here is that non-financial companies, with a stake in or owning a bank ('pocket' banks), could transfer profits abroad leading to significant national capital loss. While the banks provided money changing facilities, they did not create deposits for the accumulation of capital in Russia. On the contrary, they facilitated capital flight. Official estimates of capital exports (for 1998) are 3,999 million dollars inward investment, compared to 15,194 million dollars outward payments[22]. Western estimates confidently claim that foreign capital outflows are much larger than those declared: Fitch IBCA in 1999 estimated that 136 billion dollars of capital was exported from Russia between 1993 and 1998[23]. Another (conservative) estimate by the Central Bank of Russssia is that capital flight came to 14.1 billion dollars per annum during 1994 to 1998[24].

While the reasons for transition failure differ, the conclusions are similar: mistaken and badly managed policies led to rent seeking. A kind of 'political capitalism' suggested by Weber occurred precluding continual investment and accumulation. a successful transition to modern capitalism has not occurred.

My own view is that this explanation is too narrow. The reform leaders in Russia attempted to carry out the neo-liberal policy and did so as far as was possible under the circumstance. The measures of reform were successful in some respects: they secured a high level of irreversibility. The planning mechanism, the dominant communist party, the ideology of statism have all been destroyed. The costs of going back will outweigh any short-term benefits. Russia cannot move out of the constraints of the international capitalist system. The problems of transition were well known: it is not surprising that price reform and privatisation failed and led to political opposition. A successful economic policy cannot be constructed independently of the political and economic interests in a country.

Consider the effects of the introduction of Aslund's hard budget constraints (bankruptcies) to create efficiency.
Loss making factories and organisations (excluding small businesses) came to 41.6 per cent of the total number of factories in 2000[25]. They made a loss of 131,336 million rubles[26]. Over 50 per cent of coal and agricultural enterprises, and 64 per cent of personal services enterprises made losses[27]. Bankruptcy, the neo-liberal option, on the scale involved in Russia is not a political option. It would create social instability which in turn would undermine the regime.

2. Initial conditions and political geography

The second explanation considers individual acts of policy to be inadequate, and asks how policy makers took these decisions in the first place. They see policy as the result of different constellations of factors in different countries. This argument emphases the initial conditions and political geography to explain the phenomena. Those central European countries which are adjacent to the West and are small - Hungary, Slovenia, Czech Republic - have all done relatively well.

First, geographical proximity to the West enabled institutional diffusion to spread more rapidly to the central and eastern European countries. They are able to readjust their economies to a capitalist market and consequently they received the highest shares of Western direct investment which, in turn, compensates for the decline of their own economic base. Geography is an important explanatory factor. They have also been drawn to NATO and European Union membership. There is a greater reciprocity of interests between them and the West. The conditionality requirements necessary to join these political and military blocs acted as incentives to change and to accept a more stringent neo-liberal economic policy.

Second, there is the affinity between their previous history and political culture. These east European countries were previously more bourgeois and anti-communist - the communists had a much smaller social base before Sovietization. They had a self-defined history of being part of the West. The value systems were more conducive to the implant of capitalism and liberal democracy. Hungary and Poland had a tradition and political culture opposed to communism and Russian hegemony. Surveys show that support for state involvement in the control of economic institutions was much less than in Russia and Ukraine. Far greater support for the transition than in Russia and Ukraine - communist parties (or their surrogates) did much worse in the first elections after the collapse than in the other countries. Third, economically, state socialism was unsuccessful in Hungary in the period immediately prior to reform and support for communism was weak: in both Hungary and Poland there had been significant political demonstrations against the Communist governments[28]. Hungary and Poland had both began economic reform well before the collapse of communism. In Hungary, from 1968, the New Economic Mechanism increased the autonomy of enterprises and, as early as 1974, legislation allowed joint ventures to be established. The Law on Enterprise Councils of 1984 decentralised the public sector and delegated property rights to the enterprise level[29]. By 1987, 35.8 per cent of Hungary's exports (value terms) were with developed capitalist countries - the highest of any of the state socialist societies, and the same was true of imports of which 41 per cent originated from developed capitalist countries[30]. An economic reform had already preceded a political reform. Poland also had developed trading and commerce with the West as far back as the Kania regime. Poland also had never collectivised agriculture and this left in place a larger number of people with entrepreneurial outlook. The population was therefore more prone to accept radical changes.

In the successful countries, the initial conditions then were more conducive to a move to capitalism whatever paradigm of change was adopted. They also had the incentive to join NATO and the EU - which the heartland states of the former Soviet Union had not. It is not obviously the case that the Washington Consensus would have worked any better than any other paradigm. The conditions however in these countries were better adapted to this policy. It may be that success was despite, rather than because of, the neo-liberal model which was adopted.

The transition failures had many institutional features which impeded a swift, successful transition to capitalism.

First, communism was more strongly embedded in slavic republics of former the USSR. They had had their own indigenous socialist revolutions and had experienced over eighty years of state planning and party control. In eastern Europe, traditionally the communist parties were weak and the communist system arose out of the conditions following the military presence of the USSR after the Second World War.

Second, Russia and Ukraine are very large countries - Russia is still the largest country by area in the world, and under state socialism had an integrated and comprehensive economy. It is much more difficult to adjust and integrate their moribund economies into the world order on conditions defined by the world market without significant dislocations. The new capitalist institutional structures, such as the legal system and the stock exchange, were not in place and could not have been adequately formed in such a short period. During the early period of radical reform, the role of the state severely was weakened as a consequence of policy to promote individualistic capitalism. It is true that China has adapted, but China has kept in place important elements of the socialist command economy as well as the dominant ideology and hegemonic party.

Third, transformation created a vicious circle. The expected window of opportunity did not open. Transformation has turned out for the worst, therefore people don't see a positive capitalist alternative. They too are excluded from NATO and had no chance of joining the European Union. Hence the stimulation effect does not apply. Social factors differed greatly compared to the eastern European countries. There had been no bourgeoisie within living memory and one had to be formed from heterogeneous social groups. Public distrust of this alien class was exacerbated by the form of privatisation. The new bourgeoisie was not widely viewed as legitimate (Stiglitz's point). Consequently, prior to the collapse of communism, elites exhibited great internal conflict. There was much disagreement about the values and institutions of the communist system.

These differences became manifest when transition failed. Lack of economic growth, decline in welfare, large scale unemployment have led to disenchantment of a large proportion of population. Consequently, capitalism lacks social support among important segments of the population. The legacy of state socialism is an important variable. Where it had been more successful (or seemed retrospectively to have been more successful), it had greater support which continued into the transition period, especially when transition failed.

3. <u>A Failure of System Transfer</u>

The policy failed because it did not take account of major political, economic and social conditions in the countries of the former USSR. The third explanation is one of general policy failure rather than ineffective implementation. It is here that the initial conditions come into play. The institutional structure of capitalism - the banking system, financial institutions, legal framework could not be built at the breakneck speed which was attempted. The readjustment to the world economy led to grave internal dislocations.

Policy informed by the Washington consensus was far too narrow and ethnocentric a policy. In adopting a neo-liberal market system it has exacerbated the tendency of competitive capitalism to disorganisation. The economic effects of neo-liberalism have been quite catastrophic in terms of wealth creation. These cannot be explained merely in terms of wrong footed processes of privatisation and insufficient marketisation. Neither can the excuse of inadequate institutions and political opposition be accepted. The difficulties of instituting privatisation and a securities market were well know before transformation and should have been taken into account in policy. Privatisation, it is contended, was largely politically and ideologically motivated - to put in place a capitalist class and to make going back to a statist system impossible.

Anders Aslund's recommendation for greater marketisation and greater exposure to world market pressures would lead to a further decline of Russian industrial production. International competition is good for strong economies, but not for weak ones. The history of all developing countries, including the present developed ones, shows that without considerable state support and encouragement they will not grow. This applied particularly to the leading exponents of neo-liberalism, the USA and UK, the early economic histories of which both included an active tariff system against superior outsiders, the theft of patents and invention and the instigation of unequal treaties against third parties to support their own industries[31].

The neo-liberal model ignored the legacy of Russian state enterprises. Enterprises are embedded in the former system of welfare. They provide unwaged employment due to political and economic constraints. They are also a source of welfare support, the loss of which would have serious social and political repercussions. The policy of a minimalist state has led to the incapacity of the federal government to collect taxes and enforce laws in the republics and regions of the country.

The upshot of policy is that a system which systematically and continuously promotes the accumulation of capital has not been established. Indeed, export of capital has characterised the economy. It is a form of political capitalism, rather than a modern wealth creating one.

The Future Capitalism in Russia: A State-led Scenario

In seeking greater stability for the future, the footprint of state socialism may 'fit' into a pattern of cooperative state-led capitalism. In the discussion of transformation to capitalism in the post-communist countries, it is surprising that so little mention has been made of non Anglo-American forms of capitalism. The major contenders are the systems characterising Germany, Japan, and the Scandinavian countries. It is to the formation of capitalism in these countries that I think President Putin must look for solutions to Russia's problems.

Consider the peculiarities of evolving capitalism in Russia. First is the role of financial institutions and the interlocking ownership of holding and subsidiary companies. Interlocking companies rather than individualistic shareholdings are dominant economic (and political) forces. Second is the power of management in the control of companies. Management not only owns considerable assets but is strategically positioned in companies to provide leadership. The management interest, inherited from the state socialist system, is far more confident in pursuing a hegemonic role. This is the major political interest in Aslund's account, but is conceived of negatively. Third, one must consider the political and ideological factor - the orientation inherited from state socialism is a corporate one. The state is assumed to have a legitimate role in promoting employment and comprehensive welfare. The legacy of communist public provision is an important factor giving rise to expectations of state provision of welfare and employment.

There are great similarities here with aspects of the corporatist systems of capitalism in Germany and the social democratic ones in Scandinavia. Under Swedish-Danish capitalism there is strong cohesion between state, company and society. Companies have a clear 'obligation' to stakeholders - to existing shareholders, to management, employees, and the state is a major partner. There is a weaker dominant class consciousness, trade unions have greater salience in the society. The state has a paternalist role and comprehensive welfare state services are provided, many directly by public services. Employment is high and inclusive with the state having an active role in job creation[32] and achieving a high proportion of women in the labour force. Politically there is little political contestation and the highly de-ideologized social democratic party is hegemonic. Equality is a strong value and economic freedom is severely constrained.

KEY COMPONENTS OF SOCIAL-DEMOCRATIC CAPITALISM
<u>Driving forces</u>: State/Trade Union led
<u>Institutions</u>: Social-democratic parties
<u>Culture</u>: equalitarian welfare-state, full-employment society
<u>Solidarity</u>: social compact between stake holders

Under German-Japanese capitalism, there is firm cohesion between company and society. There is high interdependence between owners, state, management and employees. Labour has rights and short term dismissal is unlikely. Business is competitive, though there are strong employers associations and interlinked company ownership particularly by banks. Class consciousness among the dominant class is strong. The state is an important provider of welfare. Politically, in Germany, there is contestation between social democratic and Christian democratic parties but they are de-ideologized and accept the parameters of competitive capitalism. Economic freedom is mediated by wider welfare concerns.

KEY COMPONENTS OF 'COOPERATIVE' CAPITALISM
<u>Driving forces</u>: Bank/business led
<u>Institutions</u>: State/business labour consensus
<u>Culture</u>: national stake-holders
<u>Solidarity</u>: stake-holder society, welfare provision

In the conditions of post-communist societies, these are not templates which can be automatically transferred. However, they are building bricks from the old regime and do suggest alternative and more appropriate forms of capitalist organisation. Rather than building anew on the ashes of the old regime, I contend that one has to build anew utilising as best one can assets of the old regime. These countries point to a model of 'cooperative' capitalism, with financial institutions and other companies having considerable stakes in the holding companies, and management having power over strategic decisions. The state, moreover, has potentially a greater role in coordination. President Putin's policy, as discussed in other chapters in this book, is moving very much in this direction. To overcome the tendency towards rent-taking and to increase levels of accumulation, the state has to take a greater role in the direction of corporate investment and the economic risks involved.

Coordination in all modern economies is based on a combination of market, state, competitive and cooperative economic institutions. A possible scenario for the stability of Russia is an economy with a limited market economy, a regulative state and cooperative economic institutions in which management has an important place and in which ownership is in the hands of interconnected state and private businesses and financial institutions. This kind of state-led capitalism might ensure accumulation. Not only will the state directly channel economic rents earned from export-oriented industries such as armaments, precious metals and energy, but also private and semi-private companies will indirectly be financed through state institutions and banks. A state-led development policy would involve support for space and nuclear industries, computer soft-ware, arms production, aircraft. State could also support low labour cost industries such as textiles which would supply the home market.

KEY COMPONENTS OF [PROPOSED] CORPORATIST RUSSIA

Driving forces: State

Institutions: Stakeholders: industrial management, leading capitalists, political elites, workers' collective

Culture: Nationalist

Solidarity: Social compact, welfare state

Such a policy is not without critics. Internally, a free market ideology and policy is advocated by the Ministry of Finance, the Ministry of Economy, the Ministry for the Management of State Property and is supported by the IMF and other leading Western governments, particularly the USA. Also successful companies in export industries, such as oil, are associated with radical market reformers in the government. Their interest lies with a global economy, foreign markets and external capital investment. In this context, outside political actors become a major determinant of the direction of economic change [33]. The 'conditionality' of support by international agencies such as the IMF and the European Union is usually in terms of a neo-liberal form of economy.

At a more theoretical and general level, major criticisms of this approach comes from those who hold that a one-way convergence is taking place between the different types of capitalism I have considered. The direction of convergence is towards the competitive Anglo-American system. The globalisation of capitalism is inimical to a state-led negotiated form of capitalism. It is claimed that cooperative-type economies of the German type do not lead to innovation. The growth of countries like Germany and Japan has declined in the 1980s and 1990s and at the beginning of the twenty-first century they are restructuring in the direction of competitive capitalism. Moreover, cooperative capitalism, it is contended, is a sure way to promote economic decline. The Thatcher reforms have not only been copied on a transcontinental scale, but have been continued by the Blairite Labour government in the UK [34]. Global convergence to a market-led capitalism, it is argued, is now under way and cannot be stopped without substantial costs to domestic economies. The political and economic space for state-led as well as 'cooperative' systems is limited. The international financial organisations and international political gatekeepers, such as the IMF, OECD, World Bank and European Union, are able to impose their conditions on emerging countries. The argument here is that state-led corporatism is not efficient and is severely constrained by the forces of globalisation.

These arguments, I believe, are 'overdetermined'. While there certainly are trends towards convergence, there are also divergencies[35]. Production in an economy as large as Russia is local in character and regional companies and political actors have considerable scope for action independently of the global economy. With the exception of the extractive industries, the globalisation of finance has had little effect on Russian. Governments may oppose free trade if it is not in their economic interests and maintain tariffs in support of home industries. As Joseph Stiglitz has pointed out, the developed countries demand trade liberalisation and the elimination of subsidies while maintaining trade barriers and subsidies for their own products[36].

The main advantages for adopting a model of organised market capitalism in Russia is that it may be able better to cope with competition on a world scale. Greater regulation (such as in the recent history of France) may lead to more effectively organised restructuring. The legacy of communism leaves high investment in human capital which is a considerable asset in transformation. The recent history of existing welfare states, such as Sweden and Denmark, is mixed with regard to development and competition. It certainly is not a foregone conclusion that their days are numbered.

My own conclusion is that a state-led corporatist economy is by no means perfect but is the best system for Russia. However, state-led corporatism is by no means perfect. As Winston Churchill said about democracy: It is 'the worst form of government, except for all those other forms that have been tried.' Similarly, state-led corporatism in Russia, is the worst form of economy, except for all those that have been tried.

1. Protestant Ethic p. 17. [Find full ref]

2. H.H. Gerth and C.W. Mills, From Max Weber. London: Routledge 1949, p.66.

3. This phrase has been popularised by Leslie Holmes, Post-Communism: An Introduction. Cambridge, Polity Press 1997, pp.13-14.

4. John Williamson, 'What Washington Means by Policy Reform'. in J. Williamson (Ed.), Latin American Adjustment. How Much has Happened? Washington D.C. Institute for International Economics. 1990.

5. Source: World Bank, World Bank World Development Report. Oxford University Press 1996. p. 26.

6. World Bank, ibid.

7. Transition Report 1999. London: EBRD 1999. P. 23.

8. Branko Milanovic, Income, Inequality and Poverty during the Transition from Planned to Market Economy. World Bank: Washington DC. 1998. p. 41.

9.... Milanovic, p. 160.

10.... Milanovic, p. 67.

11.... www.fraserinstitute.ca. Another index, using a five point scale is that of the Heritage Foundation, see G. P. O'Driscoll,Jr., K.R. Holmes, M.Kirkpatrick, 2000 Index of Economic Freedom, Wall St Journal, Heritage Foundation, 2000.

12 .... This index considers government consumption as a proportion of total consumption, the ratio of transfers and subsidies to GDP, the number, composition and share of output by state-operated enterprises, government investment as a share of total investment, the use of price controls, the rates of top marginal tax thresholds, duration and use of military conscription, growth rate of money supply, level of inflation, access to foreign currency bank accounts, exchange rate controls, risk of property confiscation, risk of government cancelling contracts, revenue derived from taxes on international trade, variation on tariff rates, share of trade sector covered by non-tariff restrictions, size of the trade sector, percentage of bank deposits held in privately owned banks,share of total domestic credit allocated to the private sector, determination of interest rates by market forces, access to country's capital markets by foreign capital. Summarised from Appendix 2, Explanatory Notes and Data Sources.

13.. Philip G. Roeder has also constructed an index of national, democratic and capitalist transformations, 1999 see: Philip G.

Roeder 'The Revolution of 1989: Postcommunism and the Social Sciences'. Slavic Review, vol. 58, no 4, 1999, pp. 743-755. His economic data are derived from The Heritage foundation and Wall Street Journal index, Bryan T. Johnson, Kim R. Holmes and Melanie Kirkpatrick, The 1999 Index of Economic Freedom Washington DC 1999.

14.... EBRD, Transition Report 1999 (EBRD: London 1999). p.24. In interpreting these data, one should note that in some countries, privately owned companies may still have considerable state ownership, especially in large-scale industry.

15.... Freedom House, Freedom in the World 1998/99, Website www.freedomhouse.org. I have reversed the rankings given by Freedom House to make symmetric with the economic ratings: hence the higher the rank the higher the level of freedom.

16. Anders Aslund, Building Capitalism: the transformation of the former Soviet bloc. Cambridge: Cambridge University Press, 2002. p.4

17. Aslund, op.cit. p.69.

18. Aslund, p. 443.

19 . Joseph Stiglitz, 'Whither Reform? - Ten Years of the Transition'. Reprinted in Ha-Joon Chang, The Rebel Within. London: Anthem Press 2001, p.132.

20. Stiglitz, loc cit. p.134.

21. See David Lane, 'The evolution of post-communist banking', in David Lane (Ed.), Russian Banking: Evolution, Problems, Prospects. Cheltenham UK and Northampton MA, USA 2002, p.18.

22. Sotsial'no-ekonomicheskoe polizhenie Rossii (jan-apr 1999g). M. 1999, p. 153.

23 . 'Robbery of Nations', by J. Thornhill and C. Clover, Financial Times (London) 21 August 1999, p. 6.

24 . See Claudia M. Buch et al, 'The political economy of banking reform and foreign debt', in David Lane, Russian Banking, Cheltenham: Edward Elgar, 2002, p.211, fn. 5.

25.... Goskomstat Rossii, Rossiya v tsifrakh 2001. Moscow 2001. p.295

26.. ibid. p.295.

27.... ibid. p.295

28.... Taking the index of real wages of manual and non-manual workers, it fell from 100 in 1980 to 96 in Hungary in 1985 and to 81 in Poland, in Czechoslovakia there was only a slight rise to 101. Statisticheski ezhegodnik...1988. p. 81.

29.. Laszlo Urban, 'Hungarian Transition from a Public Choice Perspective' in A. Bozoki, A. Korosenyi and G. Schopflin, Post Communist Transition: Emerging Pluralism in Hungary. New York: St Martin's Press 1992. p.92.

30 . Statisticheski ezhegodnik stran-chlenov soveta ekonomicheskoy vzaimopomoshchi 1988, Moscow 1988, p.342.

31.. Ha-Joon Chang, Kicking Away the Ladder. London: Anthem Press. 2002. Especially Chapter 2.

32. For a mote detailed discussion see: David Coates, Models of Capitalism, Polity Press 2000. p. 96

33 . As Michel Camdessus has put it: 'I cannot emphasise strongly enough that Russia cannot afford to take this [corporatist] route', loc cit.

34. David Coates, 'Models of Capitalism in the New World Order: The UK Case'. Political Studies (1999), vol. XLVII, p.658.

35. Further discussion see: H. Kitschelt, P. Lange, G. Marks and J.D. Stephens, 'Convergence and Divergence in Advanced Capitalist Democracies' in H. Kitschelt, P. Lange, G. Marks and J.D. Stephens (Eds), Continuity and Change in Contemporary Capitalism. Cambridge University Press 1999, pp. 427-460.

36. Joseph E. Stiglitz, Globalisation and its Discontents. 2002.