

Listening for the Russian Voice

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Post-Soviet changes in Russia cause celebration or anxiety among outside observers. Progress is noted, but serious problems remain that raise profound questions about Russia's future. The issue discussed here concerns the relationship between standard economic prescriptions for progress in Russia and the "Russian idea."

Economics

The market model established in the nineteenth century is now the ascendant policy prescription for economic development around the world around. A member of the Manchester Athenaeum in 1844 cited its emergence:

It is not more than seventy or eighty years since, that a few humble mechanics in Lanarkshire, distinguished by scarcely anything more than mechanical ingenuity and perseverance of character, succeeded in forming a few but important mechanical combinations, the effect of which has been to revolutionize the whole of British society, and to influence, in a marked degree, the progress of civilization in every quarter of the globe.

This statement about the Industrial Revolution in Britain, in which inanimate power and industrial processes emerged and prospered in a setting of private ownership and supporting legal institutions, captures both the drama and the significance of the Western pattern of industrialization and development during the last two hundred years. In various forms, this market model has been the basis of the dramatic economic advances in Asia and more recently in Eastern Europe. The advice given Russia following the dissolution of the USSR, and the conditions for stabilization and structural adjustment set by outside donors and accepted by the Russian leadership, flow from the logic of this model first outlined by Adam Smith.

The basic case for the market model is that economic decisions will most closely reflect individual wants and resource scarcities when they are decentralized among autonomous, privately-held producing units. Market prices form the main kind of information needed by both households and producers for rational decisionmaking. In this model, government is to provide "honest weights and

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measures,” legitimate public goods, and in a democratic setting, to regulate activities of monopolies and account for externalities in production and consumption, and to provide a social safety net.

Summarizing in economic shorthand, long-term development depends on the creation of institutions and property rights that tend to bring the private rate of return closer to the social rate so that private actions serve public ends. Changes in relative factor and product prices, related partly to population change and changes in market size, can cause fundamental institutional changes that in turn cause economic activity to gravitate toward productivity-increasing activities. The actions of the “change agents” in this scenario will rest on potential gains from economies of scale and the reduction of costs of externalities, information, and risk.

This recital of familiar economics is presented here to remind readers of the enormous power and persuasion of the market model. Yet, many Russians, and others willing today to stand in front of an oncoming locomotive, question its universal efficacy. For one thing, assumptions underlying this model stretch credulity. Economists have therefore explored the significance of policy recommendations in their absence (such as in the real world of market imperfections). In this “second best” world it is recognized that even if only one of the market efficiency conditions is not met (for example, in the face of monopoly or externalities), then the welfare effects of any policy recommendation never can be fully understood. Two implications follow: first, each structural adjustment program must be designed for specific country environments; second, in the presence of the second-best problem, a pragmatic approach suggests great caution on all policy changes.

While apparent Russian progress is evident, outsiders have recognized the seriousness of continuing difficulties. The IMF, World Bank, Western governments, and private donors have provided funds (mostly loans) intended to improve political life, establish the “rule of law,” increase business accounting expertise, introduce modern social accounting, teach effective business practices, and the like. Further, World Bank recommendations, in addition to technical economic suggestions, have stressed the urgent need for a “social safety net” to protect individuals hurt in the transition from one type of mixed economy (“command”) to another (“market”).

The Russian Idea

The interesting question now becomes, What in the Russian scene will give structural adjustment and economic policies a uniquely Russian flavor? In a presentation at the Wilson Center in Washington, DC, in February 1997 a sociologist (Tim McDaniel) and an economist (Anders Åslund) presented contrasting views of the efficacy of changes under way in Russia today.

McDaniel argued that the very basis of a market-oriented economy was missing. Russians lacked a general belief in the new system, and there was no system of meritocracy. Society was not based on the logic of competing interests or formal rules and laws, which are major requirements of a market-based system. In

effect, the old system was based on personal power, with the state as both protector of order and promoter of societal change. As a result, reform efforts should have included more concern over the institutionalization of political power, emergence of a logical social contract, the importance of respect for mutual rights in society, development of societal trust, and the legitimization of private property. The Yeltsin reforms ignored these considerations, reform was introduced without societal or institutional support, and the population became alienated from the leadership by the emerging game of "survival of the fittest."

The result is that McDaniel sees Russia today as being plagued by an illegitimate elite, an alienated government, and a system whereby arbitrary power has been left intact without the constraints of the old Communist political mechanisms. McDaniel suggests that the sources for stability and absence of labor unrest visible in Russia today are apathy, despair, a lack of connection to the government, and a sense of powerlessness. This, he concludes, does not legitimize either the reform process or the current state of the economy and society.

In contrast, Åslund, a former advisor to the Russian government, sees Russia as a messy market economy that is about to grow, is predominantly privatized, has achieved financial stabilization, and enjoys an extraordinary level of pluralism. It is democratic, having gone through presidential and parliamentary elections, it has a constitution, and has full freedom of speech and association. Åslund concluded that the Russian economy would be further ahead today had structural and macroeconomic reforms been carried out more vigorously, even at the cost of greater economic dislocation. One may add that many Russians think the same way. Aleksander Shokhin, the first deputy head of the State Duma, speaks of "Russia's new era of capitalism," suggesting that the worst is over, and that growth lies ahead. Only a political catastrophe could abort the process, in his view. Recent data give credibility to this optimism: hard currency reserves are up, the ruble appears to be stabilized, and capital is being raised abroad; the fiscal deficit appears to be headed down; monthly inflation has been below 3 percent for over a year; and many predict economic growth will be resumed either in 1997 or 1998 after falling since 1991, although serious technical questions remain concerning how to measure this growth.

There are elements of truth in the positions of both McDaniel and Åslund. It is true that a country with a huge fiscal deficit, balance of payments problems, a ruined agricultural sector, and widespread poverty is in trouble. And while "getting prices right" is not the end of development, it is true, as sometimes noted, that getting prices wrong frequently is. Reforms were urgently required in 1991.

Yet, even if these reforms are fully carried out, important philosophic and practical problems would remain. First, the market model rests on the implicit assumption of individual initiative and responsibility. People in that kind of system do what is expected of them by the state and society. Absent this, widespread chaos and lawlessness result unless the state is in a position of power.

Second, markets are basically amoral. In a pure market system, children would be for sale, slavery in various forms would proliferate, individuals would be exploited to suit the particular needs of employers, and income disparities would

widen to politically dangerous levels. If the democratic underpinning is weak, the market cannot be influenced to serve broad social purposes.

Third, there is a philosophy of haste at work in Russia today, whereby the market and private property ownership are to be introduced at once. Theory and experience suggest that markets develop over the years as parts of organic wholes, resting on emergence of an intricate social, economic, and political base (a process that in the West took 500 years). In effect, markets are created by governments and supporting institutions. The chief economist of the World Bank, Joseph E. Stiglitz, speaking of the “East Asian miracle” in the postwar period, notes that governments “intervened actively in the market, but used, complemented, regulated, and indeed created markets, rather than supplanted them.”

Lacking institutional underpinning, market-led development today must rely on substitutes for those characteristics, or on institutions that can overcome their absence in the short-run. For example, a partial substitute for a developed legal system might be local “community courts” supported entirely by small business and outside the formal system of government. Capital can be raised in a variety of ways outside formal banking systems. Outsiders possessing skills in limited supply can be employed (short-term consultants for this purpose are less useful), and so forth.

It is true that world history suggests that unless haste is the guide, regressive political and economic forces may impede eventual creation of a market-based society. It does seem ironic, however, that Russia, where the extreme haste of the First Five Year Plan (the “optimal variant”) was so destructive of long-term development, is again embarked on a crash course with a problematic future. The motive underlying the hasty program in privatization has been to decentralize power away from the state, but the speed, as well as the political and financial shoddiness associated with the process, has weakened its effect.

Fourth, the extraordinary hardship currently endured by Russians is, in effect, a generation-skipping policy in which living generations sacrifice well-being for a more prosperous future. This approach to development would seem to be unacceptable for two reasons. First, the change process might fail and there would be no future reward for those left out initially. Second, history strongly suggests that those who benefit from the early stages of growth are reluctant to redistribute property or even future incomes in favor of those who paid the human cost in the initial stages of growth.

In light of conflicting views of reality in Russia, and considering the requirements of “democratic capitalism,” the most desirable practical approach to Russian development appears to lie in the direction of pragmatism. From this perspective, the question in Russia today is largely a matter of optimal balance between private and state initiatives consistent with the perceived needs of the Russian people. In the presence of the second-best problem, a pragmatic approach suggests relying on estimates of relative efficiencies in the public and private sectors, thus assigning tasks to each in which it has the greatest relative efficiency. The argument for government controls or ownership to correct all *market* failures

tends to ignore the strong possibility of *government* failures. What is the appropriate balance today in Russia? How is this to be determined in a pragmatic way?

Income and Security

Is there a Russian idea bearing on the ingredients of growth? Assume for the moment that a basic Russian idea is communality and egalitarianism (“life is hard but getting better, and we’re all in the same boat anyway”). Expressed operationally, this has meant that during most of this century under the Soviet leadership people were persuaded or coerced into accepting the trade-off between income and security (as the old Soviet joke expressed it, “They pretend to pay us, and we pretend to work”).

While incomes rose significantly under the old regime, they lagged badly behind those in developed market economies. Still, they improved each year, and this benefit was psychologically reinforced because the improvement was something that could be anticipated and savored. Therefore, the physical basis of individual

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life was perceived as secure. Further, for most Russians there was no awareness of stark differentials in income and associated privileges. A dependent way of life developed, with Russians living under the guidance of the state. Although people were often angered by planning mistakes and bureaucratic bungles, private life went on, families grew up, generations passed.

For discussion, now, assume that the willingness (eagerness?) of Russians to trade higher and more differentiated incomes for greater security is an important feature of the Russian psyche. It is fair to say that if a society tried to provide each of its citizens with an equal share of the economic pie, the pie would be less than if some individuals were given extra large pieces of the pie when they were unusually productive. But if the pie were distributed solely on the basis of productivity, some people would inherently be left with little or no pie—the weak, the physically and mentally ill, the aged, and possibly even the children. So it would be appropriate to ask what degree of trade-off between productivity and equality would be acceptable. What would Russians consider a fair degree of inequality as the price for rising productivity and incomes in general?

Assume now that Russians approve of some inequality, but want to ensure that no person falls below some specified “level of living.” What government policies does this imply? Whatever expedient might be devised for the short run (for example, “workfare,” soup kitchens, labor-intensive infrastructure construction, and so forth), the long-term answer has to be productive employment. Given Russian culture, what kinds of policies are open to government? Can the government at some level become the employer of last resort without building a permanent class

of people dependent on public employment? Can fiscal and monetary policy be applied in ways that help protect employment (with minimal inflation) without simultaneously losing the confidence of private sector business people?

While employment is a major part of an answer to egalitarianism, provision of housing, medical care, and education are equally important. Russians in the past were proud of their free education and health care, important supplements to nominally low incomes (not to mention pride in their art, science, and sports achievements). Housing remained poor throughout the Soviet period, but was relatively free. What is there in the Russian idea that suggests specific policies in these areas? It is perhaps instructive that the mayor of Moscow (Luzhkov) succeeded in having that city exempt from the government requirement that subsidies be eliminated from housing. He is taking a slower approach to raising rents and providing for maintenance of buildings.

Russian medical care (with few exceptions) was never spectacular, but free primary care was considered satisfactory by all. Today funding has collapsed and the entire medical establishment is in shambles. (The perhaps apocryphal story is told of a hospital complaining to a foreign aid donor that disposable syringes received in the program were unsatisfactory because they could be used only ten times.) What set of incentives can be provided medical people in the context of "free" medicine to ensure provision of quality primary care for all and specialized care for steadily increasing numbers? While the leadership ponders this question for the long run, an immediate crash program in medical care seems strikingly appropriate.

What is there in the Russian idea that will rescue all levels of education from collapse? How can all levels of education immediately be supplied with building repairs, supplies, and money for teachers' salaries? What in Russian culture can be drawn on to break down the "European" system of education and research prominent in Russia today, broadening the student body at higher education levels, freeing faculties from a limiting promotional and authority structure, and preventing continued graduation of students unqualified for productive employment? How can "free" education at all levels be continued as both an ornament of the Russian people and a means to future development?

Unfortunately, this is not the way housing, medical care, and education are addressed today. The rush to privatization in the context of withering government tax revenues has stripped these sectors of attention by government leaders. The irony here is breathtaking. Features of Russian life that touch people most directly are collapsing, and government assets are being sold ("handed over" or "given away" are the more common expressions) to those who are perceived increasingly as simply the old rulers or the mafia.

The effect is growing despair matched by rising cynicism. In this setting, stern warnings that subsidies must be eliminated, prices must be allowed to rise to market-clearing levels, and the economy must be opened to foreign investment seem to millions of Russians to be inventions of a small clique in Moscow divorced from the realities of Russian history and contemporary life. (An Afghan war hero suggests that the decision to invade seemed to have been made as though

Afghanistan did not exist. Using this analogy, a writer in the *Moscow News* suggests that liberal reforms were carried out as though Russia did not exist.)

At a most difficult time of the transition toward greater reliance on markets, government actions have reinforced the widespread suspicion that the entire process is merely another putsch from the top down, another convulsion in Russia's bloody history, that will end in failure. It is true that hidden subsidies, government-directed resource transfers favoring specific industries, and political decisionmaking at the microeconomic level all seem wildly inappropriate for long-run development in the Russian setting and would probably perpetuate Russia's relentless inefficiency. But the present course seems even worse in the eyes of millions of Russians because it is perceived as basically unfair.

Social Order

The income insecurity pandemic in Russia today is merely one aspect of a society under stress. There is a national health crisis of extraordinary severity and breadth. Death rates are high and live births continue a decline begun more than a decade ago. The nominal causes include alcohol and cigarettes, poor nutrition, AIDS and other infectious diseases, a lapse in childhood vaccination programs, environmental degradation, and crime. However, underlying most of the problems may be the omnipresent and growing physical, psychological, cultural, and sociological stress of change experienced by most Russians today. Millions (20–40 percent, 30–50 percent, two-thirds?) of Russians are living near, at, or below poverty levels. Yes, poverty is relative of course, estimates vary (what is the “poverty value” of the absence of medical care?), and the Russians in any case are given credit for their fabled ability to cope. Still, human suffering is widespread.

A recent survey of Russian public opinion by the Sociological Analysis Institute (reported in the *Moscow News*, 17–18 and 19 May 1997, and here quoted and paraphrased) casts some light on Russian views of disorder. The idea of order, as shown by this survey, appears to be without political or ideological overtones. In this sense, it has broad appeal, and centers essentially on freedom from government *diktat*. In contrast, however, when it becomes clear what specific actions Russians feel are necessary for order, this general consensus gives way to views covering the entire political spectrum. Apparently, most Russians want order to be based on legal norms, and interpret this to mean strict law enforcement to prevent illegal acts. There appears to be less appreciation for the law as accommodating conflicting interests. This is not surprising given the fact that the very word “comprise” (*kompromiss*) in Soviet days often carried a pejorative connotation. Soviet practice, following Russian tradition, tended to divide all reality into truth and “untruth,” with truth designated officially.

The survey suggests that many Russians perceive political and economic freedoms as unrelated, with preference clearly given to political freedoms. Political freedoms are seen as personal, while economic freedoms are seen as license for somebody else to act to the detriment of one's own personal interests. A “significant number” of Russians are said to hope for an “iron fist” to restore order, but this position is inconsistent with their abhorrence of any restrictions on their free-

doms. If this is so, a “Russian Pinochet,” or the Chinese model (relatively free economies in constrained political systems), seem inapplicable to the Russian problem. Public distrust of both leading political forces at the moment (Yeltsin and the Communist Party of the Russian Federation) suggests that a third force may emerge triumphant. However, such a third force will immediately face considerable opposition when it specifies policy recommendations on political and economic freedom. In short, the third force may be an illusion.

So the question is left open. What policy designed to create economic and political order best suits the Russian idea, and what is the “ideal” Russian balance between political and economic freedoms?

Some Directions That Can Be Taken

The transformation underway in Russia is sweeping away old institutional structures and creating new structures thought to be more appropriate to emerging technologies, power relationships, and international conditions. The change is dramatic but is merely the latest reminder that, in a sense, all development is tragic because it destroys the human values that give life meaning and forces individuals to find entirely new reasons for living. From a humanistic perspective, the test of an appropriate development model is to ask: which model *minimizes* the human cost of development? Which approach is the least tragic?

A human tragedy of seismic proportions has already occurred in Russia under stabilization and structural adjustment programs. With perfect hindsight today one can ask, who would have consciously chosen this path for Russia?

There is a Russian joke that suggests that Russia ruined the reputation of socialism and it will do the same for capitalism. Of course, things may work out. Capitalism does appear to be confusing, and early capitalism is even chaotic. And revolutions of any kind are, of course, inconvenient even for those with power. However, it is suggested here that the only economically and politically adequate defense of policy reform is that, in fact, everybody benefits, and that the policy is seen as just. For this purpose, it is useful to view policy reform and poverty reduction as complementary goals, with satisfaction of needs in housing, medical care, and education as active complementary elements of the policy reform package, contributing to increased productivity, growth, and employment, and not seen merely as income transfers reducing growth. This means, in turn, that human deprivation must become a major policy focus in any program for change intended to enhance overall economic development. (As this is written, the World Bank is considering a \$800 million credit to improve pensions, unemployment assistance, and welfare, including maternity and sick leave. This sum is small relative to need, but indicates World Bank concern for the threat to economic reform posed by poverty.)

The matter can be stated succinctly. Let us say simply that there is a *development triad* that should guide Russian actions. First, increased productivity is one key to the future, and this suggests a market orientation wherever appropriate in the economy. Second, much greater priority must be assigned to “the use of incentives and organizational design within the public sector to enhance efficiency and

to reduce the likelihood of corruption” (Stiglitz, speaking of reasons for East Asian success). Third, it is important that both the public and private sectors encourage what can be called “grass roots” and local/regional development that will lead to increased community participation in important political and economic decisions, helping establish “checks and balances,” and accountability.

After creation of a legal and institutional support structure, the Russian private sector can take care of itself. Viewed in this way, the development problem lies within the Russian government, which must proceed on two fronts. Immediate attention needs to be directed to what can simply be called peoples’ needs, emphasized above. Simultaneously, action is required on the very serious arrears resulting from the collapse of tax collections and a Byzantine and variable tax code. In Moscow, the first deputy prime minister (Chubais) in June threatened obliquely the dissolution of the Duma by Yeltsin if it does not act favorably on the new tax code. (Because Moscow apartments are tied to Duma membership, this may be a difficult vote. At any rate, the proposed budget sidesteps important social needs.) There is recognition that laws on foreign investment must be simplified and stabilized. A stable and strong central bank is can be useful.

The practical significance of these improvements remains moot, however, in the presence of pandemic bribery and thugery. Government officials widely establish a price for their decisions. That is, guided by personal interest without adequate social restraints, all government decisions seem to be for sale, with no end to this practice in sight. Ultimately, it will be necessary for those in government to accept for themselves the rule of law that they promulgate for others.

The reader may be familiar with the role Hammurabi played in early Western history. As king of Babylon 1792–1750 BC, he promulgated a set of laws (called a “code” for decades). To emphasize that he was a just king, he announced that the laws would apply to him as well as to everyone else. Scholarly opinion currently discounts the importance of the king’s actions, but if the government leadership in Russia can be motivated by this same spirit, anything seems possible. Of course, contemporary social scientists suggest that politicians are simply people—they pursue their self-interest subject only to constraints necessary to assure re-election.

On the other hand, perhaps now that a major portion of government property has been transferred to private hands, the new owners will relinquish their informal (and technically illegal) attempts to persuade government to assist them individually, and will argue instead for greater emphasis on “rules of the game” under which owners are treated equally and that permit rational decisionmaking.

Summing Up

Why have so many things gone wrong in Russia? As countries in Africa were achieving independence beginning in the late 1950s there was widespread optimism that as soon as the colonialists departed, life would be grand. A Nigerian in 1988 explained the basis of this view to the novelist Charles McCarry:

My countrymen believe that inside the British Club, where we have never been permitted to enter, there is a hidden room, and inside that room is a vault, and inside that vault is a book containing the secret of life.

Of course, there was no such room, no hidden truth that would transform Nigeria. Evidence suggests that there is no such hidden truth awaiting Russia's discovery.

The "revealed truth" so visible today that stresses markets and democracy will need to be bent to Russia's needs and translated into specific programs. Only Russians can do that. Outsiders can help, but only with great restraint and, one is inclined to stress, humility. Despite all our knowledge, development still remains something of a mystery. In the end, Russia's development policies must be Russian if they are to endure. Such policies must recognize elements of *continuity* in Russian culture to which *change* must adapt. In effect, they must recognize that reforms begin with what *is*, not what *is desirable* in a theoretic sense. Finally, reforms must be *pragmatic*, recognizing the limits of ideology as a guide in an increasingly complex national and international environment. In the words of Paul Samuelson, Nobel laureate and author of an economic textbook studied by generations of American college students, "Russia and the other former socialist economies of Eastern Europe, unhappy with the performance of their command economies, are searching for their own particular brands of the mixed economy."

The suggestion here is that in this context, greater immediate attention must be given in Russia to problems of income insecurity and basic human needs, coupled with an equally vigorous stress on tax collections that are viewed as both efficient and fair to support government initiatives. These short-run problems deserve attention because Russians live in the short run. Moreover, in a context of greater stability and less personal stress, Russians may be motivated to take greater responsibility for their own lives, moving away from the Soviet and early Russian attitude of dependency and fate, and paving the way for a truly *Russian* democratic capitalism.

Who in Russia will move beyond the concept of the "Russian idea" and explain in operational terms how this can be done? Who will speak with the Russian voice?