

SPECIAL  
ENGLISH-LANGUAGE  
EDITION  
OF THE JOURNALS

QUESTIONS OF POLITICAL ECONOMY  
&  
THE ECONOMIC REVIVAL  
OF RUSSIA

Publication editors:

**Aleksandr V. Buzgalin**, Doctor of Economic Sciences (DSc),  
Professor of Lomonosov Moscow State University

**Natalya G. Yakovleva**, PhD (Economics), Research Associate of the Sector of Institutions  
of Social Policy and Civil Society of the Institute of the Economy,  
Russian Academy of Sciences



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MOSCOW

**Special English-Language Edition of the Journals Questions of Political Economy and The Economic Revival of Russia** / Eds. A. Buzgalin, N. Yakovleva.

М.: LENAND, 2016. — 116 p.

The English-language publication offered here for the attention of readers is the result of cooperation between the journals **Questions of Political Economy** (<http://interpolitec.su>) and **The Economic Revival of Russia** (<http://e-v.r.ru>). Included in the issue are reworked versions of some of the best articles published in Russian in these journals during 2015 and 2016. These articles deal with questions of the theory and methodology of political economy, as well as with the results of politico-economic research on the development of material production and on the features of the Russian economic system.

ООО «ЛЕНАНД». 117312, г. Москва, пр-т Шестидесятилетия Октября, д. 11А, стр. 11.  
Формат 70×100/8. Печ. л. 14,5. Зак. №

Отпечатано в АО «ИПК «Чувашия».

428019, Чувашская Республика, Чебоксары, пр-т И. Я. Яковлева, д. 13.

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##### **Global Capital: The New Quality of Market, Money, and Capital in the Global Economy** (On the Occasion of the 150th Anniversary of the Publication of Volume I of Karl Marx’s *Capital* and the 200th Anniversary of the Birth of Karl Marx)

This text is a presentation of the third, 2-volume Russian edition of Aleksandr Buzgalin and Andrey Kolganov book *Global Capital*, which appeared in earlier editions in 2004 and 2007. The text reveals the basic provisions of the book. The starting-point for the book is its chapter on methodology. Found here are not only critiques of conventional Soviet “Marxism-Leninism” and post-modernism, but also a new rethinking of the classic dialectic (the authors propose a “dialectic of non-linear transformation”) and a theory of the “sunset” of the capitalist mode of production.

For the most part, however, the book is devoted to revealing the new quality now assumed by commodities, money and capital within the global economy.

The *market* has become not only global, but a totalitarian force that is no longer a “socially neutral mechanism of coordination”. It is now a product of the hegemony of corporate capital, featuring the intensive and extensive growth of new types of commodity — information, simulacra and so forth. The authors demonstrate the new qualities acquired by value, use-value, price and commodity fetishism within this new market, while exploring the contradictions of new non-limited resources (such as knowledge) and the commodity form of their existence.

*Money* is now a virtual product of fictitious financial capital, possessing a new nature, contradictions and functions, all of which are shown in the book. This analysis of the new nature of money helps the authors reveal the essence of so-called financialisation.

*Capital* has become the result of a complex system of exploitation. In the twenty-first century context of this exploitation includes the “classic” extraction of surplus value from industrial workers combined with internal corporate redistribution of income by “insiders”; international exploitation; and the exploitation of creative labour through the expropriation of intellectual rent. Further, modern capital imposes its hegemony not only on labour, but also on free time, and subjugates not only the labour power of the human individual, but also his or her personality (human and social “capital” are thus irrational forms of the development of the personality and of solidarity).

The book also includes a chapter showing how the authors’ analysis of the modern market, money and capital helps to explain the nature of the recent world economic crisis.

The book’s final chapter sets out the features of the “Jurassic Park” of Russian capitalism.

Also provided in the book is a broad picture of the debates occurring within the Post-Soviet School of Critical Marxism. The latter is a network that includes many well-known Russian authors, who over the past 25 years have produced more than 50 books and hundreds of articles.

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On basis of the analysis of contemporary economic situation in the world and Russia is made the conclusion about retention in the post-crisis period of the domination of speculative-financial capital in the economic model. For overcoming of the existing disproportions and speculative distortions in the economy is based the need for development and implementation of the program of the socialization of finances. Its importance is determined by the possibility of the formation of the new model of the mixed economy, and for Russia this program comes out as the key condition of diversifying of economy and conducting of the policy of neoindustrialization of the country.

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Within Russian capitalism, the dominant mode of coordination which determines the proportions in the economy is the semi-legal struggle between these "dinosaurs", who not only exercise particular power in the marketplace, but who also generate "fields of dependency", local regulating influences which have the effect to some degree of subjugating other producers and consumers. The main parameters for the competitiveness of these structures do not have to do with the price and quality of goods, but with the degree of control that is exercised over information, financing, and access to raw materials and other national resources.

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**207 Rifat I. Khabibullin****Collective Enterprises in Russia and America:  
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The article presents the results of the author's study of present state of collective enterprises (joint-stock companies with employees as shareholders). It is noted that in Russia this form of business is not sufficiently developed. The study discusses the experience of organizing the employee-owned companies in Lipetsk region: their governmental support, functioning and commercial efficiency. The article provides a comparative analysis of activities of employee-owned companies and companies functioning on the basis of other business models. It considers the economic efficiency of collective firms in Russia (collective enterprises — CE) and the USA (enterprises based on Employee Stock Ownership Plan — ESOP model).

It was demonstrated that employee-owned companies have considerable over the enterprises of other forms of ownership concerning better control of production due to participative management, more comfortable psychological climate and higher competitiveness. We show that the factors of socio-economic sustainability of such enterprises are based on interest of the labor collective in the products of their work. The origin of such interest is an opportunity for each employee to participate in management of the company and his high social security.

**218 David B. Epstein****Soviet Socialism: Politico-Economic Analysis**

The article analyzes the economic achievements as well as shortcomings and problems caused, first of all, the mismatch of economic governance system of the USSR in the 60–80s to the requirements of scientific and technological progress. During this period the country had made significant progress in creating conditions for the full development of a human being in education, health, culture and recreation. Analysis of the dynamics of wages and distribution of the social product demonstrates that it was carried out in the interests of the society, of all the classes and strata, rather than the layer of managers and officials. This meets the requirements of socialism. On this basis the concept, describing the Soviet Union as a system of dictatorship "of the Party and state bureaucracy" or "state capitalism" is criticized.

## Foreword

The English-language publication offered here for the attention of readers is the result of cooperation between the journals *Questions of Political Economy* (<http://interpolitec.su>) and *The Economic Revival of Russia* (<http://e-v-r.ru>). Included in the issue are reworked versions of some of the best articles published in Russian in these journals during 2015 and 2016. These articles deal with questions of the theory and methodology of political economy, as well as with the results of politico-economic research on the development of material production and on the features of the Russian economic system.

In presenting this somewhat unusual publication, the editors would like first of all to describe several ***key problems of the revival of politico-economic research in the post-Soviet space.***

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In the post-Soviet countries, the older generation of those citizens who have higher education at some point encountered one or another variant of a course in Marxist political economy, which in the USSR was taught in all higher educational institutions. The younger generation have learnt, mostly from hearsay, that these courses were astonishingly dogmatic and remote from reality, and that they were based on scholarship that was no less dogmatic. Although this view is not entirely correct – political economy in the USSR yielded many extremely valuable scholarly works – after the fall of the USSR political economy was destined to be forgotten for many years. As a course of instruction and as a methodology for research it disappeared from the universities and research centres.

Despite this, interest in political economy has grown over the past five or seven years in the countries of the CIS, as in the world as a whole. A new wave of politico-economic studies has arisen. Old political economy associations are growing rapidly, and new ones are being founded. The works of classic authors in the field of political economy and of their modern-day followers are being published in large print-runs. There are objective reasons for this, one of the most important of which is the world economic crisis that began in 2008. The crisis has shown convincingly the significance of political economy. Many scholars in the field wrote about the danger of such a crisis, and explained why this threat could come to pass. In this, they differed from representatives of the “mainstream”, who right up until 2007 argued that no crisis would occur.

A significant event for all political economists in the post-Soviet countries was the founding, in 2011, of the International Political Economy Association of the Countries of the Post-Soviet Space (MPEA). Those who have joined this association include well-known political economists and economic theorists from Russia, Ukraine, Belarus, Kazakhstan, Georgia, Estonia and Moldavia. The main purpose of founding the MPEA was to encourage collaboration in developing political economy as a science, as an academic discipline, and as a methodology and tool for solving practical economic, social and political problems of countries, regions and enterprises.

The first and most important step taken by the MPEA was to hold the ***First International Political Economy Congress***, which took place on 16-17 April 2012 in Moscow, with the support of the Institute of Economics of the Russian Academy of Sciences. The congress attracted some 400

participants, more than 200 of whom delivered reports and presentations to ten seminars and plenary sessions. Representative delegations from former Soviet countries and further afield travelled to Moscow, along with intellectuals from more than forty regions of Russia. Operating within the framework of the congress were seminars devoted to the problems of reviving political economy as a science able to provide new impulses for devising socio-economic strategies for our countries. Also taken up were questions of how to include a refurbished political economy among the basic teaching disciplines of higher educational institutions, especially those with an economic focus. Other topics addressed included the specific nature of politico-economic research into national economic systems and agrarian relations; the political economy of wealth and poverty; the methodology of our science, and many more. The congress showed that *the dramatically increased interest in classical and modern political economy is no accident*. On their own, neoclassical theory and micro- and macro-economics are by no means always able to foresee and explain qualitative shifts in economic development. When a smooth evolution that does not lead to substantial changes in economic life is replaced by sharp ruptures, whether these take the form of crises or of qualitative leaps to new types of organisation, there is a special need for political economy. An important aspect of the congress was the way it addressed the question of the nature and prospects of the main economic actors: *individual people, firms and states*.

Today, we are able to speak of an enduring tradition of active work by political economists in the post-Soviet space. The **Second International Political Economy Congress** took place in Moscow in 2015, and the **Third International Political Economy Congress** in Rostov-on-Don in 2016.

The participants in the congresses that have been held have reached the common conclusion that a revived classical political economy offers theoretical answers to various pressing questions of the modern epoch:

1. What does studying the diversity of economic systems, the laws governing their rise and decline, and their transformations and development on their own individual bases yield for economic theory and practice? What are the lessons to be learnt from the diversity of means of allocating resources, and from different property relations (including in the area of creative intellectual activity)? What does studying the quality of the economic dynamic in its social, ecological and humanitarian dimensions have to teach us?

2. How are we to regard the economic determinants of social interests and of the social structure, the causes and consequences of inequality, poverty and wealth? How should we assess the influence of social parameters on economic development, on its tempi and qualities?

3. What is the relationship between objective economic laws and the subjective actions of economic actors? Is it possible to work out theoretically validated alternative models of economic policy? What is the measure, and what are the limits of political influence on the economy? What are the links between political forms and economic relationships (the economic bases of and preconditions for various types of democracy, and the influence of political forms on economic development)?

During the congresses it has been stressed that all these and many other topics of political economy (though not of this field of study alone) can and should develop within the framework of a renewed classical political economy that has the *theoretical and methodological potential to resolve them*. Accordingly, *this renewed political economy can work out multi-scenario strategic recommendations in the field of economic policy*.

Moreover, it is political economy that is able to reveal, openly and incontrovertibly, the *social groups and forces whose economic interests are expressed by various models of economic policy*, and to what social outcomes, gains and losses for particular actors these models will lead.



*Political economy has no less potential in the field of education.* This science makes it possible to impart to students a taste for fundamental socio-economic knowledge, to implant in them a grasp of the diversity of economic schools and currents, understood not simply as historical but also as present-day methodologies and languages of economic communication. Through political economy, students can be taught the skills of theoretically informed dialogue, and can learn to search for fundamentally new practical and theoretical economic solutions.

Finally, political economy is a science that from the very beginning, from the first works of its founders and above all of Adam Smith, has emphasised the moral bases of economic processes and the moral imperatives that limit exclusively economic rationality. Political economy has devoted great attention to the humanitarian consequences of various economic actions and processes. At its centre is the human individual, not only as a rational egoist maximising his or her monetary income, but also as a creator of culture, with a diversity of social goals, values and stimuli. Political economy views the individual human being as the highest value of an economy in which market efficiency is one of the means, but not the goal.

Economic theory of this kind, oriented toward the priority of human qualities and socio-ecological values, can and must play a fundamentally important role in forming a humanist economic culture, education and politics.

*The main result of the congresses has been to lend a powerful impulse to the initiating of investigative and educational activity in the field of political economy in the post-Soviet space.*

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In Russia, research in the field of political economy has always been oriented not only toward questions of general theory and methodology, but also toward applying this theory and methodology to the study of the national economy. It is therefore no accident that as we noted at the beginning of our foreword, this English-language issue is the result of cooperation between two journals, *Questions of Political Economy* and *The Economic Revival of Russia*.

The journal ***Questions of Political Economy*** is the scholarly and theoretical organ of the MPEA, and was founded along with the association in 2011. Initially, it was published as an electronic (internet) resource, but since 2015 it has become a print publication, appearing four times per year.

The main goal of the journal is to act as a centre of attraction for followers of the scientific school of modern political economy, as a forum for discussion and constructive dialogue, and as a space in which answers can be sought to urgent and complex problems that emerge in the life of society. At the same time, the task of the journal is also seen as popularising the place and role of political economy in the history and development of economic science, as well as reporting the scientific discoveries and results of politico-economic research, something especially important for attracting new scholarly forces. Meanwhile, a key feature of the journal is the close attention it pays to history, both the history of objective socio-economic processes and that of research into these processes. The editorial collective of the journal has set itself the goal of providing a historical view of the socio-economic process and of the scholarship that studies it. The journal is inter-disciplinarian as a matter of principle, and invites not only economists, but also philosophers, sociologists, political scientists and scholars from other fields to take part in joint work.

Particularly important for the journal is encouraging active collaboration in expanding and improving the process of teaching political economy, which has now been almost ban-

ished from educational programs – a situation that is having extremely adverse effects on the level and quality of the fundamental training received by specialists. In pursuing its goal here, the journal publishes the existing syllabuses and methodological instruction programs of various courses in political economy, while prompting discussion of the problems of changing the structure of courses on economic theory in schools and universities.

Meanwhile, the journal's orientation toward studying the theory and practice of the development of the CIS countries does not exclude recognising the importance of analysing fundamental problems of world economic development. Modern political economy has the theoretical and methodological potential to resolve both global and specifically national problems of socio-economic development, and to work out strategic recommendations in the field of economic policy. *Questions of Political Economy* is open, as a matter of principle, to broad international scholarly cooperation. Both the association and the journal conduct, and will continue to conduct, scholarly dialogue with political economists from the countries of Eastern and Western Europe; from China, India and other countries of Asia; and from North and South America.

Within the framework of the journal, the following are published:

- Fundamental theoretical and methodological research works in the field of political economy;
- Works that combine theoretical research in the field of political economy with analysis of questions of practice and with recommendations for economic policy;
- Studies in the area of the history of economic life and thought;
- Materials contributing to the development of the teaching of political economy (course syllabuses and methodological instruction programs);
- Discussion articles oriented especially at polemics with published materials;
- Excerpts from the works of great political economists whose writings are part of the treasure-house of world economic thought;
- Synopses, surveys and reviews of the most significant works of political economy published both in Russian and in other languages;
- Creative works of research by young scholars and students, etc.

The International Political Economy Association of the Countries of the Post-Soviet Space and the journal *Questions of Political Economy* maintain a constant scholarly dialogue within the context of joint projects with scientific research and educational organisations and journals that have been co-organisers and information sponsors of the congresses.

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The journal ***The Economic Revival of Russia*** is one of our country's oldest periodical publications dealing with questions of the economy. In 2014 it marked its centenary, but it remains a modern and timely publication. At the centre of the journal's attention are questions of the development of Russia's national economic system, which at present is experiencing difficult times, and the name of the journal also defines its basic mission – serving the revival of an efficient, modern, competitive economic system in the Russian Federation. Dedicated to this purpose are texts by leading Russian economists whose writings appear regularly in the pages of the journal. In pursuing its goals, the journal is aided to a considerable degree by the fact that its editor in chief, Director of the Institute of New Industrial Development Professor Sergey Bodrunov, is also president of the country's oldest and most respected economic association, the Free Economic Society of Russia.

At the same time, it should be noted that the journal addresses not only specific economic problems of Russia, but also fundamental theoretical questions whose solving is essential if well-grounded practical recommendations are to be made.

Among the questions occupying the attention of the journal's leading authors and of its editor in chief are the problems of how to overcome the adverse consequences of deindustrialisation in Russia and around the world, and of how to find a new quality of industrialisation that will make it possible not only to revive material production, but also to ensure its qualitative renewal. Discussions on these questions have been among the main themes of recent issues of the journal, and have attracted the broad attention of the Russian scholarly community as well as of practical working economists.

The activity of the journal *The Economic Revival of Russia* is closely linked with the work of the S.Yu. Vitte Institute of New Industrial Development, which acts in close cooperation with the Russian Academy of Sciences. The journal also collaborates in large-scale international forums conducted by the institute. Among the main such gatherings are the traditional international St Petersburg Economic Congresses. Held yearly, these attract more than 500 leading scholars from Russia and many other countries, along with well-known politicians and public figures. Other forums include annual international congresses dedicated to the revival of production, science and education. These congresses are held in Moscow, in the building of the Moscow city government, and also attract substantial numbers of scholars, public figures and practical economists from many countries around the world.

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To conclude our brief presentation of the English-language issue of two well-known Russian journals, we would emphasise that it includes high-quality texts by leading Russian scholars of political economy, among them the following:

- Head of the Department of Political Economy of the Faculty of Economics of Moscow State University, Professor Anatoly Porokhovsky;
- Head of the Department of Economic Theory of the Faculty of Economics of St Petersburg State University, Professor Viktor Ryazanov;
- President of the Free Economic Society of Russia, Director of the S.Yu Vitte Institute of New Industrial Development and Editor in Chief of the journal *The Economic Revival of Russia* Professor Sergey Bodrunov;
- Head of the Sector of Political Economy of the Institute of Economics of the Russian Academy of Sciences Mikhail Voeykov;
- Professor of the International University in Moscow Georgy Tsagolov;
- Coordinator of the International Political Economy Association and Editor in Chief of the journal *Questions of Political Economy* Professor Aleksandr Buzgalin, and others.

The authors whose works appear in the issue will be grateful to readers for their comments and critical remarks.

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Publishing editors of the issue

Aleksandr Buzgalin  
[buzgalin@mail.ru](mailto:buzgalin@mail.ru)

Natalya Yakovleva  
[tetn@yandex.ru](mailto:tetn@yandex.ru)



**POST-SOVIET POLITICAL ECONOMY:  
THE NEW THEORETICAL WORK**

# Towards a New Quality of Material Production: The Future of Russia in the Eurasian Space<sup>1</sup>

**Sergey D. Bodrunov**

*Director of the Institute of New Industrial Development n. a. S. Y. Vitte,  
the President of Russian Free Economic Society Dr. Sc. Econ., Professor  
lnd@spbincom.ru*

The article contains a number of theses that justify the sustainable tendency to becoming of the new industrial society which can be called as “the negation of the negation,” a dialectical “removal” both of the late industrialism described by Galbraith and post-industrial trends. Generation of the new industry is based on knowledge intensive technologies that change a nature of economic processes significantly. Russia needs to change in a large degree imperatives of its economic policy, putting industrial development in a priority to encourage own successful incorporation and progress in the new system; Eurasian economic cooperation plays a role of a tool to reach this goal.

**Keywords:** New industrial society, NIS.2, innovations, planning, Russian economy, Eurasian economic cooperation

The world economy and, generally speaking, the global civilization are on the verge of changes. Currently, countries are fighting for their place in the world of the future, which will determine who will not only maintain (acquire or lose) a competitive edge at the next developmental stage, but also become a centre of soft power, a leader or follower. In order to explain what we think of Russia's position and role in this situation, it is reasonable to address several issues and go over some disputed points.

Under these circumstances, Russia cannot hope for an equitable economic and political partnership as long as the West and East Eurasia only see it as a supplier of raw materials and fuel with regional political ambitions. Equality is possible only when there are similar economic potentials and mutual interest. Thus, Russia needs to get rid of its role of raw materials and fuel supplier which renders it the status of a semi-peripheral country in the world economy. That is possible only in case of transition to ***a new developmental stage***. *This transition is a prerequisite for Russia's more efficient participation in global and, in particular, Eurasian economic cooperation.*

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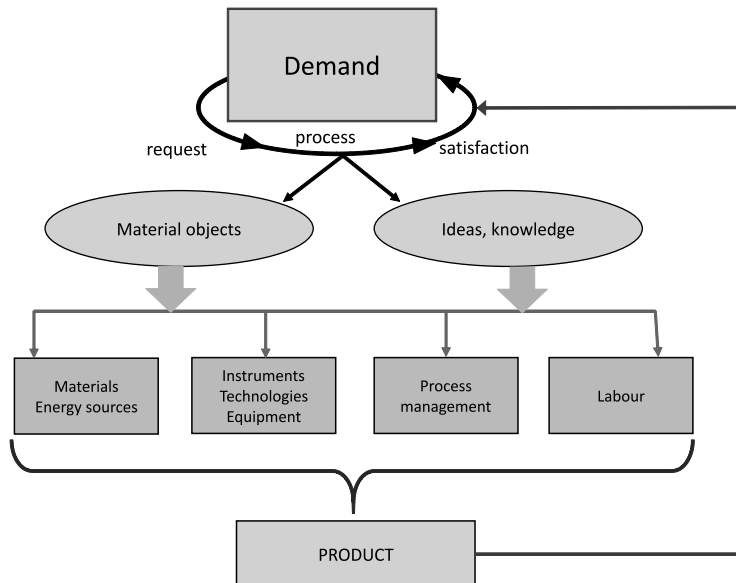
<sup>1</sup> This article was presented in the International Seminar on conceptualising of economic development and cooperation in Eurasia (CEDC — 2016), Cambridge, May 2, 2016.

However, before the rising up to the challenge, we need to answer the following questions: what is the nature of this new stage? where is the modern economy headed?

1. Research on *the product* as a way of meeting public *demand* (pic. 1), human activity related to product creation (*product manufacturing*, separate production *components*) and changes constantly accumulated by people over a historical period of *deliberate industrial activities* along with *quantitative accumulation* and acquisition of knowledge on perfecting production instruments and organisation, *qualitative changes in material production methods* (pic. 2) (in particular, the shift to industrial production) conclusively prove that: in spite of all changes that happened over the past hundred years and are still going on in material production (including the reduction of its share in the GDP of developed countries, the information revolution, etc.), *the very existence of the economy is still based on material production*.

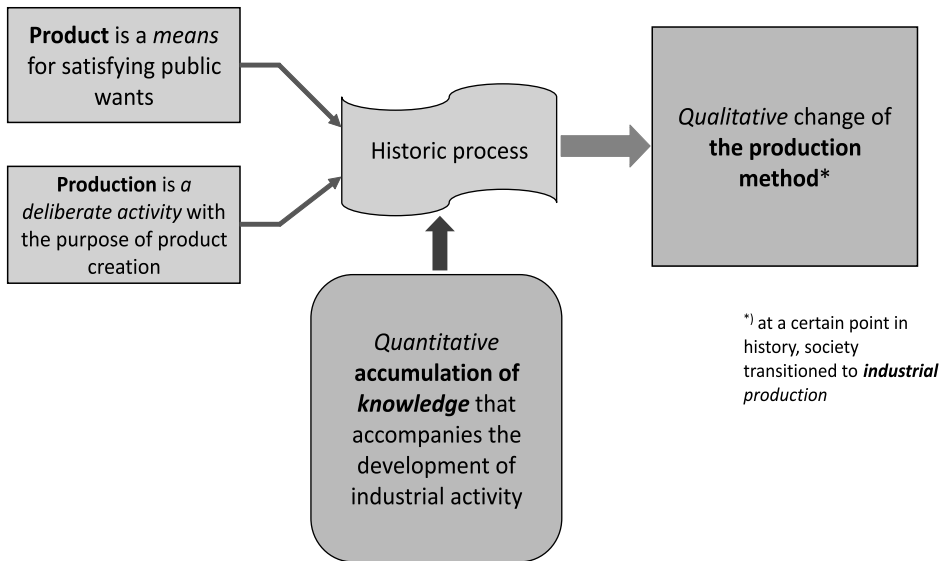
Material production constitutes predominantly *industrial* production; the industry serves as the *foundation* which uses progress in science and technology to create opportunities for increasingly higher *satisfaction of constantly growing public wants*.

### Demand Satisfaction – Production Process



Picture 1

### Point 3 (image):



Picture 2

2. The second question is: what are the implications of this phenomenon?

It is impossible to ignore the fact that *the production method used by a society determines the social order type*.

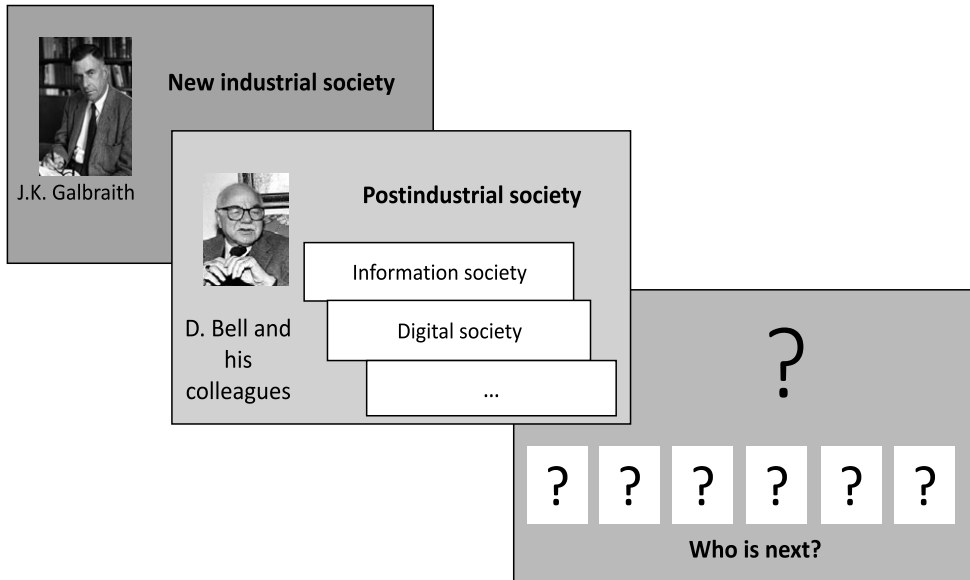
In particular, a role that is played by the technological application of research becomes more prominent, it changes the characteristics of society that is based on industrial production. Modern society is currently living in the era of major changes in the technological mode of the world economy. New technologies permeate not only all areas of the economy, but also social life, and even alter societal characteristics. Therefore, *the transition* to the new stage of societal development is *inevitable*. Opinions vary on what will happen next. Certainly, the efficiency of the paths chosen for the achievement of leadership positions in the new society will depend on the accuracy of our assessments of its parameters and characteristics, which brings to the third question (pic. 3): what will this new society be like?

The statement is that it will be a *new generation of industrial society* which can be referred to as *the new industrial society of the second generation* (NIS.2 for short).



## QUESTION 3: What kind of society will it be?

Shift in Mainstream Concepts of Social Order Type  
Based on Production Method/Demand Satisfaction



Picture 3

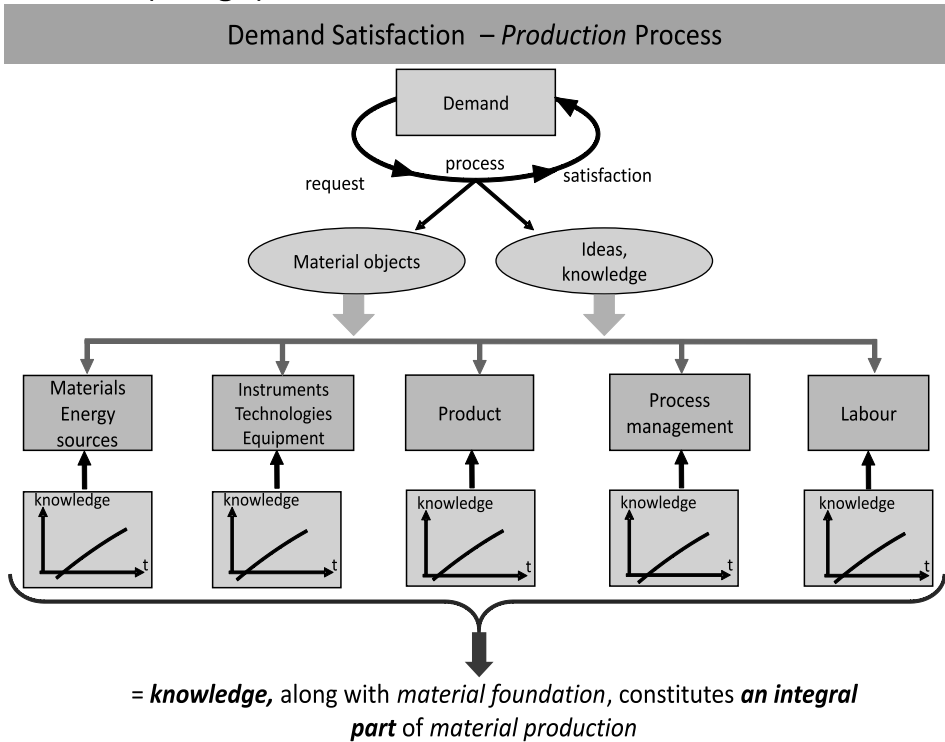
The NIS.2 and its economy, however, will become “the negation of the negation,” a dialectical “removal” both of the late industrialism described by Galbraith and information and post-industrial trends depicted by Bell and other post-industrialists.

3. Since the thesis that the world economy is about to undergo certain changes is established, it is important to address the main factor of such development and evaluate the possibilities of using it to facilitate the progress in the new society of the future, the NIS.2. According to the author’s opinion, this core factor is knowledge.

A series of arguments to support that claim are illustrated (pic. 4).

3.1. Apart from the material component, any product resulting from industrial activity contains a non-material element — *knowledge*. Knowledge permeates all components of the production process, including *materials*, *technologies* (instruments of production), *production organisation*, and, finally, human *labour* as part of the production process. Therefore, knowledge, along with the material foundation, constitutes *an integral part* of the product.

### Point 7 (image):



**Picture 4**

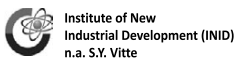
3.2. Historically, the evolution of our society has been accompanied by *the constant increase in the relative share of knowledge* in all production components and the product, while the “material” share in the latter has relatively decreased (pic. 5).

This trend accounts for a gradual qualitative change in the production process and industrial product as the result of such process and engenders “new realities” both pertaining to the opportunities for satisfying the demand and to the formation of new wants, while occasionally creating the illusion that they can be satisfied in non-material, non-production or non-industrial ways. Still, it would be premature to conclude that *the defining role* of material production is a phenomenon of the past; the observed trend warrants a different conclusion: **knowledge intensity** of the material production product is steadily growing, and our society is shifting to a qualitatively new type of material production.

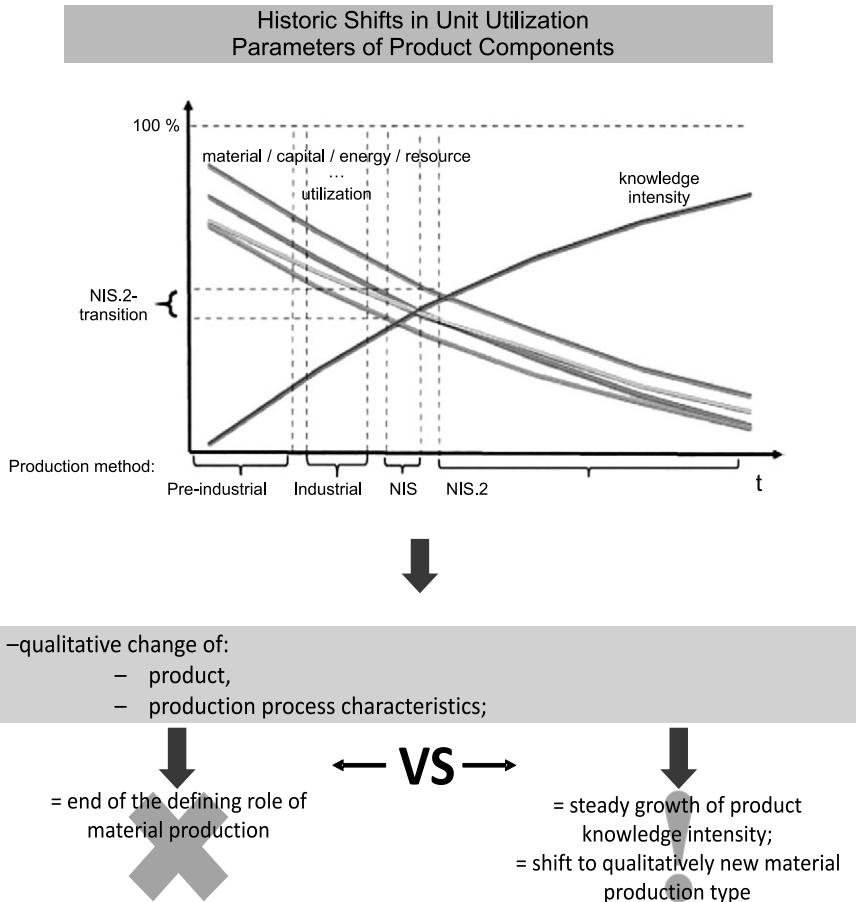
3.3. From the technological perspective (pic. 6), it will be driven by the constantly increasing level of knowledge in technologies, which will determine **the knowledge intensity**

**of** material production **technologies** in the NIS.2. Under these circumstances, the defining role is allocated to operations and processes which, as Karl Marx put it, do not engage people as “an auxiliary to machines” (industrial tools, production lines), but as the source of knowledge; thus, “people are allocated next to production,” and “their involvement in the production process is that of controllers and regulators [6, p. 213]”.

The analysis of trends in the development of modern material production lets come up to the conclusion that the core trend is the accumulation of knowledge in all production components and, consequently, in the product itself (pic. 7).



## Point 8:



**Picture 5**



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## Point 9 (technological aspect):

= new material production type (industrial production under NIS.2)  
will be *based* on the steadily intensifying share of knowledge in  
technologies (this characteristic of NIS.2 technologies can be  
referred to as **the knowledge intensity of technologies**);



= **shift in the industrial labour paradigm**:

= people as “an auxiliary  
to machines”

= people as carriers of knowledge;

- “stationed next to  
production”\*;
- “involved in the ... process  
as its controllers  
and regulators”\*

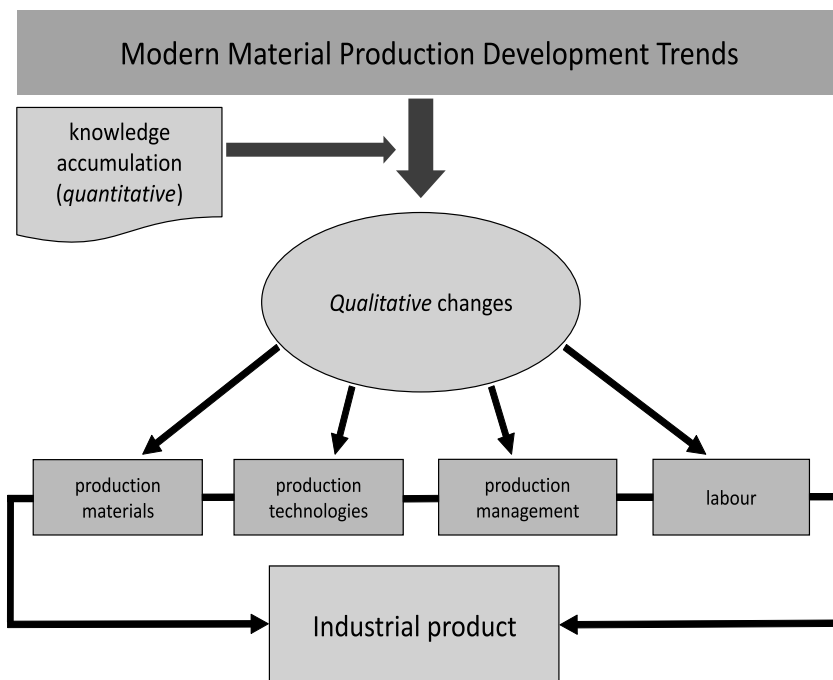
\*) Karl Marx



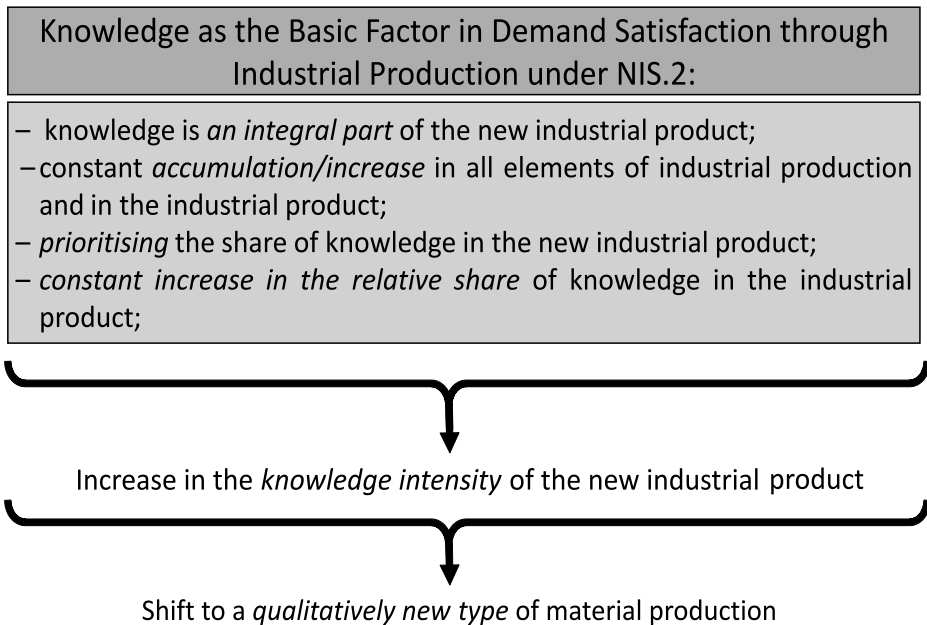
Picture 6



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Picture 7



**Picture 8**

At the same time, this trend in material production development serves as the key factor that dramatically influences the direction and pace of such development and lends new critically important features to the process (pic. 8), thus ensuring the transition to a ***qualitatively new type*** of material (and nowadays industrial) production, which brings up the next point (pic. 9).

A fundamentally *new material production type*, ***knowledge intensive production***, is formed, and it will bear a number of characteristic features that constitute *a dramatically different paradigm* of using industrial means to satisfy the public demand.

There are some important characteristics of this type of production:

- transition to *prioritising the non-material share* in a product, constant increase in the information component and the decline of the material component; miniaturisation, the tendency towards energy efficiency and the reduction of material consumption and product capitalisation;
- development of the scope and depth of the production process, its acquisition of new features to ensure that a product *maximally matches consumer needs* accompanied by the reduction in labour intensity and production costs (in particular, individualisation, optionality and similar tendencies, along with a sharp increase in flexibility, modularity, unification, etc.) and potentially almost immediate delivery, which means that



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## Point 10 (image):

= *completely new material production type, **knowledge intensive production***,  
is formed:

Production Process under NIS.2:

– **knowledge intensity of the product**;

– **knowledge intensity of technologies and production management**;

– **labour: qualitatively new approach** where “a person is the carrier of knowledge”;

***Knowledge intensive production***

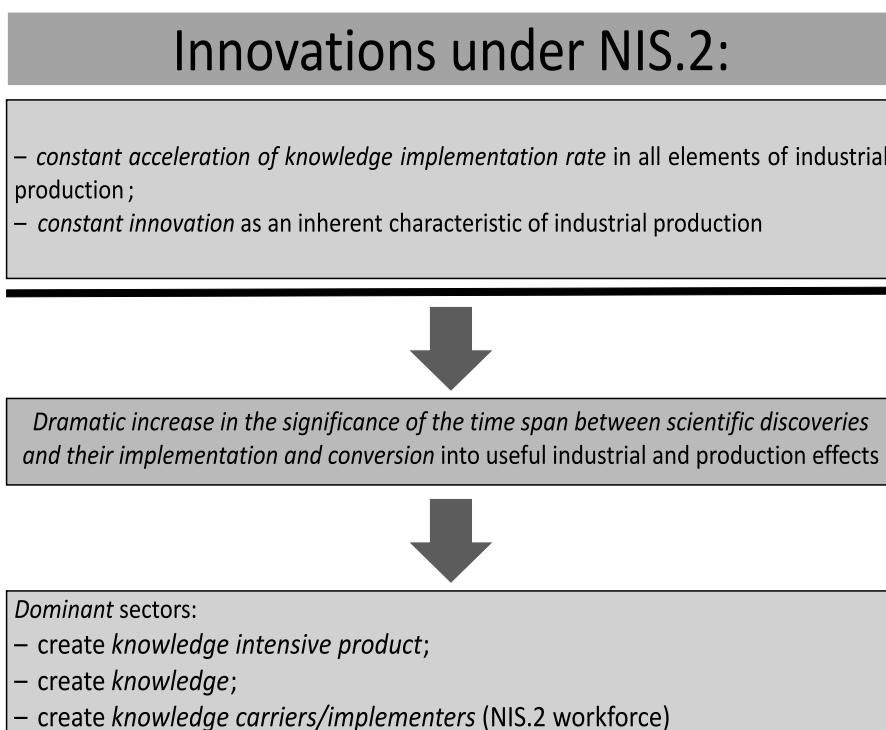
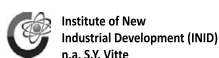
Picture 9

the NIS.2 is characterised by a radical change in the opportunities for satisfying the growing public demand achieved not by reverting to manual production of individual products, but by developing *industrial production*;

- *industrial network model* replaces vertically integrated structures;
- adoption and development of *modern manufacturing process management methods*, such as just-in-time production, lean production, etc.;
- development of *qualitatively new technologies* in material production, transportation and logistics (nanotechnologies, 3D printing, etc.);
- shift in the basic technological paradigm of industrial production: the decline of traditional processing industry due to the development of additive technologies (the process of adding material, typically layer upon layer, to build an object based on a 3D model as opposed to traditional “deduction” technologies, such as trimming, grinding, cutting, etc.);
- shift in *the nature of industrial labour* towards prioritising *knowledge intensive labour functions* (controlling, high technology labour, implementation of unmanned systems, production automation, use of industrial robotics, etc.);

- fundamental *change in technologies involved in the acquisition of industrial knowledge* and labour-market skills necessary for an efficient industrial activity in the new age of industrial production (gadgets, chips, internet, virtual and augmented reality, etc.);
- etc.

4. If we take a closer look at the process behind the intensification of knowledge application in knowledge intensive production, we will arrive at two new and important conclusions (pic. 10).



**Picture 10**

The characteristics of a new stage in industrial society development (NIS.2) are not limited to a higher industrial product degree, greater importance attributed to technology upgrades, larger share of applied knowledge and the information component.

Under the NIS.2, crucial importance is attributed to the tendency towards *the acceleration of technological changes implemented at an ever-increasing rate*, “the acceleration of the acceleration,” which is quickly turning into *one of the main characteristics of the new*

*society's economic system*. Obviously, in this context industrial production should be characterised as a (and in a number of cases has already adopted) *constant innovation*. Thus, *the time that it takes to apply scientific achievements to immediate industrial production, its components and the industrial product* comes to the fore.

5. All these developments require *changes in economic macro structure*. Classical industrial system (characterised by absolute domination of industrial production) and service society (where service sectors supersede material production) are being replaced by ***the new industrial economy of the second generation***.

The NIS.2 era exhibits the tendency towards the formation of a different structure for its core areas. It will be dominated by segments that create knowledge intensive products, i.e. segments that manufacture the actual product, as well as institutions that generate knowledge and educate people capable of learning and applying the knowledge to material production (pic. 11).

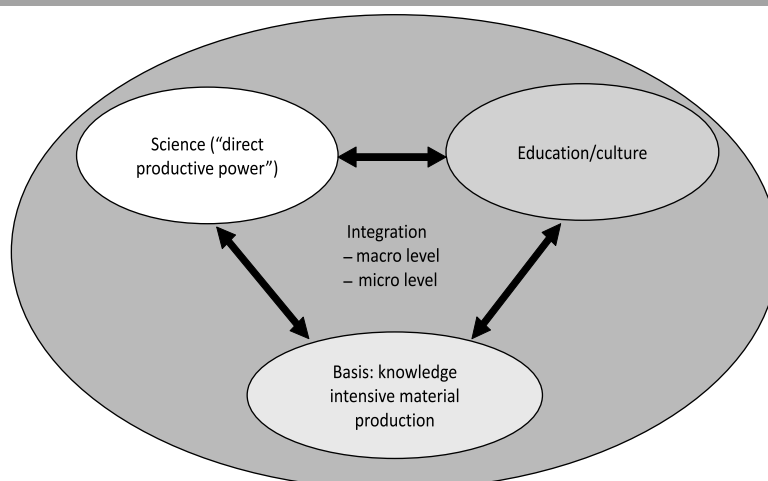


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### Point 11 (image):

= change in ***the technological paradigm*** of social development leads to the *changes in economic macro structure and its core sectors*.

## Basic Economic Sectors under NIS.2



Picture 11



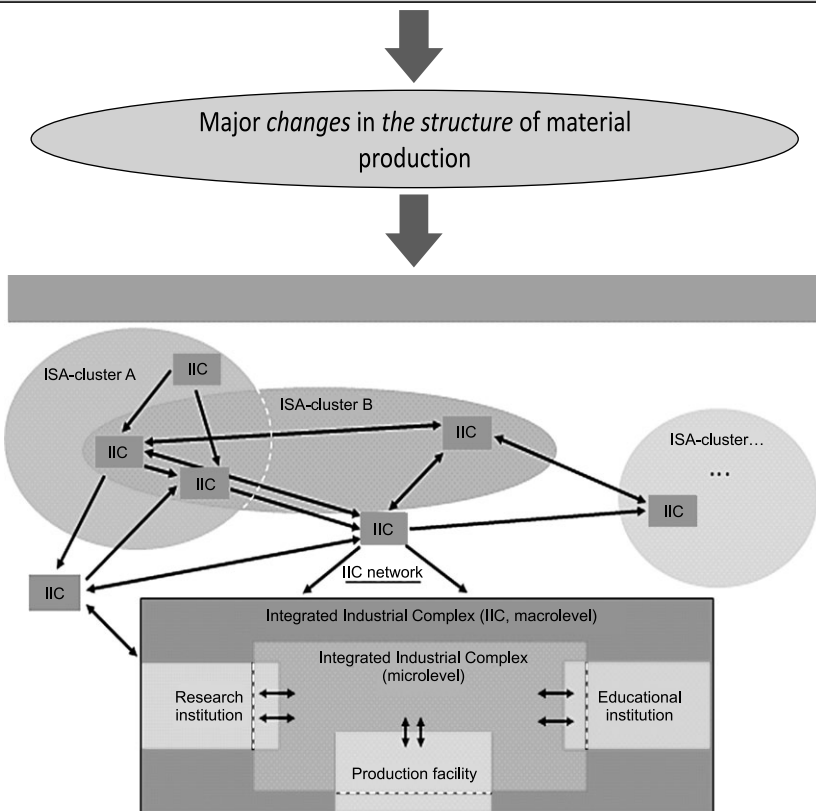
6. Therefore, the NIS.2 economy should be based on the combination (at micro and macro levels) of the following elements: (a) *knowledge intensive high tech material production* that creates the knowledge intensive product, (b) *science* that supplies the knowhow, and (c) *education and culture* that together mold the person who not only possesses the knowledge and is capable of applying it to production processes, but can also generate knowledge.

Thus, it is possible to delineate *three main areas of the new social production*. The main area (in line with the traditions of classical political economy) is *material production per se*; *science* actually serves as *direct productive power*; and life-long education becomes an *integral element of production performance*.



### Point 12 (image):

= NIS.2 is characterised by maximal convergence (potentially even merger) of core sectors of the economy of production, science and education



Picture 12

7. The above-mentioned changes in the substance of social production and constant acceleration of the increase in knowledge intensity of production (characteristic of the NIS.2) determine (pic. 12) the need for maximal *convergence* of production, science and education and cause fundamental changes in material production structure.

**The core production element** of the new industrial economy is thus represented by *a new generation of industrial complexes that integrate production, research and education into a single production process* not only at macro, but also at micro level and include production facilities, R&D centres and educational institutions with consolidated infra- and ultrastructure; therefore, *research and production network* becomes the main mode for macro organisation of the production process.



### Point 13 (image):

#### NIS.2 - institutions and economic relations:

- *prioritising the role* of institutions responsible for supporting *innovative development*;
- *prioritising the industrial path* of economic development (on innovation platform);
- implementation (as a priority) of *an active state industrial policy*;
- *standard arrangement* in the material production sector – *public private investment partnership*;

...

**Picture 13**

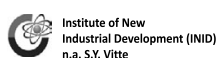
8. The development of new substance and structure of social production that accompanies the genesis of a new industrial economy determines ***the changes in the system of economic relations and institutions***.

Changes in the technological basis provide opportunities for the emergence of completely different public wants and formation of the new agents, social strata and interests, but such changes also *put extra pressure on the existing economic relations and escalate the tensions between the elements of the economic system*. The use of economic and social *planning and scholarly foresight* in the management of economic development processes could abate dramatic social upheavals caused by radical changes in economic sys-

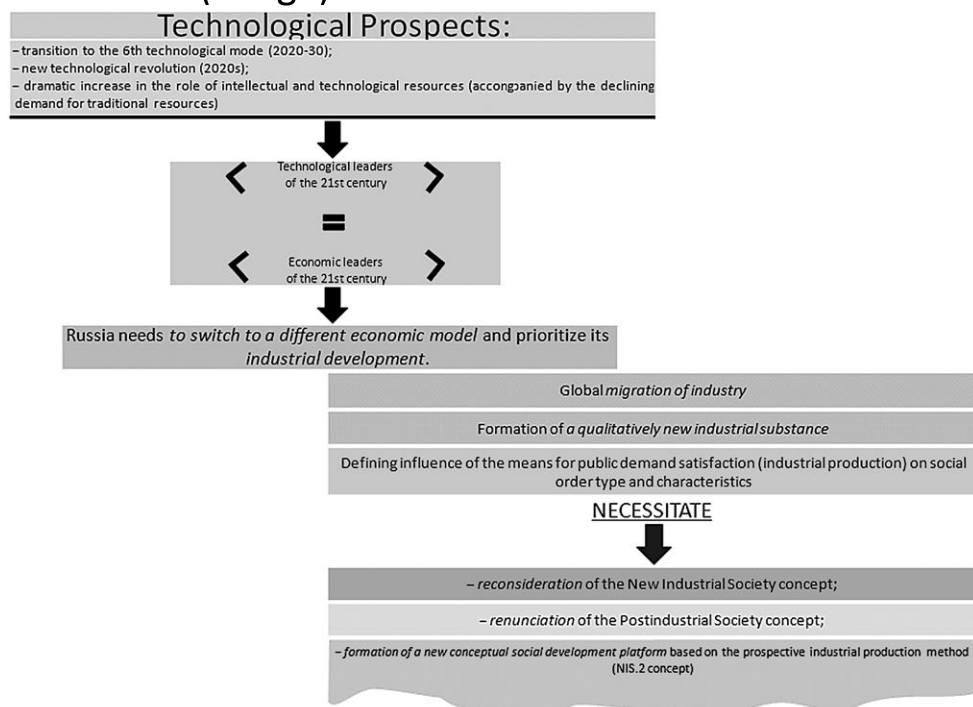
tems. The new industrial economy that involves the revival of past positive experiences in a new capacity also determines new challenges pertaining to the development of basic *market self-regulation and private property*, on the one hand, and *regulatory economics*, on the other.

9. A descriptive outline of the future society and discussion concerned some of its fundamental characteristics is provided. If these projections hold true, which place will Russia claim in this future society? And if it can succeed, then what recipe for success shall we select?

For a long time, Russia's economy has been developing in accordance with the liberal monetary model that has distorted the structure of the national economy, exaggerated the raw materials sector and caused unchecked financialisation and deindustrialisation. Thus, the goal of accomplishing the above-mentioned tasks and shifting to the NIS.2 era economy is absolutely crucial. (pic. 14)



## Point 14 (image):



Picture 14

Russian economy needs to *abandon the current economic model* and start *prioritising the industrial development*. Industrial production development tendencies inexorably indicate that *in the future world production will require less materials, fossil fuel and other natural and energy resources* (both in terms of unit consumption and overall demand; current issues related to low prices on raw materials, particularly low oil prices, are the first signs of the upcoming era where world economies will be much less reliant on natural resources that are widely used nowadays!), which will undermine the pillars of the Russian economy, while the importance of industrial knowledge, development of technologies and their adoption rate will increase dramatically. A new technological revolution is right around the corner. It is clear that *countries that manage to become global technological leaders will also be the economic leaders of the NIS.2*.

Thus, Russia should fit into this global development trend. The question is: how?

As it seems now, Russia needs to intensify its participation in Eurasian economic cooperation. The country's efficient progressive development and its role in Eurasian economic cooperation are conditional upon the change in the structure of material production which should involve the reduction in unit consumption of natural resources, raw materials, fuel and energy and the increase in the production of goods with high intellectual component share.

These goals are neither unique nor original. Russia's closest partners, for example, Kazakhstan, share the same approach to Eurasian integration, it is justified to agree with its assessment put forth by our British colleagues; for example, Siddharth Saxena provides the following definition of the President of Kazakhstan's stance on Eurasian integration: "Nazarbayev's vision is driven by innovation and technology [8]." Professor Saxena emphasises the need for an equitable partnership, draws attention to the similarities in the opinions expressed by the President of Kazakhstan Nursultan Nazarbayev and the President of Russia Vladimir Putin and states that the Eurasian Union format holds the key to development, innovations and modernization [8].

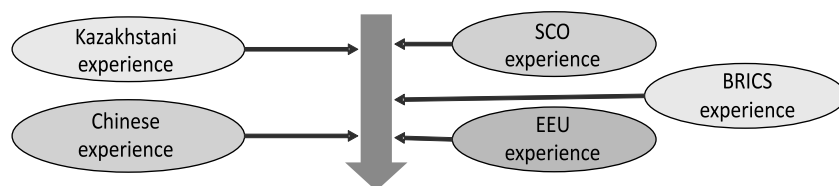
The competition on the global high technology market is intense, and new strong players are not welcome there. Even China, which boasts a powerful growing economy and has long since surpassed Russia in the manufacturing of high technology products, faces serious obstacles in this market (as shown, for example, by Professor Peter Nolan [7]).

If Russia manages to realize a technological breakthrough, it will discover new prospects of Eurasian economic cooperation (pic. 15).

Eurasian cooperation can become the key that will grant its participants joint access to the world market. For countries with high tech economies, Russia will be an attractive partner in the technology transfer area and the implementation of joint projects on the development of new technologies. As for the countries that for some reason do not possess a strong national science and technology foundation, Russia could work with them on supplying high technologies and related production processes and the training of engineering and research specialists.

## Point 15 (image):

= efficient progressive development of Russia and its participation in Eurasian economic cooperation is conditional upon the change in its material production structure;  
 = reduction in unit consumption of natural resources, raw materials, fuel and energy;  
 = focus on increasing the production of goods with high intellectual component share, etc.



Prospects of Eurasian economic cooperation:  
 Eurasian cooperation is the key to its participants' joint access to  
 the world market.

Picture 15

David Lane's argument<sup>2</sup> that this path, the formation of a regional economic alliance that does not distance itself from the global economic system, but serves as an efficient inclusive instrument may help overcome the negative effects of globalization, also seems suitable.

Furthermore, there is accordance with a series of Russian and international experts (including Professor Lane) who frequently state<sup>3</sup> that integration within the Eurasian Union is insufficient, and we need broader cooperation involving BRICS and the Shanghai Cooperation Organisation.

However, in order to realize its potential Russia needs to overcome its extremely high dependency on import, especially the import of machinery and equipment that has plagued its economy for the past two decades.

<sup>2</sup> "The proposed Eurasian Union (formed by Russia, Kazakhstan and Belarus) favours a capitalist form of economy which is still part of the world economic system. It seeks to reverse in many ways the effects of globalisation, particularly to ensure the sovereignty of the nation state. The objective is to achieve these goals by forming regional blocs" [3].

<sup>3</sup> "When combined, Russia, India and China have considerable manufacturing and military capacity and enormous internal markets. They already have considerable capacity for research and development," Lane emphasises [3].

Several years ago the Russian government set the goal of developing import substitution in an attempt to address this issue. Presently, import substitution policy can serve as the starting point for the modernisation of the Russian economy.

While pointing out the urgency of modernization, it was primarily referred to production processes and products based on the latest and, moreover, constantly updated technologies that incorporate the results of the application of new knowledge in production. *The reindustrialisation of the Russian economy* that would establish the revival of national industry as its main focus, set industrial development as a developmental priority, and perform new industrialisation defined as active accumulation of industrial development potential on the basis of knowledge intensive production and the latest technologies to the degree necessary for transitioning to the new industrial economy requires a paradigm shift, the implementation of state economic policies and regulations, execution of state programs, reorganisation of relevant institutions, etc.

For Russia to pursue all these objectively possible directions of its economic development, it needs to implement certain *systemic changes*, which could include: shifting towards economic development management based on *long-term programs* and medium-term *indicative plans* reliant on *scholarly foresight* and the adoption of an *active industrial policy* with a system of institutions that would ensure state paternalism of private businesses regarding *long-term investments into R&D* and *technological retooling* meant to support taxation and lending in the real sector of the economy (especially high tech production) and stimulate the development of these segments and their innovative potential. Such system of institutions should secure a *moderate degree of social differentiation* where income will mainly depend on one's real contribution into Russia's economic development.

All these parameters can be incorporated into a set of economic policy guidelines, which has already been done to an extent by the INID [1], expert participants of the Moscow Economic Forum [4], and research teams under the direction of academician S. Y. Glazyev [5].

Many issues that are addressed in the article had been discussed in a larger paper presented in March at the Economics Session of the Russian Academy of Sciences and in a new book with a bit provocative title *"The Future. New Industrial Society: Reloaded"*, which makes a reference to J. K. Galbraith's *"The New Industrial State"* and Daniel Bell's *"The Coming of Post-Industrial Society"*. While there is no claim to the same scope and depth as these prominent theoreticians, it dares to doubt in some of their ideas and reaffirm others from the modern perspective on the development of the world economy and society with original vision on social development paths.

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# **Global Capital: the New Quality of Market, Money, and Capital in the Global Economy**

(On the Occasion of the 150th Anniversary of the Publication of Volume I of Karl Marx's *Capital* and the 200th Anniversary of the Birth of Karl Marx)

**Alexander V. Buzgalin**

*Doctor of Economic Sciences (DSc(Econ)), Professor of the Chair of Political Economy of the Economics Department of Lomonosov Moscow State University, Editor-in-chief of the journals "Voprosy Politicheskoy Ekonomii (Questions of Political Economy)" and "Alternatives", Coordinator of the International Association for Political Economy of the post-Soviet space*  
*buzgalin@mail.ru*

This text is a presentation of the third, 2-volume Russian edition of Aleksandr Buzgalin and Andrey Kolganov book *Global Capital*, which appeared in earlier editions in 2004 and 2007. The text reveals the basic provisions of the book. The starting-point for the book is its chapter on methodology. Found here are not only critiques of conventional Soviet "Marxism-Leninism" and post-modernism, but also a new rethinking of the classic dialectic (the authors propose a "dialectic of non-linear transformation") and a theory of the "sunset" of the capitalist mode of production.

For the most part, however, the book is devoted to revealing the new quality now assumed by commodities, money and capital within the global economy.

The *market* has become not only global, but a totalitarian force that is no longer a "socially neutral mechanism of coordination". It is now a product of the hegemony of corporate capital, featuring the intensive and extensive growth of new types of commodity — information, simulacra and so forth. The authors demonstrate the new qualities acquired by value, use-value, price and commodity fetishism within this new market, while exploring the contradictions of new non-limited resources (such as knowledge) and the commodity form of their existence.

*Money* is now a virtual product of fictitious financial capital, possessing a new nature, contradictions and functions, all of which are shown in the book. This analysis of the new nature of money helps the authors reveal the essence of so-called financialisation.

*Capital* has become the result of a complex system of exploitation. In the twenty-first century context of this exploitation includes the "classic" extraction of surplus value from industrial workers combined with internal corporate redistribution of income by "insiders"; international exploitation; and the exploitation of creative labour through the expropriation of intellectual rent. Further, modern capital imposes its hegemony not only on labour,



but also on free time, and subjugates not only the labour power of the human individual, but also his or her personality (human and social “capital” are thus irrational forms of the development of the personality and of solidarity).

The book also includes a chapter showing how the authors’ analysis of the modern market, money and capital helps to explain the nature of the recent world economic crisis.

The book’s final chapter sets out the features of the “Jurassic Park” of Russian capitalism.

Also provided in the book is a broad picture of the debates occurring within the Post-Soviet School of Critical Marxism. The latter is a network that includes many well-known Russian authors, who over the past 25 years have produced more than 50 books and hundreds of articles.

**Keywords:** Political economy, market simulacra, virtual money, global capital, “Das Kapital”, Russia

This text is somehow unusual. It is a kind of presentation of the main provisions of the book “Global Capital”, the first version of which was written in collaboration with Andrei Kolganov more than 10 years ago. The last — the third two-volume edition — was published in 2015 and received a wide resonance in the Russian-speaking academic environment. We have now produced a radically shortened version of the English-language edition of the book, this text reveals the basic provisions of our book and has been prepared on the basis of the foreword to the book.

Let us start with the fact, that this work is appearing in the lead-up to the one hundred and fiftieth anniversary of the publication of the first volume of Karl Marx’s *Capital*, and the two hundredth anniversary of the birth of its author. The coincidence between these jubilees and the appearance of the English edition of our book is mostly accidental, but there is something else that is in no way a matter of chance. Our work is intended as a definite step toward achieving the supreme task of contemporary Marxism: creating a prolegomenon of *Capital* for the modern epoch.

We have taken up the challenge of Raymond Aron, who some time ago reproached our school for the lack of a *Capital* of the twentieth century, and we commend to the attention of readers a work that is meant to present the authors’ reply to the questions of ***what method should be adopted for studying commodities, money and capital in the epoch of late capitalism, and of what the corresponding theory should be.***

Needless to say, the task we have set ourselves is exceedingly ambitious, but we have a basis for attempting it: we stand on the shoulders of giants, and while we cannot hope to surpass their achievements, we can at least aim to develop further what they accomplished. This task is both simpler and more important for the fact that the goal of renewing the heritage of Karl Marx and Friedrich Engels in a systematic, integrated way has been addressed by a range of their followers over more than a century. Those who have undertaken this task include Vladimir Lenin, Rosa Luxemburg, Karl Kautsky, Nikolay Bukharin, Aleksandr Bogdanov

and Lev Trotsky; Soviet and Western Marxists of the mid-twentieth century; and in recent decades, a diverse range of neo-, post- and analytical Marxists, as well as orthodox thinkers. Between them, these people have endowed the world with a vast and rich legacy, laying the foundations for a new, integral Marxist theory that will answer the tormenting challenges of the modern world.

So far, no such theory has emerged. The authors are duly self-critical, and our work is simply one among the attempts to suggest the prolegomena of such a theory and methodology.

We are well aware that numerous difficulties await authors who pose the task in this fashion. The problem lies especially in the fact that for particular reasons (more will be said on these in the book itself), social thinkers in recent decades have considered it almost bad form to attempt to lay the groundwork for fundamental research. What is “accepted” is to write specialised works on narrow topics. The very few works in recent decades that have attempted an integral rethinking of the main arguments of *Capital* can be divided into two unequal categories: a small number of fundamental works by very well-known authors (Ernest Mandel, Paul Sweezy, István Mészáros, David Harvey and others) and a considerably longer list of little-known works whose content is not especially profound. Researchers who live and work in semi-peripheral countries, and who are cut off from most modern authors by linguistic and organisational barriers, have little chance of being accepted as serious scholars; they are far more likely to be viewed as graphomaniacs.

Have the present authors managed to escape this “periphery trap”? Have we been able to take our place, to the degree required, in the context of the world Marxist thought of recent decades? We need to answer honestly: If we have succeeded in this, then it is in nothing like full measure. Our work has been conducted mainly in the context of Russian thought, and this is our great shortcoming.

But we also enjoy a considerable advantage by comparison with our foreign colleagues: we have had full access to, and have assimilated, the heritage of Soviet critical Marxism, a heritage that is little known outside our country, and whose methodological and theoretical importance, we are convinced, is comparable to the legacy of Marxist thought elsewhere in the world. Further, we have not worked alone; the authors of this book are only two members of a *post-Soviet school of critical Marxism* that has emerged in the space we inhabit.

It is also important that in the “Global capital” we sum up a crucially important part of our work over the past few decades. It was probably no accident that the first edition of *Global Capital* appeared shortly before our fiftieth birthdays, while the third edition, in two volumes, coincided with our reaching our sixties.

The point, of course, lies not in the approximate dates but in the fact that while we were still students we set ourselves precisely this task, of investigating the origins and emergence of the “realm of freedom” that is replacing the world of alienation. While we devoted the first decades of our research primarily to studying the fresh shoots of a new society and of its economy (way-stations in the progress of this work were our doctoral dis-

sertations, which we defended on the eve of the dissolution of the USSR, and three monographs entitled *After the Market*, *The Political Economy of a Non-Existent Socialism*, and *The Key to the Economy of the Twenty-First Century*, that were prepared for publication in 1991 but that never appeared), the years that followed saw us mainly researching the anatomy of late capitalism. Meanwhile, we did not neglect to study new manifestations of the “realm of freedom”, devoting a good many texts to this topic. Some of these writings have been published, while others are still to appear.

For us, the present book is thus the result of long years of work.

Now for a few words on the sources, the subject, the method and the structure of our book.

*Global Capital*, as the title clearly indicates, is devoted to studying the *system of productive relations of modern capitalism*.

As a result, the book naturally has *a primarily methodological and theoretical character*. The authors did not set themselves the task of analysing and summarising the immense masses of empirical information that characterise the functioning of the modern world economy. This is not so much because such a task is beyond the powers of individual authors, as because a great deal of this work of summarising has already been performed by our predecessors. We have sought to make the greatest possible use of these results of earlier studies, while approaching them, naturally, from a critical Marxist standpoint.

Achieving this has been easier for the fact that the authors have previously made an extensive comparative analysis of economic systems, and have written at length on the problems of globalisation. We have revisited these topics repeatedly, working with students in the master’s school of the Faculty of Economics at Moscow State University to analyse international statistical data within the framework of a course on economic comparativistics that we have taught regularly. In a number of cases we have nevertheless included substantial quantities of statistical information, with a view to reaffirming various initial premises of our work.

The theoretical sources on which our book rests will be discussed subsequently. Here, we shall limit ourselves to an obvious statement: in our research we have relied above all on the works of classical and modern Marxists — on the books and manuscripts of Karl Marx himself, and on the works of Friedrich Engels, Vladimir Lenin, Rosa Luxemburg, György Lukács (who subjected classical Marxism to rethinking and substantial development in the fields both of the ontology of social being, and of analysis of the forms of social consciousness), Antonio Gramsci (whose theory of hegemony is especially important for us) and Jean-Paul Sartre (on the questions of alienation, the individual, and so forth). All of these thinkers are present in the book in sublated form (their ideas have been “digested” and reworked by the authors, even though direct references to their works are relatively few).

While the central topic of our book — the productive relations of late capitalism — is sufficiently transparent, some important clarifications are needed here as well.

In the first place, global capital is not the essence of some particular mode of production, and the productive relations studied in the book are not the particular basis of some

special formation. What we understand by “global capital” is *the transformations that the productive relations of capitalism undergo as the process represented by the “sunset” of the bourgeois mode of production goes ahead*. Accordingly, the immediate topic of our research is precisely these systemic *transformations*; that is, the new elements they introduce to the content of commodities, money, capital and reproduction. These transformations, as will subsequently be shown, have a systemic character and logically condition one another. The transformation of the market into a totality dominated by network structures and simulacra is amplified in logical terms by the transformation of money into virtual fictitious capital. This leads to the formation of a complex system of relations that subordinates to capital not only the labour power of human individuals, but also their personal qualities. Reproducing itself on the basis of the continual over-accumulation of capital on a world scale, this system of relations gives rise to a system of global problems of humanity.

A second important clarification is needed here. Although the immediate topic of our study is the relations to be found within late capitalism, the authors also stress the fundamental importance of the context within which this system exists — that is, the “sunset” of the *realm of [economic] necessity*, the superseding of the metasystem within whose framework the “sunset” of capitalism itself is occurring. Only within this context, as we show in the book, is it possible to understand the nature and underlying logic of late capitalism.

As is readily apparent, the topic of our work in its main points replicates that of *Capital*. This is no accident; as stated earlier, the authors have unambiguously set themselves the task of investigating the transformations that the productive relations studied by Marx a century and a half ago have undergone in today’s world.

Despite our efforts to be stringent, our book has evolved in somewhat contradictory fashion. We stress the words *evolved* and *contradictory*. Throughout the work, our study has been conducted on the basis of the *dialectical method*, and the contradictions inherent in the topic itself have received our very close attention.

\* \* \*

We would like to start our characterization of the main provisions of the work with a clearer definition of its objectives. They are fairly obvious.

The modern global economy is encountering fundamental problems that mainstream economic thought is finding insoluble. Following the crisis of 2007–2009, an understandable interest in Marxism arose, and this has not died away. Nevertheless, very few integrated conceptual works, providing answers to the question of how the economy has changed since the time of *Capital*, have appeared during this period. The main aim of this proposed book is unashamedly ambitious: to set out the prolegomena for a *Capital* of the twenty-first century. Unlike Thomas Piketty’s best-seller, our book undertakes a consistent renewal of Marxist methodology, and reveals the essence of the new qualities displayed by market, money and capital. It shows how the nature of crises and the economic bases of social inequality have changed in the century and a half since Marx’s fundamental work was written.

The second aim of the book is *to show that the modern theory and methodology of Marxism can provide answers to the core questions of economic practice in the early part of the twenty-first century* — questions on which the neoclassical school has generally remained silent. Why, for instance, has the modern market become “total” in character, subjugating all spheres of human life to itself while for the most part putting on sale only simulacra of useful goods? What lies behind the transformation of money from a universal equivalent to a virtual product of financial capital, and why has this capital achieved renewed dominance? How is it that corporate capital subordinates to itself not only the labour of human beings, but also their individual qualities? Are crises still the inevitable accompaniment of the market economy?

A third aim of the book is also very important. We open up before the English-language reader the “unknown land” of Soviet creative Marxism, which encompasses not only apologetics for the power of the Communist Party of the Soviet Union, but also a wealth of extremely interesting theoretical work. In addition, we set out the results of work by the Post-Soviet School of Critical Marxism, work that is virtually unknown to the modern Western academic community.

Through realising these goals, we also reveal the character of the economic system of post-Soviet Russia, with its highly individual “Jurassic capitalism”.

From the summary that follows, it will be clear that the book is unique in what it attempts; that it has particular importance for Western readers who receive little information about our school; and that it can be marketed as a qualitatively new publication.

This statement of objectives led to the main contents of this book.

Anticipating its main features, let us note that in its Russian-language editions, *Global Capital* has received a positive reception in Russia, the UK, China and Ukraine, with favorable reviews published in five well-regarded Russian journals. Extracts from the book have appeared in translation in such well-known English-language journals as the *Cambridge Journal of Economics* and *Science and Society*.

The starting-point for the book is its chapter on methodology. Found here are not only critiques of conventional Soviet “Marxism-Leninism” and post-modernism, but also a new rethinking of the classic dialectic (the authors propose a “dialectic of non-linear transformation”) and a theory of the “sunset” of the capitalist mode of production.

For the most part, however, the book is devoted to revealing the new quality now assumed by commodities, money and capital within the global economy.

The *market* has become not only global, but a totalitarian force that is no longer a “socially neutral mechanism of coordination”. It is now a product of the hegemony of corporate capital, featuring the intensive and extensive growth of new types of commodity — information, simulacra and so forth. The authors demonstrate the new qualities acquired by value, use-value, price and commodity fetishism within this new market, while exploring the contradictions of new non-limited resources (such as knowledge) and the commodity form of their existence.

*Money* is now a virtual product of fictitious financial capital, possessing a new nature, contradictions and functions, all of which are shown in the book. This analysis of the new nature of money helps the authors reveal the essence of so-called financialisation.

*Capital* has become the result of a complex system of exploitation. In the twenty-first century context of this exploitation includes the “classic” extraction of surplus value from industrial workers combined with internal corporate redistribution of income by “insiders”; international exploitation; and the exploitation of creative labour through the expropriation of intellectual rent. Further, modern capital imposes its hegemony not only on labour, but also on free time, and subjugates not only the labour power of the human individual, but also his or her personality (human and social “capital” are thus irrational forms of the development of the personality and of solidarity).

The book also includes a chapter showing how the authors’ analysis of the modern market, money and capital helps to explain the nature of the recent world economic crisis.

The book’s final chapter sets out the features of the “Jurassic Park” of Russian capitalism.

Also provided in the book is a broad picture of the debates occurring within the Post-Soviet School of Critical Marxism. The latter is a network that includes many well-known Russian authors, who over the past 25 years have produced more than 50 books and hundreds of articles.

Breaking with the traditional style of the articles, let us introduce the content of basic sections of the book.

#### **FOREWORD** to the English edition

**INTRODUCTION:** From ‘Marxism-Leninism’ to the Post-Soviet School of Critical Marxism

#### **PART 1. METHODOLOGY**

##### **1. The methodology of *Capital*: Karl Marx, Evald Ilyenkov and the dialectics of the twenty-first century**

##### **2. Obsolete post-modernism: The dialectics of non-linear, multi-scenario social transformations**

2.1. On some of the reasons for ‘forgetting’ dialectics

2.2. New answers to the challenges of new problems: The dialectics of the genesis and decline of social systems

##### **3. Mikhail Bakhtin’s dialectic of dialogue vs. the metaphysics of post-modernism**

3.1. Why Bakhtin?

3.2. The World of Bakhtin. Prologue

3.3. Why do \*they\* need Bakhtin?

##### **4. Beyond the ‘pyatichlenka’ and the ‘clash of civilisations’: the social creativity of free association vs. activism**

4.1. Beyond the realm of economic necessity: the dialectics of progress/regression

4.2. The individual in history: the activism of agents of progress and regression

#### **PART 2. THE MARKET, MONEY AND CAPITAL IN THE TWENTY-FIRST CENTURY**

##### **1. ‘Late Capitalism’: Stages of Development**

## **2. Commodity in the Twenty-First Century: The Totalitarian Market of Networks and Simulacra**

2.1 The total corporative-network market: the decline of capitalism gives birth to a new type of commodity relations

2.2. The market for simulacra

2.3. Limits of the market

*Introductory methodological remarks*

*The “market-centricity” of modern economic theory, and the problems involved in overcoming it*

*The socio-economic activity of the state: a view through the prism of critical political economy*

*The decline of the “realm of necessity” and the genesis of the creatosphere: the contradictions and limitations of the market system*

## **3. Money in the Twenty-First Century: Financialisation as a Product of Virtual Fictitious Financial Capital**

3.1. The phenomenology of modern-day money: financialisation and more

3.2. Virtual fictitious financial capital: differentiae specifica

3.3. The new mode of being of the universal formula of capital: fictitious financial capital  
Profit without production, or, the illusory forms of the “debt economy”

Virtual fictitious financial capital: the hyper-realised dangers of crisis and deregulation

## **4. Capital in the Twenty-First Century: Hegemony on Personality**

4.1. The capital of the twenty-first century as a dialectical negation of the previous evolution of capitalism: relations of exploitation

4.2. The exploitation of the “creative class”: its specific nature, content and forms

*The exploitation of creative activity: quantitative aspects*

*Intellectual rent: the questions of appropriation and use*

*PS. “Human”, “Social”, and “Cultural” capital: Towards Marxist Analysis*

## **5. Reproduction in the Twenty-First Century: Inequality, the “Useless Economy” and Crisis**

5.1. Reproduction in the conditions of late capitalism: the new quality acquired by the general law of capitalist accumulation

5.2. The new structure of social reproduction

5.3. The over-accumulation of capital: crises return

## **PART 3. POST-SOVIET MUTATIONS OF THE SEMI-PERIPHERAL MODEL OF LATE CAPITALISM**

1. Lenin’s “Imperialism as the highest stage of capitalism” one hundred years later (on the main stages in the evolution of late capitalism, and its present-day peculiarities)

2. The political economy of the “Jurassic Park” of Russian capitalism (the nature of the socio-economic system of post-Soviet Russia)

3. The geopolitical economy of post-Soviet Russia: the foreign economic and political goals of Russian capital and of the state

\* \* \*

Let us discuss the most important — those provisions, which, in our opinion, can be presented as the key points of the book, the authors want to convey to the reader first of all.

In the **VOLUME I**, called very amply **“GLOBAL CAPITAL. METHODOLOGY. ON THE OTHER SIDE OF POSITIVISM, POSTMODERNISM AND ECONOMIC IMPERIALISM. MARX RELOADED”** — the authors, as announced, reactualize and “reload” methodological legacy of the great thinker of the nineteenth century. Let's use the basic authorings for presentation of the main achievements of the authors in this volume, and then criticize them.

So, in this part of the work authors have set themselves the task to show what and for what reasons remains valid and requires a restart, reactualization and what is obsolete and requires a critical update in the methodology of K. Marx. The systematization of these provisions and the main directions of research in the post-Soviet Marxism is a starting point in original developments of the authors.

Developing traditions of critical Soviet Marxism (legacy that in our space more and more often gets the name *“ilienkovskoe”*), key provisions of *the method of ascent from the abstract to the concrete and of historical-genetic approach* are reactualized in the study. In particular, the application of the historical-genetic method to the study of “late capitalism” allowed the authors, proceeding from the abstract to the concrete, to show how the nature of goods, money, capital, relations of reproduction, etc. changes in conditions of late capitalism.

The achievements of authors include the fact that they were able to uncover ***the specificity of using the dialectical method for studying transformational states***. In particular, they have developed a theory of dialectics of genesis and “sunset” of socio-economic systems; *pro-* and *re-*gress, *e-* and *in-*volution; reforms and *counter-reforms*, revolution and *counter-revolution* as the attributes of the historical process. It is hypothesized in the monograph that these states dominate in historical time, that transformational states are characterized by ***patchiness of social time and space, fundamental nonlinearity and multi-scenario approach in historical process***, its determining dependence on the “subjective factor”; specificity of contradictions that cause nonlinearity of transformations is considered too. This methodology is used by them to study the process of “sunset” of capitalism and nonlinear dialectics of *e/in*volution of goods, money and capital.

Perhaps the most original and controversial proposition of the study is an attempt to show the specificity of using the dialectical method in the social space-time of *network structures and co-creation*. This methodology is applied in the book to study the nature of network market, simulacra market, virtual money, the specificity of exploitation of creative worker, new principles of social organization and structuring of late capitalism.

Among other achievements of this volume may be noted, first, the reactualization of the theory of perverse forms, showing that *modern capital leads to “doubling of vicissitudes”*: fetishism of goods, money and capital multiplies by vicissitude of their simulation forms. Secondly, the reactualization of the dialectical method allowed to reveal the ***causes***



**and consequences of domination of positivism and postmodernism** in modern social sciences, and to *criticize* them constructively on this basis. As the authors of the “Global capital” prove, these trends appear due to objective changes in material, technical and socio-economic basis, becoming a product of development of network total market and the hegemony of capital, directed at the progress of perverse sector and simulacra expansion. The dominance of these approaches leads to rejection of fundamental methodological and theoretical studies, resulting in a total spread of pragmatism, narrow-mindedness and, ultimately, economic imperialism in the social sciences. It all turns into not only rejection of “big narratives” on the whole, but into fixing the “narrative” of methodological individualism and other attributes of the neoliberal trend as a supposedly “natural” foundation of social researches.

Turning to the field of *social philosophy* and basing on developments of a number of Marxists-“men of the sixties”, the irreducibility of the Marxist periodization of history to the famous “five-term formula” and the importance of allocation of the system quality of the [social] estrangement world (in the terminology of Karl Marx — pre-history, “the kingdom of [economic] necessity”) as a whole are substantiated in the book. Among the original ideas of the authors one more thesis can be mentioned, which is put by them as the basis of all of their vision: they believe **that the “sunset” of the capitalist way of production not accidentally historically and logically coincides with the “sunset”, passage of “kingdom of necessity”**. Dialectical mutual covering of these two processes is a constant context of late capitalism exploration. The basis for all subsequent developments is the hypothesis: **since the XX century the mankind has entered the era of nonlinear (in social time) and uneven-mosaic (in social space) transformation of the “kingdom of necessity” into the “kingdom of freedom”**. And the fact that during the last decades the world is in captivity of reverse trajectory of involution (figuratively speaking, *the history has gone backwards*), not only does not refute this conclusion, but, on the contrary, proves the legitimacy and necessity of using of the methodology of analysis of reverse socio-economic processes.

This hypothesis is supported in the book by analysis of such a classic, but now forgotten by many people aspect — interaction of productive forces and production relations. On the basis of an appeal to the methodology of Marx’s analysis of the subordination of labor to capital, the authors have shown *not only direct, but also back coupling in this interaction and, in particular, socio-economic mechanism of formation of a particular type of productive forces, incentives and limits of their development*. This methodology allows the authors of “Global capital” to reveal important features of the specificity of the productive forces of late capitalism and the limits of this system (to this issue we will return below, during the analysis of the main provisions of volume II).

**The contradiction of social being in which a person acts both as the creator of history, and as a function of objective alienated social forces**, discussed in volume I of the book, should be referred to philosophical rather than political and economic provisions. According to the authors, it underlies historical *pro/regression* and determines the main

features of *the Marxist theory of a man*. On this basis, authors offer an original system presentation of the socio-economic foundations of the latter, which, in turn, formed the basis of revealing of system of the relations of social exclusion and preconditions for social liberation of the Man.

Continuing this line, the authors, basing on their developments in the field of dialectics of transformation, pro- and re-gress offer a combination of the original provisions that characterize the *socio-economic* transformations and issues of *socio-spacial* (and not just socio-temporal — the theory of formations) *measurement of social being*. This allowed them, in particular, to propose a hypothesis of possible release of stages (genesis, developed state, “sunset”) and models (mutations) of *a single prebourgeois production method* (a curious detail: it is noted in the book that this is a hypothesis of A. V. Buzgalin, not fully shared by A. I. Kolganov) explaining the diversity of historical forms of the latter. The premise of these conclusions was a critical dialogue with theorists of the world-system analysis.

These classic and new provisions of the social philosophy of Marxism allowed the authors to give constructive *critics to “civilizational approach”* and to show that today's key issues and, in particular, *highlighting the specifics of the Russian society*, find their adequate explanation without the use of this methodology.

In the third part of volume I the authors refer to problems of methodology of political economy. Continuing our line of highlighting the points that the authors themselves consider the most significant, we emphasize first of all their really original hypothesis of the “periodic system” of the economy elements. The authors present ***a generic model for structuring and typology of socio-economic systems***. It is based on the allocation of a single system of parameters that allow to show the structure and basic properties of any economic system (man, company, multinational corporation, region, national or international macrosystem), as well as its “address” in multidimensional socio-economic space. It is important that this model is not postulated, but is *deduced* by the authors both from the analysis objective processes of radical transformations (“edges” of economic being exposing the system structure), and from the generalization of existing economic theories (the basis of the latter is the Marxist theory of the economic system structure, in particular, developments in the field of logic of “Capital” and the results of researches of “Tsagolov’s” school of political economy).

The most interesting and worthy of great support to section I of the volume, in our opinion, is the part devoted to the ***criticism of total expansion of economics and its continuation, so-called “economic imperialism”***. The book discloses both the causes of mass spread of this phenomenon (first of all, the totality of the market, that more and more subordinates not only economic, but also all other spheres of human life), and the negative consequences of this expansion for the development of economic theory and economic practice. The authors prove that in the theory “economic imperialism” leads to reduction of an increasingly wide range of social and humanitarian researches to a narrow functional

description of the interaction of different actors of the market. In the field of practice — to strengthening of market fundamentalism.

Finally, the fruitful developments of the authors include their analysis of the phenomenon, which they have designated as ***“market centrism” of the prevailing nowadays orthodox economic theory***. This approach, from their point of view, identifies the economy in general, with one of the historically possible forms of economic — market and reduces all non-market economic relations to its “failures”. Criticism of “market centrism”, according to the authors, allows, first, to debunk the prevailing over modern economic science discourse of “naturalness” of the market as the only possible form of economic coordination and to show its historically-limited grounds of such interpretation of the market in relations of market fetishism and its more modern versions. Second, this criticism allows to rethink the nature of the so-called “failures” of the market and state regulation, showing that in many cases it is not subject to minimization “administrative interference in the economy”, but sprouts of *post-market relations*, indicating the beginning of self-denial of the capitalist system.

The title of **VOLUME II** of the book also explicitly says about the intentions of the authors: **“GLOBAL CAPITAL. THEORY. GLOBAL HEGEMONY OF CAPITAL AND ITS LIMITS. ‘CAPITAL’ RELOADED”** is the title of this 900-page folio.

Indeed, the authors in this volume seek to provide no less than ***an updated, adequate to the conditions of the modern time version of “Capital” of Karl Marx***.

The time will tell, how well they succeeded, but now let us use authorings for presentation of the main achievements of the authors in this volume.

The authors start their research with wide cloth of contexts of the genesis of a new certainty of the production relations of capitalism, typical for the period of its decline.

In their view, the use in the study of the dialectical method the ascending from the abstract concrete in relation to the period of the sunset system of the production relations of capitalism allows ***to determine the nature of “late capitalism” as a space-time denial of the production relations of capitalism in the frameworks of this system*** and to conduct theoretically and historically a grounded *periodization* of this era. The authors show that (1) the period of the “undermining” of goods basics of capitalism (appearance of the relations of the local market regulation and manipulation of its actors by major corporations) has not accidentally been identified as the monopoly capitalism (imperialism); accordingly, (2) decades of the mid-twentieth century (social-reformism and its alter ego — fascism), the banner of which was the development of a system of public market limits, theoretically could be classified as the period of undermining of the power of money; (3) the era of neoliberal revenge, globalization and financialization as “the negation of the negation” of the relationship of usury and merchant capital that prevailed in the period of initial accumulation of capital, can theoretically be qualified as a period of *“accumulation through deprivation”* (accumulation through dispossession — D. Harvey). Ahead is (4) the increasing development of forms of *negative* withdrawal of classic capitalist exploitation in the process

of mass use of “human”, “social” etc. capital and assignments of intellectual rent due to the exploitation by capital of all the cultural wealth of humanity.

Position in the center of the study the transformation process of the “kingdom of necessity” into the “kingdom of freedom”, which is “on the other side of material production in essence” according to a well-known definition of Karl Marx, allowed the authors to systematize *the changes in the system of social productive forces, which cause material and technical determination of the production relations of “late capitalism”*. The authors see the basis of these transformations in *the development of the creative content of the labour*, which leads to the fact that determining resources of progress become *unlimited in their essence cultural phenomena* (in particular, knowledge), and nature should serve as an asset rather than a source of raw materials. In the future, the authors used these provisions as a basis for exploring new forms of goods, money, exploitation and systematization of global problems of mankind.

This issue is, in our opinion, the most interesting in the book. Let us begin with presenting the basic ideas of the authors regarding ***the new nature of goods and money***. One of the main developments the authors consider disclosing the nature of the “economic cell” of late capitalism. The authors indicate *what* changes in the isolation of the producers and the division of labour, in its content, and *how* lead to partial qualitative transformations of the market. The latter gradually and nonlinear, but steadily transforms into ***a total market of networks***. The latter (1) is locally controlled and regulated by the competing largest corporate structures manipulating most of the actors of this market; (2) covers *all* (and not only economic) spheres of human life, and (3) becomes the production of merely not goods, but of their marks, “doubling the wrongness of the form generated by the commodity fetishism”. Disclosure of political-economic nature of the ***commodity-simulacra*** (their value and use-value, price and mechanisms of doubling the fetishization) we also believe an important outcome of our work.

On this basis theoretical derivation and empirical support of the *new nature of money* became possible, which are increasingly becoming ***virtual money***, gradually turning from a real product — a universal equivalent in a *probabilistic phenomenon*, depending on the situation with global fictitious financial capital. Basing on this premise, the authors reveal the nature and contradictions of *financialization*.

Highlighting of ***the new aspects of the labour theory of value*** should be attributed to the new results. Here the authors, in particular, show that the consistent *completion of the process of ascent from the abstract to the concrete, brought to the study of perverse forms of value, found by it in the conditions of late capitalism, leads us to the identification of the phenomena reflected in the theory of utmost utility, performance, etc.* Meanwhile Marxist analysis allows us to show that these theories adequately reflect the imaginary content that is objectively created by the vicissitude of the value form, repeatedly changed during long historical and logical evolution and presented on the surface of the phenomena of late capitalism in largely different way than it was described in Chapter I of volume I of the “Capital”.

**Revealing of changes in the content of the capital** became a natural continuation of the study of a new nature of the goods and the money. In the center of the volume II of the book is the transformation of *the essence of the production relations of capitalism — the relationship of capital and wage labor, exploitation and reproduction*. The authors show that these changes also increase historically and logically.

The article proposes a historical-genetic, rising from the abstract to the specific and considering socio-spatial contradictions **system of forms and methods of exploitation of the worker by the capital inherent to the global economy of the XXI century**: from slave-like forms of personal dependence via the “classical” forms of capitalist exploitation of the industrial worker to the use of methods of generating and assigning monopolistic (and imperialist, based on the exploitation of the periphery) profits and significantly new relationship of exploitation of creative activity. In the latter case, the authors propose a hypothesis revealing the new nature of this relationship. It is argued in “Global capital” that **the exploitation of the creative worker** is assignment of merely not created by him surplus value, but **exploitation of a certain amount of universal creative effort of mankind, universal cultural wealth**. This result, associated as a rule, by a not [creative] worker, but by a subject of intellectual property (the corporation), has no value, but has some cost, that allows the owner of creative corporation to obtain the so-called *intellectual rent*.

On this basis, the authors have shown changes in the relationship of formal and real **subordination by capital** of not only the workforce, but also of **the human being personality**, in particular his **free time**. This study allowed to criticize constructively the categories of *human and social “capital”* reflecting in a preverse form real changes in the role of man and his social relations in the modern economy. The authors show that the basis of these phenomena is the subordination to the overall process of capital reproduction (increasing profit) of personal qualities of a creative employee and solidarity relations.

New aspects of the reproduction relations of capital are highlighted and systematically presented in the book, that allows to derive a new form of the law of universal capitalist accumulation, showing that the measure of the opposition of capital and labour (and, in particular, social differentiation) is inversely proportional to the energy and efficiency of the social and the creative counteraction to subordination to capital by labour (development of the labor movement, socialization of the economy, etc.). The authors also show significant changes in the structure of social reproduction (in particular, highlight the material along with the material production a useless [preverse] sector and createsphere) and in the social structure of late capitalism. The latter gives rise to important findings about *transformation of social layer, carrying historical mission of removing the power of capital*. **A socio-creative class becomes this layer.**

In the study the classical Marxist theory of crisis is used to analyze *the global financial and economic crisis of 2007–2009*. Predicted in the first edition of the book (2004), this crisis was “classic” according to many of the basic parameters (deregulation and desocialization as a mechanisms of freeing immanent to capitalism causes of the crisis,

overaccumulation of capital as its primary cause), but was conditioned by new qualities of late capitalism (advanced development of virtual fictitious financial capital, etc.), disclosed by the authors basing on the works of predecessors.

On this basis, the authors offer a kind of *prolegomena to the Marxist political economy of globalization*. Basing on the original concept of the structure of the economic system, the authors substantiate *the systematization of the basic contradictions of globalization*, a number of which are well known (at the level of coordination method — the contradiction between the global market and national-state regulation, in the social sphere — a global inequality — national-state systems of social protection), but the main ones are highlighted for the first time. Among them is *the contradiction between the globally organized and presented by the main global players capital and diffuse, fragmented, transnationally disorganized wage labor*.

The book shows that the basis of these contradictions are specifically-global productive forces with a contradictory structure. The consequence of these contradictions is *a set of relations of global violence* (asymmetric wars, political and ideological manipulation, etc.) that strengthen inherent to late capitalism mechanism of *accumulation through deprivation* (David Harvey).

The essence of analysis is the highlighting of *structure and channels of power inside a transnational corporation*, as well as systematization of mechanisms of its manipulative influence on other actors of the market.

The book ends with the theory of antihegemonic forces developed by the authors, including the original analysis of *the nature and contradictions of alterglobalist movement, network ("color") revolutions and sprouts of socio-economic system of the future post-capitalist society*.

Perhaps of most interesting to the reader will be a section on *the anatomy of Russian mutations of late capitalism*. In this part of the book the methodology and theory of the study of late capitalism and transformational states is attached in the final chapters of the book to the specific conditions of post-Soviet Russia.

This allows the authors to reveal, firstly, the specificity of contradictions in Russian coordination relations, highlighting along with typical for late capitalism the relations of the total market and local corporate and state regulation a wide circulation in the domestic economy of vestiges of *the natural and economic isolation, use in the system of relations corporate manipulation methods of non-economic coercion, shadow state regulation, "manual control"*. The study reveals the political and economic content of these specific phenomena.

Secondly, the authors reveal the peculiarities of the relations of appropriation and alienation. Here along with the phenomena typical for semi-peripheral economies of late capitalism (high level of social differentiation, the vulnerability of employees, focus of capital on prestige consumption rather than on accumulation) *the rudiments of the relationships of "real socialism"* are present (paternalistically oriented behavior of employees, etc.)

and *prebourgeois production methods* (wide use of methods of non-economic coercion, a kind of “vassalage” in the relations between the state and the capital).

Thirdly, this section shows **a reproductive trap** typical for the relations of capital accumulation in the Russian economy, where the specificity of the structure of the productive forces formed as a result of destruction of the Soviet type economy (absolute dominance of the commodity and service sectors) along with the rule of the above-described relations of coordination and assignment/alienation can result in and results in an extensive type of reproduction, multiplying a commodity dependence. Significantly, the well-known mechanism of the “Dutch disease” in this case is derived from the specificity of the production relations prevailing in Russia.

The study in this part is completed with the presentation of what is called by the authors a “*strategy of priority development*”. It is based on the above proposed thesis about the modern era as the period of a nonlinear transformation of the “kingdom of necessity” into the “kingdom of freedom” and the new structure of social reproduction in these conditions, in particular, the necessity of priority development of the I division of the new economy — education — as a sphere of “production” of creative potential of mankind, which is the main source of progress in the XXI century. On this basis, the authors show the parameters of **the strategy, ensuring the priority development of createsphere and material production sectors constituting its base, providing socially-oriented development**, which is able to prepare us for the level of the social-reformist economic systems (“scandinavian” model of the “Centre” countries). The realization of this strategy is possible even in conditions of radical reforms (but not yet revolutionary withdrawal).

**These are just some of the key provisions of this large and content-rich book.** It is noteworthy to say about the scientific **apparatus of the book**. Already in volume I, the authors critically use up to a thousand (!) sources from various fields of social sciences. Many of these works are written by little known or even unknown in Russia English scientists. The work is provided with a wonderful reference information. The index includes hundreds of extremely interesting authors, belonging to different currents of public opinion and different periods — from antiquity to the studies of recent years. The subject index is striking; it covers more than 60 pages of fine print, and allows not only to navigate in the book, but also systematically structurally represents all major developments of the authors.

# Market Fundamentalism and a New Wave of Vulgarization in Economics

**Mikhail I. Voeikov**

*Doctor of Economic Sciences (DSc(Econ)), Professor, Head of a Research Center  
of political economy in Institute of Economics, Russian Academy of Sciences*

*mvok1943@mail.ru*

The article discusses the conceptions of Western economic theory, which can be treated as a vulgar political economy. Soviet economists have long pointed to the scientific inadequacy of these provisions. Unfortunately, these vulgarisms are now widely presented in Russian textbooks. It is therefore, necessary to turn to the achievements of the Soviet economic science to replace vulgar borrowing.

**Keywords:** vulgar political economy, market fetishism, economic imperialism, economic rationality, human capital

There was much talk in the Soviet period about the vulgar political economy. Today there is no longer any talk about any kind of political economy in general. Instead political economy today western economic theory (neoclassical, mainstream, etc.) began to dominate in our university teaching, which in many cases is nothing else than the vulgar political economy. This economic theory is highly suited to the ideology of the market society, where the dominant ideology is a specific ideology of commercialization and speculation, which penetrates all the pores and crevices of society. Values of economic benefits and gain profits replace the values of humanism, justice and solidarity, kindness and mercy.

Can a society with the rule of the ideology of profits and bargain i.e. market ideology, be considered healthy, normal human society? Can a country with such an ideology move to innovative development strategy? What economic theory is useful for Russia's transition to a normal way of development? Western economic thought, the so-called "mainstream", which is widely taught in our universities, represents quite slim and consistent reflection of market ideology densely impregnated with vulgarisms. Will this economic theory help the country move on the path of innovative development, and eventually become a "knowledge society"?



## The market fetishization

In “Das Kapital” Marx in the first chapter has an excellent 4th paragraph of “commodity fetishism and its secret”, which refers to a fetish of deification of goods and commodities in the world. In Soviet times, some philosophers stressed this paragraph and gave it the utmost importance, but at that time the students were not strongly impressed by this paragraph, for Soviet life and the life of the students even more, was far from making a fetish of the world of commodities. In the Soviet economy and the Soviet life “commodity” was not the dominant category. We considered the world of commodities as rotting and going away. However, in reality, there was deficit of goods. Today, this decaying world of commodities came to Russia, filled everything and swallowed everything, and today, this 4 paragraph of the first chapter of “Das Kapital” is extremely relevant.

So what's so interesting that Marx wrote in the 4th paragraph? Here is the text: “The form of wood, for instance, is altered, by making a table out of it. Yet, for all that, the table continues to be that common, every-day thing, wood. But, so soon as it steps forth as a commodity, it is changed into something transcendent. It not only stands with its feet on the ground, but, in relation to all other commodities, it stands on its head, and evolves out of its wooden brain grotesque ideas, far more wonderful than ‘table-turning’ ever was... A commodity is therefore a mysterious thing, simply because in it the social character of men’s labour appears to them as an objective character stamped upon the product of that labour; because the relation of the producers to the sum total of their own labour is presented to them as a social relation, existing not between themselves, but between the products of their labour”<sup>1</sup>.

In other words, people value other people and relationships between people, i.e. human relations through the commodities or things. The more things a person possesses — the better and more important he is. Newspapers write about him, TV shows him, people talk about him and try to be aware even of his personal life. Commodity world and things define a person's quality and the quality of human relationships. Accordingly, economic science more and more has begun to study not the relations between people, but the relationship (functional relations) between things. Modern Western economic theory is ready to view even a man himself as a thing, for example, in human capital theory.

In Soviet times, we have been taught that then existed Marxist political economy was good and correct, but the bourgeois one is bad and wrong. Thinking students and young lecturers in the 1960–1970s though generally agreed with this formula, but still had some mistrust. It could not be that the entire western economic science entirely was bad and bourgeois. Something in it must have been good. But in general, there were no sharp rejection of the formula of bourgeois political economy being bad and vulgar, for some clever Soviet criticism of “bourgeois economic thought” brought sufficient evi-

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<sup>1</sup> Marx K. Capital. Volume One. Part I: Commodities and Money. <https://www.marxists.org/archive/marx/works/1867-c1/ch01.htm#200>

dence and arguments showing doubtful value of many allegations “of bourgeois political economy”.

For example, I. G. Blyumin in 1959 wrote that the theory of general equilibrium, which is “the most important pillar of the traditional bourgeois apologetics”, as it was written in Russian literature 40 years ago, or “particularly distinguished direction in the Economic Community priorities hierarchy”, as it is written now, “is not applicable nor to capitalism of free competition nor to monopoly capitalism” any more<sup>2</sup>.

Although, frankly, the theory of general equilibrium, if you perceive it as an abstract, theoretical model, is rather digestible and useful even for the most common understanding of the market economy. After all, the principle of balance — it is the basic principle of operation of the market. The question is how this general principle is carried out in practice and what can squeeze out of it for economic practice. Here, of course, there is a wide field for the critical exercise. But, strange to say, today, these words of the Soviet criticism of “bourgeois economics” are reproduced by one of the most famous researchers of Western economic thought — Mark Blaug. He writes that it is questionable whether the general equilibrium theory made a great contribution to the expansion of the predictive capabilities of modern economic theory... The theory of general equilibrium, in contrast to the general equilibrium models is at best a kind of solving the puzzles created by ourselves and time spent on its understanding is time lost for the study of empirical methods of economic theory<sup>3</sup>.

At the same time, some clever Soviet critics noted some achievements of the bourgeois political economy. The same I. G. Blyumin wrote: “It would be wrong to believe that the crisis of bourgeois political economy means only stagnation and the lack of any progress in all areas of bourgeois economics”<sup>4</sup>. In general, many Soviet scientists and economists shared this view.

While in the Soviet period almost all Western economists were criticized, but not all of them were considered vulgar. Many of them were even translated into Russian and published. For example, George Galbraith, D. Keynes, Alfred Marshall, G. Myrdal, A. Pigou, Joahn Robinson, G. Haberler, and others. Now things have changed. In the post-Soviet era people were somehow ashamed to call many of the bad construction of Western economic thought — vulgar. On the other hand, it has become fashionable to flaunt the most unattractive provisions of these Western thinkers, especially because of the fact that many winners of the Nobel Prize in economics were among them. In this connection a natural question arises: whether there are vulgar trends in modern economic thought or all the directions are good and healthy and should all the works of all Nobel laureates be taught in our universities?

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<sup>2</sup> *Blyumin I. G. Criticism of bourgeois political economy. Vol. 3. The crisis of modern bourgeois political economy. M.: Publishing House of the USSR Academy of Sciences, 1962. P. 80.*

<sup>3</sup> *Blaug Mark. The Methodology of Economics, or How Economists Explain (in Russian). M. 2004. P. 361.*

<sup>4</sup> *Blyumin I. G. Criticism of bourgeois political economy. Vol. 3. The crisis of modern bourgeois political economy. M.: Publishing House of the USSR Academy of Sciences, 1962. P. 58.*

Now, let us explain what is meant by the vulgar direction of economic thought. It is a shallow, superficial explanation of the observed economic phenomena, when visibility is taken as its essence. Marx wrote: “vulgar economy... deals with appearances only, ruminates without ceasing on the materials long since provided by scientific economy, and there seeks plausible explanations of the most obtrusive phenomena, for bourgeois daily use, but for the rest, confines itself to systematising in a pedantic way, and proclaiming for everlasting truths, the trite ideas held by the self-complacent bourgeoisie with regard to their own world, to them the best of all possible worlds”<sup>5</sup>. One could not explain better, although these words were written 140 years ago, they sound very modern.

Among the vulgar provisions of economic theory, we can name many ideas which in Marx's time and after had extensive circulation in the economic literature: price as a function of the utility of goods, wages as the price of the marginal productivity, the labor market, factors of production, profit as payment for entrepreneurs' labor, etc. In general, the whole complex of these concepts is now embodied in the famous textbook “Economics”.

Today, the situation has become more complicated. Power tools of modern economic science has developed so much that is ready to chew up everything, all aspects of human activity, not excluding even the physiology. Modern economic theory (mainstream) transforms everything into a commodity: marriage, family, health, culture, education, happiness, trust, solidarity, etc, probably thinking that thereby the science penetrates into the deeper meaning of these phenomena, or rather, it does not think about it, being limited to inverting and examining of surface forms.

Modern fetishism of the commodity form, taking it from the economic content is transferred to meaningless forms. Indeed, if the “economics” is limited to the analysis of external merchandiseable functional dependencies of the commodities' world, a desire appears to transfer this dependency analysis at the non-market phenomena of the world. If for the modern economic theory the essence of the economic phenomena is not important, then, of course, there is a temptation to apply rich and powerful tools developed by economic science, anywhere. Thus, commodity fetishism extends to the unmarketable world. All this is well illustrated by the so-called “economic imperialism.”

### **“Economic Imperialism”**

Briefly, the “economic imperialism” can be understood as the spread of economic principle, economism, economic rationality on the processes, phenomena and things that did not relate to the economy, the expansion of the basic concepts of modern economic theory (rarity, costs, preferences, etc.) to any form of human life, and its main principles (optimization and equilibrium) to all social phenomena.

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<sup>5</sup> Marx K. Capital. Volume One. Part I: Commodities and Money. <https://www.marxists.org/archive/marx/works/1867-c1/ch01.htm#200>

Francis Fukuyama wrote in this regard that two of the most prolific and best-known today-neoclassical economist — Gary Becker of the University of Chicago and James Buchanan of the George Mason University (both Nobel laureates) — through their entire career expanded use of economic techniques at generally considered as non-economic phenomena, such as politics, administration, racism, family and the birth rate. Then Fukuyama cites the opinion of Gary Becker, who believes that the economy should not be understood as tied to a specific subject (such as money or wealth), but as a method applicable to many aspects of human behavior<sup>6</sup>. However, this cannot be achieved everywhere.

Now the word “capital” is applied to whatever one wants and in the way one wants. And the result there are: human capital, social capital, cultural capital, intellectual capital, spiritual capital, etc. Of course, to use this word (“capital”) as an adjective, as an artistic image is not forbidden to anyone. For example, in modern literature, we use such phrases as the graveyard of locomotives, cars cemetery, graveyard of ideas, etc. But every educated reader is well aware that there is only one exact meaning of the word “cemetery”, and the rest is nothing more than the arabesques of the literary style. The scientific use of such terms is unacceptable. The same is for the word “capital”. To use it as a scientific category with narrow and strict meaning such a variety of combinations will mean smearing, rubbing scientific importance of this concept, and it would be impossible to understand and scientifically explain anything. This is not a development and extension of science, but its elimination.

Generally speaking, science succeeds, when for new phenomena and processes it generates new concepts and terms, while extending of old concepts and terms, reflecting a well-established and already well-studied phenomena into new areas is like the dilution of good old wine with water. Thus, if in anticipation of two guests, you stocked bottle of good wine, and suddenly four guests came, it would be a very bad advise to add to the wine in the bottle the same amount of water. Of course, there would be more of the drink for each guest, and in professional drinkers apparently would not notice anything, but the quality of the product would dramatically decrease. Moreover, good wine as the wine would be eliminated. The same is correct for scientific concepts and terms. Science should not stretch the already well working concepts on vast new areas, but rather detail, clarify, divide the old concepts following more detailed scientific process.

For example, Mr. Becker writes that the starting point of his analysis is the assumption that in matters if to conclude marriage or to have children, or to divorce, men and women are trying to maximize the utility by comparing benefits and costs. Of course, at marriage or divorce people compare “utility”, but not in the head but in the heart. In this question indifferent economic calculation of costs and benefits is completely absent. It is dominated by inspiration and emotion rather than cold reasoning. Otherwise, any human wiggling a finger or turn of a nose can be considered as carefully calculated economic event, and all the

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<sup>6</sup> *Fukuyama F.* Trust: The Social Virtues and the Creation of Prosperity. (in Russian) M., 2004. P. 38.

sciences related to human activities and even the physiology would be partitions of “a single economic science.” It is obvious that such an approach of the Nobel laureate is absurd.

Naturally, attention of Gary Becker did not pass the sphere of education. The latter he regards as a normal commercial activity. It is more profitable for parents to finance the education of their children, as it will bring more income than the interests on savings. They may indirectly provide for their old age by investing in children, and then, in their old age by reduction of inheritance. It turns out, that the children are like a bank account. Initially, you can invest a little more, and then save by reducing the inheritance. It is unclear what to do with the inheritance saved, because in the other world, one likely, does not need money?

### Economic rationality

The well-known principle of economism reads: “Every person is driven solely his selfish interest.” According to this, neo-classical economists argue that all normal people are by nature reasonable, rational creatures who behave very selfishly. They seek to increase their material well-being while minimizing all kind of costs. Thus, an economic man behaves or should behave entirely rationally. For example, an employee is committed to the maximum wage and the minimum work effort. Yield of dreams for him is to obtain ultra-high salaries for doing nothing and such behavior should not be considered from the point of view of the principle of economism or rationality as abnormal or morally bankrupt.

Economism generally puts morality and ethics out of consideration. If morality and ethics do not allow profits, they are useless. By this logic, it is correct from the point of view of the principle of economism that pornography or drug trafficking are the most cost-effective commercial activities and at the same time the most moral. A high spiritual culture (theater, classical literature, symphonic music, museums), basic science, finally, charity and mercy are the most wicked human activities.

The principle of economic rationality in general is recognized by all the authors in economic theory as a fundamental principle of the understanding of the market economy. Even those authors, who want to discover the “weakness” of the principle, have to admit that he was right at least in the general formulation of the question. Kenneth J. Arrow writes that of course, there is no general principle that would prevent the creation of an economic theory based on the hypothesis different from the hypothesis of rationality. Indeed, there are certain conditions that must be laid in the foundation of an acceptable theoretical analysis of the economy. First, it should include the theory of market interactions, corresponding to the concept of the market clearing in the neoclassical theory of general equilibrium. However, he argues that the hypothesis of rationality by itself is weak and in principle, it is not required for the economic theory<sup>7</sup>.

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<sup>7</sup> Arrow K. Economic theory and hypothesis of rationality. In *Sat.: Economic Theory*. Ed. J. Eatwell, M. Milgate, P. Newman. M.: INFRA-M, 2004. P. 246–247.

In support of this conclusion, Arrow indicates that different kinds of personal features influent the economy. He provides an example of savings. The literature on this subject usually assume homogeneity of economic agents. Meanwhile, Arrow writes that the results of the research repeatedly say that the savings are not proportional to income, which means that factor of the income distribution play an important role. Arrow concludes that with the improvement of data, it becomes increasingly difficult to find a simple, model based on rationality, which would explain the evidence of savings, wealth and inheritance.

There is another example. F. Knight in his classic work "Risk, Uncertainty and Profit" raises the question if human behavior allows scientific interpretation by its very nature? This question is ultimately reduced to the possibility of the existence of an economic science for the latest deals with solely the behavior of people in the economic sphere and nothing else. If you give a negative answer to this question, therefore, there is no reason for the existence of an economic science. Knight remains very largely a supporter of irrationalism<sup>8</sup>. That means that economic science can not exist. It is a very strange statement because after all, we know that economic science has been around for hundreds of years and it created some general patterns of economic behavior of people just because a person behaves economic rational in general.

Mass of the most diverse and contradictory factors and causes affect economic behavior of a person. All people are different and behave differently. But in economics we abstract from many casual, temporary, superficial causes and factors. We take the phenomenon in its pure form. In order to understand the market mechanism we should imagine a man as a soulless machine, mechanism, selfishly pursuing in each case his own benefit. That is, a man as a calculating machine endlessly commensurate the costs (time, money, effort, nerves, etc.) with the result. A man in the economy behaves very rationally. Another thing is that in real life, this happens not always. But as a general rule people behave in the economy in this way. Arrow just blends abstract model of human behavior with what happens in life.

### The crisis of economic theory

In recent years, many began to talk about the so-called crisis of economic theory. Indeed, there is a question. M. Blaug cites numerous statements of western scholars who from different sides characterize this crisis. For example, the main problem of modern economic theory is that its assumption about human behavior are entirely arbitrary or now there are whole areas of abstract economic theory, without regard to the facts and almost indistinguishable from pure mathematics<sup>9</sup>. Further, M. Blaug writes that empirical studies that do not evaluate competing explanations, soon degenerate into a kind of mindless instrumentalism, and we do not exaggerate, saying that it is characteristic of much of the empirical

<sup>8</sup> Knight F. H. Risk, Uncertainty and Profit. (in Russian). M.: Delo, 2003. P. 59.

<sup>9</sup> Blaug Mark. The Methodology of Economics, or How Economists Explain (in Russian). M., 2004. P. 357–358.

research in modern economic theory. Finally, he comes to the conclusion that the grounds for skepticism in relation to the main stream of economic thought are quite convincing<sup>10</sup>.

Thus, the external forms are taken for the essence of phenomena. Analysis of the forms and their functional relationships is undertaken for the sake of form, it is forgotten that economic phenomena must necessarily have content. The fetishism of the commodity form gets complete domination. It is the vulgarization of modern economic theory. And it necessarily leads to a crisis of this science.

All this is the vulgarization of modern economic theory, and it is time to call it the aggressive vulgarization. The latter, does not simply walk away from explanations of deep connections in the world of economic phenomena, but rather avoids it. The main thing is that it aggressively makes us believe that all around a man and a man himself are ordinary products on a regular commodity or stock market. Apparently, the next step "of economics" will be to develop a mathematical model of equilibrium marginal utility of conscience, ethics and patriotism. Indeed, it is interesting to calculate when it would be beneficial "to sell the Motherland," and when to hold the goods in stock? A good topic for the next Nobel Prize winner is not it? So, the crisis of modern economic theory is a natural result of its vulgarization, of the rule of market ideology.

## Market mechanism

It is known that the market currently is the most effective mechanism for economic development. The essence of the market mechanism (competition) is comparison of individual labor costs for the production of any product with the socially necessary value, the one that is formed on the market. On this basis, there is differentiation of all participants in the production process to the best and the worst. In practice, this means that the best producers of goods and services reach the maximum benefits and are able to expand their production, and the worst — in the end, are displayed outside of the economic process. There is no stagnation. Due to competition the most optimal (efficient) allocation of resources is achieved. With regard to the labor market there is distribution among the various sectors, economic activities and regions through the market mechanism. With a well oiled labor market wages of employed workers of the same skill in one industry should not be materially different from wages in other industries. Market averages the price of supply and demand. The more perfect is the market, the greater is the tendency to ensure that in all its points in there is the same price for the same thing.

However, one should not overestimate the capacities of the market mechanism. In the long term, its impact is very small, little impact it has on the development of today's complex industries and industrial complexes (nuclear industry, rocket, space, etc.). The extension of the market mechanism on some of the industries of the so-called "new economy" is very controver-

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<sup>10</sup> *Blaug Mark. The Methodology of Economics, or How Economists Explain (in Russian). M., 2004. P. 363–371.*

sial or illusory. For example, products in such sectors as health, culture, science, education objectively can not be subject to market competition. Thus, the production and distribution of canvas and boots, the classic subjects of market self-regulation, is fundamentally different from the production and distribution of professors and soloists of the Bolshoi Theatre. The increase of investments in the latter more talented soloists would not appear. However, for the sphere of material production, there is no better mechanism than the market as of today.

In Russia in the late 1980s and early 1990s, much was said about the need to transition to a market economy, the continuation of market reforms, often putting in this statement very different content. For example, the “shock” Gaidar government was guided by one idea: destruction of economic planning and introduction of an uncontrolled market. Social values that have been embodied by the government of the first half of the 1990s, consisted of spontaneous economic development, natural market and absence of any economic policy. You could even say that the social values of liberal reformers, whether they liked it or not, was to eliminate all social values, although they thought that unrestricted market self-action by itself would solve many social problems. However, it turned out that the market self-interaction of the 1990s not only failed to solve any of the old social problems, but it generated a host of new and had devastating impact on the general economic development of the country. This raises the question of market boundaries, it failed and was harmful for the development of modern society and its transition to the next stage. The market is indifferent to social objectives.

Social values are outside the market. If the market is an objective necessity and reality, you can not seriously believe that people are free to prohibit or cancel this objective reality that people can impose to the market their moral, ethical or moral preferences (values). People can interfere with the market mechanism or not interfere. We can adjust its external parameters, subject to understanding and knowledge of the regulatory costs.

Social values, on the one hand, are superimposed on the market, determine parameters of its operation. On the other hand, the market itself determines the possible amount of social values. Therefore, whenever and wherever the market is limited, adjustable. Otherwise, under the rule of only economic efficiency it can lead to absurd and simply inhuman consequences. In the scientific literature it was described hundreds, if not thousands times. One of the statements of this kind states that the idea of self-regulating market is based on a true utopia. Such an institution could not exist for any long time without destroying the human and natural substance of society; it would have physically destroyed man and transformed his environment into a desert. Another saying of another Western economist states that in order to achieve social equity and justice, the power of the market mechanism must be complemented by basic social opportunities.

Moreover, increasing wealth, developing economy increase the volume and importance of various social values, and at the same time decreases the economic value of the time, which leads to increased stiffness of regulation of the market mechanism. In the early twentieth century a Russian economist, Mikhail Tugan-Baranovsky formulated this provision in this way: the participation of the economic labor in the general complex of social activity decreases as



the course of history. Increased productivity undermines the social predominance of the economy and non-economic activities become more important as the driving force of history. Hence, there is a growing importance of human activity, concentrated not around the economic efficiency but rather social (cultural, scientific, educational, humanitarian, etc.) development. Hence, the role of development planning, i.e. conscious, meaningful regulation of social and economic process increases. Thus, the market will be limited, narrowed.

Planning methods are a good channel for the implementation of policies emanating not only from a purely economic efficiency. These methods are very convenient to carry social and ethical values. This often provokes politicians to regard social goals not as the result of conscious regulation of the market, but rather insert them into the market mechanism itself and to believe that the market in addition to the cost-effectiveness can give social justice. By the way, most often, it was like this during the Soviet period. They tried using the planning methods to solve not the problems of economic efficiency, but mainly social goals of social development.

Today, when the developed Western countries are moving to a “knowledge society”, large areas of human activity are derived out of market regulation (e.g., education). In the new socio-economic literature a new provision that in the spheres of human activity with a predominance of creative work (science, education, culture) the market mechanisms do not work, has been successfully developed. Thus, A. V. Buzgalin and A. I. Kolganov defining a common pattern, wrote: “The measure of market development organization and motivation of activity gradually ‘decrease’ as they move from reproductive labor to creative.” And in this case, liberal economics (mainstream), which is no longer able to explain these new processes should be replaced by a new theory.

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# **Political Economy in the Twenty-First Century**

## **(A Reliable Key to Systemic Analysis of the Modern Economy and to Resolving Its Problems)**

**Anatoly A. Porokhovsky**

*Doctor of Economic Sciences, Professor, Head of the Department of Political Economy,  
Faculty of Economics Lomonosov Moscow State University*

*anapor@econ.msu.ru*

The article reveals the objective process through which political economy arose and developed as a fundamental part of economic theory in general. Discussion questions are set forward on the topic and the method of research. The role of the industrial and information periods in the development of capitalism is examined. The article demonstrates that political economy has a full set of instruments for systematically analysing the modern economy and resolving its problems.

**Keywords:** political economy, economic development, economic development, economic system

The first decades of the third millennium have seen alarming signals emerge for human civilisation. Along with new technologies and the continuing information revolution has come a time of unceasing instability in all the parameters of development. The tendency has increased for existing and new contradictions of different types and on various scales to grow more acute. The prosperity of all countries, both developed and developing, is becoming more and more relative, since in the world economy competition is increasing for the resources required for economic growth, and at the same time for markets. The American variant of globalisation has collided with the national interests of countries — above all, the People's Republic of China and India — whose strength is expanding. Nor has the national sovereignty of Russia been granted a place in the existing model of the world economy.

It is unsurprising, therefore, that humanity has begun to search for a key to solving the problems that are sweeping over it. It is now obvious that only a systemic approach can make it possible to cut through the knot of contradictions and find a path, adequate to the modern era, that can lead to further development both for individual countries and for the world as a whole.

The four hundredth anniversary, celebrated in 2015, of the birth of political economy coincided with a noticeable sharpening of problems throughout the world. This has been

felt in particular in the 39 developed countries that play a leading role in the world economy [24]. The search for a way out, and perhaps for a new paradigm of social development as well, is occurring everywhere — in business and academic circles, in state and international institutions, and in social forums. It has become indisputable that the solution will not be found in particular details, but only on a systemic level. Within the complex structure of modern economic theory, only political economy provides a systemic vision of economic development. It is thus no accident that the approach of political economy is receiving increasingly wide acceptance in a broad range of leading countries, not only through the “invisible hand” of Adam Smith, but also thanks to an integral concept of modern national and global development. Political economy itself, however, is at times interpreted in such broad and diverse fashion that the need has arisen to dwell once again, in academic style, on its field of inquiry, on its methodology, on the history of its origins, appearance and continuing development, and also on its place and role in general economic theory, along with its interactions with other schools, programs and trends in theoretical economic research.

### Factors in the rise of political economy

The history of many sciences, especially those of a social and humanitarian profile, abounds in zigzags and in the biographical details and peculiarities of behaviour of their founders. Meanwhile, the fact that outstanding people have become famous to succeeding generations is not due to their human foibles, but to the results of their investigative work, which is bound up with a particular historical period in a specific country or even with an epoch. If in assessing one or another phenomenon, including the appearance of the first works of political economy, we devote our main attention not to the works themselves but to the details of the personal fate of the authors, the attention of our readers will be diverted from understanding how the trends and laws of development of the society of the time were reflected in the books concerned [2]. If discovering and formulating the laws of nature requires the accumulation of the corresponding scientific knowledge, then revealing the laws of the economy requires us to accumulate a knowledge not just of humanity, but also of established and developing social tendencies. The emergence of political economy was indeed associated with particular individuals, but these people lived precisely during the years when conditions were ripening for the formulation of their politico-economic conclusions. To draw an analogy with the birth of a healthy child, we might say that political economy became the “full-term child” of humanity during the Middle Ages, after acquiring enough of the preconditions for its further development. Historically, it appeared at the necessary time and in the necessary place, Western Europe. We shall dwell on this in more detail.

**Political economy** can be defined as the science of the laws of functioning and development of the economy, whose first form historically was the market economy. As is well known, the term “political economy” is derived from the Greek *politikos* — that is, to do with the state and society — and *oikonomia*, referring to the management of a household

(from *oikos*, a house or housekeeping, and *nomos*, a law). The phrase “political economy” was used for the first time by the Frenchman Antoine de Montchrétien in his *Treatise on Political Economy* (1615). This date is generally recognised as marking the birth of political economy and of economic science and theory in general.

The rise of political economy became possible following the formation of a market economy throughout the entire territory of an individual state, which thus witnessed the birth of a *national* economy, linked internally by an *all-national* market. The scale of the national economy, the interaction of households, the changed role of the state in ensuring favourable conditions for entrepreneurship, the securing of revenues for the treasury and the expansion of social wealth all helped create the need to reveal and study the objective economic laws at work in this economy. As a result, political economy through the fact of its emergence served as the basis for the subsequent development of *economic theory and economic science as a reflection of the economic and creative potential of humanity*.

Long before the rise of political economy, including in the ancient world, such phenomena and concepts as commodities, private property, money, prices, and merchant and usurer capital had become widespread. Their origins were linked to trade, which had an incidental character so long as the natural economy predominated. At that time no state existed in which the lives of the majority of the population depended on trade, and production for sale was only in its germinal stage. The forced manual labour of the slave or bonded labourer was only weakly conducive to the expansion of production in agriculture, stock-raising and artisanship.

The gradual deepening of the social division of labour enabled a broadening of the sphere of commodity-money relations. But the liberation of the worker from personal dependence and the establishing of hired labour, simultaneously giving rise to entrepreneurs and entrepreneurship as a systemic phenomenon, marked a boundary in the development of commodity production. The already-familiar categories of the commodity, money and capital now began taking on a content appropriate to the capitalist market economy. During the manufacturing period of capitalism simple cooperation between the manual labour of hired workers came to be combined into the enterprise of a separate owner-capitalist. Capitalist production became the basis of the national economy. The task arose of ensuring the market functioning of the country's entire economy, through the mechanisms of society and the state. Not surprisingly it was in Britain, where manufacturing capitalism had become established earlier than in other countries, that the work by Adam Smith *An Inquiry into the Nature and Causes of the Wealth of Nations* was published in 1776 [17]. In Smith's book, political economy for the first time found a classic, systematised exposition applicable to the manufacturing period of the development of capitalism. The founders of classical political economy also included David Ricardo, who in his book *The Principles of Political Economy and Taxation*, [15] which appeared in 1817, developed the basic positions of political economy set out by Smith — the labour theory of value, and the theory of capital and rent. Other researchers in various countries of Europe also published books on the economic system, examining particular aspects of it while making no claim to put forward a comprehensive theory.

As can be seen, the rise of political economy is connected intimately with the development of capitalism [14]. A decisive influence on the progress of the market was the industrial revolution that during the nineteenth century laid the productive basis for the capitalist economy. The national economy grew increasingly complex, and more and more closely interconnected. The first general national crisis of the overproduction of commodities took place in Britain in 1825, laying bare the fierce competition between capitalists while drawing attention to the position of hired workers and to the contradictions of the economic system as a whole.

### The role of industry

The invention and application of the steam engine, and then of other machines as well, had a massive impact not just on the productivity of labour, but also on the position and role of entrepreneurs and hired workers, as well as on the forms and varieties of capital, the organisation of production, and the economy as a whole. The nature of the division of labour changed, both in the factory based on the machine system and throughout society, now bound together by the market and competition. Alongside the market for goods and the market for labour, the market for capital expanded. From a formal point of view, the machine levelled out the significance of the factors of production — labour, capital and land — and also of the phases of reproduction, that is, of production and circulation. This situation led to the emergence of the theory of marginal utility alongside the labour theory of value that was peculiar to political economy.

During the second half of the nineteenth century political economy thus developed along two lines, on the basis of the labour theory of value and on that of the theory of marginal utility. The first trend came to be embodied in Marxist political economy, while the second took the form of pure political economy, or marginalist economic theory. The basis for Marxist political economy was provided by Karl Marx's *Capital*, the first volume of which appeared in 1867. The marginalist school rested on the work by William Stanley Jevons *The Theory of Political Economy* (1871), on Carl Menger's *Principles of Economics* (6) and on the *Elements of Pure Political Economy* of Léon Walras (1874) [1].

From 1875 the term "economics" came into circulation among scholars, and thanks to the fundamental work by Alfred Marshall *Principles of Economics* (1890) [6] came to denote the neoclassical school of economic theory as a whole. Although economics in terms of its historical roots amounts to classical political economy, the theory of factors of production and marginalism, because of its theoretical premises, topic and method it took on an existence of its own and became a new, specific part of economic theory. Subsequently, and especially during the twentieth century, economics underwent rapid development in the leading capitalist countries and above all in the US, where in 1948 Paul Samuelson published his first textbook on the subject. This work presented a synthesis of neoclassicism with the Keynesianism that had become popular in the 1930s [23].

In Russia during the nineteenth century political economy continued to develop both as a science and as an educational discipline. As early as 1804 a department of political economy had been established at Moscow University, and numerous works including textbooks on political economy were later published. Among the best known were those, bearing the title *Course of Political Economy*, prepared by A. K. Shtorkh (1815) [20] and A. I. Chuprov (1883) [19]. The Russian branch of political economy rested mainly on classical political economy, while incorporating the specific economic features of the country's development. "Economics" did not become widespread in Russia during this period.

A systematic, tightly argued view of industrial capitalism was set out in the works of Karl Marx, Friedrich Engels and their followers. While retaining the hallmark of classical political economy — the labour theory of value — and revealing the history and logic of development of the capitalist market economy, Marx concluded that the main economic law of capitalism was the production of surplus value, which flows from the relations between capital and hired labour. While hired labour under industrial capitalism typically took the form of the physical labour of workers in material production, the relations between labour and capital did not change fundamentally thereafter in other areas of the economy.

Marx aimed to present political economy in the form of six books dealing with capital; with property in land; with hired labour; with the state; with foreign trade, and with the world market. Although he succeeded in preparing only his fundamental work on capital, he expressed in it his systematic view of the reproduction of the capitalist economy and of the mechanism through which it functioned and developed. Proposing his own version of the development of the labour theory of value, Marx argued that the role played by the factor of labour — that is, of the hired worker — was becoming increasingly central. Like any living organism, the industrial market economy did not become frozen in a particular state, but had its own internal sources of development and growth, that not only gave rise over time to new technologies, types of division of labour and increases in the productivity of labour, but that also placed on the agenda the question of the essence of human progress — economic, social and spiritual. Marx's conclusions were formed on the basis of the natural laws and trends of the industrial epoch, when material production held the prime place and physical labour predominated, and when the personal independence of hired workers was more than outweighed by their dependence on the entrepreneur and on capital in general.

The nineteenth century went down in history as the age of industrial capitalism, and as the age of the economic, political and military domination of the world by Europe. It was thus to be expected that European realities would wield the greatest influence on the evolution of political economy, and this was reflected in its Marxist branch.

Industrial development continued during the twentieth century, with the scientific-technical revolution in the second half of the century substantially altering the economy. But after the victory of the Russian Revolution in 1917 the USSR came onto the scene, and after the end of the Second World War in 1945 other states of socialist orientation appeared as well.

## The Soviet period

To an important degree, the development of the Soviet planned economy proceeded under emergency conditions. The devastation after the Civil War created enormous difficulties, followed by the need to restore the country in the aftermath of the Second World War and by the added costs of the arms race during the Cold War period. Nevertheless, no picture of the economic and social progress of humanity during the twentieth century is complete without the USSR. The Soviet variant of political economy, resting on the works of Marx, Engels and Lenin, and also various branches of economic science, played an important role in ensuring Soviet economic achievements.

Meanwhile, political economy together with other social sciences became part of the official ideology and politics of the Communist Party of the Soviet Union, the sole ruling party. On the one hand, political economy sought to base itself on the Marxist heritage, the dialectical perception of social development. On the other, it attempted to take account of and to solve the problems of constructing a national economy that rested mainly on collective (state) ownership of the principal means and factors of production. In the second half of the twentieth century, when after the Second World War the countries of Eastern Europe took the socialist road along with the People's Republic of China, the Korean People's Democratic Republic and the Socialist Republic of Vietnam, the possibilities for studying examples of planned economies expanded significantly, providing the basis for establishing the political economy of socialism as a distinct area of research. Meanwhile, study of the capitalist market economy continued on the basis of the laws and categories of the Marxist political economy of capitalism. In determining the form of the political economy of socialism, a significant influence was exerted by J. V. Stalin.

The first edition of an official Soviet textbook on political economy was published in 1954, under the editorship of Academician K. V. Ostrovityanov [9]. In this book, the economic system of socialism was set out on the basis of collectively-owned public property. At Lomonosov Moscow State University in 1963–1964, the first edition of the *Course in Political Economy* appeared, beneath the editorship of N. A. Tsagolov. In this text, the planning of social production was viewed as the fundamental category of the political economy of socialism [4]. A certain progress in overcoming dogmatic conceptions of economic development was made in the textbook *Political Economy*, edited by V. A. Medvedev, which was published in 1988 [10].

Since the dissolution of the USSR, economic development in Russia and other former socialist countries has proceeded on the basis of market principles, making it possible to examine this development using traditional politico-economic analysis. Meanwhile, the People's Republic of China is continuing to build "socialism with Chinese characteristics", and this is permitting the application of the different branches of political economy, as well as of economic theory in general. This situation finds expression in the fact that in China the "invisible hand of the market" is combined with the visible hand of the state.

The historical fates of the USSR and of the political economy of socialism are different things. China in its development seeks to avoid the errors and miscalculations permitted in theory and practice during the Soviet period, while at the same time making maximum use of the Soviet experience of raising the country's economy to the level of equal partnership both in the world economy and in the field of scientific and technical progress. In 2015 Chinese Gross Domestic Product measured at purchasing power parity made up 17.1 % of global GDP, making the Chinese economy the largest in the world, having outstripped that of the US [24].

### **The information revolution and the service economy**

The formation late in the twentieth century of a single world market space coincided with the beginning of the rapid spread throughout the world of modern information and communications technologies, making up the core of the information revolution. The broad access of governments, business and ordinary citizens to online information of diverse types has aroused unprecedented interest in comparisons of living and working conditions, in the combining of national and private interests, in the activity of transnational companies and financial institutions, in the roles of particular countries in solving global problems, and in the place of the individual in shaping the information economy. Attracting particular attention has been the problem of growing social differentiation and inequality both in individual countries and throughout the world [8; 13]. Unless these problems are considered on an all-national level, it is impossible to assess what is occurring and reveal the trends so that the future can be predicted. The situation has shown the great importance of taking a politico-economic approach to analysing present-day development under the impact of information technologies.

These technologies have become a crucially important link in the new infrastructure of the world economy. Not only the countries with developed market economies, countries that are home to no more than about 15 % of the earth's population, but also developing countries and states with markets in the process of formation are covered by a common information network. As a result, no national model of economic development can function normally without using the internet, [16] or without taking account of world information flows. The era of closed economies is effectively vanishing into the past, and countries now seek to determine the optimal degree of openness for their economies that is consistent with the defence of their national interests, a situation that has inevitably posed the question of the nature of the world political economy. Broadening the object of political economy does not mean effacing the peculiarities of national development or denying the existence of political economy within the bounds of national economies. *It should not be forgotten that political economy as a science does not directly determine the vector of economic development, and does not influence the degree of openness or seclusion of one economy or another.* Political economy reveals the objective laws and tendencies in the functioning and development of the economic system under the real, established domestic and foreign circum-



stances. There can be no mechanical transposing of economic laws and categories from the national to the global level. While private economic interests manifest themselves in similar fashion on any level, the realisation of national interests, the economic role of the state and of international economic institutions, the mechanism of competition and the functioning of markets take different forms. This also applies to the cyclical nature of reproduction; here, as the economic crisis during the first decade of the twenty-first century showed, specific factors have emerged on the world level, resulting in increasingly unequal development and growing disproportions in the world economy. In these conditions, a systemic view of the national economy cannot be complete unless a similar view is taken of the world economy. This problem of economic science can be solved through analysing the political economy of modern-day capitalism.

The tendency, noted in the mid-twentieth century, for the field of services to increase its influence within developed economies has accelerated and expanded with the appearance and implementation of modern information technologies. According to statistical data, the share of GDP represented by the production of commodities in recent years has fluctuated around 30 %. Absolute figures show the volume of material production increasing, but the growth rates in this case have been less than for services or for GDP overall. As a result, modern developed market economies can be termed *service economies* [21]. The ability of a national economy to compete now depends to a large degree on the extent to which the service sector aids the rise of labour productivity in material production. Meanwhile, in the services sector itself the efficiency of labour and capital is often determined by the degree to which constantly advancing information technologies are incorporated. In the early twenty-first century, the question of productive and unproductive labour in the market economy posed by Adam Smith in the late eighteenth century requires new answers.

Meanwhile, the assessment of the phases of reproduction, above all of production and circulation, does not fit with the traditional approach. The structure of the modern services sector is such that it cannot be assigned completely to the sphere of circulation. This means that politico-economic criteria are essential for defining the branches of the services sector from the point of view of their role in the production of value and the growth of capital. The objective increase in the spread of fictitious capital is also a consequence of the expansion of the services sector and of the effect of information technologies. The significantly greater complexity of the mechanism of reproduction of capital on the national and world scales poses the task for political economy of developing a modern theory of reproduction.

The role of the human individual, or of human potential in the broad sense, has grown in recent decades not just in arithmetical fashion but exponentially. In the practical field, other things being equal, human labour has indisputably shown its primacy over other modern factors of production. In terms of their importance, human beings are in fact the foundation of the economic system, at the same time as they are its product. In the information epoch, modern society remains a *society of hired labour*. Employment in state service of various kinds and in the private sector remains the principal means through which an absolute majority of

the able-bodied population are able to exist. In the annual incomes of citizens of developed countries the share represented by wages and associated payments fluctuates between 60 % and 70 %. The combination of various tendencies to bring about a progressive rise in the importance of human beings and of the factor of labour within the economy is obvious.

On the one hand, the share represented by the sectors of material production, in which physical labour predominates, is declining. On the other, the services sector is steadily expanding, and the importance of education, professional training and the constant raising of the qualifications of workers — areas, that is, in which mental labour predominates — is growing. Everywhere, the value of the worker is increasing dramatically; the bringing into play of vast material and financial resources, the velocity of circulation of capital and the rate of capital growth all depend on human beings. The expanding use of mental labour brings intellectual private property to the forefront; the economic realisation of this property, meanwhile, differs in many ways from that of the factors of material and financial property. Having proved its importance as the main factor in production as a whole, and in the information economy in particular, labour has thus foreordained the role of the social sphere as the basic element in the stability of society and the enduring nature of progress. Until now the labour theory of value has not examined the phenomena indicated, although indirectly these phenomena confirm the growing importance of the human individual and of his or her labour. The theoretical potential of political economy allows it to give a systematic answer to this challenge of practice as well.

### Discussion on the topic

The development of political economy has been linked in the most direct manner with the development of the industrial market economy over more than two centuries. The direct topic of study by political economy has been the relations between people in the areas of the production, distribution, exchange and consumption of goods and services. Since everything that may be distributed, exchanged and ultimately consumed must first be produced, the accompanying relations are also termed *productive*. In real life, no-one can get by without consuming, while not everyone is engaged in the production of goods or services. At times distribution or exchange may take on a dominant significance in the economy. Hence productive relations are further termed *economic relations*, which are also a topic of political economy.

The concept of *economic relations* provides a more general idea of the topic, embodying its *essence — the relations between people* as connected with their interactions with the surrounding environment and with nature. Economic relations appear in two forms, organisational-economic and social-economic. The first of these forms consists of relations conditioned by the division of labour and the structure of organisation and management within companies, firms or enterprises. The second form expresses people's social interests depending on their positions as property owners, hired workers, entrepreneurs, or members of other population strata, social groups or classes. In a market economy these relations

take on a collective dimension that is expressed in *monetary* form. Not all monetary relations, however, are able to be topics of study by political economy, since in society there is a great deal that becomes the object of sale and purchase without being the result of people's economic activity. *While economic relations have a monetary form, monetary relations do not necessarily become economic.*

Although the market economy arose on a basis of manual physical labour, it was machine production that not only created an adequate basis for market principles, but also laid the basis for scientific and technical progress. The machine system shaped the division of labour within the factory or plant, spurred the rise of new sectors and markets within the national economy, and created the preconditions for the growing role of education and for turning science into a direct productive force. Machine production, having combined the individual skills of the worker, in formal terms evened out the significance of the main factors of production — labour, land and capital. In the process, a genuine economic problem arose: how to ensure the rational use of existing resources within the limitations that existed at any moment in time.

The general concept of the topic of study in political economy has not changed over the years. Since changes are occurring in the economy itself, the area of economic relations is expanding as well. Services are acquiring ever-greater importance. Simultaneously with this process, information has taken on a qualitatively new significance; on the basis of modern information and communications technologies, it is exerting a substantial influence on all the phases of reproduction — production, distribution, exchange and consumption. The reproduction of services differs from that of commodities, though in a market economy services and commodities have many of the same outward characteristics.

In the nineteenth century the main factors of production were labour, land and capital; now, services and information have been added to the list. While formerly it was the branches of material production that made up most of the national economy, the prime place now belongs to the area of services, and information has emerged as a distinct branch.

The world's developed countries are now home to what is described as the knowledge economy, or the economy based on knowledge. Although not a single worker, in any period, has been able to get by without knowledge and skills, in recent decades education and science, and the level of qualifications of workers, have become the defining factor of progress. This situation requires the adaptation of the mechanism of functioning to the new conditions of development of the economy, along with a subordination, to the advantage of society, of the interests of workers, entrepreneurs and the nation as a whole. This subordination can only be effective if the state, which comes to express social interests, plays an active role.

The processes occurring within the economy itself, and also the increasingly complex ties between the economy and other areas of collective life, the number of which is growing, cannot fail to influence the topic of political economy. Meanwhile, commodities, hired labour and capital retain their own innate characteristics despite the present-day modifications of the market economy.

## The wealth of methodology

The specific features of the topic of political economy determine its methodology. The topic of political economy is the economic relations between people, as evidenced in their associations of economic reproduction. The labour theory of value presupposes that expenditures of labour will be calculated as a social average, which means there is an orientation toward the collective interest. In methodological terms, political economy proceeds from this public interest, which in present-day literature is often termed the national interest.

Since the labour theory of value distinguishes the individual and his or her labour as the main factor of production, the conditions of labour and the social position of the worker are not secondary matters, but occupy the centre of attention. As the economy develops, more and more intermediate links appear between the initial costs of labour and the commodities or services that are subject to sale and purchase at prices that are influenced by extremely diverse circumstances. Under everyday conditions, explaining many modern-day economic phenomena from the position of the labour theory of value requires considerable theoretical effort, and even discoveries that have yet to be made. This is now bound up with the growing role of mental labour and of intellectual property, and with the development of the various branches of the services sector.

In business and scholarly literature, the phrase “human capital” is now heard frequently. This expression reflects on the one hand the growing costs of training the modern worker, and on the other, the direct dependence on the size of these costs, and on the possibility of gaining a return on them, of workers themselves and also of business and society [18]. The result has been that in the modern knowledge-based economy, labour has again come to play a leading role.

During the manufacturing age, labour was distinguished from other factors of production by its unique nature as physical, manual work, dependent to a significant degree on the experience and skills of the worker. But in today's information economy the uniqueness and importance of the worker is not linked directly to the nature of the work, but depends on the level of his or her training, and on the acquiring of educational qualifications that need regular updating.

Political economy is one of the social sciences, whose object of study is human society. The economy is a fundamental part of society. The natural sciences study the natural world, and to this end employ microscopes and other laboratory equipment, conducting a wide variety of experiments. Such methods are not suited to the study of the economy. Economic life signifies the simultaneous interaction of a vast number of people and of a multitude of different factors. To investigate this topic and construct a theory of human economic relations, political economy uses the *method of scientific abstraction*.

Often, abstraction is understood as a distancing of the observer from reality, and abstractions themselves as the fruits of pure thought, summoned up entirely by the particular researcher. The difference between scientific abstractions and others consists in the fact that every such abstraction reflects some concrete aspect of the object being studied. In this sense the abstract appears as something concrete, a part or aspect of the whole. This places certain limitations on the abstract in political economy, where no abstract concept

can be permitted to lose its connection with the object of study. In the case of the market economy, the category of the most profound abstractions includes the commodity, which in the first place represents the whole totality of commodities on the market, and secondly embodies the specific character of the productive-economic relations of the market economy.

If we take as an abstraction the labour that is one of the factors creating commodities, we lose the direct connection with the market economy, since labour is characteristic of other types of economy as well. For this reason, it is the commodity that represents the limit of abstraction in political economy.

As a scientific category of political economy the commodity is faceless, and is indifferent to the multitude of real commodities. But at the same time, the category of the commodity allows us to understand and examine any concrete commodity that is placed on the market. In scientific research a movement takes place from the abstract to the concrete, up to the point of explaining the economic nature of any phenomenon of the market economy that a person might encounter.

Like other sciences, political economy operates by using categories that have an unambiguous meaning. In other words, it rests on its own system of coordinates, within which all aspects of the market economy have their place and are characterised. As a result, a conformity is established between the system of categories of political economy and the system of the market economy.

The method of scientific abstraction allows the researcher to reveal the *essence* of each phenomenon; through examining the separate parts of the object under study, and employing *induction*, he or she can gradually establish the object's whole character. Or, in reverse fashion, this may be done by separating the whole phenomenon into its component elements and using *deduction*. If the abstract comes to be divided from the concrete in the course of theoretical analysis, then the interconnection *abstract — concrete — abstract* is not, in reality, broken even for an instant. This process is termed the *ascent from the abstract to the concrete*. In addition to this, the use in research of an optimal combination of movement from the partial to the general (*induction*), and from the general to the partial (*deduction*), while also revealing the existing contradictions and the ways in which they are overcome in the process of development, constitutes the basis of the dialectical method.

The market economy has been developing for centuries. During this time many new phenomena have appeared, while outmoded facts, events and technologies have passed into history. All this could not have failed to have an effect on the system of categories of political economy, and this system has not stood still either. The scientific nature of political economy consists in the fact that its categories are alien to *dogmatism*.

The method of scientific abstraction, and also the approach to the dynamic of the market economy as involving historical progress, does not allow the preservation of a theoretical system of political economy that, while resting on the basic principles of market development, rejects new phenomena and trends in its categories and interconnections.

In economic research, mathematics is used extensively to determine quantitative relationships. Among the natural and social sciences, mathematics is distinguished by the fact

that it rests on an extremely high level of abstraction both in its categorical apparatus, and also in its object of study. Mathematical abstractions are of a special type. They have no direct relationship to the *concrete*. They are interconnected only within the system of mathematical coordinates of various types. In themselves, mathematical quantities and their interconnections are neutral with regard to the categories of any particular science, and this makes it possible for mathematics to be widely applied. It is well known, for example, how digital methods have become the basis of modern information technologies, which in turn have found extremely widespread application.

In the economy, quantitative characteristics have enormous importance. In political economy the task of defining quantitative parameters precedes, as a rule, qualitative analysis or the study of content. Since economic relations as objects of study have their own specific characteristics, the use of mathematical tools is accompanied by certain premises, which make it necessary on the one hand to restrict the number of variables, and on the other, to find the most suitable mathematical expressions — functions, models, formulae and so forth — for particular economic situations.

In such cases, some specific part or function of the economic system is described in mathematical terms. Meanwhile, the choice of the object of analysis depends on the researcher, who also adduces the premises involved. As a result, all the conclusions and deductions obtained through mathematical methods are meaningful only under stipulated conditions.

The use of mathematical tools makes it possible to achieve quantitative certainty while maintaining an indifferent attitude to the social content of economic relations, and while ignoring the interests of the subjects of these relations. This is a consequence of the abstract nature of mathematics, which acts as a universal tool of analysis, applicable in different sciences. The subjective approach of the researcher, when reinforced by mathematical abstraction, leads to a situation in which the various phenomena of the market economy (commodities, money, income, profits and so forth) are presented on the level of everyday perception, and acquire definitions that often lack interconnection and mutual conditioning. Such definitions are convenient for taking practical operational decisions, but do not always allow for an integrated perception of the market economy or even of its phenomena taken in isolation.

It needs to be clearly understood what the potential of mathematical methods amounts to in political economy. For researchers, entrepreneurs and workers, quantitative interconnections are of great importance, but still more important is the conditionality, in terms of content, of qualitative parameters on various levels — of the household, the firm, the sector, and of the national or world economy. Such a picture can be obtained if we make the effort to combine all the methods of political economy in economic research.

### **The objective nature of economic laws**

The life of a modern society, and of its economy, is based on national legislation. Juridical laws extend to all areas of life — politics, the economy, the family, the environment and more. Formulated in these laws are the rights and obligations of the citizen, of the

property-owner, entrepreneur, corporation, party or social organisation, and of the state as a whole. The mechanism exists for the exercise of laws, resting on equality of all before the law and on the openness and transparency of court examination. Economic or business law contains a whole complex of legislation that ensures the functioning of the economy. This includes defence of the rights of property, provisions to protect markets, competition, commercial secrets, the environment, and the consumer, and other provisions related to taxation and to the formation and operation of federal, regional and local budgets.

Meanwhile, the market economy has its own laws, peculiar to it alone, according to which it functions and develops. These laws are not determined juridically, but operate in objective fashion, reflecting *typical, settled, self-repeating, causative-consequential links and interdependencies, and determining the main trend of development*. Such laws manifest themselves in the form of dominant tendencies, and not as individual events or phenomena. The action of economic laws proceeds by way of relations between people. The situation in the market economy dictates to people certain patterns of behaviour in the areas of production, distribution and exchange, and in the consumption of goods and services. If people recognise and understand a relevant economic law, they may well achieve their goal. But if they ignore established trends, competition forces them out of the market; they suffer losses or a complete fiasco.

Economic laws apply in all areas of the market economy and in all phases of reproduction, at micro and macro-levels. There are economic laws both in particular markets and in specific sectors. Corresponding to the system of the market economy is a system of economic laws. In order to grasp economic laws, it is necessary to study the area in which they apply, and to reveal the trends of market development.

Economic laws operate in practical fashion, but are revealed theoretically. The formulations of juridical acts are contained in legal documents, while the definitions of economic laws are part of economic theory. Amid the whole range of economic laws, theory distinguishes a basic law that determines either the vector of development, or else the pivot for the functioning of the market economy.

As was noted earlier, classical political economy was constructed on the basis of the labour theory of value. Developing this theory, Marxian political economy defines the main economic law of the capitalist market economy as the *production of surplus value*. Neoclassical theory proceeds from the diverse character of the factors of production, directing attention to the mechanism represented by the *functioning* of the market economy. The main goal here is thus ensuring equilibrium in the market, and this is determined by the *law of supply and demand*.

As can be seen, the initial methodological positions of the various branches of economic theory lead to different economic laws being designated as basic to the market economy. The real world features both these and other tendencies, which also contribute to providing a complete picture of market development. In the system of coordinates of political economy, the law of supply and demand also has a place, determining the deviation of the market price from the value of a commodity or service. But in the system of coordinates

of economics, production is subject to the market, and all attention is thus turned to the dynamic of prices. This dynamic depends precisely on the relationship between supply and demand. While political economy seeks to penetrate into the essence of phenomena and to reveal their subordination and interdependency, economics prefers to analyse phenomena as they appear in everyday life. For the rational use of limited resources (from the point of view of housekeeping or of the entrepreneur), such an approach is adequate; it is easy to master, and to apply in business practice.

### The “new political economy”

No national economy can get by without the state playing an active role. The economic policies of the state are capable both of holding back and of accelerating economic growth, and also of forming a single national economic space. In economic terms, a strong state acts as a sort of guarantee of market development, ensuring the defence of the reproductive process for all its participants.

Within the market system, meanwhile, a substantial part of the activity of the state — and indeed, the state itself — is related to the sphere of politics. State figures win power through periodic elections. These are already political relations that shape the so-called political market, which exerts an ever-greater influence on the economy even though in itself it is a non-economic factor. The political process draws in large monetary resources. All this has helped bring about a situation in which economics too has begun studying this sphere of society. The principle of the rational use of limited resources has been transferred to political relations, and the resulting field of study has received the name of “political economics” [22]. Alternatively, political economics is referred to as “political economy”, or as *new political economy* [11].

From traditional, classical political economy the new political economy has taken only its name, assigning to the term “political” its literal meaning, that is, pertaining to the political sphere. The very fact of including politics in the object of study of economics signifies, in the first place, the growing influence of politics on the economy, and secondly, the ever-greater spread of monetary relations in the political arena.

In the market economy, as is obvious, it is not only economic relations that take a monetary form. A monetary valuation is assigned in one way or another to different areas and to the most diverse relations between human beings. But the essence of economic relations is not altered by this, even though a new object of investigation has appeared for interdisciplinary studies. In this sense, *the new political economy is a theory that puts forward economic methods for the study of the sphere of politics*. Inasmuch as the interaction between private and public interests in this field is investigated, the new political economy acts as a sort of ally of political economy.

In leading universities in the US and Europe during the late twentieth century political economy again began to be taught as an interdisciplinary course in which stress was placed on a systemic vision of the development of the national and world economy from the



position of a high-placed state official or of the head of a transnational company [12]. A sophisticated examination of modern-day problems, and revealing the role of non-economic factors on economic development, had proved to be impossible without taking a politico-economic approach, in this case from the position of general national interests. Also expressed here is a striving to optimise the interconnections between private and public interests. The experience of developed countries bears witness to the fact that realising private interests is possible to the extent that this does not contradict the collective interests that guarantee national security in a competitive world. While not forgetting to mention Adam Smith and even Karl Marx, these university courses are nevertheless remote from classical political economy. Meanwhile, the preference is to designate these educational courses as “political economy”, dispensing with the additional, refreshing term “new”.

At the same time, the new institutional theory that rests on the methodology of economics often lays claim to the use of the phrase “new political economy”.

Dissatisfaction with the methods of economic analysis that are widespread in developed countries has given rise to so-called unorthodox political economy, which has affinities with other unorthodox economic theories. None of the currents that have arisen among scholars has refuted or replaced political economy as historically understood. These currents merely seek in one way or another to respond to the modern-day challenges of economic development, supplementing political economy after their own fashion.

### **For a complex economy, complex theory**

The four-hundred-year history of political economy shows clearly that despite having initiated the development of economic theory and provided its basis, political economy does not, with its categories, cover all the aspects and facets of its object of research, the economy. The system of categories and laws of political economy reflects the economic system, but does not limit other theoretical approaches to the study of particular aspects of the economy or of its functional interrelationships. Within the framework of economic theory, therefore, political economy, economics, institutionalism, evolutionary theory, behavioural economics, and other trends and schools all coexist without having the right to a scientific monopoly. The increasing complexity of the modern economy and the deepening of the social division of labour promotes the appearance and development of sectoral and functional economic theories.

Objectively, the rise and development of political economy and of other elements of economic theory does not exclude the reflection of one or another economic interest by a variety of theoretical approaches. Nevertheless the experience of developed countries, in the twenty-first century as earlier, shows that all theoretical postulates are ultimately rejected by economic policy and practice if they contradict general national interests. This experience, meanwhile, obviously confirms the relevance of the socially-based methodological approach that is characteristic of political economy. Through this approach, political economy continues to reflect the economic and creative potential of humanity. Systemic

problems require systemic solutions. The history of the economy and the history of economic science have determined the role and place of political economy as a reliable key to the systemic analysis of problems in the modern world, and to finding solutions to them.

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# Political Economy of the Crisis and its Consequences: the Socialization of Finance and Returning of Real Values to the Economy<sup>1</sup>

**Victor T. Ryazanov**

*Professor, Head of the Department of economics at the St. Petersburg State University*

*v.rjazanov@mail.ru*

On basis of the analysis of contemporary economic situation in the world and Russia is made the conclusion about retention in the post-crisis period of the domination of speculative-financial capital in the economic model. For overcoming of the existing disproportions and speculative distortions in the economy is based the need for development and implementation of the program of the socialization of finances. Its importance is determined by the possibility of the formation of the new model of the mixed economy, and for Russia this program comes out as the key condition of diversifying of economy and conducting of the policy of neoindustrialization of the country.

**Keywords:** financial capital, speculative operations, reform in the financial sphere, the socialization of finances, the mixed economy, neoindustrialization

The modern capitalism is a real model of “unreal”, i.e. speculative financial capitalism. However, the “unreality” of capitalism has a broader interpretation, revealing the formation of economy of “unreal”, but in fact fictitious (false) values. This transformation had already started when abstract, theoretical and formal models in economics prevailed, cut off from economic praxis, where not real people acted in a variety of their qualities, but rather a one-dimensional economic man. Unreality entrenched in the economy itself, becoming its reality when the prevalence of the financial sector turned out to be its usual fictitiousness and irrationality. We have to reckon with the fact that the dominance of speculative-financial activity plunges the economy into the world of virtual and artificial images, close the nature of games.

This type of management transformed into a “parallel world” and spread to almost all global economic space, subordinating it to their irrational principles. They are contrary to the natural destiny of the economy to serve the interests of society, based on the improve-

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<sup>1</sup> About the book: V. T. Ryazanov [Un-]Real capitalism. Political Economy of the crisis and its consequences for the world economy and Russia MA, “Ekonomika”, 2016. 695 p.

ment of production, constructive and creative human potential based on scientific and technological progress and striving for the balanced development of society and man. It is therefore quite natural that the economy, which confirmed the dominance of speculative financial model was immersed in a large-scale global crisis in 2008–2009. The depth and duration of the crisis, the continuing difficulties of exit from it requires a rethinking of theoretical views on the nature of the crisis and anti-crisis activity, and the content of the macro-policy itself, implemented in the current post-crisis period.

The economics started special studies of overproduction cycles and crises at a time when its foundations had already been formed, and the first cyclical crisis of overproduction had taken place in England in 1825. Although it should be noted that the complexity and limitations in the functioning of market economy were identified already at the birth of economic science. They were linked to the definition of the possibility of overproduction, which caused disequilibrium between supply and demand, as well as the impact of controversial influence of parsimony on the economic development of the country. Since then, the economic science in the general framework of existing scientific schools, and in its separate parts formed different views about the nature of cycles and crises, and subsequently research directions appeared<sup>2</sup>.

One of the most significant manifestations of the historical achievements of classical political economy is that it in its interior the theoretical basis for the identification of objective causes of economic crises under capitalism and scientific explanations of their nature was formed. Special attention to the content of the economic activity focused the discovery of the cause-effect relationships, which allowed defining the internal contradictions and limitations in the reproduction process. In addition, it is important that the development of political economy sequentially formed approach to the study of capitalism's economic relations as a reproductive activity, i.e., in the unity of production, exchange, distribution and consumption. Reliance on reproductive approach to the study of economic activity allowed realizing its systemic (holistic) vision. There are in the reproduction process, as the integrity, "input" into the system — production and "exit" from it — consumption, as well as the mediating link — exchange and distribution. Therefore, the reproduction approach is equivalent to the system-reproduction approach.

An important advantage of is the fact that it identifies not only qualitative characteristics of economic activity, but also the quantitative relationships and the conditions for its effective implementation. The most common typology of reproductive activity finds its roots in this unity of qualitative and quantitative analysis in the forms of simple, expanding and constraining (falling) reproduction, as well as stable and unstable reproduction, revealing conditions and factors of economic growth and at the same time revealing the background and causes of cyclic unevenness and crises' falls of production.

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<sup>2</sup> For more details refer to: Ryazanov V. T. Development of the Theory of the Theory of Capitalist crises: Political Economy traditions and modernity // *Ekonomika regiona*. 2015. № 2. P. 40–50.

We should also note that the rationalization of economic relations in the process of reproduction of the social product, as a matter of classical political economy, most clearly represented in its Marxist branch, made it possible to examine them in the integrity of qualitative and quantitative characteristics. In this approach, there is also “production-product” characteristic of economic life that reflects the most important material side of life of society as a base for any stage of its development, and pointing to the presence of objective quantitative proportions and relationships in it. At the same time, the “activity-relational” aspect is represented in it, since reproductive movement of created material wealth is carried out not automatically but is always mediated by particular human activities. Therefore the problem of the reproduction of the social product logically complemented by qualitative characteristic of the reproduction of the corresponding type of socio-economic system of relations between classes and social groups. If this is a capitalist economy, it is reproduced exactly as this type of economy, even with the emergence of new technological structures, constantly changing its shape.

Another advantage of such a picture of economic reality is that the analysis of the economic relations logically concluded the importance of taking into account of the contradictory interaction of economic interests in society, and after that the broader social perspective of economic activity associated with the formation of non-uniform social and class structure of society, with inevitable conflicts and contradictions in the conditions of the asymmetric distribution of income, wealth and power.

With regard to the neoclassical school, it continued the theoretical development, drawing on the still living “Say's Law”, in development of the idea of perfect markets. Not one generation of macroeconomists was tempted by searching models of non-crisis development. The appearance of the crises in the real economic practice is explained by the influence of internal and external shocks, treated as a deviation from normal (crisis-free) path of development. In its turn, such negative impact on the economy is associated with incomplete information, according to which the economic agents do not adequately respond to exogenously arising macroeconomic shocks. It provides a basis to determine the economic downturn as a result of errors, leading to overheating of the economy with its subsequent collapse. A good illustration of this situation is the fact that the crisis occurred in 2008–2009 came as a surprise for most economists of the neoclassical school. A few years ago, the thesis that capitalism put an end to the crises was widely circulating among its prominent representatives. It is unlikely that such a predictive miscalculation was accidental.

The political economic approach is promising on the other hand, referring to the disclosure of the ratio of cyclic and non-cyclic parameters in the occurred crisis. Such analysis is necessary to clarify the nature of the crisis, which allows for a more reasonable investigation of its origins and characteristics. The fact that any crisis appears cyclically in a market economy is due to the action of the objective laws of its wavelike dynamics. In terms of the theory of cycles a standard crisis (recession) is a conventional (regular) decline in production in the capitalist economy, periodically appearing and eliminating imbalances in supply

and demand and other imbalances, cleansing economy from incompetence ballast (inefficient management).

However, recognition of the cyclical nature of economic crises under capitalism is not comprehensive in all cases. The political-economic scientific school is characterized by a wider classification, which does not reduce it only to its cyclic variations. In this context, we confine ourselves to the two other types of crises that can be used in determining the nature of the last crisis, allocating its non-cyclic parameters that characterize the structural and systemic crises.

The structural crisis is also regular, but in the longer-term period, it requires a change in the first place the technical and technological parameters of the economy, leading to changes in structure of the economy by replacement of the old basic technological structures with new and more effective. Its main feature is reduction of stimulating potential of the leading technological structure, which is reflected in falling rates of return of its capital. Resolution of the crisis leads to a change in shape of the economy — the emergence of large-scale innovations in different sectors of the economy, new industries, goods and services, etc. The systemic crisis should be interpreted in the context of the crisis in all the reproduction mechanism as a whole and the origin of the urgent need for the transition to the new model with an updated economic institutional arrangement. Its main features are: the exhaustion of the model used for economic growth, large scale and duration of the accompanying cyclical downturn, additional problems for exit of the crisis, the preservation of the dangers of repeated crisis exacerbations and prolonged stagnation, strengthening of economic and social contradictions in society. If for the cyclical downturn, the critical field is current worsening of macroeconomic imbalances, for the systemic crisis it is the institutional imbalance in the long term, with particular emphasis on the need for change in the nature of property relations for the economic assets.

Exhaustion of the old leadership and applied methods of expansion could be an additional aspect of systemic crisis. They reflect the acuteness of the contradictions in the reproduction process of the entire world economy and appear to limit the depth of the problems in its disparities. In today's globalization crisis, one can expect the regrouping of countries in the world economy, some weaken and the others strengthen, the possible emergence of new economic leaders and the emergence of regular outsiders. Such structural and systemic break-up in the world economy is not fully comprehended yet, but it is clear that it is a painful process, since it affects not only the economy of individual countries by raising or lowering them, but also leads to serious changes in the globally organized economy and changing of nature of international mutual engagement and leadership.

Thus, under capitalism, a crisis may have a complex nature. It can act as one of the phases of the economic cycle, and at the same time be characterized by non-cyclic parameters (structural and systemic). In practice, economic crises often occur as normal (regular), but in some periods when there is a change of the capitalist economic model, they the structural and system parameters complement them.

The scale of the current financial and economic crisis and the difficulties of exit out of encourage economists to extend the range in the evaluation of the nature and causes of the past crisis, not limiting by purely cyclical factors and mistakes. With this general background, interest of economists and politicians focus back to the scientific heritage of Marx, who was the first among economists who developed the fundamental theory of crises.

Let us briefly highlight the essence of Marx's theoretical construct. It gradually examines the whole chain of events (causes), which leads to the inexorable logic of the crisis. It starts with the most abstract prerequisites of the crisis, which include the gap between use value and exchange value, a mismatch in the movement of goods and money in transactions, the emergence of credit and others. In the end, this kind of abstract background of the crisis, describing initially encountered violations of equilibrium of economic processes, transforms into a disclosure of its true and essential reasons.

Firstly, the original and the main reason for the crisis is determined by the possibilities and limits of formation of capital, when it separates from the aggregate demand, having a devastating impact on the entire reproduction mechanism. After all, the nature of capitalism in all its historical phases is described by a simple and understandable general formula of capital ( $M-C-M'$ ), which was used by Marx. Or, as Marx argued: The real limit of capitalist production was the capital itself, which means: self-expansion of capital, and its value is the starting and end points, the motive and purpose of the production; production is only production for capital and not vice versa<sup>3</sup>.

Secondly, the economic crises of capitalism, according to Marx, manifest primarily in the crises of overproduction of commodities being directly caused by unplanned character and anarchy of the commodity-market production.

Thirdly, the very overproduction of commodities acts simultaneously as a condition and a consequence of overproduction or over-accumulation of capital, resulting in the fall of the rate of profit. At the same time, excess productive capacities appear, and after this, there is a reduction of employment of hired personnel. The action of the average rate of profit to decline in certain periods, strengthening causes of crises at the same time signals the existence of the limit in the development of the capitalist mode of production. It is found in the fact that increase of productive force of labor reduces the rate of profit, It is a law that at a certain point comes into conflict in the sharpest way with its own development of the productive powers of labor, and therefore should always be overcome through crises<sup>4</sup>.

How useful the Marx's approach to the study of crises under capitalism can be for the study of the modern era?

The fact that the over-accumulation of capital in its specific forms retains its value in explaining the occurrence of another crisis, evidence of its validity. Of course, one should take into account the latest changes in the nature of the capitalist mode of production,

<sup>3</sup> Marx K., Engels F. Collected Works. Vol. 25. Part 1. P. 274.

<sup>4</sup> Ibid. P. 283.

which have affected the nature of the occurrence and course of recession periods, allowing to accumulate a lot of experience in working out the anti-crisis measures. In particular, the fact that Marx studied crises with regard to the industrial stage of capitalism, led to a certain underestimation of their diversity and the possibility of new forms. This has particularly affected the financial component of the crisis. The contradictions in the financial sector in the XX–XXI centuries acquired the role of a trigger in the onset of economic shocks. However, to reduce the current crisis to a purely financial would be wrong. On this side one can consider a merit of Marx the fact is that he clearly distinguished within a critical phase the side associated with the crisis of overproduction. Its significance in today's situation has been confirmed, especially when one considers the consequences and the difficulties of overcoming of the crisis. The crisis, which began with the collapse of financial markets even more acute, than in the past, hit the sphere of industrial production almost all over the world with the emergence of large-scale unemployment.

The Keynesian school along with the Marxist was another scientific school, which took very seriously the issue of crisis management and counter-cyclical regulation. Its creator J. M. Keynes acted as an opponent for scientific schools (classical and neo-classical), which developed the idea of built-in stabilizers in the market economy, that automatically brought it back to equilibrium (full employment). They repeatedly predicted oblivion to Keynesianism like to Marxism. The proximity of their positions regarding the nature and causes of crises under capitalism gives grounds to assert the possibility of mutual usage of the Marxist and Keynesian approaches in crisis theory and practice of crisis management.

In reasoning the causes of the crisis let us highlight the fact that Keynes as the Marxist school, refers primarily to the capital as a central category of this mode of production, seeing sources of problems in the features of its functioning. Assuming that capital accumulation takes place on the basis of ensuring the profitability, then the two schools have the identical approach that defines in general terms the reasons for the crisis in chronic contradiction between production capacity and capacity of consumption. The difference in the two approaches lies in the fact that for Marx, the problem of capital is the total process of self-expansion (accumulation), for Keynes it is the instability of the expansion of productive assets in the capital market, which is determined by the market characteristics of the self-expansion. Behind this, there is an acute problem of capital flows in the financial and speculative sphere, which became the key to modern capitalism<sup>5</sup>.

The explanation of the causes and nature of crises under capitalism, proposed by Keynes, has a sufficient number of intersections and overlaps with the Marx's approach. The fundamental difference between them lies in the interpretation of the effects of the cyclical development of the economy. For Marx, the invincibility of crises under capitalism, and the inevitability of aggravation of inherent contradictions define the conclusion of its his-

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<sup>5</sup> On this occasion, Keynes made this conclusion: "When the capital development of a country becomes a by-product of the activities of the gambling house, it's hard to expect good results" (*Keynes John.M. Obshaya teoriya zanyatosti, procenta i deneg. M., 1978. P. 224*)



toric futility and the need to eventually change this mode of production, which would provide a genuine solution of economic and social contradictions.

As for the position of Keynes, his theoretical platform and set of practical recommendations, in contrast to Marx were aimed at protecting the capitalist mode of production with a focus on its reformation. This discrepancy in the estimates of historical prospects of capitalism is based on one fundamental difference between the two approaches. If Marx connected the cause of the crisis with the falling profitability of all the existing capital as “new capital” than Keynes linked the decline in the marginal efficiency of capital to the fall in profitability (or marginal efficiency) of “future investments”, which could not find the scope of profitable investments, i.e., not acting, but growing capital. That is why Marx excluded the historical perspective of capitalism as an economic system. Keynes made a bet on the potential of self-renewal of capitalism. If Marx revealed deep and fundamental limits of capitalism, Keynes found its weak point, due to the possibility of an overflow of excessive capital that had found profitability, from manufacturing sector into the field of finances with speculative activities. Strengthening the role of the finance sector and financial capital in the origin of the crises collapses were confirmed by the real history of capitalism. In the future, the role of credit and the debt crises in the economic model was were developed in the writings of post-Keynesians (notably H. Minsky).

Returning to the analysis of the originals of political-economic version of the theory of crises, we note that in the works of the classical political economists, including Marx, the basis was an ideal construction of capitalist economy (“pure capitalism”), where the mechanism of perfect competition operated. Thanks to it, the flow of capital between spheres and sectors with different rates of profitability can be executed without any obstacle, resulting in an alignment of the rates of profit in the process of capital accumulation. It implements the main principle of capitalist economy — equal profit for equal capital.

However, the real capitalist economy is characterized by the dominance of imperfect competition, which results in the emergence of a significant and sustained differentiation of levels of profitability, and the average rate of return can be considered as the ratio of all current profits to total costs. Thus, it can not act as a market regulator of the capitalist economy, as presented in the theoretical model of “pure capitalism”. As for the principle of equal profits for equal capital, it is actually replaced the principle of unequal profits for equal capital.

In this regard, the question of the possibility of expanding the analytical capacity of the classical (Marxist) school of political economy at the expense of connecting to concepts of a range of unorthodox economic theories (Keynesianism, post-Keynesianism, radical political economy, institutionalism, and so on) is quite reasonable. With regard to the problems of the crises, for example, the use of Keynesian (Post Keynesian) approaches developed in the writings of J. M. Keynes, M. Kalecki, J. Robinson, N. Kaldor, S. Weintraub, H. Minsky and others can be beneficial. This is justified by the fact that in the works of these authors great attention is paid to the problem of imperfect competition and its reflec-

tion in different branches of economics. The combination of the Marxist method to the Keynesian and other heterodox schools of thought is particularly useful in revealing the nature of a crisis and gives rise to the development of a research program of the post-Marxist synthesis.

The dominance of monopolies and the effect of imperfect competition changes the pricing mechanism, which plays a central role in the regulation of the capitalist market economy. In these conditions, as argued M. Kalecki, there is a new price model. If under perfect competition, the shifts in supply and demand correspondingly affect the level of prices for manufactured goods, giving them the necessary flexibility and moving them toward equalizing the rates of profit, then under the monopolistic structure of the economy its main participants react to changes in the balance of supply and demand through reduction or increase in the production of products with the preservation of the price level. In this way, high profits retained and dominant position in the market maintained. As a result, price flexibility as the main element of market regulation is replaced by a new instrument establishment and maintenance of permanent excessive industrial capacity. Accordingly, the level of monopoly prices for specific products is determined by the degree of monopoly power, operating in specific markets.

Such a change in the pricing mechanism is the result of establishment of non-equilibrium prices within the monopolistically organized capitalist economy, i.e. it does not adequately respond to changes in supply and demand. Therefore, the modern capitalist economy can not be considered basically as “economics of equilibrium,” for its basic element the competitive market pricing mechanism does not work in full scale. That's why a new principle of economy — the principle of unequal return on capital — lies at its base, the effect of which is manifested in the strengthening of imbalance and mismatch in economic development, and it leads to more large-scale crisis collapses.

Turning to the contemporary political-economic assessment of the global economic crisis (2008–2009), it is essential to maintain the basis to the system-reproductive vision of economic processes. The fact that the process of capital overaccumulation, investigated by the appropriate analytical apparatus, serves as the main feature of growth of nonequilibrium state of economy, allows continuous monitoring of the macroeconomic situation. However, one must keep in mind that the problem of imbalances in capitalist economy is not exclusively related to reproductive movement of capital and production. It is broader, not reducible to the macroeconomic environment. The role of the institutional sphere in disclose of contradictive nature of capital accumulation is not less important. It markedly increases in the modern capitalist system crisis, taking into account scale and complexity of its organization. The global economic crisis of 2008–2009, being systemic in nature, is characterized by a substantial value of institutional factors, particularly highlighting two of them. First, the dominance of finance capital led the over-accumulation of capital movement into its scope of the problem. Redundancy of the financial capital, which suppress production activity with a corresponding manifestation in the forms of excessive

production capacities and falling profitability, led to the emergence of institutional imbalance in the interaction of financial and real sectors of the economy. As a result, over-accumulation of financial capital — largely fictitious — led to a huge speculative shaft in the economy with the consequent collapse of its general crisis.

Second, another movement in the area of capital accumulation preceded the global economic crisis. We are talking about the fact that it left beyond national reproduction circuit and is increasingly performing in the global space. This led to the deformation of the national reproductive integrity, replaced by forming pyramidal-network structure. Each subject in it takes place in accordance with established global hierarchy. Even so, within the economic reconstruction, without touching its validity, the very need for reproductive integrity is maintained while moving to a global level. Its deformation and incompleteness due to the absence of regulatory institutions, become prerequisites of the occurred global crisis. Therefore, a new knot of contradictions of capital over-accumulation process gradually shifts to the sphere of the global economy, including determination of the features of its cyclic development.

Thus, institutional imbalance caused by monopoly deformations in global markets and the margin of the financial sector from the real economy, limits the ability of a competitive mechanism to ensure flow of capital and thereby align the rate of return, which are necessary to create the same level of conditions across all industries and sectors. The emergence of sustainable inequality of income rates creates false and distorted impulses for economic agents, creating major disruptions in the reproduction process, which inevitably end with the global crisis collapses.

Another qualitative characteristic of capitalist reproductive activity as a system is related to the internal contradictions of economic relations and the interests of economic entities, and above all the continuing contrast between labor and capital. After all, in the process of accumulation of capital, the interests of all participants of industrial activity in the distribution of the newly created value meet and this is directly related to the formation of the profit rate. The class struggle in the economic sense is a struggle for the division of new value on profits and wages.

Competition between different groups of entrepreneurs for their share in the total profit complements it. In such a tough situation of confrontation, it is not easy to achieve social balance. It is necessary to find difficult to define and moveable balance in the distribution of the newly created value to ensure it. It is supported by corresponding changes in property relations and in the new combination of property rights that allow minimizing of social risks and full realization of the economic interests in the development and improvement of production.

Thus, the problem of over-accumulation of capital that explains the objective reasons for the present crisis, discloses a process of triple imbalance — macroeconomic, institutional and social as elements of the general disequilibrium.

The macroeconomic imbalances are a disparity in the reproduction of the total product due to lack of coordination and planlessness of organization of production in society, accompanied by a falling general rate of profit.

The institutional imbalance is a violation, and the disparity between the real and financial sectors of the economy, national and global institutions, the mismatch in the behavioral relationships because of the dominance of speculative activity, inconsistencies in the formal and informal norms, etc.

The social imbalance reveals the social consequences of the growth of over-acuteness of the process of capital accumulation. It describes the contradictions and conflicts between labor and capital, especially when the scale of unemployment increases and living conditions of a large part of the population deteriorate, which at the same time reduces the demand in the economy and affects the depth of falling in the crisis.

Such three-dimensional measurement of the capital accumulation process describes the basic contradictions and limitations of this method of production, within the capital itself through decreasing of its profitability, and within all sorts of interactions — between capital and labor, production and consumption, supply and demand, organization of production and the anarchy of the market economy, the need to maintain proportionality and disproportionality, etc. All these form a complex of background and reasons objectively generating economic crises under capitalism. However, with the removal of the severity of these contradictions and their temporary settlement, the capitalist production overcomes the regular cyclical downturns, and until recently even more dangerous systemic crises.

Let us produce a modern version of political economy of the crisis in the form of an illustrative table, revealing a rather complicated structure of causes and factors, and therefore the relationship of factors defining the nature of the crisis from different angles — from the standard recession to its systemic nature (Table 1).

**Table 1**  
The main characteristics of the current economic crisis

Causes	Content	Effects	Typology
1. Background	Over-accumulation of capital as a manifestation of a general disequilibrium in the economy	Falling rates of profit and the anarchy in the organization of production in society	Standard recession
2. Institutional	Detachment of finance from production and over-accumulation of fictitious capital	Credit and debt expansion	Balance recession
3. Behavioral	Focusing on short-term benefits and underestimation of risks	Overproduction, “speculative bubbles”	Recession of assets
4. Technological	Exhaustion of the potential of the fifth technological order	Decline in efficiency of production	Structural recession
5. Systematic	The process of globalization of overaccumulation of capital	Global disparities in terms of economic transnationalization and partial reproduction of integrity	Systematic recession

The multifactorial nature of crises under capitalism is potentially present in each of them. In certain periods, one of this set of factors can dominate, and then the crisis receives one-dimensional characteristic, most often in this case defined as the cyclical recession. The situation of simultaneous and coordinated actions of the totality of the factors of the crisis is much rarer. This case is the worst, which manifests itself not only by its size, but also by the difficulties of coming out of it. We may qualify the global crisis of 2008–2009 as such, when the use of standard anti-crisis measures proved ineffective.

Exhaustion of the fundamental principles of functioning of the world economy, based on the continuous expansion of the money, capital, profits in the global economic space, makes it necessary to eliminate the imbalance of the existing economic system towards the intermediary and speculative financial activities. The way to change the economic model lays on the restoration of priority of the real sector of the economy based on new technologies. It offers a chance to overcome the negative effects of the global crisis and to restore economic development, balanced and focused on the real values, in the post-crisis period.

Incomplete release of a systemic crisis is not accidental, since its main reasons have not been resolved. They are in the field of financial overaccumulation of largely fictitious capital. After all, from the standpoint of political-economic theory of crises, the chronic surplus of money-capital, that can not find the scope of profitable investment in productive activities, is an outstripping sign of overaccumulation of capital with consequences in the form of advance of the aggravation of coming crisis. Actually, the economic crisis is manifested not only in the overproduction of goods, but also in the overproduction of money created in the financial sector and rotating within it.

The thesis of J. M. Keynes in his generalization of experience of anti-crisis policy during the Great Depression supports the idea that the crisis was systemic and the output of which required radical restructuring of the economic mechanism and especially its financial elements. It is no accident that the English economist drew attention to the importance of the financial sector in the anti-crisis policy. They argued that the way out of the crisis of industrial sphere requires increased investment activity, which in this period is not possible through private investments and reduction of the interest rates even to extremely low levels. This conclusion once again found confirmation in modern practice. Therefore, the state has “to assume greater responsibility for directly organizing of investment” that Keynes called the “socialization of investment”<sup>6</sup>. Such his position is realistic and corresponds to setting the priority to stimulate production output and employment growth. At the same time, it explains the meaning of the main economic system rebuild, which was required in the 1930s and was implemented in subsequent model of state regulated market economy.

Later, H. Minsky an authoritative follower of Keynesianism spoke about it with even more justification of necessity of suppression of the financial expansion. He specifically noted that “the complex and dynamic structure of the financial system, such as it is, becomes a destabi-

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<sup>6</sup> *Keynes John.M.* Obshaya teoriya zanyatosti, prozenta i deneg. M., 1978. P. 229, 453.

lizing force, causing deep depression in unregulated capitalism therefore finance should not be left at the mercy of the free market"<sup>7</sup>. In fact, we are talking about the revival of the model of regulated and socially oriented economy in the updated version, as presented in the Keynesian theory and implemented in practice after the Second World War. Formation of institutions of direct control and regulation of the financial sector not only as urgent anti-crisis measures, but also as a policy of continuous action are its main feature.

It should be emphasized that in the world economic practice, considerable experience in balancing the two sectors of the economy has been accumulated, in any case, providing more or less effective to "tame" the speculative activity and the unlimited expansion of finance. We emphasize that only with the establishment of rigid framework conditions applied to the financial capital, one can expect to achieve sustainable and balanced growth. In this regard, widespread introduction of the current practice of so-called 'project financing' is desirable. It is characterized by the use of financial resources of banks in investment projects, in which they accept fully or partially the investment risks in their implementation. In other words, banks act not as lenders, but in fact as the co-investors. This allocation of funds, as a rule, does not require collateral and guarantees, and they are repaid exclusively or mainly due to the income generated by the project.

Summing up this experience, a project socialization of finance as a promising area of formation of the new financial order is justified. The very construction of the socialized financial system in the usual sense can be seen as the establishment of reliable monitoring and state regulation of financial intermediation. It is no coincidence that it was originally linked with need of operative anti-crisis intervention, taking into account the role of the liberalization of financial markets in the world crisis. It is noteworthy that the then Western leaders in the midst of the crisis expressed such an idea, but after the withdrawal of its severity, it began to be forgotten.

The advantage of this project is that it involves the formation of state-public financial system. It is built in a market economy and provides financial resources and services for private sector of the economy on a market basis. It uses new tools (project financing) and the previously developed methods, such as the delimitation of functions of deposit and investment banks (Glass-Steagall Act, 1933), the introduction of a tax on financial transactions ('Tobin tax') and other measures aimed at limiting the speculative activities.

It clears the speculative blockages and provides the general improvement of economic activity. Finally, implementation of the "socialization of finance" project contains a deeper and more meaningful sense. In essence, it is about creating a new model of mixed economy as a real alternative to the dominance of the neoliberal model of financial capitalism. His goal is creation of a two-channel system of transformation savings into investments. One of them operates in normal market regime, realizing the lending capacity of commercial banks and other financial institutions, the other acts in the limited market regime by providing

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<sup>7</sup> Minsky H. *Stabilizing An Unstable Economy*. McGraw Hill, 2008. P. 324.

concessional financing of priority economic projects, and in relation to Russia focuses on import substitution and diversification of the national economy.

It recalls and complements the historically approved version of the “distributive socialism”, known from the experience of the Nordic countries, in which production is developing on private business principles and its social correction occurs through the use of redistributive mechanism. The new approach to the socialized financial sector is its formation as a network of specialized banking institutions engaged in the financing of certain activities and specific industries not in the traditional form of interest-bearing loans, but rather through participation in joint investments with receipt of part of their profits<sup>8</sup>. Thus, the banks of the socialized financial sector turned from credit institutes to institutes of joint investment activity.

Thus, the extension of the program of socialization of finance is essential for deep reforms of the current economic model, regenerating the real values to the economy. This ensures a return to the policies and business practices of the updated and, significantly, independent and alternative to neoliberalism social-oriented project of the transformation of society and the economy with the re-creation of the new center of political gravity with its own and attractive for a large part of contemporary society ideological and theoretical and practical platform.

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<sup>8</sup> For more details see: *Ryazanov V.T.* Socialization of Finance and interest free economy: options and alternatives for new financial order // *Ekonomist*. 2016, №8.

# Authoritative Point of View about Formation of the New Integral Society

**Georgy N. Tsagolov**

*Doctor of Economic Sciences (DSc(Econ)), Professor of the International University in Moscow  
gtsagolov@mail.ru*

Both books are the political and economic chronicle of Russia and fast developing countries of the last 25 years. Analyzing ways of the development of these countries the authors comes to the conclusion that the new societies have appeared in the world. Those are integral or convergent societies the prominent thinkers such as J. K. Galbraith, J. Timbergen, P. Sorokin have dreamed about. And this is the only way to develop for Russia.

**Keywords:** socio-economic formation, capitalism, socialism, integral society, convergence, planned economy, bipolar system

## The path to a happy life<sup>1</sup>

The chief editor of the “Slovo” newspaper Viktor Linnik asked Professor **Georgy Tsagolov** a number of questions in connection with the publication of the book “The path to a happy life”. The following text is an excerpt of the interview.

— What led you to this choice of the header somewhat out of the most commonly occurring types of economic works?

— The moderator of an international conference in Moscow, which I participated in, was a representative of the ideological right-wing liberal wing. After my speech, he uttered with sarcasm: “Here, finally, the way to a happy life was charted for us”. I responded, noting that this subject existed, and also was in the focus of public opinion. However, the spoken words etched in memory and later seemed appropriate for the name of the book.

— The leitmotif of all 59 chapters of the book is the concept of the new integrated company. You claim that the most successful countries skillfully combine the advantages of capitalism and socialism. You write, “the practice of recent decades has proven the viability of the political and economic symbiosis.” The textbook example is China, which started in 1978 under the leadership of Deng Xiaoping consistently and gradually to carry out the transformation, which brought the backward and poor country on the path of the highest rates of

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<sup>1</sup> Tsagolov G. N. The path to a happy life. M.: Publishing House of the International University in Moscow, 2015. 760 pp.



growth, sustainable and harmonious development. However, judging by the recent crisis in the Chinese stock market, the “integrated country” not immune to the economic turmoil?

— An ideal society as a perpetual motion machine does not exist. Allowing market freedoms and capitalism in China is the acceleration pedal, accelerating the pace of its economic growth. It also led to a sharp widening of the speculative operations on the stock exchange, the stock market overheating and subsequent failure. However, the presence of the country's powerful macroeconomic regulators can cope with similar ailments, which, incidentally, is already happening. In light of the financial mishap it became clear and acknowledged that now China, not the United States is the main engine of the world economy. It mostly depends on its “traction”.

Liberals are all over the world, and ours in particular, gloat over the problems in China. However, in spite of them, it saved the growth rate at 7 %, which is not comparable to the global dynamics. Yuan was devalued by only 4 % in a controlled manner and the blown out “bubble” stock was an internal affair of the country, which did not affect its international obligations.

Meanwhile, our economic diseases are more serious. The BRICS group of countries we were the only ones who are in negative opposition to the rest of its members.

— Increasingly, people say that, considering the current difficulties in China, India could be in the first place in the BRICS. You also refer it to the states with the integrated economy. Is it so?

— According to the forecasts of the report of the International Monetary Fund's the growth “of the economy of the Elephant” in the current and next year will be 7.5 %, while China's dynamics in their calculations will slow to 6.8 % in 2015 and 6.3 % in 2016. According to another group of analysts of the IMF (South Asia Economic Focus) India's economic growth will reach a record 8 % by 2017. Some researchers believe that this Asian country in the next 15 years will have the most powerful productive forces in the world.

In India transnational corporations and the nation's capital operate. Along with them planning regulator continues to operate, defining the strategic goals of the country, implemented by five-year plans. The result of verified economic policy was the change of the shape of the Indian economy. The country is rapidly moving in the automotive, textile, pharmaceutical, metallurgical and aerospace markets. A hallmark of its economy was computer technologies.

— And what is the specificity of the Indian model?

— India has not followed the path of the Chinese “dragon” and the Asian “tigers” that began with exports of those industries that are in need of a cheap and relatively unskilled labor. Computer programming and banking is its niche in the export services, which require a high level of education. The country has become the back office of Western corporations. Well-educated workforce helped such a turn of events. The local institutes of technology are often not inferior to Western counterparts. As the number of qualified scientific and technical labor, India today is at one of the first places in the world.

— I remember Stalin — “Cadres decide everything”...

— Not only. The selective liberalization of foreign trade contributed to the success. Import duties on the import of computer hardware and software was sharply reduced, and foreign investors were provided with benefits and state guarantees. Over the past 15 years, the share of investment in India's GDP has risen from 24 to 36 %, which ensured strong growth. In general, India's success caused a competent combination of the best sides of planned and market economies, finding and maintaining the right balance between them.

— You consider Brazil another country with mixed converged economy. Compared with India, are Brazil's achievements not so impressive?

— But still very significant. In the country with the help of master plans and programs, they have also modernized the economy and achieved high and sustained rates of economic growth. One should not dramatize some of reduction to date. It is important that the social-democratic leadership of the country firmly binds the restoration of a more dynamic development with the improvement of both market and planning regulators.

As a result of this successful combination important structural changes happened in Brazil. “Embraer” is the third after the American “Boeing” and the European “Airbus” aircraft manufacturer in the world. The Brazilian automotive industry produces annually about 4 million cars, second in Europe only to the Germans. The real incomes of workers and employees grow. Help to disadvantaged people grows. Inflation and unemployment are kept low in comparison with the previous time level. However, a quarter of Brazil's population and still live in poverty or below it. However the cycle of poverty over the years, compressed, like shagreen.

— How do the states with mixed economies manage not only to combine the advantages of socialism and capitalism, but also to cut off their inherent disadvantages?

— In addition to flexible planning they use fiscal tools and social stabilizers that reduce the contrasts in society and guide the capital in the creative channel. In Vietnam, for example, where the population is only a one and a half time less than in Russia, there is only one billionaire. He did not start with the privatization of state property, but with the production of instant noodles. He now deals with the construction of major objects.

— Do the Leading economists of the country share similar views with you?

— Recently departed from us academics E. M. Primakov, O. T. Bogomolov, highly respected in the scientific community Professor S. M. Menshikov, S. S. Dzarasov shared them. The list of supporters of the transition to a mixed economy, include such well-known scientists as academician S. Y. Glazyev, a presidential adviser, R. S. Greenberg, a corresponding member of the Russian Academy of Sciences, the director of the Institute of Economics of Academy of Sciences, Academician V. L. Makarov, the director of Central Economic-Mathematical Institute.

— And what is your vision of the integral society?

— It seems that we are witness how the mankind makes the transition to a new, seventh in a row, socio-economic formation.

- Why is the seventh? It was thought that there were five of them.
- In addition to the primitive, slave, feudal, capitalist and socialist Marx and Engels rightly mentioned the Asiatic formation. It preceded slavery in ancient Oriental societies, and was based on the rule of the bureaucracy under the domination of public ownership of land and the basic means of production. In the Soviet time they did not speak much about it, because it somehow looked like really existing bureaucratic socialism.
- In your opinion, does the integral society replace capitalism and socialism?
- Modern productive forces and relations of production, demand a combination of socialist and capitalist principles, the principles of planned and market economy. The skilful combination of them leads to the solution of the four most important social development problems: high rates of economic growth, justice, personal development, or development of human resources, improvement of the spiritual freedom of citizens. There is practice ahead of theory, which is not surprising and happened more than once.
- Has the “end of history” Francis Fukuyama been canceled in this regard?
- The thesis of “eternity” and “naturalness” of capitalism is far from reality. The view of the “artificial” or “hand-made” socialism is not correct. With a number of advantages, both formations are objective and had (and still have) a place in the history of humankind not accidentally. However, they alone are contradictory, are unstable and require interaction. The most rapidly growing and harmoniously developing countries around the world have already adopted an integrated system as the basis of their living arrangements.
- Is this conclusion important for our state and, if so, in what?
- As a result, of wrongly carried out reforms, Russia was in the system of coordinates of bureaucratic-oligarchic capitalism. While the integral society should serve as a beacon for a radical change of paradigm of social development and the optimal economic policy. Possibilities of implementing such a strategy and the transition to an integral society through an evolutionary way still exist, although time is limited. Procrastination is fraught with revolutionary explosion and the next roll of the country to any other than the correct side of the road.
- Was Marx right when he predicted the end of capitalism and pointed to the socialist trend?
- Yes. However, communism has appeared once a utopia, not confirmed by the international practice. “Pure” socialism failed, alas, not accidentally. Those countries that continue to develop, while remaining entirely on its platform, are in an unenviable position. So, the symbiosis of the best features of capitalism and socialism is the most promising branch of social development. The integral system really comes to replace capitalism and purely socialist practice.
- The final picture presented in your book is strikingly at odds with the “post-industrialism” and some others widely accepted theories...
- The categories of capitalism, socialism and integrated system include, first and foremost, characteristic of social relations between people. The definitions of post-industrial,

information, technotronic societies abstract from this essential part. To be consistent, the validity of the concepts of capitalism and socialism should be questioned. In short, a logical line: capitalism, socialism, post-industrialism could not be built.

— Internal contradictions, bipolarity are present in the integral formation. Is instability, the possibility of rolling either capitalism or socialism a result of it?

— Well, the threat of this kind exists. But the wind of the time is still blowing the sails this formation. In the very beginning of human nature, sociality coexists with selfishness. Adam Smith believed that only with the help of the latter and the “invisible hand” of the market society is moving towards the ideal state. Marx, Engels and their followers on the contrary emphasized the justice and social aspects, putting them at the forefront in the realization of human ideals. History shows that finding a balance between the two conflicting, but the real side of human nature meets the objectives of optimum model of human coexistence.

— It follows the possibility of forming a new ideology. However, it has not yet been accepted in any of the countries in the world as a basis. Why?

— The main obstacle to — ideological blinders. The West worshipping the market does not need it. It is certainly not suitable for adherents of Marxism as a doctrine,

— But what prevents us to do it?

— 30 years ago we proclaimed the need to restructure and set a goal: instead of bureaucratic socialism to create its democratic option. Instead, we found ourselves in the system of oligarchic capitalism. We have to admit that the transition from socialism to capitalism, more oligarchic, and then bureaucratic-oligarchic, was a mistake. The purpose of the new changes suggests itself as integral society — a synthesis of the best of the previous two formations. With the approval of this concept and its acceptance into service in the Russian society it is possible to correct interpretation of our economic history, understanding the admitted miscalculations, and the imperatives of the main trends in the development of our society and all humanity.

— Is it the way to a happy life?

— The integrated model does not guarantee universal paradise for people. It, as already mentioned, has never existed, does not exist and I think that will not happen. However, a better road to decent and happy life for the majority of the inhabitants of the earth at the present stage of development of civilization is not yet visible.

— Why does not our ruling upper classes adopt this point of view, which seems to bring us to finding a national idea?

— This question is not to me.

— The crisis of our economy compels us to talk constantly about the need to change the current paradigm of development and finding a new economic model. You and your colleagues propose it. Does anyone deny it?

— No, but they do not seem to hear or notice.

— Can we hope that the ice will break in connection with the release of your new work?

— I doubt it, but hope dies last. However, I think that someday it will happen.

## The new integral society. General theoretical aspects and international practice<sup>2</sup>

The edited by G. N. Tsagolov work "The new integral society" is not only political-economic, but also interdisciplinary in nature. It is written by a group of Russian scientists, including many stars of the social thought of the first magnitude. Among them are well-known scientists-economists Academicians O. T. Bogomolov, S. Y. Glazyev, Professors S. M. Menshikov, E. P. Pivovarova, S. P. Glinkina, philosopher G. G. Vodolazov, historian V. I. Dashichev. Together they worked out long-term research that brought them to the conviction that the world is moving to a new integral type of society, and its already visible features appear quite real in many countries.

Clarifying this is by no means obvious to all truth is extremely important for both economic science and other branches of social knowledge. Practical significance of the work for the heads of states and politicians who seek to send their people to the path of prosperity and prosperity is great. First of all the book is of interest for the leaders of our country, experiencing to put it mildly, a lot of problems and difficulties on the economic front.

As noted by Academician O. Bogomolov: "The lack of clear prospects, confidence in the future can not help affecting the mood of the citizens and the business climate in our country. Even if Joseph Stieglitz absorbed reflections on the 'third way between today's global capitalism and yesterday compromised socialism' the domestic politicians would do well to bother with the same thoughts"(p. 24).

Although understanding of the modern epoch, and the past of our country is not all the same with the authors, in the main, they are the same: Russia should change its socio-economic system and refuse the existing bureaucratic-oligarchic capitalism for another — convergent or integral type of society.

In today's reading the meaning of this is not quite the same what was meant by it in the last century, when in the West (P. A. Sorokin, John. K. Galbraith, J. Tinbergen and others.) and here (Academician Sakharov) these concepts were first introduced. Then it drew attention to the acquisition by the two opposing systems of similarities. This gave hope for a peaceful co-existence and promised to avoid another world war and its logical outcome — nuclear apocalypse. Now the updated and developed on new factual material theory serves as a guide in the search for an optimal model of society.

The experience of the defeated socialism in our country, as we know, was not in vain. The West absorbed the precious socialist ideas and features adopted from it, in particular, the elements of national planning, income redistribution through the budget and taxes, smoothing the social contrasts and crises, and significantly strengthened its position in the world.

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<sup>2</sup> The new integral society. General theoretical aspects and international practice. M.: Lenand/URSS, 2016. 256 p. Ed. G. N. Tsagolov. Authors: O. E. Bogomolov, G. G. Vodolazov, S. Y. Glazyev, S. P. Glinkina, V. I. Dashichev, N. V. Kulikova, S. M. Menshikov. L. A. Menshikova, E. P. Pivovarova, G. N. Tsagolov.

In our country, the planned economy was anathematized following the collapse of the USSR. Nobody listened to the voice of authoritative scientists, our own and foreign that offered a middle way. The “Shock therapy” was conducted on the patterns of the “Washington consensus.” The destruction of socialism “to the ground” meant Bolshevism, on the contrary, dashing from one extreme to another. The result was an ugly system of criminal and speculative, and then comprador bureaucratic-oligarchic capitalism. Former superpower was reformatting to the raw periphery of the world economy.

Meanwhile, the practice of building of an integral society in the post-Soviet period continued in other countries. The synthesis of capitalist and planned origins gave the optimum results. At the same time China and Vietnam remained the political power of the communist parties and socialist ideology. In these countries, the economic laws of capitalism and socialism work. The capitalist law of surplus value, and the socialist law of balanced, proportionate development function.

The current economic crisis in Russia delays and continues to deepen. They start to understand that it is not cyclical but rather systemic. This forces the talk about the need for change, not only of economic policy, but also of the socio-economic model, which is the most profound factor of befallen troubles and failures.

One of the reasons for our trouble is that the economic bloc of the government is captured by market fundamentalism and liberal mantras, ignoring the noteworthy alternative theoretical developments. Although they should be at the heart of economic life, be the basis for a successful economic policy. We have enough long-term “strategies” and “programs”. None of them comes true. Neither one of them even raise the question, in which socio-economic system we live in and what should be sought?

Meanwhile, it is becoming increasingly clear that neither the former socialism nor capitalism now in Russia (and capitalism in general) meet the requirements of the times and social progress. The world practice shows not only the opportunity but also the imperative of the new formation that combines the advantages of the previous systems and minimize their flaws. It is not only possible, but already exists regardless the entrenched prejudices and dogmas.

The interpretations of the “economic miracle” multiply in connection with the indisputable success of China. Some explanations is that it made the transition from plan to market, from socialism to capitalism. They are not true. In fact, a fruitful symbiosis of the plan and the market, socialism and capitalism is maintained there. They formed a convergent or integral society. It gives synergy to the society. Deng Xiaoping and his successors did not destroy the planned economy, but carried out democratic reforms and added market regulators thereto. As a result: for the 38th year in a row the country has developed without crises, growth rates are the highest. By the GDP calculated at purchasing power parity the Celestial Empire, surpassed the United States in 2014 in taken the first place in the world. Life expectancy has reached 75 years.

Chairman Xi Jinping, speaking at the UN General Assembly in the autumn of 2015, stated that every prosperous economy in addition to the “invisible hand” of the market

must use a “visible hand” of government. In the preface of the book G. Tsagolov who took part in the First International Marxist Congress in Beijing in October 2015 quoted the sounded words of Professor Yang Dzhinhay the Secretary of CPC Central Committee: “The essence of the Chinese way is to find the right balance between socialism and capitalism. In economics, this means the establishment of a reasonable proportion between the administrative and market relations...” (p. 11).

Vietnam followed the Chinese example. Central planning is not eliminated, but made more flexible. The country's leadership supported the plan and the market combined with each other, and the optimum balance between them. Planning of major products remained, although the number of established indicators lessened and price controls on basic types of goods and services decreased. The country is developing very quickly and also crisis-free.

In India, the planning regulator coexists with market regulators. Headed by the Prime Minister of the country the Planning Commission defines the strategic development, implemented through five-year plans. They are mostly indicative. It employs top-class experts, based on the works of specialized scientific institutions. The basis of the current 12-year plan is based on the results and recommendations of a network of research organizations that exist at each ministry and the Central Statistical Service. The growth rate of Indian economy recently has not been smaller than in China, and sometimes even has surpassed it.

In the post-Soviet countries, the convergent trends clearly reveal themselves in Belarus and Kazakhstan. The Leaders of both countries do not hide the fact that in the course of transformation, they were guided by the ideas of Lenin's NEP and Chinese reformers.

Maintaining a reasonable balance of different structures, the leaders of these countries seek comprehensive solutions for tightly interrelated problems: high rates of economic growth, social justice, personal development and freedoms. In these countries for decades, they have not seen the economic crisis and standard of living steadily rise. Innovators and creators prevail in the business class, and not the barons-robbers of the state property, not swindlers and not speculators.

As notes S. Glazyev an Academician of the Russian Academy of Sciences, a Russian president's adviser: “For the market fundamentalists the Soviet experience in managing economic development is tabooed, despite the obvious successes of socialist construction, which allowed the Soviet Union not only to win the Second World War, but also to create the so-called ‘second world’ that expanded to a third of the planet. Many elements of this experience have been apprehended by China, Vietnam and India. The USSR was a pioneer in creating a culture of public administration of development, rather than an economic dead end of civilization, as it seems to them” (p. 74).

Pitirim Sorokin a great sociologist who was expelled in 1922 on the “philosophical boat” from Soviet Russia and then settled in Harvard, for the first time elaborated the hypothesis about the possibility of forming an intermediate system between the capitalist and the communist systems put forward. In his opinion, such a society “will bring together most of the positive values and frees itself from serious defects of each type” (p. 124).

The already mentioned American theorist John. K. Galbraith among the economists reflected this tendency earlier and deeper than all.

In 1967 in the USA he published book a "The New Industrial State". He not only drew attention to similar planning and organization systems in the socialist and the capitalist countries, but also predicted that the convergence concept would not receive the universal acceptance soon due to ideological reasons, pushing each of the parties to the dogmatic thinking.

Under the influence of the socialist ideas, the role of social components has significantly increased in the economy of Western countries. As Professor V. Dashichev stressed even such an eminent statesman as Franz Josef Strauss visiting Moscow in December 1987, said: "Capitalism is characterized by some elements of socialism, and sometimes in a much more advanced form than in the socialist countries. The main difference is in the private ownership of the means of production. But here, history will take its decision" (p. 91).

The analysis of international experience leads the authors to the separation of different types of integral society. In some countries, there was a transformation of capitalism. Elements of socialism has been integrated in it now. In others — while maintaining the foundations of socialism, it is its complemented and strengthened by some capitalist relations and regulators. As a result, the gap between the convergent capitalism and convergent socialism reduced.

The convergence covers primarily the economic basis of society.

S. Menshikov and L. Menshikova wrote that "the Model that combines elements of free market and socialist principles, is natural and therefore the most successful. The proportions, in which countries adopt market and socialism, depend on the specific historical conditions, the degree of development, mentality, political maturity of the elite, its customs and even religion. Let us recall that the most successful countries in the past administered the elements of socialism for several reasons. For example, the United States and Western European countries introduced the welfare system in the period of high growth" (p. 114).

The result is a bipolar system, where the plan and the market act not as irreconcilable opposites but as complementary regulators. The authors come to the paradoxical conclusion that the problems and imbalances occur there and then, when only one of them works. The State planners may have reliable information about the needs of society in the production of homogeneous products — coal, steel, oil, gas and electricity. Meanwhile in the sphere of individual goods and services a separate private manufacturer knows its market and its needs better than government officials and can carry out his tasks competently that the latter. So, do not seek to plan everything from a single center. Meanwhile the planning of the main things is possible and necessary. For each controller — his own.

The political and ideological superstructure of society is subject to integral changes. According to Professor G. Vodolazov "One of the possible future options is the theoretical meeting on the 'Elbe' of convergent liberalism and convergent socialism. There will not most likely merge into a single ideology, but rather friendly competition (alternation in



power) of convergent democratic liberalism and convergent democratic socialism will happen. The bipolar ideological and socio-political system will appear, and the social vehicle will sway between the two non-antagonistic courses. Such a zig-zag path will be more effective than one-way straight line" (p. 48).

The critics of integrated society concept often point to its "eclectic", and hence the consequent instability, the possibility of rolling to either capitalism or socialism. Well, the threat of this kind may exist. But based on the theory and global practice the authors (it consists of two parts: the general theoretical aspects and international practice) clearly show that the wind of the time is still blowing the sails of such a formation and development goes in this direction.

This convergence or integration of the advantages of socialism and capitalism according to Professor G. Tsagolov accomplishes the transition of humanity to the new seventh integral formation. In a number of initiatives and speeches by President of Russia V. V. Putin one can see the recognition of the need for our society to elect the middle path. However, there is no yet a theoretical basis for it. The book "The new integral society" partly fills this gap.

A gallery of countries — bearers of the new integrated company is represented in the second part of the book. It is, above all, China. Revealing the essence of Chinese reforms, Professor E. P. Pivovarova, a chief researcher at the Institute for Far Eastern Studies writes: "During the years of market reforms in China there was a fairly significant departure from the traditional norms of socialism towards the approval of not only individual but also private enterprises, not only distribution according to work, but also to capital formation the regulated market economy at the macro level with the goal of development of the productive forces and improvement of people's lives on this basis. China has established a convergent inherently 'mixed economy,' which is called 'socialism with Chinese characteristics'. This economy does not fit any classic or in 'NEP socialism', but the idea of 'social control of production' is present in it as a necessary component" (p. 137).

In the same part the separate sections are devoted to a detailed analysis of the progress of the integration processes in India, Vietnam, Brazil, the Netherlands and the former Soviet Union — Belarus and Kazakhstan. It is rich in factual material. This part of the work complements and develops initially expressed general theoretical ideas.

This integrated model should serve as a guide for a radical change of paradigm of social development and the optimal economic policy. The possibilities for implementing such a strategy and transformation in an evolutionary way remain, even though time is limited. Procrastination is fraught with revolutionary explosion and the next dashing of the country in any other extreme.

With the approval of this concept and its acceptance into service of the Russian society, correct interpretation of our economic history, understanding of miscalculations, the vision of our future, and the imperatives of the main trends in the development of mankind, become possible.

It is clear that the integrated model — this is not the “Sun City” of Tommaso Campanella. Each of its components is problematic. The implementation of the objective socialist laws and principles has not only advantages but also disadvantages, in particular, can lead to bureaucracy and equal distribution. The Capitalist component, on the other hand, causes the social contrasts and is fraught with crisis shocks. Without exception, all converging countries feel strikes from the capitalist market. Mighty China copes with them, although experiencing great difficulties. In Brazil, Belarus and Kazakhstan, as a result of a confluence of unfavorable circumstances in recent years, economic growth has slowed sharply, if not come to naught. However there is simply no other way to creation of a harmonious system, according to the authors.

An American writer F. S. Fitzgerald once said that authentication of the mind is the ability to hold in mind two opposite ideas and still maintain the ability to act. The creators of the economic policy of the rising era of new integral society should not forget about this in order to find the best course.

The book — “The new integral society” is a truly uncommon phenomenon in the political-economic literature. The recognized authorities of social science said their weighty word, demonstratively changing perceptions about the world in which we live. They forecasted the benchmark of Russia's future, and the main trends in the development of the mankind.

# Political Economy of Education: Statement of the Problem

**Natalia G. Yakovleva**

*PhD in Economics, Research Associate of the Center of Institutions of Social Policy  
and Civil Society in Institute of Economics, Russian Academy of Sciences*

*tetn@yandex.ru*

The paper presents the characteristics of the prevailing views on education. For a comprehensive study of the role of education in modern society, including the economy, it is proposed to use the methodology of the political economy and its tools, which allows to study the socio-economic relations, which are formed in the field of education. The starting point for the use of the proposed methodology is to define the sphere of education as a sphere of production (both literally and figuratively) of the main resource of the economy in general and in particular of material production — labor skills and innovation (even more — a creative) potential employee.

**Keywords:** education, human quality, social and economic relations, political economy

How should the educational system be organized, what is its relationship with the economic system and the distribution system in the society? What should be used as the basis of organization of the education system? These questions are not random, as the modernization of the education system, continuing for years, does not inspire hope for its bright future. Meanwhile, in the conditions of complication of geo-economic and geo-political situation, the tasks of modernization of the national economy, and even more, of the widespread use of modern innovative technologies make the problem of formation of the educational system, adequate to all these challenges and, furthermore and solving the problem of the human qualities as the highest values of our society, highly relevant.

Meanwhile, the education reforms in the recent years gave rise to a lot of deep contradictions in this sphere which caused much debate among the specialists.

Below we focus our attention on the main socio-economic aspects of these discussions.

## **1. Education and the economy: systematization of the main approaches**

Several significantly different views on education, its content and its role in the society appeared in the interweaving of theory and practice in our country. We can distinguish

three main approaches based on a simple criterion which is the place of education in the reproductive system of the socio-economic system.

According to the first approach the education — is nothing more than means of income (profit). Therefore, it is only a by-product, which is necessary to the extent when it brings commercial results. The economy needs professionals and educated people and since the market creates demand for them they are reproduced based on the market self-regulation mechanisms, and no specific regulatory impacts from the society are required.

G. Becker the Nobel laureate expressed this view very clearly. He considered education at the micro level as a normal commercial activity. The starting point in this case is the perception that students and their parents invest in training and education. They act as a rational homo economicus, weighing the relevant costs and benefits. Like ordinary entrepreneurs, they calculate the expected marginal rate of return on such investments with profitability of alternative investments<sup>1</sup>.

Proponents of this view tend to accept the concept of the “humaecapital” or the “intellectual capital”. The names include the contemporary economists — the leaders of the Russian Universities: V. A. Mau<sup>2</sup>, Y. I. Kuzminov<sup>3</sup> et al.

The second approach to the education system emphasizes that the society represented by the state should play a significant role in regulating of the economy and provide certain development priorities. Creation of the modern and high-technological material production, solution to the tasks re-industrialization or neoindustrialization are these priorities in their view.

For these authors education is nothing more than a sphere, which provides this new industry, new material production with cadres. The S. Y. Witte Institute of New Industrial Development (INIR) and its leader Professor S. D. Bodrunov actively develop this approach in our country. “The essence of the approach is that the paradigm of the growing, not stagnant Russian economy should become reindustrialization. The main purpose of re-industrialization is the restoration of the role and place of industry in the economy of the country as its base components on the basis of a new technological order by addressing the complex economic, organizational and other tasks. Focusing on the priority development of science, education and culture also has a certain positive meaning, but for our country, it seems somewhat premature”<sup>4</sup>.

They note that “the task of re-industrialization of the Russian economy, which is necessary for the implementation of the active industrial policy, aimed at the priority development of the key high-tech spheres of production of goods and scientific and educational progress necessary for it with the legislative embodiment of these positions are in the cen-

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<sup>1</sup> Becker Gary S. Selected works on economic theory. Human behavior. The economic approach

<sup>2</sup> Mau V. A. Human Capital: Challenges for Russia // Questions of economy. № 7, 2012. P. 114–132.

<sup>3</sup> Kuz'minov Ya. I., Volkov A. E., Remorenko I. M., Rudnik B. L., Froumin I. D., Yakobson L. I. Russian Education — 2020 // Problems of education. № 1, 2008. P. 32–64.

<sup>4</sup> Bodrunov S. D. Russian economic system: the future of high-tech material production / S. D. Bodrunov // Economic Revival of Russia. № 2 (40), 2014. P. 8–9.

ter of this strategy”<sup>5</sup>. The views of V. T. Ryazanov<sup>6</sup> and a number of other well-known scientists are close to this position.

The supporters of the third approach believe that the creative potential of a human being, the human qualities are the foundation of a modern economy. Therefore, the sphere of the creation of these qualities, i.e. education, as well as inextricably related science and culture are the priority area of development in the modern economy.

The material production should play a role of ensuring those areas where human qualities are developed, and should progress to the extent and in such a way that allows ensuring the development of an individual, and not vice versa. In this sense, an “educated person” is the value and the goal of development, while the machinery and equipment, food, clothing, transportation are all the means to full-scale development of cultural and educated, creative people.

A. I. Kolganov and A. V. Buzgalin have developed this approach for more than a decade, arguing in their works<sup>7</sup> the necessity to move to the strategy of the advancing development, subordinated to the goal of the priority development of human qualities (“Economy for humans”).

They convincingly argue: “education is the key to the economy of the XXI century human. Creativity is the highest value and the main factor of development of economy and society in conditions of the knowledge revolution, a kind of analogue of the industry for the last century. It forms the creative potential of humans as well as the heavy industry formed it in the XIX–XX centuries. Science, health, the arts, recreation of the society and the nature, technical and social creativity these are from their point of view, the main scope of implementation and development of creativity”.

The above conclusion is consonant with the conclusions of O. Smolin a Corresponding Member of the Russian Academy of Sciences, the 1st Deputy Chairman of the Education Committee of the State Duma of the Russian Federation, who stressed that “until the education system is restored Russia will remain a third world country... Either we have to change the economic policy or national security of our country, its integrity, its the future will be threatened”<sup>8</sup>, “...today, our country must have allies in industry and human potential. Then there will be army and navy, otherwise there will be neither one nor the other... High technologies and the human capital are the key to the country's modernization and us without modernization its status we can not save our status in the World”<sup>9</sup>.

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<sup>5</sup> Bodrunov S. D. The integration of Production, Science and Education: Past, Present and Future / Collection of materials of the International Congress “The revival of industry, science and education in Russia: challenges and solutions” / Ed. S. D. Bodrunov. P. 18–19.

<sup>6</sup> Ryazanov V. T. The new industrialization of Russia: strategic objectives and ongoing priorities / “Economic Revival of Russia”. № 2 (40), 2014. P. 17–18.

<sup>7</sup> Buzgalin A. V., Kolganov A. I. Reindustrialization as nostalgia? Theoretical discourse // Sotsis. 2014. № 1. P. 80–94.

<sup>8</sup> Smolin O. N. Speech at the Moscow economic forum-2014 / Smolin O. N. [http://me-forum.ru/media/events/plenary\\_discuss\\_I/](http://me-forum.ru/media/events/plenary_discuss_I/)

<sup>9</sup> Smolin O. N. Systemic problems of education in Russia and ways to overcome them / Collection of materials of the International Congress “The revival of industry, science and education in Russia: challenges and solutions” / Ed. S. D. Bodrunov. P. 48–49.

The author also adheres to this view on education and believes that education is a strategic tool for the development of the whole society, and for disclosure of the potential of each of its members. The quality of human capital — is the key aspect of defining the strategic position of the country. The country's development is impossible without professional, cultural, and civic development of the country's population, and thus the orientation of education on these goals<sup>10</sup>.

This approach to education implies, however, not simply a statement of the role of education, but also the further development of this approach, in particular, political and economic study of the system of relations that are emerging in this area.

## 2. Education: The importance of political-economic research

Why and how the field of education must be explored. The previous 15 years were characterized by continuous attempts to modernize the education system in our country: bachelorisation, introduction of the Unified State exams, development of state supervision and control in the sphere of education, monitoring, optimization of the network of the educational institutions, and others.

However, all these have not led to progress, but rather to serious intra-crisis in education.

To get out of this crisis a deep and comprehensive study of the role of education in modern society, including the economy is required. The methodology the political economy and its tools can help, it will allow to study directly the “organism” of the education system, without which the “body” can not function properly, whatever “cloth” one puts on it.

If we proceed from the fact that education is not just one of the areas of maximizing income of its members, and not only means of re-industrialization policy, but also the foundation of the new economy, creating a system of values, ensuring the progress of human qualities, then exploration of the field of education not by formal external factors and efficiency criteria, but referring to its content is required.

In turn, in order to solve this problem, to open the “stuffing” of the education system, we will have to study the socio-economic relations in production in the field of education, based primarily on the claim that “the sphere of education is the sphere of production (both literally and figuratively) of the main resource of the economy in general and in particular of material production — labor skills and innovation (even more creative) potential of an employee”<sup>11</sup>.

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<sup>10</sup> See for more details in: *Yakovleva N. G.* Contemporary education: between humanism and pragmatism (system-structural analysis) / Proceedings of the international scientific-practical conference: Education. The science. Culture. The role in the modernization of Russia / Ed. N. G. Yakovleva. M. P. 89–101.

<sup>11</sup> *Yakovleva N. G.* Industrial policy of modern Russia: the system integration of high-tech material production and education // Problems of Modern Economics 2014. № 3. P. 45–49.

We suggest using the methodology of comparative study of economic systems developed by A. V. Buzgalin and AI Kolganovym<sup>12</sup> to study the socio-economic relations of the production in the field of education. The basis of this methodology is the socio-economic parameters — the key characteristics of a particular economic system.

Before proceeding to a brief characterization of these relations and answering the question why we take as the basis the methodology of comparative study of economic systems, we emphasize again that education is a significant part of the economic system and the basis of the modern economy and not a social “appendage” to the economic system as it is.

### **3. The system of socio-economic relations in the sphere of education**

We outline the main areas of research of education, using the socio-economic parameters of the methodology of comparative analysis of economic systems named above. Among these parameters there are: the method of coordination, relations of ownership, assignment and alienation, the method of income distribution, type of reproduction.

We will consider some of the most significant aspects of each of these parameters, taking as a basic example the system of higher education of post-Soviet Russia.

#### **Coordination method (allocation of resources)**

Considering this option, we will inevitably find ourselves involved in the eternal debate about the correlation of market and state regulation, but it is impossible to avoid it during the study of education.

On the one hand, it is necessary to investigate how the education system can be based on the market forms of coordination, where each educational institution is a separate agent that sells educational services and has the task of maximizing money income compared with the costs. In these circumstances, therefore, conditions of supply and demand for educational services set the basic parameters of development of education system.

Another method of coordination is relationships based on the system of public order and of various forms of planning and state regulation in this sphere. In this case, it we assume that a society sets some parameters of education, and every citizen is free to choose for himself which of these options is most interesting and adequate for him.

In our opinion, for any modern economy in general and Russian in particular the transitional forms that combine both of these mechanisms are optimal. They keep the mechanism of the market as a basic and complement it with the system of state planning and regulation of a number of educational processes.

Considering, as everywhere below, as an example the sphere of higher education, we propose a model in which the state is responsible not only for the government funding of

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<sup>12</sup> Comparative Economic Systems: Russia, the United States and Finland in the mirror of socio-economic statistics (manual) / Edited by A. V. Buzgalin and A. Y. Nizovtsev. P. 5–7.

a significant (at least 50 %) share of the seats in the universities, but also forms the “public order” to prepare at least a part of the professionals receiving education at public expense for future work where it is necessary in terms of nation-wide priorities — in areas such as education and training, basic science and art, recreation, nature and society, the development of high-tech material production. In the non-budgetary sphere of higher education, another method of regulation can be implemented. The state does not determine the number of seats and does not fund education directly, but provides certain privileges (tax, credit, etc) for educational organizations that implement the priorities of society, and, conversely, limiting educational activities in non-priority areas in the same indirect methods.

### **Property relations, appropriation and alienation**

The system of property relations in the field of education is a complex system of parameters, since not only the form — public, private or some third (transitional) but the content of these relations are also important.

The content of property relations expresses itself primarily through the analysis of the relations of appropriation and alienation between the owners of the organization, the staff and the students. In this regard, there are three typical university models.

The model of a state-bureaucratic university — an employee is employed and the officials (appointed “from above” the rector, his subordinates and the public authorities) dictate the conditions of employment (the content and organization of the labor process, payment, training program, etc.).

Private university model — an employee is employed and the conditions of employment (the content and organization of the labor process, payment, training program, etc.) are completely dictated by the owner.

Public University model (public university) — a system of relations in which the self-government dominates. The working collective determines the university model and the basic parameters of its development and functioning. The state and the sponsors set some limitations of the educational process and spendings. In this case, there are the minimum alienation from the owner, the real participation in the life and development of the educational organization.

### **Income distribution method**

This aspect of the system of social and economic relations in the field of education affects primarily questions of paid and free education for a user of education. However, there is another side of the coin encouraging of educators. In the latter case, the problem of the level of differentiation of wages and other incomes of the teaching staff and the parameters on which it depends are among the most important issues. As practice shows, there are two basic options:

1. The model, in which the base rates are almost equal for teachers of the same level of qualification.

For example, an assistant professor with PhD, a PhD professor with the same level of performance of official duties (teaching rate and the minimum amount of scientific work)



receives about the same fixed for a given skill level, income, regardless of their performance. This model is similar to what existed in the Soviet Union and continue to exist in many public universities in the West.

2. The model with the substantial income differentiation of teachers, depending on their achievements of certain formal results.

Here the main problem is to determine the parameters of the system of evaluation of the teachers. As usual in the Russian reality, they are linked to either the commercial results or external ratings, which in turn are often subordinated to the system of relations, dominant in the society (not even in our country but rather the countries of the “center” of the global economic system). Then the actual creative content of education as a dialogue of a teacher and a student, the meaningful results of scientific work of the university personnel fade into the background, being replaced with formalism, bureaucracy and mass falsification of meaningful results in reports. As a result, in most cases, the highest incomes in such a model of remuneration belong not to the most talented and informative, creatively working teachers but rather to those who are better adapted to the conditions of the education market and those who had better prepared the reports on the formal parameters.

### **Type of reproduction**

The next set of options is a system of relations of reproduction, which is closely associated with the parameters of economic growth (recession, crisis), or development (stagnation, degradation) which is much more important in the modern economy.

The dialectics of economic reproduction of the education system is one of the most interesting and important questions for the political economy research of this sphere.

One side of this dialectical process is education, viewed as “eating away” of social resources, the other is education as creation of the most important productive force and implementation of the social and humanitarian goals and values of social development.

In this block, there appear the aspects related to the quality of reproduction. Formally, in our country, a lot of attention is paid to it but the problem.

Leaving for the moment the problems of stagnation and degradation of the educational process, let us consider the situation in extended reproduction. It can be intensive and extensive. Extensive formation of expanded reproduction (which is observed in recent decades in Russia<sup>13</sup>) is a process that is provided by increasing number of students, employees and organizations, with maintaining (or even reducing) the qualitative parameters. Intensive progress of education is a system of relations in which the quality of education pro-

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<sup>13</sup> Changing the position of Russia in the ranking of human capital (from 51 to 26 place) is because some of the basic education indicators are quite high. The technique has changed; it shows the greater proportion of such factors as access to education and the share of people with higher education. As for availability our tradition comes from the Soviet Union, that is a very high level of primary and secondary education. Considering the higher education, the situation is not so simple, since a significant proportion of people with a higher education diplomas have received simulacrams. This is not the best result. AV Buzgalin, TVC Channel program “The 25th hour” May 15, 2015 (AP Mode: <http://www.tvc.ru/news/show/id/68301>)

gresses through the development of new technologies, new forms of dialogue between students and teachers, new forms of organization of the educational process, the educational process management, etc. The progress goes on with the same number of employees, students and material resources used in the educational process, or faster than increase for the resources involved.

Concluding our short overview of the main parameters of the socio-economic relations in the field of education, we emphasize that at the present stage, the objective relations of production with significant internal contradictions are formed and there is a necessity for theoretical study and practical solutions. We have already mentioned above some ways for them.

These accents are not only based on the above methodology of political-economic study of education, but also accumulate practical experience of several institutions of educational community of our country, in particular, the all-Russian movement "Education for All"<sup>14</sup> and the Congress of workers of education, science, culture and engineering<sup>15</sup>. Within these institutions of the civil society a number of specific recommendations for the development of socio-economic relations in the sphere of education are proposed, some of which became the empirical grounds for theoretical conclusions above.

The latter are not important only in itself. The political-economic analysis of education, based on the above methodology, allows to define the contours of improving the education system in Russia, not only relying on foreign and / or past domestic experience, but also on the basis of the actual socio-economic relationships formed in the area of education of modern Russia, which will continue to generate adequate program of education development in our country.

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<sup>14</sup> The All-Russian Movement "Education for All" (EFA) (<http://www.smolin.ru/odv/declaration.htm>), the Chairman is O. N. Smolin, the First deputy chairman for the Education Committee of the State Duma of the Russian Federation.

<sup>15</sup> Congress of workers of education, science, culture and engineering (<http://congress-cron.com>)

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**POST-SOVIET POLITICAL ECONOMY:  
METHODOLOGY, HISTORY, TEACHING**

# Culture and Market

**Liudmila Bulavka-Buzgalina**

*Doctor of Philosophical Sciences, Principal Research Associate  
of the Institute of Philosophy of Russian Academy of Sciences*

*bulavka81@inbox.ru*

Author shows that under the conditions of global hegemony of capital market is becoming totalitarian force, and culture became a commodity. Furthermore, instead of market of useful commodities and objects of art modern market is more and more space of production and of simulacra, "consumer society" is transformed into the "society of simulative consumption". Alternative to this situation is disalienation of personality through dialectical negation of the "market fundamentalism" based on development of social creativity.

**Keywords:** culture, market, production of simulacra, simulative consumption, alienation, disalienation, social creativity

The systemic crisis that late capitalism has suffered in the early years of the new century has revealed the precarious state of such institutions as the market and the state power. This allows us to see how these concepts too have reached their logical culmination.

It should be noted that the development of the contradictions of present-day reality reflects the complex interpenetration of its conservative and illusory forms, of its simulacra and alternative trends, all of them subsumed by the dominant logic of Russian post-modernism. At the same time, these contradictions mark out more and more clearly the contours of an understanding that we are now living through the epoch of the logical culmination and historical exhaustion of the whole system of concepts (democracy, political parties, the state, private property and much else) that have acted as support constructs for the socium of the Modern Era, while until now retaining their strength.

## **The present-day basis of our existence has already exhausted itself**

The crisis that is developing today is not so much the cause as the consequence of the fact that many of these basic concepts that have exhausted themselves in logical terms

have not departed from the scene historically. The reasons for this are a question for special discussion. In any case, changes of such radical novelty are now in store for the postmodernist projection of the global hegemony of capital that even a partial understanding of these new developments thrills some people while striking fear into others.

This is understandable; alienated forms of reality (deriving from the power of capital, of the bureaucracy or of the market) have long been dominant as the prevailing substance of the social being of the modern individual, who has long since been transmuted into a function of these forms. For the modern individual this functional bondage — a *bondage of the private being* to which people are habituated, even if they find it burdensome — is not only an objective inevitability, but for the present also a subjective need. In current circumstances, however, the individual cannot break free of this servitude, and most appalling of all, does not even especially want to.

To be a function of the modern institutions of power and of the market is indeed burdensome and unpleasant, but to live otherwise requires posing and resolving a dilemma associated with a fundamental renewal of the very basis of this life. To use the terminology of Marxism, what is needed today amounts to a ***revitalisation of the very substance of the social order.***

Adapting to this reality is difficult and painful, but for the individual to determine and define it is even more difficult, complex and frightening. In fact, this demands first of all an extreme exertion of one's strengths of personality, and secondly, a rare show of personal responsibility. Along with this, the individual needs also to show a readiness to define afresh, at every juncture, his or her position in relation to society and to the existing reality.

In short, the changing reality requires of the individual a readiness to become a ***subject of being.*** This amounts to one of the most difficult problems encountered in Russian reality. The question in essence is a "Gordian knot" that binds together, in a single whole, the most acute problems of the modern individual, of society and culture. Just how complex this knot of problems really is has been revealed fully by the present-day crisis not just of Russia, but also of the world as a whole.

### **Cultures and the Market: What relations between them are possible?**

To what degree, however, does the modern-day individual measure up to this principle of the subjecthood of being? An attempt will be made to answer this question by examining the situation of the person who might seem to have the most direct relation to this principle — that is, the artist. The artist is the subject of creative work, and this role of the artist is reproduced by his or her professional activity.

Since artists engage in creative activity, it might seem that they are protected to a degree from the power of the dominant forms of alienation.

But is this in fact the case?

What is the existence of the artist like, in the world of modern culture?

To what degree does the modern market — or more precisely, market totalitarianism, which is the substance of all contemporary social reality including culture — affect the development of culture?

What is the essence of the mutual interaction between modern culture and the market?

These questions mark out a triangle of interactions between *the market, culture and the individual*. Let us examine this triangle.

The institutions of authority and the market objectively establish a system of relations which conduce as a rule to alienating artists from their creative potential, subjecting them either to political (not historical) tasks or to considerations of commercial advantage. We shall examine to what degree this is actually the case using the example of the relations between the market and culture, relations which have a long history and a complex dramaturgy. Taking the broadest view, we can identify three types of interaction between these concepts.

The first type of interaction is that of *culture versus the market*. This position is characteristic of opponents of the market, and as a rule assumes that the relationship between culture and the institution of the market will be antagonistic.

The second type has *the market as culture*. The historical development of the market as a socioeconomic institution was accompanied by the formation of certain cultural traditions (for example, the culture of the market in the ancient East). Another example is provided by the Soviet poet Mayakovsky, who was not afraid to transform (*sublate*) such a feature of the market as the advertisement into a cultural phenomenon. Further, Mayakovsky was openly proud of the artistic result of this Bolshevik taming of the market<sup>1</sup>.

The third type of interaction has *culture as the market*, and this bears a direct relation to our reality. Expanding beyond the borders of purely economic processes, the market now asserts itself in all areas of human activity, including culture. This in no way signifies that the market for culture only appeared in the epoch of the global hegemony of capital; the history of this phenomenon goes back for centuries. But the social nature of the market before the epoch of its complete hegemony was different; despite the relationships of sale

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<sup>1</sup> It should be recalled that Mayakovskiy worked extensively in advertising, and took genuine pains with the tasks he undertook. For example, he wrote sixteen advertising texts for the tea industry body Chaeupravlenie. With the state publishing house Gosizdat he concluded an agreement to write a book entitled *Advertisement* (three printer's sheets). For the food industry organisation Mossel'prom, he wrote texts for eleven *Lively Pictures* chocolate wrappers (44 lines; now lost). He organised a public reading of his poems for the rubber industry body Rezintrest, and on his own initiative presented an account of his work in advertising. Some of his advertising work appeared in the Soviet pavilion at the Paris Exhibition. Meanwhile, the Bolshevik poet took his advertising work extremely seriously, and as usual, carried it out in thoroughly original fashion. His position in this regard was very emphatic: "*Despite the poetical hoots of derision, I consider Nowhere but in Mossel'prom to be poetry of a very high order*" // Katanyan V. A. *Mayakovskiy. Khronika zhizni i deyatel'nosti* (Mayakovskiy. A chronicle of his life and activity). Moscow, 1985, p. 259.



and purchase, the market at that time was not so influential as to be able to define, directly and rigidly, the very content of culture and art.

As Marc Bloch wrote: "People at that time were already familiar with both sale and purchase, but unlike our contemporaries, they did not yet live on this basis."<sup>2</sup>

## Simulative consumption

If the market in the past did indeed influence culture, this was principally in a mediated form, for example, through the institution of the social commission (a wealthy patron, a court, church, state, political party or creative association). There was not yet, however, anything like the kind of market dictation, influencing not only the form of art but also its content, that are seen today. The social actuality of one or another object of culture is now measured mainly in terms of the demand for it as a commodity — that is, not simply a product but a commodity, the kind of product that is prized above all for its market value, not for its use value. Meanwhile, the modern-day market is not some kind of autonomous institution. Growing out of the global hegemony of capital, and basing itself on information technologies, modern means of telecommunication and the expansion of mass media, today's market is becoming a sort of totality that penetrates all fields of social and individual life. This, however, is only one characteristic of the modern market.

Another characteristic is associated with the fact that today's market has brought with it a new type of consumption — *simulative* consumption, that presupposes the **pseudo**-consumption of **pseudo**-commodities, or more precisely, simulacra of commodities.

Simulative consumption presupposes the kind of consumption in which the really important thing is the price of a good, not its usefulness. What we have here is an attribute not just of commodity fetishism, but specifically of simulative consumption, which itself arose as a product of information technologies that gave birth to a virtual world of the global hegemony of capital, a world that transforms all the features of everyday life into market phenomena, rendering the market total.

What is the essence of simulative consumption, and how does it differ from normal consumption? This can be explained in the most general way through the following example. If someone in the nineteenth century bought a suit made of high-quality wool and with a high price, the use value and market value of the suit were in a certain relationship to one another. Even if the suit were bought as an item of prestige consumption, it had in any case a high degree of use value.

Today the prestige suit might be made of cheap fabric and sewn up in the massive garment workshops of Yaroslavl Province, but if it nevertheless bears a fashionable, prestigious *brand*, its market value will be high. Here already we observe a discrepancy between market

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<sup>2</sup> See Blok M. *Apologiya istorii* (An apology for history). Moscow, 1973.

value and use value, and this discrepancy is quite marked. But the gap between use value and market value is made up by advertising and marketing, which produce a social concept to the effect that this particular brand has a high market rating<sup>3</sup>.

In short, the gap between use value and market value is made up by expenditure on the production of advertising, which in its essence is a social concept of the market significance of one or another advertised *brand*.

Meanwhile any concept, to employ the language of philosophy, is a phenomenon in the realm of the *ideal*. But any *brand*, since it is in essence a commercial sign embodying a particular concept, is also an *ideal* phenomenon.

Marketers and advertisers thus produce an *idea* (an advertisement) of an *idea* (a brand), that is, *an ideal of an ideal*.

The outcome of this process is ideas of market standards which, while emerging as the result of a dual abstraction (an *idea of an idea*), **in terms of their content** are **symbols** of prestige consumption, while **in terms of their form** they are part of the general **scheme** of consumption that is common to all. The question arises: why is this a common scheme of consumption? For the reason that in the conditions of market totalitarianism, commodities that are supposed to satisfy various human needs are made in practice to serve only one function: to act as signs of market standards, embodying the idea of prestige consumption. This is why the consumption of these **pseudo-commodities** becomes simulative, since the main purpose of this consumption is in the first place to signify, by means of the commodity purchased, one's place in the hierarchy of prestige consumption, behind which stands the hierarchy of brands.

It is the idea of prestige consumption as the principal meaning of human existence that forms the essence of the consumer society. But today, under the conditions of the global hegemony of capital, the consumer society has become subject to a modification that can be defined as the **society of simulative consumption**.

The dominance of the hierarchy of brands not only dictates to consumers what they should purchase, but imposes its rules even on material production, which becomes highly dependent on it. To sew up a suit or not, how it should be sewn and the fabric that should be used — all these questions of material production now depend on what particular *brand* is at the pinnacle of this type of output. In other words, this *brand*, which in its form is a particular sign, is in its essence a social relationship (to use the language of Marxism) which determines the character of material production.

The dominance of the hierarchy of brands is determined not only by external preconditions, by market totalitarianism. The power of this hierarchy also consists in the fact that it answers certain social demands. The essence of these demands lies in the following situation. Since the dissolution of the USSR, the modern Russian individual has lost his or her

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<sup>3</sup> In the view of Baudrillard, it is the consumption of signs that is the essence of the consumer society. As he puts it, consumer society is "the process of devouring signs and of being devoured by signs," which in turn assumes an inevitable inclusion in a general system of exchange and of "the production of codified values."

previous self-identification, which was variously bound up with the name of his or her country, with the enterprise where the individual worked, with his or her place of residence, or with family traditions. Now, in the conditions of post-Soviet Russia, our citizen has to try to solve the problem of his or her self-identification on a private, personal level.

The *post*-Soviet individual, though economically adapted to the market, has at the same time remained ontologically adrift. Such people thus try to discover who they are, but do not search in the world of culture, instead addressing the question of their social self-identification through associating themselves with one or another sign of prestige consumption. This process of association involves a continuous incorporation of the individual into the relationships of sale and purchase. It is this permanent inclusion of the individual in an unending process of sale and purchase that becomes the substance of his or her “social” being.

The life of such a person is accordingly transformed, to use an expression of Hegel, into an “evil eternity” of simulative being.

### Culture as an industry of alienation

Where modern culture is concerned, it should be recognised that three components of its socioeconomic context (the market, the global hegemony of capital and information technologies) have turned it into an industry of entertainment with diverse specialties<sup>4</sup>.

Despite the dominance of simulative consumption<sup>5</sup>, it is precisely the industry of producing entertainment that has become the substance of the social being both of the artist and of modern culture.

What type of artist, of creativity and of culture does the modern entertainment industry demand?

The laws of this industry require the artist to create particular *ideas* of various preferences, tastes, priorities, forms and means of prestige consumption as the main *raison d'être* of the *private individual*.

Note that this is the *private* individual, not the “little” man or woman. The image of the “little man” was created, for example, by Chekhov in literature and Charlie Chaplin in the cinema.

With the entertainment industry, however, the object of attention and production is not so much the *private individual* himself or herself, as the *private attitude* to the idea of the *private individual*. In short, the artist according to the logic of the entertainment industry is obliged to create ***private ideas of the private individual***.

<sup>4</sup> See Williams R. The analysis of culture // Storey J. *Culture theory and popular culture*. Prentice Hall. 1998, p. 24.

<sup>5</sup> Slavoj Žižek and Jean Baudrillard have put forward critiques of simulative forms, but a more profound critique of this phenomenon is provided by Jameson. A recent Russian study of this question is provided in the article by A. Buzgalin, “Al'ternativy dekonstruktsii: blesk i nishcheta postmodernizma” (Alternatives to deconstruction: the allure and poverty of postmodernism).

Taking part in the production of *private ideas* of various *private aspects* of the *private individual*, artists become no more than nuts and bolts within a mega-industry engaged in turning out ideas of commodities and forms of *prestige consumption*, as the concept underlying the social being of the individual (that is, the consumer).

The positions of artists and of the consumers of their “creations” are nonetheless different, since (1) while artists receive money for this production, the consumers who purchase the artists’ products (pop music, video-shows, internet games etc.) have to pay for them, while (2) if the *working time* of artists becomes “free”, since at least to a certain extent it is linked to creativity (even if only of simulacra), for consumers *leisure time* (which in reality is consumption time) is transformed into *working time*, since consumption for consumers turns objectively into a process of reproduction of the dominant ideas of market standards of prestige consumption.

In any case, arising as a result of the production and consumption of the products and services of the entertainment industry is the *common element* that now unites both the artist and the consumer of market culture. This common element that they share is the fact that both artist and consumer take on the forms of simulative *being*. Further, the dictatorship of market totalitarianism gives rise to perverse forms of creativity, and hence also to perverse forms of individual self-realisation. Ultimately, this leads to the self-destruction of the artist’s creative potential.

Indeed, the dictatorship of the market totality forces artists to subordinate the logic of their creativity to the conjuncture of market demand. The result is that artists come to be alienated not only from their creations, but also from their own creative potential.

In sum, it can be said that market totalitarianism, now consuming directly the very creative potential of the artist, gives rise to irreversible mutations both of culture, and of the artist himself or herself.

The sole alternative to this situation is not to be found in the idea of “fatal strategies” (Baudrillard), but in that of the individual as the *subject of being*, both in history and in culture.

# Potential of Research Concerned the Impact of Techno-Economic Factors on the Content of Economic Theory<sup>1</sup>

Gleb A. Maslov

*PhD-student at Lomonosov Moscow State University, Department of Political Economy*

*glemiach@yandex.ru*

In the article there is a justification of high potential of the research concerned the impact of techno-economic factors on the paradigms of Economic theory formation. The existing heritage concerned the development of Economic theory, takes into account this factor. However, there is a huge scope for continuation of this research. Enrichment of scientific knowledge in the sphere of theories changing obtains the extra importance in conditions of qualitative changes in the economic system.

**Keywords:** paradigm, Economic theory, techno-economic parameters, the history of Economic thought, economic system

Modern stage of economic thought development is characterized by significant influence of 2008–2009 economic crisis consequences. The crisis raised concerns about the dynamic economic science development, comparison of theoretical paradigms, although it had been seen as a “minor” problem before. Big amount of criticism was directed mainly towards mainstream’s theories that automatically lead to higher attention to alternatives. Thus, caused by economic crisis aggravation of competition between theories made an issue about reasons for changes of economic theory, levels of their spreading and recognition also topical.

Moving to more applied aspect of this subject relevance, it is necessary to mention a problem of theory applicability in different conditions. Since the world economy is evolving rapidly, there are issues which challenge for economic theory to be mobile and flexible. As noticed by many researches, we can see the phenomenon of lag between theory and practice in rapidly changed conditions. Hence, the importance of finding out the foundations of economic theories’ widespread appeal, depends on reality in which it happened before and happens now.

Futhermore, the process of cardinal techno-economic changes is realizing the patterns shaping the near future. It means very substantial conversion of global economic system

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<sup>1</sup> This article was presented in the Italian Association for the History of Political Economy (STOREP) Annual conference (2016).

that, in turn, may radically change the subjects and methods of theoretical research. Thus, a fundamental methodological work is necessary to predict and create afterwards some new concepts that are able to cope with new challenges.

The regularities of economic theory evolution, reasons for emerging and spreading of theoretical areas have been always remaining in the center of research attention. "Classics" of the history of economic thought and modern researchers have focused on different factors of theory development.

Mark Blaug [5] notes as a prerequisite for changing the domination of theory the rivalry of research programs. In addition, a new theory becomes relevant as a political program, that is, it wittingly carries a normative component — thus, a direct impact of reality on the theory is clearly indicated.

Clearly historical correspondence of theory formation and the objective requirements of the society is noted in the study of Charles Gide and Charles Rist: "The influence exerted by the economic environment, whence even the most abstract economist gets material for reflection and the exercise of his logical acumen, is indisputable. The problems which the theorist has to solve are suggested by the rise of certain phenomena which at one moment cut a very prominent figure and at another disappear altogether. Such problems must vary in different places and at different times" [7, p. 7]. However, non-uniqueness of this factor should be noted: the role of internal development of science as a special sphere of human activity is highlighted.

Joseph Schumpeter [13] points out that the subject matter of economics is itself a unique historical process and it determines the existence economics of different epochs deal with different sets of facts and problems. Schumpeter made emphasis on the method while studying economic thought, as economic science, in his view, provides primarily an instrumental function. Rivalry between "strategical theorists" and "tactical empiricists" was allocated as one of the main intrascientific oppositions, which often means struggle between non-mathematical and mathematical methods. Larger applicability of one of the tools is largely determined by the current economic reality, in many respects including the stability / instability of the system.

In the mentioned below textbooks on the history of economic thought it is also said about not fortuity but conditionality of the appearance of theories of a certain historical reality, although the emphasis made on this is smaller. Textbook by Lionel Robbins [18] points at the fundamental importance of the role of the "import" of the philosophy achievements in the economic theory. In addition, in the textbook by Robbins it is said about a continuity, a smooth succession of traditions' transition from one school to another in response to the changing reality (though the questions on what grounds this reality is changing and what the mechanism of theories change is — are not considered).

The absolute antithesis of this regularity and evolution concept is a position of Oxford textbook by Ernesto Screpanti, where it is directly and clearly said: "We do not share the idea that economics is a "Darwinian" discipline, an idea which claims that the last link in the evolutionary chain contains all the preceding developments..." [19, p. 8]. The authors

do not deny the existence of any serial connection, but they do not agree with the interpretation of commonly used concept of economic theory evolution, not to mention the evolution implied in the natural sciences. According to the authors, the theory development changes spasmodically, sometimes revolutionary and totally unexpected. Usually, the cause of these jumps are economic crises. In addition, a crucial role of philosophy is indicated, in particular, it is said about the impact of philosophical ideas of Renaissance and Enlightenment on the development of economic trends. A role of national, mental features of the researcher in process of creating this or that theory is also noted.

Textbook by William J. Barber [14] sets forward the following idea: having “dealt with” major issues, the theory goes along the path of specification and review of private and applied economic problems. At the same time the growth of cognition tools makes the cognition process more detailed, and that sometimes allows to find “mistakes of the past” and to revise previously abandoned matters, correcting previous “stages of evolution” of economic thought.

Martin Kragh, an author of the textbook of Stockholm School of Economics [15], referring to the historical context, on the one hand, does not assign philosophy and other sciences a major role in forming the economic theory, but on the other hand, says that by and large, only about 200 years ago, the economy has become a truly independent science that responds to the “internal” reasons of its own evolution. 200 years is not such a long time to establish clear patterns of its development and to build further evolutionary trend. In addition, as in the textbook by Vladimir Avtonomov [1], current with time belittling of the individual role in favor of less original and more universal “collective intelligence” of the scientific community is highlighted.

Harry Landreth and David Colander [16] indicate relativist and absolutist approach to the evolution of economic theory, appealing to external factors (factors of reality impact), affecting the theory and internal sources, respectively. As it is noted, relativism dominated until 1950s, but then an absolutist approach “equalized” with him. The authors do not consider themselves supporters of one of the approaches, and talk about approximately equal influence of both factors, although at different times the impact of one of them can prevail.

***Noteworthy is lesser emphasis, that the authors of these textbooks make on purely economic and techno-economic factors of economic theory development. A large degree of influence is assigned either to exogenous factors (development of other sciences), or economic, but more often “discrete” (in particular, to the role of economic crises; the state of a crisis in a given period is either present or not) parameters.*** However, in reality there are “non-discrete” elements that are not considered in detail. For example, the question of development and depth of the commodity-money relations, the level of competition / monopolization of the economy, which exist at any point of time and are changing continuously.

Certainly, nobody completely denies impact of the above two parameters on the formation of economic theory, however, the “weight” given to this effect is insufficient. It is “insufficient” in the sense of insufficient for prediction of further development of economic theory that tacitly acknowledges the current economic mainstream. ***Dominating today***

***economic trends do not talk about the picture of future economic theory content, do not study, as a rule, possible ways of evolution of economic science. In short, they do not predict.*** It is often said that the foundations of the modern theory are “the most correct and eternal”, or that it is impossible to build this prediction, to say what the economy science will be like, being able to meet future economic needs. As a rule, it is recognized that reality will always be ahead of lagging behind it theory, and attempt of the theory to make an advancing leap leads to deplorable consequences.

Thus, there is a huge heritage in elicitation factors that influence economic theory. At the same time, a scope for further research of objective techno-economic parameters’ role is quite considerable that gives to corresponding work a significant novelty.

***The main purpose*** of proposed research is verification of the hypothesis that implies existence of the sustainable influence of techno-economic reality on paradigms of economic theory. Moreover, such influence plays a pivotal role that largely determines the “path” for economic theory development. In other words, techno-economic conditions create a frame in which theoretical and methodological research gets its environment to be implemented.

To reach the main goal of the research there are some local tasks to be solved. ***Firstly***, there is a need to formulate appropriate axioms to construct logical and evidential chain of the argument. ***Secondly***, the systematization of previous achievements in relevant sphere is crucially important to make a foundation where this research results will be integrated. ***The third task*** includes conducting historical analysis from period of mercantilists to modern theory. ***The next target***, that can be called as the most important one, is an implementation of inductive reasoning. ***The fifth task*** means interpretation of obtained results in the context of possible construction of the future economic theory forecast.

Theoretical paradigms of economic science from capitalistic period act ***the object*** of research. Restriction in concerning with only capitalism era may be explained by fundamentally different type of science in pre-capitalistic time. Another reason is starting of active technological achievements implementation to the process of production. Thus, the results of this research will be more concrete and applicable to modern stage of theory development.

To be sure, the crucial method that will be used is the ***method of abstraction***. Verification of the research hypothesis assumes “isolation” from other factors that do not directly connect with techno-economic precondition of theory evolution.

The subject represents a part of evolutionary developing element. Consequently, finding out the regularities means the exploring historical phenomena and historical development. In this case, ***the historico-logical approach*** seems necessary.

Exploring theoretical paradigms to define links between reality and theory requires fixing differences between conditions of reality and content of theory. It caused by using ***comparative method*** to illustrate similarities and differences of objects. For searching such differences and its preconditions ***analysis and synthesis*** play the crucial role. There will be an analysis in the structure of general theoretical heritage and in concrete theories with following synthesis.



Content of the paper based on historical practices research that assumes a generalization and concluding regularities. Thus, the induction method will be widely used.

Most of the explored elements caused unsolvable calculation. It leads to very high restriction to use quantitative methods. However, some parameters have their clear statistical performance. For example, these are GDP per capita, structure of production, degree of monopolization if we talk about techno-economic factors or different indexes of quotation although there are some vulnerabilities if we mean degree of theory's spread. Thus, some **mathematical modelling** also will take its place in the paper, but it will not be a fundamental method.

Finally, conducting of a survey is planned that involves **the content-analysis** of papers in prestigious magazines and monographies and organization of Delphic group with questions to leading researchers in the history of economic thought.

As it was mentioned, the main novelty consists in verification of the hypothesis that implies existence of the sustainable influence of techno-economic reality on paradigms of economic theory. However, possible confirmation of the hypothesis leads to other perspective results.

If there is a strong link between techno-economic reality and theory it is possible to create an algorithm that shows a path to developing theory forecasting. Most of concepts do not consider problems of forecast, therefore this aspect in the paper pretends to important novelty. Accepting objective restrictions of forecasting social processes, some basic contours of the future theory developing seems to be available to identify.

The other novelty item may be described as classification, periodization of the main theoretical concepts from the point of view meaning consideration of theories as consequences of different techno-economic conditions. Such new approach can be used, for example, during constructing the structure and internal logic in the history of economic thought textbooks.

Before examining the genesis of economic theories formation in their relation to objective economic reality, we should introduce **our own prerequisites. The first of them can be a provision that it is impossible to live in society and to be free from it.** The consciousness of people, including scientists, is formed under influence of the environment, aims prevailing in society. Scientific theories bear an imprint formed in a given time and place conditions. Degree of this connection is a key issue which should be cleared up, but right now it is important to note the very existence of the influence of reality on the consciousness. If this prerequisite is correct there is a powerful explanation for the existence of reasons for changeability of economic ideas.

**Secondly, any economic theory under consideration bears an advance provided praxeological function.** The absence of this prerequisite would mean destruction (maybe not complete, but very significant) of conditionality of the choice of the subject matter of this or that theory. If the theory is not intended to solve the problems that society requests and aims only implementation of common cognitive function (cognition for the sake of cognition), the choice of subject would be to a large extent accidental. Connection be-

tween theory and reality can be represented roughly as “objective reality — problems posed by it — choice of subject matter intended to help to solve the problem”. Upon cancellation of this initially introduced axiom the chain is broken, then interconnection of reality and theory could be explained either by accident, or if the regularity is absolutely clear, it would be possible to speak about a “black box”: acceptance of a fact, but absence of its explanation. In the presence of a prerequisite, this explanation can be soundly formulated.

***In this study, preference is given to a paradigm approach of Thomas Kuhn*** (and his interpretation of the term paradigm as a system of research directives, including the methodological prerequisites, a number of axioms operating in a particular subject field) [8] ***rather than another widespread research programs approach of Imre Lakatos***. Since we consider the problem of demand of the theory based on the problems established by reality, not its correctness (although one of the reasons for lack of demand, but only one of them, is fallacy of its provisions in new environment), it is important to fix the processes of spasmodic development of the theory rather than competition among theories considering similar problems of theories.

As indicators of social development related to techno-economic parameters, in this work can be understood, firstly, GDP per capita. The second indicator is the level of technological equipment, wealth of knowledge, used in production, indirect indicators of technological development (for example, a share of services in the production structure in accordance with the law of William Petti). Belonging to one of the 6 technological modes will act as a specific indicator [9].

***Within a limited scope of this study it is difficult to give persuasive evidence, where the main argument is an extended historical period. Therefore, the main objective of this text is, more likely, substantiation of deeper study prospects. The following illustration of the impact of techno-economic parameters on the theory can be called “results and hypothesis obtained in the first approximation”. Although the list is quite conditional and it is important these are the most striking but still examples — the main thing is a statement of connection available in relation to other theories.***

The transition to focusing on the production sphere but not on the circulation sphere, from mercantilism to the elements of classical political economy is associated with a significant depletion of the foreign trade advantages (which increased sharply with development of navigation) for the further product growth. In addition, concentration of the capital in hands of private individuals become high enough for emergence and formation of a great number of capitalist enterprises. The Industrial Revolution dramatically boosted productivity of labour, but introduction of machinery was accompanied by a jump of class contradictions between the owners of production means and the hired workers. As a result, the teachings were spread, revealing the evils of capitalism, proposing measures to reform it or even calling for a break with it.

Alongside with selection the technological prerequisites for the formation of Karl Marx theory their clearer demonstrations in the following aspects can be assumed. Marx caught the whole period of the 2nd technological mode (although basic ideas were formed before

its sunset), which had an enormous development of technology in an inconsistent way, what can to some extent be called a prerequisite for the formation of historical materialism, a genetic method. As John Stuart Mill, Karl Marx had a task to use a systematic approach in the study of the economy as a whole (it can be said, at the macro-level). At the same time, increasing development of machine production, including the production of machinery by other machines, fixed by Marx in the growth of the organic composition of capital, gave a basis for a withdrawal of profit rate tendency to decline, the law of production of a relative surplus value and a number of other important provisions. Retaining dominance of perfect competition markets led to the justification of average profit equality for all sectors due to the relatively simple possibilities of capital overflow. At the same time large companies with share capital and a large coalescence with banks already began to form, creating prerequisites for the formation of financial capital. Moving of assets into new forms of securities in the study of Marx led to the emergence of the fictitious capital category.

Marginalist revolution became perhaps the most significant shift in economic theory in its whole history, although its appearance was not accompanied by the appropriate scale scientific revolution (it followed a little later). However, there was a growth of labour productivity, its fruits in one way or another fell to share of general public, the range of products produced by society increased, the first signs of monopolism began to show. For this reason (but it was specifically stated in the text that it is not only for this one, marginalist revolution had many diverse prerequisites), actualized “operational” questions “What to produce?” and “What price to set?”. Answers to these questions must be sought in the laws of consumer decision-making — in this case a category of “utility” is required. Also capitalist operating on an increasingly rich and varied capital market could serve as such consumer. Later “utility” became an original category for constructing of many theories, in most cases using the method of mathematical modeling.

The second Scientific-technical revolution has led to the emergence of many new (and the rapid development of old ones) capital-intensive industries that contributed to the spread of monopolism. Money market grew actively. Branches from neoclassicism began to appear, basing on prerequisites of free competition (the theory of oligopoly, monopolistic competition). The followers of Marxism have paid increased attention to the problems of monopolism, imperialism, financial capital. Economic system became more complicated, and that highlighted its instability, limited human capabilities in terms of information security — it gave an impetus to the development of theories of transition to a new equilibrium, neo-Austrian direction of uncertainty and risk. The role of market actors enhanced (human actions, apparatus of government, companies), which gave a lot of research space for emerging Institutional theory.

As the world economy developed further, basing on the achievements of the second Scientific-technical revolution, these investigators found further use. High complexity of economic interactions set a problem of the economic system reproduction at the macro-level, from the study of which Keynesianism and directions, which inherited its traditions, came. Institutional theories started to develop rapidly.

Information (third Scientific-technical) revolution led to exceeding the service sphere over the branches of material production in the structure of the national products of developed countries. Most of the resources were directed into the financial sector, whose activity is based on incomplete information by all market participants. The consequence of this was a spread of theories, concentrating on the money market, as well as directions, reflecting negative effects of these phenomena. Knowledge-intensive production involves high attention to the study of man and society. Coupled with increased “externalities” of the economy on the society and of the society on the economy (for example, environmental problems are implied) — it gave another stimulus for the development of Institutional theory.

The current stage of technology development can be called at the same time a transition one and anticipating a new leap in the development. The power of computers increases exponentially, and it allows to talk about the ubiquity of information technology in the developed countries. Scientific achievements of the 6th technological mode are gradually introduced (it is also called the 4th Scientific-technical revolution), associated with more accurate degree of the material processing, allowing to create new and better products. However, the 6th technological mode is just beginning to penetrate with first inventions in the economic life of the most developed countries. At the same time, production of goods of 5th technological mode has quantitatively and qualitatively developed (according to some researchers, the limit of this technological stage has already been reached).

Deepening of the global labour division, more globalization of the world economy should be mentioned. At the same time core technologies are mainly in the hands of large companies, and that distinguishes the current situation from the period of beginning of implementation of new technologies, when, relatively speaking, everybody started from the ground up. Thus a situation of uneven access to the key resources of the modern world is formed even in developed countries, not to mention the whole world. Overall monopoly level, market power, domination of transnational companies has increased to a very high level — the largest corporations have annual revenues up to tens of billions of dollars [21]. The increasing level of inequality could be called the consequence of it — this problem has received a boost of relevance after the crisis of 2008–2009.

The number and depth of social problems, which can be called externalities of economic and technological development, was significantly increased. In the presence of weapon of mass destruction the problem of military mutual containment is very sharp, growing inequality provokes mass crime. Problems of lack of natural resources, precariousness of the ecological system, geopolitical, cultural conflicts (related largely to the presence of the specific problems of developing countries, from which developed countries cannot isolate because of the same globalization) are urgent [4].

***Behavioral economics gets the development, reflecting the nature and consequences of incomplete rationality of individuals, which is more clearly displayed alongside with complication of the economic system, as well as the development of financial, transnational sectors — where inequality and incomplete information are the very essence of***

***these markets, the basis of income.*** The concept of bounded rationality of Herbert Simon, the behavioral theory of Gardner March — Michael Cyert firm update again. Exploring the deep foundations of decision-making by individuals, the remoteness of real decision-making mechanism from the model of a full rationality is shown, based on psychological characteristics of individual (Maurice Allais, Amos Tversky, Daniel Kahneman)<sup>2</sup>. Irrationality of behavior is also reflected in the “anchor effect” of Robert Shiller. Thus was created a request for development of information theories. In particular, it highlighted a growing problem of information asymmetry, unwanted selection (the market for “Lemons” analysis of George Akerlof and Joseph Stiglitz)<sup>3</sup>. Thus the idea of universal dissemination of information by government means was justified.

***Theories of supporters of “left” and new Keynesianism are more spread, reflecting current problems of forced unemployment, multiplicity of equilibrium states, high inequality and poverty.*** Joseph Stiglitz has been researching the issues of globalization and its consequences that often are not beneficial for everyone. It is no coincidence that the study of Thomas Piketty “Capital in the Twenty-First Century” [17] has become a bestseller, and, according to many experts, the main book of recent years. Revival of interest in classical political economy, many heterodox directions is visible. Generally speaking, “according to rethinking first of all a change of leadership of two official branches: “neoclassical” and Keynesianism took place. But now a frontal criticism of the whole official economic theory is observed, which has earned accusations of breaking off with reality...” [11, p. 62]. A number and urgency of researches dedicated to comprehensive analysis of the life quality increases (for example, economy of happiness, noosphere concepts). An original symbol of this trend is a famous report of the Commission under leadership of Joseph Stiglitz, Amartya Sen, Jean-Paul Fitoussi [22] prepared on the instructions of the French President Nicolas Sarkozy.

***Shift of technologies, causing a qualitative change in the economic system, not the first one, but the most revolutionary was directly reflected in the concepts of techno-economic evolutions is the end of XX – beginning of XXI century.*** Gerhard Mensch developed a theory of clusters (introduction of basic innovations determines long waves of economic dynamics), including a problem of technological stalemates. A theory of disruptive innovations of Clayton Christensen was spread. In frameworks of the teachings of the followers of these theories a backlog trend of an institutional structure from new “requirements” of technologies was fixed (Christopher Freeman — Carlota Pérez, Arnulf Grubler — Nebojsa Nakicenovic).

The problem of institutions evolution has been deployed in more general terms (not only in the context of the dramatic development of technologies), that reflect a fact of institutional inertia. Richard Nelson and Sidney Winter stated desire of firms to stability, to carrying out standard, well-known operations — “routine”. Transition to following new

<sup>2</sup> The idea of the need for consolidation in the mainstream theories based on psychological aspect of a human is justified by Yu. Ya. Olsevizh [10].

<sup>3</sup> Information theory and the process of its distribution in the academic environment is considered in study of O. N. Antipina [2], [3].

conditions is accompanied by additional costs and uncertainty. Active development of theories of “path dependence”, QWERTY-effect continued at micro and macro levels. Rethinking of the subject of economics is taking place.

Passing to the general conclusions, it is important to note that technological changes, defining frameworks for theory development, occur irregularly. Sometimes there is only a gradual increase in labour productivity on the old technological base, and sometimes a technological revolution takes place, radically increasing productivity and qualitatively changing economic system (nature of labour, in-house interactions, stability information levels, etc.). That means that an indigenous technological turning-point after some time has a dramatic impact on the theory. In this regard, we can talk not only about this or that stage of technological development (technological modes), but also about the corresponding, also abruptly changing theory paradigms, a kind of “theoretical modes”.

An indirect proof of the main output of this study is the fact that a number of ideas proposed “at the wrong time and in the wrong place” were not sufficiently recognized and spread, though their content was very close to their late “analogues”. For example, the mercantilists Nicholas Barbon, Bernardo Davanzati, physiocrat Anne Robert Jacques Turgot long before the marginalist revolution developed a term of utility, which determines demand and supply. The category of utility was used by a classic political economist Jean-Baptiste Say, who brought a content of wealth category out of material frames. Antoine Augustin Cournot in the first half of the XIX century created a model of oligopolistic market, but only after almost a century theories of imperfect competition were spread. Jules Dupuit before Alfred Marshall put into use a category of consumer surplus. If we talk about ideas and concepts that first appeared in the pre-capitalist period, there would be a whole lot of such examples.

Thus, in order to become wide distributed, the theory should get a “proper” area of application. In this regard, we can say that economists, who lived and worked in a “classic”, stable state of the system, are “lucky”, as the theory of their time becomes a classic one. For example, Adam Smith lived during a development stage of manufacturing capitalism, Karl Marx lived during a “classic” status of industrial capitalism with a high degree of individualization of market participants, while John Maynard Keynes coincided with a highly developed industrial capitalism, characterized by tight adhesions and interdependence of economic agents from each other and monopolism.

Speaking about a possible permanent working law of theory change, which allows without any prior forecast about technologies development to make a forecast about future development of the theory, we have to face the problem of lack of a clearly traceable cyclicity of theory movement. Each new reality is unique, history can give only fragments having analogies with the present / future, but it is impossible to borrow a complete picture from the past.

So, the main is support for the hypothesis about a high, largely determining degree of impact of techno-economic factors, that determine the level country's development, on the maintenance of economic theories. We can talk about merging of specific conditions of reality and theory, their intercorrespondence. Therefore, change of reality should be followed by

theory evolution. Otherwise, the quality of the theory applicability will be reduced, even if the theory itself declares “eternal”, “natural”, “universally applicable” provisions. It should be emphasized that under reality is understood the reality of the most developed and influential countries. As history shows, the problems of the most prosperous part of the world set the agenda for the theory that is certainly largely shuts off “lagging” countries.

Alexander Khudokormov [12] notes the cyclical development of the theory, linking it with the Kondratiev's cycles. At the same time, a criterion of theories separation is their belonging to the “left” / “right” economic and political wing, the thought divides into theories in favour of free capitalism and theories that emphasize the evils of capitalism. According to this, the public demand and the popularity of the first group of theories amplifies in periods of favorable market conditions, upward waves, and of the second group — respectively, while downside. We should agree with these provisions, but this study seeks to identify the relationship between the very nature of theory and the reality corresponding to it. In other words, agreeing with the cyclical prevalence of, relatively speaking, “left / right” theories, we put a question how theories change within one wing. How and why, for example, the “left” theory, once again having come to the fore, is different from the theory dominant in the previous “left” cycle.

Alexander Buzgalin [6] classifies stages of capitalism development with the characteristic of inherent to each stage technical and socio-economic parameters. These or those theory directives correspond to a certain stage. At the same time, an emphasis is made on internal academic competition among theories, beginning with confrontation between the political economy of capital and labour (which appeared together with the works of Karl Marx). The issue of adaptation of two opposing directions within the framework of, firstly, the most general laws of theories evolution and, secondly, under the impact of socio-political factors (in particular, opposition of the developed capitalist countries to the countries of the world socialist system) is touched upon as well.

This study, focusing on techno-economic factors, abstracts from the ideological-competitive feature of science. Thus, there is also no direct intersection of research approaches.

A revealed high correlation of techno-economic parameters amenable to relatively predictable development and maintenance of theoretical paradigms means the ability to predict the vectors of future way of the theory. The forecast itself was not carried out in the framework of this study, only the most general bases of carrying it out are marked. In particular, it is proposed, basing on the forecast of the relevance of certain elements of the theory (the method, the object, the axioms), to reveal the relation of these elements to traditions of already existing theories; just traditions, not theories — as it was noted, theories cannot stop updating. After this step, we can talk about the future growth of the demand for this or that theoretical area.

Harald Uhlig [20] points to 4 aspects of economic science: economics as a science, economics as an art, economics as a competition of ideas and economics as a politics. Such selection automatically means that many factors affect changes in theory — it is the speci-

ficity of social sciences, especially economics. Agreeing with this, we can argue with a further conclusion that the main source of theory change is a mismatch of new empirical data with the old one, on which the theory was based. Firstly, it can refer only to the positivist theories, mostly built on mathematical modeling, although many theories do not belong to this tradition. Secondly, this conclusion means that theories competing with each other, rival in the same issues. However, it should be noted that even extremely close in their subject macroeconomic disciplines differ a lot in their applications. For example, Keynesianism states as a problem maintenance of aggregate demand, and Monetarism — encouraging private investment. Harald Uhlig, in particular, gives a frequently used example of the Phillips curve — in new conditions its “spillage” becomes a symbol of victory of Monetarism over Keynesianism. However, it seems that discrediting of the Phillips curve has not become a prerequisite for the relative neglect of the Keynesian tradition, which could and can continue to solve the problems of demand support in an updated form, basing on its underlying prerequisites. Monetarism has won, since it responded to a public demand to ensure investments of many new companies for moving to a new technological level.

The basic idea about the logic of economic theory evolution has been described. Now we can briefly describe the conditions of the emergence of the greatest demand for above-mentioned elements of the theory.

It is possible to conditionally eliminate 3 basic prerequisites of actualization of the historical method. All of them are connected with transition of the economy to a qualitatively new level, being driven by rapid technological changes. Firstly, the left-wing theorists, representatives of the Marxist tradition fix change of class composition due to emergence of new industries with new nature of labour. In addition, the problems of inequality of access to the resource, monopolism reveal with uneven distribution of the results of new technological advances, that updates the theory. Historicism is an instrument demonstrating differences of a new quality from the old one, used for highlighting this new quality. Secondly, historicism appears for the same reasons in traditional institutional theory. A new institution requires a comparison with the institution of the past for its separation regarding the entire group of institutions. Thirdly, transition to any new quality stimulates study of stage concepts of different kinds (stages of macroeconomic growth, development of institutions and so on). Thus, historicism arises usually as a result of major techno-economic shifts.

Popularization of mathematical modeling method does not have cyclical nature, it has root in the marginal revolution, in other words — in the category of “utility”. The utility and the marginal utility have become the one and zero, through which modern micro- and macroeconomics are built. These categories are applicable to all markets and are able to express in their own language, in fact, all types of relationships and actions on the markets, they made possible the mathematical formalization of homogeneous elements. Thus, we can say that mathematics has always been, is and will be in all marginalist theories.

Interdisciplinarity penetrates in economics with growth, first of all, of the “human factor” in production of the importance of human capital in the industry — it is typical for



recent decades. It becomes necessary to study a human from all sides. Secondly, as the economic system develops, it recalls a kind of “externalities”, the consequences of which the economy is forced, in one way or another, to “internalize” in dialogue with society. Examples include demographic, environmental problems. Increase of globalization, specialization, consolidation and complication of production causes relevance of studying of different kinds of institutions using a variety of social sciences.

Attention to the subject of the economy, which deals with the establishment of optimal proportions of exchange, logically follows as a mathematical method, from the category of utility. Utility maximization is purposed in identifying the levels of prices and production volumes.

Investigation of the production structure, first started at post-merkantalist accessing the production sphere, as well as redistribution of income according to the class criterion is largely opposed to the marginal approach, as it does not lead under the common denominator of utility all phenomena, but rather fixes their heterogeneity. Because of this heterogeneity interclass relations over the product distribution are derived, as well as the division into productive / unproductive labour, the division into branches of production, and on the first / second divisions of material production and so on. After victory of marginalism this approach, while remaining on the sidelines, “raises its head” during the transition to a new level of economic development, associated with a sharp change in the production structure. In addition, the urgency increases with solving the problem of the catching-up — reaching the goal to “catching up” in the future current “optimal proportions of exchange” usually hinder.

The problem of economic growth exacerbates with the increasing complexity of the current system. It requires the preservation of stability and solving the problem of the economy reproduction with a high level of interdependence of economic agents from each other. First time it occurred on the final stage of the classical political economy, then owing to the occurrence of marginalism a setback to the micro level took place, but a more complicated system demanded a return to the study of its reproduction at the macro level (the period after the Great Depression and the Second World War).

The development in terms of a structural nature (for example, a growth based on the introduction of advanced technologies, rather than wasting the natural resources) is a special case of studying the problem of growth in the conditions of using a structural and sectoral paradigm. The development in terms of improving the life quality in the broadest sense of the word has other reasons for the increase of relevance. A “positive” reason was the cause of growth in labour productivity, which allowed to switch attention to satisfaction of a more diverse range of needs. A “negative” reason is the need to confront the consequences of scope and intensity of production: environmental issues, lifestyle, patterns of settlement and others.

As it has already been noted, attention to institutional theories is growing with the emergence of new institutions as a result of the transition of the economy to a new level, as well as the growth of the role of a man in the production. Separately, it should be said about the problems of in-house interaction. Transaction costs grow as a result of the economic system complexity and spreading of companies volumes — the research corner stone

of New institutional theory. Speaking wider, the growth of companies volumes means a growing influence of everything, that is happening within the company, on the whole economy — recently this impact is particularly large.

Axiom of this or that degree of rationality is source tool for building marginal mathematical models. Their initial category of utility itself means the evaluation by a person of something that is a basis for decision-making. Consequently, it is necessary to introduce an algorithm that people follow while making decisions. For example, a complete rationality means a mechanism of the highest qualitative estimation. Denial of full rationality takes place at the beginning of the economy transition to a new quality, leaving stability, emergence of new market elements, that more clearly reveals imperfection of human capabilities for searching and processing information. The second factor is permanently increasing complexity of the economy with an increase in specialization, as well as an increase in the financial sector, where all activity is based on incomplete information at all market participants.

Basing on allocation of patterns of relevance growth of a number of subjects and methods (after the forecast about nature of technology development) we can determine, what methods and substantive research spaces will get more interest from the theory in the near future.

Carrying out correlation of elements of existing theories as to which methods / prerequisites / questions of studies will acquire their distribution in the future, we can get an approximate answer to the question, the heritage of what theory has prerequisites for its future popularity. As it has already been noted, any theory requires a certain degree of its renewal and adaptation to new conditions, so we are talking about a heritage, not a simple resurrection of the theory in its original form. We do not absolutely exclude emergence of a new theory, which has some features of a variety of old theories, but in whole is not related to a particular existing tradition.

An ascertained position about uniqueness of each period, specifying the lack of repeatability of the theory does not eliminate the possibility, basing on historico-logical analysis, to make generalizations about the conditions under which a specific element of the theory updates (the method, the object, initial prerequisites). These generalizations can become a basis for the forecast of outlines of future theories.

The construction of this forecast may have the following algorithm. Firstly, the basic subject-methodological features of the theories are introduced. By method, it is historicism, mathematical modeling and largely opposing it descriptive method of argumentation (including logic, dialectics), an interdisciplinary approach. By subject it is structural and sectoral / class study (it is analyzed what products are created with the use of what production factors and how the finished product is spread among different social groups / classes), a normative study of optimal proportions of exchange on markets, macroeconomic dynamics (includes not only growth, but development, as well as problem of the trend of transition to new equilibrium states), a study of the firm as an institution and in-house relations, consideration of “macro-institutions” (exceeding the limits of a single firm, relationships of people as participants of market interactions are also included here, with the exception of in-house

interactions). A prerequisite for the full rationality from the market point of view is considered as well (the theory can accept this prerequisite, deny it or simply not mention it).

Secondly, conclusions about conditions of increase / decrease of the relevance of a particular element are made on the basis of historico-logical analysis. Thirdly, after preliminary forecast of the nature of techno-economic development, correlation of relevance degree of these basic theory elements regarding new conditions is made. Fourthly, a conclusion about the future timeliness of the theory as a whole is made basing on the correlation of elements to the theories (of course, in an updated form).

For a more accurate forecast it is necessary to expand the range of items. The list proposed above is quite common. At the same time it should be noted, that since the abstraction from other factors of formation of the domination theory is initial, the most detailed forecast is not possible initially (if it is possible in principle).

This work requires a separate large study — currently it is worth to mention only foundations on which it is based. Do not forget that, although we previously mentioned a high, determining degree of determination of the content of theoretical paradigms by techno-economic factors, there is an impact of other factors, including subjective — it can significantly distort the reality of the predictive picture, move the development of the theory from the predicted track.

It is important to note that this proposed study should be expanded in volume not only due to a more detailed and deep historical research, but also due to the enrichment by the tools of interpretation of historical facts.

The abstraction method, allowing to identify the role of a single factor, causes its own research problems. At the end of the study the conclusions, concerning consideration of the topic of influence of techno-economic parameters on the theory, must be integrated into an overall system of knowledge about the laws of theory evolution. This is not a critic of the study, built on considering of one factor. However, the study should present an approach that can be used to withdraw the application of conclusions beyond the work itself, which this study lacks. For example, we can mention specific dominating paradigms of philosophy of science during a certain period of time and show that they did not reveal themselves during this period of time for a certain reason, but after appearance of some technological conditions these paradigms were demanded by economic science. Thus, without departing from the focus on techno-economic factors, we could more convincingly and clearly show their primacy in totality of the reasons changing theory.

The conclusiveness would be more if there were a systematic inclusion of countable parameters in the study. For example, indicators of wealth, population income levels, proportion of certain sectors of industry in the production structure (especially innovative sectors), coefficients indicating the degree of market monopolization and so on. Complexity of the economic system was often mentioned in the text — costs of companies, designed to reduce transaction costs, could serve as indirect numerical indicators. On the side of reality, not theory, there is a smaller number of quantifiable objects, but they can also be used to illustrate grounded

provisions (for example, citation index of authors with all its faults, content analysis of leading scientific editions). When the numerical parameters are considered, it is possible to construct a series of mathematical models that more accurately show interconnections.

The presence of these “white spots” is associated with the most common approach adopted in this study, designed to capture the most basic laws with a low degree of particularity. A study with similar basic research preconditions, but substantially larger in volume can overcome these restrictions.

**Possible applications of the study results** can be considered in terms of both common cognitive and praxeological function. The study results can become an integral part of the knowledge system about the evolution of economic theory, which includes a lot of research approaches.

As for the praxeological side, the results can be applied in the study of the potential of modern mainstream theories to solve urgent problems posed by the practice. With the use of the principle of matching of theoretical paradigms to certain conditions, “strong” and “weak” sides of theory can be identified for further adjustment of theories themselves and the nature of their use in practice, that is, the economic policies of developed countries. It is about the developed countries, as this study is devoted to compliance leading countries with technoeconomic development as a factor of influence on the theory. At the same time the study results can be interpreted simply as a general adaptability of the theory to certain conditions, historicity of theories. This implies a necessity to find and develop a special theory in the concrete circumstances of reality. With such formulation of the study results, the conclusions are applicable to developing countries as well, although, of course, this can only serve a small part of theoretical studies dedicated to construction of an effective economic model for these countries.

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# Problem of Alienation: Challenge to the Political Economy of the XXI Century

**Dmitriy A. Pletnev**

*Associate Professor, Chelyabinsk State University*

*pletnev.dmitri@gmail.com*

The article deals with modern verges of alienation problem and the possibility of overcoming it with the help of the political economy. The evolution and current state of the problem of alienation in modern society are analyzed. Particular attention is paid to such diverse aspects of alienation as encouraging infantilism, emancipation and alienation in love, intellectual property, ideological coercion and “soft power”, hyperformalization. The article explains important role of science, education and culture to overcome the alienation of a human being, including the political economy as a methodological basis for the unalienated way of thinking and overcoming of alienation.

**Keywords:** alienation, man, intellectual property, political economy

It is safe to state return of the modern economic science to the problem of alienation. Suffice to mention the works by A. V. Buzgalin [1], as well as his collaboration with A. I. Kolganov [2, 3], the books and articles of George Savan [14] R. Schmidt [15], S. Brookfield [16], B. Padgett [17], F. Berardi [18], M. Pavlíková [19], E. N. Daronkolaee and M. B. Hojjat [20], M. Montablo [23], R. S. Tchistov, N. I. Semenova, G. V. Kiseleva [4] A. J. Gorbachev [5], A. P. Kuznetsova [6] O. Pogudina [7], A. Y. Lyakhova [8] V. A. Pavlov [9], V. I. Barkhatova [10], the author also made a modest contribution to the discussion of this problem ([11]). However, growth in the number of publications has not lead to a qualitative change in the situation prevailing in the society of universal, total alienation, the consequence of which is a “partial” human being. We need to talk more about the problem of alienation, not only in scientific articles, but also at conferences, and in the classrooms, and on pages of textbooks, weaving this category into theory and phenomena familiar to the wider scientific community.

In general, the problem of alienation is quite popular in the social sciences. There are 618 articles on philosophy, economics, psychology and sociology, directly related to the study of the problem of alienation in the e-Library system for the period 2012–2015 only. Each science has its own view: in philosophy, psychology and sociology, while in Law alienation, as a concept has quite different applied meaning.

M. Musto [12, 13] compiled a comprehensive study of the Marx's concept of alienation, its interpretation, and the subsequent development of criticism in the writings of philosophers and sociologists over the 20th century.

They usually understand the alienation as the process of separating from a person of something: the rights (in law), social relations (sociology and psychology), certain essential characteristics (in philosophy). In economics, usually alienation is perceived in the Marxist tradition, as alienation of human labor and its results: "man's own deed becomes an alien power opposed to him, which enslaves him instead of being controlled by him" (see [21]). However, the alienation category is increasingly perceived in the tradition established by E. Fromm [22] as a universal alienation: "... He (a person) is opposed to himself and his own forces embodied in things created by him and estranged from him. He no longer belongs to himself, and is at the mercy of his own creation".

In other words, alienation is the perception of the world and oneself passively, broken, out of touch with the world without the self-awareness as its creator. In this work this understanding of alienation will be used and developed. The aim of the article is to analyze contemporary forms of universal alienation, as well as the possibilities of overcoming them which are embedded in contemporary economics and, as they say now, the "driver" of its development — the re-actualized political economy. The structure of the work is as following. The first part deals with alienation as an integral part of the evolution of human society, the objective nature of its appearance is justified. The second part analyzes the concrete forms of alienation in modern society and the economy as a subsystem of it, and the third part elements of a positive program to overcome alienation through the development of the re-actualized political economy are developed.

## **Evolution of alienation**

Alienation... When it was realized by a man for the first time? Surely, soon after consciousness. The ability to be alienated, as well as the ability to feel this alienation, and strive to overcome it is a generic feature of a person, his cross. In ancient times of hunters and gatherers alienation was literal, a man was banished from his tribe, and he died. However, it was external alienation of a person from something. Yes, he ceased to be himself outside his clan, but he was not alienated from himself, he could be as it is now fashionable to say, "congruent" in his thoughts and actions. Further, in the ancient world, one of the main forms of alienation was slavery in different forms — "debt", "war", "domestic". A man was alienated from the rights to property, the right of movement, freedom of choice of employment, from the family. It was a cruel society, and even if he was, for example, a free citizen of Greece or Rome, and even then, many of his features were alienated. You can recall the example of Socrates, who was executed for the right to say what he thought, or many Greek scholars expelled and settled in distant colonies. Wars of conquest, the impositions of new religions and lifestyle — all these were private forms of alienation, the source of which lied deep in centuries. Again, it was the alienation of man, and not a man from himself.

In the Middle Ages, the alienation of man was characterized by the dominance of ideological alienation based on the religious dogma and obligatory procedures. Henry IV, said

that “Paris was worth a Mass”, but, at the same time, those for whom religion and faith mattered either kept their beliefs secretly, or at the first opportunity returned to our roots, as the same Henry IV. In those days property, health, life were easily alienated. However, the degree of social development and human consciousness was such that he perceived himself, as he was — poor, mortal and unfree. What happened to a person, did not mean abandoning him from himself. The work was quite alienated there were employees, labor obligations, the guild organization of handicrafts, trade developed. However, it is likely was the self-aware nature of a man, and work for a master did not oppress a worker. There were some proofs the observation of the 19th century of the serfs working in the field — with all the severity of the labor, it was not alienated, a man ruled over his work, he manifested himself in the professional skills, strength, prowess.

In the Modern era, people in their enlightened masses realized themselves as creators, and a new fertile ground for alienation appeared. The “crown of creation” considered himself to be it, and the examples of this were revolutionaries: who in the Netherlands, England, France, and then everywhere “broke the system” and even Raskolnikov, with his sacramental “Am I a trembling creature or have I the right?” The Feudal society through blood and violence transformed into bourgeois, much less rigidly structured, education become more accessible, progress created the preconditions for the development of the productive forces. Human possibilities increased, but he could not always dispose them at his discretion.

### Where to did we come?

Education, division of labor, specialization of scientists — all these created new opportunities for an individual and for human alienation. Here we can talk about the ensuing era of capitalism in the economic relations and the alienation era as applied to humans at the same time. Of course, integration of industry, urbanization and the emergence of “the power of capital” contributed to the development of the phenomenon of alienation, including alienation from himself: at work, at leisure. Such alienation is very vividly described by Marx in “Capital” [24]. On the other hand, the alienation, in our opinion, linearly and continuously increased throughout human history. The twentieth century is no exception. The industrial organization of the industry, the changing nature of the state and its role in human life, the development of banking infrastructure and mass culture — all these predetermined the further development of alienation. However, it was not only in relation to the human cause. The way in which a person could exist, given his intellectual development and spiritual potential and financial capabilities, today is much more than a hundred years ago. We are talking about an average person who previously had no education and was poor. The curve of “human potential” (which displays its capabilities) directed upwards, while the curve of “a real man” (which displays what he really does) is close to a horizontal line. Why? The modern world has scored a rate of change, in which the possibilities of the old do not lose their relevance, and a lot of new appear every day, month, year.



Here it is necessary to make a small and “inconvenient” for political economists reservation. In the Marxist political economy the problem of alienation is objective, it is an integral part of the “realm of necessity” — capitalism, the world of division of labor and continuous technical progress for the sake of economic growth. However, if we consider the alienation in close connection with its subject — a person, the alienation becomes a part of his existence. It turns out that the within phenomenon of alienation, its objective nature (as part of the laws of social development) is in contradiction with personal subjective manifestations (as problem of human existence). The analysis of any of the parts — objective and subjective — of alienation is incomplete. This means that modern political economy, if it claims to be the basis for economic theory, should be flexible and listen to the voice of many philosophers-existentialists and similar authors (J. Lacroix [41] E. Mounier [42] Jean-Paul Sartre [43] E. Levinas [44]).

Let us consider the possibility of including in the discourse of political economy the positions of the philosopher, who is considered to be a precursor of the existentialists — S. Kierkegaard. He in [25] described very correctly the evolution of man, distinguishing three stages — aesthetic, ethical and religious. The first stage is available to all, but the transition to a second is a very difficult process that is contributed by either satiety, or some kind of personal “bifurcation”, perhaps — a psychological shock. Singles reach the third, religious, stage (in this case it means not alienated following the religion, its dogmas and rituals, but the acquisition of certain imperatives and “the meaning of life”; it allows a man feel completely free, not-alienated, be a part of everybody’s life and to experience this life as the continuation of himself). Correlating this with the raised theme of alienation, it is easy to note that a person staying in the first stage — aesthetic, is always alienated. If a person is poor, he feels deprived of the whole set of opportunities, alienated from him. The result of his labor is alienated from him, not only in the natural form (as happens with almost all in the modern mode of production), but also in the money form. In addition, his personality after buying a thing valuable for his heart (a car) is almost transferred to this thing, and the person suffers when this thing is even slightly damaged. Minor traffic accident becomes the central event of life. The behavior of drivers in Asia contrasts with it, where ordinary traffic accident is a reason to quarrel and forget about it.

It may seem that this “jam” in the aesthetic stage is the prerogative of only the poor and the “middle class” that with the growing prosperity (remember Maslow’s pyramid [26]) a person moves to satisfaction of other, non-material needs, that is, in fact, on the ethical stage. However, it is not. The material needs of man are almost limitless (it is, in fact, the original thesis of all modern “economics” (see. Eg, [27])), and every day they are increasing in the global economy. Today, for the money you can go into space or deep down to the ocean, visit the North and the South Poles, climb the Everest Mount. The source, which feeds on the hedonism of modern man, will never run dry. All these are the aesthetic stage of development. The current generation, up to M. Houellebecq [28] is the generation of “eternal children” who can afford not to grow.

The man largely live dreaming — to buy cool car, a house in Switzerland, a diamond of one hundred carats, Van Gogh, order and make something personal to the famous Atelier, take a trip around the world. A lot of things! When dreams come true, they become real objects, with their advantages and disadvantages, they are objectified, alienated from man. They are not him, they are external to the human world. “Better than mountains can be only the mountains, where you have not yet been” [29]. But that's not all. The largest “mine” was planted E. Fromm, who noted that “... the most common examples of alienation we encounter in the language. If I express words of some feeling, such as ‘I love you’, this word should be an indication of the reality that lives in me, must show the strength of my feelings. The word “love” is pronounced as a symbol of the fact of love, when it has been pronounced, it has a tendency to self-sufficiency, it is becoming a reality. I imagine that the spoken words are the same as the experience of love... The words, exactly as things, are the product of labor, and being produced, they become an end in itself, things replace life, artificiality replace natural experiences, submission replaces feeling of freedom” [30]. Feelings, too, like things are alienated by ‘objectification’, including the pronunciation. All this is characteristic for the aesthetic stage, where the feelings are also manifestations of hedonism.

People originally stay at the aesthetic stage, and only a few are switching to the ethical stage. This transition is not easy, though quite real. On the aesthetic stage, the ongoing process of alienation due to the particular system of values, “sharpened” for consumption, continues because of the objectification of human feelings, dreams and aspirations. The output from the realm of alienation and necessity to the kingdom of freedom (this theme runs like a red line in the works of A. V. Buzgalin and A. I. Kolganov [31, 32]) is not possible due to external conditions only, but rather through the interior transformation of a man, his transition to the ethical stage.

Let us return to the relationship of potential and real human beings. Time of any person is limited. He, possessing a lot of possibilities, satisfies only a small fraction of them, often obeying to the action of external forces or minute impulses. No time left for the other. An aesthetic man is in a state of constant stress from the mismatch of these two entities. Desire many times exceeds the capacity. Man is, as it were between two fires, between Scylla (the satisfied needs are alienated from a man by virtue of its objectification) and Charybdis (the unsatisfied needs alienate a person from his life and himself). It is for this reason that late capitalism in which we live is the realm of alienation, where alienation of human from the world and from his labor, and from himself is stronger than ever, starting with classical forms — hired labor in conditions of hyper-specialization (many employees do not see the result of their work) and ending with sophisticated control systems like workers' total quality management, video surveillance and “card” system of control of availability. In today's economy even labour of representatives of such professions, which have always been secretly envied in this regard — teachers, doctors, scientists — are alienated. All regulations, standards, “efficient contracts”, in the end, lead to complete alienation him from his activities.

Equally symptomatic is evolution of man's relationship to the property. As rightly notices E. Fromm [22], in the nineteenth and early twentieth century, "there was a certain feeling of loving owning that linked a man to his property. He liked it more and more. He was proud of it. He faithfully took care of it, and it was hard when he finally had to part with this property due to the fact that it could no longer be used. In our time, little remains of this sense of ownership. A man loves the novelty of an item purchased, but he is ready to betray it with the appearance of something newer" [22, P. 211]. This is especially evident in the cell phone market the product lines are updated several times a year, and a significant portion of consumers are willing to go to the next model only by the dictates of fashion. How this trend is associated with alienation? On the one hand, the love for things is one of the forms of alienation, and if it is removed, it could mean the removal of the problem of alienation. On the other hand, the 'static' attachment to things was replaced with the dynamic attachment to the process of acquisitiveness. The object of love is not a thing, but the process of acquisitiveness. It also means human alienation, turning him into a "qualified user", a classic example of a partial human. Consequently, the alienation does not disappear, but on the contrary it is rooted in the human mind.

### **Re-actualization of the political economy**

The modern economics is a tangle of contradictions that can not be resolved within the framework of the dominant neoclassical paradigm. Its theories have turned into dogma of the market and competition as an absolute good, and capitalism as the only successful and natural economic system. For Russia, rooting of neoclassical methodology in the economic science in the 1990s had a detrimental impact on both the level of research and teaching in the system of economic science in the universities. Today, on the one hand, there is primitivisation of economics — study of economic phenomena and processes at the level of "mechanical" relations, on the other hand, a fairly large number of scientists organically does not accept the neoclassical reductionism and independently (or in line with many heterodox schools) is developing theoretical and methodological approaches. The existing diversity of scientific schools and studies of individual authors makes scientific dialogue difficult. Basic concepts of economy (labor, capital, market, profit, income) have multiple interpretations and discussions, which could be crucial to find ways out for the Russian economy on the path of sustainable development, do not move further than on the dispute about the definitions. Today, the Russian economic needs consolidation, development of the common scientific language and unified methodology for the study of the economy, which would be adequate to the modern level of development of productive forces and production relations. Of the existing schools, the most potential to perform successfully in this role is within the political economy. Association of other sciences, studying economics and society: neoclassical, neo-Austrian, Keynesian, institutional and evolutionary economics, economic sociology around the methodology of political economy is possible.

It is possible for the simple reason that most of them came out of the political economy, developing or denying her ideas, so the reverse synthesis may well be carried out on the basis of the laws of dialectics.

At the same time, update and “operationalization” methodology of political economy with a view to reactualization as a methodological basis of economic science are required as well as creation of organizational and institutional forms, providing this reactualization, regular schools of young scientists, conferences and congresses. An important part of this task will be the development of methodological approaches for the synthesis of the achievements of the political economy and other areas of economic thought, the search for common points and discussions on controversial provisions. The problem, in case of its successful implementation, will contribute to the development of the level and quality of scientific dialogue of economists, participation of a large number of Russian researchers in the international debate on the most pressing problems of modern economic science. It is necessary to attract foreign scientists with a high publication activity, it will contribute to the development of scientific discussion on international forums, including in the leading scientific journals indexed by Web of Science and Scopus. The “provincial” scientific schools must also be actively involved in this process to enable them to be active participants in the discussion, to be heard.

A modern man, in addition to traditional forms of alienation described by Marx, is experiencing serious external pressure, predetermining further development of alienation. We are talking about the alienation of feelings — love and friendship through their objectification in advertising and consumer industry, and alienation of even humanity by replication war and violence in the media, their transformation into ordinariness. Therefore, the challenge for modern political economy is to “dissect” the new forms of alienation, to find “cure” for people, because without changing a human being, without overcoming his alienation in all, including the latest, forms none of material benefits and improvement of living standards will contribute to the development of the humankind.

There are examples of creating finished educational models in line with this approach. A. V. Buzgalin offers a vision for the future of society, developing in accordance with the laws of dialectics. He uses a familiar acronym CCCP (USSR), putting a new meaning in it: “C — svoboda (freedom)”, as the removal of manipulative democracy and the establishment of real democracy; “C — spravedlivost (justice)”, as the production of public goods on public property, and not the redistribution of private production results in the name of reduction of income inequality; “C — solidarity” as a rejection of rational individualism and market-oriented model of behavior as the only correct one in favor of the development of relations of solidarity; “P — razvitiye (development)” as the removal of the consumer society, the transition to a society free from the dictates of the market and of manipulating of it. Each of these items are quite palpable and understandable, around this concept, one can develop specific programs and strategies, the study of which would be interesting, in particular, for the students.

Erich Fromm demonstrates another approach. He develops the concept of “healthy society”, where removal of the alienation is carried out in the “communitarian socialism” society [22]. He cites the example of one of the largest factories for the production of watches in France (Bois-Moundot) as an example of removing the alienation of workers from the labor and further removal of alienation in the areas of cultural and social life. Here and there, in Europe (Mondragon), the USA (WL Gore & Associates), in South America (Semco's) (for details, see [33]) there are examples of the development of industrial democracy that have the most beneficial effect on the removal of human alienation. The case is for little to understand these examples, develop and implement the best practices.

Over the last half-century the subject of political economy and its methodology underwent significant changes. It includes sections such as the traditional Marxist political economy, and the post-Soviet school of critical Marxism and the theory of financialization, the theory of industrialization and re-industrialization, political economy of institutions, evolutionary political economy, political economy of labor, Commodity Studies, the theory of economic development, Agrarian Change and many others. If modern political economists in Russia are not going to be the “Order of the Selected” storing and transmitting from generation to generation the secrets and truth, and are planning to expand their influence in higher education, economics and economic policy, they need to get out of the gate of his monastery to the people (i.e., to the wider scientific community, to the graduate students), and talk to them in the common understandable language.

This article neglected the more traditional forms of alienation — corporate and government bureaucracy (the power of the technostucture as K. Galbraith wrote [34]), routinisation of professional activity in general, including the conveyor principle, the quality management system (TQM), appraisal system for the office staff, including those involved in management activities (KPI), educational standards and their perverted interpretation by the bureaucracy, alienation of teachers from the essence of the educational activity. In any area of professional and personal life, one can find confirmation of the original thesis of increasing of alienation. A man is lonely, alienated and broken into a thousand pieces. We made an attempt to answer the question about the causes of this phenomenon (the intellectual development of a man and the expansion of his capabilities, coupled with the current capitalist system of economic relations) and possible ways to overcome the alienation of a man (based on the re-actualized political economy, its implementation in the educational process and scientific research as a methodological base).

However, the question on the subject remains open, for whom all these are afoot. A modern man is unlikely to appreciate the rejection of part of the benefits of civilization, brought to him by the world of consumption, for the sake of gaining abstract alienated features. However, he will have to sacrifice it. It is good that in the modern Russian economics discussion on “Human Future” is conducted (see., Eg, [35, 36, 37, 38, 39, 40]), and we hope that it will bring results.

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# Political Economy: Basic Level

**Alexandr V. Sorokin**

*Professor, Doctor of Economics, Department of political  
economy, Faculty of Economics, Lomonosov Moscow State University*

*soral@mail.ru*

Marx's Capital is a basic level of political economy. In the “Capital” the categories of the capitalist mode of production are presented in their intrinsic connection. Marx included in a general model the main categories: commodity, money, price, capital, wages, profit, rent, interest, etc.

Fundamental Capital model is not obsolete, but there is a need to incorporate the modern categories of micro and macroeconomics into it: demand, quantity demanded, supply, quantity supplied, investment, savings, consumption, etc. This task is performed by “general economic model”, which is given in a training course at the Economics Faculty of Moscow State University since 2007. The article gives basic information on subject and method of general model.

**Keywords:** political economy, object, method, Marx's Capital, General economics

## 1. Characteristics of the course

During the course we construct the General Economic Model of a market economy. General economic model is the continuation of the university tradition of the courses of “general science” (“general chemistry”, “general physics”). Equaling the natural sciences, “general model” is not intended to create new paradigms, but involves finding the common grounds of existing ones. The model is constructed by dialectical method similar to building a model of the genome in biology. There are two factors that make up “DNA molecule” of capital: use-value (form) and the value (nature of “wealth of nations”). Through these two factors main categories of business, micro and macroeconomics are defined. The algorithm of synthesis and structure of the model is based on the Marx's “Capital”.

The model is general because

- it includes both micro- and macroeconomics and explains the categories of micro- and macroeconomics,
- it explains the most important business process — the process of advancing, preserving and increasing the value of capital (individual and social capital);
- explains the categories of concrete economic disciplines (accounting, statistics, etc.)



- gives a general model of the genotype of a market economy for all countries. The national economy — a phenotype, i.e., genotype plus the surrounding institutional environment.

Sherlock Holmes did not know about the structure of the solar system, did not know that the Earth revolves around the Sun, because in his work that was not necessary. For “everyday life” (A. Marshall) micro and macroeconomics should be enough. GEM is necessary for fundamental analysis and forecast of economic reality in order to understand the internal laws of the real business.

This is a theoretical course, but there is nothing more practical than a fundamental theory.

## 2. The subject of economic science in general and the subject of economic science of the market economy

The subject of economic science in general is the relations of production, that is, relations into which people enter into social production of their existence: “In the social **production of their existence**, men inevitably enter into definite relations, which are independent of their will, namely **relations of production** appropriate to a given stage in the development of their material forces of production. The totality of these relations of production constitutes the economic structure of society, the real foundation, on which arises a legal and political superstructure and to which correspond definite forms of social consciousness. **The mode of production of material life** conditions the general process of social, political and intellectual life” [4].

Let’s record the highlights, definitions and conclusions, on which we shall rely in the construction of the model of a market economy.

1. The subject of economic science in general (throughout the history of mankind) — a relationship in which people enter in social production of their material life, or relations of production. Relations of production include, but not limited to, relations in the production of things (material production).

2. The totality of these relations constitutes the economic structure of society. Economic relations and relations of production are identical.

3. The relations of production are objective; they do not depend on the will and consciousness of people. In Russia, parts of the population were born during the socialist era, and then they found themselves in the market economy. Along with this, their behavior has changed dramatically.

Economic science studies the objective conditions for the reproduction of human life, and not a “person”, or “behavior”. Man adapts its behavior to the objective conditions of the reproduction of life.

4. Relations of production include relations in the sphere of intangible production (services), which provides (re)production of human life. Relations in the sphere of ecology, which now provide (re)production of life.

**Previous ideas about the subject of economic science in general.** Russian political economy considered as the subject the relations of material production (exchange, distribution, consumption) of *things*, rather than production of material *life* of people. Definition was initially suggested and further developed by Jean Baptiste Say<sup>1</sup> (1803), James Mill<sup>2</sup> (1821) and other authors of the first half of the 19th century. The relations of production of life include, but not limited to, the relationship of production of things.

**The mode of production of life** is a special concrete historical totality of relations of production. We usually distinguish (primitive) communal, slave, feudal, capitalist and socialist modes of production of existence.

The relations of production in the Russian village community had relations of personal interdependence.

At the rural meeting (*skhod*) in the Russian community each year the members of community determined the number of “workers” and “eaters”.

Families in which there were few “workers” and many “eaters”, received the most fertile land (strip) of land. Hence — “patchwork”. Part of the land (meadow, pastureland and forests) was in common use.

These relationships ensured the reproduction of the community and its members.

For the community as a whole since its primitive forms it is typically to have systematic centralized distribution of the means of production and the product itself for the purpose of reproduction. The distribution was carried out taking into account the egalitarian principle of gender, age, and place in the social hierarchy. Part of the means of production, or product, acted as the reserve fund that meets the needs of the community. Italian mafia, Russian “*bratki*” with their “*obshchak*” (fond of common use) — a type of community.

**Relations of production and property.** Survival of the individual family outside the community was not possible, that is why in the community there was no private property (and the exchange of commodities within the community). The totality of community relations of production was a community *property in an economic sense*. In other words, appropriation of substances of nature and their adaptation to the needs of the people was community-based. If there is appropriation of this kind, than there is a property regardless of whether it is legal by law.

Private property in the rural community became possible when some families became capable of reproducing life outside the community.

But the forced introduction of private ownership in the community would mean its collapse.

<sup>1</sup> Say J-B. *Traité d'économie politique*, ou simple exposition de la manière dont se forment, se distribuent et se consomment les richesses. 1803. The work consists of three books “On the production of wealth”, “On the distribution of wealth”, “On the consumption of wealth”.

<sup>2</sup> James Mill defines the subject as the laws, which regulate the production, distribution, consumption and exchange of goods or products of labor: “Four inquiries are comprehended in this science (political economy, — S. A.). 1st. What are the laws, which regulate the production of commodities; 2dly. What are the laws, according to which the commodities, produced by the labour of the community, are distributed; 3dly. What are the laws, according to which commodities are exchanged for one another; 4thly. What are the laws, which regulate consumption” [7].

Stolypin's agrarian reform encouraged provision of land plots to peasant proprietors in "one place" (cut, farm), migration of peasants to Siberia to raise undeveloped lands, etc.

The socialist mode of production of life has largely retained the features of communal mode of production and the socialist property in the economic sense represented a totality of relations of production, ensuring the reproduction of the population as a whole.

In the 90s of the last century in Russia the introduction of private property has been carried out, similar in its destructive consequences to possible forced introduction of private ownership in the community.

**The subject of economic science of the market economy** is (1) *the capitalist mode of production of life* (concrete historical totality of the relations of production).

In primitive communities, hunter who killed the deer, did not become "richer", and did not exchange it for other "commodities". He served as one of the functions of the community, and the hunted deer was at the community's disposal. In a market economy the dependence of things comes to replace personal (inter)dependence. For the reproduction of life in capitalist mode of production commodities and money are necessary. The specifics of the mode of production are that things (social wealth) are the bearers of human relations.

**Specification of definition:** (2) the subject is *the totality of the capitalist relations of production, which is beared by social wealth*.

**Inversion definition** (3): the subject is *wealth, which is the bearer of the capitalist relations of production*.

Definitions of the object as a totality of relations of production and as wealth are two sides of the same coin. All the great economists carried "social wealth" in the titles of his works.

**The wealth as an object of economic science in the works of prominent economists.** Adam Smith mentions the wealth in the title of his work, "The Wealth of Nations" (An Inquiry into the Nature and Causes of Wealth of Nations by Adam Smith in 1776.). The work begins with the words: "The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes, and which consist always either in the immediate produce of that labour, or in what is purchased with that produce from other nations".

Karl Marx — classical top — specifies the "Wealth of Nations" of Smith. In a market economy the wealth of the nations is "capital". He names his work "Capital. Critique of Political Economy" (Karl Marx. Das Kapital. Kritik der politischen Ökonomie. 1867). It begins with the words: The wealth of those societies in which the capitalist mode of production prevails, presents itself as "an immense accumulation of commodities", its unit being a single commodity. Our investigation must therefore begin with the analysis of a commodity".

Leon Walras, the first founder of the neoclassicism calls his work "Elements of pure political economy, or the theory of social wealth" (Léon Walras. Éléments d'économie politique pure ou Théorie de la richesse sociale, 1874). Walrasian wealth is a set of rare things ("things that, on the one hand are useful to us, and, on the other hand, are available at our disposal only in limited quantity"), possessing an exchange value.

John Maynard Keynes (neoclassical, founder of macroeconomics) in "The General Theory of Employment, Interest and Money" (1936) includes the form of social wealth (interest and money) and its reason (employment).

The only author who in addition to the "wealth" included in the subject the "man" was Alfred Marshall, the second founder of the neoclassical. His work is entitled "Principles of economics" (1890). According to Marshall, "political economy or economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing. Thus it is on the one side a study of wealth; and on the other, and more important side, a part of the study of man" [3].

**The subject of the general model and its components.** The subject of the general model is identical to the subject of the science of the market economy — a capitalist mode of production of life as a totality of relations of production, which is beared by social wealth, or capital.

The object of the general model includes (1) the classical subject — wealth of nations (A. Smith), (2) the subject of Marx's "Capital" (Capital as a concrete historical form of "wealth of nations") (3) social wealth ("richesse sociale", L. Walras) as a subject of Walrasian version of neoclassicism, (4) Wealth as part of the subject Marshallian neoclassical version, 5) the subject of Keynesian macroeconomics (employment, interest and money as elements of social wealth), 6) the subject of Marxist political economy (relations of production as relations of material production).

"Man" as part of Marshall's version of the item is not included in the item.

The subject of Smith's "Inquiry...", Marx's "Capital", economics (micro and macroeconomics) is the same: relations of production of capitalist mode of production. The difference lies in the method of research.

**The totality of the production relations of the capitalist mode of production. Economic categories.** What kind of relationship is necessary for the reproduction of individuals living in a market economy?

Imagine that an individual buys a car (or bread). Of course, for *money*. Let's see what is "behind" the buyer. Where did he get the money (in microeconomics — *income*)? There are several options: (1) it is *wage*, (2) *profit*, (3) *rent*. He or she can take a loan, paying *interest*. All of the above is the real relations of production. For example, salary: you are applying to work at a certain time for the employer and get paid in money (*nominal wages*) for which you are purchasing goods necessary for life (*real wages*). In the theoretical model real relations of production are reflected by scientific categories such as "wages", "profit", etc.

Let's look at see what is "behind" the seller. The seller advances (invests) capital in the purchase of vehicles from the manufacturer, gets trading *profits*. He can establish a relationship with a chain of intermediaries, or the parent company. The company assembles the vehicles, and components are produced by supplying enterprises representing virtually all sectors of the economy. Both the parent company and suppliers must *advance capital*:

hire workers and buy products on the market — the *means of production* (raw materials, auxiliary materials, equipment, etc.). They incur costs-price and have to get profit.

In general, the totality of relations of production and, therefore, a totality of categories is congruent to market economy (commodity, money, price, capital, costs-price, profits, wages, interest, rent, etc.).

### 3. The method of general economic model

The method of economic science as a general scientific method involves two stages: (1) analysis — the movement from concrete to abstract, (2) synthesis — the construction of models during the movement from the abstract to the concrete. “The first procedure attenuates meaningful images to abstract definitions, the second leads from abstract definitions by way of reasoning to the reproduction of the concrete situation” [6].

**The exoteric and esoteric methods.** Moving from the concrete to the abstract may be limited to immediately observable phenomena, and the concrete by its parts. During the return movement (from the abstract to the concrete) can be produced by a plurality of partial models, establishing quantitative relationships between immediately observable phenomena. The method of mathematical description of the phenomena called exoteric method (from the ancient Greek εξωτερικός — external). For the first time in physics this method was used by Galileo, Newton also used it. An example of the method: for the Galileo formula  $S = gt^2 / 2$  while knowing the time, you can find the path travelled by the falling body, and vice versa. The formula is convenient and practical, but it does not answer the question about the nature of the phenomenon, or the question “why does the body fall?” If the analysis begins with all the diverse concrete, with the subject as a whole, it may end by opening the nature of the phenomena. In this case, in the course of the synthesis we get a general model in which all concrete phenomena will have an explanation / definition in terms of their nature. The method of finding inner relationship, or natural phenomena called esoteric (from the ancient greek εσωτερικός — internal). Example. The transformation of “caterpillar — cocoon — butterfly” refers to the exoteric area. But finding the inner relationship and concluded that “the caterpillar — cocoon — butterfly” — a forms, which in its development takes a DNA molecule of the butterfly — the result of an esoteric method of investigation.

**The exoteric and esoteric methods of economic science in retrospect.** Smith used both methods and set out both sides — exoteric and esoteric — in parallel, without any connection between them. They contradict each other (as if geocentric and heliocentric models were stated at the same time).

Ricardo interrupts the parallel use of two methods. But he jumps through the necessary intermediate links and tries to prove a direct match of categories with each other (as if the author was trying to find confirmation the heliocentric model directly in the geocentric).

But neither Smith nor Ricardo brought his research to the level of abstraction that allows making discovery of the nature of wealth. Labor theory of value is based on immediately observable labor costs.

Marx's discoveries are (1) the discovery of the nature of social wealth (value), (2) the creation of a model in which the exoteric forms of wealth (use values) are presented in their internal esoteric relationship. Eso- and exoteric methods are used as complementary methods in their unity.

Marginal revolution of the early 70s of the 19th century meant a complete rejection of the esoteric method and full transition to exoteric method. Refusal of an esoteric method occurred because the discovery of the nature of wealth in the labor theory of value has not been completed, and it was not confirmed by practice. Marx's discovery of the nature of wealth — the value — has gone unnoticed.

Micro- and macroeconomics method — exoteric, mathematically descriptive method, the method of direct observation and identification of the quantitative relationships between the observed phenomena. The analysis is conducted at the level of parts of the whole, and the synthesis leads to the construction of the set of partial models.

The method eliminates the elucidation of "nature", "entities", etc. It operates Newton's maxim "hypotheses non fingo": "Hitherto, we have explained the phenomena of the heavens and of our sea by the power of gravity, but have not yet assigned the cause of this power... Hitherto I have not been able to discover the cause of those properties of gravity from the phenomena, and I frame no hypothesis; for whatever is not deduced from the phenomena is to be called an hypothesis; and hypotheses, whether metaphysical or physical, whether of occult qualities or mechanical, have no place in experimental philosophy" [8, p. II, 160–162]. In the formulation of Milton Friedman "Facts are to be described, not explained" [1].

Walrasian version, which was separated and further developed by outstanding scientists Milton Friedman and Paul Samuelson, fully meets the criterion of scientific mathematically descriptive method, and Marshall's — partially.

Marshall's version in addition to the exoteric method uses pseudo esoteric method of "explanations" of phenomena.

Walras states the demand curve as an empirical fact, Marshall explains it by "familiar and fundamental tendency of human nature", which "may be stated in the law of satiable wants or of diminishing utility" [3].

**The method of Marx's "Capital".** In the preparation of *Capital*, Marx comes to the conclusion that pre-emptive method of modern genetics: "Capital is the economic power that dominates everything in bourgeois society. It must form both the point of departure and the conclusion..."

It would be inexpedient and wrong therefore to present the economic categories successively in the order in which they have played the dominant role in history. On the contrary, their order of succession is determined by their mutual relation in modern bourgeois society and this is quite the reverse of what appears to be natural to them or in accordance with the sequence of historical development. The point at issue is not the role that various economic relations have played in the succession of various social formations appearing in the

course of history; even less is it their sequence 'as concepts' (Proudhon) (a nebulous notion of the historical process), but their position within modern bourgeois society" [6].

"Capital" method went beyond the achievements of natural science of the XIX century (discovery of the cell, energy conservation law, the evolutionary theory of Darwin). Marx calls the main ration of the original model — "economic cell of bourgeois society", similar to the one which microanatomy deals with. But in reality we are talking about genetics, not of the "cell" but the "DNA molecule".

In the first lines of "Capital" Marx describes a method anticipating the method of constructing the genotype: "The wealth of those societies in which the capitalist mode of production prevails, presents itself as 'an immense accumulation of commodities', its unit being a single commodity. Our investigation must therefore begin with the analysis of a commodity" [5, p. I.I.1].

A valid starting point — the entire economic body, the unity of the diverse concrete, a totality of relations of production, which is carried by "an immense accumulation of commodities" and the result of the analysis and the starting point of synthesis — "a commodity" as "elementary", abstract form of wealth.

In general model the starting point of the analysis is formalized in a model of Aggregate (one year) of the Social Product:

$$C_{ASP} \frac{UV}{V}_{ASP} = \left[ C_A \frac{UV_A}{V_A}, C_B + \frac{UV_B}{V_B}, C_C + \frac{UV_C}{V_C}, \dots, C_M + \frac{UV_M}{V_M} \right] \quad (\text{model 1}),$$

where C — commodity; ASP — Aggregate Social Product; A, B, C, ..., M — different kinds of Commodity; UV — use value; V — value;  $V_{ASP}$  — the value of the annual product.

To build a model of butterfly genotype it is necessary to discover DNA molecule, which (1) is contained in all cells of the body and in all its forms (caterpillar — cocoon — butterfly) and (2) includes a program of development of this organism.

An analysis of the annual product as an "immense accumulation of commodities", allows you to select two factors that characterize all the commodities, and which contain the program of development of the market economy:

1) Use Value — thing with useful properties, satisfying a social need, "a useful thing for others"; 2) Value — crystallization of the "one and the same sort of labour, human labour in the abstract", required for the production of a given set of use values.

Commodity as the unity of use value and value becomes the basic category, DNA molecule of the model. It contains potentially the whole economic organism. The first chapter of first volume of "Capital" is called "Commodities" and the first paragraph of this chapter "The Two Factors of a Commodity: Use Value and Value".

Commodity is formalized as the following model:

$$\text{Commodity} \begin{matrix} \text{Use value} \\ \text{Value,} \end{matrix} \quad \text{or} \quad C \frac{UV}{V} \quad (\text{model 2}).$$

Use value refers to the exoteric level, and the cost to the esoteric. Use value — form of wealth — is immediately observable, it is the subject of research in micro- and macroeconomics. Value — the nature of wealth — is not immediately observable.

Unlike the one-factor model of micro and macroeconomics, the General model is a two-factor model. It combines two complementary research methods — the exoteric and the esoteric. The unity of the two methods allows to give an explanation of exoteric categories of micro and macroeconomics, and categories of real business from the standpoint of the esoteric nature of social wealth.

**General economic model as the “Capital of the XXI century”.** The social wealth of the market economy is capital. A model of social wealth has the same subject and uses the same method as the “Capital” of Marx.

Subject — the capitalist mode of production, and the conditions of production and exchange corresponding to that mode”. The aim — “lay bare the economic law of motion of modern society” [5, p. I.I.1].

Year 2017 will mark the 150th anniversary of the publication of “Capital”. But the development of a general model is not connected at all to the fact that the “Capital” is outdated. Marx created a model of the genome of the capitalist mode of production, revealed the objective laws of market economy development, regardless of where, when, in what country (in Japan, China and Russia) it occurs. If any biologist for 150 years before modern science discovered the human genotype, his model in any case could not be described as “outdated”.

The relevance of the general model of social wealth as “Capital of the XXI century” is a result of several circumstances. (1) Reconstruction of the dialectical method of Marx is of undoubted scientific interest. “Capital” model possessed inexplicable power of attraction, but the method of its construction, as the smile of Mona Lisa, remains a secret of Master. To clarify the method, Marx proposed to study all the “Capital” and Lenin — a study of Hegel: “We cannot quite understand the ‘Capital’ of Marx and especially its chapter I, without having thoroughly studied and understood the whole of Hegel's Logic. Consequently, none of the Marxists understood Marx !! 1/2 centuries later”<sup>3</sup>. Achievements of natural sciences allows to understand Marx's method and remove some inconsistencies to the modern level of science.

As in genomics, the DNA molecule is the result of the analysis of the whole biological organism, and the two factors of the commodity are displayed at the level of “immense accumulation of commodities”, not the next levels of the form of value and exchange. However, in contrast to genomics, the factors of the product cannot be detected under the microscope, and they are accepted as axioms. Representations of Marx's value as “intrinsic exchange value”<sup>4</sup> associated with the lack of a clear distinction between mass and weight in

<sup>3</sup> [2, p. 162] *Lenin V. I. “Philosophical Notebooks”, The Complete Works. V. 29. P. 162.*

<sup>4</sup> “Hence exchange value appears to be something accidental and purely relative, and consequently an intrinsic value, i.e., an exchange value that is inseparably connected with, inherent in commodities, seems a contradiction in terms” [5, p. I.I.5].



physics. Marx gives a physical analogy of the relation of value and exchange value, which under the “weight” means the mass and weight. In modern physics, mass (value) — an independent category, which is measured using relative weight (exchange value), but is not an “intrinsic weight” (“intrinsic exchange value”). Physicists have distinguished between mass and weight in the early 20th century, and gave different names to units of measurement (kilograms and newtons) only in the second half.

(2) Understanding the method of “Capital” and the algorithm for determining all categories of the model using two factors (gene) use-value and value, has allowed to include micro — and macroeconomic categories into the model of social wealth, which were not reflected in “Capital”. Marx gave a definition / explanation of the main categories (commodity, money, capital, cost-price, profits, interest, rent, etc.), but after the publication of “Capital” micro- and macroeconomics was re-discovering and giving new names to exoteric categories and regularities (demand, quantity demanded, supply, quantity supplied, savings, investment, consumption, macroeconomic identity, etc.)

Marxist political economy has still not set itself the task of including new exoteric categories to a model of “Capital”.

No less important task is the inclusion of practical modern categories into the model: business categories, accounting and analysis, international trade, theory of the firm, etc. In general, the development of a model of social wealth allows bridging the gap between “Capital” and “Economics” (micro and macroeconomics) and applying a fundamental model to analyze and forecast trends of development of market economy, including the analysis and prognosis of the economic crisis.

**General model structure.** “Capital” and general model subject is not the mode of production (distribution, exchange, consumption) wealth, but the mode of producing life.

The model does not start with production and the elementary factors of the labour-process (1. the personal activity of man, i.e., work itself, 2. the subject of that work, and 3. its instruments).

It is clear that consumer products should be produced, but “since the first moment of his appearance on the world’s stage, man always has been, and must still be a consumer, both before and while he is producing” [5, p. II.VI.5].

In order to live you must consume, but you can consume only what is available.

People cannot consume products, the production of which is not yet completed. If the product — the commodity, the production time is added to the circulation. While the grass grows, the horse will die of hunger<sup>5</sup>.

In general model, the life of the population of the country during the year supported the consumption of existing social product.

Annual product (model 1) is the result of two processes — production and circulation. Product was produced, but not for their own consumption. It was exchanged or traded for money.

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<sup>5</sup> “While the grass grows, — the proverb is something musty...” (Shakespeare, Hamlet)

Here is the key to the deducing of three major structural levels: III. "The Process of Capitalist Production as a Whole" (production and circulation), II. "The process of circulation of capital", I. "The Process of Production of Capital". Levels of I and II form two abstract points of the third level III.

Analogy: the first level is the movement of the earth around its axis, the second — the Earth's motion around the Sun, and the third — the movement of the Earth around its axis and around the sun in unity.

To change the structure of Capital is impossible, as impossible to change the structure of the model genome. The discovery of Marx is equivalent to the breakthrough of Newton, about which Lagrange wrote: "He is not only genius, but also lucky — the system of the world is one and you can discover it only once".

General model — the axiomatic model. We distinguish two factor-"gene" that form "DNA molecule" without the use of scalpel and microscope, only the power of abstraction. These factors are taken as an axiom.

In mathematics and certain branches of physics (mechanics, thermodynamics, electrodynamics, etc.) the axiomatic method is applied — a method of constructing a theory in which it is based on certain assumptions — axioms, and postulates, from which all other statements of this science must be deduced by the way of pure logic. Initially it was thought that as axioms must be chosen propositions whose truth is self-evident, and then the axioms become understood simply as the assumptions of the theory.

In our model, the factor of "use value" — is obvious, factor "value" — is not obvious. It is not immediately observed.

### **Definitions and descriptions of some categories in a general model (examples)**

Definitions of categories in Capital include two factors — the value and use value. The general model is applied Marx's algorithm. Descriptions of the categories in the micro and macroeconomics fix one factor — use value.

**The use-value** (definition) — "a thing with useful properties" [5, p. III.VIII.15], satisfying the social need. Units — own units things (liters, carats, meters etc.).

**Value** (definition) — crystallization of abstract human labor under the constraint of social necessary labor time in the use-value. Units of measurement — hours of crystallized social necessary labor time.

**Commodity** (definition) — unity of use value and value ("...commodities, unities of use-value and value" [5, p. I. III.26]).

*Commodity* (description in microeconomics): use-value, good.

**Form of value** (definition) — relative measurement of value through the use value of commodity equivalent (Marx)

**Price** (definition) — relative measurement of value through the use value of money (Marx).

*Price* (description) — the amount of money that can be obtained per unit of goods.

**Money** (definition) — “the commodity that functions as a measure of value, and, either in its own person or by a representative, as the medium of circulation” [5, p. I.III.71].

**Demand** (D) (definition) — the value of commodity or money belonging to the person who makes the demand. Units of measurement — hours of crystallized social necessary labor time. Demand as the value of money is measured relatively by their quantity (general model).

**Demand** (D) (microeconomic description): the relationship between the amount of goods that buyers are willing and able to buy and this commodity prices. Demand — a function of the whole set of interrelated values of commodity price (P) and quantity (Qd).

**Quantity demanded**, (Qd) (definition) — the ideal quantity of commodity-equivalent to which a demand (general model)

**Quantity demanded**, (Qd) (microeconomic description) — the amount of a good that buyers are willing and able to purchase

**Supply** (S) (definition) — the value of the real quantity of commodity equivalent to which the demand is presented. Units — hours of crystallized social necessary labor time (general model).

**Quantity supplied** (Qs) (definition) — the real quantity of commodity equivalent to which the demand is presented. Units — own units of quantity of commodity-equivalent (general model).

**Quantity supplied** (Qs) (microeconomic description) — the amount of goods (services) that sellers are willing and able to sell at a given price in a given place and at a specified time. Quantity supplied — a point on the supply curve.

**Inflation. The monetary inflation, or Demand-Pull Inflation** (definition) — raising the general level of prices as a result of the decrease in the value of the monetary unit (General model). **Cost-push inflation** (definition) — raising the general level of prices in as a result of the fall of the productive power of labor and rise in value of commodity unit.

**Devaluation** (definition) — the fall in the value of the monetary unit (general model).

**Nominal social product** (GNP, etc.) (definition) — a relative measurement of the value of the social product of the current period in monetary units of the current period (general model).

**Real social product** (GNP, etc.) (definition) — a relative measurement of the value of the social product of different periods in monetary units of constant value (base or the current period) (general model).

**Capital** (definition) — (in the general formula for capital,  $M - C - M'$ ) — the value which (1) is advanced, (2) remains in circulation, (3) brings the surplus value (compared with the advanced value) and in its movement takes the form of use-value of money, commodity and money<sup>6</sup>. Capital (in the formula for industrial capital  $M - C_{MP}^L \dots P \dots C' - M'$ ) — the value of which (1) is advanced, (2) remains in circulation (3) brings the surplus (com-

<sup>6</sup> “The value originally advanced, therefore, not only remains intact while in circulation, but adds to itself a surplus-value or expands itself. It is this movement that converts it into capital” [5, p. II.IV.17].

pared with the advanced) value and in its movement takes the form of money (*money capital*), labor and means of production (*productive capital*) and commodities (*commodity-capital*). L — labour-power, MP — means of production.

*Capital* — (microeconomic description): (1) money, (2) the means of production, (3) commodity. Explanation. Descriptive exoteric method fixes three points in motion: the caterpillar, cocoon, butterfly. Esoteric method shows the nature of the phenomena: the caterpillar, cocoon and butterfly — three forms taken by the DNA molecule of a butterfly in its movement. Microeconomics sets money, means of production as independent points, the General model shows that money, means of production and products — are the forms which the capital-value take in its movement.

**Savings, *S*** (definition) — part of the value of the annual product (the bearer of which are means of production and consumption), which should take the form of means of production at the time of its stay in cash during the circulation of commodities  $C — M — C$  (general model).

**Investments, *I*** (definition) — the means of production, are part of the annual product (general model).

**The identity of savings to investment ( $S = I$ )** (definition) — a reflection of the first condition of simple reproduction of capital: the annual product must contain the means of production instead of consumption (general model).

We gave selectively a few definitions. In the textbook “General economy” [9] provides definitions of all major categories of the market economy.

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# The Enduring Stars

(N. A. Tsagolov, S. M. Menshikov and S. S. Dzasarov:  
Contribution to the National Political Economy)

**Georgy N. Tsagolov**

*Doctor of Economic Sciences (DSc(Econ)), Professor of the International University in Moscow*

*gtsagolov@mail.ru*

The paper discusses the contribution of N. A. Tsagolov, S. M. Menshikov and S. S. Dzasarov in the domestic political economy.

**Keywords:** Political economy, gosplan, critical realism, planned economy, crises, socialism, capitalism

When one traces, how the political and economic science in our country has changed, it turns out a funny picture. At the beginning of the last century there was a wide range of different schools of thought. After 1917, especially with the advent of Stalin, the main current was held in line with Marxism dogmatism, which advanced to the forefront the objective of justification of the accepted model of socialism. By becoming an ideological weapon of the ruling party, it occupied a privileged position in the superstructure of society. Anti-capitalist orientation, overt class character, however, did not rule out the possibility of the development of scientific thought. However the mainstream defining the overall tone had the apologetic character. This situation, of course, applied elements of orthodoxy and dogmatism to the works of the vast majority of Soviet economists.

The restoration of capitalism in the 1990s crossed the entire political economy of the Soviet period. The fundamental economic science, begun in 1615 with the works of Antoine Monchrestien, was exiled. It was immediately expelled from the list of mandatory general theoretical subjects taught in Russian universities. Borrowed from the West, but of little use for our country “economics” — shallow and ignoring the social aspects of economic life — were offered in exchange. However, the global economic crisis and increase in recent disappointment with the results of the economic development in the country led to a growing interest in the society to the deep theory and achievements of economic thought, including the “crossed out” Soviet era. In this regard, the question of the theoreticians of the science of the recent past and their achievements acquires considerable interest.

Both in the Soviet period and after a lot of stars flickered at the horizon of economic thought. But only very few did not extinguish, but ignited, remaining in the focus of political and economic science, which continues to search for an optimal for the country model of the society.

### **Rebellious Classic: N. A. Tsagolov (17.07.1904–25.07.1985)**

On March 25, 2014 The Department of political economy of the economic faculty of the Moscow State University held a conference “Through the prism of time: the 50th anniversary of the ‘Course of Political Economy’ and the 110th anniversary of N. A. Tsagolov”. More than 100 scientists from different countries, representatives of several leading economic institutions, public organizations and mass media attended it. They gathered not only to pay tribute to the scientist and the main work of authors headed by him, but also to project the ideas of the university school to understand the actual problems.

The author of these article had an opportunity to participate in the conference preparation and made a report. After the meeting, the chief editor of the Slovo (The “Word”) newspaper V. Linnik asked me a number of questions. The excerpts of the interview<sup>1</sup> are as following.

— What has determined the choice of a humanitarian specialty by your father?

— He was influenced by the early death of his older brother — a famous revolutionary an organizer of the “Kerman” party and a hero of the Civil War — G. A. Tsagolov (1897–1919). Just as the ashes of Klaas burnt by the Inquisition knocked the heart of his son Till Eulenspiegel, the blood of George struck a deep emotional wound and left a mark on his worldview, turning the consciousness to social subjects. Having decided to lead ideological struggle for the progress of the society, the father received economic education first in Vladikavkaz, and then in Moscow — in the Institute of National Economy, later called after the name of G. V. Plekhanov.

— Describe briefly the beginning and the main milestones of scientific creativity of N. A. Tsagolov.

— Beginning of his scientific work was preceded by a post-graduate study in the Institute of Economics of the Russian association of research institutes of social sciences (RANION). He remembered years of study there (1926–1929) as time of intense intellectual growth. Scientists then still enjoyed relative freedom. Father has underlined the importance of the discussions at the workshops, which trained skillful arguments and polemic gift.

The first scientific works by father were devoted to very complex aspects of capitalist perspective: the cyclical development and the world economy. They were published in the theoretical journal “Under the Banner of Marxism” in № 2–3 in 1929 № 7–9 in 1930. They

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<sup>1</sup> “Slovo” № 14, August 18–21, 2014.

contained a controversy with many prominent ideologues of the time, including N. Bukharin and Rosa Luxemburg. It was clear that a promising economist and theorist, skillfully wielding the Marxist methodology appeared. Defence of the thesis were not required then. A name of a scientist was created by this kind of publications.

After post-graduate school my father was sent to the Voronezh State University, he occupied a post of an acting professor being 25 years old. His teaching talent shone brightly, and soon he was invited to head the department of political economy of the Voronezh planning institute.

In 1932, at the invitation of the Director of the Economic Research Institute of Gosplan N. Tsagolov became the scientific secretary of the institution. He switched to domestic topics, participates in the preparation of the second five-year plan. Such a rich experience played a role in his subsequent theoretical constructions. Moreover, he still had a couple of years in the Stalinist Gosplan. After that he worked in the Institute of Economics of the Academy of Sciences of the USSR for two decades (1939–1959).

After the war, my father turned to research of the history of Russian economic thought. Avoiding development of the practical issues of the economy was caused not only by his wish to reduce the risk of being persecuted, but also by understanding that without mastering the history of science one can hardly achieve its shining peaks. He often told me that specialization, of course, was a very handy thing, but discoveries in political economy were not possible without the most versatile knowledge of the subject.

In 1949, my father defended his doctoral thesis on “aristocratic and bourgeois economic thought in the period of the ‘Peasant Reform’ ”. Together with A. I. Pashkov a corresponding member of the Academy of Sciences of the USSR they edited multi-volume work on the history of Russian economic thought. All these years, father continues to keep abreast of the time. He took an active part in the well-known theoretical discussion in 1951, in discussions on the work of I. V. Stalin “The Economic Problems of Socialism in the USSR” (1952) and the political economy textbook created on its basis. Accumulated knowledge in the theory, history of science and practice, the ability to express it in a clear and entertaining form secured for him a fame of a luminary of the economic thought, but also caused jealousy and resentment among many colleagues, who caused many problems. There were not only politically motivated discussions, but also direct threats of arrest, with all the ensuing consequences.

— How, then, in 1957, was he appointed to the post of the head of the Chair of the political economy of the Economic faculty of the Moscow State University — the leading chair in the Soviet Union?

— It could not have happened without the initiative of the then leadership of the Ministry of Higher Education of the USSR and agreement of the ideological leaders of the Party. It seemed odd to many after his troubles. However, we must not forget what happened during the Khrushchev time, when many other people often raised in the scientific and other fields.

— What did he manage to do in this position?

— Here, not only his scientific and pedagogical but also organizational gifts realized in full measure. In the nearly three decades that followed, the famous university school of political economy, or the “Tsagolov school” as it was often called, was created. He organized a number of international and all-Union conferences on topical issues of political economy and the ideological issues that later on embodied in collective monographs and collections of scientific papers, edited by him. However, the most important thing, that glorified the chair, was the two-volume “Course of Political Economy” under the leadership of my father that had three editions (1963–1964, 1970, 1973–1974).

— Was it a popular textbook or a scientific work?

— Both. The stated their purpose: to reproduce logically interconnected and subordinated system of categories and laws of political economy in the broadest sense of the word — from primitive societies to the communist society.

The work brought a lot of new to the theory of capitalism and pre-capitalist formations. However, the sensational breakthrough was the development of the concept of socialism. “The course of political economy” caused great scientific and public interest both in the USSR and abroad, where it was published fourteen times (in Cuba, East Germany, Czechoslovakia, Poland, Germany, China, Turkey, Greece, and Japan).

— What was the novelty?

— The founders of Marxism considered socialism as a single factory. It did not happen. The model presented in the “Course...” was based on more than 40 years of the real experience of our country. This model has become the most profound reflection of socialism in the scientific literature. Earlier books described the social ownership of the means of production, and then the analysis of the other components of the system: planning, allocation principles, the use of commodity-money relations and the law of value, cost accounting, etc. followed. My father paid tribute to what had been done in the economic science before him, including the “fiction” approach that revealed, as he put it, the categories and laws of socialist economy. However, it was still a lower stage of knowledge.

The center of efforts of the scientists of the University led by him was to search for the original relationship, or the “economic cell” of socialism. For capitalism it was found by Marx — commodity and commodity form of production. Nobody raised the question for socialism before father. The “Course...” provided the following solution: the original foundation of the communist mode of production (which is the lowest stage of socialism) was a systematic planned form of management throughout society. The basic economic law and all the other features and characteristics of socialism It is because followed.

— Were these views objectionable?

— Not all agreed, including the influential K. V. Ostrovityanov, the author of the “Political Economy” textbook, the former director of the Institute of Economics (1947–1953) and then a Vice-President of the Academy of Sciences of the USSR (1953–1962). But the most active opponent of the father's model was J. A. Kronrod, who headed the Sector of the



general problems of political economy of socialism in the Institute of Economics of the USSR Academy of Sciences.

— Did everybody understand the essence of the dispute?

— I think no. The father's concept, of course, was not so easy to understand, as and the economic life itself. Without the deep economic and philosophical knowledge, long-term thinking on these topics it was difficult to assess it. Not only then but now as well not everybody understands the importance of such an approach. However, in this connection even more can be said about Einstein's theory of relativity, only a narrow circle of highly qualified specialists can understand it. The political economy is perhaps even more difficult than the physics.

In addition, the subjective factor in social science is very important and a lot depends on what forces are in power, and what is profitable for them. Gregory Perelman discovery, for all his eccentricities, can not be rejected by the mathematical science. Contribution to the political economy can not be recognized for a long time. Marx "Das Kapital" was suppressed for several years. Then a growing interest to it manifested and we in the Soviet years the book took the place of the Bible. Then the work was forgotten again. In short, in social science only time puts everything more or less in its place. Greater things as said Yesenin, are seen from a distance.

— Are there the facts available, confirming the continuing importance of the scientific school of N. A. Tsagolov?

— Professor S. S. Dzarasov, who was one of the authors of the "Course...", for many years worked at my father's chair, his friend and pupil described his scientific visit to the UK at the beginning of this century. He found that the same methodology named the "critical realism" had been developed by the representatives of the post-Keynesian economic thought in the Oxford (R. Baskar) and Cambridge (T. Louson) universities much later than the Moscow University School. When he informed the British colleagues that something like had been developed in the University of Moscow, it was met with great interest, and he was asked to write an article on this subject in the Journal of the University of Cambridge<sup>2</sup>.

In this regard, the scientist in his report at the above-mentioned conference at the Moscow State University said: "The British colleagues' attention is in sharp contrast with the way our initiative has been met at home. In contrast to many other countries and peoples, we rarely appreciate our own. It is not surprising that our attempt to write a different textbook provoked mass opposition, especially on the part of the Institute of Economics of the Academy of Sciences of the USSR. They ridiculed those who could not do anything else, but to 'look for some cells of socialism'".

— After the release of the "Course..." there were other books on political economy, including by high-ranking officials of the Central Committee of the CPSU. Did they prevent the "university school"?

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<sup>2</sup> Dzarasov S. (2010). Critical realism and Russian economics // Cambridge Journal of Economics. Vol. 34. № 6, November, pp. 1041–1056.

- Of course, prevented.
- Did your father's ideas withstood the test of time?
- In general, yes, in some ways no.

No — because following Marx's my father claimed that communism would replace capitalism. For many, though, it is a creed to this day. However there is a big difference between it and science. Socialism in none of the countries had escalating prospects for higher communist stage. Someone might say it is not the evening yet, somewhen it is bound to happen. We can talk like this about everything, but what we see in practice, shows that the caravan of human history goes in a different direction.

Yes — because socialism does not leave the stage of history. Although it has crashed in the Soviet Union and some other countries, but still it has a strong influence on the development of world capitalism, socializing it. Speaking of socialism, I mean not only Cuba or North Korea. In China, the symbiosis between socialism and capitalism has shown for nearly four decades outstanding results. The same is true for Vietnam.

In these countries, there is macro-economic planning and they did not lose centralized social control over production — the same initial coordinating force with which according to N. Tsagolov was a “start of the Homeland” of socialism. And if so, then the laws and categories presented in the second volume of the “Course...” written 50 years ago are albeit though in a truncated form. They operate in the area, which today is home to a large part of humanity. Consequently, the theory of the University school remains very popular to understand the actually existing society and the major trends of our time.

However, the past decades revealed the fact that the planning of everything from one central location is not effective. The planning boards of a State may possess reliable information about what society needs and what not in production of coal, steel, oil, gas and electricity. But in manufacturing of footwear, clothing, personal computers, cosmetics and other personal goods and services a separate private manufacturer knows his market and its needs better than a government official and can carry out their tasks competently better than the latter. Neither in the perestroika era nor later the question was raised in this way. Is it any wonder that the rushing from one extreme to the other, we get out of the frying pan into the fire? Destroying “to the ground” the planned economy, we splashed out water with the child.

— It turns out that it was necessary to consciously take the path of the convergence, the connection between socialism and capitalism?

— Of course. The question is only what kind of convergence? As a result of the reforms here it occurred with a minus sign. Having destroyed the planned economy and flopping in the market without preparation, we soon found ourselves in the oligarchic and then bureaucratic-oligarchic capitalism, which highlight the trends of parasitism and decay. Yes, by the number of billionaires we are the third in the world after the USA and China. But why our magnates are so very different from their counterparts in the West and East? One-third of Russia's wealth belongs to the “golden hundred” oligarchs. What did they do for the pro-

gress of society? Nothing. Raiding and corruption are more profitable than innovation and modernization.

— How do you see the contours of an update of the political economy?

— Experience shows that socialism in its pure, or “unalloyed” form is not effective, is unstable, and therefore was defeated not by chance.

However, life has denied the Francis Fukuyama's allegations that capitalism is the “end of history”. In my opinion, a new integral society replaces capitalism and socialism. This hypothesis was the first time prophetically expressed by the great Russian sociologist Pitirim Sorokin, expelled from Russia and found his position in Harvard. Among the economists this tendency was reflected in the works of the twentieth-century intellectual star J. K. Galbraith earlier and deeper than all. This converged or integrated type of society and the economic system must absorb the advantages of capitalism and socialism and shoot-off their shortcomings as far as possible. The new political economy should reflect it.

— Is your father's textbook suitable for creation of the updated political economy?

— In this regard, “The course...” is a priceless help. In the primitive theory of the slave and feudal modes of production much change is not required. Add the latest modifications of capitalism, including actually happening before our eyes, the deepening of the general crisis. It is not a big deal. It is necessary not to exclude Socialism, as economics does, but rather to describe it as the actually existing and combined with capitalism form. In late capitalism the “invisible hand” of Adam Smith's market is complemented by a tangible second hand of state central planning. This is the first socialist form of public authority which, when is increasingly filled with the socialist content.

The counter process was in the former socialist countries that had carried out the correct economic reforms. They did not destroy planning, but added capitalism and its effectiveness. They acted slowly, holding a large, releasing a small, crossed the river by feeling the bottom. The result is a new bipolar system of mixed or integral formation as a reality, and the imperative of modern development.

— If you were asked to make a detailed description of your father's personal qualities in one small sentence, what would you say?

— High spirit and freedom, knowledge and an irrepressible desire to comprehend the truth, oratorical gifts and leadership skills, optimism and sparkling humor, humanity and simplicity.

### **The fate of a prophet in Russia: S. M. Menshikov (12.05 1927–13.11.2014)**

In mid-summer 2014 I spoke to Academician O. T. Bogomolov — one of the most famous economists in our country. I asked him: “Whom of the current Russian scientists would you put on the first place in real contribution to the economic science and international recognition?” “Stanislav Menshikov” — was the answer. I was not surprised. This

opinion was shared by many other members of our department. A year later, we had to talk about both in the past tense.

The Bible says that people do not appreciate the merits of their loved ones, nor believe in the talent of a person, which is near them. It's hard to be a prophet in one's own country. Stanislav Menshikov is a vivid example.

In numerous writings and journalistic speeches, he repeatedly warned of the danger of certain steps, which were nevertheless executed, and made many constructive suggestions, which were not implemented, but were suppressed. It remains only to bitterly regret that not people like him but very different, according to the will of the then rulers seized the steering of our reforms. Now we have to pay for it severely.

A remarkable detail: John Kenneth Galbraith a great American scientist, economist and sociologist, a former adviser to President Franklin D. Roosevelt and John F. Kennedy wrote his only coauthored work "Capitalism, socialism and coexistence" (1988) in collaboration with him. Translated into many languages, this book-dialogue become almost a bestseller and in many ways anticipated the fate of the competing systems.

In 1990 a fundamental monograph by S. M. Menshikov "The Soviet economy. Catastrophe or Catharsis?" was published. We read on its: "non-market socialism has degenerated into planned anarchy. Bureaucracy has grown together with the shadow economy. Labour incomes were reduced to a minimum, unprecedented even under capitalism", and further: "Can socialism survive? Yes, if it transforms to a mixed economy. So, whether socialist catastrophe is inevitable, or whether it goes through the heavy sometimes critical and update recovery — what the ancients called the catharsis? I think that neither outcome is predetermined. The real movement is so difficult, conflict, contradictory, it that catastrophe and catharsis are is equally possible, especially if the vehicle of Socialism loses control and ceases to obey the helm".

Now we know that the government has rejected the balanced, progressive, middle course and chose like "Titanic" the path of the notorious "shock therapy".

B. P. Likhachev the permanent publisher of his books described the fate of this book and at the same time the fate of the Russian economy in the editorial introduction to another work by Menshikov "Russian Economy: theoretical and practical issues of transition to the market" (M.: International Relations, 1996)<sup>3</sup>: "The fate of this undoubtedly extraordinary book "Catharsis or catastrophe" (translated into English and Japanese) which has absorbed the heat of then political battles about the fate of the country and the ways of its movement into the future, was something tragically similar to the subject of her research. It was sold in 100 thousand (sic!) copies and it was met by 100 % silence in both the scientific and the general political press in his own country. The explanation for this I want to express in Esenin words "If you touch the passion in a human, then of course you will not find the truth".

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<sup>3</sup> The Russian economy: practical and theoretical issues of the transition to a market economy. Publisher "International relations". 1996.

S. Menshikov never bent, and continued to fight, constantly wrote, taught and participated in a variety of seminars with prominent American and European economists and social scientists, trying to change the nature of destructive liberal reforms imposed on Russia.

In 2004 he published a fundamental work: "The Anatomy of Russian Capitalism" In it, in particular, we read: "In the form in which our capitalism has developed in the past ten-plus years, it could not help becoming oligarchic, i.e. distorted in the direction of the overwhelming dominance of a small group of banking and industrial monopoly groups... This economy is trapped, to get out of it is possible only through a radical change of the oligarchic structure with the active role of the State"<sup>4</sup>.

In one of the articles of recent years Menshikov says: "With the current government Russia expects a long period of stagnation of the economy and science... This can be avoided only by replacing it with the cabinet, ready to carry out stimulating economic policies and to abandon bureaucratic assaults on science and social sphere"<sup>5</sup>.

I met his earliest works in the years of study at the Economic Faculty of the Moscow State University. We met by chance at the Institute of World Economy and International Relations (IMEMO) of the USSR Academy of Sciences, where he then served as a senior research fellow and where I came for practice on IV course. Under his leadership, I wrote my diploma thesis and PhD thesis. I obliged a lot to the creative laboratory, in which he taught me the methods of collection of scattered facts and their generalization.

One might say — Stanislav Menshikov was lucky in many ways, and it would be right and wrong. No dispute — from the very beginning he got a number of advantages. Born into a family of Stalin's Commissar for Foreign Trade, then ambassador to India, and the United States, the Minister for Foreign Affairs of the RSFSR, being 4 years old staying with his parents in London, he was already fluent in two languages. However, many children of the nomenclature had the same, or even better starting opportunities. but they did not become titans of Science. He became.

One of the first graduates of the Institute of International Relations he defended his Ph. D. thesis when he was 24 years old and since then his life was firmly linked to the economic theory. It was a promising start, but it did not guarantee being a star of the first magnitude in his profession.

In the first half of the 1960s, he taught political economy at the alma mater and extended the range of capitalism research, publishing article after article. Soon published in many languages of the world "New time" journal, then led by a prominent economist, invited him to his staff. He became a journalist but he continued to lecture and conduct research. As a special correspondent he worked in different countries, including the United States, which became the center of his scientific interests. He was in the group of journalists who accompanied Khrushchev on his visit to India and Indonesia. During the trip, he interviewed the heads of the two countries — the Prime Minister Jawaharlal Nehru and

<sup>4</sup> *Menshikov S. M.* Anatomy of Russian Capitalism. Publisher "International relations". 2004. P. 432.

<sup>5</sup> "Slovo" 04.10.2013.

President A. Sukarno. The first monograph by S. Menshikov was dedicated to the activities of US corporations in the world market. But the idea of the doctoral dissertation was realized in the IMEMO.

In 1963, for the fundamental study of the American financial oligarchy he was assigned a doctorate in economics. The rich abundance of interesting facts written in beautiful language in the work called "Millionaires and Managers" was published not only in Russian but also in English and Spanish. A rare case: the work of the Soviet author on US issues was included in the list of recommended literature for students-economists and political scientists of a number of American universities.

Shortly after defending his doctoral dissertation S. M. Menshikov was appointed as a Deputy Director of IMEMO. Since then, his scientific work fruitfully combined with the organization of major studies and projects. But the way forward has been very arduous.

He was attacked by both the communist dogmatists, and the so-called liberals. He did not fit either party nomenclature, or dissidents within the party. For the former, he was too smart for the latter too much sincere believer in socialism. After becoming the deputy director of the IMEMO, he bought a computer for the purely humanitarian institution, attracted graduate students with mathematical education. It was he who introduced econometric models to the Soviet economics. Then for the first time his graduate students discovered the ideas of Nikolai Kondratieff the Russian economist repressed in the 30s. He had not yet been rehabilitated by the time. They did not only open, but also developed the ideas of the great teaching. Under the leadership of Menshikov the IMEMO published a fundamental work on capitalist cycles.

However, the range of pressure on Menshikov increased. N. Inozemtsev the Director of the IMEMO and G. Arbatov the Director of the Institute of USA and Canada participated in this persecution. Both were not economists, but Brezhnev speechwriters. They determined election to the Academy of Sciences in the Department of economics. Their efforts blocked his elections to the Academy.

Menshikov left the prestigious post in Moscow and went to Siberia. Later in life, he thanked himself for this step, as it allowed him to see the whole immense power and greatness of provincial Russia. In Siberia, S. M. Menshikov had a titanic research and organizational work for creation of a diversified model of the Soviet economy. During four years of his working in the Center of Novosibirsk (1970–1974), he guided elaboration of the multi-sectoral economic models with comparable structure for the United States, Japan and the USSR. His numerous analytical and forecast calculations were partially published in the books "The dynamic model of the economy" (1972), "Models of the US economy" (1975), "Economic models and forecasts" (1975), which caused great interest not only here but also abroad. The approaches and solutions given in these publications were presented in a in the second volume of a fundamental monograph on the Brookings model, published in the US in 1976, edited by Lawrence Klein, the American economist later (in 1980) became a winner of the Nobel Prize.

In 1974 S. M. Menshikov was invited to work in the United Nations Secretariat (New York) in the rank of Extraordinary and Plenipotentiary Envoy to the post of Deputy Director of Planning and Development Center. At such a high post Stanislav expressed himself in the most worthy way, holding high the mark of the country and the national economic science. He was commissioned to oversee the World model of Wassily Leontief the Nobel laureate, the result of which was published in many languages in the UN report "The future of the world economy", which analyzed world development scenarios until 2000 compiled under the guidance of SM Menshikov.

Here he met famous Americans, especially Henry Kissinger, and often he served as the informal transmission link to the Soviet government. A lot of interesting things about this period can be found in the book of memories of Stanislav, which he wrote to his 80 year anniversary: "On time and myself."

In 1980, Menshikov returned to Moscow as a consultant of the International Department of the Central Committee, where he worked enthusiastically. In addition he writes books and articles in the "Communist" and "Pravda."

After the death of Academician N. Inozemtsev the director of the IMEMO in 1982 was Menshikov favored by the Central Committee for the appointment to the vacant position, but his former enemies reunited. Gorbachev was already an influential member of the Central Committee and intended to pull A. Yakovlev out of the Canadian exile. At the last moment, when Menshikov had already been congratulated on his appointment, the former ambassador to Canada appeared as the devil-the-box. Later he became the architect of Gorbachev's "perestroika".

Menshikov continued to work and write. He rehabilitated the name of N. Kondratieff still officially forbidden in the "Communist" journal. Time of collapse of the USSR was inexorably approaching. Menshikov first felt it, being a victim of cleaning of the staff, arranged by Mikhail Gorbachev the new General Secretary of the Central Committee and his associates A. Yakovlev and Eduard Shevardnadze. Then too orthodox Communists in the Central Committee were fired, chief editors of the party publications were removed. Menshikov under the non-expressed pretext was at once expelled from the Central Committee. One of the few in the Central Committee, who was not afraid to meet him, was G. Shakhnazarov, who suggested the way out: "Ask for work in Prague in the "Problems of Peace and Socialism". If they allow you, it would become obvious that this is not the machinations of the KGB". And it happened so.

During these years, I worked in Prague. It was time of our very intensive creative and friendly communication. Stanislav enjoyed well-deserved authority and respect on the part of senior management and publishing staff.

In various scientific, educational and socio-political activity of S. M. Menshikov his exceptional creative fecundity deserves special appreciation.

He is the author and co-author of 25 of original monographs on most of the key issues of the economic science. He made a significant contribution to the theory of reproduction.

Together with his wife L. A. Klimenko in 1989 he published the book "Long Waves in the economy: when a society changes its skin", reprinted in 2014 on the initiative of the Moscow publishing house. He published hundreds of articles in scientific journals and other periodicals in the country and abroad. His brilliantly written book of memoirs "On time, and myself" contains a scattering of interesting facts.

At the time of the Perestoyka during the presentation together with J. K. Galbraith of their book in Moscow Alexei Ulyukayev the current Minister of Economy interviewed them. Then he worked in the "Communist" journal under Yegor Gaidar a member of the editorial board. Ulyukayev asked a few questions and recorded the answers on a tape. "But — says Menshikov — when I later read a text prepared by him in the journal, it became clear that he left only a few statements by Galbraith, but none of my answers, not even he mentioned the book. Nothing to be surprised with. Having read my assessment of the future policy, Gaidar could not let my prediction of rampant inflation as a result of price liberalization be published in the theoretical organ of the party"<sup>6</sup>.

At the end of his book, the thinker confessed: "My ideal is — socialism with a human face, and I am still convinced that it was stolen from the people by the democratic hypocrites, they actually were the robbers of our history. I do not believe that for the human face of the regime, we must abandon socialism and that the true face of socialism — is no freedom and poverty... Having ruined socialism, we have deprived ourselves of the common dream. Personally for me, it was no less a tragedy than the loss of the country. To put up with it would not be desirable, and it is therefore important to understand how it happened and how we can return to socialism, getting rid of its shortcomings... The main question of any socialism — how to control the elite from below, democratically, preventing its degeneration. I have formulated this problem and I have answered it partly in my books, but I have failed to work out logically coherent argument"<sup>7</sup>.

For the last five years, Stanislav lost sight, but in spite of this, thanks to his wife and children he continued to work productively. In his latest material, published after his death, he called for the construction in Russia of mixed, integrated society, absorbing the advantages of capitalism and socialism, and getting rid of its failures<sup>8</sup>.

About Menshikov, as about Balzac, we can say "his life was filled with greater work than days". The fate brought him to the most famous and prominent figures of the last two-thirds of the century: Khrushchev and Gorbachev, Nehru and the Dalai Lama, Nixon and Kissinger, the American billionaires and politicians — Rockefeller, Ford, Morgan and Harriman. He was invited to work with a great minds — Jan Tinbergen, JK Galbraith, Lyndon LaRouche and many others.

And such an outstanding personality, the really giant scientist was neither an academic, nor a winner of any awards or orders of government.

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<sup>6</sup> Menshikov S. M. About time and about himself. Publisher "International relations". 2007. P. 416.

<sup>7</sup> Ibid. P. 541–532.

<sup>8</sup> "Slovo" 26.12.2014.



Now our country is experiencing great difficulties. Is not it time to the authorities to turn to the heritage of S. M. Menshikov and his associates to find, finally, adequate reasons and economic policy to get out of the economic crisis under ambitious but questionable “experts”? Can we honor the prophet in his own country?

### **Contemporary with the future: S. S. Dzarasov (15.10.1927–01.24.2015)**

The morning of January 22 this year, I called Soltan Safarbievich Dzarasov. We talked about the publication of one of his works. For the recent time he was busy with four themes. He continued to study the achievements of foreign followers of Keynes. He started writing a textbook and set the task to revive and renew the political economy, providing modern Western concepts, alternative to economics. He just finished the preface to the Russian translation of the book released in the USA on Trotsky counter-process. He was finalizing the next book already entitled “October 1917: the failure or breakthrough?”.

We agreed to meet together to get to the State Duma, where we were supposed to participate in the meeting of the professors of the seminar, organized and led by AV Buzgalin. We entered the room and sat down next to each other. Taking the floor, he literally charmed the audience. He spoke biting, temperamentally, figuratively and as always the case. Everyone listened and looked at the venerable maestro enthusiastically.

He was 87 years and though in recent months he had repeatedly complained about the state of health he was speaking with the same fervor and passion. I recorded this speech, not knowing that it would be his last speech. It is included to this article.

He felt bad, and I and my colleagues carried him into the corridor, where the air was fresh. They called for an ambulance and we asked him about the health. But he suggested to turn the conversation to “more interesting” and asked one of the philosophers: what impression he had about the fragments from his new work. The conversation was interrupted a few minutes later, when the doctor diagnosed a stroke arrived. At the hospital, he lost consciousness and he died on the night of January 24.

The first time I saw him in the middle of the last century. I was only 8 or 9 years old. As a student and then a graduate student, he often came to visit us in the house number 6 on Gorky Street (now Tverskaya). A lot of guests, including fellow countrymen and relatives from North Ossetia visited us, but Soltan became a particularly close friend. An economist by training, he was attracted by my father, who was 24 years older than him and already quite well-known political economist at the time.

His childhood took place in a village of Chikola in North Ossetia and fell on hard thirties of the last century. He vaguely remembered the collectivization and his father went to the collective farm stables to “check on and feed their horses,” although they did not belong to him already. In school the poetic gift awakened. In 1940, a literary critic in the local Ossetian newspaper published his picture and examined 12-year-old boy creativity. Soltan “on behalf of young people” often spoke at rallies and meetings.

Then there were hard times of war is coming. Masters one after another went to the front and the young had to survive the occupation. Composing poems and plays went by the wayside replaced by consciousness understanding of issues of war and peace, international and public life.

In autumn 1945 the country experienced devastation and poverty. Problems of national economy recovery and way out of poverty were in the air. Soltan left for to the capital and entered the Moscow State Institute of Economics. To gain more knowledge, the student attended lectures in other universities, including Moscow State University. He was recommended to a graduate school, and in 1954 he defended his thesis.

Returning then to Ossetia, he became head of the Department of Political Economy of the Agricultural Institute in Vladikavkaz (Ordzhonikidze then). However, the scientific and educational life was not long-lasting. Wanting to link theory to practice and to really help the economy of the republic, he soon left the academic path to take over as the chairman of the lagging collective farm in his native village. In recognition of the success in this field there was subsequent transfer to the North Ossetian regional committee of the CPSU. They appreciated the young scientist, who could raise the problematic farms.

However, the party work was not the define the line of his life. In 1960, he worked at the Department of the political economy of the economic faculty of the Moscow State University, famous as one of the main centers of economic thought at the time. There he became one of the most prominent representatives of the university school, participating in the creation of the famous two-volume textbook — “Course of Political Economy” under the guidelines of N. A. Tsagolov. S. Dzarasov worked on the understanding of the dialectical unity of the centralized state planning and autonomy of individual enterprises. His development in this area were much deeper than the insipid attempts of the then marketeers. He defended doctoral thesis on this topic at the Moscow State University in the late 60's.

Gradually gaining experience and knowledge, Soltan Safarbievich became an independent and prominent figure in economic science. In the 1970s and 1980s he worked at the Academy of Social Sciences and the University of Peoples' Friendship, where he headed the department of political economy. Then for a long time he was the head of the department of economics at the Institute of Economics of the Russian Academy of Sciences.

In the new post-Soviet era, he entered as a venerable scholar with the versatile profile. An international competition was announced for the best work on the convertibility of the ruble, he bravely took part in it and to the surprise of many, he was one of the winners. The corresponding award was presented by Wassily Leontief a Nobel prize laureate, well-known for his principles.

Soltan Safarbievich is the author of over 100 papers on economics and political science, including the monographs the “Economic management methods” (1969), the textbook “Political Economy” (1988), such books as “Russian way: liberalism or social democracy?” (1994), “The theory of capital and economic growth” (2004), “The Fate of political economy” (2004), “Where Keynes calls Russia?” (2012). Many of his writings were translated into for-

eign languages. Students of S. S. Dzasarov work in all parts of the world. More than 30 representatives of different countries of the world defended candidate and doctoral dissertations under his guidance.

Multifaceted in his interests, S. S. Dzasarov has always been an active participant in social and political life of the country. In 1988 he was one of the initiators of the "Moscow Tribune", set up jointly with Academician A. D. Sakharov which served as the mouthpiece of the democratic movement in the USSR. At the same time, he put forward the idea of the creation of the Social-Democratic Party of Russia, and in 1990 became one of its founders. There were then other parties in the same direction, including one of them, headed by Mikhail Gorbachev. But only Dzasarovs group could boast that its head was a strong Marxist theoretician. In this capacity, S. Dzasarov systematically led a relentless struggle with their ideological opponents. His works of this period can clearly trace a fundamental difference in the Social-Democratic approach to the transformation of the Russian society as compared to where the Liberals led the country. Social democracy was not a success in Russia, but it is not his fault.

S. Dzasarov was one of the few domestic experts, whose works were published abroad. Not limited to the experience of his own country he carefully studied the world practice, borrowing from it what we needed and not what was offered and imposed to us. To this end, the scientist-economist was in constant contact with prominent members of Western thought, especially with colleagues from Cambridge and other universities abroad.

According to S. S. Dzasarov the Western experience is represented in our country one-sidedly, reduced to the idea of self-regulating market. In fact, the reality of advanced capitalism is government regulation, planning and redistribution of national income from the rich segments of society in favor of the poor. Such areas include the concept of Post-Keynesian analysis. He devoted the last years of his life to it stating that it could serve as an alternative model of development of the Russian economy.

In the recent years, S. Dzasarov paid special attention to the critique of theoretical framework of the government economic policy. In 2005 he published a fundamental work "Mainstream in Russia the failure and the alternative", in which he left no stone unturned in the so-called pure marketeers. He brilliantly demonstrated the wretched poverty of their theoretical baggage exhaustive primitive monetarism and the dogma of the equality of supply and demand. Glorifying in every way the omnipotence of the market and denying the need for government regulation, our marketeers were compared to medieval barbarians, who, together with the Empire destroyed the basic foundations of urban civilization and doomed the inhabitants to live in filth.

It is natural, therefore, that over the years he devoted more time to the study of foreign economic theories, highlighting the grain of truth, which might be well used in our national economy. The result of such research was a thorough book "Theory of Capital and Economic Growth" (2004). In the same 2004 S. S. Dzasarov in collaboration with two other Russian scientists published the capital monograph "The fate of political economy and its Soviet classics", dedicated to the 100th anniversary of N. A. Tsagolov.

Recently, S. Dzarasov has spent several months in the British universities, getting acquainted with the latest achievements in the foreign science. As a guest professor he lectured and led discussions that helped to deepen and sharpen skills. Even in his old age, he did not hesitate to continue to learn.

Through his publications an eminent Polish economist Michael Kalecki, who worked before the war at Cambridge University, and was world-renowned as a forerunner of Keynes has been re-opened to the domestic readers. In the recent years, Dzarasov has actively published theoretical articles in foreign professional journals and collections. For example, in an article entitled "A Critical Realism and the Russian economy" S. Dzarasov introduced in detail to the English-speaking readers the University (Tsagolov) model of a socialist economy, going into detail on the use of Marxist methodology. At the same time talking about it, he leads the readers to believe that the current economic crisis-free development is impossible without macroeconomic planning. In another article, he talked about the works of Post Keynesian trends and their application to the Russian economic theory and practice.

These studies were summarized in the detailed monograph "Where Keynes calls Russian?" published in 2012. The name was intriguing, as the British genius died almost 70 years ago and had said nothing positive about our country. But, of course, it is a question not about Keynes but rather about the attitude to his theoretical heritage by the modern Russian elite and its economists. They unconditionally rejected Keynesianism, for logical proof of the necessity of government interventions, without which capitalism was doomed to crises. They enthusiastically embraced the neoclassical doctrine prevailing today in the West, which corresponded to their favorite dogma of the invisible hand of the market and the magic of private property.

Many were amazed, as a person and as a scientist of such age was able to grow significantly in the continuous development, to break the conventional dogma, and to promote the revolutionary ideas in the hostile environment. One person recombined oratorical gift and golden pen, wisdom and simplicity, civil courage and sparkling humor, kindness and fierce defense of beliefs.

Perhaps, the most important thing was that the idea of planning-market economy long would outlive its author. A new integral society replaces capitalism and socialism, the core of which is a symbiosis of the plan and the market. When this system is established, not only in practice (as is already the case), but also in theory, Soltan Dzarasov would be called one of its visionaries. That is why as well, because of many others reasons, he is a contemporary of the future.

### **The last speech by Soltan Dzarasov in the State Duma January 22, 2015**

"... The point of bourgeois society is not the possibility of rational economic behavior, but rather the exploitation of man by man. We were fooled by the tales that as soon as the market arrives the rational person, effective owner would arrive, meanwhile a crook and a thief arrived.

...Look what America is doing with the Ukraine. They, in fact, say: you have signed an act of voluntary surrender, have agreed that socialism is bad and capitalism is good. So now follow what we will specify. The Home country of the West demands compliance with the rules of conduct and the laws of the capitalist world. Dependent countries and nations must do what the owners of the rich nations want. And they want to see the Ukraine in the orbit of their influence. It is necessary to look into the eyes of this truth.

...In spite of all its shortcomings, the Soviet socialism was the most dangerous alternative to global capitalism. When I visited Japan the Soviet time in, I discovered that there were no Western capitalism. There was no unemployment. There was a lifetime employment. In agriculture, there was no wage labor. And in the social management state planning was present, and better than in the Soviet Union. Therefore, the Soviet Union's economy was eventually pushed from second to third place, while Japan's economy took its former position. It seemed to me that in Japan not only indicative but very effective socialist planning acted.

...Our October revolution was the socialist choice of the Russian civilization. The Russian civilization has not accepted capitalism and the contradictions were so strained that a socialist revolution happened. Walking along the socialist path of development, we have become a second superpower of the world, and having renounced it we fell back to 10th place in 1996 and now we are only on the 7th. We have no shine ahead without socialism.

...Is there unemployment or not — does it matter? Is there free medical service for the population or not — does it matter? Is there free education, or not? All these matters. All this is what we had under socialism, no matter how bad it may be”.



**POLITICAL ECONOMY  
AND ECONOMIC POLICY:  
USSR—RUSSIA**

# Collective Enterprises as a Tool of Socialization of National Economy

**Victor V. Boukreev**

*Doctor of Economic Sciences (DSc(Econ)), Professor at Gubkin Russian State University  
of Oil and Gas (department of Mineral complex Economy)*

*viven@mail.ru*

**Emil N. Rudyk**

*Doctor of Economic Sciences (DSc(Econ)), Professor at Dubna State University  
(department of Management)*

*emileroudyk@list.ru*

The paper argues the need for creation of various forms of collective enterprises in Russia and abroad, rejection of privatization as the main method of improving the competitiveness of enterprises. Measures on the socialization of enterprise management process within the national economy and the strategy of creation a social state in Russia.

**Keywords:** privatization, socialization, collective enterprise, national enterprise, production cooperative, the democratization of economic power, collectivism

Today the problem of finding ways and mechanisms of economic, social and moral improvement of the national economy of Russia is relevant as it has never been. After twenty-five years of “reforms,” more than half of the industrial enterprises of all forms of ownership are unprofitable or close to unprofitability.

Economic troubles of economic entities are supplemented by their socio-psychological “unhealthiness”: the conflicting nature of labor relations is preserved, the trust between the owners, management and employees has been almost completely lost, degradation and demoralization of labor increase, the associated negative consequences enhance.

Many reasons explain this state of affairs in the majority of industrial enterprises in the country, both from the existing regime and its opposition (real and imaginary). There is also no shortage of recipes offered for their economic, social and moral improvement.

One of the main reasons for the plight of the enterprises is usually ignored or underestimated. It is the preservation, albeit in a new guise, of the authoritarian system of economic power in the workplace, based on the alienation of workers, including workers — owners of shares of an enterprise where they are employed, of participation in the manage-



ment and distribution of the results of its operations, if not de jure, de facto. This situation negatively affects situation not only in “internal” but also in “external” society of an economic entity. For this reason, the socialization of production at the microeconomic level seems to have no alternative, of course, if of course we consider the needs of society as a whole, and not the privileged few.

The authors understand socialization of an enterprise as increasing the degree of satisfaction of interests and needs of society in a democratic way, as “inside” an economic entity, as well as “outside” it. In the authors' opinion, it is possible in particular in a mixed economy within the framework of the formation and development of collective enterprises (CE) as unions of labor, and not of capital<sup>1</sup>.

A CE is understood as a voluntary association of individuals based on membership for joint business activities according to the law and internal regulatory documents of the CE. Membership in a CE is based, firstly, on recognition and enforcement of the basic democratic principles of its construction and operation<sup>2</sup>, and secondly, on personal labor participation of members of the CE in its activities, which may be supplemented by their participation in the capital of the enterprise.

The management in such CE takes the form of direct democracy on the “one member — one vote” principle for decision-making on major issues of the CE activity or any issues, if we are talking about its structural divisions, regardless of the financial participation, or through the elected members of CE and their representatives. The CE members have a right to hire management by contracts with the functions of operational control over CE assigned to it, except for the grass-roots level, in which the operational management is carried out by the workers on their own within the enterprise strategy, adopted by its members.

Outside investors participating in the CE activity in a mediated form are recognized as participants of the CE. They can be both individuals and legal entities. The volume and the procedure for their participation in decision making at the general meeting of members and participants in the CE are determined by internal regulations, while maintaining the for CE members the qualified majority.

The internal regulations establish limits of the possible use of the labor of hired workers and the procedure for their participation in the management and distribution of the CE income on the basis of their labor rights, the level of which should not be below the level set by the law.

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<sup>1</sup> In this context, the authors consider the assertion V. L. Tambovtsev of finding any public company, except those where all the shares are held by one person, being in the regime of collective ownership, incorrect. The fact is that any public company, as the legal form, by definition, is the union of capital of the and not of Labour (*Tambovtsev V. L. Prava, formy i rezhimy sobstvennosti // Ekonomicheskaya nauka sovremennoy Rossii*, 2015. № 1 (68), p. 16).

<sup>2</sup> The most important among them are supremacy of labor over capital, long-term nature of the employment relationship with the CE, adoption of key management decisions on the basis of “one member — one vote” principle, establishment of “fork” of income of members of the CE, open management, participation of the CE in solving the external social issues, cooperation with other CEs.

In addition these documents set limits for financial participation of members of the CE members in case of collective-share ownership form. The same documents establish the procedure for implementing the provisions of laws and regulations, territorial and other agreements providing for the participation of external society (government, civil society institutions) in strategic management of the CE, for example, as members of collective management bodies.

In its activities, the CE uses its own capital (property) in undivided or shared forms or borrowed capital. The lenders may be citizens, civil society institutions, the state, local governments, domestic and foreign private capital.

The main objective of the CE as a profitable organization is maximizing income per one member of the CE, and as a non-profit organization maximizing satisfaction of the needs of internal and external societies, defined in the CE constituent documents.

This is the authors' vision of the basic tenets of the CE model<sup>3</sup>. Of course, the national peculiarities of doing business influence the legal regime of the content and characteristics of CEs.

Thus, the main condition for membership in a CE, created in the form of a production cooperative within the famous Mondragon cooperative corporation — MCC (Spain, Basque Country) is recognition of the following basic principles.

*The first principle.* Voluntary and open membership in a cooperative of citizens who take personal labor participation in its activities, subject to successful completion of the probationary period and payment of the entrance fee, taken as a credit to the cooperative which property is indivisible. The entrance fee of a cooperative member is kept on its internal personal account. In the case of successful work of the cooperative the funds at the account increase. In case of inefficient work the funds at the account of a cooperative members decrease (upto 25 %). Each member of the cooperative may withdraw from his personal account only the interest accrued at the end of the year. A member of the cooperative can dispose the rest of the funds in this account after retirement or when leaving the cooperative. Until then, the funds, kept on the internal individual accounts of members of the cooperative, are used as a reserve and a source of internal investment. The policy of full employment is implemented with respect to the members of the cooperative, a permanent system of training and retraining of members of co-operatives contributes to it as well as their transition from cooperatives, which are temporarily forced to cut production volumes, into cooperatives with increasing production, as well as creation of new co-operatives. With regard to the cooperative hired workers, whose representatives have the right to an advisory vote at the general meeting of cooperative members, their number, by definition, should not exceed 5 % of total employment. Hired workers are not involved in the distribution of cooperative incomes.

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<sup>3</sup> See, per example, Boukreev V. V., Rudyk E. N., Khabibullin R. I. Kollektivnoye predpriyatie: k teorii voprosa // Voprosy politicheskoy ekonomii, 2015. № 4, c. 75–76.

*The second principle.* Democratic organization of cooperatives, which suggests that members of it make decisions on major issues of the activities of the cooperative under the principle of "one person — one vote".

*The third principle.* The rule of labor in the management of the cooperative and the distribution of "produced wealth" among its members in proportion to the contribution of labor, rather than participation in the assets of the cooperative.

*The fourth principle.* Labor subordinates capital attracted as an external source of investment in the form of co-operative release of the securities, that do not have the right to participate in its management.

*The fifth principle.* Ensuring the participation of cooperative members in the management by providing transparent information on its activities, improving training of workers and their career development, as well as their skills of participation in management decisions.

*The sixth principle.* Solidarity in the distribution of cooperative incomes. The establishment of "income fork" for the cooperative members provides "internal solidarity". Initially — 1 : 3, then to 1 : 4.5, and in exceptional cases — 1 : 6.5. Moreover, any member of the cooperative may obtain information on the income of other members. The establishment of compliance with the wage level in co-operative (as an advance) tariff agreements in the private sector achieves "external solidarity".

*The seventh principle.* Cooperation of the cooperatives outside the MCC within the framework of various types of joint projects, as well as the creation of new co-operatives.

*The eighth principle.* Carrying out various kinds of social transformations by forming the Central intercooperative fund and a number of other funds and the allocation of the revenues of the cooperatives to these transformations.

*The ninth principle.* Universality of rules and regulations, recognized in the cooperative world.

*The tenth principle.* Education and enlightenment of members of the cooperative as a condition of democratization of economic power.

The above principles are not comprehensibly embodied in the practice of the MCC. Thus, between the general meetings of members of cooperatives participating in the management of the ordinary members are usually limited to the grassroots level, which creates the potential for a real transition of economic power into the hands of top managers. The problem of ensuring the transparency of information on the results of cooperative activities has not been resolved. According to some workers of the MCC, the administration often deliberately filters and distorts information. In this case, trade unions could help the workers, but in the Mondragon cooperatives, they are not available. The main reason for it is the prevailing in the MCC, as well as many other SEs in the world the view that in cases where one person combines worker and co-owner of capital of an enterprise, operations of trade unions at these enterprises lose its meaning. Meanwhile, the unions are necessary for protection of the rights and interests of their members and hired workers, whose numbers are now up to 20 % in the Mondragon cooperatives. This situation is at odds with the Spanish

law (no more than 10 %) and with the statutes of Mondragon cooperatives (not more than 5 %). Excessive number of hired workers in cooperatives is explained by the leadership of the MCC as most of them are in the transition from non-members to cooperative members<sup>4</sup>.

Russian SEs in the form of producers' cooperatives (PCs) can be created on the basis of the federal law "On production cooperatives", 1996 № 41-FZ (as amended. From 30.11. 2011). PC is a voluntary association of citizens on the basis of membership for joint economic activities, based on their personal labor and other participation, as well as the unification of property shares of its members (participants). The number of members of the PC, who made share contribution, but do not participate in its activities may not exceed 25 % of the PC members taking participating in its activities. The founding document of a PC can provide participation of legal entities in its activities. PC is a commercial organization (Art. 1 and 7). The property of a PC is divided into shares of its members (art. 9). The Charter of a PC may define that part of his property is an indivisible Fund of the PC used for the purposes defined in its Charter (Art. 11). PCs profits are distributed among its members. By decision of the general meeting of the members of a PC part of its profits can be distributed among employees of the PC (Art. 12). The members of a PC carry out management, making decisions at the general meeting of members of the PC on the principle of "one member — one vote", regardless of the size of each share. Only a member of the PC can be a member of the Supervisory Board, the Board of the PC, its chairman (Art. 14, 15). The number of employees in the PC should not exceed 30 % of the number of its members, excluding workers in the PC on the basis of contracts governed by civil law, as well as seasonal workers (Art. 21).

The principal shortcomings of the Russian law on PC, according to the authors, are as follows:

(1) The assignment of the PC to the category of profitable (commercial) organizations, while abroad, 90 % of PCs are non-profit organizations, or they are given the right of choice — be profitable or unprofitable.

(2) The possibility of participation of a legal entity, in fact an investor in PC in decision-making on an equal footing with members of the PC actually turns it into a depositor, trusting the fate of its investments to the PC members in circumstances where there is an acute lack of trust in Russia, both in business and in everyday life.

(3) Non-occurrence of representatives of hired employees in the supervisory board and the board of the PC as its full members, as well as the lack of mandatory participation of hired employees in profits of the PC.

A number of other circumstances prevents the establishment and functioning of the domestic PCs as a collective form of business. First of all:

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<sup>4</sup> For more details refer to Chelovek i ekonomika: spravedlivost' i bazisnaya demokratiya protiv totalitarizma rynka i kapitala // M: Ecomomika, 2012, s. 292–300; Boukreev V. V., Rudyk E. N. Participativny manadzhment kak usloviye povysheniya social'noy ustoichivosti predpriyatii // Manadzhment i Biznes-Administrirovaniye, 2008. № 1, s. 132–135; Rudyk E. N., Boukreev V. V. Stanovlenie social'no ustoichivyh predpriyatii: sovremennoe sostoyaniye i perspektivy // Trud i social'nye otnosheniya, 2008. № 6, c. 36–42.

- low and, moreover, falling within the crisis conditions level of income of the majority of the population that does not allow them to create PCs at their own funds, as well as other forms of collective enterprises;
- greater economic risks in the crisis, which can lead to the loss of members of the PCs not only their jobs, but also their shares to cover the cooperative debts and other property under the vicarious liability if PC members (Article 13 of the PC Act.);
- low degree of economic and legal literacy of a large part of the population that is involved in cooperative activities;
- low, as a rule, level of competence of PCs management which is derivative to practical absence of training programs on a cooperative activity in the Russian system of professional education;
- inadequate level of integrative strategic interaction between PCs and their supporting structures (their own banks, PC incubators, their education, consulting centers, etc.)<sup>5</sup>.

In order to develop the PC and socialization we offer:

1. To classify the PC to the category of non-profit (non-commercial) organizations.
2. To provide industrial cooperation with special status, as a socially important economic form. In particular, to provide PCs that have moved to the category of non-profit (non-commercial) organizations and perform social functions of non-profit nature, with benefits in taxes, loans, rates, rents, priority during the placement of state and municipal orders of social purpose, as well as the benefits to citizens and legal entities, which provide the PCs with material and other aid.
3. To envisage a set of measures of the state support at the federal level, in particular at the stage of the creation of the PCs. To lift the ban on the participation of state and municipal administrations, as well as governmental and municipal unitary enterprises for the establishment and operation of PCs.
4. To adopt within the PC charters the maximum permissible size of a share of a member of a PC and, consequently, the level of his participation in its profits (in the world practice — income) in proportion to his share. This should help improve internal social cohesion and trust of the members of PCs which are the two most important indicators of economic and social stability of a PC.
5. To set the order according to which a PC member may make a contribution of money in addition to the mutual funds to his personal subaccount in a cooperative as its lender in one transfer or in installments, as it is the case in the Mondragon Cooperative Corporation.
6. To empower hired employees of PCs with right to be represented on its management bodies as full members, as well as with a right and not an opportunity to participate in the

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<sup>5</sup> For more details refer to.: *Ashinov S. A., Boukreev V. V., Rudyk E. N. Kollektivnye predpriyatiya v Rossii: problemy i perspektivy // Upravlenie sobstvennost'yu: teoriya i praktika, 2006. № 1, s. 25–28; 2006. № 2, s. 3–6; Ashinov S. A., Boukreev V. V., Rudyk E. N. Proizvodstvennye kooperativy v Rossii. Istoriya, problemy, i perspektivy // Trud i social'nye otnosheniya, 2006. № 2, s. 28–37; Boukreev V., Rudyk E. Predpriyatiya, upravlyayemye trudom v Rossii: ot formy k soderzhaniyu // Alternativy, 2006. № 2.*

PC revenues, as it is the case in international practice. The implementation of this innovation will facilitate the convergence of interest (motivation) of hired employees and the PCs.

7. To set the order in which the employees of a company, which has signs of bankruptcy or are in the process of liquidation, have the right to create on its proprietary basis or part of it a new venture with a democratic system of management in the form of a PC.

8. To promote creations of PCs which members may be the unemployed, through organization and financing of vocational training and give them the skills management decision-making based on employment centers, as well as provision of concessional loans and grants to the unemployed who have expressed a desire to create a PC.

9. To envisage within a PC statute a right of employees to become members, provided they recognize the basic principles of construction and operation of the PC, the conscientious fulfillment of job duties for a period determined by the statute, as well as the payment of a member share and subject to certain other requirements defined in the charter of the PC. This situation not only meets the immutable principle of voluntary and open membership in a cooperative, which is enshrined in the Declaration of the International Cooperative Alliance of cooperative identity, but also promotes internal social stability of the cooperative.

10. To reduce the standard for maximum number of PCs hired workers in order to minimize the risk of loss of its cooperative nature as a form of labor union. It seems appropriate to reduce it to 10 % (this restriction does not apply to temporarily and seasonal workers), as is the case in the Spanish PCs. Thus, to increase the degree of internal cohesion (solidarity) of all participants in the production process.

11. To improve the quality of economic education of the members of the PCs and the hired workers.

The basic provisions of the federal law "On peculiarities of the legal status of joint staff associations (people's enterprises)", dated 19 July, 1998 № 115-FZ (hereinafter — the Law on PE) hamper the process of creating in Russia of the CE in stock form, the so-called people's enterprises (PE). The Law on PE envisages the only order of its creation in the stock form, let is note that it is wrong because in principle, they can be created in other organizational and legal forms. According to the law, a PE is created by converting a commercial organization (except governmental and municipal unitary enterprises) of whose employees own to at least 49 % of its share capital. This is high threshold to overcome and currently happen only in rare cases. It is not surprising that the number of PEs does not exceed a few dozens, created on the stage of voucher privatization, when workers of enterprises subject to privatization, had benefits that the current Law on Privatization does not envisage.

The decision on establishment of a PE may be adopted only with the consent of not less than 75 % of the votes from the payroll number of employees in the organization (Art. 2 of the Law on PE). Obligatory characteristics of the PEs are:

15. More than 75 % of shares should belong to the PE employees, each of whom can not own more than 5 % of the shares;

16. Sale of shares of a PE to a third party is not allowed. In case of a shareholder-employee leaving the enterprise he is obliged to sell his shares to the enterprise, which is obliged to buy them and replace among the workers, including among those who are not its shareholders, which number should not exceed 10 % of total employment in the enterprise. They may participate in general meetings of shareholders with an advisory vote. The ban on alienation of shares a PE, belonged to its employees, side in the form of sale, does not exclude the possibility of other forms of alienation,

- making decisions on most issues of a PE activity on the principle of “one shareholder — one vote” instead of “one share — one vote”, as is the case in of traditional JSC;
- the average number of employees of a PE can not be less than 51 people, while a number of people’s enterprise shareholders must not exceed 5000;
- the possibility of combining the position of CEO and Chairman of the Supervisory Board of the PE, if the articles of association does not provide otherwise, that allows to combine in one person the executive and control authorities;
- wages of the Director General of PE for a financial year can not be more than 10 times to the average wage per a worker of the PE during the same period.

Failure to comply with these and other requirements with a PE obliges to bring them into line with the provisions of the law on the PE during one year or to have it transformed into a commercial organization, or any other form or liquidated<sup>6</sup>.

We suggest for development and socialization of PEs:

1. To eliminate the prohibition of creating NP in non-equity form.
2. To provide with an opportunity to create PEs, lowering the threshold of its establishment from 49 % of shares held by employees, up to 25 % + 1 share (ownership of workers-shareholders of a blocking stake). In addition to the legislative consolidation of this position one can use a number of management technologies. In particular:

- to form a provision in charters of JSC on formation the net profit of special funds for corporatisation for company employees (FARP). The funds can be spent exclusively for the purchase of shares sold by its shareholders for further distribution among workers in the JSC;
- to create Funds of workers of governmental or municipal unitary enterprises due to the net profit according to regulations prescribed by a charter of a unitary enterprise. Buyer of shares in the case of privatization of its assets may be a person representing the interests of workers by proxy, or a legal entity, for example, the trade union of the enterprise or another workers' body. This offer can be executed at the regional and mu-

<sup>6</sup> For more details refer to.: *Boukreev V. V., Rudyk E. N. Praktika razvitiya kollektivnykh form khozyastvovaniya na regional'nom urovne // Imuschestvennye otnosheniya v Rossiiskoy Federatsyy, 2015. № 7; Ashinov S. A., Boukreev V. V., Rudyk E. N. Kollektivnye predpriyatiya v Rossii: problemy i perspektivy // Upravlenie sobstvennost'yu: teoriya i praktika, 2006. № 1, s. 25–28; 2006. № 2, s. 3–6; Ashinov S. A., Boukreev V. V., Rudyk E. N. Narodnye predpriyatiya: teoriya, praktika, perspektivy // Trud i social'nye otnosheniya, 2005. № 1, s. 62–68; Boukreev V., Rudyk E. Predpriyatiya, upravlyayemye trudom v Rossii: ot formy k soderzhanuyu // Alternativy, 2006. № 2.*

municipal levels, for example, in the framework of the law “On privatization of state property of the Lipetsk region” dated March 1, 2013 № 126-OZ. In accordance with this law, the Regional Council of Deputies, firstly, defines the general procedure for the privatization of the property of the Region. Secondly, it affirms the forecast privatization plan (Art. 3), the conditions of tenders for the sale of shares and stakes in the authorized capital of the JSC (Art. 8), and the procedure for the sale of regional property at the price offered by the buyer for payment deferred for one year (Articles 10 and 11.);

- to use the well-known scheme of formation of share ownership of employees due to the profit of the enterprise (ESOP)<sup>7</sup>, which can be adapted to Russian conditions. It is about the direction of part of business profits to a special fund, which is used for purchase of voting shares for employees. The employees become owners of the shares following their repurchase by the company at the expense of future profits. In case of formation of share ownership by employees of the company's profit, the authorities can provide the employer with the incentives to use such a scheme with tax benefits. With respect to businesses operating on the said scheme the benefits of regional and local taxes can be used, provided the participation of the majority of workers in stock ownership;
- iterative method for forming PEs. The first iteration is adoption of the decision for converting the company to a CE by a meeting of shareholders or members<sup>8</sup>. The second iteration is the transformation of the established CE into a PE (in the case where the balance of advantages to the CE to PE is positive). The legal basis for this procedure is the possibility of transforming a CE by the unanimous decision of its members into the economic entity<sup>9</sup>, the PEs are considered as type of them<sup>10</sup>. The reason for using of such an iterative technology is the impossibility of direct conversion of CJSC with the number of employees from 20 to 50 into a PE in terms of the current legislation;
- to maximize the opportunities of the regional legislation, contributing to the establishment and development of PEs, as exemplified by the above-mentioned Lipetsk region.

3. To allow creation of PEs during privatization of state and municipal property, as was the case with the privatization of the Republican property in the Kabardino-Balkaria republic until 2002<sup>11</sup>.

4. To provide the employees with a system of incentives to create the PEs during the privatization of state or municipal property. We are talking about the possibility of redemption of shares of the company by its employees in installments and discounted using the future profits of the enterprise, as well as providing financial institutions in the case they give loans for these purposes with tax benefits. This would require amendments to

<sup>7</sup> ESOP (Employee Stock Ownership Plan) Facts, esop.org.

<sup>8</sup> Ibid Art. 20, p. 1.

<sup>9</sup> Art 26., p. 5 of the Federal Law of May 8, 1996 № 41-FZ (ed. 30 November 2011) “On production cooperatives”.

<sup>10</sup> The Civil Code of the Russian Federation, Art. 66, p. 7.

<sup>11</sup> For more details refer to: *Ashinov S. A., Boukreev V. V., Rudyk E. N. Kollektivnye predpriyatiya v Rossii: problemy i perspektivy // Upravlenie sobstvennost'yu: teoriya i praktika*, 2006. № 1, s. 25–28; 2006. № 2, s. 3–6.



the Tax Code (release of PEs from payment of income tax, reducing the tax base, and the like), and other laws and regulations.

5. To introduce the long-term employment system for PE workers, primarily for their human nucleus, which increases the long-term interest of workers in the success of their company and, accordingly, to spend some of the PE income on long-term investment.

6. To prohibit combining the posts of CEO and Chairman of the Supervisory Board of a PE. Such a combination of regulatory, executive and administrative and control functions is not only contrary to the principles of industrial democracy, but also paves the way for all kinds of abuse.

7. To include to Charters of PEs and the other internal regulations more stringent restrictions (depending on the size of the enterprise) on firstly, the value of shares that may be owned by an employee-shareholder in comparison with the norms of the law of PE (not more than 5 %), in particular, for PEs with large number of workers-shareholders (by the law of PE this number can reach up to 5000) and secondly, the wages of the general director of a PE — also in comparison with the norms of the law of PE (not more than 10 times higher than the average wage per employee per fiscal year). This was the decision (not more than 9 times) adopted by the workers-shareholders, for example, of the PE “Confit” (Volgograd), surveyed authors in the publication in December 2002.

8. To keep the democratic principle of “one shareholder — one voice” in addressing most of the issues of life of a PE (there are attempts to exclude the principle of the law of PE).

9. To conduct voting at a general meeting of shareholders of a PE by single (consolidated) pack of shares of workers in accordance with the previous collective decisions of the meetings of labor collectives or trade union meetings. This will put into practice the idea of the so-called imperative mandate. This function can be assigned to the representatives of the employees-shareholders — individuals or legal entities, such as a trade union committee of a PE.

10. To expand the scope of powers of the Control Commission of PEs and to ensure representation in it of trade unions and other bodies of workers both shareholders and non-shareholders.

11. To enforce direct prohibition on alienation in any form, PE employee shares outside the enterprise, including in the form of donation. This can lead to the threat of capture a PE using the rules of the law on CE, according to which the CEO is elected and dismissed by the vote on the principle of “one shareholder — one vote”. In conditions when the law on PE does not ban sale or donation of shares, including to those not working in the PE, there is a possibility of abuse of the democratic principle in order to capture the PE from the outside. An example is the situation arose at the beginning of XXI-st century on the PE “Confit”. At an extraordinary meeting called by external shareholders holding only 0.24 % “donated” shares, a new CEO was elected. To honor the workers of the PE “Confit”, they rose up to defend their enterprise from repeated attempts of violent capture.

12. To involve independent experts in participation in the preparation and adoption of the most important management decisions in a PE, as well as in monitoring their implemen-

tation in order to combat possible abuses by the governing bodies of PEs using their official position and managerial competencies.

13. To create and organize the work of the permanent training system for employees and their representatives with the basics of economic knowledge and skills to participate in the management of a collective enterprise in a democratic manner.

14. To establish together with other PEs and other forms of PCs, with the participation and active support of regional and local authorities the support structures for collective enterprises, primarily in the forms of:

- PE incubators in various forms — the non-profit organizations, whose activities should be directed to the patronage and assistance to enterprises of this type since their inception to maturity;
- their own financial institutions, such as banks, including with the participation of the state in their charter capital;
- consulting centers;
- educational organizations providing training for ordinary workers and managers the basics of management in the conditions of collective entrepreneurship in a democratic manner;
- regional union (association, federation) of enterprises with collective forms of entrepreneurship, which should entrust not only their integration cooperation, but also cooperation with the regional authorities at all levels, as well as with the concerned civil society institutions<sup>12</sup>.

A successful example of the operation of CEs, using borrowed capital, aimed at meeting the needs of internal and external societies, is a renowned public institution of MNTK “Eye Microsurgery” of Ministry of Health of the Russian Federation in the period when it was headed by S. N. Fedorov an academician of the Academy of Medical Sciences, a corresponding member of the Russian Academy of Sciences, the main initiator, developer and explorer of this model of collective entrepreneurship.

The basic characteristics of the model are:

1. The property of the enterprise, which is state-owned, belongs to the CE on a leasehold basis. S. N. Fedorov managed to rent the state-owned property for 30 years<sup>13</sup>. S. N. Fedorov said: “why should you be the owner of ‘fish-rods’ when you can get them rented”.

2. The CE is operated by all its employees, either directly or through their elected representatives based on “one person — one vote” principle. This situation has developed in

<sup>12</sup> For more details refer to: *Boukreev V. V., Rudyk E. N. Praktika razvitiya kollektivnykh form khozyastvovaniya na regional'nom urovne* // *Imushchestvennye otnosheniya v Rossiiskoy Federatsii*, 2015. № 7; *Boukreev V. V., Rudyk E. N., Khabibullin R. I. Kollektivnoye predpriyatie: k teorii voprosa* // *Voprosy politicheskoy ekonomii*, 2015. № 4; *Boukreev V. V., Rudyk E. N. Socializatsiya sobstvennosti — uslubie perehoda k solidarnoy ekonomike* // *Ekonomika i upravlenie sobstvennost'yu*, 2015. № 4, s. 34–40; *Boukreev V. V., Rudyk E. N. Privatizatsiya, nacionalizatsiya, socializatsiya v Rossii v sovremennykh geopoliticheskikh usloviyakh* // *Imushchestvennye otnosheniya v Rossiyskoy Federatsii*, 2014. № 12, s. 15–27; *Buzgalin A. V., Boukreev V. V., Voyeikov M. I., Kolganov A. I., Markaryan K. V., Rudyk E. N. Social'naya ekonomika: teoriya i praktika* // M.: TEIS, 2009, s. 163–174.

<sup>13</sup> Resolution of the Central Committee of the CPSU and the USSR Council of Ministers on April 24, 1986 № 491.

practice. The collective (brigade) form of labor organization was introduced in the MNTK<sup>14</sup>. The personnel had the right to approve at the general meeting of collective structure and staffing of the MNTK (within the established wage fund), to determine the size and order of payment of bonuses to employees at the expense of the material incentive fund. This remuneration of staff was put in direct dependence on the number of patients receiving high-quality treatment and care.

3. Election of the CE leadership, including its director, took place at a general meeting of employees.

4. Allocation of net income between workers was dependent on the quantity and quality of labor — both personal and collective, subject to the “principle of social justice.” In accordance with this principle, the personnel of CE sets “fork” of income from the simple unskilled labor, to the head of the company<sup>15</sup>.

5. The system of social protection of employees (including retirees) was introduced<sup>16</sup>.

6. Open management acts. Information about the economic and financial activity of CE, which is not a commercial or other protected by law secrets, is open to all its employees. “Closed” information should be accessible to the representatives of the employees, taking commitments on confidentiality.

7. System of training workers of the CE in participation in the management has been created and is in operation<sup>17</sup>.

<sup>14</sup> The Brigade members and the Council of working collective of the brigade got right:

- to determine the numerical and professional staff team (MNTK relevant economic services might only give recommendations);
- to select the specific form of organization of their work;
- to allocate the salary fund brigade between the individual members of it, taking into account the individual contribution of each of its members based on the criteria defined by the brigade itself: quantity, quality, complexity of work, the degree of risk, qualification, etc.;
- to elect a brigadier or to approve his appointment by the MNTK administration;
- to have a decisive voice in deciding on hiring its new members and a number of other rights;
- to create the MNTK Council to address major scientific and organizational and personnel matters, as well as the issues of using the funds and resources of the complex;
- to make proposals to improve the work of the MNTK and its divisions;
- to obtain economic and financial information about the activities of the MNTK.

<sup>15</sup> The MNTK workers determined the share of administration, including the CEO, in the net income of MNTK. Part of the net income MNTK spent for reproduction and development of its material base and collective social goals, and another part for the general salary fund of its employees (OFOT). 7.2 % of OFOT was the salary fund of managers (For S. N. Fedorov the General Director — 0.3 %). With regard to the wage ratio of staff of different categories, at the initial stage of the SN Fedorov model official rates were cleaners — 1.0, orderlies — 1.6; nurses — 3.6; doctor — 6.0; researcher — 5.6; head of the department — 10.

<sup>16</sup> Allowances to pensions for disability and old age (depending on qualifications and seniority in the complex); financial assistance in case of serious illness (surgery, death); payment for food for operating nurses, nurses and doctors-anesthesiologists of the surgery unit; free eye care in the MNTK for its former employees, and a number of other payments and benefits.

<sup>17</sup> For more detail refer to *Boukreev V. V., Rudyk E. N. Model' samouravlyayenovo predpriyatiya S. N. Fedorova // Vremya effektivnyh sobstvennikov, M.: RSNP izd. 2-e dop., 2010, s. 228–242; Rudyk E. N. Nacionalizatsiya, socializatsiya, demokratizatsiya vlasti (k postanovke problemy) // Alternativy, 2013. № 1, s. 114–115; Boukreev V. V., Rudyk E. N. Participativnyy menedzhment kak usloviye povysheniya sotsialnoy ustoychivosti predpriyatiy // Menedzhment i Biznes-Administrirovaniye, 2008. № 1, s. 141–149.*

The prospects for the introduction of the S. N. Fedorov model, as well as other models of collective entrepreneurship, including those discussed in this publication in the “frame of reference” in today's Russia, in our opinion, are slim. First of all, because of the focus of social and economic policy of the state to protect the interests of a narrow layer of large private owners and their affiliated government officials, for the most part ineffective and corrupt, and the preservation of authoritarian economic power, which is alien to the very idea of solidarity and collectivism.

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# Political Economy of Russian Capitalism's “Jurassic Park”

Andrey I. Kolganov

*Doctor of Economic Sciences (DSc(Econ)), Professor, Chair of the Laboratory of the Faculty  
of Economics, Lomonosov Moscow State University*

*onaglo@mail.ru*

The author sets out to show that the reason for the extensive and asocial variety of *involution* found in Russia lies in the specific nature of the economic relations and institutions that have become established within the country's “Jurassic capitalism” — a highly individual caricature of the “late capitalism” found in the West. Within “Jurassic capitalism” the main economic and political authority belongs to clan-corporate groups (“dinosaurs”) that are integrated with the corrupt apparatus of the state. The article will reveal the nature, structure and mechanisms of power of these “dinosaurs”, along with the system of property rights and relations that is peculiar to the Russian economy.

Within Russian capitalism, the dominant mode of coordination which determines the proportions in the economy is the semi-legal struggle between these “dinosaurs”, who not only exercise particular power in the marketplace, but who also generate “fields of dependency”, local regulating influences which have the effect to some degree of subjugating other producers and consumers. The main parameters for the competitiveness of these structures do not have to do with the price and quality of goods, but with the degree of control that is exercised over information, financing, and access to raw materials and other national resources.

The author poses the question of the degree to which this model is peculiar to post-Soviet society, and to which it is merely a caricature of the system of relations of late capitalism, a caricature in which the discontents associated with the modern Western economy are multiplied.

**Keywords:** Post-Soviet Russia, late capitalism, market, mutations of the market, clan-corporate groups, local monopolistic regulation, political and economic power, property relations and rights in Russia

To all appearances, the Russian economic system in the past decade has had a market character. Many economists, especially those close to prime ministerial and presidential circles, are no longer mindful of the transformational character of the social and economic processes under way<sup>1</sup>. The incomplete nature of the transformations, and the particular

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<sup>1</sup> See Mau V. *From Crisis to Growth*. London, CRCE, 2005; Gaydar E. T. and Chubays A. B. *Ekonomicheskie zapiski*. Moscow, Rossiyskaya Politicheskaya Entsiklopediya, 2008; Gaydar E. T. (ed.) *Sovremennaya ekonomika Rossii. Spravochnie i analiticheskie materialy*. Moscow, Prospekt, 2010.

character of the system which is coming into being, are not especially popular themes for critical-minded economists either; these economists prefer to speak of the inadequacy of the neoliberal model of the market and of capitalism to the national and cultural peculiarities of Russian civilisation<sup>2</sup>. Western writers as a rule emphasise the uniqueness of Russian capitalism<sup>3</sup>, but again link this to the nature of the “Russian bear”, only this time with a minus instead of a plus: the unfree market is said to serve Russian civilisation poorly, while Russia is said to lack the main attributes for a civilised existence, the most important requirement for which is supposedly the market. The only exceptions here are a few works, of which the book by David Kotz and Fred Weir is especially notable<sup>4</sup>.

The author of the present text, meanwhile, aims to show that from a theoretical point of view Russia’s economic system over the past decade has had a highly individual character. This character is defined by the retention and aggravation of many negative features of the Soviet economic model, features multiplied by the impacts of the 1990s “shock therapy” model of economic transformation, historically regressive and inadequate to post-Soviet conditions, and consolidated by a particular type of reproduction based on raw materials dependency and the economic and political power of oligarchic groups integrated with an authoritarian state. In many ways, this situation was the result of a sort of negative convergence<sup>5</sup> which saw the worst features of the bureaucratically planned and liberal-market economies combined in the economy of post-Soviet Russia. Overall, this system can be seen as a mutation of the present-day model of late capitalism<sup>6</sup>, or in figurative terms, as a caricature of this system, in which many of its problems and contradictions are grotesquely hypertrophied.

Since the turn of the century Russia has seen the gradual stabilisation of a highly individual social system that might for brevity be described as “Jurassic capitalism” — a system in which the main seat of political and economic power, as explained earlier, is clan-corporate groupings which combine remnants of the Soviet administrative-command sys-

<sup>2</sup> See Kulkov V. M. *Rossiyskaya ekonomicheskaya model’*. Moscow, TEIS, 2009; Osipov Yu. M. *Postizhenie Rossii*. Moscow, 2005.

<sup>3</sup> A name that has come to be applied to this peculiarity is “Kremlin capitalism” (see, for example, an article by Marshall I. Goldwin in the *Moscow Times*, 22 September 2006).

<sup>4</sup> See Kotz D. And Weir F. *Russia's Path from Gorbachev to Putin: The Demise of the Soviet System and the New Russia*. London and New York, Routledge, 2007 (a revised and updated version of *Revolution from Above: The Demise of the Soviet System*, 1997).

<sup>5</sup> The term “negative convergence” appeared in the 1970s when Robert Heilbroner, Herbert Marcuse, Jürgen Habermas and others put the view that the interaction and struggle between two world-systems leads to a situation in which they mainly finish up borrowing not the best of one another’s features (as the well-known Soviet dissident Andrey Sakharov hoped), but the worst. In post-Soviet Russia these ideas have been further developed by Oleg Smolin (See Smolin O. N. *Izlom: inoe bylo dano? Problemy revolyutsii, demokratii i obrazovatel’noy politiki v sotsial’no-politicheskom protsesse 90-kh godov*. Moscow, 2001.)

<sup>6</sup> In using the term “late capitalism” I rest on works by Ernest Mandel and Fredric Jameson (See Mandel E. *Late Capitalism*. London, 1972; Jameson F. *Postmodernism or the Cultural Logic of Late Capitalism*. New York, 2000.)

The author of the present article in collaboration with Alexander Buzgalin has devoted numerous texts to the question of the Russian model as a mutation of late capitalism, including sections of our works *Global’nyy kapital* (Moscow, 2004, 2007) and *Predely kapitala* (Moscow, 2009).

tem; elements resembling feudal rule; and features of the late-capitalist corporation. These clan-corporate groupings, like the dinosaurs of the Jurassic period, are increasingly subjugating all other inhabitants of this "park".

What is the social and economic anatomy of this system? In addressing this question, I put our stress on Marxist research methodology, and in particular on the method applied by Karl Marx in *Capital* and developed by Soviet political economists<sup>7</sup>, as well as by the author of these lines and his co-author Alexander Buzgalin in the more recent period<sup>8</sup>.

In the present brief text, which amounts to a revised synopsis of the joint research I and my co-author Alexander Buzgalin have presented in a series of publications over the last few decades<sup>9</sup>, I dwell only on three aspects: the peculiarities of the mode of coordination (the market and its regulation); the nature of the relations between property and power in the context of clan-corporate groups integrated with the state; and the causes that underlie the extensive type of macroeconomic dynamic present in Russia. I set out to show that in each case Russia displays not just the specific characteristics, but also a caricature or parody, of many dangerous trends in the neoliberal model of the global economy.

I do this while noting that the methodology of this work will be unfamiliar to readers who are used to a neoclassical, mathematical depiction of these functional dependencies, based on statistical data. In our case the role of the "microscope", allowing us to examine things that are invisible to writers who are not armed with a scientific methodology, is played by scholarly generalisations that rest on an extensive range of works on the Russian economy by the authors and their colleagues who have devoted several decades to constructive criticism of the Jurassic Period of Russian capitalism<sup>10</sup>.

## **1. The Russian market. Those who win are not the best runners, but the best sack-racers**

Once the system of coordination based mainly on bureaucratic planning had been destroyed in Russia, it was replaced with a complex set of coordinating measures aimed at ensuring the distribution or allocation of resources and the maintaining of proportionality.

The powerful inertia of the past led in the first place to the retention of certain elements of bureaucratic planning. The result was a curious transitional variant of state regulation in a capitalist setting, with the heterogeneous elements making up the transitional relations also deformed in character.

<sup>7</sup> For a more detailed account, see Dzarasov S. S. et al. *Sud'by politicheskoy ekonomii*. Moscow, 2004.

<sup>8</sup> One of the sections of our above-mentioned work *Predely kapitala* attempts to substantiate this thesis.

<sup>9</sup> As well as the books listed above, I note the work *Teoriya sotsial'nykh transformatsiy* (Moscow, 2003, co-author — A. Buzgalin), and also the book Buzgalin A. (ed.) *Transformatsionnaya ekonomika Rossii* (Moscow, 2006).

<sup>10</sup> See in particular Glazyev S. Yu. *Strategiya operezhayushchego razvitiya Rossii v usloviyakh global'nogo krizisa*, Moscow, Ekonomika, 2010; Grinberg R. S. *V mire peremen*. Moscow, 2006; Dzarasov S. S. *Kapital i ekonomicheskii rost*. Moscow, 2005; Ryazanov V. T. *Khozyaystvennyy stroy Rossii: na puti k drugoy ekonomike*. St. Petersburg, 2009; and Yaremenko Yu. V. "Ekonomicheskii rost. Strukturnaya politika". *Problemy prognozirovaniya*, 2001, no. 1.

The tendencies to parochialism and inter-departmental jealousy that had characterised the USSR spawned a powerful separatism, that gave rise to a polycentric system of local bureaucratic regulation. The bureaucratic nature of this regulation led to its becoming self-contained, to the point where an almost complete rift existed between the regulatory sub-systems (bureaucratic grouplets of diverse origin, feuding with one another) and the survival interests of the economic system as a whole. Influence-trading and planning deals developed into comprehensive corruption, making broad use of the mechanisms of direct and indirect coercion.

Secondly, pre-market forms of coordination began developing vigorously (I shall return later to their characteristics).

Thirdly, the market arose from the outset as a system fundamentally subject to non-market or only semi-market forms, like the market within feudal society. The market in Russia thus exists in deformed shape; relations with the state and criminal gangs are more important for producers than the general conjuncture.

The main results of this “salad” are to be seen in deformations of the various types of market relations, from the primitive and semi-feudal to the most modern. Dominating the picture, meanwhile, are undeveloped, deformed variants of the late market. Each of these variants is characterised by powerful monopolies, state regulation, the intensive impact of the global hegemony of capital, and so forth.

Because of this situation, one of the most important elements in the area of coordination (allocation of resources) within the transformational economy is an unusually large role played by the mechanisms of corporate-monopolistic regulation (these mechanisms are also deformed by comparison with their classic manifestations in the countries of developed capitalism). It is in fact monopolism, resting on the strength of the corporate-bureaucratic groups, that now holds sway in Russia and the other post-Soviet countries, and not the abstract-mythical “economic freedom” that has supposedly replaced bureaucratic planning.

In transformational societies, the freedom available to owners of commodities is more or less illusory. The actions of such people are dictated by nomenklatura corporations no less than they were by bureaucratic planning in the past, though now as in the past this dictation varies substantially (earlier, for example, we saw the difference between the “weak” planning in Hungary from the late 1960s and the “strong” planning in the USSR in the 1950s; now, the distinction is between the “weak” authority of the monopolies in retail trade and the “strong” authority seen in such “factory cities” as Magnitogorsk or Cherepovets).

This mechanism of local corporate regulation is well known in economic theory. In neo-classical economics it is described as “market power”<sup>11</sup>. In the classical institutionalism of

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<sup>11</sup> The generally familiar propositions that can be found in any reference work based on the “mainstream” include the following (I shall quote Wikipedia): “The market power of the producer consists in his or her ability or inability to influence the sectoral (market) price of a product through *changes in the volume of output* (my emphasis — author). The market power of a particular seller will be conditioned by the organisational peculiarities of the market structure, and will depend on the following factors:



Galbraith it is "the planning system" which corporations form around themselves, creating a diffuse space in which they influence consumers and suppliers through advertising and a host of other channels<sup>12</sup>. In neo-institutionalism it is known as unequal "negotiating strength"<sup>13</sup>. To Marxists it is local, partially polycentric regulation of the economy by large corporations. These positions were developed by Friedrich Engels in his later works, by Lenin in his writings, and in the 1960s, in the works of critical-minded Soviet scholars who introduced the concept of "incomplete, monopolistic planning"<sup>14</sup>. In the USSR, where such local regulation also took place alongside central planning, this phenomenon was termed "vegetative control", by analogy with the distinction between the central and vegetative nervous systems in the human body<sup>15</sup>.

In the early days of the reforms writers stressed the role of these mechanisms, showing how they differed qualitatively both from economic planning and regulation, and also from market self-regulation. It will be recalled that in this case, particular institutions within economic systems for certain reasons (such as high concentrations of production and/or capital, corporate power and so on), acquire the ability to consciously influence (though on a limited and local scale) the production parameters of suppliers and consumers (volume, quality and structure); of the market (the production prices of contracted firms, and the expansion of sales through marketing); of social life, and so forth.

- The share which a given firm accounts for in the overall supply of goods within a sector. The greater the share which a particular firm has of market supply, the greater the opportunities for the firm, through altering its own supply, to influence overall sectoral (market) supply, and hence also the market price;
- The degree of price elasticity of the demand for the firm's products. The less elastic the demand, and the less the firm fears an adverse reaction from the consumers of its products, the greater its opportunities for price manoeuvres, and the greater its market power;
- The existence of substitutes for a particular good, since the more such substitutes are available, the greater the degree of elasticity of demand in relation to price. High elasticity will limit the market power of a particular firm.
- The peculiarities of the interactions between firms operating in a sector. These peculiarities may result in the acquisition of market power by producers functioning within the sector. Such a situation is possible if the firms are able to collude and reach agreement on dividing the market and on a market price.

The degree of market power can be measured quantitatively. It is expressed using the so-called Lerner Coefficient, defined as the relation between the excess of the firm's price over its maximum cost and the price of the good:  $L = \frac{(P_x - MC)}{P_x}$ .

A more neutral definition (and in our view, one closer to the truth) is provided by the *Ekonomika* dictionary: "A relatively diffuse concept which characterises the strength of the position enjoyed by a dominant firm within the market. Market power can be considered strong if the dominant firm is able to act as a price leader; if it can dictate the terms of sale of its products; and if it can limit access to the market and obtain reliable super-profits" (*Ekonomika. Tolkovyy slovar'*. Moscow, INFRA-M, 2000).

<sup>12</sup> This is among the main topics of one of the best-known books of John Kenneth Galbraith, *The New Industrial Society*.

<sup>13</sup> Perhaps the best analysis of market power known to the author, and even the best analysis of the market as a mechanism for the reproduction of power in Russia, is based on neo-institutional theory and is to be found in the works of A. N. Oleynik. See in particular: Oleynik A. N. "Rynok kak mekhanizm vosproizvodstva vlasti". *Pro et Contra*, 2008 no. 12; Oleynik A. N. *Vlast' i rynek. Sistema sotsial'no-ekonomicheskogo gosподstva v Rossii "nulevykh" godov*. Moscow, 2011.

<sup>14</sup> See in particular: *Kurs politicheskoy ekonomii v 2-kh tomakh*. Vol. 1, Moscow, 1973.

<sup>15</sup> See Kornai Ya. *Ekonomika defitsita*. Moscow, 1990.

The mechanism of local corporate regulation differs from economic planning in its subjects, objects, aims and content. With economic planning, the subject is the state as the representative of society, as opposed to the corporation in isolation; the object is the national economy, not merely a part (*locus*) of the market or production. The aims are to serve all-national as opposed to corporate interests, and so forth. But regulation by large corporations also differs in terms of its content from the market mechanism of self-regulation.

Moreover, this mechanism is also distinct from the familiar model of oligopolistic competition, since in the first place it includes the possibility of consciously influencing not only the price, but also a multitude of other parameters of the contracted agents that fall within the “field of dependency” created by a corporation. This field, like a magnetic field, acts on the content, structure, and volume of the requirements of those who consume the products of a particular corporation; on the technologies employed by the corporation’s suppliers (and again, by its customers); on the production programs of those who cooperate with the corporation; on the strategies of development of formations that come under its influence; on the dynamics, volumes and structures of purchases and sales, and so forth. Market prices in this case, it follows, are far from being the sole parameter, and are not the main one.

Secondly, the corporation obtains the potential (“power”) to exert this regulating influence not just as a result of the monopolisation of a particular sector of the market. Under modern conditions roles almost as great are played by financial control, by control over information flows, by integration with the state apparatus on various levels, and by personal ties with key proprietors, top managers and insiders (often the same individuals).

Under the conditions of developed market economies these phenomena are not especially apparent. They are known, and are examined in particular works (not as a rule economic ones), but do not obviously play an important role. Nevertheless, can there be any readers of this article who have never refreshed themselves with a weak solution of orthophosphoric acid and burnt sugar, not even realising that they are marionettes of the corporation that impresses on them the idea that everything will go better if they drink that underwear-dissolving liquid, Coca-Cola...

In Russia, amid our “Jurassic capitalism”, the fields of dependency created by our corporate monsters are brutally visible. Within the Russian economy a mechanism of local, polycentric corporate regulation has arisen, and it is this that forms the main parameter determining the allocation of resources. Here, decisions by the largest corporate structures dictate needs (demand) and the structure of production, not the other way round as posited by the free-market model. The result in post-Soviet Russia is that the demand-limited (market) economy is transformed into a corporate-determined one.

If we compare market competition to a race, and the competition between the Russian dinosaurs to a sack race (there are such comic events in our country), then victory in the latter case goes not to the one who is the best runner, but to the one who runs best in a sack. So too with the allocation of resources in Russia; the winners here are not the corporations whose goods have the best relationship of price and quality, but the ones that are

better able to manipulate consumers and to exploit raw materials and other state resources on advantageous terms, while possessing better mechanisms of financial control, access to inside information, power to bribe managers<sup>16</sup>, and other such levers and attributes for taking part in the "sack race" of the Russian market.

To continue: the local corporate regulation that is present in any late-capitalist economy is not only more widespread in Russia, but is also developing primarily (though not exclusively) in deformed shape. The main deformities are as follows.

In the first place, the subject of local regulation is not as a rule personified capital that has reached a certain level of development, but a fragment or fragments of a former state pyramid (hence the dominance in Russia of raw materials corporations and others that have grown up on the basis of the "giants of socialist industry").

Secondly, and as a consequence, the main power of these corporations consists less in their massive concentrations of capital (even though this capital is being accumulated extremely vigorously) than in their access to various resources that range from closeness to the state feed-trough to the monopoly use of natural riches. Hence the association between this mechanism and what Western economists term "rent-seeking". The influence possessed by large Russian firms can thus be defined as a contradictory union of corporate capitalist control and vegetative regulation surviving from the "economy of shortages", though the shortages now are increasingly of state resources of credit and finance.

Thirdly, as a result of this content and under the impact of other methods of coordination, and also because of the generally diffuse atmosphere surrounding the institutions involved, the methods of local corporate-bureaucratic regulation amount to a deformation of "civilised" corporate action. These methods involve the widespread exploitation both of pre-bourgeois mechanisms (from extra-economic subjugation right up to the direct use of violence by organised criminal gangs) and also of mechanisms based on integration with highly bureaucratised state regulation.

The various manifestations of the dominant role played in the Russian economy by this mechanism are well known. To the degree to which the mechanism operates, for example, the economy "resists" radical market reforms; either these are sabotaged, or the reformers are "removed". In Russia, therefore, finances, the system of proportions, the dynamic of prices (the "scissors" effect, in which the prices received for agricultural produce fall increasingly short of the costs of the inputs needed for its production; of labour power; and of consumer goods), and so forth fall under the definitive sway of pseudo-state and pseudo-private corporations.

This is not just an oligopolistic market. It is a market regulated to a definitive degree by non-market rivalry between distinct corporate-bureaucratic structures — "dinosaurs" of capitalism, so to speak, beneath whose feet all other citizens wander about and on whom these monsters pitilessly trample, even while the "dinosaurs" themselves, it is true, are in a

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<sup>16</sup> In Russia there is a well-known saying, undocumented but attributed to the billionaire Berezovsky: "Why would you buy a factory, when you can buy the director?"

state close to extinction. It is the colliding of the power of these “dinosaurs” and of their regulating influences, not the effect of a unified centre (as in the past) or of the “invisible hand of the market” (which in a transformational economy is clearly not present) that determines the real system of coordination in a transformational economy of the crisis type.

As a result, the genesis of the market is also being accompanied by the development, unexpected for an industrial economy in the early twenty-first century, of pre-bourgeois modes of coordination. These include the already-described rent-seeking mechanisms; various forms of violence, from the purely criminal (protection rackets and so on) to the legally sanctioned (the wars in Chechnya and elsewhere); ever more widely developed forms of vassalage (in the “shadow” economy) and patronage (in the spirit of late feudalism with its hierarchy of centralised authority and with the market developing in its pores); and also trends in the direction of the natural economy. These latter trends are evident, for example, in the low level of commodity production in agriculture and the large role played by production on personal allotments (*dachas*); in the development of substitute production within large enterprises; in limits placed on the export of production beyond the boundaries of particular regions, and so forth.

The development of pre-bourgeois forms of coordination arises above all from factors linked to the inversion of socio-economic time and to transformational instability. These factors include the persistence and even revitalisation of natural-economy ties that previously were “suppressed” by central planning, and which the modern market now does not accommodate to the required degree. A second factor consists in the fact that while the shock reforms destroyed plan-based ties, they were incapable of creating market ones. To fill the vacuum of modern forms of coordination that resulted, antediluvian ones were dragged in; in place of the deficit of goods, a sort of “deficit of the market” appeared. Thirdly, the deformed market as it has arisen is itself reproducing pre-bourgeois modes of coordination. The latter will consequently be stronger on the whole than the inertial force remaining from the crisis development of earlier tendencies, and efforts to implement new neoliberal reforms will intensify the newly-emerged deformations of the market.

A relationship that is traditional for “mainstream” economic theory has thus been reversed, and this reversal, confirmed by twenty years of development of the Russian economy, now has the force of a natural law: the more actively the state seeks to implant “free competition” and tries to enact antimonopoly regulation, the greater the development in Russia of (1) relations of local corporate regulation, and also pre-bourgeois forms; (2) extra-economic coercion (rent-seeking and associated corruption, crime and so forth); and (3) the threat of new waves of “naturalisation” and barter trade within the economy.

As a result of this, the transformation of the Russian economy cannot be characterised in simple terms as a process of transition to the market. Under certain circumstances maintaining development at the present stage of transformation can bring about a situation in which neither the market nor the plan, but corporate regulation (reinforced by the inertia of centralised bureaucratic regulation and pre-bourgeois modes of coordination) will remain as the key determinant of the mode of coordination (allocation of resources).

## 2. The Owners of Russia: the Anatomy of the "Dinosaurs"

### 2.1. Property Relations and Rights: the Peculiarities of Russia

Academic writings on the Russian economy state repeatedly that it is characterised by processes of constant qualitative change in the form, rights and institutions of property ownership, and by redivision of property holdings. All this is said to occur within a general setting of weakness and contradictoriness of the institutional system (diffusion of institutions). Accordingly, property rights in our society are weakly specified compared with the situation under such stable systems as late capitalism and "real socialism".

When property rights are not extensively spelt out, or in extremely contradictory fashion, the transactional costs stemming from these causes can be so great as to hold back growth or even bring about a fall in output (if other circumstances are equal, such a decline will be more severe the more weakly property rights are specified).

It is extremely difficult to calculate statistics for the scale of the transactional costs that result from weakly specified property rights in particular countries and under particular conditions. But it is simple enough to suggest that these costs will be high under a system in which every business entrepreneur (as for example in Russia) has to maintain powerful formations of security guards (they are often racketeers), and in which the overall number of these exceeds the numbers of police. These costs will also be high under a system where no-one pays any attention to the Constitution in everyday life, and where many of the guarantees set out in it have long since become empty verbiage, while laws (for example, the budget) are systematically violated by everyone beginning with presidents and prime ministers. Under such a system, indeed, transactional costs cannot fail to be comparable with those of production. Moreover, practice tells us that in Russia any relatively large transaction, from a few tens of millions to hundreds of millions of dollars, becomes a problem due to appeals if not to the minister then to the governor, and is not without mortal risk for its participants.

The instability of institutions and the resulting low level of confidence; the weak and constantly changing specification of property rights; and the way these processes are conditioned by qualitative transformational shifts allow us to suggest a robust correspondence between the depth of the transformation and the size of the transformational costs: the latter are higher, the more profound the changes. This relationship, moreover, is intensified by the crisis, whenever and wherever it might strike, of transformational economies.

A distinguishing feature of the Russian economy is the constant redistribution of property and property rights beneath the decisive influence of local corporate regulation (the "competition" of corporations) and of non-economic factors (the struggle of groupings within state structures, corruption, and so forth).

As a consequence, the forms of property that are set down juridically in transitional societies are inadequate to their real economic content, to the degree to which the above-noted processes take place.

Significant numbers of enterprises (joint stock companies) that are formally considered to have been privatised are in fact mixed property, either because the state has an important shareholding, or because a significant portion of the share capital is in the hands of enterprise workers.

In practice, large packets of shares in the hands of the state are rarely used as a tool for real state control over enterprise activity. More often, state intervention takes the form of intervention by particular functionaries or groups of them in pursuit of personal interests, trying to gain advantage from the taking of specific decisions — for example, on the sale of state shareholdings.

At the same time, the advent of new external owners has been accompanied by their establishing of closer relations with top managers, which has allowed the latter to increase the proportion of shares they hold (or else the managers have strenuously bought up shares in a struggle with outside claimants to property). It should also be noted that among shareholders, the proportion who are not outside institutional investors but actual physical outsiders (15–20 %) has increased noticeably, although real control is concentrated in the hands of insiders<sup>17</sup>. This reflects the peculiarities of Russia's clan-corporate system, in which nominal owners, in relations of personal partnership with the real owners, are widely used to control property.

The real content of practically all forms of property in Russia's transformational economy is the corporate-capitalist alienation of workers from the means of production. The actual owners (institutions that concentrate in their hands a large proportion of the property rights, above all the rights to appropriate it and to direct its functioning) of the transformational economy are nomenklatura-capitalist (clan-capitalist) corporate groups (more detail on this later).

These structures represent deformations of late corporate capital, since capitalist relations here are altered by other, more archaic relations. Within corporate groups old and new economic systems (of production, trade, financing and so forth) are transformed. These groups (1) presuppose the use not only of economic (capitalist), but also of extra-economic (bureaucratic and so forth) coercion against labour, and the presence of relations of pre-bourgeois (mafia-feudal) structuration and subordination. As a rule, they arise (2) on the basis either of a transformation of the political and economic power of the "nomenklatura" into property rights, or through the legalisation of the "shadow" sector, and retain the features of these forebears. They are organised (3) as closed bureaucratic clan-corporate structures (the "command economy" in miniature).

Attempts are often made to reduce the above-described processes of the transformation of property relations to the exclusive formula of "the development of private property", while also propagandising the recurrent myth that the former state property was distributed free of charge among the population and the workers in the enterprises. If this conclusion can be drawn, it is on the sole condition that an analysis of the real distribution

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<sup>17</sup> See Dzarasov R. S. and Novozhenov D. V. *Krupnyy biznes i nakoplenie kapitala v sovremennoy Rossii*. M.: URSS, 2005.

of property rights is rejected, and that an appeal is made only to a few legislative acts and to analysis of the forms and not the content of the property relations. In many cases, the practice of referring only to analyses of the form of property has also underlain calls for privatisation to be accelerated. Authors who analyse the transformational economy more diligently have rejected this approach.

It follows that the underlying process at work in the Russian economy is a dual one through which the relations of property are being transformed. This process has involved the disintegration of the state-bureaucratic system of property relations and its liquidation through extra-economic means; the legalisation of criminal property; and the spontaneous growth of private property on the basis of the primary accumulation of capital. There is also a parallel transformation of this formally private or mixed property into *nomenklatura* (clan)-private property. The first tendency was dominant during the 1990s, while the second has characterised the years since. The latter tendency is giving rise to extremely barbaric, reactionary forms of alienation of workers from objects of property, from labour, and from its product, while obstructing the use of workers' proprietary motivation. The effect is to counteract the development both of the socialisation of property, and the development of the petty private property of working people.

We may conclude that the Russian economy is characterised by a process through which the principles and features of the totalitarian-statised property of the past are being integrated with various deformations of the tendency to the corporatisation of property that is inherent to late capitalism, and also by the recreation of pre-bourgeois forms of coercion and dependency. To one degree or another these processes are characteristic of all transformational economies, but in Russia they have become obviously dominant.

An alternative to the existing path of transformation of state-bureaucratic property would involve creating the kind of system for distributing property rights, and the kind of property owners, that would aid in setting transformational economies on a trajectory of "outstripping development". This would require liberating the innovative potential of the majority of qualified workers in the areas of high technology, science, education and other sectors that define the economy of the twenty-first century. But such a course is impossible unless workers benefit from a substantial redistribution to their advantage of property rights, and above all, of rights to participate in management, control and other creative functions. Positive outcomes here also require the use of natural and cultural resources as universally accessible national assets. Unfortunately, the now-dominant models of transformation redistribute property rights to the advantage of the earlier-mentioned structures which are least of all interested in stimulating the development of workers' creative potential.

## **2.2. Clan-Corporate Groups: Their Structure and Channels of Power**

As was shown earlier, the decisive power in the Russian economy lies with large *nomenklatura* (clan)-corporate groups. In the overall volume of Russian industrial production in the decade from the year 2000, the 100 largest Russian companies accounted for

approximately 60 per cent, and in the crucial sectors of raw materials and finance their dominance was absolute.

Once shares in state enterprises had been privatised, struggles continued for the redistribution of control over the privatised property. The legal cover devised for these struggles often concealed methods that were less than fully lawful, or completely criminal. Additional share issues were made, with minority shareholders excluded from participating. Debt levels were increased artificially, to be followed by the transfer of debts. Companies were subjected to fake reorganisation, and shareholder registers were manipulated so as to banish “undesirables” from taking part in decision-making. Bankruptcy procedures were exploited; firms were either driven to bankruptcy in collusion with their management, or bankruptcy procedures were initiated over insignificant debts as a way of bringing in managers subject to outside control.

Taking advantage of the shortcomings of the legal system, contending groups used contradictory judicial rulings to create what amounted to dual power within enterprises. There would be two general meetings, two boards of directors, two general directors, dual registers of shareholders — right up to alternative issues of additional shares. Often, these conflicts would be settled through the armed seizure of enterprises.

The process of redistributing shareholder capital has been accompanied by a trend toward the consolidation of property ownership.

The ownership structure of many large corporations has an extremely opaque character. The controlling group usually consists of a few partners who make up a clan, tightly bound together by its members’ personal relations. Controlling rights are skilfully dispersed among affiliated entities (including offshore firms, nominal owners, private individuals, and so forth) that act as minority shareholders. Often, a whole chain of offshore firms is constructed, in such a way that the real owners do not figure in any register of shareholders. The hired directors run the enterprise on orders delivered by the real owners on a personal, “confidential” basis.

Meanwhile, the state does not always monitor even large operations involving shareholder property. Even antimonopoly organs charged with examining such deals do not always have the relevant information.

The control exercised by clan groups over corporations rests on monopolisation in the first instance of financial flows and information. In this regard, both major owners and top managers of a corporation will resort on a large scale to actions that harm the development of their own firm. Such actions might include setting out to control only the financial flows and export operations of a company, with complete disregard for the development of its productive base. An enterprise might be divided up without justification, in order to isolate its most profitable assets or the ones critical to its existence. Other actions might include selling off or leasing assets to the company’s detriment; deliberately concluding disadvantageous contracts with affiliated companies; refusing to carry out strategic tasks; using share packets solely for speculation; using a controlling packet of shares as security for credit, and so forth.



Of course, all these methods are employed without the consent of the minority shareholders, who also are completely excluded from participating in the dividing-up of the corporation's profits. To escape control both from minority shareholders and from the state, monopolising the appropriation of profits and paying neither dividends nor taxes, the clans that control large corporations make a practice of moving income and large parts of the company's general liquid resources abroad. Profits are reinvested outside Russia's borders (in the guise of foreign credits – it is no accident that one of the largest foreign investors in Russia is Cyprus), and as a rule the management of most of a corporation's financial flows is organised from abroad. Meanwhile, corresponding "transparent" accountancy documents, fully in line with national or international standards (for the placing of securities abroad, for instance) are issued simultaneously, classic examples of double-entry bookkeeping. Needless to say, no amnesty for exported capital can now change the established order.

This situation, which also exists in the largest state corporations, would be impossible to sustain in the long run without the close integration of the interests of big business with those of the state functionaries whose job it is to monitor the areas concerned. In practice, significant numbers of the officials in the relevant state bodies are supported by big capital. There is also an intensive rotation of personnel between big business and the civil service, broadly affecting even members of the government. A peculiarity of Russia is the fact that for business in our country corruption is not simply a matter of renting a particular official, but represents part of the cost of access to the market or to particular assets. In Russia a state functionary usually acts in practice as one of the partners in a clan group, participating in the division of income, including income from illegal financial flows concealed with his or her help.

The origin of the formations described here is fairly obvious. The semi-breakup of the hierarchical pyramid of state-bureaucratic property led to the appearance of a series of semi-ruined mini-pyramids, formed largely on the basis of the earlier so-called "closed departmental systems", which became simply "clans". Subsequently, the endogenous and exogenous development of corporate-monopolistic capital together with the inertia of the old system and the rapid development of pre-bourgeois forms ("princedom" and "dukedom" with their vassalage, semi-serfdom, and so on) intensified the process of formation of the clan-corporate groups. But the latter, as a result of the general causes of transformational instability, will always remain amorphous and fragile, suspended precariously in a state of semi-genesis and semi-disintegration.

Here I shall note the typical components of such a system (see figure 1).

At the bottom are the ordinary workers of a few dozen enterprises, in most cases privatised. These people are not so much in the position of hired workers as of semi-dependent "children" within this paternalist structure. They are objects of pre-bourgeois subjection and exploitation which exists in the most diverse forms, from the non-payment of wages (which turns hired labour into slave labour) to control by the corporation over the functioning of the social infrastructure, with the result that the worker-resident is bound to the

city-enterprise in the same way that serfs were bound to the land. Meanwhile, elements of the bureaucratic paternalism of the “socialist” past also persist.

On the second “storey” of these structures is the enterprise management. This is characterised by retention of the already-noted traditions of “Soviet paternalism” in its exercise of the considerable authority enjoyed by proprietors. At the same time, and in contradictory fashion, the management wields the mechanisms of power that link the survivals of the administrative-command system with early elements of corporate-capitalist administration and exploitation, while also employing elements of pre-bourgeois coercion (up to and including the use of criminal methods for pressuring organised workers and trade unions).

Still higher up will be a holding company, a large bank, and the corporation as such, where the real owners of the group will also be located. As a rule these owners will comprise three types: ex-nomenklatura figures; former (or present-day) mafiosi; and more rarely, professionals who have risen from the “lower ranks”.

This system expedites interaction with the fourth level of the hierarchy — corrupt (or “lobbied”) representatives of various legislative, executive and judicial state structures on the federal, regional and municipal levels — and also with the mass media.

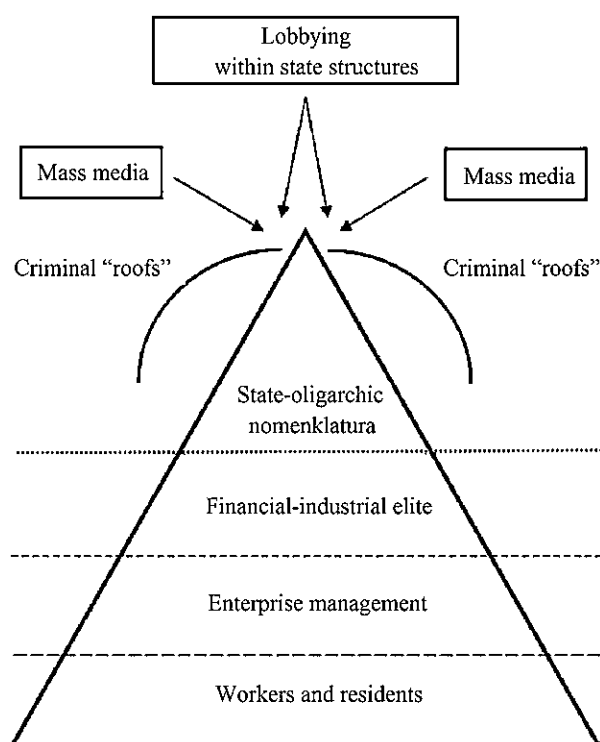


Figure 1. Structure of a clan-corporate group

Operating on the edge of these structures is a system of "roofs" — that is, protection rackets — along with small and medium-sized private intermediary businesses integrated with organised criminal groups. These will include a few private trading and brokerage firms (in practice, simply parasitical), and sometimes one or two small banks as well. Unlike small businesses in "civilised" economies, which as a rule are dependent on corporations and are exploited by them (a situation of unequal symbiosis), in the transformational economy small and middle businesses of this type (there are other small businesses that are relatively independent) are established by the bosses of the corporations for the purpose of siphoning off resources from these large structures (which as a rule are in a difficult economic situation) into the pockets of their owners. No attempt is even made to cover the costs (wage payments, for example) or to pay the taxes of the structure as a whole, and this qualitatively increases the personal incomes of the structure's elite.

The main rights of ownership over this system as a whole are concentrated in the hands of a narrow circle of people centred within the administration of enterprises, the management of banks and lobbying structures, and also including the actual owners of private daughter firms. I stress: what is involved here is real property rights, economic power, and not simply shareholdings, though the latter are also important.

What are the main mechanisms of social and economic power within these corporate structures?

The most obvious, though not the most important, consists of property in shares. To exercise real control, it is often enough for a group to own 10–15 per cent of the shares of the firms involved, provided that (1) the remaining shares are dispersed among numerous small owners who are incapable of coordinated action; (2) the owners of these 10–15 per cent, by contrast, are united in their entrepreneurial activity (make up a "clan"); and (3) these owners have their hands on other threads of economic power and control.

Who are the people who today possess such consolidated packets of shares in most former state enterprises? In Russia, according to expert assessments, the typical picture is as follows. From 10 to 20 per cent of the shares may be held by the state (in so-called "state corporations" this proportion is of course greater — as much as 51 per cent and more. But as in the case of private bodies, real power over these assets lies with private individuals, with bureaucrats representing the state, top managers and other insiders. In the initial period of privatisation personnel of the enterprises had received as much as two-thirds of the shareholding capital, but already by 1998 these people retained less than 40 per cent of the total. At present, by and large, no more than 10–20 per cent of shares are in the hands of workers, and taking Russian legislation into account, this means that these shareholdings are not consolidated. Moreover, and as noted earlier, the workers in Russian enterprises in most cases remain passive; they are not combined in associations (the trade unions, as a rule, refrain of their own accord from involving themselves in questions of property), and are incapable of united action as property owners and still more, as entrepreneurs. In the overwhelming majority of cases enterprise em-

employees entrust their basic property rights to the higher management of the enterprises for which they work.

By contrast, the largest shareholders and top managers (insiders) make up a consolidated structure united by decades-long traditions of common subordination and joint caste life (a lower-level “nomenklatura”). In the late 1990s these people possessed as many as 15 per cent of the shares, and now as a rule hold controlling packets (in most cases far less than 51 per cent is enough to ensure this).

A second vital mechanism of control by the clan elites is administrative power. In the circumstances of Russia, with its age-old traditions of submission to authority, the administrative power of higher management plays one of the key roles in forming durable clan structures. This power is combined with such specific phenomena as the retention by enterprise management of control over the housing fund, social infrastructure, and so forth (departmental apartments, kindergartens, clinics, and so on).

This, however, is only the power that enterprise administration possesses in relation to workers. There is also the administrative control that state structures (including regional structures, and especially, governors and their “teams”) exercise over enterprises. Survivals of the command economy (the “planning deal”, bureaucratic paternalism, and so forth), together with the chaotic present-day bureaucratic impact of a multitude of different departments on the market and on the process of redistributing property, mean that the state bureaucrat becomes if not a “father”, then at least an influential “uncle” in relation to the enterprise director.

Advantageous credits and tax concessions; the position of the judiciary; the benevolent or fault-finding attitude of inspectors of various types; to at least a minimal degree, state orders (for the giant defence sector these are still extremely important); high export tariffs or, on the other hand, protective import duties; direct subsidies (for example, to miners), and so forth, all make the administrative authorities (central and regional governments) extremely important, despite the apparent collapse of the “administrative-command system”.

The most important mechanism of economic power is financial control. Throughout recent decades most Russian enterprises have been in a state of permanent and acute financial crisis. Money is short for the payment of wages, and for meeting raw materials and energy bills, not to speak of funds being available for investment. A constant crisis of reciprocal non-payments, along with a need to beg credits at any cost from the state and/or banks, has become the rule. Under these conditions, a chain of financial dependency operates.

At the very lowest level is the worker, who may or may not get paid his or her wages (this depends directly on management). At a higher level is the dependency of management on the banking system. Will a bank provide credit or will it not, and if it does, on what terms? The administration may also use the services of a bank (usually through “dummy” companies) to “spin” money meant for paying workers and contractors. For two or three months, sometimes even six, managers will seek to increase the initial sum through short-term trading or hard currency operations, most of them speculative. A proportion of these additional funds will go to the enterprise, but by way of the bank, a substantial part will finish up with the clan bosses.

Still higher up are state organs, from the petty bureaucrats of the regional administration all the way up to the president and parliament. All these organs distribute and redistribute various state resources and benefits. We should add to this the highly active influence of the Ministry of State Property on the process of privatisation; of the foreign trade bodies on the conditions affecting export and import deals; of the presidential administration on tax concessions; and of parliament on the apportioning of budget funds. The result is an extremely complex system of financial interconnections between enterprises, banks and various federal, republican and regional state organs.

Nor should we forget such a mechanism of economic power as personal ties. They crown this whole pyramid of dependency, combining together, like wolves in a pack, the elites of the enterprises, banks, commercial structures and state organs. These personal ties are stronger for the fact that the overwhelming majority of members of the clan elites came from one or another group of the earlier *nomenklatura* (the sum of these features of the clan-corporate groups makes it possible to apply to them the English-language term *patronage machine*).

Finally, closeness to the "shadow" structures of the criminal underworld lends these constructs a special solidity and a genuine "clan" shape. It is necessary to recall that the criminal economy of the past – until the late 1980s almost all private business in the USSR was semi-legal, and as a result closely tied to criminal elements — was one of the main sources for the rise of private business. Today, state and former state enterprises always have private firms attached to them, to expedite the transfer of funds from the corporations into the pockets of their real owners. Taking this phenomenon into account, it should be recognised that most corporate structures have at least incidental ties to the criminal economy. Moreover, in a country with fickle legislation, constantly changing government personnel, and a high degree of top-level corruption, lobbying in and of itself has the character of partially or directly illegal activity (often, though somewhat imprecisely, described as mafia activity).

The result is that all these structures are drawn reciprocally into activity that is more or less dubious from a legal point of view. This does not necessarily include rackets, contract killings, blackmail, extortion or bribery (though in Russia all these exist in abundance). It may consist "merely" of delaying the payment of wages and of "spinning" the money involved through commercial organisations; of providing cheap credit in exchange for support during an election campaign; or of other moves whose effect is to bind the clan elites with mutual guarantees.

Within the property structure, the presence of "shadow" or frankly criminal capital is also quite apparent. Control over a number of Russian enterprises producing raw materials and metals is nominally exercised by a large number of perfectly respectable firms that own small packets of shares in these corporations. But on more careful examination it turns out that these firms are no more than intermediaries, acting through a chain of other intermediary firms on behalf of a few companies of unknown origins, registered in offshore zones. The policies these companies implement are coordinated to an astonishing degree. If we reflect, moreover, that the process of dividing up the shareholder capital of (for example) aluminium

plants has seen the killing of large numbers of associated entrepreneurs and plant managers, the suggestion that the controlling firms are criminal in nature becomes highly persuasive.

Finally, the clan-corporate structures provide the foundation for the system not only of economic, but also of political power. In this case, however, the relationship is not simple. Most clans support several political blocs and parties at the same time, and most parties rest simultaneously on a number of clans. A highly involved confluence of interests thus arises, one that is relatively remote (though not absolutely divorced) from the ideological and programmatic profiles of various parties.

This makes it possible to regard the relationship between Russian clan-corporate groups and developed-country transnational corporations in various ways. Of course, comparing the far-from-edifying picture above with the description of a transnational corporation in an American textbook yields a one-sided result: the only things in common are a few superficial traits. But an analysis of intra-corporate relationships in the US performed by a number of North American researchers shows that there is nonetheless a resemblance. Further evidence of the real (as opposed to the official, nominal) relationships and distribution of power within corporations is to be had from depictions in such sources (considered dubious in the academic milieu) as artistic literature and the cinema. The resemblance between the Russian clan-corporate group and the Western corporation, though, is not akin to the relationship between a portrait and the original, but to that between a real phenomenon and a caricature. The latter grotesquely exaggerates all the faults and vices of the original.

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Is there any chance for an alternative dynamic in our country's economy? The author have written on various occasions about the potential of the post-Soviet economy for rapid modernisation. Together with colleagues, we elaborated three successive variants of a strategy for rapid development<sup>18</sup>. This strategy proposes, in particular, exploiting the still-surviving potential of the former Soviet Union in the fields of fundamental and applied science, education, and culture, a potential which can yield new technological and humanitarian advances for the entire world community. Making use of these outcomes can ensure a high degree of economic effectiveness both for those who develop and for those who employ them.

Such a strategy, however, requires qualitative changes to the whole system of economic relations and institutions, as well as consistent democratisation of the political system. This alone can create the preconditions for ending the power of the Russian dinosaurs and for allowing our country to progress beyond its "Jurassic capitalism".

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<sup>18</sup> For a more detailed treatment, see the two-volume work Buzgalin A. V. (ed.) *Strategiya operezhayushchego razvitiya — III* (Moscow, 2011), as well as the earlier-cited work by S. Yu. Glazyev and the monograph by G. N. Tsagolov *Model' dlya Rossii* (Moscow, 2010).

# Collective Enterprises in Russia and America: from Theoretical Controversy to Practical Consensus<sup>1</sup>

Rifat I. Khabibullin

*Research Associate, Central Economics and Mathematics Institute of RAS*

*khabibullin16@gmail.com*

The article presents the results of the author's study of present state of collective enterprises (joint-stock companies with employees as shareholders). It is noted that in Russia this form of business is not sufficiently developed. The study discusses the experience of organizing the employee-owned companies in Lipetsk region: their governmental support, functioning and commercial efficiency. The article provides a comparative analysis of activities of employee-owned companies and companies functioning on the basis of other business models. It considers the economic efficiency of collective firms in Russia (collective enterprises — CE) and the USA (enterprises based on Employee Stock Ownership Plan — ESOP model).

It was demonstrated that employee-owned companies have considerable over the enterprises of other forms of ownership concerning better control of production due to participative management, more comfortable psychological climate and higher competitiveness. We show that the factors of socio-economic sustainability of such enterprises are based on interest of the labor collective in the products of their work. The origin of such interest is an opportunity for each employee to participate in management of the company and his high social security.

**Keywords:** collective enterprises, employee-owned companies, joint-stock companies with employees as shareholders, efficiency, labor collective, democratization of property, ESOP (Employee Stock Ownership Plan), institutional environment

## Introduction

The analysis of state of the art in Russian industry indicates that a very unsatisfactory situation has emerged among the Russian enterprises [1]. This unfavourable situation is particularly evident among the industrial companies. According to the survey of "The Russian Economic Barometer", 36 % Russian companies managing directors evaluate their financial state as "poor", the share of industrial enterprises not buying equipment for 2 or more months amounts to 43 % and loading of productive capacity is only 78 % from the normal level [2].

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Both literature data and our investigation pinpoints that one of the major reasons of crisis for many enterprises is the authoritarian management style when decision-making is restricted by only one person — the CEO who is endowed with nearly dictatorial power. Such a system of managing enterprises allows to solve the urgent problems but at the same time deprives the enterprise of sustainable potential development as it does not allow employees to engage in the production process in full, and thus to determine its potential [3]. The key to success in Russian management model formation is including the potential of employees in corporate governance and, above all, active use of soft skills in management practice [4].

Therefore, the forms of management, organically combining the benefits of individual employees and the enterprise in general are of special interest. In this case managing is based on efficient allocation of resources. In real conditions of Russian reality, this type of management is realized at the collective enterprises (CEs) based on collective employee ownership.

According to Prof. Kolganov, CEs have advantages associated with improved socio-psychological climate in labor collective, developed corporate solidarity, increased efficiency of production and management [5]. The essence of the CEs is uniting the potential of real economic power of labor and the principles of self-government. The concept and classification of CEs are introduced in [6].

This approach is also reflected in the works of contemporary scholars in management. For example, in the book of Frederic Laloux “Reinventing Organizations”, the so-called “teal organizations” are based on the organizational culture of self-government [7]. After examining the practice of such companies, Laloux concludes that in such self-governing organizations, there is a set of rules. Among them are the following: a) the advice process; b) a conflict resolution mechanism; c) peer-based evaluation and salary process.

The objectives of this study were to analyze the current situation state and efficiency of CEs based on collective employee ownership (75 % and more).

## **Results and discussion**

### **Current state of development of CE in Russia**

Currently, the number of CEs in Russia remains at a catastrophically low level compared with other countries. Since the late 1990s, there have been registered about 200 joint-stock companies with employees as shareholders, but in the last few decades, there is a tendency to reduce them. However, the reasons for reducing the number of such enterprises turn out to be not economic, but, mostly political and legal [8].

Today Russia has only 46 successfully functioning CEs (see Table 1). Most of them (39) has a number of up to 500 people. There are only 3 collective enterprises which have more than 1000 employees. CEs are represented in 23 regions of Russia, with half of them (23) concentrating in 2 regions (Lipetsk and Sverdlovsk regions).



Lipetsk is a significant example of developing collective forms of management where a unique program for Russia was initiated, launched and maintained [9]. It consists of two main stages: the regional target program development of CE in the Lipetsk region for 2012–2014 and long-term state program development of cooperation and collective forms of ownership in the region of Lipetsk for 2014–2020 which is planned to increase the number of CE in the Lipetsk region up to 43 by 2020.

**Table 1**  
Distribution of CEs in various regions of Russia

Region	Number of CEs	Region	Number of CEs
Lipetsk	16	Krasnodar	1
Sverdlovsk	7	Nizhny Novgorod	1
Altai	2	Oryol	1
Tambov	2	The Republic of Tatarstan	1
The Kabardino-Balkar Republic	1	Rostov	1
Amur	1	The Republic of Kalmykia	1
Arkhangelsk	1	St. Petersburg	1
Belgorod	1	Saratov	1
Volgograd	1	Smolensk	1
Transbaikal	1	The Udmurt Republic	1
Kaluga	1	Chelyabinsk	1
Kursk	1		
<b>Total</b>			<b>46</b>

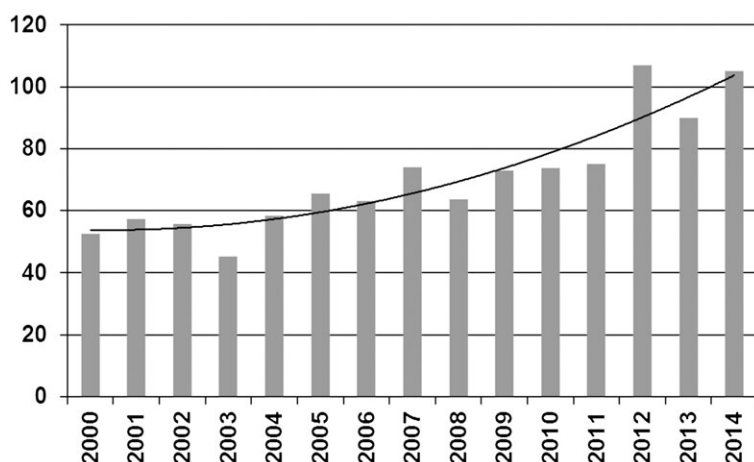
Source: Calculated by the author

In order to support the organization of CEs, administration of Lipetsk region has provided the following measures: providing the subsidies for reimbursement of the costs of organization expenses associated with the creation of CE; grants for reimbursement of expenses (30 %) to acquire fixed assets; grants to legal entities to create CE for reimbursement of expenses on legal, advisory support and training of employees. Additional support measures introduced since 2014 are: grants to CE for compensation of expenses to pay the first lease payment of 30 % of the cost of equipment; loans of up to 5 million rubles for up to three years.

At the very launch of the project there was much skepticism about the idea of supporting creating of CE. There were doubts that the program will work at all. But, the result has justified itself. Now Lipetsk region has 16 CEs in such socially important spheres as housing and communal services, public transport, public catering etc. Creating CEs in road construction which will provide travel and transportation services are also planned.

### Efficiency of Russian CEs

One of the crucial questions is the problem of effective functioning of CEs. For example, Glushchevsky [10] called the structure of CEs unsustainable. According to Prof. Taranukha [11] “it is customary to speak of lower level of efficiency on such enterprises. Their internal efficiency is lower in comparison with the capitalist profitable firms”.



**Chart 1. Dynamics of the average value of net profit of CE in Russia (2000–2014), mln rubles**

Source: Calculated by author

Based on the following theoretical preconceptions let us try to answer the question about the effectiveness of CEs over traditional companies. For this purpose, a comparative analysis of the results of CE with traditional companies for the period of 2002–2015 has been carried out. The primary object of our study was CE “Naberezhnye Chelny Cardboard and Paper Mill (CSC) Named after S. P. Titov” (NP KBK) being a collective enterprise since 1990s. To secure us from misinterpreting our data we also conducted a comparative analysis of similar commercial enterprises belonging to the same branch of industry and relatively the same size.

According to the results of the study NP KBK is not only equal to similar companies in all the main indicators characterizing the efficiency of financial and economic activity but even exceeds them. NP KBK demonstrates sustainable growth in dynamics of production from 2002–2015, far ahead of its competitors. The mill is a stable leader in net profit as well as in working efficiency. It is noteworthy that in 2012, NP KBK obtained the highest profit in the history of the enterprise. Moreover, under conditions of economic crisis of 2008–2009, the indicators of NP KBK demonstrated growth, compared with decrease in indicators of analogous enterprises.

We can conclude the participants' interests NP KBK are more balanced, moral-psychological climate is quite favorable, most workers are involved in management processes, which positively affect the whole enterprise [12].

According to our comparative analysis of corporate cultures of CEs and traditional companies [13], corporate culture indicators for CEs exceed the numbers recorded for traditional companies. Employees of CEs demonstrate a higher level of solidarity, trust, professionalism, diligence, commitment, responsibility, pursuit of new knowledge, and corporate pride.

In addition to the efficiency the quality of the employees life is, of particular interest on such enterprises. Social security of employees at Russian CEs is high enough which provides a favorable psychological climate on the work place and social stability, even against the backdrop of any crisis.

However, in Russia this form of business is not sufficiently developed. The reasons for that are many: ranging from historical to political [14]. According to Prof. Buzgalin, "we have no socialization of property relations and participation of workers in management that is found in the United States and many European countries" [15].

### **Current state of development of American CEs**

In the USA, the employee stock ownership and the companies based on it have developed within the frame work of so-called Plans of ESO (Employee Stock Ownership Plan), allowing the employees to buy shares of the company in which they work, at their own expense of the company's revenue [16]. Article 4975 of the Tax Code of the USA states that ESOP is a program with defined contribution, the funds of which are invested primarily in the shares of the corporation where the employee works.

Per stock ownership of employees in 2015 was accounted for about 8 % of all US corporate property (7000 employee stock ownership plans covering about 13.5 million employees) [17]. Since the beginning of the 21st century there has been a decline in the number of plans but an increase in the number of participants. The table 2 below shows that the number of plans identified as ESOPs has decreased, but the number of active participants has steadily increased. While 2,079 fewer individual ESOP plans filed in 2013 compared to 2002, the total number of participants increased from 10.2 to 13.9 million over the same period. Currently employed workers covered by an ESOP (active participants) increased from 7.9 million to 10.6 million [18].

In the foreign literature there are many works dealing with the comparative analysis of activity of the companies that have implemented or not implemented ESOP. M. Blair, D. Kruse and J. Blazey have compared the results of a control group of companies with the companies having ESOP. Such indicators of the companies' activity as sales growth, increase in the number of employees being engaged and output per 1 employee, have improved after the implementation of ESOP and surpassed the performance of companies that did not apply such a program [19].

R. Stretcher and S. Henry assessed the performance of companies that implemented ESOP in the years 1998–2004, having analyzed the data of 196 companies [20]. The data of each company having implemented ESOP were compared with those of similar companies not applying the system of attraction of employees to participate in the ownership. It was found

**Table 2**  
Trends in ESOP (Numbers and Participation)

Filing Year	Number of ESOPs	Total participants	Active participants
2002	8,874	10,230,425	7,946,652
2003	7,934	10,049,154	7,570,321
2004	7,348	10,243,283	7,826,741
2005	7,198	11,998,319	9,448,271
2006	7,384	12,584,772	9,850,008
2007	7,326	13,218,808	10,173,536
2008	7,305	13,037,946	10,055,117
2009	6,690	12,996,711	10,014,524
2010	7,138	13,477,187	10,306,818
2011	6,941	13,462,955	10,288,363
2012	6,908	13,823,595	10,603,334
2013	6,795	13,927,535	10,578,114

Source: [18]

that the return on assets, return on sales and the ratio of cash flow to assets of ESOP companies were higher than the same indicators of companies not participating in the program.

Among the researchers, there are many critics of ESOP. Thus, according to Nobel Laureate, Paul Samuelson, the ESOP programs are largely myths. Nevertheless, these myths are very profitable businesses, as ESO plans provide significant tax benefits to corporations [21].

However, according to Simmons and Logue “the state has in contest able proof that the growth in labor productivity, profit and income of employees, provided by management on the basis of employee ownership, leads in the long term to an increase in revenues from the growth of tax levies. At the same time, reducing unemployment and increasing the income of the workers decrease the social costs of the government” [22].

Among some foreign economists there is an opinion that the ESOP leads to isolation of the firm and reduction of innovative activity [23]. Lamberg and the others [24] believe that the use of ESOP generally, may place the economic security and sustainability of the company in jeopardy.

S. Freeman notes, there is still a lot of gaps and disadvantages in the areas like research in the field of ESOP and unresolved and uninvestigated questions on this topic [25].

No matter there are striking similarities between Russian collective enterprises and American ESOP enterprises there are significant differences both in the system of management and in what we mean by the notion “corporate culture” It turns that in companies based on ESOP employees shares in capital can be of any percentage (at least greater than 0). This means that granting non-voting shares to workers (in 90 % of cases) formally turns workers (potential

co-owners with a right to vote) into investors. Hereafter, for employees holding just a fraction of the company's capital the possibility to exercise owner's function is nearly nullified.

Therefore, in this paper regarding the ESOP, we are only talking about those American companies that are 100 % owned by its employees.

In 2015, the top 100 employee-owned companies employed more than 626000 people [26]. To the companies that are 100 % owned by their employees, one may refer Lifetouch (25 thousand of employees), Penmac (17 thousand of employees), Amsted Industries (16 thousand of employees), Houchens Industries (18 thousand of workers), etc. (see Table 3).

**Table 3**  
America's Largest Majority Employee-Owned Companies (100 % employee-owned)

Rank	Company	City	Start Date	Business	Employees
1	Lifetouch	Eden Prairie	1977	Photography	25000
2	Houchens Industries	Bowling Green	1961	Supermarkets & other services	18000
3	Penmac	Springfield	2010	Staffing	17000
4	Amsted Industries	Chicago	1986	Industrial components	16800
5	Parsons	Pasadena	1974	Engineering & construction	15000
6	Alliance Holdings	Abington	1995	Holding company	14670
7	Davey Tree Expert	Kent	1979	Tree & environmental services	8300
8	The Burnett Companies Consolidated, Inc.	Houston	2010	Staffing services	7040
9	Brookshire Brothers	Lufkin	2001	Supermarkets	7000
10	Austin Industries	Dallas	1986	Construction	6500
11	Rosendin Electric	San Jose	1992	Electrical contracting	5300
12	Burns & McDonnell Engineering	Kansas City	1985	Architecture & engineering	5000
13	Blue Tee Corporation	New York	1996	Industrial machinery distribution	5000
14	Gensler	San Francisco	1987	Architecture	4500
15	Cianbro	Pittsfield	1980	Construction	4200
16	Harp's Food Stores	Springdale	1988	Supermarkets	4060
17	EmpRes Healthcare Management	Vancouver	2009	Post-acute long term care	4000
18	Schweitzer Engineering	Pullman	1994	Engineering	3800
19	Terracon	Olathe	1991	Engineering/consulting	3500
20	Lewis Tree Service, Inc.	Rochester	1998	Tree services	3430
21	KPH Healthcare Services, Inc.	Gouverneur	1944	Drugstores	3310
22	Homeland Acquisition Corporation	Oklahoma City	2011	Supermarkets	3200

End of Table 3

Rank	Company	City	Start Date	Business	Employees
23	Recology	San Francisco	1985	Waste management	3200
24	Reasor's	Tahlequah	2005	Supermarkets	3000
25	RPCS, Inc.	Springfield	2004	Supermarkets	2900
26	McCarthy Building Company	St. Louis	1996	Construction	2800
27	Chemonics International, Inc.	Washington	2001	International development	2790
28	Alion Science and Technology	McLean	2001	Technology services	2700
29	Martin Resource Management Corporation	Kilgore	2012	Distribution & transportation	2600
30	ACCO Engineered Systems, Inc.	Glendale	2007	Heating & air conditioning services	2300
31	Mayville Engineering Company, Inc.	Mayville	1959	Engineering & manufacturing services	2000
32	Medicalodges	Coffeyville	1990	Nursing homes	2000
33	Border States Industries	Fargo	1984	Electrical supplies	1900
34	Round Table Pizza	Concord	1984	Pizza franchise	1830
35	Enercon Services, Inc.	Kennesaw	1992	Engineering	1800
36	Jasper Engines & Transmissions	Jasper	2010	Engine & transmission remanufacturing	1700
37	STV Group	Douglassville	1981	Engineering & architecture	1700
38	Martin & Bayley, Inc.	Carmi	1984	Convenience stores	1500
39	TPI Hospitality	Willmar	2014	Hospitality (hotel & restaurants)	1500
40	Acuity Healthcare	Charlotte	2014	Hospitals & healthcare services	1450
41	Hypertherm	Hanover	2001	Engineering & manufacturing services	1400
42	Sundt Construction	Tempe	1972	Construction	1360
43	Barton Malow	Southfield	1952	Construction	1350
44	Thrifty White Pharmacy	Plymouth	1976	Drugstores	1350
45	Holden Industries, Inc.	Deerfield	2007	Manufacturing	1310
46	Travel and Transport, Inc.	Omaha	1991	Travel management	1200
47	Swinerton Builders	San Francisco	1962	Construction	1100
48	FBG Service Corporation	Omaha	1992	Building services	1090

Source: [26]

Companies applying the plans of employee ownership participation, demonstrate impressive results and their indicators prove to be much better than in those companies not applying ESOP [27]. It is no surprise why this retirement plan has gained popularity among business owners, management, and employees. For shareholders, ESOPs are a valuable liquidity mechanism that minimizes business disruptions. For employees and management, ESOP participation is a reward for years of dedication and hard work and an incentive for future business growth [28].

Employee ownership has its drawbacks. One issue is risk, when workers have too many eggs in one basket and should the company fail or significantly decrease in share value, then employees can lose it all — investments, pensions, jobs. A second issue is entrenchment. Critics argue that it can entrench underperforming workers or bad management and undermine company's long-term competitiveness. A third issue is entitlement. The strongest argument in favor of employee ownership is that workers will not only work harder, when they get a slice of profits or other benefits, but they encourage colleagues do so too. However, the success of an employee ownership greatly depends on the way it's structured, and motivations behind its adoption. There are many positive reasons for employee ownership, but much attention must be paid to — its purpose, fairness [29].

One example that is less known in the West is Chinese telecom giant Huawei, a private company owned by its employees [30]. Founded in 1987 by Ren Zhengfei, today it employs about 170000 staff, including more than 40000 non-Chinese (75 % of employees outside China are local hires), and serves more than 3 billion customers worldwide. Today, Zhengfei himself holds only 1,4 % of the company's total share capital, with 82471 employees holding the rest (as stated in Huawei's 2014 Annual report, as of December 31, 2014). Furthermore, because Huawei is not a public company and owned by its employees, employees take a large share from the company's profit [30].

## Conclusion

Our study gives credibility to the starting point of our investigation — the thesis that corporate ownership has many advantages over capitalist companies. The success of the enterprises with employees as shareholders both in Russia and in the USA is based on a number of factors. The joint stock companies of employees (collective enterprises) have significant advantages in ensuring high labor motivation of employee's output, overcoming the contradictions between labor and capital, reducing the level of opportunistic behavior of employees, improving the quality of products. The institutionalization of partnerships for coordinating major social and labor interests in the company on the basis of the democratization of the property with the tools of participatory management is a prerequisite for sustainable development of the CE.

Moreover, within the general trajectory of the evolution of the structure of corporate ownership, CE demonstrate an effective collective owner even in real conditions of Russian

reality. High socio-economic efficiency of employee-owned companies serves as evidence for the need to spread this practice widely. It has been found that the area of the effective functioning of the national economy of Russia is the development of employee-owned companies.

We believe that, the core strategy of the optimal development of the national economy should be a system of measures to ensure the effective integration of host motivation and entrepreneurship of the majority of population, the creation of institutional conditions for development of democratically controlled companies owned by their employees.

## Acknowledgement

This research was supported by grant № 14–18–02294 from Russian Scientific Fund.

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# Soviet Socialism: Politico-Economic Analysis

**David B. Epstein**

*Doctor of Economic Sciences (DSc(Econ)), Professor, the chief researcher  
of the North-West Research Institute of Agricultural Economics of Russian Academy of Sciences  
epsteindb@gmail.com*

The article analyzes the economic achievements as well as shortcomings and problems caused, first of all, the mismatch of economic governance system of the USSR in the 60–80s to the requirements of scientific and technological progress. During this period the country had made significant progress in creating conditions for the full development of a human being in education, health, culture and recreation. Analysis of the dynamics of wages and distribution of the social product demonstrates that it was carried out in the interests of the society, of all the classes and strata, rather than the layer of managers and officials. This meets the requirements of socialism. On this basis the concept, describing the Soviet Union as a system of dictatorship “of the Party and state bureaucracy” or “state capitalism” is criticized.

**Keywords:** USSR, central planning, socialism, wages in the Soviet Union, the party-state bureaucracy, state capitalism

The “Lenand” publishing house has recently published my book “Socialism of the XXI century: Theory and evaluation of experience of the USSR”<sup>1</sup>. The book is devoted to the theoretical analysis of the experience of socialism in the USSR, its contradictions and the research on the basis of this experience, what the socialism of the XXI century should be. I consider myself a critical Marxist upholding the Marxist approach, and I propose to renounce some utopian views on socialism. The book is in an active controversy with theories of “state capitalism”, “the rule of the party-state bureaucracy” and it is therefore debatable. This article is based on the material of one of the chapters of this book.

## Problems of the USSR Economic mechanism in the 60–80s

Today, twenty-five years after the disappearance of the Soviet Union from the world map, it is evident that in order to the successful development of the economic reforms in the Soviet Union the content of them must have been concentrated around radical increase

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<sup>1</sup> *Epstein D. B. Socialism of the XXI century: issues of theory and evaluation the experience of the USSR. Lenand/URSS, 2015. P. 525. For more information refer to the site of the publishing house <http://urss.ru/214066&src=outlook>*

in the degree of economic freedom of enterprises and their associations and transfer of state management of the economy to the new planning and management methods. A gradual abandonment of central planning policy in the form of a system of mandatory plan targets for each enterprise, transition from direct management to regulation of the economy was required. The fact was that the policy of centralized planning system by the fifties had already started to slow down creation and dissemination of scientific — technical progress (STP), and improving the efficiency of the economy.

This slowdown occurred because, firstly, the initiatives to introduce the achievements of STP and to improve the economy originated mainly in the central authorities, notably, the State Planning Commission. The rest chains of the organizations, and, above all, ministries, enterprises and their leaders were to support these initiatives. While in the industrial and post-industrial economy, especially in conditions of constant economic competition between the two socio-economic systems, the initiative should come from the management of each enterprise.

Initiative of the millions to improve the effectiveness and implementation of scientific and technological achievements is stronger than initiative of hundreds or even thousands of employees of the central planning units. Furthermore, the State Planning Commission and its subordinates implemented only those innovations that they had already been known and tested, i.e., after they had somewhere been already widespread, while advance in science and technology and product quality required that enterprises looked for, found, implemented or even created such innovations themselves.

Secondly, slowdown of growth of efficiency and innovations happened because the targets for the implementation of the STP under the planning system contradicted to the targets for the current volume of production and its growth. It was more important for the managers of the enterprises to achieve targets for volume indicators, as payroll and bonuses in the first place, were dependent on volume indicators. This is understandable, since the failure to volume indicators meant disruption of supplies for some other companies.

Constant shortage of certain types of industrial products and consumer goods was another important drawback of the old system, which was systematically reproduced because of the fixed prices — fundamental shortcomings of the state system. Under this system, local deficits are inevitable even if there is overall balance of cash and goods. A shortage of consumer goods gave rise to speculation, black market, bribes, corruption, strengthening of the privileges of the controlling social layers, etc. etc.

Could we change the bad and outdated targets system for another good and modern one? Today it is clear that it would not have given significant results, although today there are economists and politicians, who believe that if in the 1960s or 70s we introduced, for example, mandatory assignments for reduction of the cost of production, together with other indicators, it would have saved the old economic system. After all, the previous system had enormous historical merits. It allowed in the shortest historical period to industrialize the country, in 1941 to evacuate a substantial portion of industry to the East, to produce

more high-quality military equipment than the whole Europe which worked for the benefit of Germany, to win the Great Patriotic war, to restore the economy and then to create the strong economic base that ensured not only the military — strategic parity with the US and NATO, but also a large part of our present economic level<sup>2</sup>.

The system of centralized administration in the 1970s had some advantages over the market-regulated systems, for example, the absence of crises, stability, fixed prices, and because of this, the ability to anticipate and even plan for the future development for 5 years or more with minimal risk. These significant and important advantages in the 60–70s had not yet turned to their negative side, above all, slowdown of efficiency growth of the economy, modernization of production assortment, of quality improvement, etc.

It is important to take into account the fact that among the scientists — economists there was no agreement on the direction and pace of further reform. They were split into “Tovarniks” who bounded the further development on the strengthening of the role of market — value regulation of the economy and commodity production, and “Netovarniks”, who argued that under socialism, production was directly social, as the ownership of the means of production, social production was centrally planned and therefore, spontaneous laws of markets, value and commodity production were not relevant. Therefore, the country needed to enhance the quality of central planning. Thus, the government received contradictory recommendations. The success of our neighbors in the socialist system, to introduce more market-based “game rules”, for example, in Hungary and Yugoslavia was not so impressive to definitely follow their examples.

According to a well-known critic of the Soviet official data statistics Gregory Hanin, in the period of 1960–1985 there was a significant deterioration in the quality of centralized management and planning bureaucracy. He attributes this to the decline in the quality of management at the highest level after Stalin's death and the victory of the leaders of the “party faction” over public managers after the expulsion of the group of V. M. Molotov by the group of N. S. Khrushchev<sup>3</sup>, to reduction of the number of targets, as well as the common aspiration of the guiding layer for relaxation after the hard period of the 30–50s.

He, in particular, believes that certain changes in the system of planning indicators could “offset the impact of factors causing decrease in the rate of economic growth”<sup>4</sup>. In particular, he discusses such changes as “...replacement as a policy indicator of gross output, which stimulates increase in material costs, with indicators, based on the labor complexity of the product... and a greater level of accounting of product quality in the planning and evaluation of the economic organizations”<sup>5</sup>. However, firstly, the 1960–1980s were characterized by phasing replacement of the gross indicators with indicators of com-

<sup>2</sup> However, this system until 1953 was based on repressions and, often, on non-economic coercion.

<sup>3</sup> Hanin G. I. (2002) The decade of the triumph of the Soviet economy. Years Fifties. // Free thought — XXI. № 5. (ci tat <http://www.noogen.su/hanin.htm>).

<sup>4</sup> Ibid.

<sup>5</sup> Hanin gives the following data: rising from 4744 in 1940 to 9490 in 1953, the number of indicators of national economic plan was then continuously reduced to 6308 in 1954, 3390 in 1957 and 1780 in 1958. Ibid.

modity production, profits, and then — with indicators of net normative production, which retained the advantages of indicators of the normative labor content of the product, but had no some of their drawbacks. Secondly, as we will show further, no indicators alone adequately express the public's economic interests. The main improvement of management under the previous centralized system must have been executed (along with the improvement of performance) through the requirements of not only formal assessments, but meaningful assessments of quality of enterprises activity.

As for avoiding excessive and often unacceptable rigidity and brutality of the leadership of the Stalinist period, this avoiding seems objectively necessary. Adoption of collective leadership, greater consideration of the interests of the regions, associations, enterprises, places brought certainly additional incentives and opportunities for sustainable development.

The author of this article at the time clearly understood that substantial weakening of the central planning and, even more, the rejection of it, implied, in fact, move away from such an important, seemingly basic, principles such as the dominance of public ownership and public interest in the economy, price stability, payment for labor, etc. How and what steps were needed to move towards greater market principles, was not clear in the 1960–1970s.

On the other hand, it was evident that no new indicators would force managers at enterprises to comply the production directly with the interests of the society, if they do not want it, and after all this was the aim of the reforms.

Usually one speaks only about the success of the so-called Kosygin's reforms of the 1965–1970, that the rate of economic growth increased significantly, profits of enterprises increased, material consumption of the social product was reduced. Meanwhile little is said about revealed significant shortcomings in the very concept of reform. The new figures indicators did not prevent the enterprises to take care in the first place, about the growth of payroll and bonuses, but not about the public interest. This is no accident; it is a defect of any formal system of indicators of such a complex reality as the economic activity.

If the business plan indicator of the pipe production plant is in tons and this indicator is tied to bonuses, the plant would produce thick and heavy pipes as much as possible. If you plan in meters, as the proponents of the new systems of the indicators often suggested, then the plant on the contrary, would produce long and thin tubes as much as possible, to increase the length of the products and reduce the costs of production. If the plan is in rubles, it will focus on the most expensive pipes. If the State demands from the enterprises to coordinate parameters of pipes with their customers and, for example, to tie bonuses with profit in practice it would lead to the production of the pipes with higher cost. The reason is that the profit within the price was determined in proportions to the cost, and more expensive pipes would be financially beneficial for both the suppliers and the consumers in those conditions.

Planning from the top indicators of the costs reduction would not have saved the enterprises from ignoring the public interests, since, firstly, the cost savings in excess of a certain level lead to reduction in quality. Secondly, the enterprises in this case, having reduced the costs where it was easy, then, under various pretexts, “modified” production and justified to

the planning authorities and users much more expensive production. It is, what in fact, occurred. Supposedly, progressive model of higher quality appeared which was much more expensive so that for somewhere five years there was the opportunity to steadily reduce the costs and receive bonuses. Both consumers and even planning authorities played such “games”, because they did not significantly harm neither the ones nor the others.

Thus, the fetishization of any kind of indicators, replacing meaningful reforms with improvement of the system of indicators, combined with increased freedom to dispose the profits was not the right way of reforming the economy.

In fact, the economic reforms until 1986 were carried out unfortunately mainly in the direction towards development of planned regulations and improvement of the system of indicators. But this work was in progress all the time. The transition of industry management to the regulation based on production and scientific-production associations was executed, indicators of normative net production technical level and product updates, etc were implemented, there were experiments with the research for optimal system of indicators.

In 1983, at the initiative of Yu. V. Andropov a large-scale experiment on the improvement of the economic mechanism in the industry began, which provided further reduction in number of centralized indicators with increase in economic responsibility for the fulfillment of contractual obligations<sup>6</sup>. Attempts to improve the economic mechanism did not stop and the beginning of the perestroika. But it was the mostly the same path of formal control based on other indicators, this was futile.

Thus, we can see that this obvious today, forty years later necessity to move to market regulation of the economy and increase of the diversity of forms of property in the seventies was the not only not obvious, but could seem risky. It seemed impossible in principle to dogmatically-minded ideologues.

In the early seventies, the growth of oil prices and prices of other energy resources put the Western economies is extremely complex, in practice, the critical conditions, and the Soviet leadership got in their hands powerful new financial sources. This determined the deceleration of economic, and especially, political reform, and that was the main factor for a sufficiently long period, later called the period (and even the era) of stagnation.

## Economic development

To confirm our conclusions on the problems of the economy of the USSR in the period under review we present some of the indicators (Table 1) in accordance with the data of the official statistics.

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<sup>6</sup> The resolution of the Central Committee of the CPSU, the Council of Ministers of the USSR from 12.07.1979, No. 695. On the improvement of planning and enhancing of influence of the economic mechanism on increasing production efficiency and quality of work. On measures for accelerating scientific and technological progress in the national economy: the resolution of the Central Committee of the CPSU and the Council of Ministers of the USSR. — “Pravda”, August 28, 1983. <http://www.knukim-edu.kiev.ua/download/ZakonySSSR/data02/tex13035.htm>. Materials of the Plenum of the Central Committee of the CPSU. 27–28 January 1987. Politizdat, 1987.

**Table 1**

Average annual growth rates of some of the indicators of economic development of the USSR for five-year periods, in %

	1961–1965	1966–1970	1971–1975	1976–1980	1981–1985	1986–1990
Gross national product	6,5	7,4	6,3	4,2	3,3	1,8
Produced national income	6,5	7,8	5,7	4,3	3,2	1,3
Productive fixed assets of all sectors of the economy	9,6	8,1	8,7	7,4	6,4	4,8
Industry production	8,6	8,5	7,4	4,4	3,6	2,5
Production of the means of production (the “A” group)	9,6	8,6	7,8	4,7	3,6	1,9
Production of consumer goods (the “B” group)	6,3	8,4	6,5	3,8	3,7	4,3
Gross agricultural output	2,2	3,9	2,5	1,7	1,0	1,9
Crops production	2,0	4,1	1,7	1,8	0,6	1,0
Livestock production	2,5	3,8	3,2	1,5	1,5	2,6
Growth of fixed assets	6,2	7,3	6,3	3,5	3,1	3,6
Investments	5,4	7,3	6,7	3,7	3,7	6,1
Number of workers and employees	4,4	3,2	2,5	1,9	0,9	0,2
Productivity of social labor	6,1	6,8	4,5	3,3	2,7	1,5
Profit for the national economy (in comparable prices)	8,0	15,4	9,9	4,5	6,1	8,2
Real income per capita	3,6	5,9	4,4	3,4	2,1	3,4

Obviously, official data reflects some significant problems and difficulties of the USSR economy during the 60s-80s. We see noticeable decline after the 1965–1970s of annual growth rate of the Gross social product and national income, and other indicators of growth: industry, agriculture, labor productivity, real incomes. Nevertheless, we should not forget that this period often called the “stagnation” was not marked by the fall of the economy, or trample on the spot, like during the period after the crisis of 2007–2009. During the 1971–1985 the GDP and national income increased by 97 % (almost doubled in 15 years), the real income of the population — by 62.6 %. These are quite high, although declining growth rates.

A certain slowdown by itself is quite natural during the growth in production volume, the same average annual growth rate of 3–4 % was typical for most developed countries. What was much worse was the fact that with every five-year period, output growth rates lagged behind the growth of fixed assets. In 1981–1985 the growth rate of national income was 14 % lower than the growth rate of fixed assets, in 1986–1990 — the lag rate was almost

2 times. This discrepancy meant that national income growth required an increasing growth of fixed capital, i.e., capital efficiency was significantly reduced. At the same time putting into operation of fixed assets increasingly lagged behind the growth of investment with growing volume of construction in progress.

Growth of agricultural production was slow, not overtaking the population growth, which led to the need for food imports.

In general, reduction of the effectiveness of the control system was obvious. However, it was also clear that it was not critical up to the period of 1988–1990. Even in 1988–1990 the main negative role in the collapse of the economy and the country was played not by the former centralized control system. It might well have been radically reformed in the presence of a serious, reasonable reform plan. However unbalanced, ill-conceived reforms, including the admission of parasitism of the latter-day “cooperatives” in state resources and prices, easing of supplies discipline on state orders, a catastrophic reduction of control over unreasonable overflow non-cash money into cash were executed.

In the last three years of the five-year period before 1991 the monetary incomes of the population grew, respectively, 5 %, 4.2 % and 9.2 % per year. The greatest discrepancy between the growth rate of national income and the income of the population happened not in a period of stagnation, but during the perestroika! Inadequate, unsecured money supply growth was one of the main factors of frustration and anger of the population and increase of its sympathies to Yeltsin, with his demagogic promises to solve all the problems quickly.

### **Conditions for free comprehensive development**

Earlier we discussed the problems of economic development, noting conflicts and achievements of the economy of the “stagnation” period. But we can not limit ourselves to the economy, forgetting about education, culture, health, tourism and recreation, physical education, etc. In that period there was very intense and permanent improvement of the conditions for the free and full development of a human being, of course, within the framework of economic opportunities. Some of the data is represented in the Table 2.

We see that most of the indicators of growth during 1966–1990 doubled and tripled. The number of after-school child care institutions, where almost any child could do a few circles and sections, had grown each year, and for 25 years had increased by 2.5 times, and in many important positions — 3–4 times. This created an excellent basis for the development of abilities and talents.

Note that a similar system also existed for adults. The number of clubs has increased from 127 thousand in 1965 to 138 thousand in 1985 and it decreased to 134 thousand in 1990, but the number of circles in them increased from 343 thousand in 1965 to 747 thousand in 1981, i.e. more than doubled. This upward trend continued until the 1987–1988.

The number of children rested in the summer pioneer camps nearly doubled, and you can confidently say that the quality and comfort of their substantially increased. In these camps the children also had the opportunity to engage in a variety of circles and sections.



**Table 2**

Some indicators of development of education, culture, health care, recreation and tourism industry in the USSR

	1965	1970	1975	1980	1985	1990	1990 in % to 1965
All after-school institutions, thou.	48,1	64,8	80,4	99,4	> 110	> 120	More than 250
including Palaces and houses of Pioneers	3409	3865	4403	4844	5094	5077	148,9
Young technicians stations	397	606	1008	1353	1565	1817	457,7
Stations of young naturalists	288	338	587	863	1058	1251	434,4
Sightseeing — tourist stations	184	169	202	233	289	569	309,2
Children parks	184	164	155	157	167	154	83,7
Children railroads	33	34	38	47	No data	No data	
Summer pioneer camps, thousands.	24,2	36,1	46,0	59,6	74,8	81,8	337,8
Children's music, art, dance schools	2829	4510	6109	7691	8504	9341	330,2
Children libraries	4972	6498	7586	8367	8824	9129	183,6
Clubs of young technicians	1475	1089	1377	1559			
Youth sports schools	2535	3813	5396	6473	8183	9280	366,1
Number of children served by summer camps thous.	6928	8806	9934	12085	14473	12972	187,2
Number of students in higher education institutions, mln.	3,86	4,59	4,85	5,23	5,15	5,16	133,7
Number of students in specialized secondary educational institutions, mln.	3,66	4,39	4,52	4,61	4,50	4,10	112,0
Number of theaters	501	547	570	604	636	747	149,1
Number of museums	954	1144	1295	1526	1932	2471	259,0
Circulation of published books and brochures, mln. copies.	1279	1362	1709	1760	2151	1990	155,6
Number of full-length movies	167	218	282	315	313	330	197,6
Number of doctors per 10,000 population	23,9	27,4	32,7	37,5	42,1	44,2	184,9
Number of sanatoriums and boarding houses with treatment	2230	2318	2350	2333	2416	2294	102,9
Number of beds in sanatoriums and boarding houses with treatment, thou.	409	461	504	551	600	614*	146,7
Number of beds in rest homes and boarding houses thou.	229	287	339	380	383	375	163,8
Number of seats in the recreation and tourist hotels, thsd.	320	445	789	995	1161	1275	398,4

Note: \* — the maximum in this five-year period.

Capable children could continue their education in high schools, where the number of students increased by 33.7 %. However, the population during this period increased by 25 %, i.e. an increase measured per 1000 people was only about 8 %. It's not much, but certainly this growth as a whole met the needs and capabilities of the national economy for specialists with higher education. In the period under review, considerable attention was devoted to ensure that children from families with parents without higher education also had the opportunity for admission to universities and colleges and they tried to select most able children at school benches and lead them to admission to universities.

A lot of attention was paid in this period to culture and cultural education which were the basis for all creativity. The number of theaters, museums, circulation of books, movies release increased 1.5–2.5 times during this period. The majority of the Soviet films are perceived today as splendid. Among them there were real masterpieces, but now many perceive them positively simply because of their kindness and general humanistic background, the background of the opposition to of the cult of profits and immorality presented in today's cinema.

In those years, health conditions improved essentially, the number of physicians per 10,000 population rose by almost two times, and health care acquired in a substantial part nature of disease prevention.

Finally, a powerful industry of recreation and tourism was created in these years. The number of sanatoriums and boarding houses increased by 89.4 %, i.e. almost doubled, and the number of beds in the resorts increased by 47 %. The number of beds in the recreation and tourist hotels quadrupled. Places in sanatoriums and boarding houses were readily available to all, and prices for places for the trade union members were several times less than full price. Most of these types of social services were provided for free as secondary and higher education, health care, usage of children clubs, libraries, etc., or for a nominal fee, as the maintenance of children in pre-schools, in pioneer camps, etc.

According to the literature, the Soviet system of recreation facilities, culture, children and youth development was significantly more effective covered a larger percentage of the population than in the USA, and, in addition, it was free<sup>7</sup>.

During this period there was a reduction of the working week from six-day to five-day, from 42 working hours per a week down to 40, which also created additional conditions for recreation and development.

The basis for free and comprehensive development is education. It turns out that in the years of "stagnation" there was a huge leap in the level of education of the population. Below is data characterizing this phenomenal result.

Indeed, from 1960 to 1989 there was a real revolution in education. The number of people with higher, specialized secondary and upper secondary education has increased in the country as per 1000 of population from 14 % to 61 %. Among those employed in the national economy the number of employees with higher education increased by 4.3 times,

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<sup>7</sup> Titov B. A., Kostrova N. A. Leisure in the United States. Textbook. Saint-Petersburg State University of Culture and Arts. 1992. P. 84.

**Table 3**

Some data on the dynamics of the level of education of the USSR population (per 1000 of population)

Level of education	1959	1970	1979	1989	1989 in % to 1959
Higher	23	42	75	108	469,6
Higher uncompleted	11	13	16	17	154,5
Specialized secondary	48	68	119	182	379,2
Completed general secondary	61	119	229	305	500,0
Total	143	242	439	612	428,0
Per 1000 employees in the national economy					
Higher	33	65	100	143	433,3
Higher uncompleted	3*	6*	11	13	433,3
Specialized secondary	No data	No data	156	233	
Completed general secondary			276	371	
Completed and uncompleted general secondary	400	588	705	765	191,3
Total higher or secondary (complete or incomplete)	436	659	816	921	211,2

Note: \* — calculated by extrapolation.

while the number of workers with higher and secondary (complete or incomplete) education doubled. The number of employees with higher and complete secondary, including special, formed over 50 % of employment in the economy. In fact, this meant that a fundamentally different population, competent and highly educated appeared in the country.

Thus, the conditions for free and full development of an individual, for self-realization really improved dramatically in the period.

The country was well prepared for development of the scientific and technological revolution, perception and adaptation of all scientific and technological innovations, as well as the transition to an innovative path of development, to join the "information era", "knowledge society" or post-industrial society, etc.

This is a very important fact to the question whether the objective conditions in pre-revolutionary Russia to implement the catch-up on a socialist basis existed. If the country was able, in spite of the severe war, to go on such a high level and to become the second nation in the world, providing military-strategic parity with the United States, then they existed! Lenin was right: "If the building of socialism requires a certain level of culture..., why can not we begin first achieving on the revolutionary way prerequisites for this definite level, and then, on the basis of workers and peasants government and the Soviet system, proceed to overtake the other nations"<sup>8</sup>.

<sup>8</sup> *Lenin V. I. Complete works. Vol. 45. P. 381.*

### The dictatorship of the bureaucracy? State capitalism?

We now turn to such terms as the “dictatorship of the party-state bureaucracy” or “dictatorship of the party — state apparatus”, etc. They have in common a characteristic of the administration system in the USSR as a anti-workers dictatorship. Is it fair to apply this term to the post-Stalin period of the development of socialism in the USSR? Were governance practices since the early sixties dictatorial?

The concept of dictatorship (i.e., unlimited power) is used commonly as a concept that characterizes a system of power in a state. Moreover, it is used in two basic meanings: 1) the nature of the government, which provides economically dominant class with political power; 2) a method of exercising power (dictatorship, dictatorial methods, etc.).

Let's start with the first meaning — the class character of the government. Can we say that the party-bureaucratic government, which stood at the head of the socialist state, expressed and conducted its activities exclusively or primarily for their own interests? Let's compare the dynamics of wage growth of all major classes and strata of Soviet citizens since 1960, as well as the dynamics of growth of national income at constant prices (the last line of the table).

**Table 4**

The average monthly salary in the USSR rubles in 1960–1990  
and some indicators of the dynamics of the economy in %

	1960	1970	1975	1980	1985	1990	1980 to 1960, %	1990 to 1980 %
All of the national economy	80,6	122,0	145,8	<b>168,9</b>	190,1	274,6	209,5	162,6
Industry	91,6	133,3	162,2	<b>185,4</b>	210,6	296,2	202,4	159,8
including workers	89,9	130,6	160,9	<b>185,5</b>	211,7	285,6	206,3	154
engineering and technical personnel	135,7	178,0	199,2	<b>212,5</b>	233,2	343,5	156,6	161,6
Agriculture	55,2	101,0	126,8	<b>149,2</b>	182,1	276,2	270,2	185,1
including workers	51,9	98,5	124,7	<b>148,5</b>	179,7	272,6	286,1	183,6
agronomy, livestock technicians, veterinary and engineering professionals	115,5	164,3	179,4	<b>185,5</b>	243,4	332,2	160,6	179,1
Kolhoznicks (the farmers) in the public sector	38,4*	74,9	92	<b>118,5</b>	153,4	241,1	308,6	203,4
Transport	87,0	136,7	173,5	<b>199,9</b>	220,3	314,2	229,8	157,2
Construction	93,0	149,9	176,8	<b>202,3</b>	236,6	351,4	217,5	173,7
including workers	89,2	148,5	180,3	<b>207,9</b>	245,3	339,7	232,8	163,4
engineering and technical personnel	139,9	200,0	207	<b>212,9</b>	239,7	392,3	152,2	184,3
Trade and public catering; logistics and distribution	58,9	95,1	108,7	<b>138,2</b>	149,2	237,5	234,6	171,8

*End of Table 4*

	1960	1970	1975	1980	1985	1990	1980 to 1960, %	1990 to 1980 %
Information and computer services	...	95,8	No data	<b>128,5</b>	143,5	262,2	No data	204
Housing and utilities; non-productive types of public services	57,7	94,5	109	<b>133,2</b>	146,6	209,5	133,2	157,3
Health, physical education and social security	58,9	92,0	102,3	<b>126,8</b>	132,8	185,4	215,2	146,2
Education	72,3	108,1	126,6	<b>135,9</b>	150,0	190,7	188	140,3
Culture	49,2	84,8	92,2	<b>111,3</b>	117,3	165,9	226,2	149
Art	63,7	94,8	103,1	<b>134,8</b>	145,3	198,6	211,6	147,3
Science and scientific services	110,7	139,5	157,5	<b>179,5</b>	202,4	338,4	162,1	188,9
Crediting and state insurance	70,7	111,4	133,8	<b>162,2</b>	180,9	386,8	229,4	238,5
The governmental servants	86,4	124,5	131,3	<b>159,6</b>	168,8	338,1	184,7	211,8
The national income at constant prices, in% to previous period	100	195,2	132	<b>124</b>	117	106,8	319,5	125
Number of employed in the national economy, mln.	88,1	112,3	No data	<b>132,1</b>	137	138,5	149,9	104,8
Indices of state retail prices to the previous period	100	100	99,7	<b>103*</b>	104,9	111	103	116,5
including food prices	100	103,4	100,9	<b>103*</b>	108,3	115	103	114,4

Note: \* — as % to 1970.

The first thing that the eye catches is that the leaders in the growth of wages in the 1960–1980 — ies (with the average growth of 109 %) within the large social groups were workers in industry (growth by 106.3 %) and agriculture (increase of 186.1 %), kolkhozniks (increase of 208.6 %), but not administration (84.7 %) or even engineers (increase of 56.6 % in industry and 60.6 % in agriculture). This immediately refutes the hypothesis of the dominant interests of the Party-management layer.

If you look at the dynamics of the industries, for example, faster growth of wages in trade (by 134.6 %) and the financial sector (on 129.4 %) and culture (126.1 %), are noteworthy. But engineering and technical personnel lagged behind in terms of wages (as has been said, the increase in the range of 55–60 %) as well as personnel in science and scientific services (62.1 %). But the reason of it was not the uncontrolled growth of wages in trade and finance personnel but very low starting level (in 1960) of salaries in these spheres (58.9 rubles in trade, 70.7 rubles in finance, 49.2 rub in culture whilst the average salary in the national economy was 80.1 rubles). In science and engineering and technical

personnel wages both in 1960, and in 1980 were significantly ahead of the national average, which, in fact, must take place, if the task was to stimulate the growth of production efficiency on the basis of science.

We see, therefore, during the “stagnation” era not the dominance of the interests of the administrative apparatus, but rather the trend towards convergence of levels of salaries of different classes and strata that confirms the thesis about the people's state, rather about “the rule of the party-state bureaucracy.”

A noticeable lag in the 1960–1980 between the growth of the average wage in the country and the national income also attracts attention. Maybe it is a sign of exploitation growth? No, as faster growth of the national income is partly due to the growth of employment in the economy. Number of employees, as could be seen from the given data, rose nearly by 50 % in the 1961–1980. Multiplication of indices of employment growth and wage growth gives 314 %, that is almost the same as the national income growth index (319.5 %). If we take into account the increase in the retail price index over the 20 years by only 3 %, it is obvious that the share of consumption in the national income did not change.

This means that the share of wages in the national income, remained in 1980, almost the same as in 1960<sup>9</sup>, that means that the entire increase in national income in 20 years was spent for a completely transparent wage increases for all categories of workers, and for the accumulation, and the accumulation share did not increase. This fact completely refutes the hypothesis of the state capitalism, the exploitation by the state of the population, of the rule of special interests of the party and state leadership. In the 1981–1985 the consumption of the population (considering only the wages as the income) increased by 16.7 %, while the national income increased by 17 %, i.e. in the final stage of the “period of stagnation” there also were no attacks on workers' consumption. On the contrary, this growth demonstrates compliance between the workers' consumption growth with generated growth of the national wealth.

Moreover, over the last decade (1981–1990) the consumption growth in the Soviet Union was faster (by 39 %, if one considers the retail price rise), than the growth of the national income (only 25 %). The main “jump” in salaries and income occurred precisely in 1986–1990. If this “maneuver” was objectively necessary, or it was determined by populist aspirations, we would not discuss in this article, but it ended, as we know, sadly.

Thus, the hypothesis of the state capitalism, of the exploitation by the state of its citizens, of the dictatorship of the party and state bureaucracy in the sense of domination of its economic interests are completely refuted by the real data.

This dominance could have taken place in the ideology. Maybe ideology of special social importance of not working people, not the workers, not the professionals of labor, economy, science and culture but rather the party-bureaucratic “elite” was implanted? Even raising of such a question would have caused confusion among anyone who was familiar with the ver-

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<sup>9</sup> Specifically, if the data is valid within 1 %, it was reduced by only 4.5–5 %.

sion of the ideology promoted in this period in the USSR. Nothing like this! The traditional "Soviet version" of ideology completely dominated, it asserted the priority of the interests of the working class and the unity of the fundamental interests of the entire society.

It is important to understand the situation in the Soviet socialism of the 60–80s, that the party and state leadership was formed from the most capable managers of all classes and strata of the society. The road to the party, as we have said, was open to representatives of all the social groups, even though they were certain limitations for the intelligentsia. The most active their representatives manifested themselves in social work or a bright position in society and could join the party. However, many high-level managers and scientists were nonparty members. In addition, the party and state leadership did not turn into an uncontrolled caste and untouchables: the layer of leaders was controlled, although not without problems, by the systems of party control, trade union control, economic control, as well as from above. But the top layer was controlled by only a small tip of the Communist Party, and it contributed to the outcome of the failures of "reforms"<sup>10</sup>.

What remains of the term "dictatorship of the party-state" or "the party — bureaucracy leadership" as the class domination of this layer?! Nothing meaningful only a bogey, a phrase of the enemies of socialism!

There is a second meaning of the term "dictatorship" — unlimited violence, dictatorial methods of implementation of decisions of the Power, repressions against all other classes and strata.

Undoubtedly, we can talk about a repressive, dictatorial character of the "party-bureaucratic regime" until 1953. However the situation in the 60–80s was totally different. In the 50s 1) the Stalin personality cult was debunked and crimes and numerous violations of law and mass repressions of that period were condemned and eliminated; hundreds of thousands of innocent prisoners were released from the camps and prisons and rehabilitated, the appropriate changes in legislation were made, 2) changes in legislation were proclaimed and implemented stating that the Soviet state was the state of the whole people, in which there were no classes and strata that were interested in the restoration of capitalism, and 3) by the 60s the nature of the security forces struggle against the active opponents of the Soviet system, whose number was very small, dramatically changed; extrajudicial arrests, etc became impossible.

Speaking about the dictatorial nature of the regime, it seems, we should not speak only about repressions against to the Soviet system, but about the massive use of methods of violence against the population. Such methods, of course, did not take place during the 60–80s. The development of virgin lands, construction in the north and east of the Urals, the construction of the BAM railway — all these were based on enthusiastic and conventional civil engineering.

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<sup>10</sup> Of course, we recognize the usefulness and appeal, the historical importance of glasnost, of the expansion of freedoms in the 1986–1990, but it is impossible not to see that, in the concrete historical situation these freedoms contributed to the fall of socialism and the state.

One can and should talk about censorship, which were exposed to works of literature, drama, movies, etc. This censorship certainly irritated the creative intelligentsia, in many cases, it was too rigid and unreasonable, but, firstly, as the experience of the second half of the 80s showed it was in some form necessary for the preservation of the phase of socialism that prevailed in the Soviet Union, and secondly, as the experience of the 90s, showed it was not only political, but it contributed to providing the highest quality of mass cultural works. Thirdly, in political terms the censorship substantially mitigated gradually and allowed more critical works about the situation in the country, permitted many works of Western writers and scientific works. And finally, the fourth, the censorship in that period could not be attributed to the dictatorial methods of impact on society, as censorship was not suppression, but limitation in terms of unacceptable for this political system views, though it was painful for the holders of such views<sup>11</sup>.

With all that said, we believe that the social relations in the USSR in the post-Stalin period may well be characterized (by analogy with socially — oriented market economy) as relationships of class and social peace, based on state ownership of the means of production and centralized planned management of the economy in the interests of all classes and strata in the presence of significant non-antagonistic contradictions.

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<sup>11</sup> It is well known that very harsh methods to limit the spread of unacceptable for these political systems, but not the methods of direct banning, are in function in the West.