

# A Quarter Century of Reform of the Russian Economy: Is it Wandering in a Maze or Jogging in Place?

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## Abstract

The article presents a retrospective analysis of the experience of economic reforms in Russia; it deals with methods, driving forces and directions of the modernization process. The comparative analysis of economic models of modern Russia and the Russian Soviet Federated Socialistic Republic (RSFSR) in the framework of the Union administrative-command system was conducted in the work. The authors define the reasons for the low efficiency of the implementation of economic reforms in Russia today, highlighting as a major a low level of public support for the government's economic policy.

**Keywords:** Industry Modernization, Public Support, Structural Reform of the Russian Economy, The Strategy of Economic Development

## 1. Introduction

During its long history, the Russian economy has repeatedly experienced reforms and structural changes that often were of forced nature and traditionally conducted "from above", sometimes under heavy pressure of public institutions, including not only the bureaucracy, but the army as well. Typically, the main reason for the beginning of the next stage of the political and economic system reform is rather external challenges, putting in jeopardy the sheer fact of existence of the Russian state, than the internal contradictions. The rejection of communist ideology domination in the Russian society in the early 90-ies of the 20<sup>th</sup> century marked the beginning of the transition to a market economy, the introduction of private property institution, the privatization, the formation of independent financial institutions, principally new banking system and the creation of a new economic model. In this case the created model of the national economy was of resource-based nature and due to internal constraints laid down in it a priori was not able to provide further development of the Russian

economy. The low efficiency of existing economic model forced the country's leadership to take drastic measures to continue the economic system reform, the main aim of which is to modernize the Russian economy and reduce its dependence on raw materials. Unfortunately, most of the declared social and economic reforms have not been implemented to the full extent and the task of advancing the Russian economy to the main indicators of the level of the developed countries has not been implemented and the raw material orientation has not been overcome up to the present moment.

## 2. Methodology

The methodological framework of ongoing research was based on an ensuring the unity of logical and historical approaches. The authors have used methods widely applied in research activity: descriptive analysis and synthesis, deduction and induction, generalization, monitoring, forecasting, scientific abstraction, statistical analysis, system analysis, as well as methods of grouping

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and classification, techniques of comparative historical and interindustry analysis, expert judgments. The totality of these methods has allowed the authors to ensure the research accuracy and the validity of its conclusions.

The information base for the research includes the Russian and foreign works on philosophy, general economic theory, history of economic thought, institutional economic theory etc., proceedings of scientific conferences and workshops, scientific reports the Institute of Economics of RAS.

The experience of the reform has been recorded in official documents: the Constitution of the Russian Federation, ramified legislation, Decrees of the President of the country, the RF Government Decrees, in the program of various parties and trade unions, documents of the legislative bodies of the country, in the speeches of officials, etc.

In their scientific work foreign economists pay enough attention to the experience of formation of the Russian economic system and the problems of its reforming. Thus, the Hungarian economist Janos Kornai formulated the main directions of post-socialist transformation, analyzed the fundamental concept of 'market socialism', which rejected the idea of preserving the dominant role of public ownership with the availability of market coordination. As exemplified by Russia in the 90ies of the 20<sup>th</sup> century, the author concludes that voucher privatization dictated to the country, coupled with mass manipulation when transferring property into the hands of managers and related officials, has led to unprecedented in the history 'ownership reform' during which the country's natural resources, especially oil and gas, were actually expropriated by 'oligarchs'<sup>1</sup>.

Nobel Laureate in Economic Sciences in 1993 Douglass Cecil North noted that it is extremely difficult and almost doubtful to analyze the transition from a planned economy to a market economy without institutional approach to problems and events in his Prize lecture entitled "Economic performance through time". The recognized economist draws attention to the fact that "while the rules may be changed overnight, the informal norms usually change only gradually. "Since it is the norms that provide "legitimacy" to a set of rules, revolutionary change is never evolutionary as its supporters desire and performance will be different than anticipated"<sup>2</sup>. "Economies that adopt the formal rules of another economy will have very different performance characteristics than the first economy because of

different informal norms and enforcement". According to the author, the transferring of formal political and economic rules of successful Western market economies to the economies of the former Soviet republics is not a sufficient condition for good economic performance and privatization held there is "not a panacea for solving poor economic performance"<sup>2</sup>.

One of the best experts on the political and economic situation in Central and Eastern Europe and the former Soviet Union Anders Åslund gave a detailed analysis of the economic reforms undertaken in the post-communist countries in the 90-ies of the 20<sup>th</sup> century including Russia. The author highlights the issues of choice of the new economic policies, changes in production output and their causes, liberalization, financial stabilization, privatization, social development and social policy, the role of the state in the transition period. A. Åslund sees the political essence of the transition period in the opposition of radical reformers and those social groups that do not want to abandon the economic rents<sup>3</sup>. At the same time, the author makes his conclusions not in purely theoretical terms, but with an emphasis on practical measures being a supporter of the fast and rapid transformation of one system to another, but with due regard to conditions, traditions and peculiarities of the country and a clear view of the consequences of the chosen path<sup>4</sup>.

In its turn, one of the developers and guides of 'shock therapy' policy in Russia Jeffrey Sachs, evaluating the actions of the economic block of the Russian government during the presidency of Boris Yeltsin said that the main thing that failed us is a huge gap between the rhetoric of reformers and their real actions. He thinks the Russian leadership has surpassed the most fantastic views of the Marxists about capitalism: they supposed that the business of the state is to serve a narrow circle of capitalists, pumping in their pockets as much money and as soon as possible. It is not a shock therapy. This is a vicious, premeditated, well-thought-out action with the objective of a large-scale redistribution of wealth in favor of a narrow circle of people<sup>5</sup>.

## 3. Results

### 3.1 Formation of Raw Nature of the Russian Economy.

Since the 15<sup>th</sup> century, foreign experts engaged by the government as consultants and advisors started to play an

active role in its reform process, whose main task was to implement advanced European scientific, technical and technological attainments in the Russian economy<sup>6</sup>. The rapid transformation of the Moscow Rus into the Russian Empire in the 18<sup>th</sup> century in the framework of the reforms of Peter I also took place with the active participation of foreigners and on the basis of the borrowing of advanced foreign technologies. At the same time the reforms carried out by the tsar-reformer were paid by full-weight Russian ruble (internal resources), because, despite all his efforts, he was not able to attract European financial capital (investment) for the modernization of the Russian economy and the creation of a competitive industry due to the fact that even at that time European governments considered Russia only as a supplier of raw materials and were directly interested in the technological superiority over potential competitor and the likely military adversary.

Ever since the reforms of Peter I, Russia experienced a series of revolutions, many wars, including two world wars, the collapse of the autocracy and the communist regime, the creation and collapse of the Soviet empire and many other disasters. Against this background, the country's economy has passed a difficult path of its development, overcoming only for the last hundred years the difficult stages of collectivization of agriculture, production sector industrialization, privatization of state property and conversion of economy on a market basis, etc. During this time, the global changes took place on our planet which shaped a new world order in which the political and economic leadership was captured by the USA and European countries began to execute a secondary role on the international arena. However, neither significant scientific, technical and technological capacity, nor the undisputed world leadership of our country in such sectors as space and nuclear energy have not fundamentally changed the attitude of leading now the world's economies to Russia, which, like 300 years ago, they want to see just as a raw material source of their own economic development. A famous status of "great energy country" assigned to Russia at the beginning of the 21<sup>st</sup> century, although in apparently attractive form for the Russians actually confirms a role of the country as a raw material appendage of the world economy and policy of economic sanctions and technological limitations conducted by the United States and Western European governments against it demonstrates their actual purposes and true intentions.

### 3.2 Reformation Processes of the Newest Russian Economy

Despite its short history the latest Russian economy has already passed a long path of reforming and modernizing. At the same time we are talking about the economy of the new Russia that is the country which emerged on the world's political map only in 1991. The procedure of liquidation of the USSR, delegation of power from the Union to the Russian authorities, the reorganization of the public administration system, etc. was virtually painless for the majority of Russians and very few of them feel that they became citizens of another state. In the public mind, this, social and political process, in fact, complex and global in its consequences is associated only with a procedure of changing Mikhail Gorbachev, the Soviet President, to Boris Yeltsin, a new national leader and his team at the Moscow Kremlin. At the same time, taking into account the role of Russia and its historical significance in the Soviet Union formation process, the whole world associated the concept of "Russian" and "Soviet" as synonyms for decades and subsequently adequately perceived the fact that Russia has become a legal successor of the vanished empire, having inherited not only the thermonuclear weapons from it, but also a whole range of unresolved social and political and economic problems.

Some authors analyzing the processes of development of the Russian economy make their conclusions based on the data of the statistics of the RSFSR for the period until 1990 ignoring the fact that in 1991, in fact, a fundamentally different state was created albeit within the confines of the former Soviet Republic and on the basis of its economy. It seems to us, one cannot directly identify and correctly carry out a comparative analysis of the efficiency of the economic system of the Russian Federation as part of the Soviet Union and modern Russia, as they have functioned in different social and political and legal conditions. Inter-republican economic balance and current social economic structure of the Soviet Republics in 1991, which were achieved over many years of the Soviet Union, proved uncompetitive and political decisions adopted in the wake of national patriotism excluded a possible option for their modernization in the interests of all members of the former All-Union single market. Governments of Ukraine, Kazakhstan, Belarus, the Baltic States and the Transcaucasia began to pursue a

protectionist policy against their own manufacturers and to introduce significant restrictions on the activities of Russian economic agents in the territories controlled by them. Former elements of the unified economic system and traditional partners became competitors and began to take the most important political and economic decisions on the basis of a new interpretation of their national interests, a vector of which, in most cases, removes them farther from Russia.

Inner-union industrial cooperation existed earlier actually transformed in foreign economic activity for Russian companies in the newly established markets of the former national republics, which began to be carried out in the conditions of international competition and had a fundamentally different legal base. Suddenly Russian enterprises and firms were deprived of free access to the ports of the Black and Baltic seas, lost competitive advantages stemming from the existence of a single economic and legal space, general financial, transport and energy systems, etc. Unless technically, legally multi-year processor chains of supplies of hydrocarbons to Europe had been severed, because certain parts of gas pipelines strategically important for the country appeared to be on the territory of the newly formed independent states and they were nationalized. While implementing international contracts, most important for filling the Russian budget, additional obstacles emerged in the form of economic and political interests of national elites of post-Soviet countries that began to actively use gas and oil transportation 'lever' to put pressure on the Russian side constantly trying to get for themselves additional preferences. In these conditions international obligations to supply hydrocarbons to end-users (including financial sanctions) completely rested on the Russian side, just like the rest of the external debt of the former USSR, the burden of which was considerably weakening the investment potential of the young Russian state for a long time.

### 3.3 Formation of the Modern Economic Model of the Russian Economy

The process of transforming the economic system of Russia was inseparable from the transformation process of the social and political structure of the country, refusal of ruling of the communist ideology in society including existing both in scientific theory and in economic practice of Marxist economic dogmas and attitudes. At the initial stage, during the presidency of Boris Yeltsin, the economic bloc of the Russian Federation Government under the

leadership of Ye. T. Gaidar, selecting "Westernization" as a strategic direction of development<sup>7</sup>, held a deep reform of the national economy, moving it to market conditions through the introduction of private and state property privatization, the creation of fundamentally new banking system and independent financial institutions, the transition from plan to government contracts and the conversion of the ruble, etc. As a result, at the beginning of the 2000s a relatively stable economic system was formed in Russia, in the foundation of which were laid inherited from the Soviet planned economy almost completely worn out fixed assets, obsolete technologies, low productivity and most important – the world's largest developed reserves of natural resources and above all the most demanded of them by the modern industry – hydrocarbons. Economic model established in a short period has allowed to slightly stabilize the social and economic situation in the country and to stop the process of decentralization of the state, but because of the limitations of capacities put initially in it could not provide its further progressive development and most of the reforms (energy, pension system, small business support, competition policy, etc.), that are traditionally held in Russia "from above", had exhausted its positive inner message and had not reached stated goals by the beginning of the 2000s. At the same time the support of Western countries and international financial institutions of the course conducted by the B.N. Yeltsin team allowed receiving significant external borrowing by which the state was able to fulfill its basic social obligations to the population and mitigate the negative effects of conducted social and economic reforms and transformations.

The change of the head of state happened in 2000 entailed economic policy adjustments and changes of the Russian economy development priorities, based on a review of national interests and the results of an objective assessment of its status and potential. The task of analyzing the Russia's economic system in itself should be objectively categorized as the most complex scientific and practical problem because of its scale and multiculturalism. To solve it successfully the efforts of government agencies (Ministry of Economic Development, Ministry of Finance, Central Bank, etc.) were consolidated and the potential of the Russian scientific community (Russian Academy of Sciences, universities, research centers, etc.) was mobilized. Despite the existence of different points of view and of fundamental theoretical differences, Russian (and not only) economists almost without exception unanimously



identified restructuring of the Russian economy and relieving it of raw, especially oil and gas dependency as a priority. At the same time, without challenging the very need for structural changes and economic reforms, “liberals” and “statesmen” have offered to the leadership of the country and society diametrically opposed ways and mechanisms of their implementation. According to some of them, the main focus of reform should be the new industrialization of industrial production, while others are supporters of further liberalization and post-industrial development path, involving advanced development of “knowledge economy” and the service sector in its broader interpretation.

### 3.4 The Next Stage of Reform of the Russian Economy and Adjustment of the Government Economic Policy

Since 2000, all the economic reforms in Russia were conducted in conditions of relative stability of state power and V. V. Putin – D.A. Medvedev tandem ensured the continuity of the political and economic course in 2008-2012 during the period of the latter being as President of the Russian Federation. However, both the highest personal rating of President Vladimir Putin and favorable external economic environment and the significant oil and gas revenues failed to ensure the successful realization of the announced reforms and advancing of the Russian economy to the leading position in the world, in practice confirming the thesis that “competitive advantage is provided not by one-time breakthroughs but by continual improvement” in modern conditions<sup>8</sup>.

Fifteen years after the start of the first presidential term of Vladimir Putin, the President once again was forced to talk about the low efficiency of the Russian economic system and the need for its restructuring, defining as the ultimate goal of the reform the situation in which “the quality, the scale of the Russian economy must conform to our geo-political and historical role”<sup>9</sup>. Moreover, if the problem of the quantitative measurement of the national economy “scale” can be solved quite successfully by modern economic science on the basis of proven techniques and existing tools, the evaluation process of its “quality” becomes very ambiguous. In domestic economic science there is still no universally accepted system of indicators and criteria for assessing the structural characteristics of the economy, which means that today it is impossible to establish a single sample or

a balance standard of its structural elements, the optimal ratio of which will allow using its inherent potential most effectively. Establishing clear proportions between the industrial sector, agricultural production and the service sector, the formation of the new branch structure relying on high-tech production and innovative and intelligent technologies, increasing the share of jobs classified as V technological order – these are the stated goals that were never achieved in the course of economic reforms, the activity and pressure of which weakened in inverse proportion to the increase in budget revenues from the sale of hydrocarbons on the international market.

In March 2015 former finance minister and a prominent representative of the Russian liberal orientation A. L. Kudrin giving an assessment of Russia’s economic policy in the period since 2000, said that the plan of structural reforms<sup>10</sup> constituting its basis (for the period up to 2010), “was fulfilled in average 50-60% of that was meant” by the beginning of 2015<sup>11</sup>. At the same time, another equally authoritative economist-statesman, former Prime Minister Ye. M. Primakov said at the Mercury Club meeting that it was “a shock therapy structural errors of the early 90s”<sup>12</sup> that determined the low efficiency of the current Russian economic model. Sergei Glazyev made a similar point of view as well, drawing attention to the fact that “the gap between our capabilities and the reality is exacerbated by the gap between our declarations and results”<sup>13</sup>.

### 3.5 The Main Reasons for the Low Efficiency of the Stated Reforms

So what is the reason for the low efficiency of the implemented reforms and structural changes of the economic system? Why have repeatedly stated transformations of the economic system in the absence of open opposition not been brought to its logical conclusion and why is there a situation in the Russian economy where “everything they say is correct, but not put into practice”<sup>12</sup>?

It seems to us a clear answer to these questions does not exist, as there is no universal guaranteed recipe of “realization of the already proclaimed things”<sup>12</sup> and the search for possible answers is beyond the scope of pure economics and affects the spheres of politics, sociology and law. Nevertheless, let us share with readers the results of our reflections on the subject and make some suggestions for discussion, the implementation of which

will improve the efficiency of the process of reforming and restructuring of the Russian economy.

First of all, we must recognize the fact that the problem of non-fulfillment of the solutions declared by power, numerous programs, adopted decrees and regulations is applicable to all sectors of our society and it is not an exclusive feature of the economy. The famous promise by M. Ye. Saltykov-Shchedrin (according to other sources by P. A. Vyazemsky) that “the severity of Russian laws is softened by the lack of their commitment” is still relevant and its “economic” variant can be formulated as follows, “the voluntarism of some decisions and inconsistency of declared plans offsets by the possibility of subsequent adjustment and in some cases complete disregard” that reflects adequately the realities of the Russian economy, in which the practice of partial and sometimes complete refusal of the implementation of decisions or at least rescheduling their performance is firmly rooted. Thus, the transition to an ecological fuel standard “Euro-4” was twice postponed by the Russian Government under the pressure from domestic automakers and oil companies, the decision to implement which was adopted in 2009 without taking into account the whole complex of external and internal factors and a comprehensive assessment of possible consequences. The developers of the document did not take into account such “trifles” as lack of a source billions of dollars of investment resources in the Russian car industry for modernization of production and the inability of the domestic oilers to supply the domestic market by premium fuel in the volumes necessary for the smooth functioning of the economy. As a result transition to the fuel standard “Euro-4” dragged on for five years, while, according to the old Russian tradition of “punishing the innocent and rewarding uninvolved” and appropriate conclusions from this situation have never been made because now in 2015 the automotive industry lobbyists once again raise the question of the transfer of the transition period now to the ecological standard “Euro 5” from 1 January 2016, repeating word for word the arguments which were six years ago.

Such recurring situations quite often impact extremely negative on the level of public support for ongoing government economic policies, allowing a certain portion of the population to question the very fact of its existence. How can one speak about a well thought-out and long-term strategy, if only the Budget Code of the Russian Federation for the period since 2008 has been revised 8 times what radically alter the principles of functioning

of the Russian budgetary system and directly affect the interests of regions, municipalities and economic agents.

Public demonstration of different assessments and approaches to the same economic phenomena and processes from the leadership of the Central Bank, Ministry of Economic Development and the Ministry of Finance of the Russian Federation, deputies of the Federal Assembly, the scientific community, etc. says not as much about the presence of pluralism in the Russian elite as about the lack of a unified and coherent economic program supported by the government and supported by the overwhelming majority of society. It is the public support that, in our opinion, is the basic condition for the successful implementation of any meaningful reforms, especially those that have a decisive impact on the daily lives of every member of society, regardless of the degree of its social, political and economic activity.

Unfortunately, today there is a significant gap in the levels of public support for political and economic policy, conducted by the Russian government. We see that the recent events in Ukraine, joining the Crimea, supporting Donbass and the subsequent support for their Western economic sanctions only rallied Russian society around the president and secured to Russian President Vladimir Putin in May 2015 public support at 89.6 percent,<sup>14</sup> while the economic course of the Russian Government led by him only 35 percent of citizens fully support<sup>15</sup>.

In our opinion, such a disparity in the estimates of actions of the country's leadership is quite justified and explained by a number of objective factors. In the political sphere, especially in the part of foreign policy, Russia has ceased to be reconciled with the role of “regional” power and, in spite of serious opposition of the West, started to actively and consistently defend its national interests, explaining with reason its position to the international community and its own citizens both through the media and through its hierarchy. At the same time, despite some shortcomings, political system formed today and its mechanisms demonstrate a high degree of its effectiveness and Russian society perceives their own participation in shaping major policy decisions both through existing social and political institutions (parties, associations, unions, etc.) and through the forms of direct democracy (elections, rallies, pickets, demonstrations, etc.), providing feedback from the population to the authorities. Consequently, even if there is a critical attitude of a certain part of the society to the existing state power the vast majority of people are willing to share

with the country's political leadership completeness of responsibility for its foreign policy and assume the risks and negative consequences of its implementation.

Against this background, the actions of the Government of the Russian Federation for the transformation of the Russian economic system seem passive and inadequate at the current moment. State economic policy is formed behind the scenes and its development takes place without the direct involvement and considering the opinions of the vast number of subjects and functioning public and state institutions and communication mechanisms are not sufficiently effective in defending their interests. It is quite difficult for the state to influence the behavior of hundreds of thousands of households and to balance the interests of millions of small economic agents in practice, which automatically makes its interaction with big business more productive. That's why the decisions taken at a closed meeting of the country's leadership with a narrow circle of top managers of major Russian companies have much more influence on the formation of economic policy of the government than the position of small and medium-sized enterprises, scientific predictions of academic institutions and long-term legislative and analytical work of the federal deputies.

At the same time, despite the declarations of commitment of the power to democratic and liberal values, in practice, there is a situation in which a significant part of the economic community is not only deprived of levers of influence on the formation process of a new economic model of our society, but also limited in the very opportunity to express their position on this issue publicly. Alternative views on the eventual options and ways of the Russian economy development are almost not broadcast on federal television channels and with great difficulty find the road to economic agents through the publications in certain specialized scientific journals and public presentations of scientists and experts at scientific conferences. There is a practice, when only those experts are engaged for the development and scientific substantiation of the most important decisions for the country's economy, whose personal position and outlook priori coincides with the customer's stated approaches (such as "Innovative Russia – 2020"<sup>16</sup>). In this case, the scientific process of seeking truth going through the discussion of alternative points of view and analysis of a variety of options is replaced by the procedure of qualified editing of pre-agreed certain provisions, which

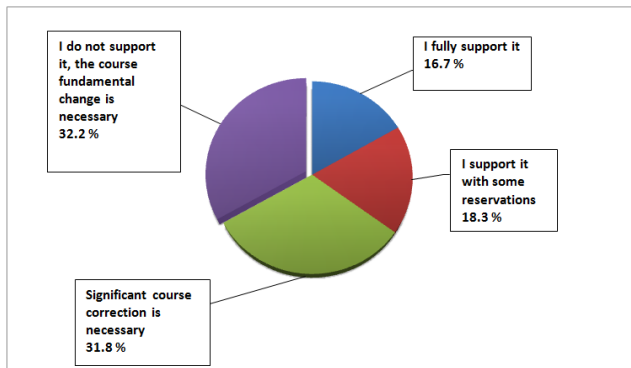
significantly reduces the level of adequacy and quality of elaborated documents, however, it reduces the period of their development and gives the appearance of unanimity in the economic community.

At the same time, evading the public debate and using the administrative resource, the so-called "economists of the state" based on their scientific (and not only) preferences, just "prescribe" to the society ready-made recipes in the form of laws, decrees, regulations, programs, etc. providing the opportunity for subsequent criticism after the event, completely ignoring the fact that the cost of such voluntarism is the loss of hundreds of millions (and sometimes billions) rubles from the budget and reducing the level of confidence to the authorities on the part of society.

### 3.6 Public Support as a Determining Factor of Reformation Processes Success

All of the above has led to the fact that the economic policy conducted by the government, including the declared reforms, are actively supported by only a small number of economic agents, but most of the subjects of the economy, as a whole take a waiting position, which is determined by the "we do not mind" thesis. The survey held in April 2015 by the "Expert" Information-analytical Center (Kazan) of 1,200 entrepreneurs from 16 municipalities of the Republic of Tatarstan belonging to the category of "small business", showed that only 16.7% of respondents unequivocally support the ongoing economic policy, 18.3% support it with certain reservations and 31.8% believe that it needs considerable adjustment (Figure 1). At the same time 33.2% of respondents actually said about the State's complete failure of economic policy and the need for its complete renovation. Despite numerous statements by the authorities of the state support of private initiative in the economy, according to respondents, the pressure of the bureaucracy on the business in recent years has only intensified, corruption remained at the same level and there appeared new forms of it and the existing state institutions still do not provide equal access to the distributable resources and state and municipal orders. It is not surprising that at such a background 65 per cent of respondents are largely dissatisfied with the current model of the national economy, believing that at least without its current radical modernization they can hardly count on the massive development of private initiative

and creativity among economic agents. We would like to mention that the respondents of the survey were not just ordinary Russians, but entrepreneurs playing an active role in the economic life of the economically advanced region and daily dealing with the state and its institutions in their activity<sup>17</sup>.



**Figure 1.** Do you support the government's economic policy?

### 3.7 The Ineffectiveness of Existing Institutions as a Factor of Opportunistic Behavior of Economic Agents

One of the reasons for this state of affairs in the Russian economy is the existence of a significant number of institutional traps or ineffective stable institutions, preventing the progressive development of economic and social indicators and causing "the effect of blocking". In turn, causes of their rising are technical and technological factors consisting in the formation of post-industrial economic set-up, which is associated with the activation of innovative processes characterized by high uncertainty and stochasticity of the economy; cognitive and behavioral abnormalities caused by the training effect and coupling effect. The latter show itself in the fact that knowledge, attainments and skills accumulated during the formation of the human capital determine the formation of the choice model, which can be characterized as inefficient in a changing environment.

The coupling effect occurs due to the fact that the elements of the institutional environment are characterized by sign of complementarity, which necessitates changing of certain set of formal and informal rules within framework of the overcoming (neutralization) of the individual institution. For example, changes of tax laws with necessity supposes

making changes to the content of the tax culture, without which effective rules governing the formation of budgets of various levels and state special-purpose budgetary funds cannot be established. Sufficient conditions for the emergence of inefficient institutions or QWERTY-effects in modern Russian economy are the institutional projects carried out with violation of the principles of institutional planning and the social capital treated as a set of explicit and implicit contracts (social interaction). The existence of ineffective standards is caused by the fact that the expenses related to the cancellation of an ineffective standard exceed the costs of its functioning. There is a mechanism of contract enforcement making provisions for sanctions against violators of the existing standards and against economic agents who are taking steps to transform (liquidate) inefficient institutions. Another source of institutional traps in the welfare society is effect of coordination which involves positive externalities of following inefficient rate on a significant part of society that maximize their own utility function with a decrease in productive capacity of society in this case. This gives rise to opportunistic behavior, the subjects of which can be the state, governments, business entities, top management, separate individuals and others. Opportunism in Russian society takes on different forms – single or double-sided opportunism, such as the opportunism of consumers of housing and utilities infrastructure, its suppliers, etc., opportunism to the form of tax offenses and tax crimes stimulated by current informal institutions (public opinion, the low tax culture) and others. Following the ineffective regulations reduces the transaction costs of economic agents, which reduces the effectiveness of fiscal methods of regulation of economic processes formed in accordance with the principles of the theory of social welfare<sup>18</sup>.

### 3.8 The Ways and Means to Improve the Efficiency of the Russian Economy and the Direction of its Modernization

Which steps should be taken by the government and society for a radical change in the situation in the economy?

First of all, in our opinion, the Russians need to decide and finally to dot all the i's and cross the t's in such important questions as the attitude toward private ownership, the role and place of businessmen in current social and economic and political systems, the results of



privatization and the amnesty of capital, the fight against corruption and many other problems, the presence of which creates social and political tension in the society for years. Wide-ranging all-Russian discussion on these difficult for the public authorities topics will allow reaching some compromises and removing the existing contradictions between the various groups and sections of the population, finding balance of the interests of all parties and concluding a new social contract, the absence of which significantly inhibits the further economic development of Russia.

We need to objectively assess the current social and economic reality and to recognize on the level of the whole society both positive and negative consequences and the actual results of some of the government decisions implemented in the interests of individuals, social groups, known to all companies or certain regions. The long-term process of futureless criticism and search for the perpetrators only distract Russians from the joint creative work, because almost all decisions not accepted by society were made within the framework of the current legislation, statute of limitations has long expired in the majority of them and their current revision would require a radical change in the entire legal system (starting with the Constitution of the Russian Federation) and would mean the beginning of a new social revolution. In our view, it is much more important having analyzed the negative results and having summed results of social and economic development of the country that are not always comforting, to admit their mistakes and to direct the efforts of the state and society to the exclusion of such practices in the future, modernizing the existing state and public institutions, creating new effective mechanisms of civil power control (such as the All-Russian People's Front).

In our opinion, modern Russian realities are that today only the institution of the presidency has the necessary resources and public confidence for large-scale economic reforms and only Russian President V.V. Putin is able to set all participants of the Russian domestic social and economic process to the negotiating table and to get them to develop common approaches both in the evaluation of the results of economic development of the country and in determining directions and ways of its further reforming. With the active participation of government, economic agents have to overcome the existing internal contradictions, understand and articulate their economic

interests at a new, nationwide level, laying needs and demands of the majority of Russian society and not of individuals and social groups into the foundation. The idea of building in Russia "economically strong and politically independent state"<sup>19</sup>, in our opinion, is quite capable to consolidate Russian society and to ensure the effectiveness of the reform of the national economy mainly relying on its own strength and internal resources.

Against the background of scientific, technical and technological revolutions of the last century the price of the possible success of Russia in 21<sup>st</sup> century has not been fundamentally changed and the Peter Stolypin's words that "in the global fight, in the competition of peoples only those can take a place of honor who reach the full voltage of their material and moral power", are still relevant today<sup>20</sup>. The task of reforming of one of the largest economies in the world cannot be solved in between playing golf and weekly voyages to family members who permanently reside in London. It really requires "maximum stress" of all participants of large-scale modernization process, because the whole world experience demonstrates low effectiveness both authoritarian (conducted "from above") and spontaneous (an initiative of the "bottom") reforms. Russian society aimed at solving such global problems, should be fully aware of both possible internal and external risks of its actions and be ready to take on the likely costs of gaining economic self-sufficiency, especially in terms of increasing external pressure.

## 4. Conclusion

In these circumstances, the role of the state, which should be the center and the main coordinator of the development of the overall strategy of Russia's growth, where the economy, of course, should take its niche, raises. First of all, it is necessary to move over to an active economic policy, creating conditions for permanent improvement of the agents' economic activity level, orienting them to getting the positive effect of their activities in the short and midterm. "Innovative Russia – 2020" strategy<sup>16</sup> and its slightly modified version of the "New Strategy 2020"<sup>21</sup> currently acting do not adequately reflect economic realities and need for at least a substantial adjustment in the light of changed external economic and political factors. Moreover not only the "court" economists who carry out their activities within the MRHW, but also all the

economic community, including our foreign colleagues, whose objective criticism certainly impacts positively on the quality of developed proposals and recommendations must be involved in this work. Their developers should take into account the views of practitioners, regional and municipal authorities, industry experts, professional associations, etc. Even before the reform it is necessary to clearly define their goals and objectives, timing, forms of control, list of facilities and range of subjects, as well as a set of methods for their implementation and system of criteria to assess their effectiveness. The solution of the above tasks will require a significant increase in the quality of scientific and analytical work and collective efforts of the economic community, which, in our deep conviction, possesses the necessary scientific potential for it and is able to consolidate in the interests of the country and to overcome the existing internal ideological (and other) differences.

As for the “scientific and theoretical” part of the strategy of Russian economy development, we would not want to prejudge the outcomes of future scientific discussions and we will refrain from expressing our own views and suggestions in this article. However, we let us note the fact that the market path of economic development selected by Russia is not a guarantee of prosperity and welfare in itself and “the market is a mechanism for sorting sifting efficient options from inefficient ones, but it is not a substitute for a responsible approach”<sup>22</sup>. It is a “responsible approach” availability with a significant number of domestic economists and statesmen that lets us hope that it will be possible to create and what counts the most to bring into operation an effective mechanism of working out the development strategy of the Russian economy consolidated and supported by the majority of society, creating a nationwide platform on its base. The very existence of such a mechanism will serve as a guarantee that all stakeholders will have the opportunity to publicly express and defend their own point of view across the entire spectrum of economic problems currently facing our country.

As for the role of national economic science in this process, despite all current problems, it does not stand still and it has been long before ready to offer to the public a series of specific recommendations to respond adequately to current social and political challenges. In recent years the Russian economic community is having a discussion of the “Strategy of interactive modernization” by V. M. Polterovich, the academician

of the Russian Academy of Sciences<sup>23</sup>, “Strategy for the advanced development of Russia in the global crisis”, by S. Y. Glazyev, the academician of the Russian Academy of Sciences<sup>24</sup>. “Strategies for innovation and technological breakthrough” by A. A. Akayev, the academician of the Russian Academy of Sciences<sup>25</sup> and many others. In our opinion, each of the aforementioned scientific concepts, of course, has a significant scientific value and can take at least a certain part of the theoretical foundations of a new economic development strategy and the collective efforts of Russian economists subsequently allow developing unified theoretical and methodological approaches to the process of reforming the national economy and to determine the ways of its further development. It can be both an export-oriented development and import substitution policy aimed at giving priority to satisfy domestic demand. The experts should scientifically substantiate a difficult choice between the acceleration of national economic growth and decrease of inflation rate, attach their priorities in realization of institutional and technological modernization, find the optimal balance of the future structure of the Russian economy and so on – these is just a short enumeration of the most important theoretical and practical problems facing domestic economic science in the framework of theoretical and methodological support of national economy’s modernization process.

However, modern realities are that only the presence of the political will of the country’s leadership will enable to change this process from scientific debate into the plane of its implementation. Unfortunately, although the current government rightly blames on the immunity of Russian business to innovations, it doesn’t obviously differ itself by high demand for economic forecasts and recommendations by Russian scientists, whose analytical elaborations in a great measure remain unused (especially in those cases when their findings contradict with official position) and only public pressure can reverse this trend.

The society must fully use its influence and with the state’s support organize federal and regional media debates about reforming the economy with the participation of the most authoritative experts and public opinion leaders, as it was done in recent months within the framework of discussion of the situation in Ukraine. In the meantime, such turns of speech, as “a tense debate about the ways of economy modernization is spread in the society”, quite often used by our colleagues, do not correspond to reality, because except for the dynamics of exchange rates

and “zigzags” of the next pension reform, other issues of macroeconomics are not a high-priority for the majority of Russian citizens; their discussion still remains the prerogative of the relatively narrow group of specialists, which means that propositions developed by them will be required only in the limited framework of the economic society itself.

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