

*Ruslan Semenovich Grinberg\**

## DEMOCRACY AND THE MARKET: IN SEARCH OF BALANCE<sup>1,2</sup>

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### ABSTRACT

Modern economic models cannot serve as a basis for future socio-economic development, because they oppose freedom and justice, the individual and society. The formation of a new economic model of development is now an urgent necessity for both developed countries and for developing countries. An alternative can be a new economic theory, which is the Concept of Economic Sociodynamics, assuming the equal interaction of individuals and society within the political procedures of pluralistic democracy. The article shows that the institutions of democracy are inseparable from the successful development of society; from the point of view of economic practice, the positions of the supporters of the two paradigms – the neo-liberal and the social-democratic, are analyzed; the opportunities and directions of Russia's development are considered, taking into account the use of the country's preserved potential, its historical, cultural and geographical features, the advantages of its geographical location, as well as the new conditions for world development.

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\* Professor, Corresponding Member of the Russian Academy of Sciences (the RAS), Academic Supervisor of the Institute of Economics of the Russian Academy of Sciences, Grinberg@inecon.ru.

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## INTRODUCTION

The issue of interrelationship between liberty and justice, these equidimensional universal human values, and the search for a sustainable balance between them lies at the core of many theoretical problems in social sciences and in economic theory in particular. Seeking a balance between societal and individual interests, between market forces and state intervention, between authoritarian and liberal approaches is inherently found at the foundation of a multitude of theoretical schemes. The current paper strives to make a contribution to the resolution of these long-standing issues focusing, apart from a rationale for a theoretical model proposed, on drafting a roadmap for future development, based on existing limitations and opportunities.

The paper starts with a theoretical section, briefly portraying the existing economic paradigms – social market economy, neo-liberal economic model, as well as the varieties of state capitalism characteristic for the so-called new industrial nations, analyzing both successes and failures of their implementation in practice. We attempt to demonstrate that none of the contemporary economic models can serve as a basis for future socio-economic development because they tend to set freedom in opposition to justice, and individual in opposition to society. A viable alternative would be a new economic theory, the concept of economic sociodynamics. This concept implies that individuals that pursue their own interests autonomously, and society whose interests are represented by the state, function and interact on equal terms. Their interests are not subordinated to each other, are not structured into hierarchy, but are realized through political procedures in a pluralistic democracy. At the core of this concept are the relationships between the state and the market which in reality are far more complicated compared to what is presented in neoliberal models.

The subject of the next section is the role of the political system, namely democracy, in the nation's economic development. Can democracy contribute to economic growth, and, if so, under what conditions and to what extent? Does personal freedom necessarily result in personal wellbeing? To answer these questions, we are looking, apart from classic Anglo-Saxon and Rhine models, at the track record of post-communist transition in Russia and other countries of the former USSR and Eastern Europe, at the fabulous economic progress achieved in the Sino-Vietnamese model under authoritarian Communist rule, the experience of India, the largest democracy in the world, as well as at the Chilean model where liberal reforms were carried out under a brutal military dictatorship. The analysis demonstrates that the institutions of democracy are intrinsic to the successful development of a society, but the interrelations and interplay between the

nation's political system and its economic progress are manifold and very complex, and in every specific case a balance, a compromise needs to be sought between the degree of liberty and a standard of well-being.

In the third section we look at Russia, its current socio-political environment, its problems and the approaches to their resolution. Here, over the past 25 years, the situation has evolved from Yeltsin-time semi-anarchy to a current autocratic regime which suppressed political and (to a large extent) economic competition, becoming counterproductive for the country's further progress. A pluralistic democracy, with all its imperfections, is the only known reliable means for the expression of public interests, thus having no alternative. But the carrier of democracy, a backbone element of the civil society, the nation's middle class has dwindled during the 1990s and further deteriorated in the course of the man-made economic crisis of 2014–15. The creative potential of the populace, instead of being utilized, became to a great extent destroyed. Moreover, the very notion of democracy was compromised, becoming a synonym for larceny and corruption, thus creating prerequisites for developing authoritarianism. The advancement of modernization as a national strategic priority is effectively antagonistic to the autocratic model of development and calls for a concentration of political will of the democratic state, a deployment of personal initiative of the populace, formation of civil society institutions and self-regulatory organizations.

In conclusion, we briefly look at the dismal state and prospects of the Russian economy, caught into structural and institutional trap. The growing lag between Russia and the leading nations of the world raises the issue of three pressing development imperatives: structural, social, and institutional. A new type of economic policy should include re-industrialization of the economy by means of active industrial policy and strategic macro-planning, introduction of a progressive income tax rate, elimination of rent-seeking laws and institutions, increasing budget allocations for education, science, public health and culture, a revival of local self-government.

## 1. ON ECONOMIC MODELS OF SOCIAL AND ECONOMIC DEVELOPMENT

The problems of the correlation between the interests of the individual and society, the correlation of market and state forces, authoritarianism and liberalism inevitably turn out to be the cornerstone of any theoretical constructions. In a generalized form, the answers to these questions lie within the framework of two principal worldview approaches, which are collectivism and individualism.

Russia over the last century has tried both. In 1917, it began to introduce a theoretical model of a society, that was previously unknown to the world, and that was the society of justice. And it must be said that under the Soviet government equality as a synonym of justice was achieved. But they sacrificed their freedom, and so the experiment failed. In 1991, again, according to a new fash-

ionable theoretical model, we switched to absolute inequality. They began to introduce freedom, completely ignoring justice, and again, apparently, there seemed to be a failure, since there was a need for autocracy.

Fearing a possible victory of socialist sentiments in the society, the West responded to Hitler's and to Stalin's regimes with the concept of a social market economy, the main imperative of which was the following: not rejecting the market, to combine it with social alignment and state regulation in the interests of "welfare for all". Being aware of all consequences of unfettered liberalism and, already having an idea about the flaws of a directly-driven managed economy, the creators of the doctrine of social market economy tried to combine freedom and equality, efficiency and fairness. As a result, the road to a new model of society opened, conditions were created for the growth of the middle class and for the formation of "a society of general welfare".

Social market economy was well established in the whole continental Europe. And in the most liberal country in the world, – that in the USA – in the 1950s–1960s, despite anti-statist rhetoric, the market economy was, in fact, no less social than in Western Europe. And there a guideline won for, approximately, the same starting point for people from different backgrounds.

Failures in the system of social market economy began in the mid-1970s. It was, in my opinion, connected with two reasons. The first one is "the re-socialization" of capitalism. Its humanization had gone so far that investors-employers had already ceased to be the main actors in the economic process. Powerful tax progression, mechanisms of social equalization led to the fact that entrepreneurial activity began to wither. Once a state receives too many rights, bureaucracy develops, stagnation occurs, and, as a result, the number of people dissatisfied with the idea of social state grows rapidly. The second reason was a fourfold increase in the price of oil in 1973. In theory, when one of the most important elements of production costs rises sharply, one needs to tighten the belt. But the inertia of the rising social standards proved insurmountable. Everyone became accustomed to the fact that revenues must grow every year, trade unions continued to put forward their demands for higher incomes, having ignored the danger of starting a price-income-price spiral. Investors noticeably decreased their desire to invest. There was stagflation – stagnation plus inflation, which was the last impetus for the transition to neo-liberalism.

In the West, the heyday of neoliberal rhetoric began. In an unfortunate coincidence of circumstances, in Russia, just at this time, perestroika, or restructuring, began, and then came the system transformation, the implementation of which was carried out according to the new-fashioned anti-statist recipes, without taking into account the "place and time".

The contemporary global economy, the economies of the leading countries of the world, the post-socialist economies of the countries of Central and Eastern Europe, of the former USSR were formed, on the basis of the neo-liberal economic model that arose at the turn of the 1970s-1980s, which became a response to the failures of the Keynesian paradigm. It should be admitted that, within the

framework of this model, stagflation had been overcome, which had been blocking economic growth, there had been revolutions in information technologies and in production management mechanisms, as a result of which a powerful impetus had been given to innovative development. For economies in transition, economic models had been formed, on the basis of the so-called Washington Consensus, which had envisaged reform programs based on the principles of economic liberalization, privatization of property, minimizing the economic role of the state, and the dominance of monetarist methods of macroeconomic regulation in state economic policy.

It should be noted that the growing popularity of neoliberal ideas in the West in the 1970s led only to a certain correction of “the welfare state”, but, not at all, to its dismantling. The state’s share in the economy has decreased there by only a few percentage points, and, in our country, it had decreased from 100% (in the USSR) to 30%.

Today we again face a myth, which, this time, is neoliberal. Its essence lies in the fact that in the contemporary world those nations prosper which managed to minimize the state participation in the economy. But in fact, even where liberal economic thought dominates as a theory, in practice everything is different. Thus, through the aggregate state budget of the countries of the OECD (The Organization for Economic Co-operation and Development), i.e. the richest countries of the world, half of GDP is redistributed, whereas 100 years ago this figure nowhere exceeded 10%.

The situation that develops in both economic theory and in economic policy is best defined by the concept of “chaos”. The old schemes, which worked more or less reliably in the 1950s, 60s, 70s, 80s, and even in the 1990s, no longer work or they do not work as expected. And, it seems, the world is on the threshold of some new economy.

Global megatrends convince that state capitalism is too early to write off. For a world that has been experiencing crisis for a number of consecutive years, the moment of truth has come: the rapture of “a free” economy has passed, having given way to disappointment and fatigue from radical, unrestrained liberalism. In place is a system that has not yet received its name. It is obvious, however, that without a powerful and systematic state activity, the economy already cannot be dispensed with.

The economic successes of Asian countries, where the state is actively participating in the economy, are obvious. Models of development based on state capitalism are associated with the second and subsequent waves of modernization in the so-called newly industrialized countries of the Far East and South-East Asia, in the last twenty years in China and in Vietnam, in the areas of so-called Islamic modernization (Turkey, Iran, Malaysia, Indonesia), with the consonant experience of some post-Soviet countries (Azerbaijan, Kazakhstan, Uzbekistan), and, of course, with the BRICS countries.

Political stability is ensured due to enlightened authoritarian power, gradual democratization, and continuity of the general course. The economic dynamics

is supported by a combination of the market with state regulation and stimulation of leading industrial concerns, and budgetary funds predominate in the structure of the investment process. In practice, it turns out that state capitalism can be exceptionally productive if the capital is built into development plans and public-private partnership is aimed not at the nationalization of private business, but at its maximum support, in general, and at encouraging participation in nationwide priority projects, in particular. On this score, there are many works of both foreign and Russian researchers (Kondratiev 2013; Eppler 2012; Stiglitz 2012, pp. 172–176; Dullien, Herr & Kellerman 2011, pp. 114–139; Grinberg 2012, pp.: 78, 342, 350–366).

We do not know which concept will determine the content of the new mainstream in economic theory, but we do know that antistatism is out of fashion and that the state is returning. At the same time, the state activity is no longer exclusively connected with anti-crisis measures (inflation of financial systems with liquidity, concern for lowering unemployment, nationalization of sinking enterprises), but is firmly embedded in the economy as an indispensable subject of its modernization. This is a condition for stable development, the essence of which is in the transition to a real recognition of human factor as the main resource of the economy. Now, this reality should become the kernel of the new model and give it a clearly expressed, pronounced social character.

The problem of finding the golden mean between regulation and deregulation may be the most difficult and important in economic science, and I do not know about whether it was satisfactorily solved by someone. In substance, society has to find a very delicate balance each time between the deployment of private initiative and the realization of public interest, which is the most important function of the state.

The latest macroeconomic studies in both the West and the East directly recognize the existence of a certain special public interest, which is far from always being reduced to the interests of private economic entities. In this connection, the state's participation in the contemporary economy gets a new interpretation, since it already acts in the economic life of the society as an equal market player, striving to realize this special public interest. Hence a new, broader view of the formation of a market equilibrium, where the state is an independent market entity. The Concept of Economic Sociodynamics (CES), developed by Professor A. Ya. Rubinshtein and the author of these lines, I hope, will enter the mainstream economic thought in the near future and will contribute to the construction of an economic model meeting the severe challenges of our time (Grinberg, Rubinstein 2015; Grinberg 2012; Grinberg, Rubinstein 2008; Grinberg, Rubinshtein 2005).

This theoretical construction provides a practical framework for the state's activities, in particular, in the field of financing the social sphere and it is able to answer many pressing questions of the contemporary Russian economy, in particular. Its core is the relationship between the state and the market, which, in reality, is much more complex than that is presented in neoliberal theories and models.

The matter is that the market, excellently revealing and satisfying private preferences of individuals, as a rule “does not see” a large block of public interests. There are many areas, critical for any society that are not interesting to the market, as they do not promise immediate profits. But, without them, there will be neither a healthy society, nor a competitive economy, nor, even more so, an innovative development. And, meanwhile, throughout the whole past century, the significance of these areas had been growing rapidly, and today the trend persists. To verify this, it suffices to look at the budgets of any country. Social expenditures are steadily growing, but are considered as forced, as they divert some of the resources and, as it is believed, hinder the development of the economy. The contemporary market, but asocial economy of Russia, is focused on momentary profit. At the same time, public interest is almost completely ignored.

The key category of our concept is the “social utility” of benefits, which substantiates the objective need for systematic public financing of health care, education, science, culture.

Science, education, culture and health are the four main areas that should be taken care of, patronized and financed by the state. Our concept radically changes the notion of state activity: instead of state “intervention”, equal participation of the state in the economic life of the country should come, and the place of “budget burden” should be taken by socially justified and expedient public spending for the realization of public interests, in essence, investment in the development of human capital.

## 2. DEMOCRACY AND THE MARKET

### 2.1. POLITICAL INSTITUTIONS AND ECONOMIC DEVELOPMENT

The role of the political system in the economic development of the state is the subject of vivid discussions: can it, and under what conditions, within what limits and in what combinations with other factors, contribute to successful social and economic development. Life shows that this or that political system is really able to help liberate economic forces, the economic potential of the country, but on the contrary, it can bind these forces, hindering the dynamics of economic development.

The meaning of democracy is not only that it is a value in itself; at the same time it is a working tool for policy adjustment. However, the will of the people, in the absence of a middle class and institutions of civil society, often brought politicians to the forefront of the history, who did not have any political and economic programs, except for the instinct for power. Unfortunately, the belief in the ideal reformer-leader, chieftain, so to say, is indestructible and lives in many societies, not only in Russian society alone.

When fundamental changes began in the Soviet Union and in the countries of Central and Eastern Europe, the reform initiators actually set themselves three

goals, as it was considered, already achieved in the countries of “the golden billion”. It was about pluralistic democracy, civil society and social market economy.

It is believed that the life of the countries of the “golden billion” gives an example of the most direct relationship between personal freedom and well-being: the freer a person is, the higher is his level of welfare and it is better for the general situation in the economy. But the example of post-socialist reforms showed that this was not quite so, and, in the case of reforms in Russia and in other post-Soviet republics, it was completely different. It turned out that, in order to bring freedom to the well-being, many other conditions are needed, including the creation of certain institutions in society and in the state, the achievement of a certain level of culture.

Starting reforms in Russia, we all, with few exceptions, expected that, in a market economy, human egoism and competition would lead to welfare. At the time of perestroika, or restructuring, almost everyone was sure that, firstly, it was necessary to make a political system of an absolutely Western type, and secondly, the economy needed to be transformed into an even “more market-oriented” one. But the calculation was very naive, in part because of ignorance of real market practices. The results of our transformation are known: none of the goals was achieved.

And in which development models have all three goals been achieved? There are the Anglo-Saxon model and the Rhine model, the separation of which is largely conditional, but still there are certain differences. It is generally accepted that the market economy operates in the Anglo-Saxon world, while the Rhine model represents a social market economy, in which emphasis is placed on the redistribution of gross domestic product through the state budget, and the state provides a high social component of state, or government, spending.

The third model can be conditionally called the Chinese-Vietnamese model. In these countries there is no any clear political freedom. Communist parties of China and Vietnam do not allow the emergence of formalized opposition forces – these are forever, eternally ruling parties. And at the same time, after these countries took a course to create a market economy, things went very well for them. In these countries there are not “social market economies”, but “socialist market economies” – they gave such a title to their present economies.

The successes of the Sino-Vietnamese model are one of the most unexpected events in the newest economic history of the last 25 years. It strongly shook the usual assessments of the role of the political system in economic reforms of a market type. The successes of these countries were indeed unexpected and uncomfortable for our habitual way of thinking. After all, it was believed that the supremacy of the Communist Party, its all-embracing dictate, would end, and normal life, both free and prosperous, would begin.

The situation in countries where the communists still rule, refutes the thesis that prosperity and freedom are linked and go hand in hand. In fact, as it turned out, well-being can be sharply raised as a result of the use of harshly authoritarian, if not, so to say, dictatorial, measures. This, of course, is the subject for serious discussion. Let me remind you the most important thing: the Communist



Party in China has absolute power. And, what is very important, the world calmly perceives such a combination of authoritarianism and surprising socio-economic achievements. Of course, you need to remember that if you start at a very low level, then the economic growth of 10–15% per year is not the highest result. When moving from zero mark, growth rates are always very high. We must not forget that even in the 1960s, vast territories in China suffered from famine, and with a population of a billion, this problem was very serious. But in China, it was not only overcome, but already they are now achieving certain prosperity. Again, we emphasize: China is an authoritarian country with communists in power, but GDP quadrupled over the past 25 years there; few nations today can boast such a result.

Recently, quite a lot has been said and written about the Indian model. India is often called “the largest democracy in the world”. Here lives a billion people – almost as much as in China; but, unlike China, in this country there is a real adversarial process in politics. Of course, it’s also not without flaws, but in India, real elections are held, unlike the Chinese “elections without choice” although in China there are various formal attributes of democracy.

## 2.2. POLITICAL COMPETITIVENESS: OPPORTUNITIES AND LIMITATIONS

A competitive political process always supports real political life in the country. It means that the opposition is always able to seize power and to correct the shortcomings of the leadership of the previous party. This is fundamentally important. Unfortunately, only Ukraine can boast an adversarial competitive political process in the CIS space. Whatever our attitude to the leadership of this country is, to what has been accumulated in Russian-Ukrainian relations, one must see that, unlike other former Soviet republics, where the level of political competition tends to zero, an adversarial competitive political process is really operating in this country. And without competition, the probability of error in economic policy is exceptionally high.

In Russia, in the times of Yeltsin, the very fact of having a right-wing government and a left-wing parliament meant that there really were conditions for an adversarial competitive political process. On important issues, representatives of various political parties could come forward with their point of view. Each in its own way, far from being always successful and effective, but they could, at least, somehow correct the course, oppose the authorities. And there were quite a few such opponents.

And now, “no one interferes with those who are right”, the parliament is completely presidential, but as a result, any government bill passes smoothly there: good or bad, thought out or underdeveloped. No one is safeguarded from errors. But democracy, in this case, can be compared figuratively with a snail – it creeps slowly, but its course is very reliable. The decision becomes more reliable, because it was accepted by 450 people.

In China and Vietnam there is no such competition. An authoritarian political model is being realized in these countries, but, at the same time, we see that this does not harm economic growth. Moreover, the world began to treat Chinese authoritarianism as an established reality – for the reason that the world needs stability in China, because the whole world believes that China will become a powerful player in the political arena, in a while.

Currently, the US are not interested in China's democratization. When it comes to a nuclear power with almost a half-billion population, one immediately recalls the experience of the collapse of the USSR. China is a country as multinational as the former Soviet Union, but while everything remains under the control of the central government, deep mutual claims and grievances between the regions do not go outside. Not without reason it is assumed, that, if China follows the path of democratization, serious ethnic conflicts will start there. And the consequences of destabilization in China are not difficult to estimate, if you remember that every fifth person in the world is a Chinese. Therefore, no one even talks about "exporting democracy" to China.

As for the "Indian option", there are both democracy and astounding economic successes of the past twenty years. Both formally and, in fact, India is a democracy, with all the known imperfections and contradictions of the democratic regime in this country. Castes exist there. There, half a country lives in true poverty, but the other half – and this is half a billion people – is making a rapid and very important leap. It is universally recognized, for example, the world priority of Indian programmers, the software has become an Indian brand. But India has many other opportunities for a new breakthrough.

For the future of India you can be relatively calm, there democracy has already taken shape, and this democracy is universal. On the contrary, in China, with all the obvious successes of the economy, one day the question about the opposition will arise. People will want in politics something different, new, and economic successes, apparently, only bring this moment closer. It will require freedom, democracy; changes can begin from below, there will be a question about personal freedoms, about democratic elections, about alternatives, and so on. This will necessarily happen someday, because, although the Chinese Communist Party now owns virtually everything in the country, it actively and purposefully contributes to the enrichment of the population. In a sense, it's a risky game. If the Communist Party once does not have enough strength to hold the position, everything can collapse: a democratic process can also be destructive.

Another model is a Chilean one. It should be mentioned, at least because many in Russia often refer to it as an example of successful reforms. I am not a supporter of the Chilean model, but I want to understand the motivations of its supporters with the utmost impartiality.

It is accepted, and not without reason, to consider that economic reforms are always painful. In the course of reforms, sharp contradictions arise between the reforms being made and democracy. This makes all countries in transition vul-

nerable: they strive for everything at once – both for political freedoms and for economic reforms. But political freedom, political democracy means that every four years people come to the ballot boxes to decide which politician to support. This means that politicians, whether they want it or not, have to be populists, at least before the elections. But at the same time, it is necessary to carry out painful reforms, in particular, to withdraw from the policy of paternalism. In other words, to offer people to incur expenses for what used to be (or seemed to be) free of charge: for medicine, recreation, for housing, etc.

In Chile, A. Pinochet carried out liberal reforms in conditions of a brutal military dictatorship, virtually all democratic freedoms were abolished. Everything had been very much like the USSR of Stalin's times: we had lived in a great power, but almost a quarter of the country had served prison sentences in forced labor camps. However, for fans of such models it means nothing, although, to me, such a price, even for the highest level of welfare, seems unacceptable. Some Russian liberal politicians also dream of establishing something similar to the Chilean version in Russia. The logic of their reasoning is simple: we know what to do, but only, unfortunately, democratic procedures hinder.

Russia has no other alternative but to build a market economy, to strengthen the state without sacrificing democratic values. This is an enormous one on a historical scale. The main difficulty is in combining the market, the state, democracy without harming each of these components.

### 2.3. POLITICS IS THE ART OF COMPROMISE

In my opinion, there is still an ideal of combining personal liberties and justice, an appropriate balance in this eternal dichotomy. In economic terms, one can speak of the effectiveness of the economy and the of uniformity of distribution. If there is an efficient economy in the country, its fruits should be distributed more or less evenly, which is taken care of by a systematic and integrated state social policy. To achieve this, in practice, is very difficult, a successful result is rarely obtained, moving to it is a way of constantly seeking compromises. And this is the most important and difficult in politics.

Can we talk about the availability, about the existence of a definite dependence: the more freedom a person has, the higher his welfare is? No, unfortunately, we cannot. The relationship, interaction, cause and effect relationships between the political system in the country and its economic successes are very diverse.

In each specific case, at each particular moment, when the question arises of such dependence, both in practical actions and in evaluating their results, a certain compromise must be found between the degree of freedom and the level of well-being.

In conclusion, I will mention one paradox that is important for Russia and the for fate of its reforms. The paradox of our history is that the country is considered great and mighty, when a particular person in it is oppressed and forgot-

ten. But one should take some steps to resolve this dilemma. Public opinion, on this score, is split. There is no consensus among experts. How to combine liberalism and the greatness of the country? It is clear that democratization in Russia easily leads to anarchy. But another thing is obvious: at a certain stage of economic and political reforms, the authoritarian regime does not hamper economic growth, but then – with some saturation of people’s needs in the most necessary – it begins to oppose the further creative modernization of the country. And this pattern is universal.

### 3. FEATURES OF THE SOCIO-POLITICAL ENVIRONMENT OF RUSSIA

#### 3.1. PLURALISTIC DEMOCRACY AND CIVIL SOCIETY IN RUSSIA

The concept of the so called Ordoliberalism, i.e. the combination of order and freedom, developed by German scientists Walter Eucken and Wilhelm Röpke, turned up to be almost ideal: market economy, systematic state activity where the market can not cope. The most important third component of this system is a pluralistic democracy, which, with all possible flaws in its practical implementation, is the only known reliable way of expressing public interest. That is why political democracy is non-alternative.

Formation of democratic mechanisms in society is a long and complex process. Let us recall the events in the USSR of 30 years ago. Then 280 million Soviet people suddenly got freedom, in fact, from the hands of one person, – and that person was Mikhail Gorbachev. And it soon became clear that the freedom, granted from above, rather intoxicated, than inspired, if quickly it didn’t bring the naively expected fruits from it. Today we are seeing a very timid, zigzagging movement towards the formation of a civil society.

In these conditions, it is extremely necessary to form a modern democratic elite, both on the side of the authorities and on the side of the opposition. The one and the other need to learn the negotiability, in the name of the common Fatherland, facing the mounting problems and challenges. The best way is public dialogue at round tables and in public discussions. At the same time, both sides need to be patient and resist the temptation to solve problems through violence. Unfortunately, our historical experience abounds with similar examples. But we are not fatally programmed for eternal confrontation. We all lack the understanding of compromise as an agreement on real mutual concessions, and not as a retreat due to temporary weakness.

The culture of “all or nothing” is unpromising and detrimental to everyone. The European culture of mutually respectful dialogue should replace it, and this will be a major step towards real democracy.

The Russian autocracy, which had suppressed Yeltsin’s semi-anarchy, and at the same time, beneficial political and economic competition, is becoming counterproductive. The point here is not only and not so much in specific individuals.

The advancement of modernization as a strategic priority of the country is objectively incompatible with the autocratic model of development and with imitation democracy and requires the concentration of the political will of a contemporary democratic state, the deployment of personal initiative of people, the creation of civil society institutions and self-regulatory organizations.

### 3.2. FORMATION OF THE MIDDLE CLASS IN RUSSIA

The middle class is the carrier of democracy, the system-forming element of civil society, the formation of which became the main achievement of mankind in the second half of the 20th century. In the 1950s and 1960s, it developed even in the USSR, although it was not as rich as in Western European standards. And, of course, in the 1990s, most of this middle class “went into poverty”. They were, primarily, professionals with higher education, middle managers, employees, highly skilled workers. These people in the USSR were not just a middle class, on consumption. They were educated, independent thinkers, had high self-esteem, self-esteem – after all, the country took first positions in the world hierarchy of intellectual countries. Namely they could form the basis of pluralistic democracy.

In Russia, unlike other European countries, liberal ideas traditionally did not have a broad social base. The appeal to liberal values was characteristic only for certain periods of Russian history of the XIX–XX centuries. It was precisely this period that turned out to be the decade that swept the second half of the 80s and the first half of 90s of the 20th century. It can hardly be denied that, at that time, the popularity of ideas of individual freedom and private initiative was rapidly growing in Russian society. By the early 1990s, they had captured a significant part of the population, with the most productive part of it, a broad social basis for the practical implementation of liberal and democratic ideas. And the state power was given a serious chance for the development of democratic processes, the formation of civil society, the creation of a civilized, free market economic system.

But the Russian reformers not only did not take advantage of this unique opportunity, but, in fact, they did everything to discredit the values of freedom, in the eyes of the population. What happened in Russia in the 1990s, caused, in the public opinion, a growing negative, even a hostile attitude to the values of freedom, and to the very notion of “democracy”. It became a synonym for theft and corruption, and the liberal idea was so compromised that, by the end of the 1990s, the scale of aggressive rejection of liberal and democratic values created real prerequisites for a return to an authoritarian regime. The discrediting of democracy and the creation of prerequisites for authoritarianism is the main socio-political outcome of the activities of Russian reformers in the 1990s.

With sadness I have to state that the current political superstructure logically flawlessly crowns the economic basis created during the years of reforms. Returning to the representatives of the Soviet middle class, I will remind that

they were people who suffered most, that they were most economically and socially deprived during the reforms. Russian reformers, in substance, tried to get rid of this social group as quickly as possible. Most of its representatives were thrown out to the margins of social life. The creative resource of the population, instead of being used, proved to be largely destroyed. The sharp weakening of scientific technical, and human potential is an irreparable, both economically and socially, loss that Russia has suffered in these 25 years. But namely this resource is considered the engine of economic development.

According to various estimates of the most authoritative expert structures, in the late 1990s, about 10% of the people belonged to the middle class, and by the end of the 2000s, this figure had increased to 20–22%. As we can see, progress is evident, but this is clearly not enough for a fully-fledged social state. The society becomes socially comfortable, if two people out of three, really belong to the middle class, and not just identify themselves with it. In the post-socialist European countries, one third of the citizens began to live better, one third began to live worse, and, in our country, if we generalize the surveys, 20% of people now live better, 30% live at the same level, and 50% of them live worse. At the same time, the trend remains negative. Today, as a result of the man-made crisis of 2014-2015, there is a noticeable narrowing of the Russian middle class, which seems to have become the main victim of recession and devaluation.

### 3.3. THE STATE AND BUSINESS

We have to agree with the thesis that our state does not yet help business (especially the small and medium ones), but rather hurts it. It's about the hard bureaucratic press of the state, which exerts pressure on business, by increasing its costs, by driving entrepreneurs into the deepest depression. A normal person wants neither to give bribes, nor to receive them. He wants clear rules. Let them be tough, but let the business depend on the law, and not on people, who took office, in order to be fed, at the expense of the territory, entrusted to them, or, at the expense of the sphere of life. The state just does not have enough activity, determination, to create such rules, in order to rely on civil society. Today, our bureaucracy rules the ball, because there is no public control behind it. And this, in my opinion, is more dangerous than financial bubbles or a budget deficit. In Russia, the absolute power of the bureaucracy is the main systemic problem, the unresolved nature of which may have catastrophic consequences for the country.

The historical experience of our country testifies to a rather paradoxical, but constantly reproduced situation, when liberalization of state administration results in the intensification of bureaucratic power. In the conditions of underdevelopment or absence of the corresponding institutions of civil society, any narrowing of the area of legitimate activity of the state, leads to an expansion of the “gray zone” of officials’ activity. Therefore, the dominant of any public administration reform in Russia, should not be a doctrinaire reduction in state

presence, but a curtailment of the self-proclaimed powers of the bureaucracy. Unfortunately, we observe the opposite: the volume of illegal powers of the bureaucracy is constantly growing, which, in fact, reflects the low quality of public administration. In short, we are confronted with the classical phenomenon of shifting public choice and related political decisions towards the interests of the ruling elites. In post-socialist Russia, this shift is manifested especially visibly.

### 3.4. THE STATE AND SOCIAL DEVELOPMENT

The defects of our political system do not allow to resolve many contradictions of economic development. Radical pseudo-liberal forces, which, in the early 1990's won in the country, created a virtually monarchical constitution with unlimited powers for the president and with an absolute monopoly of the executive power. Here, economy and politics are closing in, here is the source of the extremely inefficient manual management of the economy, which is now dominant. Manual control would be ineffective, even in Luxembourg, and even more so it is inefficient in a huge country. The country retains the monopoly of one school of thought, and it does not depend on who practices it – liberals, dirigists or someone else. It's just that "power corrupts, and absolute power corrupts absolutely". Namely that is why I am for democracy and for competitiveness, including in the sphere of economic ideas.

We still believe even today that any state activity is vicious, except for ensuring "the unity of the rules of the game for all." Market mistakes are preferable to state errors, even if the price of the former is much higher than the price of the second. There is a clear view of the strategic guideline to reduce the number of organizations, the activities of which require constant, uninterrupted state funding, I should stress.

I should note that the ideas, the notions of the need for state participation in resolving the problems of social stratification, about "the state charity" was formed much earlier than capitalism arose. They appeared already in Byzantium under the influence of Christian values and, undoubtedly, prepared the ideological basis of the social state. Here is what a well-known lawyer, Corresponding Member of the Russian Academy of Sciences (the RAS), G.V. Maltsev wrote: "The ideological harmonies here are simply amazing. In the VI century. Monk Agapit persuaded Justinian that only through the will of the emperor, and only through public efforts, can the gap be overcome between excessive wealth and extreme poverty; for this it is necessary to level, to equalize the wealth, take surpluses from the rich and support the poor so that, without causing offenses for the first ones (they, in fact, yield what is superfluous), cause a rush of vital energy among the second ones. Thus, in human society, it is possible to establish pious orders, peace, consent, crowned with a basic virtue – that is universal Christian love. Many other Byzantine sources formulate the task of the state to promote a uniform, an even distribution of material wealth between different strata of the population" (Maltsev, 2013).

The opinion that spending on social goals is always a deduction from national wealth and an obstacle to economic growth is absolutely wrong. The experience of the West and of the successful post-socialist countries clearly, unequivocally show shows that properly organized priorities and institutions of social policy not only do not hamper economic activity, but, on the contrary, stimulate it, and, moreover, provide the necessary political support for reforms. Namely it is the development of the social sphere in its broad meaning that determines the prospects for sustainable economic growth, and not vice versa, as it is generally accepted today among our federal and regional elites.

#### 4. RUSSIA BETWEEN DESPAIR AND HOPE (IN LIEU OF A CONCLUSION)

At the very beginning of the radical phase of systemic transformation, Russia experienced a major bias, a major imbalance towards self-regulation forces and deliberate abandonment of the “visible hand” of the state. As a result, today we are again faced with a choice: either a continuation of deindustrialization and a slide into the “technological backwater” zone, or a sharp breakthrough in the field of reindustrialization.

In the country, on the one hand, there is an increasing awareness of the need for a large-scale modernization of the economy as the main condition for its emergence to sustainable growth, and on the other hand, the inability to actually start the process of such modernization, becomes more and more evident. The domestic economy found itself in a structural and institutional trap, because it could not effectively respond to the expansion of domestic demand by increasing investment activity. The initial reason that gave rise to this situation, was the lack of a vision of a holistic picture of the prospective structure of the economy and, as a consequence, of locomotive projects for the modernization of its main sectors. But if, under the pretext of poor quality of state institutions, to give the task of modernization to the forces of self-regulation, the country will be guaranteed to fall behind forever.

Industrial policy, by definition, should be state. Namely it is the state that should propose projects and encourage private business to participate in them. We have forgotten that there are whole spheres of life that in countries with a civilized market economy, have long been planned and regulated. The market forces of self-regulation will work only in conditions of a clever industrial policy.

The threat of a growing backwardness of Russia from the countries-leaders of the contemporary world makes us raise the question of three urgent imperatives of socio-economic development: structural, social and institutional. A new type of economic policy is to include the reindustrialization of the economy through active structural and industrial policy and strategic macro-planning (indicative), the introduction of a progressive scale of personal income taxation, the rejection of corruption laws and institutions, significant preferences for the middle class,



increased budgetary spending on education, science, health and culture, the growth of civic consciousness and the revival of local self-government.<sup>3</sup>

Therefore, the new paradigm of economic development in the interests of the majority of the population must master the consciousness of the Russian elites as quickly as possible. The proposed course, alternative to the current right-liberal one, is a normal historical turn not from liberalism as such, but from those who discredited the concepts of the market and democracy.

The current crisis is likely to be very lengthy, for a number of reasons. Unlike the crisis of the year 1998, the sharply devalued ruble can not help us, at present. Then Soviet enterprises that were still alive, but were idle, simply started functioning and earning money. Then a sharp increase in oil prices was added to this, and we entered a period of rapid growth. Now sanctions are in force, and the initial potential of the manufacturing industry is such that a weak ruble almost does not improve its export positions. Devaluation, while all other things are being equal, creates advantages for enterprises, but there is a simple rule: the less you produce, the smaller these benefits are. At the same time, the sharply cheaper ruble blocks the so-desired modernization of production, because imported equipment becomes inaccessible at a price.

But, in general, so far, we have a pretty sad picture. For a quarter of a century of reforms, on the most important socio-economic indicators, even the level of 1990 has not been reached. Even more sad is the decline in the level of the high-tech sector: engineering, aviation, electronic, rocket and space, defense industries, and this level had fallen steadily both in the dashing 1990s, and in the “fat” 2000s. As a result, the structure of industrial production has acquired an obvious raw material orientation. Almost by three times the share of the fuel and energy complex increased, while the share of the investment sector, on the contrary, was halved, and its share now is 3–4 times lower than in developed countries. This has been most clearly evident in the way, in which Russia is now interesting to other countries: 85% of our exports consist of mineral resources, metal and timber, while the share of production that determines scientific and technological progress has fallen from 20% to 5%. Today, instead of external demand, we have trade and economic sanctions. Hence, the new demand should be presented by the state. Closing over to the problems of the exclusively domestic market means to increase our backwardness. We need to find options when the domestic market is progressing simultaneously and new opportunities for export appear. Export expansion is an indicator of the efficiency of the chosen route. It may seem that the problem does not have a solution, but this, of course, is not so if only large-scale infrastructure projects can revive the economy and stop the investment pause. I stand up for public-private partnership, a form of doing business, for which it is, unfortunately, difficult to take root in Russia.

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<sup>3</sup> Collective conceptual and program elaboration (under the direction of R.S. Grinberg) is most fully represented in the monograph, called “Strategic Guidelines for the Economic Development of Russia” prepared for the 80th anniversary of the Institute of Economics of the Russian Academy of Sciences (the RAS) (St. Petersburg: “Aleteya” Publishing House, 2010).

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Understanding the value of human rights and freedoms has become the foundation of the modern and postmodern society, it contributes to the productive synthesis of a competitive market economy, to the development of civil society, to the rule of law with a wide range of social functions and guarantees. Simultaneously, this is a universal trend, a regularity, by which one can judge about the real progress of modernizing societies - both of the third world countries and of the post-socialist ones. This is an important methodological position, because any variants of mobilization development with the sacrificing of democratic values, human rights and freedoms, concessions to authoritarianism, can give only a partial and time-limited economic result that does not guarantee the achievement of strategic modernization goals, access to the information society and economy, based on knowledge. However, even today, despite historical lessons and a positive example of the most successful countries, the temptation and art of authoritarianism, the development, at the cost of infringement of individual rights and freedoms remain a real threat and an insurmountable obstacle to social and economic progress, to the formation of a free, open and democratic society.

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## DEMOKRACJA I RYNEK: W POSZUKIWANIU RÓWNOWAGI STRESZCZENIE

Współczesne modele ekonomiczne nie mogą służyć jako podstawa przyszłego rozwoju społeczno-gospodarczego, ponieważ sprzeciwiają się wolności i sprawiedliwości, jednostce i społeczeństwu. Obecnie jest konieczne stworzenie nowego ekonomicznego modelu rozwoju zarówno dla krajów rozwiniętych, jak i dla krajów rozwijających się. Alternatywą może być nowa teoria ekonomii, zwana Kon-

cepcją Ekonomicznej Socjodynamiki, zakładająca równą interakcję jednostek i społeczeństwa w ramach politycznych procedur pluralistycznej demokracji. W artykule pokazano, że instytucje demokratyczne są nierozłącznie związane z pomyślnym rozwojem społeczeństwa. Z punktu widzenia praktyki gospodarczej przedstawiono stanowiska zwolenników dwóch paradygmatów – neoliberalnego i socjaldemokratycznego. Zanalizowano możliwości i kierunki rozwoju Rosji, biorąc pod uwagę wykorzystanie zachowanego potencjału kraju, jego cechy historyczne, kulturowe i geograficzne, zalety jego położenia geograficznego, a także nowe uwarunkowania rozwoju świata.

**Słowa kluczowe:** społeczna gospodarka rynkowa, kapitalizm państwowy, neoliberalizm, ordoliberalizm, demokratyzacja, polityka przemysłowa, klasa średnia.

**Klasyfikacja JEL:** O1, P1, P51