

Conflict Studies Research Centre

A PRAGMATIC ECONOMIC PATH: SOME SUGGESTIONS FOR PRIMAKOV

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Pragmatic economic path: some suggestions for Primakov

Primakov's government must achieve three aims, to halt the drain on financial resources, to enable the population to survive the measures that are essential for the achievement of these aims and thus to earn the confidence of the people and to prevent the disintegration of the Federation into semi-autonomous regions; to restart production of essentials in the basic economy. There is no time to lose before the country either disintegrates or returns to an authoritarian regime which will through its own weaknesses yet again collapse.

The first aim inevitably requires a return to exchange and import controls; after all Britain retained import controls till well into the 1960s without incurring the stigma of an authoritarian State. As soon as it can be properly policed a law is essential requiring citizens to declare and perhaps liquidate their luxurious overseas assets and to sell hard currencies in return for rubles. They must also prove that they paid for their recently acquired assets at home by legal means and from taxed assets and income. This is how the British combatted corruption by public servants in Hong Kong. Russia must also start at the top to do the same.

There must be a halt to all expenditure on projects that cannot be afforded, some of which have the single aim of promoting an image of a Great Power. These include the space programme, way-out weapon systems, the maintenance of very large but ineffective armed forces and retention of largely unemployed and unprofitable defence industries. An essential step is a reduction in the officer corps of all armed forces, not just those of the MOD; their genuine reform involves the creation of a professional NCO corps. One cannot be simultaneously a beggar and a debtor on a huge scale and a Great Power. Calculations suggest that the Federation can afford a maximum of half a million total under arms. This is the figure to which Mikhail Frunze, a brilliant military thinker and leader, reduced the Red Army by 1925 when the USSR was genuinely faced by hostile countries; now there is no military threat to Russia.

The second aim almost certainly requires a temporary re-introduction of rationing and price controls of essentials, including rents, bread, cooking oils and energy. Neither the urban nor rural population can survive without these. Farmers need an agricultural cooperative bank advancing credits to pay for essential services, seed and fuel, as well as the ability to earn cash by sale of surplus produce whether to the State or as at present in the open markets.

Experience in the fSU, in Central and Eastern Europe has shown the value of foreign operating firms in management, provision of high quality raw materials, and commercial skills in every sphere including farming. As an example one British firm nearly tripled the output per hectare of a vegetable farm near Kiev in three seasons. West European farmers are successfully renting land in Poland and elsewhere. The picture is the same in manufacturing; Soviet style factories were, with some exceptions in the military sphere, purely manufacturers or merely assemblers. These dinosaurs need to be remodelled and some closed; without foreign expertise this will not happen. It is sad to see how little of the engineering equipment, essential in every sector of the economy, was made even in the ostensibly successful soviet era. It was mostly imported, partly from their East European partner countries, which now require payment in hard currencies, or from the advanced capitalist countries. There is now no escape from the need to embark on a policy of import substitution of "technology". The quickest and cheapest way to do this is to buy licences from world class firms, accept their senior managers to transfer their design, manufacturing and commercial skills and to create firms that integrate all aspects of business based on manufacturing. It is demonstrative of a continuing Soviet understanding of industry to regard management as "the organisation of production" as the Moscow University of Statistics and Economics defines it in its brochure for retraining retired army officers. Experience of intimate collaboration between western and Russian engineers shows that many of them are eager and capable of learning how to compete successfully in a market economy. It will take years, however, to enable the factories and transportation systems and service industries to use and conserve their material, financial and human resources instead of squandering them and destroying their environment. A fundamental change of culture is required and has not yet begun.

There is no need to continue the cashless soviet system of internal commercial trade. Western methods are now being applied by consortia in the only successful large scale areas of the economy, namely oil, gas and mineral extraction. If those firms are true to themselves they will pay their suppliers in real money rather than barter and IOUs. They will also apply to their suppliers the rigours of genuine accounting methods and quality assurance in every aspect of management. In this way the former soviet economies could transform themselves over a period of years.

The evidence of the past ten years shows that there is little will in Russia to accept the involvement of foreign firms and methods that have been successful even within the CIS and former Comecon countries today but which were also successful in Tsarist Russia between 1890-1905.

Such a policy is seen as a blow to Russian pride which apparently and illogically is not hurt when it tacitly concedes foreign superiority by importing its technology across the board from video cameras to road making machinery, ships, cars and instrumentation whilst paying for it in raw materials. It has been so for the past 100 years. This is the condition of a third world country from which Russia must and could escape if its "Establishment" set out to do so.

Unfortunately the essential programmes, the bones of which are suggested above, will on the one hand be rejected by Western dogmatists for laissez faire economic methods as well as by the oligarchs who have benefited from fake privatisation and freedom to rape their organisations and their country. Partnership through joint ownership, foreign management and leadership will be rejected by the emotional chauvinists, Communists and nationalists as well as by those thousands of managers now in their 50s and 60s who know no other than the centralised control systems of the USSR and who have been deluded by the propaganda that they were the best in the world simply because they have, it is true, produced some of the world's most remarkable weaponry, albeit often from astonishingly bad factories. If Russians still regard land and property as sacred to be owned solely by natives, then there are other means of allowing a sensible return to foreign operators, such as leasing and long term management contracts.

It is worth reminding them that Britain post-1945 suffered from some of those delusions but swallowed its pride. Much of Britain's present economic strength is due to its success in attracting world class firms but also in the ability of its managers and work force to learn from foreigners. If Britain, why not Russia and other parts of the former Soviet Union?

But the governments of those countries have much to do before foreign firms will find it attractive to operate there. If the government follows such a path and it is truly implemented, then direct foreign investment will follow, albeit slowly. This could create genuine wealth and the ability for the Russian economy to function properly. Such steps might provide a real economic and political basis for foreign credits to finance the reorganisation by the direct participation of foreign experts in the direction and operation of the legal, financial, transportation, environmental and other essential but unprofitable systems.