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# **THE CRISIS AND THE MODERNIZATION OF RUSSIA – THIRTEEN THEOREMS**

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Moscow  
2010

**Why theorems? We will explain using an old anecdote:**

- Comrade ensign, do crocodiles fly?
- No, of course not.
- But comrade lieutenant said they fly!
- Generally speaking, they fly, but very, very low.

**Commentary.** As opposed to the ensign's last relativistic statement, a theorem prevails.

**Theorem:** Crocodiles do not fly.

A key question in the economic strategy of present-day Russia is what resources should be used to modernize the economy? After all, there are not yet any signs of emergence from the primary trajectory. The head of the government corporation *Rosnano*, Anatoliy Chubays, has stated<sup>1</sup> that modernization is possible “only by means of *reducing expenditures in the social sphere*. There are no other sources”. He also declared that the entire professional community, including the economic and expert elite, is intellectually backward and is not prepared to offer the government any system-based measures for rebuilding the economy. “I count myself in this group”, A. Chubays added. A remarkable admission, although most likely rhetorical!

Russia's figures as far as income inequality and basic positions in world ratings (poverty, unemployment, male life expectancy, corruption, identity and property protection, commitment

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<sup>1</sup> Disaster Without Savvy – Bureaucrats Have No Idea How to Rebuild Russia's Economy, *Rosbizkonsalting* [Russian Business Consulting] (RBC) Daily, 01.07.09.

to democracy, and personal freedom) equal those of *Nigeria*. Under these conditions, the representative of the liberal market elite (hereinafter – the LM elite) says that the only source for innovations is reducing expenditures in the social sphere, which means expenditures for teachers, physicians, engineers, professors, and military officers. Here, it is not only a matter of intellectual backwardness. It is also a matter of selfish class interest and irresponsibility. Indeed, these savings are fraught with the risk of civil disturbances. And the LM elite will never understand the fact that savings in the social sphere can retard economic growth (more about this below).

This article also is dedicated to substantiating the measures that can extricate the Russian economy from the calamity into which liberal market dogmatism and an out-of-proportion greed for gain have led it.

## **1. Economic Inequality and Income Distribution**

For the purpose of analyzing income distribution, the population is broken down into ten decile groups of identical size (10-percent increments) in ascending order of the money incomes accruing to each group (see the illustration at the end of the article).

The first group is the poorest, which has the lowest income, while the last (tenth) group is the richest, which has the highest income. A decile factor (DF), which equals the ratio of the money incomes of the two extreme decile groups – the richest and the poorest, is used to characterize economic inequality.

In Scandinavian countries,  $DF = 3-4$ , in the European Union it is  $5-6$ , in South Asia, East Asia, Japan, and North Africa –  $4-6$ , in the United States (US) –  $9$ , in South Africa –  $10$ , in Latin America –  $12$ , and, finally, with a great breakaway “ahead of the entire planet”, in Russia the official  $DF = 16$ .

Such leadership is indicative of the scandalous and shameful economic inequality in Russia. In a number of studies, it has been shown that if the DF is more than 7-8, the social and an economic situation surrounding a country's market economy will be unstable. And as will be demonstrated below, inequality of this type destroys production forces.

The richest decile group in Russia declared 30.6 percent of all the country's overt<sup>2</sup> money income, while the poorest group declared 1.9 percent. The next, slightly "richer" decile group had 3.5 percent of all money income.

Individuals in the two poorest groups together comprise 20 percent of Russia's population, and they live below or near the poverty level<sup>3</sup>. What resources are needed in order to increase the income of the poorest (first) decile group twofold (i.e., to increase their share from 1.9 percent to 3.8 percent) and the income of the second, less poor decile group by one-and-a-half times (i.e., to increase their share from 3.5 percent to 5.2 percent)? It is not hard to figure that, to this end, a total of  $1.9 + 1.7 = 3.6$  percent of the income of the total population must be added to them. If the latter income amount is taken from the richest (tenth) decile group (which declared 30.6 percent of the overt income of the overall population), this group will then lose a total of  $3.6 : 30.6 = 12$  percent of its declared income, and the "official" (declared) decile factor will then be  $DF = (30.6 - 3.6) : (1.9 \times 2) = 7.1$ ; i.e., it will enter the normal range.

<sup>2</sup> It is shown below that the richest individuals have "shadow incomes" that greatly exceed their declared incomes.

<sup>3</sup> The poverty level established on 1 January 2009, averaged over the various population categories, equals 5,100 rubles (rub) per month (mo). According to data from the Federal State Statistics Service (Rostat), the number of poor individuals who have an income below the poverty level equals 24.5 million persons (17.4 percent of the total population), while a year earlier, the number of poor individuals was lower and came to 17.4 million persons.

And this is just a fairly small adjustment in the distribution of declared income for the purpose of bringing 20 percent of the population out of abject poverty.

Only the intellectual backwardness and greed of the LM elite explain the unwillingness to resolve this problem with such a tiny correction in income distribution for the benefit of the poor class.

This adjustment is, of course, insufficient to salvage and expand the public spheres (the military, law enforcement, education, culture, health care, and science), or to salvage and expand production forces; rather, the radical reform of income distribution and the modernization of the economic order in Russia are needed.

An analysis of income distribution in the tenth, richest decile group reveals that the bulk of this group's income is concentrated among a very small portion of the group's families<sup>4</sup>. Moreover, the incomes of the richest individuals, who comprise one percent of the population and are included in the richest part of the 10th decile group (i.e., the 100th centile group; see the illustration at the end of the article), are many times higher than the incomes they declared and that were hence factored into official statistics. These hidden incomes are comparable to the official total income of the Russian population as a whole and come to more than 29 trillion rub/year. The subject incomes are primarily received in foreign, not ruble currency. If these hidden incomes are taken into account, it then turns out that the DF in present-day Russia equals 30-50.

The "superrich" group, in particular, includes:

— 0.2 percent of families (100,000 families), which command 70 percent of the nation's wealth, and;

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<sup>4</sup> S. Valyanskiy and D. Kalyuzhnyy. Elusive "Middle-Classes". *Literaturnaya gazeta* [Literary Gazette], 8-14 October 2008.

— 0.4 percent of families (200,000 families), which had an income of more than 30 million rub/year in 2007<sup>5</sup>.

Government ideologists and the LM elite usually repeat the popular maxim that labor compensation can only be increased following an increase in labor productivity. *It is necessary to earn first, then share*, they say, in contrast to the proposition of the far left, which wants to *take everything away from the rich and give it to the poor*.

The correct proposition is: *in order for the country to earn more and produce more goods, what the country is already earning must be properly distributed*. In other words, the country need not earn more.

The consequences to which anomalous economic inequity and the improper distribution of the national income will lead are shown below.

## **2. Progressive Taxation of the Rich Class**

If the social sphere is taken to mean the entire population, including the richest of the rich class mentioned above, which consists of 0.2-0.4 percent of families, the assertion that savings in the social sphere constitute a source for innovations is technically correct (with the caveat that these savings are not the only source). But the Russian LM elite does not include this rich class, being a “sacred cow”, in the social sphere and does not include it in the class on the care of which savings could be attained in order to put together resources to support an innovative economy.

This class pays out 13 percent of its overt income, and that’s all. The bureaucrats and the LM elite say that, alternatively, if

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<sup>5</sup> Data from the Russian State Insurance Company (Rosgosstrakh) published in Kommersant-Deyli [Businessman Daily] on 27.02.2008.

an attempt is made to collect more from the rich, the rich will then not even pay this 13 percent, hiding their incomes.

Of course, on the sly, they mean themselves, because there are those among the bureaucrats (governors, deputies, ministers, etc.) and the LM elite who, together with their spouses, have incomes that number in the tens of millions of rubles a month. Furthermore, as previously stated above, the richest individuals hide enormous sums, comparable to the official total money income of the population as a whole, from even the current primitive (13-percent) taxation.

To the LM elite and their rich “clients”, it is very lucrative to get out from under their tax obligations with a 13-percent tax<sup>6</sup>. Thus, they are playing mind games, since in all the countries that they love to hold up as examples, they would have to pay not 13 percent, but 50 percent of their incomes or more.

For the sake of the motherland that so regales the Russian LM elite with huge incomes, it could give back 50 percent, leaving itself just as much (and, after all, this is no small amount), as is done in *all* (and, again, we stress in absolutely all) more or less developed countries. But this is not the case. It will be shown below how much the government is losing due to the flawed tax concept presently employed in Russia.

Unlike the Russian LM elite, the economic elite in the US, Europe, Japan, and other industrial countries understand that a progressive (nonlinear or nonproportional) tax schedule under which the higher the income, the greater the share that must be given back to the government in the form of taxes, is not “socialist folly, but rather a necessary condition for the balance and stability of the economy”, its investment capacity, social stability, and

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<sup>6</sup> As shown below, the rich nevertheless “shroud” their incomes and pay 13 percent on a very small portion of their earnings.

social justice. The Russian LM elite has long regarded social justice with disdain, and it has gotten accustomed to the stability of our society. But the following theorem is inconceivable for the Russian LM elite.

**Theorem 1:** A progressive tax schedule is a *necessary condition for a balanced market economy and economic growth*.

This is absolutely necessary!

Progressive taxation (the higher profits and incomes, the greater the share that goes into the federal budget in the form of taxes) counterbalances the selfish tendency of a businessman to pay to a worker less and to invest less in production development. Progressive taxation saves capitalism and the market economy from destruction due to the overproduction crisis Karl Marx described.

For this reason, the rich in all developed and developing countries give the government a *share* (some 50-60 percent) of their incomes that is several times greater than that of the poor and middle class.

*And the poor class is altogether exempted from taxes.*

In the US, if an individual's wages are less than \$13,000/year, his or her taxes are then refunded. In addition, if there is a child in his or her family who attends school, the family is then supplemented with \$3,000/year from the government treasury. In Europe, support for the poor class is even more appreciable. And taxes from the rich class provide this support.

But even given these income "equalizations", western nations, primarily the US, are not able to prevent the excessive and at times illegal concentration of incomes among a small group from the rich class (as its  $DF = 9$  suggests), which has also led to a crisis in purchasing power and defaults on credit for housing. The present

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world crisis is also ultimately a consequence of imbalance, excessive inequality, and the disproportionate concentration of incomes among major US managers and financial magnates. These incomes were in fact withdrawn from the economy using various speculative subterfuges involving “securities” (derivatives).

The Russian LM elite is proud of the fact that, at its insistence, we have a poor (linear or proportional) tax schedule and everyone pays 13 percent of their incomes. After all, this is very convenient, they say. And how much does this convenience cost the country? In 2007, the 200,000 richest families had incomes of more than 30 million rub/year. If 50 percent of these incomes were mobilized to rescue the domestic economy, a sum of 3 trln rub/year would then be available. Even this amount is not sufficient for a balanced federal budget.

Then, too, there is the luxury property (expensive homes, land, yachts, etc.) on which, including the right of inheritance, its owners in all normal countries pay decent taxes. And this is not only a matter of fairness.

The point is that the excessive concentration of incomes within a small group of the richest individuals (excessive inequality) leaves the incomes of the bulk of the people too low. The purchasing power of the poor and middle classes, who are the consumers of domestic products, becomes insufficient to purchase the goods produced. Demand drops and an overproduction crisis arises, accompanied by a default crisis. And the superexcessive inequality that exists in present-day Russia does not make it possible to even pay for life-sustaining commodities at prices that cover costs. That is to say, this poor segment of the populace consumes goods and services [food, housing and utility (H&U) services, and transportation), but they are not fully paid for due to low wages and pensions. Consequently, the life-sustaining sectors (agriculture, H&U,

transportation, and the production of basic and essential consumer goods) are suffocating from underpayment. This mechanism of the deterioration of production forces was analyzed in a book by one of the authors<sup>7</sup>.

Russia is reminiscent of a family with unintelligent parents. In this family, almost all the funds the parents earn are given to a single “favorite” child, who spends them on playthings. As a result, all the other children and the parents themselves have almost nothing left, even for food to keep up their strength. And the biggest problem is that the parents no longer have enough food, they grow weak, they work more poorly, and they soon lose their jobs. The whole family suffers, including the “favorite” child, for whose sake the family’s budget was thrown askew.

Associates of the Institute of Social and Economic Studies of the Population of the RAS, headed by professor A. Yu. Shevyakov, analyzed *Rosstat* data for the past 17 years<sup>8</sup>. Their analysis revealed that excessive inequality reduces the rate of economic growth. The analysis also showed that if the government had made even a slight adjustment in income distribution by means of progressive taxation, had withdrawn a share of the incomes of the richest individuals, and had transferred them to the poor class, the rate of economic growth could then have been increased by **one-and-a-half times**.

The present income distribution and the present tax concept do not make it possible to sustain government or to develop the people and their production forces. There are no prospects of any kind along this path. And the longer the appropriate reforms are delayed, the more severe and painful they will be later, and greater the risk of the country’s deterioration, social instability, and revolutionary disturbances.

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<sup>7</sup> R. I. Nigmatulin. *How to Arrange the Economy and Authority in Russia*. Economy Publishing House Joint-Stock Company (CJSC), Moscow, 2007.

<sup>8</sup> A. Yu. Shevyakov. Factors of Inequity in Economic and Demographic Dynamics and the Formulation of New Government Social Policies. *Vestnik Rossiyskiy akademii nauk* [Herald of the Russian Academy of Sciences], volume 77, number 4, 2007.

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Tentatively, given current (2009) ruble incomes, what should the progressive tax schedule in Russia be?

First, low-income individuals with wages of less than 15,000 rub/mo should be exempted from taxes.

Second, a 13-percent tax should be taken from a portion of an income that is higher than 15,000 rub/mo.

Third, a rate higher than 13 percent should be applied to incomes that exceed 100,000 rub/mo, increasing this rate as incomes rise and reaching a level of 50 percent for incomes of approximately 1 million (mln) rub/mo or more.

Property should be taxed in a similar manner. Ordinary apartments and small cottages should be exempt from taxes, while “elite” real estate should be taxed at an annual rate that equals approximately 3 percent of the market value of this real estate.

Of course, rough estimates based on foreign analogs are presented here. The Russian rates must be more precisely defined during the preparation and practical application of laws. Moreover, all changes in tax rates as compared to the current rates should be made gradually, over a period of three-five years. But the work associated with introducing the progressive taxation of personal incomes and luxury property must be **immediately** begun; otherwise, we will lose all the institutions supported by the federal budget, and teachers, physicians, military officers, and professors will be very poor.

### **3. Social Responsibility of the Government and Business**

The President of the Russian Federation and the Chairman of the Government are correct when they talk about the social responsibility of business. However, the social responsibility of not only business, but also, first and foremost, the government, presupposes fairness and intolerance to a distribution of wealth

and incomes that is unprincipled and destructive to the economy (primarily due to a crisis in the solvency of the people), as well as to the country as a whole. A theorem exists:

**Theorem 2:** As long as there are teachers, physicians, engineers, researchers, and military officers who receive 15,000 rub/month or less, *all incomes of more than 1 mln rub/month are unprincipled and destructive to the government and the economy.*

And, after all, the bearers of these incomes that are unprincipled and destructive to the economy fall into the LM elite, who have a strong influence on economic strategy and who run the country as ministers, deputies, governors... This is very dangerous for the country and for themselves.

In all countries, no one wants to pay taxes, especially the rich. But they pay more than 50 percent of their incomes and the main tax burden falls on them.

For example, the taxes collected from 20 percent of the highest-income individuals provide 80 percent of the US federal budget.

If our flat tax schedule and the same luxury property taxes were to be used in the US, the federal budget would then be reduced by 2.5 times as compared to the present one, and the US would cease being a great power. Then, in the US as it is in Russia, the military, education, health care, science, and culture would deteriorate. Here, the economy would also suffer and production forces would be weakened.

The government compels everyone, and especially high-income individuals, to pay taxes. And if anyone disobeys, he or she is severely punished.

When a war begins, the government conscripts all individuals who are available for service into the military without asking for their consent. This is because many people do not want to personally endanger their lives.

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The government is obligated to compel them to do what is essential to the life of the country.

So it must also be in Russia with the rich who avoid obeying laws accepted the world over that are essential to the life of the country. In this instance, not only incomes must be monitored, but also expenditures for costly real estate, high-priced automobiles, yachts, and other luxury items. Here, there is no need to expend considerable energy monitoring the poor and middle classes, or ordinary apartments and small cottages that belong to people of average or below-average prosperity.

Tax administrations must concentrate on monitoring the incomes, expenditures, and real estate of the 1-2 percent of rich individuals who live in luxury homes. It is in this “social sphere” precisely that taxes should be collected and budget resources should be found for modernizing the country based on rates that are accepted in all civilized countries, with the exception of Russia. These enormous resources are presently being squandered on superfluous luxuries or are being transferred abroad.

Special attention should be given to so-called “offshores”, or companies that operate in Russia, but are registered in Cyprus or other such small nations. These companies are “diverting” taxes out of Russia. Legislative and administrative work is currently under way around the world aimed at putting a stop to such machinations, which is especially urgent for Russia. There should be a law: taxes must be paid where a commodity is produced and where a Russian citizen works.

Our LM elite, deputies, and bureaucrats do not understand, and are not interested in understanding, these points, which are obvious to specialists.

A theorem exists, identified from an analysis of the budgets of different countries, for estimating the size of a balanced

federal budget wherein the resources required for government activities in the interests of the entire nation (the people) and for the development of the economy are balanced with a country's economic capabilities.

**Theorem 3:** In order to facilitate balanced support for government activities (a balance of needs and capabilities), it is essential that a government accumulate for itself from taxes, excise taxes, and duties not less than 40-50 percent of the gross domestic product (GDP).

For example, this share fluctuates from 40 percent to 43 percent in the US, from 45 percent to 50 percent in Europe, and ranges up to 65 percent in Scandinavian countries.

In Russia, the share of the consolidated budget is significantly lower [less than 30 percent of the official GDP, or when undeclared (shadow) incomes are taken into account, less than 20 percent of the actual GDP]. For this reason, the Russian government also cannot provide upkeep for the military, education, health care, culture, science, and law-enforcement agencies at the level of industrial countries, and it cannot support the country's long-term projects. But there are not enough assets because the enormous resources unrecovered from the rich class are squandered on the overconsumption of the rich.

A progressive schedule of taxes on incomes and property, which will increase the purchasing power of the people, is not, of course, the only mechanism that must be employed in Russia in order to mobilize national resources, as well as to salvage Russian production forces and state institutes that have been deteriorating for the past 20 years.

## 4. Balancing Costs, Prices, Wages, and Profits

The second mechanism that must be used in order to increase the purchasing power of the people and facilitate economic growth is the assurance of balanced prices. This is especially important for the sectors most critical to subsistence: agriculture, power engineering, housing and utility (H&U) construction, and transportation. These sectors operate almost exclusively on the domestic market and life in the country would be impossible without them. They are our last economic bastions. Other sectors – clothing manufacture, household, electrical and electronic, machine tool manufacture, civil aircraft engineering, and a great many more – lead a wretched existence. Analogous goods are purchased abroad and are paid for from export revenues. Here, 92 percent of these revenues come from exports of raw materials and intermediate raw materials – oil, petroleum products, gas, coal, metals, precious gems, wood, pulp, and fertilizers, while only 8 percent come from exports of machinery, weapons, and grain<sup>9</sup>. The international economic crisis has reduced the demand for Russian exports of raw commodities, which has resulted in a twofold decrease in prices for them.

Within the coming three-five years, Russia will not be able to significantly expand exports of process sector commodities.

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<sup>9</sup> One ton (t) per person per year is required for a full supply of grain under the conditions in place in Russia, half of which is needed in order to support the livestock and poultry sectors. Thus, it is necessary for Russia to produce 140 mln t/year. In past times, 80 mln t/year was produced (108 mln t/year in 2008 and 98 mln t/year in 2009), some 10-15 mln t/year of which was exported, inasmuch as *the livestock head count has declined 2-fold* since 1992 and the demand for grain has dropped accordingly. But Russia is fully dependent on livestock product imports. Despite this, government bureaucrats and representatives of the LM elite proudly assert that Russia has become a major grain exporter. Such are the times, and the bureaucrats we have, and the LM elite we have.

The sectors that support the lives of the people must be focused on and salvaged. Business in these sectors must be immediately simplified, the burden of paying for the raw materials and power produced in our country must be lifted, and the purchasing power of our consumer, who is also simultaneously a producer, must be increased. And to this end, a *balanced economy* is needed.

Ruble prices for the *life-sustaining* goods consumed on the domestic market must be balanced with production costs (taking into account the depreciation of production assets), and workers' wages must be balanced with these balanced prices. This will require curtailing the excessive incomes of the rich. But only by balancing prices, costs, wages, and the incomes of the rich can production force capabilities be balanced with consumption, with the urgently needed modernization of production, and with the incomes of the rich that go toward overconsumption and the transfer of their capital abroad. Only in this way can social pressure for an increase in workers' wages and the ambition of the rich to increase their incomes be balanced. Only in this way can conditions be created that favor the realistic growth of commodity *production* and the country's stability.

The present-day ideologists who determine Russia's economic policies are not giving the idea of a balanced economy any consideration and are not discussing it in any way. Nobel laureate W. W. Leontief formulated the input-output theory and it is used in all industrial countries. This method was widely employed in the USSR during the 1970s, including its use within the State Planning Committee (*Gosplan*) of the USSR, but it is now only used in individual laboratories. Today's masterminds of the Russian economy

do not understand it and do not want to understand it. This is due in part to the fact that a high level of theoretical skills and the aboveboard operation of government institutions are needed in order to support economic balances.

In order to comprehend the essence of economic balances, as well as their effect on inflation and labor productivity, certain basics of macroeconomics must be recalled.

Prices ( $P$ ) must cover the costs ( $C$ ) of our production, as well as the payment of taxes ( $T$ ), and must yield a profit ( $Pt$ ):

$$P = C + T + Pt.$$

Here, all outlays are included in production costs: for labor compensation, for raw materials and supplies, and for the maintenance, procurement, and depreciation of production assets (equipment).

In a balanced economy, life-sustaining production operations within which there have been no revolutionary technological breakthroughs must function with moderate (balanced) profits on the order of 5-10 percent. In addition, moderate taxes on the order of 5-10 percent to budgets at different levels must be included in prices. In short, the necessary condition of balancing prices with costs, taxes, and profits results in the fact that prices must exceed production costs by 10 to 25 percent.

This is precisely the way that the fuel-and-energy complex, metallurgy, agriculture, H&U, transportation, the chemical industry, and machinery manufacture, which provide the basis of the country's subsistence and a foundation for the economy as a whole, must operate.

## 5. Balancing Labor Compensation and the Gross Product

The labor compensation fund ( $F_{LC}$ ) of the main body of workers<sup>10</sup> must cover the price fund of all the life-sustaining commodities ( $F_{PLSC}$ ) consumed by these workers; i.e., it must be balanced with labor productivity:

If the labor compensation fund,  $F_{LC}$ , is substantially larger than the commodity price fund,  $F_{PLSC}$ , this imbalance will then result in a deficit. If the labor compensation fund,  $F_{LC}$ , is substantially smaller than the life-sustaining commodity price fund,  $F_{PLSC}$ , this imbalance will then result in an overproduction crisis.

The experience of industrial countries demonstrates that the following theorem exists.

**Theorem 4:** In order to facilitate the economic balance of the gross domestic product ( $G_{DP}$ ) and the domestic purchasing power determined by the labor compensation fund,  $F_{LC}$ , it is essential that:

$$F_{LC} \cdot (0.6-0.7) G_{DP} .$$

In Russia today, the labor compensation fund stands at less than 40% of the official GDP. And if allowance is made for the enormous incomes the rich class is hiding, which must be factored into the volume of the GDP, the labor compensation fund becomes two times lower than the norm. This imbalance must be decisively reduced.

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<sup>10</sup> The labor compensation fund,  $F_{LC}$ , should not include not only illegal payments, bribes, and “kickbacks”, but also the very high wages of managers and bureaucrats (for example, more than 500,000 rub/mo), which are, in point of fact, unearned income for proximity to seats of power, finance, and other “monopolies”. The aforementioned “kickback” and unearned income fund inflates prices not for life-sustaining commodities, but rather for luxury items, real estate, etc.

The government must monitor the balance of the economy, especially costs, prices, and profits (first and foremost, in the sectors that supply the domestic market), and the workers' labor compensation fund. The government must collect higher taxes on surplus profits. These balanced policies should stimulate the use of surplus profits for investments in the development of production instead of misuse on personal whims. It should be understood that surplus profits unrelated to cost reduction via the organization of labor and new technologies are parasitic and deplete other branches of the economy due to the dissipation of resources. Such surplus profits are squandered on luxuries, and production forces deteriorate due to a shortage of resources.

In a living organism, balances come down to the fact that all the life-sustaining organs must receive the requisite nourishment. If all the nourishment were to be concentrated on the brain to the detriment of nourishing the heart or kidneys, circulation in all the organs would then drop and the composition of the blood would worsen. Consequently, all the organs would suffer and deteriorate, including the brain, to the "benefit" of which the metabolism was deregulated (thrown out of balance). And this would lead to destabilization and premature death of the organism as a whole.

## 6. Balanced Price Ratio

Economic balance requires a balanced ratio of prices for various life-sustaining goods in keeping with costs. In particular, the analysis of prices and costs in countries with a balanced economy results in the following theorem.

**Theorem 5:** In order to facilitate a balanced economy, it is necessary to come as close a possible to the following

price ratios for life-sustaining (basic) commodities relative to the price of gasoline:

1. The price of 1 kilogram (kg) of bread equals the cost of 3-4 liters (L) of fuel oil (gasoline, diesel, and aviation fuel).
2. The price of 1 L of gasoline equals the cost of 5-7 kilowatt-hours (kWh) of electric power.
3. The minimum monthly apartment rent for a 1-2-room apartment equals the cost of approximately 300 L of gasoline or 2,000 kWh of electric power.
4. The price of one trip on urban transportation roughly equals the cost of 2 L of gasoline.
5. The minimum monthly wage must equal the cost of 1,000 L of gasoline. The average wage must be two times higher. The wage of a professor must be three times higher than the average wage (this was also the ratio in the USSR).
6. The cost of 1 square meter (m<sup>2</sup>) of ordinary (nonelite) housing equals the average monthly wage; i.e., 2,000 L of gasoline.

In countries where there are no appreciable imbalances that disrupt production, the ratios cited above vary by  $\pm 15\%$  as a function of natural conditions, traditions, etc., but not by two times or more as in present-day Russia. In today's Russia, prices for bread, H&U services, and transportation are understated by 2-3 times as compared to prices for gasoline and the cost of

housing. That is to say, the present economic order in Russia stifles agriculture and everyone who is involved in bread production, as well as H&U and transportation services. But at the same time, this order provides superincomes in the raw material sectors and housing construction. These superincomes suck resources out of the national economy that should be used to renew it. A considerable portion of these superincomes fuel corruption on a grand scale and break down government institutions.

The rich class, striving to avoid the devaluation of their cash savings, buys up real estate, especially apartments and apartment buildings, inflating prices in this subsistence sector. The government and society must understand destructive macroeconomic processes, and must formulate administrative, legal, and economic measures for preventing them. The government, in cooperation with business, must create economic mechanisms (taxes, duties, public credit, government investments, etc.) that lead to balanced prices, costs, wages, incomes of the rich, and taxes.

## **7. Balanced Prices for Fuel Oil and Gas**

A considerable portion of production costs in transportation and agriculture goes toward paying for fuel oil, the price of which is quickly rising both within Russia and on the world market. An increase in prices for fuel oil also brings about an increase in natural gas market prices, which determine the considerable share of production costs in the power-engineering and housing sectors. Prices for electric power have also risen rapidly in recent years due to inefficient management and the surplus funds set aside for overstated power-generating facility construction plans.

The production costs of oil and power-generating companies are not publicized, moreover, they try to hide them. But these are the very ones society should know about, and the government must monitor them.

An analysis by specialists and some data dug out of oil companies suggest that the production costs of oil extraction and its delivery to central regions was less than 1,500 rub/t two-three years ago. Taking inflation into account, we assume that these costs with the surplus equal 3,000 rub/t.

The costs of processing petroleum for fuel oil production, delivering it to filling stations, and maintaining these filling stations comes to not more than 6,000 rub/t (in the US and European countries, these costs do not exceed \$200/t). Altogether, the production costs ( $C$ ) for processing fuel oil and selling it at filling stations must be not more than 9,000 rub/t. If costs higher than those indicated are declared, this then suggests inefficient management and waste.

As previously mentioned, taxes must be limited to a value of 15 percent over the entire fuel oil production and sales cycle on the domestic market. The net profit must also be limited to a value of 10 percent. We then obtain a fuel oil price that is balanced with all costs and that equals 11,250 rub/t. Taking into account the fact that 1 t of liquid fuel has a volume of 1,110-1,200 L, we obtain a price for 1 L of liquid fuel on the domestic market that equals

$$P = 10 \text{ rub/L,}$$

and not 20-25 rub/L, as now. The liquid fuel cost and balanced price estimate presented demonstrates how the liquid fuel price is out of balance with production costs. This places a heavy burden, first and foremost, on transportation and agriculture.

Of course, it is impossible to abruptly change the price of gasoline, heating oil, diesel, and aviation fuel, but the estimate obtained provides a reference point for the systematic and vigorous implementation of tax and antitrust reforms aimed at balancing the economy in Russia.

The US and Europe import oil at a price of approximately \$500/t [\$65 a barrel (bbl)]. They spend \$200/t on processing, transportation, and delivery to filling stations, so the net profit is \$70/t. The tax in the US is \$80/t, and as a result, the gasoline price is \$850/t, or \$0.75/L. Europe places a high tax on gasoline, equaling \$800/t, and consequently, the gasoline price equals \$1,570/t, \$1.37/L, or 1.0 euro (€) per L.

The Russian market price for another energy source that is vital in the power-engineering and household sectors – natural gas – can be estimated in a similar manner, proceeding on the basis of the actual production costs for extraction, transportation, and distribution to the consumer. This price comes to approximately 1,500 rub for 1 megaliter (Ml) [1 Ml =  $10^6$  L = 1,000 cubic meters ( $m^3$ )]. Adding profits and taxes to this, we discover that the price of gas for the consumer should be

$$P = 1,800 \text{ rub/Ml.}$$

At the present time, domestic prices for gas correspond to this balanced price: for H&U, the price is  $P = 1,064$  rub/Ml (20% of domestic consumption), while for business consumers and power engineering,  $P = 2,100$  rub/Ml, so the average price equals  $P = 1,890$  rub/Ml.

The government of the RF decided to appreciably increase the price for gas, so it would become as profitable as export gas on the domestic market. At the current ruble/dollar exchange rate, this price is not less than  $P = \$130/\text{Ml} = 4,000$  rub/Ml. It is

set based on the export price (not less than \$250/MI), following the deduction of excise taxes and the cost of gas transportation through the territories of other nations). This decision was erroneous (see below).

The government must rigorously monitor the costs associated with the extraction of natural resources, isolating waste, and improving production. In particular, these costs must not include superexpensive offices, high-priced automobiles, and the other luxuries with which “top managers” surround themselves. And “top manager” wages, profit sharing, and bonuses must be set as a function of cost savings relative to the aforementioned estimates. Cost, price, and profit control in the raw material, intermediate raw material, and life-sustaining sectors should be an essential tool for balancing the economy and exerting an influence on the influx of investments into the various production sectors.

Resource rent must work for the economy and for the growth of labor productivity; in particular, it must facilitate the prevention of inflation, but must not support the wastes of the rich or break down government institutions.

On the current course, when domestic ruble prices for fuel and other raw materials that the economy cannot do without follow world prices at the present currency exchange rate, it as if the domestic economy is tied like an empty food can to the tail of an unfamiliar dog that rushes around from time to time and wags its tail.

A theorem exists.

**Theorem 6:** On the domestic market, the *ruble/dollar exchange rate must be adjusted* to domestic commodity prices that are balanced with costs, first and foremost,

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to fuel oil, electric power, gas, raw material, and intermediate raw material prices.

In short – it is not that ruble prices must be adjusted to the ruble/dollar exchange rate, but rather that the ruble/dollar exchange rate must be adjusted to balanced ruble prices using market mechanisms.

Of course, the appreciation of equipment and other goods may increase the price for oil and gas over time, but this increase should not be rapid. It should always be balanced with costs, which the government must carefully monitor, as is done in all industrial countries.

The present very large fuel oil price excess (profit surplus), which stands at  $20-10 = 10$  rub/L, is distributed between oil companies and the federal budget in roughly equal shares, and hangs a heavy weight on real production, primarily on agriculture and transportation.

What does this surplus as a whole equal nationwide?

Russia consumes approximately 100 mln t/year of fuel oil (gasoline, diesel, aviation kerosene, and heating oil), which is produced from 125 mln t of oil<sup>11</sup>. The consumer now pays approximately 2 trln rub/year for this fuel, but at a balanced price, the consumer (road, air, rail, and urban transportation, as well as the rural consumer) would save 1 trln rub/year. The sum would increase the demand for other goods and would permit balanced prices for domestic goods (transportation, bread, and H&U).

At the present time, a portion of these surplus profits go into the federal budget, which the government cannot efficiently

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<sup>11</sup> According to data from Rosstat, 488 mln t of oil was extracted in Russia in 2008, 361 mln t of which went toward exports, primarily as crude oil (243 mln t) and petroleum products (118 mln t) in the form of gasoline, kerosene, diesel, and heating oil.

use for domestic investments due to the absence of effective structures for supporting the actual construction of plants and their actual modernization. If the price were to be balanced by means of withdrawing the surplus profits and excessive taxes from it, the corresponding sum, if we omit bureaucratic administration, would automatically become an investment in the sectors within which the share of outlays for fuel oil is considerable. And these are, for the most part, agriculture, H&U, and transportation. In addition, the cheapening of energy and raw materials on the domestic market would attract investments in the process sectors.

As concerns taxes (duties) on oil exports, as before, they must be adjusted to world dollar oil prices. In critical times, in order to offset oil company losses on the domestic market, the government may avail itself of a decrease in export duties.

It is impossible to effect any price control, especially a price decrease, through administration alone; rather, economic measures must primarily be used, and only in cooperation with business, by monitoring costs, regulating duties and taxes, identifying surplus profits, and eliminating corrupt extortion.

## **8. Estimating Basic Balanced Prices**

If one is guided by present domestic prices for fuel oil, then according to theorem 5, balanced prices for life-sustaining (basic) basket commodities (bread, electric power, urban transportation, residential rent, and housing), as well as balanced wages (minimum, average, and professorial), should be as follows:

Gasoline	20 rub/L
Bread	75 rub/kg
Electric power	3 rub/kWh
Apartment rent (a 1-2-room apartment)	6,000 rub/mo
Cost of 1 m <sup>2</sup> of housing	40,000 rub/m <sup>2</sup>
Minimum wage	20,000 rub/mo
Average wage	40,000 rub/mo
Professorial wage	120,000 rub/mo

These estimates demonstrate that at the present domestic (ruble) price for oil and fuel oil, the achievement of economic balance would require the repeated devaluation of the ruble and the devaluation of all ruble savings, which is impermissible. Thus, the following theorem exists.

**Theorem 7:** With an appreciable decrease in ruble prices for fuel oil and fuel gas on the domestic market, a balanced Russian economy is impossible. In order to achieve a balanced *domestic* price for fuel gas, it is necessary, first, to reduce the taxes associated with oil and fuel production for the *domestic* market, and second, not to permit exorbitant profits there.

If one is guided by the aforementioned fuel oil price balanced with production costs, taxes, and profits (10 rub/L), the reference points for balanced prices for basic basket commodities (bread, electric power, urban transportation, apartment rent, and housing), as well as wages (minimum, average, and professorial), are then as follows:

Gasoline	10 rub/L
Bread	35 rub/kg
Electric power	1.5 rub/kWh
Apartment rent (a 1-2-room apartment)	3,000 rub/mo
Cost of 1 m <sup>2</sup> of housing	20,000 rub/m <sup>2</sup>
Minimum wage	10,000 rub/mo
Average wage	20,000 rub/mo
Professorial wage	60,000 rub/mo

## **9. Consequences of Ruble Appreciation and Ruble Price Variance**

At the prices given in preceding table, the ruble would make significant gains against the dollar, which would make imported goods cheaper on the domestic market and would decrease the competitiveness of domestic goods. But due to multiple decreases in outlays for fuel, costs would be reduced in agriculture, transportation, and other sectors, which would more than offset the aforementioned decrease in the competitiveness of Russian goods on the domestic market.

In addition, a decrease in the dollar exchange rate relative to the ruble would lower the inflationary pressure of dollar proceeds on the ruble in Russia.

The loss of competitiveness in exports due to ruble appreciation is not dramatic. The fact of the matter is that 92 percent of export earnings involve exports of raw materials and intermediate raw materials. Demand determines world dollar prices for these goods, not their ruble production costs, which are several times lower than their price. In addition, exports of many of these nonrenewable raw

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material and intermediate raw material commodities should be curtailed.

A theorem exists.

**Theorem 8:** In order to develop production forces and uplift Russian production operations, it is essential during the coming decade that Russian production be oriented not toward exports, but rather toward *supplying the domestic market*. Emergence from the crisis must be tied not to increasing exports of raw materials and intermediate raw materials, on the foreign market demand for which we are not very dependent, but rather to increasing the demand for domestic goods on the domestic market.

It must be understood that the production costs for oil extraction and transportation abroad with the surplus come to \$100/t (see the estimate above), while it is sold for export at a price of \$500/t (\$65/bbl). But these resources of oil with a “cheap” net price are quickly being decreased in order to render assistance to business and to plug the holes created by an abnormally large share of imports in consumption and a lack of demand for the products of many domestic enterprises. The government must think about how to replace, from domestic production, the unavoidable decrease in imports due to the inevitable reduction of raw material exports as a result of the depletion of raw material resources with a cheap net cost and a decrease in export earnings.

Fears are being expressed that reducing ruble prices for gasoline within the country would lead to illegal gasoline carriage abroad. But customhouses can and must monitor the outbound carriage of large quantities of gasoline. And as

concerns gasoline carriage to countries of the Commonwealth of Independent States (CIS) by border area residents in their private automobiles, this outflow can then be limited through administration. In addition, it will lose much of its “attractiveness” due to ruble appreciation. In any event, society must not overpay 1 trln rub/year for the government’s inefficiency.

The decision of the government of the RF concerning a gas price hike on the domestic market, so that the gas sold inside Russia would become equally profitable with exports, is erroneous and will overburden the development of Russian production operations. Here, equally profitability means at the current dollar/ruble exchange rate. This step would lead to an increase in the ruble price for electric power and for many commodities further along the entire chain. In 2011, the price for electric power may be approximately 4.5 rub/kWh at the ruble’s current purchasing power. Thus, the price for electric power in Russia relative to basic goods (bread, apartment rent, and transportation), as well as the minimum and average wage, would become the most expensive in the world!

Similarly, housing construction costs must be monitored, and balanced prices must be achieved by means of reducing bureaucratic extortion in municipalities. It is this sector that is the decisive link in increasing the birth rate and improving the prosperity of the people.

## **10. Eliminating Unnecessary Investments**

Investing in the construction of power-engineering (including nuclear) capacities pursuant to the Master Layout Plan for the Country’s Power-Engineering Facilities Up to the Year 2020

(the Master Plan) developed by the Unified Energy System of Russia (UESR) Russian Joint-Stock Company (RJSC) and the Russian State Corporation for Atomic Energy (*ROSATOM*) under the supervision of A. Chubays and S. Kiriyyenko, which the government adopted in February of 2008, will also bring about the ruinous waste of resources and inflation.

It is planned that 186-200 gigawatts (GW) will be built by 2020. First, this construction is impossible, because there is no one to build it. Given the present management system and existing production forces, it is possible to build 40 GW. And second, this construction is unnecessary, since under the present economic system, the need for new capacities is 60 GW. The developers of these plans factored in a one-percent increase in electric power consumption per one-percent increase in the GDP. Comparing the GDP and electric power consumption in Russia for the past 20 years proves a theorem:

**Theorem 9.** Given the economic system that exists in Russia, a one-percent increase in the GDP requires a total of a 0.3-percent increase in electric power consumption.

Vast government resources are being allocated for the foolish new power plant construction plans (which will be inefficiently used or plundered) and a power rate increase is being factored in instead of reducing the costs and profits of natural monopolies and lowering the price for electric power and fuel oil. Thank goodness for the crisis, which will make it necessary to significantly reduce this insane spending, although the spending will not be stopped.

The same thing is true in nuclear power engineering. In February of 2008, the government adopted a plan under which

32 GW of new nuclear electric power capacities must be built by 2020. Now they have begun talking about 26 GW. But who will build all this? Indeed, *ROSATOM*'s construction-and-erection complex has been reduced 10-fold. A qualified welder must be trained for 4-5 years – this is, after all, a nuclear reactor, not a water supply line.

Even if you flood the planned power-engineering construction sites with dollars, it would do not good – welders, riggers, lathe operators, and engineers are needed. They must be reeducated, vocational schools must be set up, and engineering equipment must be reconditioned; i.e., production forces must be created all over again.

Again, thank goodness for the crisis: the head of *ROSATOM* has already begun talking about 10 GW by 2020. But even this will not be built. A maximum of 6-8 GW will be built.

Here, prices of 4,000 dollars per kilowatt of power are envisioned for these foolish plans, which is 1.5 times more expensive than in Europe and 2 times more expensive than in China. Given these Russian prices, it makes no sense to build the nuclear plants.

Instead of the *excessive* construction of new power-generating capacities, funds must be invested in the modernization of existing ones, especially in the construction of gas-turbine units, which together with the steam-turbine units already in existence, would provide a fuel savings of 50%. More funds are needed for electric modernization. It is electricians that are holding back the country's electrification. Consequently, not more than 7 trln rub is needed for expanding the country's electric power industry instead of the 20 trln rub called for by the Master Plan.

The management of the electric power industry has resulted in the fact that prices for electric power and gasoline in

Russia today in relation to both the basic commodity basket (bread, apartment rent, and transportation) and the standard commodity basket, or at purchasing power parity (\$1 = 15 rub at the end of 2008), are already 2-3 times higher than in the US and are among the highest in Europe. But, in fact, Russia is the largest exporter of gas and oil in the world, and the US and Europe buy the bulk of the oil and gas consumed, overpaying by 5 times or more as compared to how they deal with Russia.

## **11. Relying on Specialists and Professionals**

The examples considered in power engineering demonstrate how low management proficiency is in industry. Incompetent management has killed many industrial sectors, such as aircraft engineering, machine tool manufacture, electronics, and power-engineering machinery manufacture. The level of the automotive industry has fallen off sharply. The President of the Russian Federation and the Chairman of the Government of the Russian Federation have repeatedly noted the inefficient use of the federal funds allocated to support these sectors. No one is being held accountable for the waste, no one is being asked about excessive costs, and production cost cuts are not being demanded. Corporation heads are receiving enormous salaries and bonuses that exceed foreign rates by several times<sup>12</sup>. All hopes of the market forcing production to be efficient have been in vain.

At the same time, today's corporation heads are considered to be outstanding managers, and they are powerful, despite the fact that enormous resources have been spent with little efficiency through their fault.

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<sup>12</sup> For example, the ratio of the labor compensation of top managers to the average labor compensation of the employees of the organizations they head is taken as the norm.

The role of chief and general designers has been diminished in the aircraft industry. “Mangers” head aviation firms who only have the ability to manage blocks of shares and cash flows. As a result, aircraft production in Russia has dropped tenfold, in addition to which engineer and worker human resources have been lost. An acute shortage of flight personnel is looming.

Industrial facilities, energy systems (electric grids and power plants, especially nuclear), and transportation equipment (planes, trains, and pipelines) harbor very serious technogenic threats. “Managers” who do not understand engineering problems are ill-equipped to be responsible for their safe operation. They have already considerably diminished safety assurance. The risks of large-scale accidents in present-day Russia have become especially high due to a decline in employee qualifications, shortages of skilled engineers and workers, and equipment deterioration.

Increasingly frequent air disasters and the recent accident at the Sayna-Shushen hydroelectric power plant (HPP) have revealed catastrophic failures in the assurance of technogenic safety. And after all, there is within the country an enormous number of hazardous and dilapidated production operations, dozens of nuclear reactors, and thousands of kilometers of high-pressure oil and gas pipelines. “Managers” without engineering experience cannot ensure safety. For this reason, those who appoint unqualified people as the chief executive officers of large and hazardous production operations should be held accountable.

Experience demonstrates that specialists with an engineering education *who have gone through all the stages of work at their enterprises* must hold the top positions in high-technology sectors, while economists and financial experts must be *assistants* to professional captains of industry or science and technology leaders.

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In the US, a Nobel laureate in physics heads the Department of Energy, which oversees all types of power engineering, including nuclear. An outstanding engineer and doctor of sciences heads the US Nuclear Regulatory Commission (NRC). But we have so-called “managers”.

## **12. Science and Authority**

Science formulates theorems. They must necessarily be taken into account. Unfortunately, the leadership of our country makes no attempt to understand them and too often proceeds contrary to them. God forbid if authority weakens. This would be a tragedy for everyone – both the poor and the rich.

As far back as 2,500 years ago, Lao Tzu warned: “Order must be restored before a rebellion begins”. The authors would very much like to help the country’s leaders and caution against errors.

In fact, two previous centuries of czars, secretaries-general, and presidents of Russia have not heeded the warnings. Radishchev, Pushkin, Gertsen, Chernyshevskiy, Dostoyevskiy, Tolstoy, Mendeleev, Sakharov, Solzhenitsyn, and many others did not heed the warnings. And specialists, particularly researchers, should follow the advise of Confucius, who as far back as 2,500 years ago, in response to the question: “How do you serve a prince?” replied: “Tell him the truth, even if its offends him”. Contrary to this reasonable recommendation, the obnoxious habit of saying yes to the powerful and the rich has become ingrained in Russia. And then we curse N. S. Khrushchev, L. I. Brezhnev, M. S. Gorbachev, B. N. Yeltsin... .

Of course, the Academy of Sciences has become a great deal weaker both financially and spiritually during the past twenty years. But the scholars of the Department of Social Sciences and other departments have always noted the defects

in Russia's economic order and have defended the need for a new course.

Poverty, a decrease in the number of researchers, and their aging have greatly weakened the forces of Russian science. *But the country has no other scientists.*

All the conditions must be created for transferring what exists in Russian science to young people. We are still losing more than we are transferring to the young. In order to improve the functioning of the Academy, authority and bureaucrats must not harangue and run down, but rather get concerned about science, allocating resources for involving young people in it, building housing for them, reinforcing the material resources, primarily the instrument resources, of institutes, and repairing the decaying buildings of institutes.

A law should be adopted prohibiting the expropriation of government real estate that is under the economic management of institutions of higher learning, state academies of science, and cultural and health care institutions. Bureaucrats give the reasons for said expropriations as inefficient or inappropriate use within these institutions. Even if these charges are occasionally true, specific administrators must then be punished, but under no circumstances must the corresponding real estate be transferred to the "efficient management" of bureaucrats and businessmen.

More young people are going into science today than three years ago, and wages within the RAS network have risen, but this is only a *small* part of what is needed...

The brain drain is going not so much abroad as into other spheres. Youngsters, not seeing any prospects for organizing their lives by working in science, are going into elementary commerce, trade, and the service sphere... a decrease in the intelligence level of young people is under way.

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And if everything is left the way it is now, then the promises of politicians will remain good intentions, with which, as is generally known, the road to hell is paved. A theorem exists.

**Theorem 10:** If there is not a twofold increase in resources for health care<sup>13</sup>, education, science, culture, and defense in Russia, the consequences will be as follows:

- the skills, intelligence, and spirit of the people will continue to decline, while alcoholism and drug addition will increase;
- infant mortality and mortality at a productive age will increase, and Russia will never achieve the average lifespan figures of developed countries (75 years of age);
- the number of individuals in Russia will be catastrophically decreased by 700,000-800,000 a year, and;
- the country's defense capability will continue to decline.

A normal family does not save for its children's education. As it is, the productive forces and the spirit of the people are not being nurtured. Resources are being squandered on amusements. The risk of the loss of Russian civilization exists. The LM elite is trying to make up for the loss of national spirit with idiotic firework displays celebrating the victories of soccer players and hockey players.

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<sup>13</sup> G. E. Ulumbekova. Russian Health Care. What Must Be Done. *GEOTAR* Media Publishing Group (PG), Moscow, 2010.

The responsibility of the nation's leaders is to do everything possibility to prevent a drop in the standard of living, a decrease in production, the deterioration of Russian civilization, and a social explosion. The following theorem exists.

**Theorem 11:** In order to facilitate economic recovery and the growth of labor productivity in present-day Russia, *it will be necessary:*

1. To introduce a *progressive tax on higher incomes and expensive real estate.*
2. *To balance costs, prices, and wages* by achieving a decrease in ruble prices for fuel, electric power, raw materials, intermediate raw materials, and housing construction.
3. *To reduce* the bulk of the investment programs for the construction of power-generating, including nuclear, capacities, focusing on the modernization of existing sites and electric grids.
4. By means of freeing up resources, to appreciably *increase housing construction*, as well as to greatly *increase* funding for health care, education, the military, science, and culture.

The last item is extremely critical. If policies in health care, education, culture, science, and the country's defense capability are not halted, our people will then take a catastrophic turn for the worse, and will we have bad physicians, teachers, scientists, engineers, workers, soldiers, military officers, etc.

Everything possible must be invested in training young people at schools, vocational schools, junior colleges, institutions of higher learning, and research institutes in *all regions* of Russia. And only a portion of the excessive incomes of the rich class, which accounts for 1 percent of the population, can serve as the resource for this.

### 13. Civil Society, Political Competition, and Corruption

Yet another theorem exists.

**Theorem 12:** Given current corruption and the concentration of people in authority who are a part of today's LM elite, *it is impossible* to implement all the measures cited for the recovery of the economy and its emergence from crisis, even if the country's leaders wanted to do so. In order to overcome corruption, it will be necessary to vitalize *civil society with the political competition of several parties and the dependence of authority upon civil society.*

The impossibility of swiftly implementing the reforms needed in order to salvage and expand the country's production forces in light of the present status of all government agencies is a tragedy of present-day Russia. And it's not just the impossibility, but also the senselessness of implementing the necessary economic reforms involving progressive taxation and increasing federal budget revenues. Why do all this? They will plunder it just the same. And this statement is far from preposterous.

Russia's illness is in the advanced stage, when all the organs of not only government authority, but also society as a whole are diseased. Corruption has reached the education, health

care, and science system, etc., of the segments of society that were always an example for the edification of the public. Most people have a lack of faith in the country's might and the possibility of positive changes. Breaking stories in the media exposing corruption and the larceny of "chiefs" no longer give rise to indignation. Many people have become accustomed to it and indifferently comment: everyone steals "there".

Under these conditions, the vitalization of civil society and the creation of conditions such that it actually influences authority, as well as the decisions it makes, is the only means for treating authority and society. An appeal from the President and the Chairman of the Government is needed, supported by prestigious people: "The Motherland is in danger!".

Conditions must be created such that the people actively discuss and assimilate positive ideas. The mass media must be independent of bureaucratic "sponsors". Several parties are needed that would have real possibilities of getting into power by virtue of support from voters. The parties must choose overall objectives and present them to society. The parties and all leaders, including those in power, must hold discussions among themselves in front of the citizens, and the citizens, hearing them, must take one viewpoint or another and elect deputies and a President that correspond to it. Government leaders must be obligated to hold direct discussions with the opposition and to directly respond to criticism in front of the voters.

The election committee system must be independent of executive authority and must have a budget approved by law for holding elections, as well as for the campaign activities of the parties. The parties will form election committees based on quotas, with the equal representation of all the parties taking part in the election. The efficient operation of public and party supervisory and inspection committees must also be ensured and guaranteed.

Authority must be aware that if a significant portion of the citizens have even the slightest doubt as to the fairness of elections or the propriety of vote tabulation, authority shall then become incompetent and illegal. No appeals of the “take legal recourse” type will redeem the credibility of authority. Authority with a dubious reputation will begin to be despised and it will become very unstable. In a “black moment” [a decrease in the standard of living, major technogenic accidents (which will become more frequent in coming years), acts of terrorism, and military conflicts], no one will defend such authority. In society, sympathy will mount for those who pursue the cause of insurrection and the overthrow of authority. In the history of Russia, it was already this way in 1917 and 1991.

Party and candidate election campaigns must be decommercialized. Elections of public officials (the President of the Russian Federation and deputies) must be must be financed from federal (budget) funds, during which all the candidates must have identical opportunities for addressing the public via the mass media: identical physical volumes of campaign materials, as well as identical speaking time on the radio and television. The law must limit private contributions from a single entity or commercial institution.

Giving election campaign funding to private commercial institutions is like delegating the maintenance of the police, security agencies, the government, the parliament, etc., to private institutions for the purpose of “saving” federal budget funds and taxpayer money. A “privatized government” is then obtained that acts in the interests of its rich sponsors.

A theorem exists:

**Theorem 13:** In order to formulate sound and effective policies that serve the interests of the people, it is essential that all leaders who are responsible for affairs of state and who take part in political activities *respond*

*to public accusations of abuses pursuant to the following rule – either take legal recourse or resign.* It must be prohibited to leave public accusations unanswered. Otherwise corruption will choke the government and bring the country to ruin.

Having adopted a market economic order, the procedure for bureaucrats in power developed over many decades in all civilized countries must be thoroughly assimilated. In particular, civil servants (first and foremost, the President, ministers, governors, and deputies), as well as their spouses, must not have commercial interests and must not hold shares. They must live on their wages and cash savings alone. And that is all! No plurality with commerce whatsoever.

The level of corruption is a critical factor indicative of the unsatisfactory performance of the nation's leaders, the perversity of the course of the centralization of authority, the collapse of political competition, and the loss of public control over bureaucrats. The present government machinery, including law-enforcement agencies, is so corrupt that it is not capable of fighting corruption without civil society's oversight. And this is despite the fact that appointments to many hundreds of the highest positions are made under orders in the name of the President of the Russian Federation and the Chairman of the Government of the Russian Federation.

It seems to some that this is the most reliable procedure. But when the number of highest-placed civil servants (ministers, governors, deputy ministers, agency, service, and government corporation heads, etc.) who are appointed in the name of the President and the Chairman of the Government comes to many hundreds, clerks, who always have their own agendas,

push through the decisions on most of these “politicos”. And as management theory and know-how demonstrate, confirmed by the experience of the past decade, this is not only not an optimum, but also a “corruptogenic” procedure. It must be changed.

Unfortunately, instead of aggressive work based on the rules previously developed in “normal” countries, Russian society only hears incantations against corruption, “and the cat Vaska listens and eats”.

## CONCLUSION

It is not so simple to understand simple things.  
*Composer Georgiy Sviridov*

The country's principle troubles involve three main defects:

- a flawed macroeconomic strategy;
- gargantuan corruption;
- the flawed screening of managerial personnel.

Many sectors of the economy, especially those involving complex technologies, have an absolutely useless “command staff” made up of nonspecialists who are not familiar with their production operations and only monitor cash flow, pursuing personal interests. A system of irresponsibility for the deterioration of many industrial sectors has taken shape. This is all the more dangerous in that technogenic accidents threaten the country due to the worn-out condition of basic equipment.

Society and authority must be aware that Russia has lost the bulk of its industry and that this industry must be restored.

Hopes that the rich oligarchs would invest in the development of production forces have proven to be pie in the sky. The oligarchs are not aware of, are not able to, and do not want to do this. They have drawn on credit, played the stock

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market, bought land that no one is tilling, and purchased luxurious palaces throughout the world, as well as soccer teams and yachts.

It must be remembered how, by 1917, imperial authority's inability to provide a fair procedure and military losses had undermined the prestige of imperial rule – then the core of the Russian state. This led to the incalculable suffering of millions.

Those who are today older than thirty should recall how the shortage of goods and indignation over “privileges”, the memory of past repressions, and the inability of the USSR's leaders to take public opinion into account, as well as to ensure economic growth and the introduction of scientific achievements, undermined the prestige of the communist party, which was then the core of the state. This resulted in the collapse of the Soviet government, public suffering, and the degradation of the people.

Today, among all public, economic, and social institutions, only the President of Russia, the Chairman of the Government of Russia, and the Patriarch of the Russian Orthodox Church have credible prestige. But under conditions of the present style of management of the nation and the economy, as well as the deterioration of people's lives, this prestige may not be enough to prevent contempt and even hatred for all public and economic institutions, as well as contempt for Russia. This will lead to a destructive rebellion. Let us recall the verses of Bulat Okudzhava:

But kingdoms die because (And the sicker, the longer),  
A kingdom's people do not respect it more.

Thus, the Russian intelligentsia, in criticizing the actions of authority, must do everything possible to help the President,

the Chairman of the Government, the Patriarch of the Russian Orthodox Church, and the leaders of other denominations place Russia on a trajectory toward the development of production forces and the strengthening of the people. Not rebellion under any circumstance, but rather *ENLIGHTENMENT* and *WISDOM*.

The country must change its reference points and create a psychological atmosphere in which a show of personal wealth, excessive consumption, and idleness will be unseemly and despicable, in which the most important characteristics of a human being will be his or her education, creative and occupational abilities, and contribution to the development of his or her people and its production forces.

The people must be oriented toward hard day-to-day work. Young people must be called upon to pursue science, the development of new technologies, and production work, to get involved in real and creative matters, the strengthening of the country's defense capability, and law enforcement. And this work must be paid for in such a way that a fully developed standard of Russian life is ensured.

Design offices (DOs) and sectoral institutes must be recreated, which must ensure the modernization of production and must provide new competitive products, first on the domestic market, then on the world market as well. You know how many DOs and institutes we have lost in past years, so you understand what kind of destructive "storm" has been created in Russia in keeping with the ideas of the LM elite.

The entire complement of reforms should actually come down to the redistribution of resources and incomes for the purpose of *developing production forces and supporting the domestic producer*. During the initial stage, transferring

a portion of the incomes to labor compensation cannot lead to an increase in consumption by workers, because you will not increase the production of goods right away. During the initial stage, an avenue must be provided for channeling the surplus profits of the rich through wages and balanced prices (which must also include a depreciation or investment component) into support for and investment in real production forces, first and foremost, into agriculture, transportation, and the residential sector. This will also henceforth ensure an increase in labor productivity, and accordingly, the improvement of worker prosperity, which will be noticeable in 1-2 years.

The implementation of the ideas presented will require a high level of skill and aboveboard work on the part of the government. It will be impossible to balance the economy under conditions of today's corruption and the poor skills of the economic bloc's ideologists and bureaucrats. All the more so in that the measures cited above are necessary, but not sufficient. Enormous efforts, including the efforts of Russia's intelligentsia, will be needed in order to put the sufficient conditions into effect.

The decline in national spirit must not stop scientific and political thought.

It is necessary to be guided by the thought of a major figure in economic theory, John Keynes: "Is the fulfillment of these ideas a visionary hope?... It would need a volume of a different character from this one to indicate even in outline the practical measures in which they might be gradually clothed. But if the ideas are correct, it would be a mistake to dispute their potency".

And this necessitates the establishment of a new economic order in Russia. None other has been provided for the prosperity of Russia and the prosperity of all its classes.

**REFERENCE POINTS FOR AN ECONOMY  
BALANCED WITH A SOLVENT  
POPULATION:**

- **Government spending = 50 percent of the GDP**
- **Labor compensation fun = 60 percent of the GDP**
- • **Minimum monthly wage =**  
**= the cost of 1,000 L of gasoline =**  
**= the cost of 300 kg of bread =**  
**= the cost of 6,000 kWh**  
**of electric power**
- • **Average monthly wage =**  
**= 2 minimum wages =**  
**= the cost of 1 m<sup>2</sup> of housing**

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Sent to the printer on 28.12.09.  
Number of copies 10,000. Order No. 2875.

Printed at the Open Joint-Stock Company  
Tipografiya Novosti [News Printing House]  
46 F. Engelsa St., Moscow, 105005.