

THE IMPORTANCE OF NOT BEING A GREAT POWER

Vladimir Kontorovich, Haverford College, Haverford PA 19041

February 1994

The December 1993 electoral success of an extremist group and the recent resignations of the First Deputy Prime Minister Yegor Gaidar and the Finance Minister Boris Fedorov mark the ascendancy of the forces opposing Russia's rapid economic transformation. In the West, this opposition is perceived solely as a protest against impoverishment and inequality caused by Gaidar's abrupt imposition of market discipline on the bureaucratic economy. This perception is wrong.

When shock therapy was implemented in 1992, living standards plummeted, causing a public outcry. However, in 1993 real incomes have increased. Public opinion polls showed that people have for the most part successfully adjusted to the new conditions. The issue of privation became muted in the public debate. Yet the opposition to rapid transformation did not diminish. Most newspapers and most popularly elected parliament members reject the "big bang" approach in favor of a more gradual transition to market economy. Gradualism is advocated by almost all the older economists, such as Yuri Yaremenko, as well as by the bright younger scholars like Sergei Glaziev, and by the famous dissident economist Gregory Khanin.

These critics of shock therapy never forget to mention the suffering it caused to the population, but their greatest concern is the decline in production, not consumption. In their view, it is destroying the unique assets inherited from the Soviet Union: large science establishment, the space program, a full complement of high tech industries and an education system that supplied all these with large numbers of scientists and engineers. Without these, Russia would have to surrender its

"economic sovereignty" and turn into just another poor country. Slow, deliberately planned restructuring, on the other hand, will preserve both the Soviet scientific and industrial legacy, and Russia's status as a great power.

It is true that the present slump hits the most advanced sectors the hardest. In 1993, industrial production has been declining faster than total GDP. Extractive sectors, especially energy, fared better, while manufacturing did worse than the rest of industry. Within manufacturing, the more sophisticated products suffered a steeper decline. In the first 10 months of 1993, the output of instruments and process control equipment declined by 30%, numerically controlled machine tools by 74%, and computers for industrial robots by 94%. The machine tool industry is switching to production of old, manually controlled models which are in demand in the developing countries. A reversion to simple, low-tech products is also reported in other branches of machinebuilding and in chemicals and metallurgy. Alexander Livshits, an economist on the President Yeltsin's staff, coined the term "primitivization" to summarize these trends. As R&D-intensive manufacturing is declining, so does the R&D sector proper. Many research establishments survive by renting their offices to private businesses. Salary increases have been lagging behind inflation, and salaries are often paid with a lag of several months, causing younger scientists and engineers leave for jobs abroad or in business.

For the gradualists, these trends threaten not just the survival of particular sectors, but their country's place in the world, as they see it. The leading business paper *Kommersant* recently lamented that Russian economy is beginning to resemble Venezuela's. Journalists from liberal newspaper *Komsomol'skaia pravda* interviewing a foreign proponent of shock therapy asked if market forces will turn Russia into a comfortable but second rate country, like Great Britain. Yet Vene-

zuela's per capita consumption is higher than Russia's, and catching up with Great Britain will take several generations under the best of circumstances. This condescension reflects a belief in Russia as a great power inherently superior to Great Britain, to say nothing of the lesser nations.

Unlike communists and chauvinists, liberal Russian nationalists would not cite military might and the long list of dependencies their country recently possessed as proof of its greatness. Instead, they would refer to its scientific and technological feats. These achievements of Communism were thought to guarantee the country's transition from a militaristic empire to a market economy at the forefront of technological progress. Russia acquired its technological prowess under a system hostile to innovation and creativity. It was reasonable to expect that with central planning removed, science and technology would do even better. Instead, they have been put on the verge of extinction. The gradualists blame the government for that and suggest making the preservation of the country's "science and technology potential" the main objective of economic policy. Subsidies, price controls, and protection from foreign competition are to be extended to the high tech sectors until the time when they are ready for market competition.

This may never happen. Soviet R&D and high tech industry were structured to achieve two specific purposes. One was to produce weapons that would be competitive in the military sense with those made in the West. Another was to supply civilian technologies which central planners did not want to import for reasons of strategic self-sufficiency, or could not import because of Western restrictions. It was a rather roundabout way of doing things: technological and scientific wizardry was combined with reverse engineering to compensate for the backwardness of domestic suppliers and inaccessibility of foreign ones. Cost, quality, convenience, and other economically important considerations had to be brushed aside in the process. These proud achievements of cen-

tral planning have little value in the competitive market. Moreover, attempts to conserve the whole Soviet high tech legacy would stand in the way of using its valuable elements, such as a technically educated workforce. It would only help the Russian economy if redeployed from their present, mostly military-related jobs to new ones.

There is no economic reason for the country at Russia's level of income to try domestically develop and produce as many modern technologies as the USSR did. Yet acknowledging this fact means rejecting the great power claim and behaving just like any middle-income country. Even the bravest reform politicians avoid being that blunt. The Science Minister Boris Saltykov came closest when he reportedly told researchers clamoring for government financing that Russia cannot afford so much science. His future in this post is now in jeopardy. Attempts to maintain the great power stature may prove the greatest obstacle to Russia's economic transformation. It must have helped Poles and Czechs in their reforms that they were not looking down on Great Britain.