Modern Economic Policy to
Russian Economic Regime and Structure

—ロシアの経済体制および経済構造
に対する近代的経済政策—

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1. Introduction

Russian economy had been run on the principle of planned economy more than 70 years till a few years ago, in more plain and direct words, under the command of 'Gosplan' in Soviet Russia. Now it is changing for capitalistic market economy. Hence the introduction of modern economic policies is necessary for that and has actually been sought. In capitalistic countries the thought of new quantity theory of money, that is, so-called monetarism is as popular as Keynesian economics in recent years. Although we do not think there is a fundamental difference between the two in spite

of the superficial ones. Monetarism\(^1\) lays a greater stress on the importance of the optimal rate of economic growth than Keynesian economics. The latter is not so sensitive to that rate and often insist on the decisive enforcement of public investment and lowering of the rate of interest against deflationary gap.\(^2\) even if there exist latent factors of inflation at bottom.

Russian economy is now changing, but there remains the old system, 'ancient regime', which is obstructing the flow of consumption and production goods and the formation of new interindustry relations system, or input-output relations system among goods including intermediate products.

In such a state of affairs, if a straight and drastic demand-pull policy, or priming policy to raise the demand is to be adopted as a part of market economy policy, the inflation will be accelerated to a more aggravated hyperinflation.

We are to discuss what policies to adopt in the present Russia and how to restructure Russian economic system, comparing with the case of Japanese economy which is said to have succeeded in attaining a highest economic growth in the world, starting from the defunct state after World War II, and also comparing with that of Chinese economy, which has adopted the so-called 'socialistic market economy' and is said to have succeeded in attaining and maintaining a highly-raised rate of economic growth, especially the rate around 10% in the South Areas along the East China Sea.

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1) For the basis of this theory, see, for example, Friedman (1969).

II. The Present Russian Economic Structure

The present Russian economic structure was formed according to the principle of planned economy, derived from Marxian economics. In plain words, planned economy was necessary to exclude unearned income, that is to say, to exclude the 'exploitation' by nonlabored factors of production at the viewpoint of the 'labor theory of value'. Russia is now free from that dogmatic viewpoint and is changing to a direction to attain economic efficiency in market economy. Here we should say that it is necessary to form a interindustry relations system fit for a market economy, instead of that of the planned economy so far, if Russia is to pursue the efficiency of market economy. To put it concretely, 'to form a interindustry relations system', means to set up each market in each stage of the trades in all the production process from raw materials to finished products including intermediate products or semiprocessed goods.

In the present Russian economy, though markets are being formed of consumption goods trade, those have not yet been sufficiently formed of production goods trade. There remains a great part of the past non-market trade system. That old system, 'ancient regime' has not yet been substituted by market system. Moreover, even the old system itself does not work sufficiently. Hence the distribution of production goods cannot be made according to the necessity of each factory. There is, whether large or small, an industrial bottleneck between any two factories. In that state of affairs there is a rather steady and increasing demand for consumption goods, which brings about an inflationary gap.

For now, Russia has production facilities to an extent constructed in the past. They maintains a certain level of the production of consumption

3) Marxian 'labor theory of value' is explained in Marx (1953).
goods. The production facilities, however, are wasting. We fear that, when they are wasting, and there is little distribution of production goods necessary for the renewal, or replacement of wasted production facilities, the inflation will be deteriorated to a more vicious hyperinflation, because of diminishing production.

These years the Russian Far East, for instance, imports a large quantity of consumption goods from China through barter trade across the border, and recently also from Korea and Japan, of whose products the quality is controlled to a higher degree. That seems to reduce the inflationary tendency. It is, in a sense, true that if the Russian Far East were more dependent on its internal production of consumption goods, the inflation might be much more deteriorated. That viewpoint may, however, be somewhat unilateral.

The Russian Far East exports the goods shown in Table 1 (P.11) to import the necessary goods. We observe machines, plants and means of transport, and the means of transport shows a considerably high percentage, 16.9%. Those exported goods as well as 4.4% chemical goods, are in an uneasy state also because of wasting production facilities. Almost the same with coal, oil products, iron, nonferrous metals, etc., too. In forestry a great number of timbersmen must be employed. Many timbersmen have come from North Korea, once culminating in 20,000. They themselves need consumption goods to live.

Hence the formation of markets for production goods is necessary for the fundamental settlement of the problem, and that is the premise for the takeoff of Russian economy.

In heavy industries, however, the social production process from raw materials to finished goods is more complicated than in the other ones, and the interindustry relations system over the process is also more complicated
and so liable to form industrial bottlenecks.

Russia might as well set up markets for production goods including intermediate ones first in light and electronic industries. The light industries have a shorter and less complicated social process of production.

The electronic industry is sometimes thought to be difficult to introduce. In spite of the appearance, the production itself in that industry is not so difficult to introduce, for it does not need so high-skilled labor as is generally thought, and ordinary labor is rather easily trained for the production. Moreover, electronic industry might be concentrated on assembly, bringing parts (semiconductor devices, etc.) from abroad, which are very light and easily transported by air. The electronic industry does not necessarily need the domestic, whole, continuous process of production. (Compared with it, raw materials and intermediate products of heavy industries are too heavy to transport by air.)

Also in Russia the takeoff of industrialization needs a motivation, which should be taken up in light and electronic industries. A joint venture between a Russian and a foreign concern could be the motivation. Russia might as well form more sufficient infrastructure, and stabilize the legislation and taxation system, so that foreign companies may come and set up easily joint ventures with Russian enterprises.

By the way, China owes her success in the takeoff of industrialization in the south coastal areas to such an above-mentioned policy that the motivation should be taken up in light and electronic industries. The motivation leads to the formation of markets.

The discussion so far is confined to the light and electronic industries. The problems about heavy industries are to be discussed in the next section.
III. Heavy Industries

As is earlier mentioned, heavy industries have a longer and more complicated social process of production from raw materials to finished goods, than light and electronic ones. The process includes the production of many intermediate or half-finished products. The formation of the markets for those products is rather difficult and will take a long time. The enforcement of liberalization of economy without sufficient market system would bring about a vicious inflation.

By the way, China seems now to confront the difficulties in forming market system in heavy industries. Chinese famous village or town private enterprises called 'xiangzhen qiye' in Chinese attained the high rate of economic growth and are increasing in number, prevailing all over the country. Their activities, however, remain to be limited to the range of light and electronic industries. Even now the national agents are running most of the heavy industries, whose percentage is larger in Northeast China, near to the Russian Far East.

Free markets co-ordinate automatically demands and supplies, only if there are no difficulties in goods or service distribution, or the movements of goods or service and the conveyance of information are not obstructed, while the market prices work effectively each as a sensitive stabilizer toward the equilibrium prices.

The signal of the demand of final goods (finished goods) is conveyed in the reverse direction or order of the very production process that proceeds in such an order as from materials to higher order intermediate products, from higher to lower order intermediate ones, and from lower order to final ones.\(^4\) Therefore, the signal of the demand of final goods or products is

\(^4\) For the economics terms for the orders of products in this paragraph, see Menger (1871).
conveyed in such a direction or order as from final products to lower order 
intermediate ones, from lower to higher order intermediate ones, and from 
higher order ones to materials. The conveyance of the signal and the 
products distribution take some time and that brings about a time lag of 
the coordination of the demand and supply of products, accordingly that of 
optimal distribution of resources. How small or large the time lag is, finally 
depends on the velocity of the distribution of products and the productivity 
of each enterprise.

The time lag, we think, determines, in the negative, the productivity of 
the whole society or nation.

Here we like to refer to E. D. Domar. His consciousness seems to be 
somewhat related to Marxian ‘reproduction scheme’ and Leontief’s 
‘input-output table’. The essence of Domar’s theory is as follows.\(^5\) 
(Somewhat retouched and changed)

\[
\Delta Y = \Delta I \frac{1}{\alpha} \quad (1)
\]

Coincidently

\[
I \sigma = \Delta P \quad (2)
\]

Consequently, from \(\Delta P = \Delta Y\)

\[
\frac{\Delta I}{I} = a\sigma \quad (3)
\]

\(I\) : investment; \(\Delta I\) : the increase in investment;

\(\Delta P\) : potential increase of production; \(\Delta Y\) : the increase in income;

\(a\) : marginal propensity to save;

\(\sigma\) : potential social average productivity of investment;

The equation (3) is thought to imply that, if the investment increases

at the rate of $a\sigma$, the economic growth will be stable.

In the present Russia, both $a$ (=marginal propensity to save) and $\sigma$ (=potential social average productivity of investment) are thought to be small, and so $a\sigma$ is small. The smallness of $a$ is based on the small income. The smallness of $\sigma$ is attributable to the large 'time lag'.

Consequently, there will be a tendency that $\frac{\Delta I}{I} > a\sigma$, which suggests also the tendency to bring about an inflation.

Earlier mentioned, a time lag is inversely related to the velocity of the distribution of products and the productivity of each enterprise.

In Russia the velocity of the products distribution is hindered by the insufficiency of markets and the ineffective, conventional, economic system.

The diminishing productivity of each enterprise has resulted from the wasting production facilities and the difficulty in the availability of the materials and intermediate products including production facilities and machines, which is attributable also to the insufficiency of markets. The difficulty in the availability of materials has resulted in the diminishing rate of operation of machines, shown in Table 2 (P.12). To sum up, a major and basic cause aggravating and jeopardizing Russian economy is ascribed to the insufficiency of markets.

The sufficient formation of market may take a rather long time. For the time being, the transition from planned economy to market system should be led gradually in the heavy industries, and a drastic way should by no means adopted. In a sense, planned economy system is rather more feasible and suitable to heavy than to light industries.
IV. Comparison with the Growth of the Postwar Japanese Economy

As is generally known, Japanese economy attained a great growth after World War II. We can draw some of its features.

First, we want to give the case of the application of Keynesian policies to Japanese economy in a broader sense of it, which means mainly the adoption of a demand-pull policy, for instance, through fiscal or bank-rate policy.

Secondly, the strong leadership of the MITI (the Ministry of International Trade and Industry). 6)

Thirdly, the financing on priority basis to the basic industries usually consisting of heavy industries, and the nationalization of some of them, of which the National Railways (the Kokutetsu), Nippon Telegraph and Telephone Public Corporation (the Denden-kosha), etc. are representative.

Fourthly, the economy strongly controlled by the government and the central bank (the Bank of Japan) — the 'revised capitalism'.

Keynesian economics is originally the one for overcoming depression, not for inducing to grow or developing economy. Japan dared to apply this theory to the policy of economic growth, and succeeded in attaining it. Without the leadership, and the control and steering of the economy by the Japanese government and the central bank, the Keynesian demand-pull policy might have caused a vicious inflation. The control and steering of the Japanese Ministry of International Trade and Industry made the optimal distribution of resources, as a result. Japanese economy had been such a revised capitalism as, we can even say, is the mixed economy, in a sense between capitalism and socialism, for a considerably long period after World War II. By the way, from macroscopic point of view, we can say the

6) See Johnson (1980).
present Chinese economy. 'socialistic market economy' is compared to the Japanese economy after World War II. Especially heavy industries are feasible and sometimes better carried on in a planned economy.

V. Conclusion

Russia has a great potential. She has a great deal of natural resources, and advanced science and technology. If her economy is well directed and transits from the conventional, old to an efficient, new system, a great economic growth and development will be expected.

First, light and electronic industries should be introduced. The markets for them will be, as I have earlier mentioned, comparatively easily formed and developed. The introduction of foreign enterprises and encouragement of the joint ventures between Russian and foreign enterprises will motivate and accelerate the formation of markets.

The markets for heavy industries should be gradually formed, substituting the conventional, old economic system. The transition from national to private enterprises should be led by the government. A planned economy is necessary for that. That may be said to be a revised socialism or a revised capitalism, or a mixed economy. Anyway, that policy is located between capitalism and socialism.
### Table 1. The Exported Goods in the Russian Far East (% in value)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Machines, Plants, Means of Transport</td>
<td>1.9</td>
<td>2.2</td>
<td>16.9</td>
</tr>
<tr>
<td>Fuel, Minerals</td>
<td>24.6</td>
<td>18.4</td>
<td>26.3</td>
</tr>
<tr>
<td>coal</td>
<td>20.0</td>
<td>14.9</td>
<td>12.1</td>
</tr>
<tr>
<td>oil products</td>
<td>3.1</td>
<td>1.7</td>
<td>8.4</td>
</tr>
<tr>
<td>iron, nonferrous metals</td>
<td>1.5</td>
<td>1.8</td>
<td>5.8</td>
</tr>
<tr>
<td>Chemical Products</td>
<td>1.0</td>
<td>8.3</td>
<td>4.4</td>
</tr>
<tr>
<td>among them: chemical manure</td>
<td>0.3</td>
<td>2.9</td>
<td>3.4</td>
</tr>
<tr>
<td>Building Materials</td>
<td>0.07</td>
<td>0.07</td>
<td>0.1</td>
</tr>
<tr>
<td>Timber</td>
<td>28.4</td>
<td>17.1</td>
<td>14.5</td>
</tr>
<tr>
<td>Daily Necessaries</td>
<td>0.0</td>
<td>0.03</td>
<td>0.3</td>
</tr>
<tr>
<td>Fishes, Marine Products</td>
<td>34.3</td>
<td>45.9</td>
<td>32.6</td>
</tr>
<tr>
<td>Others</td>
<td>9.5</td>
<td>8.0</td>
<td>4.9</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 2. The Rate of Operation of the Production Facilities in Russian Industries

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Pig Iron</td>
<td>94.1</td>
<td>95.6</td>
<td>93.6</td>
<td>76.9</td>
<td>72.9</td>
</tr>
<tr>
<td>Crude Steel</td>
<td>95.2</td>
<td>96.5</td>
<td>93.6</td>
<td>81.6</td>
<td>70.8</td>
</tr>
<tr>
<td>Finished Steel</td>
<td>94.3</td>
<td>95.2</td>
<td>92.4</td>
<td>83.0</td>
<td>71.7</td>
</tr>
<tr>
<td>Iron Ore</td>
<td>93.1</td>
<td>95.1</td>
<td>97.6</td>
<td>86.9</td>
<td>78.6</td>
</tr>
<tr>
<td>Machine Tools</td>
<td>87.3</td>
<td>86.6</td>
<td>81.2</td>
<td>77.4</td>
<td>64.3</td>
</tr>
<tr>
<td>Forging Presses</td>
<td>94.4</td>
<td>88.1</td>
<td>83.2</td>
<td>83.1</td>
<td>66.3</td>
</tr>
<tr>
<td>Tractors</td>
<td>97.7</td>
<td>96.5</td>
<td>81.3</td>
<td>71.4</td>
<td>58.5</td>
</tr>
<tr>
<td>Pulp</td>
<td>85.6</td>
<td>90.6</td>
<td>88.2</td>
<td>76.3</td>
<td>68.3</td>
</tr>
<tr>
<td>Cement</td>
<td>90.6</td>
<td>93.1</td>
<td>93.3</td>
<td>88.6</td>
<td>74.3</td>
</tr>
<tr>
<td>Concrete Blocks</td>
<td>79.2</td>
<td>79.2</td>
<td>77.4</td>
<td>72.8</td>
<td>59.2</td>
</tr>
<tr>
<td>Cotton Fabrics</td>
<td>90.5</td>
<td>91.4</td>
<td>91.4</td>
<td>90.2</td>
<td>62.3</td>
</tr>
<tr>
<td>Shoes</td>
<td>89.3</td>
<td>88.9</td>
<td>86.7</td>
<td>82.0</td>
<td>60.6</td>
</tr>
<tr>
<td>Washing Machines</td>
<td>88.5</td>
<td>87.6</td>
<td>87.1</td>
<td>80.6</td>
<td>59.5</td>
</tr>
<tr>
<td>Meat</td>
<td>71.0</td>
<td>83.3</td>
<td>76.0</td>
<td>66.8</td>
<td>57.3</td>
</tr>
<tr>
<td>Dairy Products</td>
<td>88.5</td>
<td>84.5</td>
<td>76.1</td>
<td>71.9</td>
<td>41.4</td>
</tr>
<tr>
<td>Canned Fruit &amp; Vegetables</td>
<td>66.1</td>
<td>78.1</td>
<td>71.6</td>
<td>61.8</td>
<td>65.0</td>
</tr>
</tbody>
</table>

References


