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# HARMONIOUS ECONOMICS or THE NEW WORLD ORDER

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There is a fundamental analysis of the economy was undertaken, designed to ensure the best existence of citizens, and not for the receipts of income by private individuals. Existing political and economic formations are considered, their advantages and disadvantages are described. It is shown that the most perfect is a harmonious form of organization in which the interests of all people and states, nature and humanity are organically united on the basis of order and justice. The features of building from them the financial, tax and administrative systems, production relations have been established. In terms of depth of analysis, rigor and consistency and their advantages this book is original and do not have world analogues. Its implementation will solve many problems of the modern economy and significantly improve the living standards of the population.

Осуществлен фундаментальный анализ экономики, предназначенный для наилучшего жизнеобеспечения граждан, а не для получения дохода частными лицами. В рамках исследования рассмотрены существующие политические и экономические формации, описаны их достоинства и недостатки. Показано, что наиболее совершенной является гармоничная форма организации, в которой органически сочетаются интересы всех людей и государств, Природы и Человечества на основе порядка и справедливости. Установлены особенности построения в них финансовой, налоговой и административной систем, производственных отношений. По глубине анализа, по строгости и логичности, открываемым возможностям книга является оригинальной и не имеет мировых аналогов. Ее внедрение позволит решить многие проблемы современной экономики и существенно повысить жизненный уровень населения.

Une analyse fondamentale de l'économie est présentée, qui est destinée au bien-être des citoyens plutôt qu'aux revenus des individus. Formations politiques et économiques existantes sont considérées, leurs avantages et inconvénients sont décrits. On montre que la forme la plus parfaite est une organisation harmonieuse dans laquelle les intérêts de tous les peuples et de tous les états, de la nature et de l'humanité sont organiquement unis sur la base de l'ordre et de la justice. Les caractéristiques des systèmes financiers, fiscaux et administratifs et des relations de production correspondant à une économie harmonieuse sont établies. Du point de vue de la profondeur de l'analyse, de la rigueur et de la cohérence du raisonnement, des avantages qui se révèlent, ce livre est original et n'a pas d'analogues du monde. Sa mise en œuvre permettra de résoudre de nombreux problèmes de l'économie moderne et d'améliorer considérablement le niveau de vie de la population.

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# Introduction\*

The theory without practice is dead, and practice without theory is blind

Paphnutiy Chebyshev

*Theory that has reached deadlock opens up brilliant perspectives*\*

Ibn Sabey

Estimated readers!

The book you are holding in your hands is about economics. However, its subject is not the economics that we witness today, but economics the way it should be. This book is about economics that would create a stable and violence-free world where all people would have an opportunity to provide a dignified living for themselves and their families. About economics that would conform with the common sense and respect and promote the ideas of kindness and justice. About economics that would benefit all, whether they are strong or weak, bright or not-so-intelligent, elderly or young. Economics that would encourage a healthy lifestyle and not vice versa, and contribute to the development of culture, education and morality, instead of suppressing them.

This is not a utopia or a naive dream, but a tenable theory based on the laws of the Universe, world experience, and knowledge. This is precisely what economics should be! Such economics has an internal logic, and, peeled off all that is superfluous, artificial or immoral, this is what the modern shapeless and faulty economic doctrines boil down to. Their intricacies do not arise from the complexity of economics as such, but from the unbounded desire of some to make profit regardless of the costs to Nature and the society.

As the result, the majority of the world's population has trouble upkeeping their dignity, not only in the earthly matters, but in the international relations, too. In the current economic conditions, common people cannot work normally, live decently, eat healthy, or raise their children any more. Today, human beings have turned from clients into yet another resource, another source of income. Unless they are profitable, there is no need to provide them with means of existence.

Consequently, social protests increase, the feeling of discontent deepens, and terrorism gains ground. On the other hand, the number of millionaires grows. And it would be a violation of truth to believe that the more people get rich, the less poor there are. So why does this happen?

The existing economic theory is based on **liberal principles** that consider the free — that is, uncontrolled — actions of a certain group of persons as the paramount value of the social being. This freedom brings about the inviolability of private property, the freedom of business, and the precedence of the rights of a person over the rights of the society (*a person is more important than the state*). Besides, these principles exempt people of their obligations before others, and limit, as much as possible, the state and social interference in everyday and economic life of the country. This

economics conforms to Thomas Carlyle's formula "anarchy plus a street-constable" \*, which the wellbeing of the state and the society do not fit.

Such economic philosophy in all its forms turned out to be most advanced and thoroughly tested, and has served as the ideological foundation of the modern economic science. That is why **all tools**, criteria and incentives of the existing structure have been adapted to serve the profitable economics and not the useful economics. For instance, its global indicators, such as GDP, national income, and GNP, are based on the monetary income and not the tangible social improvements. All of the above-mentioned factors have given rise to a global confrontation between the social nature of production and the private consumption of its results. Nevertheless, economics disregards this and continues along the selected path, just as a driver who would navigate by the stars failing to look at the road. It is obvious that in such conditions collapses are inevitable.

Due to these reasons, current economics is incomplete, self-contradictory, and unstable. Its notions cannot withstand reasonable criticism, they have lost touch with reality, and lack unifying logic and clear objective. These notions are obsolete. However, there is no solid structure, and for that matter no science, without a foundation.

Indeed, the chasm separating modern economic studies from economic practice is dispiriting. The way it is interpreted and taught, this subject has little in common with the real situation. As Ronald Coase, Nobel prize winner in economics in 1991, wrote: "*The tools used by economists to analyse business firms are too abstract and speculative... Since economics offers little in the way of practical insight, managers and entrepreneurs depend on their own business acumen, personal judgment, and rules of thumb in making decisions... Economics thus becomes a convenient instrument the state uses to manage the economy, rather than a tool the public turns to for understanding how the economy operates*" \*. [1]

The tone of the modern economics is set by theoretical philosophizing on price formation principles, returns and expenses, interest rates and inflation, demand and offer, rent and preferences, which has supplanted discussion of the ways to increase labour productivity and improve labour organization. Instead of striving to create conditions for dignified human existence and cultural development, this science is impregnated with acquisitiveness.

Thus, economics turns out to be a fruit of centuries-old delusions, passions and egotism, politics and momentary actions, and not a product of systemized knowledge. It is used to justify and to serve the existing political regime, not to improve it. That is why the crisis we observe today is easy to understand and explain. Besides, a large number of economists are familiar with it (ref., *inter alia*, [2] – [5]). For this reason, the method of analogies, i.e. the trial and error method, is used in decision-making, which with time renders it ever less reliable and ever more expensive. Another possibility is to recreate blindly the experience of others.

In order to avoid it, a solid fundamental theory is required that would be capable both of forecasting and guiding. It should serve as a compass to indicate the correct and the erroneous direction of development for every specific action. Unfortunately, in modern economics, such a tool does not exist and is not even foreseeable.

That is why the variety of economic doctrines is so wide — they seek to bring some order into this kingdom of chaos. Here anything can be found: from monetarism to Keynesianism and mercantilism, from planned economy to utter anarchy, from conservatism to naïve romanticism. And while mercantilism encourages to save money, physiocracy urges to actively spend it. While metallism considers money an indicator of the nation's wealth, nominalism regards it as conventional sign. The list of comparisons can be continued.

Thus, the current economic theories do not make up a whole, but are just fragments of science. They are not united by one principle, logic, or managing tools. That is, they resemble the branches of a business entity tree not connected to any single trunk or root. Consequently, the advice based on such studies is not universal. Economy is a complex structure that cannot be simply assembled out of separate fragments, like a puzzle.

It is obvious that economics can turn into a real science only provided that it abides by objective, universal laws and serves every human being instead of just the few. Then the entire arsenal of the limited doctrines will become superfluous, and the only true doctrine based on the laws of the World will survive. Indeed, the man is not a special supernatural creature guided by its personal cravings, but a natural phenomenon carrying out the functions it has been charged with. As the result, if the man tries acting as he wishes, in disregard of the laws of the World he lives in, then the World turns its back on him, and all the powers of Nature take up arms against him. We witness this confrontation on a regular basis. It increases the number of natural catastrophes, earthquakes and tsunamis, anthropogenic accidents, and emergencies. However, there should be no surprise here, as everything in the world is interconnected.

On the other hand, the current economic doctrines, highly controversial as they might be, all have one thing in common: money, as their only tool of analysis and management. This is no coincidence. In full accordance with the liberal doctrine, current economics takes monetary income, and not the actual benefit, as its basic tool. That is why current economics has turned money into its global objective, has made it the main means and source of human wellbeing, their dream and guiding star. The fact that money is more profitable to produce than goods contributes to this situation.

Thus, the existing economy is conditioned by money, and nothing goes by without it. Money generates money, it serves as the yardstick, as a fundamental incentive, and the criterion of perfection for any company or economic transaction. Money subordinates people, nature, and power. It is profit, investment, shares quotations, and interest rates that control production, instead of such factors as production efficiency, possible success, and usefulness. As the result, the objectives of capital owners dominate those of useful items producers. Obviously, this does not contribute to increasing the productivity of economy.

Consequently, the “long money” has disappeared, and financing is granted only to those projects that bring the fastest profit, and not the biggest benefit. Economics is now guided by short-term activity, thus losing its global objective and ultimate goal. Once money has acquired its unnatural overwhelming importance, it started actively submitting the world to its power. It is the money that causes and directs modern destructive tendencies.

Indeed, money serves as the universal key to open both minds and hearts. That is why, as M. G. Delyagin said, “*there is no problem in the world that can be solved without money, just as there is no problem in the world that money alone can solve*”<sup>[6]</sup>.

The vortex created by such “economics” keeps devouring more countries, peoples and continents only to grind, wring out, and diffuse them. Money ruins the lives of people, nations and states, exacerbating poverty, crime rate, and terrorism. Money as it exists today is an oppressor of the authentic values: honour and conscience; truth and justice; beauty and decency; Nature, freedom, love, and the very life. “*What power has law where only money rules!*” (Gaius Petronius Arbiter, first century AD)  All the human troubles, all wars, and all revolutions are, eventually, down to money. Moreover, the process gradually seems to become even more global and less controllable.

The clearer the direction of such development, the darker the situation. Meanwhile, money is the most visible instrument of public relations, produced by social culture and lifestyle. It is a factor formed, for the most part, by the society itself. This makes the situation unpredictable on the global scale, for it is true that by choosing a certain form of money, nations define their own future.

The absence of real value in money entails a currencies struggle, where only the currencies enjoying a strong state support can win and exert an influence. As the result, a parasitic virtual economics evolves; it allows money to bring profit without any benefits for the people, that is, circumventing the real production and goods exchange, through pure speculation, by transfer from one pocket to another.

Furthermore, the income of the virtual economy exceeds the income of the real one. That is why modern money amasses within financial entities, and not manufacturing ones. Consequently, the daily global foreign exchange operations cost reached \$5.3 trillion by 2013 and currently continues rising. At the same time, the currency turnover related to goods and services transactions amounted to \$55 billion only, that is less than 1% of the total amount of foreign currency transactions<sup>[7]</sup>. This brought about an unprecedented dominance of the financial market over the goods and services markets. While around \$64 trillion circulate in the form of cash, bank accounts and deposits, the direct investment into production does not exceed \$1.8 trillion.

On the other hand, economy based on money is inevitably usurious due to the artificial money deficit and the reign of money (obviously, the two processes are interdependent). This is no new phenomenon; it appeared a long time ago. Back then money lenders laid their hands on the major part of the lender’s profit through interest rate. Without creating new production factors, usury degraded production, helped paralyze production forces and promoted parasitic processes. It is no wonder then that economy built on usurious principles fails to be ethical or efficient. Its activity is bound to disregard the rules of common sense.

However, few are disturbed by this fact, and nowadays usury has flourished violently. It has become the basic principle of operation for modern banks, corporations, and other commercial entities. Moreover, it dominates the social and the state sectors. Usury has filled in all the pores of the current economy and has become the rudder of management and planning. The cupidity of individuals has been elevated to the level of state priorities.

That is why, if we believe the world news, it is the results of speculative stock exchange transactions that are significant, and not the economic advances. Consequently, the daily global foreign currency and financial transactions exceed fifty-fold the commerce in goods. For instance, the Russian banking system holds more than 72 trillion roubles in assets, while it invests as little as 1 trillion roubles in production. Obviously, this does not simplify nor render more efficient the economic processes.

Thanks to the global flourishing of usury, the major effort in the present economic system is employed in getting rent (derived from nature, money, property, power, information, intellectual property, the military, etc.); it is the fastest delivering and least demanding source of income, used instead of increasing human creative capabilities. Profits are generated by crime, finance, and corruption, and not through useful production. Everybody strives to create a monopoly by exterminating their competitors, and shirking fair competition. That is, the ultimate goal is profit by any means, not the improvement of the production and moral values of the society.

Consequently, it is no surprise that in the current conditions property and capital bring more profit than the use of work force. This leads to unemployment, as production improvement does not increase the workers' free time or wellbeing, as supposed, but the number of surplus workers whose labour does not bring a third person the desired income. This could explain why as little as 32% of Americans under 25 are employed full-time, the situation that all highly developed capitalist countries suffer from. At the same time, young people are the most active society members, it will be them who will build families and educate new generations.

On the other hand, virtual economy does not produce other than virtual values. Due to this reason, its flourishing is conditioned by the servitude of the real, productive economy. The result is the reduction of the economy's financial resources and the recent multiplication of loans. By consequence, the very notion of the money has been corrupted; money no longer serves the exchange of commodities, but has become the key source of usurious profit. The aggregate debt of all countries in the world compared to their aggregate GDP attained 286% by 2014, and developed countries contributed 80% of this amount<sup>[8]</sup>.

Such situation has led to unprecedented concentration of the capital in the hands of the few. For instance, the annual income of the 200 world's top corporations exceed the aggregate annual income of the 1.2 billion people living in extreme poverty. The large corporations control 27.5% of the world economy while employing only 0.78% of the world population. Between 1983 and 1999 alone, their profit grew 360%, while the headcount increased by 14% only. They do not simply control economy, they set its direction — they can afford it. It is therefore no coincidence that of the 200 corporations, 82 are located in the US, 71 — in Western Europe, 41 in Japan, 5 in South Korea, and 1 in Canada. The rest of the world has none.

That is why the combined fortune of the world's 8 richest billionaires exceeds the assets of 3.6 billion people from developing countries. Wealth-X reports that 2,473 dollar billionaires alone possess \$7.7 trillion. By 1998, the top 10% in the US owned 90% of business value, 88.5% of bonds, and 89.3% of the public stock. Similar situation is observed in modern Russia and many other post-socialist countries.

On the one hand, the nouveaux riches do not need to produce as many commodities for themselves, as the rest of the population need, which inhibits the social oriented production. On the other hand, this decreases the effective demand of the population, which impedes economic development as a whole. By consequence, the demand drops further and forces supplementary cuts in production, etc.

B. G. Shaw wrote, “*If the wicked flourish and the fittest survive, Nature must be the god of rascals*”\*. However, following the liberal principles, the state must create ever more favourable conditions for the business to have a greater income. “*What is good for General Motors, is good for America*”, said W. Wilson, the President of the US. This is a cunning logic. Besides, businessmen’s “*interest is never exactly the same with that of the public so they have generally an interest to deceive and even to oppress the public*” (Adam Smith).\* For this reason the flourishing of business and the well-being of the society do not coincide, in fact, they often contradict each other.

Indeed, in the end, business is a form of activity that generates personal income serving as a source of increasing personal fortune, not the public benefit. On the one hand, business encourages people to develop their talents, sparks energy in them, diversifies production and service forms, and creates new jobs. On the other hand, it promotes profit-making at the cost of Nature and society. In addition, it contributes to manufacturing and sale of low-quality merchandise, drugs, counterfeit medicines, surrogate alcohol, etc. Besides, such economy naturally contributes to gangsterism, corruption and unemployment.

In the current situation, the money that the financial elites have laid their hands on gives them the reign over all global processes, and allows to ruin entire states and social strata for their personal fancies. This weakens the human society, deprives it of the strength to protect itself from aggressions, shocks, phobias and attacks. A good example, here is what Louis McFadden, Chairman of the United States House Committee on Banking and Currency, wrote about the 1930s Great Depression: “*It [the depression] was not accidental. It was a carefully contrived occurrence <...>. The international bankers sought to bring about a condition of despair here so that they might emerge as the rulers of us all*”\*.

But this is not the main point. To prevent people from protecting the values that they create from external encroachments, everything is done to deprive them of independence, render them powerless, psychologically and physically defenceless. Through mass media and the very lifestyle, deformed culture, education, perverted ideology and repressive religious beliefs are imposed on people. They are stripped of their human dignity, crippled by false stereotypes, alcohol, and pushed on the path of further degradation. People left without means of existence, property or good health. Deprived of rights, work tools, money, resources, they cannot provide for themselves any more. Otherwise, would anybody tolerate being a milking cow for the “the select few”? The humans are poisoned with unhealthy foods, admixtures, surrogates and hypnotized by ideology. Their environment is destroyed. However, all this is done in accordance with the liberal economic principles!

As the result, the society often loses the feeling of community, of common roots, as well as the reverence of the values earned through the sweat and blood of their predecessors. The harmonious vision of the world, the understanding of one's place and purpose within it are gone. For instance, 26% of the Americans have no idea that the Earth orbits the Sun, and not vice versa. People have lost life's purport and have become an easily mouldable material. They have accumulated suffering and spite, losing confidence and strength, belief and conscience, hope and kindness. And what is a man without them? The man does not live by bread only, not by gold or power. "No man can serve two masters" (Gospels) \*

Against this background, wild propaganda is under way: human personality would be now freer than ever, human rights would be respected, and the omnipotent democracy would furnish everyone equal possibilities. But then, the human beings are deprived of their most basic right, the right for life. For their life is determined by the profit of the employers. The propaganda has been reinforced by coining of a series of clichés to worship, such as "*freedom of personality*", "*permissive behaviour*", "*independent creation*", "*tolerance*", or even "*non-traditional sexual orientation*". They obscure the clear reference points, destroy the family, suppress the people's inner aura, interfere with the link of generations, and let false values supplant the true ones.

Having thus crushed and crippled the person's inner self, having diverted their energy towards pecuniary objectives exclusively, the present-day rulers have cut the supply from the true sources of well-being: kindness, respect and friendship. The lack of spiritual development is covered up by luxury, entertainment, and pleasures. Instead of love we get sex, instead of friendship — partnership, instead of respect — servility. Thus, spirituality, honour and dignity are being exterminated by all means available.

As the result, all contradictions accumulated in the past are aggravated, and the true values are substituted by the false ones. A considerable share of the fundamental concepts has come under the fire of ostracism; the previously undisputed truths have been questioned; the accrued experience has turned out to be unreliable, and the traditions — lost forever. That is why now it is hard to define what is erroneous and what is correct, where the truth and where the lies are, what the difference between business and crime is, what should be considered progress and what — regress. The society is revisiting the long-standing pillars of morality and culture, religion and science, physiology and psychology.

An unprecedented dissolution of manners has followed. Certain zealous and empowered persons and countries feel entitled to reshape the others' destinies in accordance with their own petty ideologies and ambitions. The society has answered by the spread of social unrest, protests and revolutions, which claim lives and destroy cultural and material values. The result is the change among men of power, and the rotation of proprietors and social classes. However, as rules remain unaltered, these happenings have no significant consequences.

At the same time, it is widely proclaimed that the liberal economic model is the only possible one and that its key ideas are immutable. We seem to have returned to the Ptolemaic times, when they believed the Earth was born by whales, and no other version would have been accepted. In similar mode, the liberal economic theory is the

very essence of the modern economics, while other systems are nothing but the fruits of ignorance. The numerous faults of this model are excused by the errors and the incompetence of the authorities, by the cupidity of certain individuals, and by the money grubbing of the proprietors and the government. Furthermore, there persists a naïve conviction that once these faults are eliminated, the existing economic system will provide for a decent living.

Such belief multiplies the ideas based on the liberal economic tools but used to change the situation and to get rid of some of its drawbacks. Nevertheless, in practice these tools are, as a rule, asymmetric and fail to bring any tangible advances on the existing issues. For example, if financing lacks, it is suggested that it be increased. If corruption ravages, new ways to fight it are found. These are just a few examples. In reality, **it is impossible to eliminate the faults of the liberal economy through liberal methods**, just as one cannot remove a spot with the substance that spotted the clothes. However, the theory of a different, non-liberal economics has not yet been worked out and, to tell the truth, it is not even visible yet.

The actual economics, as any other economics, is a rigid system held together by direct and reverse connections that make it integrated. All that conforms with the nature of the system flourishes within it, while everything hostile perishes. Indeed, every system has intrinsic qualities that cannot be eliminated as long as the model continues to apply. The fundamental concepts of the model will not survive any alteration, just as a cat will not grow to be a tiger whatever its food and living conditions are. **A systemic crisis can only be cured by systemic measures.**

In addition, **the faults of the modern economics constitute its very essence.** This means that we cannot get rid of corruption because it reflects a specific way of doing business. We cannot set up a comprehensive healthcare system as long as illnesses are a source of income for the pharmaceutical corporations and healthcare centres. And do not even consider having a child, as this is a risky investment.

These faults are inherent to this type of economics, wherever and whenever it is implemented. There may be certain deviations from the described system, but it is essentially the same. This economics cannot be different — a wolf cannot live on carrots, it has a different function. Nevertheless, all existing projects of mending the situation suggest precisely such type of measures.

In these conditions, the productiveness of the world economy steadily declines, despite the considerable scientific and technical progress. For instance, even though by 1998 North America, Western Europe and Japan were consuming up to 86% of the world's natural, financial, human, and intellectual resources, their economies make no headway. Inflation aside, the salaries in the developed countries have not changed much in the past ten years. So, according to the official statistics, by the end of the past decade, almost 80 million EU citizens and over 43 million US citizens were not provided any means of existence.

To sum up, the well-being of the “developed” countries is not attained thanks to specific qualities or organisation principles, to more efficient labour, superior culture or civilisation, but solely through large-scale redistribution of the world's wealth. The developed countries succeed at the cost of ecosystems destruction and shameless exploitation of the natural resources and of the entire Earth's population. For instance,

the US consumes twice as many goods as it manufactures. This is the reason behind the high productivity of the American economy, which feeds the myth of the indisputable superiority of the American economic model over the others. At the same time, it is evident that the American path of development is unacceptable for other countries, as the Earth will not stand another such “golden billion”.

What can be said of the developing or underdeveloped countries then? Obviously, the rest of the world population have to content themselves with the leftovers. The World Bank estimated that 2.6 billion people, that is, over 40% of the total population live beyond the poverty line. In accordance with the UN-Habitat Report for 2003, the number of people living in the slums across the world reached 1 billion and continued to grow. This was the only true reason of the soaring massive crime rate, unprecedented surge of violence, crime and terrorism. And, as the situation does not improve, **no methods within the liberal economic model are capable of turning this tide.**

Summing up all said above, we may conclude that **the liberal economic model has been exhausted**, has become decrepit and obsolete. **It is no more up to the challenges of the twenty-first century.** This economic model is inefficient both in the emerging countries and the most developed nations. This means that the reasons of such a pitiable state are **strategic** and not **tactical** ones. It is not about the mistakes, the covert intention, or the low competence of certain persons, it is about the very model of economic development.

In addition, the situation is aggravated by the impressive progress of the modern science in the area of physics, chemistry, biology, informatics, and technology. If these innovations end up in the wrong hands, will be appropriated by any immoral person, the entire planet, and the humanity, may be destroyed. Under the present economic conditions, this is not only possible, but, in the end, imminent. Suffice it to remember George Soros, who inflicted terrible losses on many states and became the object of public outrage. Therefore, in order to save the life on our planet, a new organisation is needed, a new economic model, a new vision that will block the access to power and management to immoral individuals. Otherwise, the humanity will be doomed.

This is an essential point to be taken into account, for the current economic model, with its objectives and priorities conditions the way states and peoples live.

The economy of a state can be portrayed as a beautiful lake where a huge exhaust pipe dumps all kinds of waste and rubbish. The law enforcement, legislative, and administrative bodies are forced to fish the waste out to prevent the lake from becoming boggy. Obviously, this is a continuous process; it is inefficient, and little promising, too. Would not it just be easier to tap the pipe?

Let us consider **the theoretical prerequisites** for economics free from the above-mentioned faults. Without any doubt, economics should function for the benefit of all people and satisfy their needs in equal measures. Besides, it should act as the progress consolidation factor that would educate and harmonize human beings, thus contributing to renewal of natural resources used rather than solely to their consumption.

In this light, liberal economics will be inevitably replaced by a different economic system where such faults will not be imaginable. All economic activity will be

aimed at improving the overall quality of life, and income will be reduced to an accessory instrument for achieving this goal. We are in for economics that would combine the interests of all people and economic actors. Moreover, it will be considerably simpler and more efficient than the current economics. This new economics will see not only the market, but the intelligent administrative tools work within it.

It is the **harmonious economics aimed at providing everybody with means of existence**, cured of the ills of the current economic system, that this book looks into. Such economics is designed to follow the natural flow of things, not to contradict it. It is universal, that is to say, it can be implemented not only in developed countries but across the entire world. Besides, the system proposed here may be used for analysing the state and determining the possibilities both of the current economics and of other existing types.

Harmonious economics is rational. It is inspired by the thoughts of many eminent philosophers and economists. However, they are all united by one logic and purpose. This new economics will not allow young energetic people to be unemployed, that is, out of demand in the economy, just for somebody's benefit. It will further impede the proprietors, officials and imposed dogmas to condition the well-being of entire social classes.

This book proposes a harmonious economic system, and describes an alternative world order. It is based on an understanding of the globality of problems that economy is called to resolve, and not on the momentary success. Economics is recognized as a fundamental science, an essential part of the global knowledge. It is not limited to a narrow-applied study, but is the foundation of the human culture. Thus, economics should comply with the fundamental laws of nature both in theory and in practice.

Harmonious economics is alien to complexity, fantasy or utopia. The theory it obeys is significantly simpler and more reliable than the current one. The reason is that the modern economics is not complicated by its nature, but by the various contrivances aimed at increasing the profitability of money, power and property, something the new economics is liberated from.

Such economics will not provoke rejection of any group of citizens whose labour is useful, whatever type it is. The implementation of the harmonious economics will not entail social upheaval, property redistribution, changes in the established organisational structures, repressions, etc. Besides, the existing advance in applied economics will remain functional, but in different macro-conditions will become less complicated and more efficient.

Moreover, **the laws formulated for harmonisation of the production relations are already active in the current economy**. Whether they are known or not, applied consciously or not. Just as Newton's laws worked even before they were discovered. Indeed, the more the current laws comply with the principles of harmony, the more efficient the economy is.

In addition, it should be taken into account that the harmonious economics theory is not a fruit of inspiration, a clever idea, or a political commission. On the contrary, it results from the systematization of knowledge, and this new system is logically precise, historically justified, and conformant to natural laws. This system could be compared to physics. It is such knowledge that is presented in this book. Certain principles

of the harmonious economic theory are related in this book. Some have already been described by the author in a booklet<sup>[9]</sup> and a book<sup>[10]</sup>. A more detailed account of the basic economics is presented in the monographs<sup>[11]–[14]</sup>.

In writing this book, its author was largely assisted and supported by many enthusiastic Russian people who love their country. Among them were Professor A. N. Malafeev, PhD in Economy, Professor B. M. Bolotin, PhD in Economy, Director of the Economic and Mathematical Institute of the Russian Academy of Sciences, General A. V. Ponidelko, Professor V. I. Kornyakov, Yu. N. Zabolotsky, E. V. Gilbo, L. P. Akaeva and many others who assisted the author in this work and helped this book become a reality. And last, but not least, my wife and my son, without whom this book would not have been born. I would like to express my heartfelt gratitude to all those mentioned here.

I. General theory of harmonious economy.

*No experiment has any meaning at all  
unless it is interpreted by the theory \**

Max Born

## CHAPTER 1. ECONOMICS AS A SCIENCE

### §1.1. CULTURE AND ECONOMICS

*Governance is inefficient unless it takes into account the traditions of the people, its culture, specific perception of the non-economic values, unless governance is “submerged” in culture.*

The Book of Lord Shang, an ancient Chinese treatise

#### 1.1.1. Place of economics in the world knowledge system

*Wisdom is a flower for the bee to make honey of, while the spider is a poison; thus, every one follows his nature.*

Unknown author.

To define the nature of a phenomenon and determine its role in the global world order, one should start with comprehending the entire space where this phenomenon exists. That is why the highest level of abstraction is required to overview the economic system. So, let us start with studying the world on the macro scale.

It has been demonstrated that only three basic, global sciences exist in Nature, and they are the foundation of the entire bulk of knowledge in the world. One of them is **the study of the quantitative laws of the world**. The name of this science is **philosophy**, and it embraces ontology and gnosiology, logic and culture, art and cosmology, medicine, occultism and theology, history, ethic, and aesthetic. These and numerous other disciplines study the origins of people and their environment, the expressions of the World unity in particular elements, the rules of the World, the respective roles of God and Man, their purpose and place in the Universe.

The foundation of modern philosophy was laid by the ancient knowledge once condensed in the sacred teachings of rishis' Vedas, Orphism, alchemy, Cathars' beliefs, and other philosophic movements. This knowledge was the essence of the Brahmanical, Eleusinian, Bacchic, Orphic, Pagan, Biblical, Christian, Muslim, Buddhist, and other mysteries aimed at liberating the human nature of the burden of earthly ignorance. These philosophic doctrines became the bearers of the philosophic light based on intellectual, moral and ethical principles that ennobled the soul and gave a sense to the human existence.

Through dramatized shows and ritual games these mysteries educated the broad public in one way or the other, encouraged them from earthly interests to loftiness of the spirit. Thus, these activities laid the foundations of traditions, culture, arts, morality, and enlightenment. However, they completed this noble mission in a more delicate and efficient way than it is done today.

The ancient mysteries were at the source of all peoples of the world; they magnified the human spiritual essence and eliminated its mean, earthly nature while admitting their interdependence and similarity. Indeed, as Francis Bacon said, “*A little philosophy inclineth man’s mind to atheism, but depth in philosophy bringeth men’s minds about to religion*” \*

This is why philosophy shapes the deep human thinking, balances the sense and the sensibility, and prevents people from following unreasonable life principles. Philosophy studies the macro-world and micro-world structures, the general laws of Nature, society and individuals. Besides, it determines the similarity and the difference between the objective and the subjective, the being and the consciousness, the matter and the spirit.

Through philosophy we discover the expression of the particular in the general and vice versa, the difference between harmony and pathology, the Good and the Evil. Thus, we are able to distinguish power and justice, beauty and ugliness, form and contents, male and female, materialism and spirituality. To sum up, philosophy is present in every aspect of human existence. It is not by chance that up to recently physics was referred to as “*natural philosophy*”. Philosophy is universal notwithstanding the time and area of its application and is the expression of the spiritual component of the Universe.

The second basic science is **mathematics**, that is, **the theory of quantitative patterns and spatial forms of the World**. Mathematics lets us penetrates the mystery of the Universal order, understand the multiplicity, the grandeur, and the proportions of the bodies and objects. It is mathematics that studies the passage of quantity into quality, the correlation between the infinitesimal and the infinitely large, the particular and the general. This science establishes the possible and impossible types of quantitative correlations and spatial forms, and imposes natural limits within which philosophy functions. Mathematics tells us about the angles harmony and rhythm, and about the rules of universal organisation and order. It studies the numerical proportions of various bodies to demonstrate the difference between them, as well as the number of factors determining this difference. Mathematics serves as the foundation of the material component of the World. At the same time, the abstraction of mathematic methods renders them universal.

Back in the antiquity, philosophers noticed the common sources of philosophy and mathematics and understood the peculiarities of the quantitative and qualitative transformations of the matter and the spirit between their respective forms. The knowledge of mathematics, geometry and metrology was applied to symbols and shapes that were considered nothing but the images modifying various natural and spiritual phenomena: “*The world was summoned from the Chaos by the Sound and the*

*Harmony and built in accordance with the musical proportions*’ (from the Pythagoreans’ theory). That is why door to the Platonic Academy read: “*Let no one ignorant of geometry enter*”.

The influence of antique knowledge on all aspects of the modern human life cannot be underestimated. Undoubtedly, this knowledge has been the foundation of the human culture, it has shaped the profound ethic, moral and aesthetic canons of the human behaviour, and it is, either consciously or unconsciously, referred to by people in search of explanation for all kinds of phenomena.

Finally, the title of the third basic science can be duly attributed to **the economics, the study of the peculiarities of the human existence following the specific quantitative and qualitative laws of the World**. In the end, it is economics that establishes the type and the principles of cooperation of people with each other, the God and the Universe. Besides, economics determines the evolvement of human communities and organisations, as well as shapes human behaviour and psychology.

In this light, economics as a science has, in essence, the objective of assuring the man’s harmonious integration into the Natural structure, into the Universe. This is quite logical, as the human being is not an isolated creature that lives without any aim or principle, entirely for its own pleasure or benefit. On the contrary, **we are integrated with the World, the Nature, the Cosmos as a phenomenon executing its specific functions**. We are not just individuals, but minds that have achieved the required balance between the matter and the spirit. It is through these minds that the Unconscious develops the Universe hoping to “*achieve clear self-consciousness*” (Genselo).

It is thus obvious that if the human behaviour fails to become part of the surrounding reality, then the humans will end up aliens in this World. If within the Universal Harmony Space, the humans remain egoistic, disharmonious, parasitic, alienated in their very essence, the World will estrange them. Without any doubt, neither benefit by all means, nor accumulation of currency, nor the adoration of fetishes, ideals or idols may be accepted as the purpose of human existence. Neither Nature, nor God need such a man.

Regarding this, economics, just as the Universe in general, has strict rules and restrictions. Though many of them have not been discovered yet this does not mean that they do not function. The economy must work in full accordance with the supreme laws of philosophy and mathematics and fulfil its functions. It acts as an essential component of the Basic World Knowledge and assists in the harmonisation of life. Indeed, as ancient Hindus believed that “*lack of understanding of harmony makes life ugly*”, and they were not alone.

Overview of economics from the global structure perspective allows defining more fully its role and place within the whole system of the World; identify its basic purpose and use it as guidance for assessing the efficiency and usefulness of any economic activities.

Needless to say, current economic theory is far from the above-described image. This alienates it from the entire Natural structure and entails numerous deviations from the reality.

On the other hand, every solid theory should have a firm foundation. As long as the aim of economy is profit, it will be based on human avidity that all peoples equally

share. That is why modern economy has turned out **functionally universal**. However, if economy is supposed to work for the people's wellbeing, then it is impossible to ignore their opportunities and capabilities, tastes and preferences, beliefs and morals. This, in turn, renders **economy subjective, makes it dependent on people, their cultural demands, civilisation principles, and motivations**.

In reality, the need for the unity of traditions, spiritual and economic life of every peoples is undoubted, as it is the condition for the increased material efficiency coupled with a developed and enhanced spiritual component. Indeed, no country in the world can afford satisfying its economic demands without recurring to all of its natural, human and organisational assets. Moreover, no country can afford ignoring its own weaknesses. For this reason, a universal efficient economic model is not feasible, just as a medicine to cure all known diseases.

Foreign experience is useful, provided that it is applied cautiously. In fact, efficient economy can only be **national**, as it should reflect the state of the country, the mentality of its people, as well as their historic traditions and legacy. Besides, it goes without saying that such economy should be integrated in the world economic system, without, for that matter, losing its identity or harming its people. It is comparable to a person who lives in a society while preserving their individuality. "*Political economy should take the national idea as the starting point and teach how this particular nation... can preserve and improve its economic situation*" (S. Yu. Vitte, President of the Russian Council of Ministers in 1905—1906).

This rule is observed in the modern world, too. For instance, American capitalism is based on the key priorities of the American nations: engagement, individualism, worship of personal initiative, and uncompromising struggle for money and power. It is well known that the US has gathered all the planet's individualists in one place. These people have voluntarily broken with their origins, becoming outcasts without any link to the land that bore them. They have demonstrated what a person free of national and class prejudices, free of traditions, centuries-old culture and affections is capable of.

Such people have built a powerful state and a unique civilisation. Moreover, as true pragmatists, they enabled an unprecedented flourishing of material culture. They have reduced social relations to an absurdity; this "capitalist" type of relations has become the very symbol of such economy. All the thoughts of such people have been subordinated to money, rationalism, and consumption. Thus, they managed to formalize and, successively, to impoverish the human aspirations and relationships, and to substitute the priorities.

The Japanese are distinguished among other peoples by their strict obedience to discipline, hard work, industriousness, responsibility, conscientiousness, honesty, patriotism, and attachment to their company. Japanese statehood is built upon the culture of the family, corporate and social relations and hierarchies inherent to the Japanese people. It is based on an innate understanding of the benefits of reasonable administration, of the Oriental philosophy, of the century-old traditions, of the unique writing system, phonetics and linguistic system of the Japanese language, and, by consequence, of the thinking associated with it.

German capitalism is supported by honesty, exactness, discipline, labour culture of the Germans; by thorough planning and regulation of all elements organisational elements. Chinese economy employs ancient culture, diligence and conscientiousness of its people, etc. This is why, while many economic models share similar names, in essence they are strikingly different one from the other. And this precisely lets them complete with each other successfully. It is evident that if German economy were guided by American interests, and Japan or the US followed German traditions, none of them would have any positive results.

Similarly, Russian people equally have typical, distinguishing organisational and national features. There exist Russian attitudes to life, labour, and corporate relationship that do reflect the national character and traditions. These attitudes rely on the specific traits of the Russian people that are at the source of the Russian culture, history and moral principles. The Russians can, like no other nation, work in small groups, forming harmonious collaborations, where each member can fully realize their capabilities, allowing a maximum efficiency of the collective effort.

In the light of the foregoing, in the following sections we will study the civilisational differences of various cultures to determine their common and divergent points. Only after such analysis will it be possible to work out the preferable economic principles for people living across the globe to fully reflect their expectations and cultures, while conforming to the laws of the Universe.

### **1.1.2. Differences between Western and Eastern cultures and their influence on the economic structure**

*Oh, East is East, and West is West, and never the twain shall meet.* \*

R. Kipling

Let us proceed with the study of the profound differences that exist between civilisations. The theory of hierarchy of civilisations that presupposes the supremacy of some civilisations and the backwardness of the others is by far disputable. In reality, as Honoré de Balzac wrote, “*Things that we admire in Europe are punishable in Asia, and a vice in Paris becomes a necessity when you have passed the Azores. There are no such things as hard-and-fast rules; there are only conventions adapted to the climate*” \*.

At the same time, significant differences in the lifestyle of peoples cannot fail to influence their economic organisation. Indeed, the overall purpose of economy is to provide people with the means of existence. This objective serves as an incentive as well as a source of well-being for nations. No nation or people could survive if they did not employ their entire life potential, including natural, intellectual, and cultural potential. Otherwise they would not be able to make the best of their advantages and curb their weaknesses, would not aspire for economic structure that conforms most with their mentality. And, consequently, people would fail to preserve their specific mentality. It is well known that a good gambler does not always win at chess. In this light, as Joseph E. Stiglitz believed “*Each country should have its own economic policy*

*based on the specific characteristics of this country; there can be no common, universal policy for all reforming countries'*  [16].

In order to prove this affirmation, we shall consider the fundamental differences of such distinct cultures as eastern and western cultures. Their most conspicuous representatives are the European and the Indian cultures, respectively. This does not mean that other civilisations, such as Chinese, Japanese, Jewish, Slavic, or else Arab civilisations are of less importance. However, it is the cultures of India and Europe that provide an example of a most striking contrast. What are their fundamental differences?

European culture is relatively young. It was shaped by the rationality of Rome reinforced by the Greek Romanticism. Indeed, “... *take Rome out — and the entire European edifice will collapse*” (Valentin Ivanov). If we analyse the map of the Roman oikumene at the beginning of the first millennium AD, including the territories of the Germanic tribes that the Roman Empire fought against, it is evident that the oikumene reunites precisely the states that make part of the modern Western Europe. All the tribes inhabiting this territory were inevitably and profoundly influenced by the sophisticated culture, language, order, and the very image of the rigorous Roman mind. The successors of the Empire naturally inherited its organisation, its harmony, rationality, democracy and inherent homogeneity.

But at the same time, they inherited the egotism, cynicism, cruelty, arrogance and pragmatism of Rome of those days, which in the end brought the Empire to ruin. For it was in the depths of Rome that the pagan cults of violence, hedonism, thirst for luxury, and permissiveness flourished. It was there that double standards, the modern plague of the western society, appeared. Within that system, everything that benefited Rome was considered good, while evil was all that ran counter to its interests. Then, the notions of truth, conscience and justice were employed as needed, often, as an excuse.

The Indian civilisation is more ancient. It is based on occult learning, manuscripts and cultural monuments that the legend attributes to the ancient Aryan civilisation. That is why all notions of this culture have already been tested by the time, and they tend to be more profound and precise. For this reason, as Carl Gustav Jung [17], a recognized expert in the western and eastern cultures, said, not only the lifestyles, but also the types of mentality of the western and the eastern societies are remarkably different.

Indeed, in the West, thinking, intelligence and logic are deemed the best tools for discovering the truth. As the result, the western mentality has become rigid, it does not tolerate deviations and unjustified assumptions. Besides, the area of rational use of mind has been significantly restricted in the West. While people there trust exact observations and logic, they also shun the unconscious and its dubious fantasies. The East has different demands. While the European mind can only process what is visible and tangible, the eastern mind strives to discover the nature and the essence of things. Consequently, a European sees the World around as a system of hierarchies, and an Indian — as a whole. Knowing the way to control the supreme power inside a person is the highest good for an Indian; a European only values what his eye sees.

To illustrate this idea, it can be mentioned that the *a maiore ad minus*\* (Latin for “from the bigger to the smaller”) principle is seen in the East as the key tool for learning about the reality. All inferences are drawn from the general principles. In the West, the road towards the truth takes the opposite direction: from the simple to the more complex. Western thinkers believe that the process of learning about the world can only be consecutive, it advances as new data is collected and processed; eastern thinkers discover the world through studying and elaborating the way the general Laws of the Universe are manifested. That is why it is these laws that the western philosophers usually study.

The above explains why a western person takes a detached view of the World, striving to distance themselves from it, to acquire an absolute personal freedom, and an Indian, on the contrary, tries to merge with the World. Therefore, a western person draws conclusions regarding their inner world based on external sensations, while an Indian person is guided by their internal meditations.

Consequently, western mind has a wide knowledge of the Nature, and knows very little about its essence. Europeans always try to make use of things instead of understanding them. They see the reality as something that works, that is connected with the world of phenomena, while for an Indian only the soul, the spirit is real.

Science, with its tendency for systematisation, for logic and consistency, is undoubtedly an invention of the western world. Science conforms with its capacity for logical thinking and reality management. However, about 80% of the scientific knowledge considered evident is proved wrong every 100 years. Although the physical world view as presented by modern science is logically rigorous and justified, it allows no space for life. So, this theory will suffer no changes if the humans disappear from the Universe. Now what is the real value of science if the only being it was created for is excluded from its structure?

The East, on the contrary, glorifies the rational dominant of feeling, elevates the spiritual component of the World, and perceives the truth through intuition, feelings and emotions. That is why eastern knowledge is indifferent to time running, and what was valued a thousand years ago is still valued today. To give just one example, “*The supreme good of the human-beast is health; the supreme good of a spiritual human being is truth*”\* (from *The Gems of the East*<sup>[15]</sup>). Is there anything to oppose this statement? Indeed, what is eternal is immune to change, and what is constant is eternal.

All this eventually shaped the different views of the people who live at the opposite points of the planet, both their views of themselves, and of the World around them. One of the cultures under consideration underestimates the world of consciousness, the other rejects that of the Uniform Spirit. The West celebrates ‘objectiveness’ sacrificing to it the beauty and the integrity of life. The East substitutes objectiveness with wisdom, peace of estrangement and psychic immobility that help human beings return to the source and leave all troubles and joys outside. “*Subjectivity is really an advanced or preparatory stage for objectivity*” (Satprem<sup>[18]</sup>).

Having completed their historic development, the Europeans have gone so far from their origins that their minds have finally split into faith and knowledge. This is

not surprising, as any psychological exaggeration leads to a split into the inherent opposites. Thus, a European person, equipped with the bad habit of believing and, at the same time, with a developed scientific and philosophic criticism, is inevitably trapped either in blind adoration or in an equally uncompromising rejection of foreign opinions and lifestyles.

The East believes that “*Everything requires for its existence its own opposite, or else it fades into nothingness*” (Carl Gustav Jung, [17]). The World is stable as long as its composing factors are balanced. It understands that “*Where there is faith, there is doubt; where there is doubt, there is thirst for faith; where there is morality, there is temptation*” (Laozi). That is why “*The West can galvanize and separate, but it can neither stabilize nor unite*” (A. J. Toynbee).

An Indian takes care both of the body and the mind, and a European keeps forgetting to attend to either the one or to the other. Where there is a will, there is a way, claims the West, and a European person takes this as a life motto. Thanks to persistent energy and forgetfulness, the Europeans have conquered the entire planet. And, at the same time, they have lost their planet. “*That is the sickness of western man, and he will not rest until he has infected the whole world with his own greedy restlessness*” (C. G. Jung [17]). This is why the western man has become a symbol of the material component of the World, this is why he has made impressive material achievements. However, he has failed in the spiritual ones, as an increase in one place will always be balanced by a decrease in another, according to the law of conservation of energy.

In fact, neither of these two highly contrasted viewpoints is universal. As the great medieval scientist, theologian and poet Jalāl ad-Dīn Muhammad Rūmī [19] said, there are two tools for discovering the world: logic and sense. And these two are inseparable and irreplaceable, just as the two sides of the coin. Rumi believed that the more one tries to push apart two opposites, the more power they have.

Obviously, a person’s mood and their understanding of the good and the evil, the moral and the immoral is profoundly influenced by the religious dogmas that the person lives by. It is evident that people with different psychic and incomparable values cannot pray to the same god. And for a Christian, notwithstanding his confession, the structure of the religion, i.e. the difference of its rituals from other religions, is more important than their sense. A Christian transposes these rituals onto himself and, as the result, feels the competition between the religions, but cannot imagine their union.

For an Indian, on the contrary, the apparent differences of the religions are of little consequence, as he instinctively tries to discard the superficial to glorify the common features of all religions. An Indian would rather give up dogmas than circumscribe the essence of God, making God universal through limitation. “*One, He presides over all wombs and natures; Himself the womb of all*”  establishes Shvetashvatara Upanishad (V.5). According to the eastern philosophy, God and man are linked by indissoluble ties: “*In whatever way people surrender unto me, I reciprocate with them accordingly. Everyone follows my path*” , reads Bhagavad Gita (IV,11 [15]).

Western religious practice is based on prayer, on the worship and the adoration of God. A person from the East mostly communicates with the Deity by being immersed in unconsciousness that they believe to be the supreme conscience. A European

echoes Saint Paul, “*I am crucified with Christ: nevertheless I live; yet not I, but Christ liveth in me*” (Gal.2:20). And the Indian surah promises “*And you shall know that you are Buddha*” (Taittiriya Upanishad X). This is the reason why the spiritual approach of the East stupefies western man, and vice versa. A good Christian cannot save himself, just as a Buddha cannot worship a God other than himself. And even though the western civilisation is not as blessed as it seems, it is also incapable of accepting the spiritual approach of the East. And similarly, the East cannot cast away its culture to adopt another one, raised from foreign ground.

The Hindu people believe that the Deity inhabits all things and, above all, any human being. In western religions, on the contrary, only humans are endowed with a soul, as well as some other living beings. In eastern cultures, human soul is identical to the souls of other natures of the Universe, to those of all things existing. This soul is described as follows: “*He is the child of the waters, the child of the forests, the child of things stable and the child of things that move. Even in the stone he is there*”  (Rigveda, I.70.20). In the West, however, nature is inanimate, and the man is a consumer, capable of governing Nature and all of its components.

A Christian attains the supreme knowledge through losing his own self, while an Indian preserves the immutable foundation of his nature through rigorous respect of its unity with the deity or the universal nature: “*The heavens beyond are great and wonderful, but greater yet and more wonderful are the heavens within you*” (Sri Aurobindo<sup>[18]</sup>). On the contrary, a European is more convinced by the visible reality with its materiality and weight. That is why a western man seeks rising above the World, while an Indian turns to the original sources of Nature.

As the result, the western Christian culture sees man free but at the same time fully subordinated to the will of God. Or, at least, to the church — the only institute of salvation on earth authorized by God. Thus, a European wants to mollify this “authority” with his fear, his vows, his prayers, with obedience, self-humiliation, good deeds, and glorification. And, from time to time, with indulgences. A western person is tortured by the belief in absolute gods that share human passions and weaknesses, but in fact are nothing else than a veil of illusions woven by the imperfect human mind.

Deep down the western man feels his insignificance before God and therefore does not dare protect his “I” against Him. On the contrary, in the East the man is the creator of his fate and the author of his self-perfection, as well as an integral part of God.

Suffice it to tweak this formula and substitute God with a different entity, for instance, with power, money or passion, to render a portrait of a European complete: a diligent, timorous, humble, and enterprising person who avidly clutches to the certain goods of the world he lives in, such as property, health, knowledge, money and material values. These are the founding elements of the liberal economic model forged by the Europeans. The western man is convinced that wealth comes from the outer world, that is why he avidly tries to fill his empty soul with it. He wants to seize the earthly comforts from other people to assure his own well-being at any price. “*The western civili-*

*sation prefers having to being*’ (A. Macchirgiani). And this should not come as a surprise, as “*who holdeth not God as such an inner possession, but with every means must fetch Him from without*” (Meister Eckhart’s *Schriften und Predigten*) .

While eastern philosophy and its perception of the world are directed inside the human being, western philosophy looks on the outside. It understands **the dialectics of the opposites** but cannot conceive their **harmonious coexistence**. That is why such philosophy is bound to run to extremes: it accepts fight and competition but is alien to cooperation of people, things or notions. As the two civilisations we have been dealing with so far understand the main questions of the world in strikingly different ways, the life within each of them is easily disconnected from the whole reality to become artificial and inhuman.

It is all logical then that the economic lifestyle and the production and distribution methods could not remain untouched by the profound differences between western and eastern civilisations. Thus, the eastern path consists in the subordination of the man by the state or by his own inner self. As opposed to the East, the West seeks to break the dead unity and give freedom to the individual forms of life. At the same time, it gets beyond harmony to encourage global egotism. This is why capitalism, based on the individualism cult, is alien to eastern mentality and ends up distorting it. The West does not admit other economic system than one driven by self-interest, the most shameful among the human qualities, and not by the desire to provide people with the means of existence, that is why unmercenary economics would not work as well in the West as in the East.

Selfish economics conforms more to western mentality, and, consequently, it is more beneficial for it, assuring prosperity of the West. However, people of other cultures feel uncomfortable within such economic system, and that is why they often lose to the West. Western economy is detrimental for the life of other cultures, and it does not correspond to their understanding of Truth and Justice.

The East admits that the common prosperity stands above personal well-being: “*The manifestation of unity vanquishes even armies... The entire world is divided along a boundary line between individual and general welfare. If we act within the sphere of the general welfare with sincere intentions, then in support of us stands the entire reservoir of cosmic accumulations*” (Agni Yoga — The Living Ethics).  The East is capable to “*learn above all to separate Head-learning from Soul-Wisdom, the ‘Eye’ from the ‘Heart’ doctrine*” (Helena Blavatsky<sup>[15]</sup>).  The West, meanwhile, keeps worshipping logic, intelligence and rationality, and often ignores the heart with its uncertain, illogical and erratic ways.

In the East, people understand that even though the accumulation of all the necessary things is indeed a source of well-being, no material goods would satisfy the inner world. That is why it is no surprise for the East that in the quest for pleasures humans are pestered by a growing hunger. And the greater the pleasures, the stronger the hunger. The man himself becomes the object of someone else’s craving, as well as a source of trouble and other unknown calamities. The multidimensionality and the duality of the world are to blame here.

The lack of spiritual orientation in the West borders on mental anarchy. By consequence, any religious or philosophic dogma contributes to setting up some kind of order, and becomes a source of new knowledge and of psychic duality. As dogmas can be assimilated with spiritual hygiene they contribute to the variety of knowledge. On the contrary, the East proves sufficient, peaceful, and composed. The West generates hundreds of world visions, none of which is complete or fully feasible. And there is no surprise in this, as all of such theories aim at resolving some local issues, instead of uncovering their nature and relation with other phenomena. The main tool such theories use is the analysis of circumstances and not their synthesis.

As the result, the multitude of doctrines produced in the West do not only fail to enrich the human beings, but even deprive people of the feeling of unity of the Universe, of self-confidence, and of the chance to get to know the World they live in. In the end, people are obliged to obey the element, instead of controlling it with the help of their reason. This is how competition and market are born, instead of a plan, of cooperation, harmony, and unity. At the same time, these developments cannot protect the man of the West from personal dissatisfaction. He ends up better protected from poor harvest and flood than from spiritual defects or psychic epidemics, as he is unfamiliar with any immutable principles. “*The world wars have shown what a European is capable of when his intellect, having grown alienated from Nature, runs free*”\* (C. G. Jung [17]).

The East is different because it has always seen the mental reality as the main and the only condition of human existence. The East realizes that human soul is rich enough to avoid borrowing from the outside world. This vision of the world lets an Indian build a strong body, shaping the images of his mental state into specific real forms that replace the outer world to him. For this reason, despite not always understanding the reality, an Indian retains an inner order and harmony. As opposed to the multiple environment, an Indian can boast the integrity of his inner world.

As the two civilisations we have been dealing with so far understand the main questions of the world in strikingly different ways, the life within each of them is easily disconnected from the whole reality to become artificial and inhuman. This is exactly why “*The ancient intellectual cultures of Europe ended in disruptive doubt and sceptical impotence, the pieties of Asia in stagnation and decline*” (Sri Aurobindo [18]).

Thus, the differences between the civilisations that we have studied above turned out to be so profound that any convergence would lead to mutual destruction. The relation between the two cultures is that of the water and the fire. “*East and West... have two ways of looking at life which are opposite sides of one reality. Between the pragmatic truth on which the vital thought of modern Europe enamoured of the vigour of life, all the dance of God in Nature, puts so vehement and exclusive a stress and the eternal immutable Truth to which the Indian mind enamoured of calm and poise loves to turn with an equal passion for an exclusive finding, there is no such divorce and quarrel as is now declared by the partisan mind, the separating reason, the absorbing passion of an exclusive will of realisation*” (Sri Aurobindo [18]).

The West is too intellectual, too much concentrated on the outer world to see the true state of things, while India is too deeply immersed in itself, so it lacks the determination necessary for balancing the principles it lives by with what it sees and understands. And although without unilaterality the human spirit could not develop in its complexity, due to their maximalism both the western and the eastern civilisation lose half of their total and become functionally incomplete.

On the other hand, civilisations shape people and their opportunities, and determine the most appropriate economic system for them. This is why in order to survive in this complex environment modelled by the quantitative-qualitative patterns of the Universe the human beings try to adapt to this world, making it cosy and comfortable for themselves. Hence the inevitable conflict of the unilaterality of human philosophic perception and lifestyle. Besides, the spread of a foreign civilisation into an inappropriate ground unavoidably gives birth to mutants instead of healthy and well-balanced individuals.

In the light of the foregoing, both civilisations need an intermediary capable of reconciling them. Someone who would bring together the opposites and match their values in order to shape a new attitude to culture, economy, spirituality, and quality of life. They need an incentive to unite their multiplicity rather than separate it, to compose a symphony that would replace the cacophony. The Russian mentality has been the one to come closest to this ideal. This is why Russia is the only candidate for the role of the intermediary, as no other global civilisation possesses the qualities required for the mission.

### **1.1.3. 1.1.3. Russia and Europe, collision of civilisations**

Ages for you, for us the briefest space,  
We raised the shield up as your humble lieges  
To shelter you, the European race  
From the Mongolians' savage raid and sieges. \*

Alexander Blok, *The Scythians*

The meeting of the East and the West on the vast Russian territory sparked a tendency for mutual complement of the opposites reflected in their cultures. As the result, Russia emerged as a natural link between the western and the eastern civilisations, as it could become a successor for neither of them. “*Russia is a bridge between the godless man of the West and the inhuman God of the East*” (Vladimir Solovyov). “*It is in Russia that the West and the East collide and interact, not only as geographic entities but also as to two historic and cultural sources, as two flows of the world history — the western and the eastern*” (Nikolay Berdyaev). This encounter also brought about the unprecedented centuries-long confrontation between Europe and Russia. So, what are the main differences of these civilisations?

The western world came into existence on rather homogeneous territories — mostly rich and fertile, blessed with a favourable climate, connected to a number of

seas and rivers that encouraged transportation of people and goods, as well as information exchange. Thanks to constant populations migration and wars the lifestyles of the European peoples could not diverge much. Instead, they mixed with each other to form similar tastes and culture, ideologic and religious dogmas, behavioural principles, and material and spiritual values.

However Russian mentality has been forged in quite different conditions: large swathes of land, flat country, and harsh climate. The severe environment acted as natural selection on human characters. As a consequence, the vast territories of Eastern Europe saw the formation of a peculiar world that grew to prosperity through labour and sweat, and sometimes — through blood. This skill of surviving the hardships and being content with little when the surrounding nature offered a lot, was at the origin of the generous and open Russian soul.

The strength of the Slavs resided in their tribal system that assured the unity of people and encourage kind attitude to each other. It was this system that forged the moral and combat qualities of the warriors, giving them solidarity and mutual assistance in fighting. The Slavic combat tactic did not reside in the invention of the combat order formations, as it was in the Roman Empire and other similar states, but in the variety of enemy attacking strategies during assault and defence. Hence, as the Arab writer Al-Bakri said, if the Slavs, “*this powerful and fearsome people*”, were not split into many groups and tribes, no one could have stood against them.

Many Byzantine writers remarked the bellicosity of the Slavic tribes. The politicians of the Eastern Roman Empire feared Slavic political entities. That is why Maurice, a sixth century strategist and writer from Constantinople, recommended to take advantage of the feud to fight the Slavic tribes by setting them against each other in order to weaken them. It should be noted that this strategy is still in use today, and it marks the specific attitude of Europe towards Russia.

When defending their habitat, the Russian could not count upon the poorly accessible natural barriers, so they had chosen between perishing under the onslaught of the neighbouring savage hordes and learning to fight them back. It is evident that military methods alone would not suffice here. That is why from the very beginning the Russians tried to come on terms with their neighbours, to reconcile with them in order to increase the area of their own influence. It was essential for the Russian people to avoid imposing their way of life, as well as infringing on that of the other peoples; instead they would seek to pacify the intertribal relationship. Thus, they have synthesized a new entity impregnated with the best customs and labour skills of their neighbours. As the result, a unique community of various peoples emerged; a community that always welcomed new knowledge, new cultural trends and economic tools; a community based on the principles of equality and democracy. As Procopius of Caesarea, a sixth-century Greek scientist, informed, “...*the Sclaveni and the Antae, are not ruled by one man, but they have lived from of old under a democracy, and consequently everything which involves their welfare, whether for good or for ill, is referred to the people*”<sup>[20]</sup>.

All of the above contributed to the formation of an original and kind nation, bound, despite the large variety of the peoples that made it, by means of a common and synthetic culture. This culture is at the source of unprecedented adaptability, racial,

religious and human tolerance, as well as an inherent strive for unification that allowed to stretch the borders of the country to encompass one sixth of the planet. That is why “*Russia does not result from an accidental accumulation of territories and tribes, as it is not an artificially built ‘region’-based mechanism, but a living **organism** that has evolved historically and has been culturally justified and that cannot be split arbitrarily*” (Philosopher I. Iliyn).

The union thus created proved solid in the complicated history of the Russian state. The annals of the year 859 depict the Russians, allied with the Merya and the Kriviches tribes, driving away the Varangians, refusing to pay the tribute, and starting to “*govern themselves and build towns*”. The union of Russian tribes who in the tenth-eleventh centuries united to fight the foreigners included, beside the Novgorodians, the Aesti and eastern Finno-Ugric tribes: the Merya, the Izhorians, the Votes, etc. And all tribes enjoyed equal rights.

Consequently, Russia was not familiar with national swagger, prohibition of cultural marriages, or cultural shaming. All peoples were entitled to speak their language, to live in accordance with their culture, faith and traditions. Any person, whatever his ethnicity, could live in Russia and enjoy due respect notwithstanding his national or cultural origin. Besides, ethnic differences did not prevent people from taking high posts. For instance, Semen Emin, who was elected the tysyatsky (chiliarch in Ancient Rus) of the Veliky Novgorod in 1218, came from the Emi tribe. Russian tsar Ivan the Terrible did not conceal his relation with the direct descendants of Genghis Khan and even used it for political purposes. Among Tsar Boris Godunov’s ancestors was the Tatar mirza Cheta, known under the Christian name of Khazariya, who served the Moscow prince Ivan Kalita (Ivan I of Moscow), etc.

Thus, the attitude to people was determined in Russia not by their ethnicity, but by their personal qualities. For example, the author of The Tale of Igor’s Campaign describes with great respect the life and the character of the noble Polovtsians, sworn enemies of the Russians. The Russian chronicler who draw the *Story of the Tsardom of Kazan* admires the bravery of the Tatars who defended Kazan from the Russians and provides a lyrical description of the worries of Princess Suyembikä. This attitude also explains why in 1612 Russia was liberated from the Polish intervention not only by Russians, but also with the help of the Tatars (in particular, one of the leaders of the Russian militia, Kuzma Minin, was a Tatar by origin), the Bashkirs, the Mordvins, the Chuvashs, the Ukrainians, the Cossacks, etc. And Russian history has numerous other examples of such attitude. For this reason, “*Russian unity has allowed to preserve the idea that runs through the New Testament — that of the equality of peoples and men in general, an equality that opposes the ideology of supremacy and submission*” (V. I. Sigov, G. A. Karpova, S. I. Pintsov).

The mentality of the nation thus synthesized is at the source of unprecedented adaptability, racial, religious and human tolerance. Russia has become an example of shared existence of various nations, peoples, and states that allows to avoid any discord or strife between them. Russia has managed to serve as a model of organisation of the humanity for the period when people would have lived through the stage of savagery and constant struggle.

This has broadened Russian population's view of the life and the surrounding World, has proven materiality illusory, and spirituality — infinite. Moreover, thanks to such an attitude people have realized the unity of the Universe and the actual place of the human being within it. It has reinforced their confidence in their own powers, and has given way to an initiative and an aspiration for the infinite Will.

As a consequence, Russian people do not perceive themselves as individualists in isolation, rather as a part of a whole: a community, a society, a state, a people, and the entire humanity. This is why Russian philosophy and economics views the human being not as an independent entity, but as a limited part of the Universe that is responsible both for itself and for the evolvement of the global harmony of God, Nature, and Man. *"I am speaking of the ceaseless longing, which has always been inherent in the Russian People, for a great, general, universal union of fellowship in the name of Christ"* (Fyodor Dostoevsky<sup>[21]</sup>).

While a European tries to resolve his own problems, a Russian person aspires to find a solution to the world's global issues. Where the Europeans prefer concreteness, the Russians look for abstraction. That is why the two civilisations find it hard to understand each other. As opposed to a western man, who is mostly driven by everyday practical problems, a Russian person is tempted by perspective, horizon, and future. Indeed, *"all that is close, local, inert only exists preliminarily, only for a while, up to a certain moment, inter alia, while the only dream deep down in the heart is the dream of the Future"* (S. Bulgakov). Hence the most outstanding Russian philosophers (A. Khomyakov, I. Kireevsky, V. Solovyov, N. Berdyaev, S. Bulgakov, Princes Trubetskoy and others) were gullible idealists and charged Russia with the responsibility for the fate of the entire humanity.

It is the feeling of complicity with the Universe that helped the great Russian thinkers to contribute significantly to the world culture, to develop extreme capacity for observation, to enter other spheres of feeling and thinking and open them up to the public. M. M. Mussorgsky transformed the opera to be in accord with the melody of human speech. Leo Tolstoy studied the objective laws of human behaviour. Fyodor Dostoevsky analysed the link between human psychology and social phenomena. N. N. Miklouho-Maclay proposed the theory of common origin of human races; L. N. Gumilyov related ethnogenesis with the Earth's biosphere. K. E. Tsiolkovsky dared to look beyond the limits of the earthly world; Alexander Bogdanov formulated the general laws of interaction between Man and Nature. P. A. Florensky claimed that the perception of the cosmic symphony is based on the acceptance of the integrity of the World, on the animation and the mutual connection of its components. A. V. Khomyakov introduced the principle of sobornost as the foundation of the life organisation that describes a multitude bound by the power of love into a free and harmonious entity.

Helena Blavatsky discovered the origins of the world philosophies and religions and established their relation with the Global Laws of the Universe, synthesizing a profound vision of the World. Although her works have been interpreted quite differently, they are still popular not only in the West, but also in the East, which traditionally views western people as savages. Brahman Rai B. K. Lahiri, who *"has never bowed his head to anybody but the Supreme Being"* admitted that he, nevertheless, *"clasped his hands as an obedient child in front of this white yogini... In our eyes she is not a*

*Barbarian woman any more; she has crossed the threshold, and every Hindu man, even the purest of the pure Brahmans, would consider it an honour and a joy to call her his mother*'. Thus, "*the understanding of the pervasive relatedness and unity of the universe achieved through the 'live and integral vision of the mind' serves as an equilibrium principle in Russian philosophy*" (I. V. Kireevsky).

For this reason, Russian people seek the supreme outside of themselves and find joy in the shared well-being alone. Where the West tries to resolve the main issues through force, Russia proceeds with a compromise, with an attempt to reach agreement. According to a Russian proverb, "*There is no such thing as alien trouble*". In the West, on the contrary, they say "*It's your problem!*" (and translated into Russian this even sounds awkward). This is why "*Russian people live happily as long as they know that injustice perseveres in the world*" (Charles de Gaulle). The grand distances that the Russians have to cross have taught them to think big: "*vast spaces have imprinted on the Russian soul*" as Nikolay Berdyaev said. This is how socialism conquered Russia, which has always strived for justice more than for rationality or its own security.

While a man of the West defends his individuality and singularity, a Russian man defends his belonging to a bigger entity. Europeans are attached to law, to private property and to man-made justice; Russians are inspired by fairness, social prosperity and justice of Heaven. In the West, it is wealth that calls for respect, and in Russia it is public recognition. Russian people believe that *fair labour will not earn you a good house*, paraphrasing a well-known proverb, which proved right in most cases.

When borrowing from others, the Russian always try to make their own contributions. Thus, the Greek Orthodox religion that was adopted in the country at the end of the tenth century has been transformed to acquire a Russian character: it still preserves some pagan elements, proving in this way the continuity of religions, the respect towards national history and the past, while preserving eloquent national traits. Russian Orthodox Church has incorporated the inherent Russian aspiration for mutual completion, for respect of other opinions and faiths. And this should not come as a surprise, after all faith is not a garment, which can be changed easily and entirely.

The processes described above impregnated Russian vision of the good, justice and morality with the fundamental principles of the Orthodox religion. It excludes such ugly exaggerations as patriotic fetishism or disdain for other peoples and cultures. This form of Christianity does not accept the separation of God from his expression of the Truth, just as the Sun cannot be seen separately from its life-giving rays. A Russian proverb advises: "*defend the Truth, and God will be with you*". Within Russian culture people are led to believe that only the nationalism that does not defy other people and does not contradict the Orthodox Christianity canons is worthy of respect. This religion's mission consists in acting as a link between the ethnic civilisations and in encouraging mutual spiritual improvement and recreation of God's peace, that is, formation of a fraternal union of peoples instead of serving as a source of discord and money-grabbing.

In Russia, people have always understood the value of multiplicity and the limitations and lack of expressiveness of clichés. Let us remember the Saint Basil's Cathedral, with its violent colours, asymmetry of images, and unique design of the cupolas. This is indeed the symbol of Russia, powerful and original, incomparable with the

others. This uniqueness is something that enraptures most and exasperates most at the same time. Fyodor Tyutchev was right when he wrote: “*Russia is a thing of which | the intellect cannot conceive. | Hers is no common yardstick...*” \*

The Russians, however, always seek something proper and original. This distinguishes them from other peoples and often makes them seem stupid and pathetic. The irrationality and the romanticism of the Russians is hard, sometimes even impossible to understand. It is not rare for Russian people to fail to put their feelings and thoughts in words. Moreover, when a Russian person looks after pecuniary personal profit, something he is not skilful at, he always ends up outwitted and betrayed, for Russians are no experts in working for their own benefit.

That is why freedom is a tool for self-affirmation for Europeans, while Russian people see it as a lack of limits, as liberty, that is, liberation of the soul. Russians understand that excessive material prosperity deforms a human being as much as scarce means of existence. This is why the motivation of a Russian man has been limited by the criterion of “sufficiency”. Here “sufficiency” means an income sufficient to lead a decent life without subordinating and disfiguring the owner of this income.

Even though Russians unwillingly prove themselves worthy in the everyday life, they stand up to the challenge when an impossible feat is required from them. Russian people are not incline to squander their talents on trifles, they need something powerful that nobody else would cope with. Only then will they hit their stride. “*Russia cannot be saved through small actions*”, reminded Nikolay Berdyaev. Suffice it for a Russian person to cast off the mask he wears and make certain that he is right, then he acquires instantly the skill, the wisdom, the force and the beauty, as if by magic.

All these circumstances have influenced the Russian national character, remarked by many eminent personalities. “*Russian soul is infinite generosity*”, said Dalai Lama, the Tibetan spiritual leader. “*Russian people work diligently and gratuitously as long as there is a moral idea, righteous objective in the society*”, to quote Friedrich Hegel. Winston Churchill believed, “*The concept of good nature — living in accordance with one's conscience — is very Russian, indeed*” \*. And this has always been the attitude to Russian people. “*And asked Andrew John, his disciple: “Rabbi! To which peoples should we bring the good news of our Father in heaven?” And Joshua replied: “Go to the people in the east, and to the people in the west, and to the people in the south... But you need not go to the pagans from the north, as they know not sins and vices of the House of Israel’* (Apostle Andrew, Apocryphal Acts). However, “*when they entered [the fold of] Christianity, the faith blunted their swords, the door of their livelihood was closed to them, they returned to hardship and poverty, and their livelihood shrank*” \* (Marvazī). But at least the Byzantine Empire gave a sigh of relief.

The severe environment typical of the Eastern Europe made it difficult to survive on one's own, people needed support and mutual assistance. That is why they tended to live in communities, clans and tribes, and to join effort to resolve common problems. The informal relations between the members, based on the notions of truth and justice, has a higher value than formal relationships. This, in turn, influenced the family and economic relations and the entire everyday life.

In the West, the situation was quite different: the environment and the climate allowed people to live successfully on their own. The only thing required was legalizing the relationships between them. That is why the ideologic system of a rule-of-law state flourished there, imposing unconditional rule of rights and of law: “*Let the world perish, the law will triumph!*”, “*Law is strict but it is law*”, etc. In Russia, the notion of “law” is understood in a broader manner. There is definitely a need for order in the world, however “*Only the law that views itself as an obligation is efficient*” (M. N. Katkov, Russian government official of the twentieth century). Russia believed that “*custom is more binding than a law: a law can be made up; a custom is formulated by life itself*” (Val. Ivanov). It is not a seemingly egalitarian law invented by people that should form a basis for the life of the human beings, but God’s laws of truth, conscience and justice.

All the obscure in other peoples seems intriguing to Russians and ugly and nasty to Europeans. “*He who thinks or teaches ‘otherwise’ is sinful, a backslider, a foe, and he is fought down without mercy*” (O. Spengler) \*. For this reason, “*Great Britain has no constant enemies or friends but rather constant interests*” (W. Churchill). Western business ethic is unfamiliar with the notion of gratitude. “*One would search in vain higher moral impulses in European politics. It is solely driven by the thirst for profit... informed people claim that at present only eccentric men with old-fashioned views pay the debts of honour, while enlightened nations do not*” \* (P. N. Wrangel, the last Commander-in-Chief of the White armies in the south of Russia [22]).

Summarizing the above, Europe has chosen a different path of development. Its spiritual culture started its decline in the twelfth century, when “*a germ of the new, completely different principle emerged that consisted in... only attributing sense meaning to what one sees, hears, touches, feels and perceives through the senses*” \* (Pitirim Sorokin [23]). This has given rise to the infinite European pragmatism that has become the basis for Europe’s material prosperity, though not for spiritual prosperity. As opposed to Russia who glorifies justice, the West proclaimed “*Vae victus!*” \* (Woe to the vanquished). The pagan cult of power and financial prosperity has subordinated Europe and the rule of force prevailed the force of law. The mentality of wild freedom and of relentless fight for existence prevails the principles of Truth and Justice.

This explains why in Europe primary importance has always been assigned to personal well-being. The supreme valour of the western hero resides in being strong and inflicting suffering and grief on the others: “*The world belongs to those who are braver and stronger. We do not ask when we want to take somebody’s life or property. We do not rob, we take away. We have faith in nothing but in our arms force and our courage*” (from Scandinavian sagas). “*Is it the oar of galley moves among the shadows and ice floes, or the propeller froths the sea? The Waves and the Time echo each other: woe to the weakest one, woe!*” (R. Kipling). “*The great Gaels of Ireland are the men that God made mad, for all their wars are merry, and all their songs are sad*” (H. Chesterton) \*, etc.

Needless to say, Russia has never known any such beliefs, tales, poems, national epic, songs or legends. In the existing folklore battles are not described as a process of

physical elimination or enslaving of the enemy, but as a hard labour, a spiritual and moral fight against injustice, sacrilege and global evil.

The cruelty celebrated in the western literature and art is more than a lyrical exaggeration. It determines the motives and the behaviour of western people, it is conditioned by their lifestyle, and history and armed with their ideologic and religious dogmas. The image of the foe was as essential for western man, as bloody flesh is for a wild beast. The West cannot survive without a foe and the social adrenalin he generates. This is why the West keeps making foes, real and invented ones. To vanquish them and feed its prosperity with their ashes.

A good example of this attitude is the fate of the North American natives, all of them either exterminated or locked up in reservations. The “civilized” US authorities would pay generously for each scalped Indian, be this a warrior, a woman or a child. Besides, entire populations of unique animals, such as American buffalos, jaguars, white elks, dodos and others, were wiped out. And these excessive measures were not applied only once. Europeans have completed the “civilizing mission” of the West by destroying, with a sword and a cross, the ancient cultures of Yucatan, Mexico and Peru, by annihilating the Incas and the Aztecs. Similarly, they have enslaved millions of Africans, making them work for western people. Benin, one of the most powerful and developed African states that once existed on the territory of modern Nigeria, has successfully fought the enslavers back until the nineteenth century, when the English colonizers gave it over to fire and sword.

It is interesting to point out that in Siberia, which was being conquered by Russia around the same time, not a single ethnic group perished, even among the smallest ones, and all animal populations were preserved. Siberia never knew any reservations, deportations, slavery of the natives or their total extermination.

This has been true throughout the course of history. It was not by chance that British historian Stuart Laycock entitled one of his books *All the Countries We've Ever Invaded and the Few We Never Got Round To*. Out of 193 UN member-states, 171 have been attacked by Anglo-Saxons. This estimation does not cover the numerous hybrid and information wars that are waged all over the planet. In 2004, the Congressional Research Service made an attempt at assessing the total number of military conflicts that the US has ever participated in. The result was the astronomic figure of 261 acts of aggression or “*actions to defend democracy*” across the world. Furthermore, the majority of these attacks were launched against known weak adversaries, which makes it evident with whom the initiative lies.

Moreover, such interventions were not military only. As US President Dwight D. Eisenhower admitted, “*Hitherto applicable norms of conduct do not apply... We must... learn to subvert, sabotage, and destroy our enemy by more clever, more sophisticated and more effective methods than those used against us*”\*. As the result, entire nations are made fools of, the leaders who do not suit the US are removed, confrontations between different groups within the same people are set up, governments are overthrown, and civil wars unleashed. The rivers of blood are to satisfy the American thirst for global hegemony, and there is an endless number of examples to support this claim.

Besides shaping the state philosophy in Europe and the US, actively employed in practice, such psychology has assured its own continuity, and has almost become official. Its fruit is state policy driven by deception, cynicism and avarice. This system completely ignores the notions of Truth and Justice, or else uses them as required.

Though it is evident that the West still has many romantics who are truly grieved by the troubles of the others, however this sympathy should not be associated with the state politics.

Without any doubt, throughout its complex history Russia has not always been an amorphous and invariably just power. But then, is there any country in the world that could have escaped this fate and that would have always been right? For justice's sake, it might be pointed out that per each offensive of the Russian army there were eight defences. Russians fought back the Khazars, the Pechenegs, the Cumans, the Mongols, the Tatars, the Swedes, the Polish, the Lithuanians, the Hungarians, the Croatians, the Turks, the French, the English, the German... Often Russia did it at the cost of numerous victims, mostly among the local civilian population. Here lies the fundamental difference of the Russian and the western civilisations, the differences of their visions and understanding of the limit between what is allowed and what is forbidden.

As the result, the West developed an unprecedented aggression towards all other peoples, in particular, towards Russians, as people of different cultural values. Indeed, the European hatred for Russia has existed for a long time. It is even more deeply rooted than state competition or ideologic discord. For instance, the motto "*Drang nach Osten*" ("drive toward the East") was coined in the times when Russian tribes living along the Volkhov and Dnieper rivers were completely unfamiliar with statehood. It was first proposed by Charles the Great in the eighth century, then it was taken up by the first leaders of the Holy Roman Empire; later — adopted by the Anglo-Saxons.

This hatred was evoked by Mikhail Lomonosov, Alexander Pushkin and Ivan Turgenev. "*There is no other nation about whom as many lies, absurdities and calumnies have been made up, as there have been about Russians'* (Empress Catherine the Great, 1729—1796). "*We should not deceive ourselves. The hostility of Europe is too evident: it does not reside in the chance combinations of European politics, or in the ambition of any of the state leaders, but in the key European interests'* (N. Danilevsky, nineteenth century). "*And there is not a piece of slander that Europe would not circulate against us'* (Fyodor Dostoevsky) \*

In total, the centuries-long western policy towards Russia may be described in the following way: "*Europeans need an ugly Russia: barbarian, so that they could 'civilize' it according to their own taste; dangerously big, so that they could split it; aggressive, so that they could set up a coalition against it; reactionary and religiously decaying, so that they could break in with their propaganda of Reformation and Catholicism; and economically insolvent, so that they could claim its 'unused' territories, its raw materials, or, at least, its profitable trade agreements and concessions'*" (philosopher I. A. Iliyn). Though these words were written 90 years ago, they still ring a bell with the modern people.

Moreover, throughout its history, whenever Europe was in trouble, it was helped out by Russia, who **never saw its assistance returned**. On the contrary, Europe always

allied with the enemies of Russia, be it during Russia's struggle against the predatory eastern hordes, the Time of Troubles, the wars against Turkey, all other wars or even the present day international terrorism counteraction. “*No Russian service for the all-European causes (the Seven Years' War, fight against Napoleon, the rescue of Prussia in 1805—1815, the rescue of Austria in 1849, the rescue of France in 1875, the peaceful politics of Alexander III, The Hague Conferences, or the sacrifice in the war against Germany in 1914—1917) is valid in front of this fear; no noble and selfless actions of the Russian leaders were capable of stop this European ranting*” (I. A. Iliyin).

The West has always been hostile to Russia. Thus, as the February and the October revolutions of 1917, together with the liberals, the Bolshevism and the subsequent events, were not born in the Russian soil, they were welcomed by the “progressive” movements of the West. Besides, “*All [revolutionary] movements in Russia emerged under the influence of Western Europe and bore the imprint of the prevailing European beliefs*” (Prince P. A. Kropotkin).

Even during World War II, besides the official allies of the Nazi Germany (Finland, Romania, Slovakia, Croatia, Hungary, and Italy), the USSR had to face 18 thousand **volunteers** from the occupied Netherlands, 12 thousand Danish, Swedes and Norwegians, 6 thousand French, 4 thousand Walloons, and 4 thousand Spanish (data provided by the Major General of Wehrmacht von Buttler). The Hitlerites were well supplied with raw materials and arms from France, Slovakia, Poland, Sweden, the Netherlands, Denmark and even Switzerland, so the USSR was in fact fighting against entire Europe.

A real genocide of Russians, including their history, culture and language, was under way after the collapse of the USSR in the Baltic countries, in Ukraine and many CIS countries; it has been invariably and cynically welcomed by the advocates of “*human rights*” in the West. If it views the adversaries of black people as racists, those of the Jewish — as anti-Semites, and those of Russians — as human rights activists. These are links in one and the same chain, the result of one centuries-long policy. Useless to call for truth and justice, to try to evoke the nobility or even basic decency. For all of these are absent.

The fundamental incompatibility of the Russian and the western world is further proven by the observation that as soon as Russia became closer with the West, it faced decline, new troubles and cataclysms. Indeed, only friendship with the Anglo-Saxons can be more devastating than the war with them. “*To be an enemy of America can be dangerous, but to be a friend is fatal*”, warned Henry Kissinger. The West has actually taken advantage of Russia's credulity to proceed to information attacks against the country, to deceive, to rob and to humiliate. N. Berdyaev claimed that Marxism first appeared in Russia as an “*extreme form of westernism*”. It conforms better with the western struggle for existence than with the Russian struggle for the truth. This is why there is no surprise in the deplorable result of such assimilations, as the desire to impose foreign ideas in an unsuitable soil cannot result in success. Besides, the current “reforms”, ugly and deceptive as they are, were not conceived in Russia.

“*The West has been and will be God's punishment for us, which we still fail to realize. We are stuck in the western mud up to the ears, and we are good. We have eyes, but fail to see; we have ears, but fail to hear, and our heart is ignorant*” (Theophan

the Recluse of the Vysha Monastery). This thought is echoed by professor Yu. M. Osipov: “*The tragedy of Russia lies in its interaction with Europe*”. For this reason, only then Russian revival started when the country discarded western values and was nourished by its own roots. And this is precisely what we witness today.

Thus, the confrontation of Russia and the West is of fundamental nature. It is produced by the collision of different civilisations, and not only by simple disagreement with certain actions, ideology, leaders, or their policy. Due to its uncompromising stand, the West cannot reconcile itself neither with Russia’s difference, nor with its religion, its originality or wealth.

The processes described above have left us too different from one another. While a western person defends his individuality, a Russian affirms his belonging to a greater entity. Western people are attached to law, to private property and to man-made justice; Russians are inspired by fairness, social prosperity and justice of Heaven. Where they attempt to resolve problems by force, we act through compromise and agreement.

On the other hand, western society has also created a unique culture, has produced greatest philosophy, painting, music, architecture and poetry. Western pragmatism has improved economic systems, social structure and everyday life. It has generated modern science, education and art. Thus, it has significantly influenced all aspects of the daily life in Russia and the entire world. This attitude has also shaped the mind of the Russian westernists, who adore western culture and do the best to introduce western values on the Russian territory. Above all, the west has in many ways been regarded as a standard of “good” development.

The considerable differences between the European and the Russian civilisations, cultures, and values prevent the efficient implementation of the said achievements in Russia. Our country is thus relegated to the position of permanent lagging behind, of imitation and longing for applause. For instance, Russian people tend to believe that “*human being is superior to the property principle*” and that the idea of “*natural law*”, which serves as the basis of the Western European moral, is understood through the ideals of Virtue, Justice and Truth. Is it possible then for Capitalism to be as successful in Russia as it is in the West?

On the contrary, the model based on the activity of smaller groups, where “*one is for all, and all — for one*” has proved most productive in Russia. The main rules of such system are described in paragraph 2.3. This set-up employs the group initiative, inherent of Russian people, as well as original thinking and collective talent. “*These factors precisely have contributed, from the initial stages and throughout the history, to the formation of common, group structures for governance, of collective, often artel-type forms of labour organisation; they have laid the foundation of the further development of corporations*”\* (academician L. T. Abalkin [24]). Where Russians abandoned these principles, and tried to follow blindly the foreign rules of organisation, of human relations, and property, they inevitably failed. This entailed useless lamentations on the originality, incapacity, backwardness, stupidity, lack of culture and mystery of the Slavic soul. However, it would suffice to give up foreign authorities and let Russia live in accordance with its own principles.

For this reason, the ideology of unlimited private property has failed and will fail to get rooted in the Russian soil. The principle that preconizes that the more money a person has, the more rights this person enjoys, will never be understood by the Russian people. It is evident that the western principle of money-grabbing that is not conducive to the well-being of the society is regarded by Russians as deeply immoral.

At the same time, it should be admitted that Russian society has not been able to find its proper economic system that would conform as much as possible with its culture, faith, harmonious vision of the world, sobornost and reality of life. That is why during the entire past millennium Russia has been forced to use western-made surrogates. This brings a feeling of disharmony in the economic relations and fundamental national values. Science starts rushing frantically from one fashionable western doctrine to another. And the West, with a certain desire of profit, keeps supplying new doctrines. Sometimes it is done through information media, and sometimes — through collaborators, by means of disinformation and force. Besides, the West enjoys shamelessly the opportunities that such methods provide.

In the light of the foregoing, the sanctions imposed on Russia by the West are, in reality, beneficial for the country. They finally oblige it to look for its own ways of resolving the problems that have accumulated and of resorting to its advantages based the country's specific features. Russia is forced to propose an alternative society organisation, a new world order inspired by the national roots, experience and history not of Russians, but of all other peoples as well. The present book is dedicated to the description of one possible type of such organisation.

## §1.2. ECONOMIC OBJECTIVES AND TOOLS

### 1.1.4. 1.2.1. *What is economics?*

*...the reason for some gods to be overthrown, and for others — worshipped, has always been and still is not religion, but politics...*

V. I. Sergeev

Let us consider this phenomenon in greater detail. The term “**economics**” is derived from the Greek word oikonomike which means “*the art of managing a household*”. For the first time it was mentioned in the fifth century by Xenophon, who put it as a title for his work. In it he considered the rational rules for household and agricultural management with the view of increasing profitability. Later the scope of economy as a science was expanded to encompass the entire range of economic activities. It was also then when first discrepancies in interpretation emerged.

Plato, for instance, believed that the purpose of an ideal state was to “*banish meanness and covetousness from the souls of men*”<sup>[25]</sup>. Aristotle distinguished between the true economic activities aimed at producing goods for home and for the state, and other activities seeking to make profit (this second type was known as chrematics)<sup>[26]</sup>. In fact, he considered the latter type of economic activities perverted. In particular, the philosopher was indignant at the interest that let the usurer make profit without participating in the production of useful goods, but just by transforming money

into a source of new money. This, according to Aristotle, distorted its nature, for money is meant for exchange, and not for making non-productive profit.

One of the first economists, Jean-Baptiste Say claimed in 1803 that economics “*...teaches about the constitution, the distribution and the consumption of wealth*”. Some modern scientists believe that “*economics is a discipline that studies the way a society with limited, scarce resources decides upon what should be produced, how and for whom*” (S. Fisher, R. Dornbush, R. Shmelenzi). But there exist other definitions: “*There are four main ways to acquire wealth: violence, lawful transfer, gift and exchange. Among the four, only the last one is related to economics*” (Jacques Leon Rueff). The problem is that people try to use economics in all of the cited cases.

The most complete definition of economics seems to be given by A. Marshall who considers that “*Economics is a science about the regular human vital activity*”. Nevertheless, this definition does not specify what “*regular human vital activity*” is and how it can be achieved. So, let us try to elaborate on this idea.

Political economy as a science was thoroughly studied by Gottfried Wilhelm Leibniz (1672—1716). His theory was based on the vision of the world as a system of energy and material flows. That is why Leibniz’s understanding of economics was modelled on the principles realized in heat engines, as well as some other technological advances of the time. Thus, Leibniz believed that the level of efficiency of an economic process is determined by the amount of total human effort saved. Consequently, he introduced the idea of the “market basket”: while its contents remain unchanged, less effort is required of the society to produce it.

On this assumption, Leibniz formulated the main purpose of economics: increase the productive capacities of human labour through technical and organisational measures. The result of this approach was the theory of “natural law” elaborated by Leibniz; it later served for justification of universal moral. According to this theory, an individual person is responsible not only for himself but for the entire humanity — both his rights and obligations to the society were thus detailed. Besides, Leibniz studies the basics of harmonious and self-consistent economic organisation of human beings, as well as many other questions [27].

Leibniz had his disciples. One of them, Jean Charles Léonard de Sismondi viewed political economy not as a study of wealth and the ways to increase it, but as a science of the social mechanism improvement for the benefit of the human beings. He considered economics a moral science dealing with human nature, not only with economic relations. Similarly, David Ricardo explored economics as a complex system with its objective economic laws whose functioning is supported by specific mechanisms related to the prevailing trends [28]. One of the first Russian economists, I. T. Pososhkov (1652—1729) adopted a similar approach and studied the issues related to national economic development, instead of looking for ways to assure active trade balance. He saw labour as the source of prosperity and condemned wealth as a symbol of self-interest that contradicted the moral principles of the society [29].

Later, the works of Sadi Carnot, S. A. Podolinsky, Lyndon LaRouche, P. G. Kuznetsov and other eminent scientists elaborated the idea of economy aimed at common benefit and not at profit. However, at present this economic approach has been abandoned.

**The economic theory presented in the monograph continues the traditions of the said economic school.** It views economy as an integral and self-consistent system, as a structure built in accordance with harmonious principles that do not contradict the laws of the Universe, but are bound together by a strict and consistent logic. The purpose of such economy is attainment of material and spiritual well-being both of individual people and of the society in general.

The theory of G. Leibniz was contradicted by the human society model proposed by J. Locke (1632—1704) [30]. According to the latter, the state should be built upon the principle of personal freedom. “*No man is entitled to limit the other man’s life, health, freedom or property*” \*, established this theory. Locke presented property as an integral part of any economic process. Moreover, he believed that the human soul is a “*tabula rasa*” later imprinted with experience, and that the behaviour of every person is conditioned by their personal benefit. According to Locke, social instincts were underdeveloped in humans, and moral was not employed in economic activities. Thus, John Locke can be considered the founder of ideology of classical liberalism.

The essence of the theoretical foundations of this doctrine is the following: the liberals admit and even insist on the relations between personal freedom, private property, and the society’s economic prosperity. Besides, the individualism of this approach, which became one of the founding principles of the European civilisation, was not considered egotism and narcissism of people, but respect for the individual, and an absolute priority of every person’s right for self-realisation in this world.

The implementation of liberal ideas in everyday economic processes is due to Adam Smith (1723—1790). In his work [31] Smith presented the concept of economic person driven by egotism and thirst for wealth. The author claimed that when a person acts solely in accordance with their own selfish interests, they do not only increase their capital, but also multiply their wealth. Based on this assumption, Adam Smith introduced the famous idea of the “*invisible hand of the market*” that manages on its own all economic processes. He considered money as a source of wealth and as a technical tool that simplifies exchange of commodities.

At the same time, none of the above-mentioned scientists have defined the limits of liberal doctrine application, that is why economics did not prevent the liberation of ones through restricting the freedom of others. On the contrary, it enabled certain individuals to make profit without bearing any responsibility. It did not oppose to living at the expense of others, whatever harm this way of life inflicted upon Nature and the society. Moreover, this doctrine infused western mentality economic system with the Darwinian struggle for existence, which justified any methods that assure personal success. Thus, the economic functions of production and distribution were separated from one another. **As the result, the ideological basis of capitalism emerged.**

**It is this vision that is still applied today to the entire global capitalist system.** It is part of the foundation of all present-day economic theories. What is more, this particular vision is studied and implemented by the modern economic science and economy, it is thoroughly supported by the legal framework and legislation, as well as justified through the history of human development. As the result, liberal economy gets a moral excuse not to serve the society in general but to satisfy the interests of specific

individuals. The economists have been led to believe that this type of organisation is the only one possible and they fight against the multiple drawbacks of liberal economy by liberal methods: they are enslaved by the rudimentary profit-generating economy just because they are unfamiliar with other possibilities.

The logical consequence of this situation has been the desire to govern this amorphous human mass with the help of such universal tool as money. For this reason, all the current and previous reputed economic theories have to a certain extent been focused on financial instruments and the methods of making various types of profit. This is why “*economics is mostly interested in the study of methods of setting monetary price for commodities and services sold at the market*” (Ludwig von Mises<sup>[30]</sup>). As the result, economics has moved to serve business rather than the society in general, to care for income and profits, rather than general well-being. Furthermore, little attention is given to developing efficient labour factors.

This narrow-mindedness of economics has made this science groundless and largely remote from the reality. The objectives of various social strata have drifted apart, which in itself is a sign of regression. For instance, the acquisition of foreign goods often produces additional income, however, it leads to repression of local manufacturers. Moreover, the very citizens of a country become out of demand within such economy. Hence additional profit is made by certain individuals at the expense of others. This is an objective controversy that needs to be resolved.

Such economy actively employs the principle of differentiation of labour, and rarely — its cooperation. Competition has become dominant, and initiatives that unite people fail to be integrated in this system. Social responsibility of all enterprises has been forgotten. But on the other hand, all profit-generating activities, including criminal ones, have been justified. This is the main reason of the soaring crime rate, devouring corruption and ruinous permissiveness that all modern states are living through.

Such situation can be easily explained. Indeed, the focus of any economy can lie either with its productive functions, that is, with human labour, or with the distributive functions, represented by money. It is evident that where efficient labour is encouraged, the well-being and the quality of life of the population grows. On the contrary, if the income of money owners is stimulated, if rent and profit are to increase, then the number of wealthy people grows, while the rest of the population goes poor and dies out.

For a country to be successful, it should support production instead of consumption; it should create suitable conditions for those who generate real values instead of virtual ones. Economics should encourage fair work and condemn harmful activities as counterproductive. Then the moral and ethical environment will change dramatically, and order and benefit will replace chaos and evil at the rudder of the society. Economics should teach people to improve the productive and moral mechanisms that exist in a society; it should not act as a bad doctor who makes the best of his patients' conditions. Economic science should make dishonest people fair, and not vice versa. “*Among the ancients, we never come across an investigation into which form of landed property, etc., is the most productive, creates the greatest wealth... The enquiry is always about which form of property creates the best citizens*” (K. Marx).

In the light of the foregoing, the capitalist model of economy only pushes the humanity further towards a dead end. It is suited for energetic, selfish and cruel people. Therefore, it primarily creates appropriate conditions for such individuals, while the rest of the society is seen as a nutrient medium for them.

At the same time, if nature created humans different it was not for some of them parasitizing the others. In reality, different human qualities are required to reinforce the general human ability to survive, to adapt to any developmental scenario and to explore the world compared with the same abilities of a separate individual. For this reason, an economy focused on one type of people only is inevitably weaker, less vigorous and more defective.

Karl Marx described economics as a science that studies "*historically determined forms of production and exchange, as well as corresponding social relations*". Therefore, the USSR, where this understanding of economics was put into practice, defined this science as a branch of knowledge related to the study of the objective social development laws and to the formulation of practical recommendations in the area of production and distribution of material goods. Such economics served the society more than specific individuals. It put more emphasis on the peculiarities of class war rather than class cooperation, and encouraged collaboration over competition.

The governance within such system turned out to be overcentralized, as the result, the ruling elites acquired all-embracing power. The worker became just a cog in the production machine, well cared for (the Soviet social security system is still unrivalled), but deprived of all rights. And this lack of harmony eventually conditioned the collapse of the socialist system.

Resuming what has been said above, it is possible to conclude that neither the capitalist, nor the socialist economic models is perfect. Neither of the two has reconciled labour differentiation and cooperation, the private and the common, the functioning of the active and the passive social forces. Therefore, the economic success of both capitalist and socialist countries was less impressive than it could have been provided the current scientific, technological and human intellectual development.

In order to elaborate the harmonious approach to this phenomenon, we shall consider that **economics is a science that studies the mechanisms of increasing human labour productivity and assuring better life quality for the population**. Importantly, the life quality of the current generation, as well as of all the subsequent generations. Economics should encourage human integration in the Natural ecosystem; it should abide by the laws of this ecosystem and increase the moral and cultural level of the human society. This science is supposed to reinforce the moral principles of society, instead of annihilating them. It should stimulate a coordinated evolvement of the entire human society and consider a human being as part of the Universe executing its specific functions, and not as an ordinary consumer, who pursues his selfish goal or become a victim of the desire of others.

This monograph is dedicated to the description of the main rules and forms of such organisation.

Without any doubt, this will be a completely different economics. Therefore, neither the capitalist, nor the socialist theories is fully suitable for it. The main objective here is not prioritizing the interest of any of the parties, as we can witness in the current

economic relations, but enlarging the scope of economic activities so that everybody could have their fair share.

The harmonisation of economic relations will render the society more human, it will become stronger, kinder, and more spiritually developed. Besides, an enormous amount of human energy will be liberated and directed towards production rather than struggle for existence. The ultimate goal will be prosperity for all instead of well-being of the privileged few; normal life instead of bare survival. That is why the economic model corresponding to these principles will be called **harmonious economics**. This means self-consistent, orderly, where parts will be coordinated with the whole to make one organism that will oppose the chaos.

Harmonious economics will resort to both differentiation and cooperation of labour, and complete both individual and social functions of production to integrate both the strong and the weak into society. Money will become obedient servant of humans, instead of capricious master that it is now. Taxes will no more function as a mechanism for income alienation, but as a tool for income increase.

Such economics will benefit entrepreneurs as much as wage workers. The rules of conduct will encourage the exchange of labour products, as well as fairness and harmony of human relationships, and will not destroy them any more. All types of property will exist and prove useful through fair competition. This means that none of the useful factors will be abandoned but all of them will be combined harmoniously. Such organisation will be very natural, as in Nature all things rationally coexist.

If the purpose of economics is well-being of the few at any expense, then capitalism is the best model to apply. If it is needed to reinforce the state at any expense, then the socialist model is the best choice. But if the country seeks prosperity of the entire nation and of every single individual in it, then neither of the model is sufficient. Such a purpose requires a fundamentally different type of economic ideology. And it is obvious that different economic doctrine cannot be created following the same standards or share common rules or ideology.

### **1.2.2. Fundamental purpose of harmonious economics**

From now on we shall hold that the mission of economics is encouraging harmonious integration of humans in the Natural ecosystem, abiding by its laws, increasing the productivity of human labour and assuring smooth development of society. In this event, the model to emulate is not the economic organisation of the US, of Japan or any other state, as we have been trying to do, but the natural order of things. Obviously, none of the countries mentioned is ideal. It is better to use nature as the perfect standard rather than resort to any surrogate models. This does not mean that the experience of others should not be taken into account; however, it should be applied selectively, as part of the coordinated system of natural patterns.

How can the purpose of economics be formulated so as to reflect this principle?

When studying the harmonious laws of economic organisation, we shall from now on consider that the purpose of economy as any other productive activity is satis-

fying the needs of individuals and of the entire human community. Indeed, “*Consumption is the sole end and purpose of all production...*” (Adam Smith [31]). John Keynes echoes this idea: “*Consumption — to repeat the obvious — is the sole end and object of all economic activity*” [33].

So, it is not the generation of profit, income or money at any expense, as it might be concluded from the present-day economic theories, but working out the ways to assure best life of the individuals. Without any doubt, this assumption does not exclude the existence of income, however, it is not dominant, and is not achieved at the cost of others. The source of income is in increasing the productivity of common labour, not in the redistribution of its results.

Here, besides the everyday needs, prospective future needs also should be taken into account, not for one current generation, but for the subsequent generations, as well. Achieving this is the main mission of economics. All other purposes should be subordinated to this one, as otherwise they are pointless. Economics is meant to serve all people, not only some of them.

Thus, economics does not function for the sake of production process, for generation of structures, values, profit, or money, for serving ideology or idols, but for satisfying the needs of people. This includes all people: rich and poor; white, yellow and black; young and old; clever and stupid; strong and weak; healthy and ill. If God has created them all, it is because they are all needed, and it is not human business to rectify God’s plans. Economics should work for people, and people should not serve economics. Therefore, it is doubtless that the sole criterion of economics perfection is the completion of its function.

Despite this idea being evident, history has known many variations in the way economic policies of countries have been interpreted. For instance, socialist system presented the purpose of economics as reinforcement of the state and construction of the material and technical basis of communism: “*Our goal is communism!*” was the most popular motto in the USSR. Nevertheless, a significant part of communist construction projects did not return the expenses; excessive emphasis on social needs led to underestimation of private needs of individuals, and excessive centralisation caused communism to degrade. All these factors eventually conditioned the insufficient productivity of socialist economics.

The main purpose of capitalist economics is generation of profit and increase of income, whatever the consequences for Nature and the society. At the same time “*workers themselves appear as that which they are in capitalist production — mere means of production, not an end in themselves and not the aim of production*”\* (K. Marx [34]). As the result, human labour and human beings themselves, despite being the real drivers of economics, have stopped being the main object economics serves.

Indeed, economics is being used mostly for making money, and not for providing people with means of existence. Today economics is dominated by business — a legal way of generating personal profit — and not by entrepreneurship, which allows achieving personal well-being by means of useful activities, not at the expense of others.

If focus is made on profit and income at any expense, notwithstanding the actual economic structure, money and money alone gets to the rudder of economics. This gives privilege to materialized labour over human labour. Consequently, the prestige and the cost of wage labour drops, and the population is exploited by the ruling elite. As the result, social inequality emerges, the crime rate soars, and the society suffers respective losses. This is why states with such structure inevitably turn out to be unproductive.

In authoritarian communities, the purpose of functioning of the government institutes is glorifying the leaders' personalities. Suffice it to remember the famous saying of the French King Louis XIV, "*I am the state*". Countries that live by nationalist ideology prioritize the prosperity of certain peoples at the expense of the other. States with a huge social gap see the poorest social strata die out, only to have them substituted with those recently deemed relatively well-off. At the same time, the said deviations from the above-mentioned ideas do not benefit anybody, but contribute to the overall degradation.

Summing up, it may be declared that none of the evident purposes of modern economic systems conforms with the principles of harmony either in ideology or in practice. Besides, substitution of the true purpose with preliminary results is indeed dangerously misleading.

Economic ideology is supposed to encourage fair labour over dishonesty. Only then will the moral and ethical environment undergo significant changes to let order and usefulness govern the society, replacing chaos and money-grabbing at its rudder. Economics should stimulate people to improve the productive and moral principles of the society, instead of taking advantage of social ills for selfish purposes.

### **1.1.5. 1.2.3. Human needs, commodities and production means**

*I have fed you with milk, and not with meat: for hitherto ye were not able to bear it, neither yet now are ye able.*

Corinthians 3:2

The definition of the main purpose of economic activities provided above is, in fact, incomplete, for it does not specify what human needs are, nor gives a list of them, nor explains the conditions of their existence and satisfaction.

**Needs** shall be understood from here on as an inner state of psychological or functional feeling of insufficiency of certain factors becoming evident depending on the situation. These are typical both of individuals, and communities, social groups or even the society in general. Needs act as inner incentives for human activity.

Indeed, needs are the main driving force for a human being. Depending on their nature, needs can be divided into vital, spiritual and, social needs. The first category is related to the body's need for food, dress, dwelling place, motion, rest, health, etc.

The spiritual human needs include the aspiration for personal freedom, for knowledge, for satisfaction of intellectual requirements, aesthetic tastes and harmony, for beauty, culture, morality, and for kindness and empathy. Among spiritual needs we

find love and hatred, passion, and level of satisfaction. An important role in every man's life is played by procreation, communication with other people, friendship and competitiveness. Moreover, factors of psychological comfort are classified among spiritual needs of human beings: self-confidence, prestige, self-realisation, self-respect, authority, etc.

Among social human needs there are security, equality, personal safety and the safety of one's children, and confidence regarding one's future. We all want to live surrounded by healthy, happy, kind-hearted, beautiful, and confident people. Besides, we demand from others a high level of mass culture and morality. There also exist specific social needs, such as need for labour, for mental and physical activity, for creativity and creation of new values.

These series are, undoubtedly, conditional and do not cover the entire range of human needs, nor delineate exact borders between different needs.

The needs depend on individual features of people, their living conditions, their gender and age, culture and education, their health, experience, traditions, religion, and national preferences. Besides, the needs are not immutable. With time, they develop, change, and evolve. They are influenced by the social environment of a person, by weather and nature, by the season and the place of residence, by the level of production development, and by the level of personal satisfaction. Moreover, the more one has, the more one needs.

Every individual, as a member of the human species, has certain needs similar to those of other people, human communities, or the society in general. For instance, all reasonable people wish to live in a clean and orderly place, in a country with a low crime rate, with a fair and experienced government, with a strong state structure, with a sound legislation and public order. At the same time, it would be hard to find two people with identical needs.

In fact, the individual perception of each need by different people varies; what some consider the sense of life, others discard as insignificant. Take music away from a melomaniac, there is nothing you could substitute it with. "*The stifling of the individual may well be the stifling of the god in man*" (Sri Aurobindo, [16]). This is why there should be respectful attitude to the entire range of human needs. It is evident that satisfying just the needs of an average person, as conceived by planned economy and practiced by the current market economy, would not make anybody happy enough.

On the other hand, human needs cannot be studied just as a random set of factors. In fact, they constitute a harmonious complex that reflects the person. Besides, some needs only exist together with others. For instance, the desire for luxury cannot emerge unless the hunger is satisfied. A trendy hat demands a fashionable dress to be worn with. Nevertheless, the level of correlation and interchangeability of various needs is different and does not impact their importance. The failure to satisfy some needs for a long time might disrupt the inner harmony of a person, and even disfigure them.

However, not all needs may be easily welcomed. For example, thirst for power and selfish ambitions of certain individuals often mean loss of freedom and poverty of others. From the social point of view, only the needs that can be satisfied without violating moral and ethical norms, trampling the rights of other people, of the society, or descendants, are worthy of respect. And it is such needs that we are going to address

in this monograph. Other needs should be managed with the help of educational or psychiatric institutions, or law enforcement agencies. Furthermore, the impossibility of their satisfaction should be enshrined in the basic principles of economics and state organisation.

It should be mentioned that **when the interests of an individual, a community, and the society match each other and combine harmoniously, this condition is observed without failure**. And the fuller the implementation of this principle, the higher the level of society civilisation, and the more grounds to class it as a human society.

On the other hand, human needs are not abstract, they are made evident through certain conditions, things, and services that a human being requires. Therefore, everything that satisfies human needs, everything required for a decent living, that supports and restores human health, increases life tonus, encourages and assures procreation, etc. is classified in the group of **commodities**. Among these we find food and water; clothes and housing; medical assistance and sport facilities; spiritual wealth and clean nature. Besides, this group includes the goods and services that are provided to people by service sector actors, as well as by spheres that satisfy social needs (such as governance, science, education, healthcare, and defence).

Human labour is also classified among commodities, because, on the one hand, it satisfies human needs related to self-realisation; on the other hand, it is the driving force of production. Though, in fact, all other commodities can be described in this way, too. That is why the more they satisfy human needs, the more productive human labour is. Many things can be obtained by humans directly from nature without additional effort, the rest are produced by the people themselves. In the remaining part of this monograph this latter category will mostly be considered.

As a rule, needs exceed the total amount of commodities available, which stimulates people to act and develop, becoming an instrument capable of managing them. There exists an optimal correlation between the needs and the number of commodities to satisfy them. If the correlation exceeds the optimal value, that is, almost all needs are satisfied, this decreases the desire to work, and slows down development. However, if this correlation is below the optimal, then the needs become extinct, and the individuals live through degradation. Countries with huge property inequalities witness both these tendencies, which can lead to catastrophic results.

At the same time, if within a state there exists a tendency to satisfy one's needs not through labour and productive talent, that is, by way of contributing to the productive efforts of the society, but through appropriation of goods generated by others, this inevitably entails destruction of both the production and the moral systems. Whether it comes from the top or from the bottom, such destruction contributes to the degradation of the state and the society. This has already been the case numerous times and history; similar situation can be witnessed across the world today.

For practical economics the classification of commodities into **individual, collective and public** is essential, for they are consumed in different manners. Individual commodities include the items that a person and their family members use outside of interaction with other people: housing, clothes, food, household items, cultural items, etc. Collective commodities category embraces the things that a person uses jointly with other people at the place of residence, work, or rest. These are medical services

and police; utilities services and public transport; cultural, religious and sport facilities; roads, means of communication and many other things. Finally, public commodities are government entities and the army; higher educational institutions and communications; defensive structure and security systems; scientific, cultural and educational institutions. To sum up — all the services that satisfy the needs of all people belonging to a state and a society.

This classification explains why the distribution has a more significant impact on production, and expenses — on earnings. In fact, all commodities possess a certain duality of nature. On the one hand, they satisfy human needs; on the other — encourage production. Collective and public commodities are consumed by humans differently from individual ones, and the dependence of people on such commodities is quite different. Therefore, for each group of commodities specific distribution forms may be worked out to stimulate as much as possible their production and eventually improve the life quality and the morality of people.

All commodities depend on the production process. And in order to function properly, the production process, in its turn, requires commodities to satisfy its own needs. These needs include work tools and industrial facilities; freight transport and communications; energy, repair base, industrial communication, etc. This signifies that materialized labour and **production means** are required by enterprises as much as commodities are required by people. They serve as a catalyst that makes live human labour more efficient.

Strictly speaking, the classification of labour products into commodities and production means is rather conventional, because providing a person with commodities corresponds to their productive labour. Besides, production means satisfy natural needs of people for work and development, and influence their mental, physical, and moral state. Moreover, the more productive qualities productive means have, the better their ergonomic properties, the better their design, and the higher their efficiency. This rule serves as yet another argument to support the unity of the World and the reality people live in.

Nevertheless, commodities and production means are not equal. Indeed, **only commodities are the purpose of production**. The production of production means is only necessary to the extent in which it saves social labour and contributes to the commodities production. Otherwise, production of production means becomes an excessive consumption of labour and resources, and is harmful for the society. This has happened quite often, both under socialist system and in modern capitalist states, due to the desire to optimize monetary flows, instead of regulating social labour consumption.

For example, in the USSR, production was brought to this state thanks to the active application of the “Law of exponential growth of production of production means” formulated by K. Marx and elaborated by Vladimir Lenin. However, no limits were defined, that is why the production growth rates for group **A** (production of production means) in the USSR exceeded almost 8-fold those of group **B** (commodities production). As the result, industry developed rapidly, while the quality of life in the country stagnated.

But then, the more production means are produced, the more resources are required for their servicing, reproduction, and maintenance, not to mention significant

social labour expenses for repair. This means a lower amount of labour allocated for commodities production.

Therefore, the absence of real market regulators and social criteria that would help assess objectively the production efficiency in general, keeps pushing the society to the limit beyond which production stops serving people and starts exploiting them. The same happens when economics is tempted to increase the efficiency of money expenditure — a typical desire for capitalism — instead of improving production — the results are completely different.

In reality, the production of production means is an intermediary stage in the process of commodities production. It is similar to semi-finished products and other unfinished goods. Specifying the roles of production means and of commodities helps establish an optimal relation between the two, and propose qualitatively new criteria and methods for economics improvement compared to the principles of profit maximization used at present.

### **§1.3. SOCIAL LABOUR PRODUCTIVITY AND ITS CONSTITUENT FACTORS**

*There will come a time when our descendants will be amazed that we did not know things that are so plain to them.*

Seneca

#### **1.1.6. 1.3.1. Structures of modern economics**

The choice of economic model, that is, the choice between profit-oriented economics and social well-being-oriented economics, is of significant importance. In fact, it determines everything. In other words, the question is: does economics function to increase the number of millionaires or to decrease the number of the hungry? Accepting one or the other economic concept, the humanity actually becomes its captive. “*By choosing our gods we choose our destiny*”, warned Virgil. It is the same as taking a tram. A person makes a free choice to board a tram, but then moves along the tram route in the vehicle, whether they want it or not and whatever their opinion of it might be.

When profit is the economic priority, then economics resembles hunting grounds where all seek prey and luck. The economic spheres that generate biggest profit (that is, the territories where more animals live, where more natural resource can be mined, where wage labour is cheaper, etc.) have a higher appeal. Various actors of the economic process employ different tools: the first use production, the second harness finance, the third benefit from property, the fourth resort to deception, burglary, or ideology. But eventually there is not much difference between the groups. Economics that holds profit as a priority inevitable turns into a plant for manufacturing of useful goods. And this is where the difference lies.

When profit is placed above everything, the demand for personality sovereignty emerges. On the contrary, if economics prioritizes public interest, there is a need for

state regulation. If the first system is aimed at distribution of commodities, the second contributes to their multiplication. The first system appreciates active, cunning, and lucky people, while the second values those who create useful products, are efficient, fair and professional. Thus, every economics proceeds to a selection of people by their qualities. Only those who conform with the given standards have a chance of being successful. That is why the structures of these two types of economics are absolutely different.

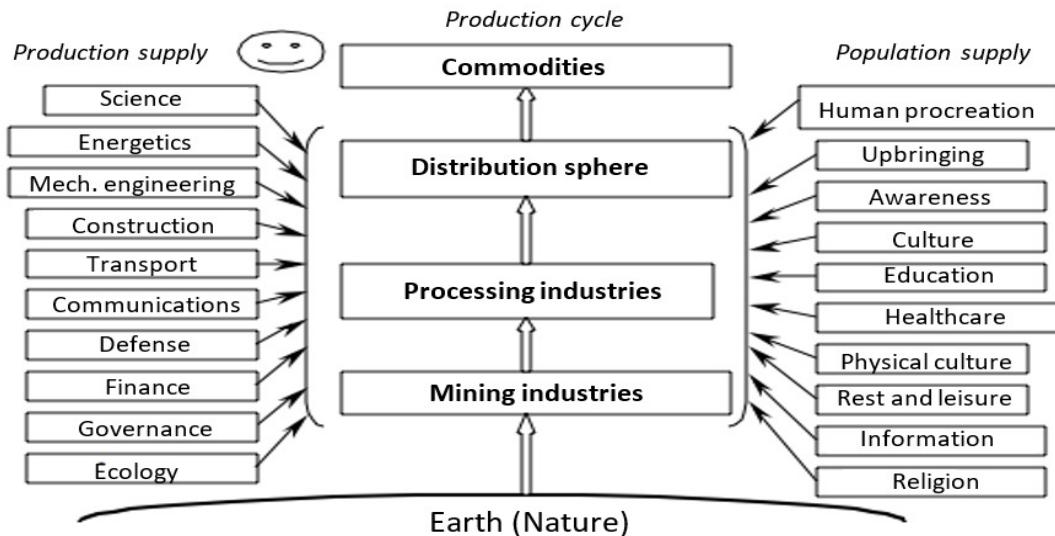


Fig. 1. Modern economics structures

In the light of the foregoing, let us consider the general nature of human interaction with Nature in the process of human economic activities that are aimed at better supply of the population, and not at profit generation. It can be seen in Figure 1. Upon analysing the graph, it becomes evident that the Earth (Nature) is the actual source of all goods, and various forms of labour only help acquire these goods and transform them into consumption-ready products. However, natural wealth is only useful when it is supplied through labour. Only then will it provide a productive field for human activity and increase human labour productivity.

In order to describe the peculiarities of social labour differentiation and its various forms, let us split the ***Production cycle*** into the following stages. First, humans have to **obtain** resources (by growing, rearing, catching them). Then these resources are **processed** (i.e. are transformed into a sale-ready product). Afterwards, the products are **distributed** (transported, advertised, sold, etc.). And only then they may be **consumed** by human beings. These are the stages of **the Main production complex** that forms the trunk of the social production organisation tree, as well as its roots and nutritional medium.

But these factors alone do not define the nature of commodities production process. Efficient functioning of the system described above it is essential to employ **Labour ensuring production factors**. This means development of **science**, which broadens human capacities and finds the best ways of natural potential realisation. Besides,

the production complex should be supplied with energy (**energetics**), production means should be reproduced (i.e. machines should be built and technologies should be implemented (**mechanical engineering**)). Industrial premises, roads and communications should be **constructed**; **transport** and **communication means** should be updated. The system should be protected from aggression by country's neighbours or even certain citizens (law enforcement agencies and **defence**). Well-coordinated work of this complex organism of labour differentiation is supported by **finance** and trade that assure exchange of commodities between different economic actors. The process described above cannot be productive without reasonable **management**. Moreover, special measures to protect the natural habitat of humans should be undertaken (**ecology**).

However, all this is not sufficient. For human beings are not only the object every economic system serves, but also the main production force of economics. This is why there should also exist **Labour ensuring human factors**. These include, first and foremost, **human procreation and reproduction of work force**, without which any economic activity becomes senseless and unfounded. Besides, this category embraces the **upbringing** of the population and shaping of its **moral principles** through **increasing awareness, developing culture, and giving education**. For the work force to be productive, it should be capable of working and healthy (**healthcare**). It should practice **physical education** and sport, and have access to true **information**. As opposed to mechanical labour factors, human beings need **rest** and useful **leisure** — prerequisites of any production activities. Besides, people should continuously broaden their knowledge regarding the vision of themselves and of the World; the human soul should be harmonized and cured to reinforce man's moral principles, make him more human (**religion**), etc.

The functioning of this system of social labour differentiation and cooperation is determined by the state of production forces; however, it is evident that without the factors listed above, neither efficient work, nor normal vital activity of humans are possible in the given conditions. Therefore, poor functioning of the mechanical engineering sector impacts social labour results as much as low qualification, poor culture, low morals, and poor health of the workers do. Moreover, none of the labour types is self-sufficient, and cooperation is what makes them efficient. At the same time, one should not forget that **no type of labour except Main productive labour has any value alone. Only increase of labour by way of increasing the quantity and the quality of commodities can justify its existence.**

Under socialism, only labour in the sphere of material production was deemed productive, while other types of labour were considered auxiliary. Under capitalism, only labour that generates income and profit is seen as productive; there is no demand for other types of labour. Within harmonious economics any labour is considered **productive** as long as it is **socially required** (academician S. G. Strumilin<sup>[37]</sup>). And any labour is declined the qualification of productive when it does not contribute to increasing labour productivity. Such labour should be done away with.

In accordance with the harmonious principles, **the key problem consists in assuring coordinated functioning of all the links of the social labour distribution**

**chain** in order to minimize human efforts employed for production of all types. Otherwise, the system presented in Figure 1 turns into a collection of poorly related elements, of selfish and competing industries, enterprises, and individuals. The struggle of such different economic sectors that do not share any executive functions is indeed impossible. What could healthcare and mechanical engineering, science and education, culture and transport compete for?

Then the economic symphony all these parts are to perform turns into a cacophony, and destructive competition takes place of coordinated actions. This is the main issue with the social production organisation, and the efforts of all producing structures as well as individuals should be directed towards resolving it. It is evident that neither money accumulation, nor the income of intermediaries or renters alone increase the productivity of social labour. On the contrary, they distract part of the work force from real values production, and creates additional hindrances for it.

From the graph presented above it follows that only the proper functioning of all of the parts of the system allows favourable conditions for general economic prosperity. If the work of any of the parts is disturbed, the total system efficiency drops. While capitalism prioritizes the financial sector, socialism puts production sector above all. Neither of the approaches contributes to better functioning of economics.

#### **1.1.7. 1.3.2. Social labour productivity (SLP) as key indicator of state functioning**

In order to work out measures for increasing the productivity of human labour, it is necessary to select a single criterion for the functioning of the entire economic system presented in Figure 1 as a self-consistent whole. It would be the first step towards organizing efficient work of individual structures. Without such indicator, any human or enterprise activity would be subordinated to limited market objectives, and would lose its global direction. Only the existence of a criterion with all of the mentioned qualities, capable of bounding all economic sectors together, makes it easy to understand what is right and what is wrong in the society organisation; where progress is made and where it is substituted by regression; what should be done and what should be avoided. Thus, this criterion should serve as a compass to indicate the right direction and to warn about any deviations.

Unfortunately, not all modern economic macro indicators, such as GDP (gross domestic product), GNP (gross national product), or national income, possess to a sufficient extent the qualities discussed above, therefore, they **cannot serve as valid criteria of total economic productivity**. The reason is that these indicators are tightly related to money, the financial sector and income, they are all profitability-oriented. However, money is an ambiguous category.

In fact, GDP — general indicator of goods and services production — is based on the aggregate wages in a country, income and rent, profits and amortization payments, that is, a real mixture of different things. As the result, it depends both on sources of real values and on others that utilize them, such as interest rate, property and rent, — and generate nothing real at all.

In fact, it is estimated that in the past 1,000 years the GDP of some countries has grown 100- to 500-fold. Does this mean that their population has consumed equally more bread, meat, or milk, or worn as many times more clothes? And if this is not so, then what is the actual sense of this indicator? As academician S. G. Strumilin<sup>[37]</sup> wrote, 1,000 years ago a wage worker in Constantinople could buy a sheep with the daily wage; 500 years ago, he could buy but half a sheep; now he does not even earn enough in a day to buy a sheep leg. This is true for other similar indicators as well. Therefore, the real progress economics has made in this time remains quite unclear.

This should not come as a surprise, as these indicators are typical products of the liberal economic philosophy that is aimed at profit generation, and the way these indicators are achieved does not seem to be important. This conceals the real influence of economic factors on the indicator, and makes it more suitable for drawing comparisons than for actual assessment. An increase in the GDP does not always correspond to an equal improvement of the life quality of the population, or an increase in its real labour productivity.

There is no merchandise or service that would be fully manufactured by one producer. Even a farmer uses farming tools that have been manufactured by others. Besides, farming requires fuel and lubricants; managers, builders, and financial experts. The worker should be protected from the inner and outer aggression; legal framework should be worked out, etc. This is true for all other products of human labour, too. As the result, **in reality, the entire society is engaged in the production of any goods or services**. And only the result of works of all participants of the labour process can determine the efficiency of the production process.

A universal indicator of the functioning of the entire economics and organisation system as presented in Figure 1 — not tied to intermediary results — is the final effect of the system. This means **the total number of commodities that are produced by the society, per one citizen**. This indicator characterizes the **efficiency factor of social labour**, and serves as the result of all economic activities. All other products of labour — machines and equipment, raw materials and semi-ready goods, resources and scientific research, even finance, are intermediary; they are only necessary to the extent where they contribute to increasing the quantity and the quality of commodities produced. Current indicators reflect this criterion only to a certain limited extent, as much as they conform with it.

As a standard for measuring the actual efficiency of human labour we suggest using **Social labour productivity (SLP)**, which depends on **the quantity of commodities** (whether tangible or intangible) **produced in the entire state by one average (generalized) worker in a unit of time**. It is important to remember that any labour that is required in the society is deemed productive.

This indicator is integral and directly related to the main purpose of economics — satisfaction of human needs. The social indicator ignores intermediary results that masque this purpose (quantity of coal mined, steel, machines or equipment produced, amount of profit, income, level of inflation, etc.). On the contrary, it is based on the objective of economic activity formulated above, i.e. satisfaction of human needs. Moreover, it does not depend solely on production but on distribution as well; on level of wage labour exploitation; on the economic and political doctrine implemented in the

country; on the quality and intensity of labour differentiation and cooperation; on the functioning of all state structures and social institutes. This indicator bounds all of these factors into only coherent system.

The **SLP** is determined not only by the state of development of science and technology, of education and culture, of medicine and sport, but also by the social and national state policies, by their morality and humanity, by ecology and demography. It depends on the types of property existing in the country, on security and diplomacy, on economic relations and types of money used, too. In this light, let us elaborate on some features of this indicator.

Obviously, with SLP we are dealing with a qualitative indicator, not a quantitative one. Consequently, direct assessment of SLP is impossible, for it is impossible to assess quantitatively all human needs and to compare the commodities that satisfy these needs. However, this type of assessment is often used in everyday life, when we distinguish between “warm” and “cold”, “good” and “bad”, without saying exactly how warm or cold something is. Besides, almost all economic indicators cannot be measured precisely, be it labour, money, **GDP**, **GNP**, exchange, or consumer cost. This is quite logical, as economics is interested in the qualitative description of these factors, not their quantitative assessment. It is the dynamics, the dependence on various circumstances, and their impact on economic situation that matter, not the numerical result of their measurement.

At the same time, the **SLP** can be fairly precisely assessed right now. Suffice it to observe that the higher the SLP, the higher the quality of life in the country. Therefore, the closest similar indicator — one measurable from the point of view of quantity and dynamics — would be the nominal average income of a worker. This corresponds to the actual value of the consumer basket (including both its tangible and intangible contents) for an average worker.

Moreover, further we will provide a description of the method of calculating the social labour intensity of commodities (SLIC) to assess its value and dynamics, which can be implemented at any enterprise separately (Subsection 3.1.2). This value is directly related to SLP, as any decrease in the SLP, all other conditions being equal, leads to an automatic SLIC increase, and vice versa. This allows stimulating the dynamics of production development, as well as determining the factors that condition it.

The unit of time for which **SLP** is calculated may be equal to one hour, one year or the average life expectancy. Thus, one can consider hourly, daily, monthly, yearly or secular **SLP**. Each of the values provides different information. For instance, secular **SLP** allows assessing the total quantity of commodities that a person produces in a lifetime. Besides, it helps establish the impact on **SLP** of such factors as average life expectancy, quality of nutrition, daily schedule, and balance between labour and rest. It also depends on the length of work leaves, the functioning of sports, healthcare and wellness facilities, ecological situation, etc.

Yearly **SLP** may be used to assess the efficiency of social labour differentiation and cooperation, the impact of various reforms and reorganisations. Hourly **SLP** is more flexible and dynamic. It helps to study the influence of various small and big organisational measures, psychological factors, technical equipment and many other factors in the labour efficiency at enterprises. None of these indicators contradict the

other, on the contrary, they form a single information data base useful for optimisation of social labour in general, as well as of specific parts of this system. Besides, they make it possible to assess the actual efficiency of economic and other structures.

**SLP** is significantly different from the industrial and other specific criteria of labour productivity which are used nowadays. Indeed, as the production of any item or service engages the entire society, and not just a part of it, specific criteria will not be able to correctly assess the real labour productivity of the society as a whole. Moreover, they often do more to conceal it, for many of these criteria are interdependent. For instance, income increase in financial or trade sector often entails suppression of other sectors of economics, etc.

It is obvious that a single social criterion is free of this drawback. This means that all kinds of technological and organisational novelties, property limits, and new state institutes are useful provided that they contribute to **SLP** growth. By consequence, economy has no place for selfishness, politics, ideological speculations, clan struggle, etc.

Thus, **SLP** is not solely an economic, but also partially a philosophic criterion related to the vision of the world. If any type of activity does not increase **SLP**, then it should be diminished or altogether abolished. If the social value of any type of labour is low, the share of income it produces should be limited. If the salaries of scientists, engineers, doctors, teachers, and the wages of workers are lower than the average in the country, this means their labour is in low demand. But when the income of government officials, businessmen, finance experts, tradesmen and criminals are much higher than the average, then these activities conform more with the nature of the existing state. Now is it realistic to expect, in such conditions, that the real production would be restored, the country — renewed and start developing to pass to the industrialized category?

The notion of **SLP** is based on the assumption that all saving of social labour is useful, and vice versa. Therefore, this indicator may be used to optimize the work of various services, to assess the efficiency of administration, the reliability of public transport; to adjust the salaries of various categories of workers, etc. For example, is a train carrying 1,000 passengers is half an hour late, is there an excuse for the circumstances that caused the loss of 500 pers./h of social labour? If production increase does not entail **SLP** increase, then production rates should be slowed down. If reorganisations, measures and reforms implemented cause **SLP** to drop, they are, without any doubt, too aggressive. If a nanny at the kindergarten helps save the efforts of dozens of parents, this is her actual labour productivity. And this has nothing to do with the work force cost, as it does now.

Another example: today advertising consumes the time of millions of people, as well as enormous material resources amounts, while it generates profit for an insignificant number of businessmen who want to sell their products, often foreign-made. Similarly, traffic congestions take huge time, increase the fuel consumption, and accelerate destruction of roads and vehicles. Besides, they increase the demand for these commodities, and by consequence — the income of certain individuals and the tax revenue for the budget. Products of low-quality foods and counterfeit drugs kills people, but then it also helps boost the income of their producers. Consumption of tobacco and

alcohol ruins the nations' health; however, it increases the profitability of their manufacturers, excise tax revenues for the state, etc.

### **1.1.8. 1.3.3. SLP suppressing factors**

The accelerating decrease in the social labour productivity in most countries as "world civilisation" develops and establishes there, despite considerable scientific and technological progress, indicates the existence of some underlying phenomena that actively counteract progress. What are they?

In order to understand this situation, let us turn back to the labour differentiation scheme presented in Figure 1. Why does the performance of this industrial relations mechanism continuously get worse? What prevents this system from being properly efficient? What are the main drawbacks of the current economic doctrine, why is its ideology deformed?

This issue is difficult to understand not only because of its multifaceted nature, but also because its causes and consequences have intertwined into such a tight knot that untying it turns out extremely complicated. Moreover, should we even try to do that? To find out, let us start by drawing a simple list of the key **SLP** suppressing factors.

As it has already been mentioned, none of the structures present in Figure 1 is self-sufficient, and only united they have force. Nevertheless, the current economic model does not provide a clear order for distribution of jointly produced income, which further complicates the work of the forces that bind these structures together. Administration has failed to manage it, and the present-day monetary mechanism aimed at executing this function works poorly in the current conditions (for more details, see Subsection 3.2.2).

For this reason, each of the economic sectors pursues its proper interests, and does not care for the common benefit. This breaks the coordination of actions, and constructive cooperation is replaced by destructive competition. The desire to appropriate the bigger part of public income overpowers the task of increasing its aggregate value. Modern experts in the sphere of finance, energetics, trade, housing and utilities and others, with their absolute lack of restraint, are a vivid example of this tendency. For instance, the share of energy-related expenditures in the Russian enterprises price structure has already exceeded 50%, which does not correspond to the number of work force employed in the sector and, therefore, undermines the competitiveness of national economics.

If across the world the correlation between the income of producers and trade in the prices of items is about 70% to 30%, in Russia this proportion has literally been reversed. The profit from management, trade, and credit and financial services has become incommensurably higher than the income of science, education, awareness, light industries, or healthcare. It would be erroneous to assume that the most prosperous economic sectors employ the most intelligent, hardworking, experienced and qualified people. Besides, it seems too naive to believe that such system better stimulates real values production.

Furthermore, the result of such confrontation is easily predictable. Russian fable writer I. A. Krylov described this situation in his fable: “*A Crawfish, Swan and Pike combining | resolved to draw a cart and freight... However much they work, the load to stir refuses. | It seems to be perverse with selfwill vast endowed; | The swan makes upward for a cloud. | The crayfish falls behind, the pike the river uses...*”. That is why “... *the cart remains there, still*” . However, the ideologists of modern economics seem to be completely unaware of this; at least, they do their best to ignore the problem.

Another global factor suppressing SLP is the actual lack of interest on the part of all economic structures in seeing real (non-monetary) results of their activities. This applies not only to wage workers and administrators, but also to politicians and businessmen. The actual result of their work is concealed by financial success, personal benefits, fixed salary, profit, preferences, which belong to a different category. That is why the existing incentives for work organisation often fail to help social production to flourish, moreover, they end up suppressing and degrading it.

Indeed, money as a purpose of economic activity does not constitute a real value; it is nothing but a trade instrument. It is a generally accepted equivalent for exchange of commodities, a social convention, artificially enabled to substitute real goods. Unless backed by real things, money is empty, and at present no backing is provided for it. That is why the general acceptance of such “conventions” cannot contribute to actual prosperity. For instance, various forms of rent, racketeering, crime, corruption, inflation, drugs, etc. generate significant income for some people, but is far from benefiting the society in general, rather, they destroy it.

Huge losses are also born by the humanity as the result of disharmony between production and Nature, i.e. as the result of the desire to use up the natural rent, to make momentary profit without taking global consequences into account. As the result, modern expanded production is by no means expanded. On the contrary, it shapes vital activity by way of destroying its very foundation, i.e. natural habitat. Thus, for the past several decades we have shamelessly live at the expense of Nature, squandering, like thoughtless barbarians, the wealth it has accumulated over millions of years. We now live at the cost of future generations.

Therefore, if the natural mark-up is included in the cost price of products, the profitability of the major part of modern enterprises will be negative! To quote an example, in order to return the Volga river to its pre-industrial state, to restore fisheries and farmed lands, to rebuild the houses and the infrastructure of all submerged territories, much more energy would be required than has been generated by the hydropower plants constructed on the river. One might wonder: what kind of economics are we dealing with, and what is the actual efficiency of its production relations?

And still, one of the most powerful influences on the structure, the ideology, and the very lifestyle of the society is exerted by **exploitation**, i.e. by unequal exchange of products of labour between economic actors and individuals. Born as simple cannibalism, this phenomenon has by now acquired most sophisticated forms; it is not only revered, it is universally desired. The market itself, in its current form, fully connives in this. As the result, a capitalist system has evolved, within which poverty is strongly tied to the excessive wealth of certain individuals.

The extent of exploitation is truly planetary, this phenomenon knows no borders. One finds it in the way economic structures and the state itself are organized, and in the ways the ruling elites are selected. It is behind the destructive wars, which break out or smoulder across the globe; behind the suicidal consumption of human and natural resources.

The existence of exploitation, as well as that of any complex phenomenon, can be explained by a number of reasons. Among these, physical violence: threats, burglary, gangsterism, theft, and indemnities. Besides, there is ideological pressure, through deception, fraud, ideologic and religious dogmas, and intellectual slavery. Moreover, one should not forget about administrative racketeering in the form of bribery, extortion, corruption, and distribution of privileges. Financial factors also enter into play here, among them, usury, speculations, monetary and price swindles, and stock exchange speculations. Even private property of production means often poorly stimulates production, but suppresses it rather effectively. Money capital is also engaged here: it represents the easiest to become dependent on, and the simplest scheme to deprive people of what they have earned.

In fact, neither power, nor property or capital on their own have a positive or a negative charge. They are like a sword, which can serve the good or the evil, depending on who holds it. All depends on who, where, and how acquires them, and the purpose they are used for. If their mission is to fulfil their natural function — increase the productive capacities of the society and improve life quality — then they are useful. And if they are only employed for personal enrichment, then they could be dangerous. Eventually, this is what determines the entire image of the society, the expedience of its existence of the administration itself, of private property, of labour, and capital as we know them today.

And this situation has always existed. Plato wrote, “*Whenever they'll possess private land, houses, and currency, they'll be householders and farmers instead of guardians, and they'll become masters and enemies instead of allies of the other citizens; hating and being hated, plotting and being plotted against, they'll lead their whole lives far more afraid of the enemies within than those without. Then they themselves as well as the rest of the city are already rushing toward a destruction that lies very near*”<sup>[25]</sup>.

In reality, private property is a complex phenomenon with lots of positive and negative qualities. However, it cannot be attributed any exceptional qualities, as modern ideologists do. Therefore, it would be erroneous to assume that everywhere where private property exists the society is prosperous, and stagnates in its absence. In fact, “*The property theory is mostly a science about morality*” (Лён Walras). And the property phenomenon itself reflects a specific combination of rights and liabilities of the owners before the society that has created these production means (not to be confused with private property!).

Indeed, the form of production means ownership is established by no other than the priorities that function in the society. If state priorities prevail and are mostly used to satisfy state needs, then the state will be recognized as the owner. If individual interests dominate, then private property will prevail. And, finally, if the property is used

for the well-being of the entire society, then its forms are to assist this task and contribute to a better life for all.

Concerning private property, it is not as important to know who the owner is, as to understand to which extent it is productive from the point of view of social benefit. It is essential to assess to which point each owner can use productive forces better than hired managers can. At the same time, with the existing form of property of production means, too often it is not the talented and qualified individuals that manage it, but those who hold the legal title of ownership. For clarity, let us imagine a plant with 3 funnels. A person arrives to the plant and presents a paper certified by an official stamp; the document states that its holder is entitled to own the plant. But what can this legal deed change? Will the plant grow a fourth funnel? This is rather unlikely.

In fact, the following changes will take place. On the one hand, there appears the owner who is **personally** interested in the results of the enterprise. On the other hand, he gets the right to do to the plant whatever he chooses: appropriate circulating assets, sell the equipment in demand, or ruin the plant completely. All these actions will be deemed legally founded. Thus, this person could use his property not for work, for developing his own talents and skills, but for living a better life, for showing off, building a luxurious estate, buying yachts, and going on international cruises. This was the case after property privatization in post-Soviet Russia.

Here neither qualification, nor talents play any role. By consequence, the struggle for property (not competition — struggle) intensifies; property becomes desired, and everyone thinks themselves worthy of it. In such situation, personal interest of the owners in the production results would not be of much help, for such interest is very rare. In the end, there might be a form of labour remuneration that would make the worker personally interested in the results of production as the owner is (See more in Subsection 4.1.2). Then both the owners and the workers of plants would start collaborating and become partners, instead of competitors.

In reality, each type of property has its proper niche where it is more efficient than others. For instance, small businesses mostly live by the energy, enterprise, and simple luck of their owners. Therefore, for them, private property is preferable. Medium enterprises function better using the cooperative property form, because it best combines the entrepreneurial qualities of the owners with the collative benefit of the business. However, this would not be sufficient for the functioning of large businesses, as they demand a higher level of professionalism, organizational skills, a broad mind, and a respect of social interests. What they require is professionalism, management skills, and broad thinking. That is why such large organisations are usually run by specially hired managers, instead of the owners themselves. In this last case, the public property form is the most appropriate for big businesses, including strategic economic sectors and monopolies.

The above explains why the advanced economies have all types of property that prove their respective advantages in fair competition. And it is not the political forces, the selfishness of individuals, or the ideological dogmas that manage it, but the very nature of the coherent structure of the society and productive competition within it.

Countries with established capitalist traditions see their business and political elite formed through years-long natural selection process. They have a reliable legal

framework; the culture of liability imbued to the society provides this framework with the said sources of income and power. However, post-Soviet states knew no selection of this kind, and the experience of civilized private management had been interrupted. As the result in most cases power and property were dished out in an emergency mode, that is, to whoever came by. And no requirements as to the social liabilities of these owners were imposed on them. On the contrary, the allocation of former social property often led to personal enrichment, instead of its employment for the benefit of all. That is why there should be no surprise that most of such liabilities have not been discharged. Liquid assets are sold and appropriated, premises are rented or abandoned. What could be the usefulness of such “private property”?

What is more, while in other countries it is mostly unprofitable businesses that are privatized, in Russia the privatized ones are the most profitable and lucrative. While across the world natural rent is a significant addition to the state budget, in the Russian Federation it is mostly appropriated by private individuals. Thus, according to President Vladimir Putin, advanced economies allocate 80% of oil industry profits to the budget, and only 20% is receivable by the natural resources producers; in Russia this ratio equals 50% to 50%.

As the result, as academician A. S. Lvov has formulated it, more than 70% of all entrepreneurial class income in Russia is due to the rent, and only 30% — to productive activities. For the same reason, over 44% of the GDP in Russia is brought in by the rent. Thus, when during the discussion about the restructuring of Russian debt at the beginning of the twenty-first century, Paris Club Chair referred to the huge active foreign trade balance enjoyed by Russia, the former Prime Minister M. Kasyanov admitted that, in reality, the trade proceeds were owned by private individuals, and not by the state.

For what real merits have such people been allocated social property, do we actually need such “property owners”? This question is ever more topical today, when, in the modern Russian conditions of privatization, the ownership of public funds has often been passed over to those incapable of using the property in a decent or efficient way. It is true that an increased income of private individuals can be considered fair and useful as long as it is compensated by an additional social benefit. But when such income grows at the expense of social benefit, then it cannot be deemed fairly earned, on the contrary, it has been appropriated and results from exploitation.

When the nominal GDP in Russia dropped by 35.6% between 1989 and 2005, the share of state budget in the GDP also decreased, from 47.3% in 1985 to 16.8% by 2013. This means that budget revenue got almost 5 times smaller. In other words, the income of the property owners in this period increased not through improved economics, but through legalized robbery of the state and society.

	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>
<b>Actual GDP amount, %.</b>	100	85.8	59.3	47.9	40.0	38.5
<b>Number of privatized property items, %</b>	0	19.2	37.2	46.22	50.4	52.47

Table 1. Correlation between the actual GDP amount and the privatization rates in Russia [11].

Summing up, it may be admitted that in most cases privatization in Russia has no social benefits. So, the secret of market economy, if any, is not pinned to private property but to development of competition. To demonstrate this idea, let us use the statistics data on the dynamics of the actual GDP in Russia and of the number of enterprises privatized in the first five years after the privatization reform. This data is presented in Table 1. It should be pointed out that privatization was at the core of the 1990s reforms, and in that decade, most of the privatization transactions were passed.

Let us calculate the correlation coefficient between the two factors mentioned in the table to assess their influence upon each other. The resulting figure is negative, and it equals **0.992**. This value is so close to 1, that **it can be asserted that the more enterprises in the 1990s Russia went private, the worse** the economics functioned. And this conclusion is not at all surprising, as “as long as there is any property, and while money is the standard of all other things, I cannot think that a nation can be governed either justly or happily”<sup>\*</sup> (Thomas More).

This signifies that the privatization model adopted by Russia was the major reason of the large-scale economic collapse of the country. By consequence, **unless the interests of authorities and property owners coincide with those of the people and the state**, such occurrences will be frequent. Unless private property is made productive, its further use is destructive. In the industrial development conditions, “*Private property is less and less wholly private. Free enterprise has become progressively less free*” (P. Samuelson and W. Nordhaus<sup>[35]</sup>).

Such “state policy” has driven Russian government into bankruptcy. It has lost the capacity to govern the country in the market conditions. That is why all state programmes are poorly financed, and the economics has got out of control. The salaries of civil servants, that is, the salaries assured through the budget, often drop below the living wage, and the population is exploited beyond imaginable. Its purchasing capacity has decreased, but on the other hand, the number of millionaires keeps growing. What is the sense of such politics, and why during the entire reform its course has not once been adjusted, like it was done in China, for instance? Does this mean that despite the lack of social benefit, some people find this situation satisfactory?

In summary, it is exploitation, that is, the parasitism of the few through appropriation of the values created by others, that constitutes the key reason of the accelerating economic degradation in Russia and across the world. Only the most naïve or cynical persons can see any progress in the insatiable egotism of certain people, deprived of any talent, morality, or knowledge, but craving for wealth at any expense. This phenomenon that is behind the majority of human troubles, all the wars, violence and crime, has become a scourge of the humanity.

In addition, it is reasonable to limit the middle class to those who are not exploited by others, but neither exploit anybody themselves. That is, these are the people who earn their living honestly and are not robbed by anybody. The middle class cannot be defined through the concept of the average income, for it is too vague. Thus, if 30% of the richest people and an equal share of the poorest people are excluded, the remaining 40% will constitute the middle class. But if 20% of each of the extremes is not included in the category, then the middle class embraces 60% of the entire population.

However, a criterion varies with the statistics trickery is not appropriate for the assessment. Furthermore, the policy of middle class expansion should be given a completely different approach.

One more factor that leads to SLP suppression is usury. Without generating anything useful, it depresses the real economics, forces the producers to support the money owners, and sucks the resources out of production. The source of usury lies in the money deficit, which is inevitable in economics. In the past, when money was guaranteed by gold reserves, the valuable metals available were not sufficient for serving all the trade flows in the country. But even after this guarantee was withdrawn, the said deficit has been artificially maintained. The only reason for this is letting money generate more money, whatever the cost for production and society may be.

Besides, the foreign economic activity influences social performance, SLT and the population's quality of life, too. If the foreign trade balance is positive, it means that the country exports convertible goods paid for in uncovered paper money. For certain years Russian import exceeded its export by almost three times. Thus, our country was selling its goods at foreign markets for one third of their nominal value. This made certain private individuals richer, but on the other hand, limited the usefulness of such trade. All other people suffer from it, the state is ruined, and social labour productivity decreases. In the end, the country becomes a donor for other states, whose balance of foreign trade with Russia is negative. However, the government makes of the positive trade balance a feather in its cap and does its best to increase it ever more.

#### **1.1.9. 1.3.4. Productive economic factors**

Social labour productivity depends from many factors; however, it is most significantly influenced by human beings and their interest in the results of the labour. To be precise, it is human intelligence, education, qualifications, knowledge, physical strength and agility, and health that really impact labour productivity, as well as human energy, decisiveness, honesty, discretion, decency, common sense, tact, and communication skills. The desire to work, and the individual and social labour culture also play an important role in the SLP.

That is why everything that helps people develop the above-mentioned qualities, contributes to the SLP increase. Among these: fair wage distribution, efficient education and upbringing methods, the health both of the parents and the child, psychological and moral family, workplace and social environment, physical education and sports, ecology, and the entire infrastructure for life and leisure.

The works of W. Petty, A. Smith, A. Marshall, T. Schultz, G. Becker, and many others reflect the idea that the reproduction of high-quality work force is productive. Thanks to the contributions of these authors, the work of progressive managers to improve people has ceased to be seen as unproductive expenses, but has become the main source of flourishing for companies and the society, not less important than capital investments in the main funds. That is why, in the twentieth century, advanced economies accrued human capital faster than material capital. For instance, the US economic recovery is at least 15—30% due to the increased level of education among the work force.

Thus, in advanced economies human investment exceeds generously the investment in the main production means. Table 2 presents the correlation between the US investment in the so-called “social expenses” and production investment, taken for 100% [36].

	<b>1970</b>	<b>1980</b>	<b>1985</b>	<b>1990</b>
Education	50	42	45	55
Healthcare	54	63	76	101
Social security	90	107	123	162
Total for the three spheres	194	212	244	318

Table 2. Correlation between “social” expenses and production investment in the US, %

The data provided above allows to see that the US allocates as much for healthcare and social security as for education. It is also evident that if these expenses did not pay back, they would not be so significant. The expenses for reproduction of work-force in the US in 1947—1989 alone increase 5.5 times, while those for reproduction of fixed capital — by 3.7 times only. As the UK Prime Minister Tony Blair said, “*Knowledge-based economy has people as its main resource*”. This idea was supported by Bill Clinton, who believed that “*Sustained growth requires investment in human capital, education, healthcare, technology, infrastructure*”\*. However, modern Russia would rather save on its people.

Social labour productivity is highly dependent on the labour and living conditions of workers. Therefore, all measures that improve the labour ergonomics increase its productivity, as well. But one of the biggest impacts on SLP is that of the extent of people’s satisfaction: the higher it is, the more significant their contribution in the production process.

Let us consider a specific example. To keep a worker idle — like a machine — about 2 Mcal of energy is needed. If the worker consumes 3 Mcal, he can use one 1 Mcal for useful work only, that is 33% of the energy received from the food he eats. Then, if the same worker consumes 4 Mcal of food, he can use 2 Mcal for work. This shows how the increase in the amount of food eaten every day by 25% lets the worker do twice the amount of work he did before. This is why academician S. G. Strumilin concludes that “*the more we want to save on economy, on income and food norms, the bigger damage we will suffer*”\* [37].

Eminent entrepreneur Henry Ford believes the same: “*Wages is more of a question for business than it is for labour. It is more important to business than it is to labour. Low wages will break business far more quickly than it will labour*”\* [38]. Saving on people is, thus, a costly approach, however promising it may seem. That is why all unpopular measures are, in the end, regressive (sic).

SLP considerably depends on the technical equipment of labour, and this subject has often been brought up by authors. However, there is no definite answer here. In fact, machine production and maintenance require so much effort, that their use does

not always help to save social labour. That is why the science that works out progressive principles, machines and technologies is believed to be one of the major production forces of the society. Plato wrote that “*there is nothing more powerful than knowledge, it always and everywhere overpowers pleasure and all other things*”. “*Our economy is not based on natural resources, but on intelligence and application of scientific knowledge*” (Philip Handler, President of the US Academy of Sciences). And advanced economies do understand this.

As the result, American companies are the only to spend more than \$15 billion on training and education of their personnel annually. For the implementation of the Equal Opportunity in Education Act adopted in the US in 2002 alone \$26.5 billion was allocated. The total costs of education in advanced economies amounts to 5—6% of their GNP.

In Russia, however, they have never reached 1%, and in the years of crisis dropped further to 0.23% of the GDP. As the result, the salaries of professors employed at the Russia’s Higher education system were 1.5 times lower than the average for the country. The salaries of other academic workers are too shamefully low to quote here. Teachers in Russia do not earn enough to afford a minimal living standard. Doctors and nurses, however essential their work might be, are struggling to make both ends meet. It is evident that such stimulation neither stimulates the country’s development, nor creates proper conditions for the SLP increase or production acceleration.

Thus, the state as such, in order to assure its proper functioning, relies on quite specific expenses, just like a house or a complex piece of equipment require regular maintenance. Otherwise, they turn into a ruin. That is why a redistribution of the national income to private individuals beyond reasonable level turns out to be mortal for the country.

### **1.1.10. 1.3.5. Labour differentiation and cooperation**

*The science of equilibrium is the key of occult science.  
Unbalanced forces perish in the void.*

Eliphas Levi \*

Still, one of the most efficient factors that increase SLP is **improvement of labour organisation**. It does not require as much time and money, however, its efficiency is superior to that of all other factors combined. Besides, notwithstanding all other conditions, only harmonious organisation is capable of shaping harmonious economics, and of creating conditions for the implementation of all highly-productive advances. This factor remains the backbone of any enterprise or economy restructuring. All the rest is nothing more than its result.

We are not considering here the factors related to the scientific labour organisation, such as specialization, and introduction of rational labour methods and techniques, because all of them have already been studied in great detail. This approach reduces organisation to building an optimal structure for production based on the combination

of two dialectically different factors, i.e. **labour differentiation and labour cooperation**. Without providing an ample description of these phenomena, we will just point out some of their properties that would be interesting for the current analysis.

In the process of evolution, it has been remarked that professional **labour differentiation** in space and time increases significantly labour productivity. This tactic helps split human activity into specific functions and operations, none of which are meaningful on their own, by all of which when combined creating a completed product. Such organisation makes better use of the individual workers' capacities, improves their qualification and instruments of production, and assures rational consumption of work time. As the result, among workers there are more and more experts in a narrow field of specialization.

This factor influences the formation of all social organisation structures (see Figure 1). Besides, the more complex and specialized production, the deeper labour differentiation. "*How far the productive forces of a nation are developed is shown most manifestly by the degree to which the division of labour has been carried*" (K. Marx and F. Engels [39]). Thus, the division of labour types according to their functions is one of the most powerful factors of progress.

On the other hand, labour differentiation leads to the need for agreement and unification of separate workers and worker groups within the common working process, for interaction of all levels of production from individual employees and teams to entire enterprises, subindustries and sectors of economy. This association and interaction between the separate specialized workers in the labour process bear the name of **labour cooperation** (from Latin *cooperation*). This phenomenon is one of the key factors of labour organisation.

Labour cooperation converts labour quantity into higher quality thanks to "*the creation of a new power, namely, the collective power of masses*" (K. Marx [40]). Cooperation is followed by joining of the results of differentiated labour; as the result, labour productivity increases faster than aggregate labour consumption. It is this correlation that allows resolving global issues: developing science, education, culture, building defence from enemies, constructing canals, dams, roads, and other structures that serve a public purpose, and bring collective benefit.

Rational combination of labour differentiation and cooperation shapes all economic structures. For instance, workers unite to make a team, teams form workshops, which are parts of companies, enterprises, plants, and economic sectors.

On the other hand, the state is a cooperation of its regions, a region is a cooperation of districts, areas, etc. Thus, labour differentiation and cooperation can apply both within production framework, and depending on the territory; they function both in space and time.

In literature on economics this structure is called "**organisation hierarchical tree**". Figure 2 shows such tree for a random plant. However, this structure is applicable to other types of organisations as well, including the state. In each case it is determined by a series of objective and subjective factors, by the production and organisation type, its level of development, management, production and human relations, type of property, etc.

At the same time, as it is easy to see, each link, each cell of production has **both labour differentiation and labour cooperation**. For instance, if we analyse the organisation tree from Figure 2, from top to bottom, we will notice the division of all structures into a number of cells. But when you move from bottom to top, then all the cells combine in cooperation to create a bigger structure. Thus, labour differentiation and labour cooperation are interdependent instruments of organisation. Labour differentiation pattern determines the reasonable level of labour cooperation. And vice versa, cooperation allows to deepen labour differentiation processes. When a worker does not have to do everything in life himself, he can specialize in his profession even more. At the same time, he would be more interested in cooperating with other workers and units.

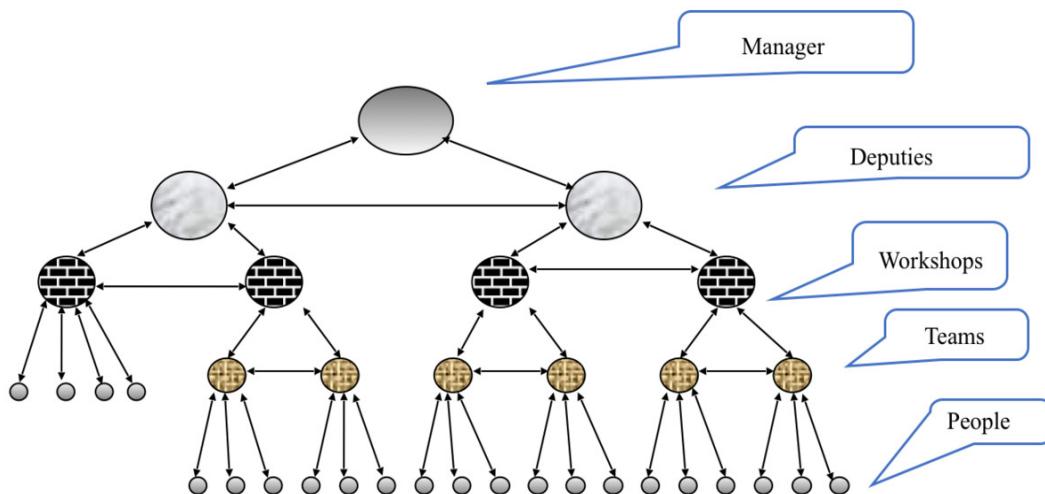


Fig. 2. Modern enterprise “organisation tree”

This is why labour differentiation contributes to a more intense labour cooperation within professional or territorial unions. Moreover, without cooperation with other structures labour differentiation is not efficient and cannot be allowed. A metallurgist will only work well when a farmer provides him with food to eat. The same level of interdependence is observable with all other professions.

On the other hand, the impact of the above-mentioned factors on people is not uniform. Labour differentiation makes workers more egoistic, and limits their circle of interests to personal problems. Cooperation, on the contrary, makes people part of a bigger entity, more important than a single person. This elevates the man, enlarges his scope of interests including other people in it, helps understand his place in the hierarchy of the community, the society, and the entire Universe. Thus, the man becomes wiser and more far-seeing. The combination of the factors mentioned generates the variety of human characters, promotes a dialectic unity of the humanity, and integrates people within each other, within their communities and the World.

This means that **no labour differentiation is possible without cooperation, just as no cooperation is feasible unless the components of the whole are divided**. Every unit is created through labour differentiation of a bigger entity, and all divided

labour is reunited in a bigger structure. And this does not depend on property form, on fashion, on organisation name, or nature of its activities.

Every enterprise, every organisation possesses dual qualities. On the one hand, its mission is to satisfy the needs of its employees, on the other hand, to satisfy social needs. “*Capitalists and workers are equally wrong in thinking that enterprises exist for the sake of income. They disagree on who should have this income. In reality, enterprises exist for satisfying social needs*”  (H. Ford<sup>[38]</sup>).

It is evident that without social functions any enterprise loses all sense to exist, as if the workers and the owners were not interested in the results of their own labour. Absence of social functions turns organisations into business mechanisms, that is, hospitals then work for the profit of doctors, schools — for teachers, banks — for their own gain, administrative services become ordinary tools for enrichment, and armies serve the well-being of generals.

On the other hand, labour differentiation and cooperation generate additional types of work, not required before, like coordination, supply, control, accounting, and management. It would be hard to classify them as anything better than social labour waste if they did not create conditions for labour differentiation and cooperation, and did not help save social labour to a greater extent than they consume it. However, this is not always the case. In certain conditions the amount of supplementary labour is inexcusably large and its efficiency (i.e. the capacity to save social labour) derisory.

The managing and controlling structures often expand disproportionately to the actual need in them and to the results of their own work. This happens very often. That is why the problem of balance between various types of divided labour, of organisation of their cooperation, and of coming up with methods to determine the nature and the way of labour remuneration is rather complex. It will be described in greater detail in 3.1.

It should be pointed out that every working person is simultaneously present at all cooperation levels — team, workshop, plant, and state levels. This means that every person is part of a community, of the humanity, and of the entire Universe.

The properties of various structures are determined by the type of connection between them. These connections can be vertical or horizontal (see Figure 2). Besides, the system would not be built so harmoniously if all of its external relations were assured by the same functions. That is, if the functions of the vertical relations were exactly the same as those of the horizontal relations. A coherent organisation would not be feasible and would be replaced by chaos and disorder.

However, the reality is quite different. The vertical connections between the enterprises and their components are administrative in nature, while the horizontal connections are linked to commodities and market. Vertical connections promote a more coordinated functioning of the cooperated structure as a whole. The main function of horizontal connections is assuring an equal exchange of results, services, and labour products between economic entities and their units. Thus, **vertical connections are required for a reasonable management of production and the society; horizontal connections are attributed to the spontaneous, self-regulating management.**

Of course, this does not mean that horizontal connections should not contribute to a coordinated work of enterprises, or that vertical connections can be unequal. These links do not only perform their proper functions, but also contribute to a better work of the structures that they link. In order to do this, they should possess a certain semblance, kinship, likeness, and have similar goals. Only then will these connections bind together a reliable and harmonious system. They would not interfere with each other, but, on the contrary, collaborate. Evidently, **only a harmonious combination of private and common social interests can guarantee prosperity to any organisation, union or country.**

What is more, administrative connections are more than simple instruments, they assure the smooth functioning of the cooperative economic mechanism. Market connections serve for labour differentiation, they condition its very existence. Without administrative management no cooperation can develop, just as without market connections there will be no efficient labour differentiation. In other words, **full-scale functioning of the market mechanism is impossible without administrative regulation, and vice versa.** This is an eloquent example of the dialectic law of the unity and the struggle of the opposites, of the market and administrative mechanisms.

Besides the work force development, the reliability of the said connections accounts for labour differentiation and cooperation efficiency. Evidently, the higher the level of state and society organisation, the more coherent and logical their functional structure. The higher the efficiency factor, that is, the results obtained with the help of the state and the society, the higher SLP, and the complex technique it can use.

Moreover, among the structures depicted in Figure 2, the highest importance is attributed to **trade cooperation** through which products acquire their final ready-for-sale form. It is such cooperation that is engaged in the market exchange of commodities and services, and that is compared to others. The structures within such corporations are called internal, those on the outside — external. Then trade cooperation types can be classified by the number of organisational levels. Small enterprises can comprise one or two levels, and in the bigger enterprises the number of levels of labour differentiation and cooperation can be equal to three, four or even more levels.

The internal links differ from the external not only by their extent, but by their nature, as well. For instance, full-scale commodity exchange would be impossible between the units of an enterprise, as each of them executes its specific functions, and they would not enter in competition. On the contrary, cooperation is more relevant here. The external relations, in their turn, can be both of administrative and market nature.

Everything described above is related to the vertical cut of the “organisation tree”. If the tree is cut in the horizontal plane, it is possible to analyse structures known as economic systems. These are described in Section 2.3.

## CHAPTER 2. ECONOMIC SYSTEMS AND THEIR PECULIARITIES

ONLY THE DISCOVERY OF A GENERAL FORMAL PRINCIPLE CAN PRODUCE RELIABLE RESULTS

Einstein

### §2.1. MARKET AND ADMINISTRATIVE CONNECTIONS WITHIN ECONOMIC STRUCTURES

*There is no such thing as absolute delusion, there are just the fragments of the Truth.*

Satprem

#### 1.1.11. 2.1.1. Advantages and disadvantages of market connections

As it has already been mentioned above, the connections of entities within economic systems can be either horizontal (market relations) or vertical (administrative relations). These links shape the dialectic unity of two governance instruments — the market and the administrative ones — that are quantitatively different and incomparable. Thanks to these instruments, opposites are created in the economic life of a society, which is typical of all natural phenomena. While market connections serve labour differentiation processes, administrative connections correspond to labour cooperation. The first category represents the spontaneous component of economic relations, while the second category fits the reasonable, human-mediated relations. In the light of the foregoing, let us analyse the nature and the peculiarities of each of the two mechanisms.

Economic literature, including the works of J. B. Sey, A. Smith, K. Marx, J. Keynes, P. Samuelson, and others, one can find a variety of definitions of the market. In particular, nineteenth-century British economist W. Jevons understood market as a group of people who establish business relationships and enter into deals related to merchandise. Modern American economist Ph. Cotler describes market as an association of existing and potential suppliers and buyers of goods, emphasizing thus the specific role of the buyers. Encyclopaedia Britannica defines market as “means by which the exchange of goods and services takes place”. Nobel Prize winner Friedrich August von Hayek saw market as a complex means of transfer that allows to use information scattered among the innumerate individual agents, etc. most efficiently.

There is an opinion that market is an institution that brings together buyers and sellers, or else an economic mechanism based on the sovereign pricing by the seller. A. Marshall proposed the single sales price for a certain type of goods as a market criterium. Feliks Klotsvog believed that “*Market or market form of exchange is just one (possible) form of exchange. In the market, the balance between the demand and the offer is established by prices through their deliberate deviation from the socially required expenses*”, etc. Each of the definitions proposed above is in a way fair and

questionable at the same time. Therefore, we dare suggest the following interpretation of the term.

**Market is a complex of socio-economic relations through which an equivalent exchange of goods is performed between economic entities in the framework of social labour differentiation.** At the same time, modern market does not fully execute these functions. Thus, the liberal model implemented today does not forbade an inequality of the market exchange of goods, that is, allows exploitation, if this contributes to higher profits. That is why the current market is mostly governed not by the equivalence principle, but by manipulation of commodities prices in accordance with the demand and the offer for them.

The main instrument of market exchange of goods is competition. However, it is not the only one, as market is also influenced through collusion aimed at limiting competition by its level of expedience. Among other impacting factors there is religion, morality, ethic principles of human cooperation, and laws and customs to which these principles are applicable.

Offer of goods is determined by the costs of their production and delivery to the buyers. Demand, in its turn, depends on the capacity of certain goods to satisfy the needs of people or production, i.e. the consumer properties of the goods. Offer and demand are very different factors, which explains why current market is a complex phenomenon. It is not always able to assure equivalent exchange of goods through the demand-offer balance only. Therefore, without proper regulation market turns into a bazaar, where destructive forces often exceed the creative ones.

Thus, market is a specific area where production costs of goods and their consumer properties interact and are revealed together. Market is the only place where these two factors are directly connected and can, despite their fundamental difference, be compared. This enables market to act as a regulatory mechanism of both production and consumption. Besides, both functions are executed spontaneously. Thus, true market is a classical highly organized mechanism that engages direct and reverse relationships between economic entities, namely, the seller and the buyer.

On the other hand, market can be a balanced and stable regulator only in the long-term statistical perspective. At each specific moment, the market will be unbalanced in a certain place. Sometimes the demand exceeds the offer, sometimes — the other way. This is, in fact, the primary source of market dynamics, a mechanism of adaptation to the changing circumstance, a strong and a weak point of the market at the same time.

Importantly, market is about socially required, and not individual, costs of goods, including raw materials, energy, human and materialized labour, and profit. Personal demand interacts with the social offer, and individual offer — with social demand. That is why true market justifies the costs of goods, as well as the social demand for them. This is one of the primary functions of market. As the result, the act of purchase and sale between two individuals surpasses their individual relations and acquires social importance.

At the same time, the costs of different goods at the market should somehow be contrasted. Only then can goods be compared to each other, exchanged, and assessed. For instance, to calculate how many shirts a suit costs. However, only items that have

something in common that could serve as a comparison factor, shared by all items. Unless such a factor exists, any exchange becomes subjective, and there is no place for any objective patterns within it. This fact makes the functioning of market more complicated.

That is why a special factor was introduced in economy to represent the said properties and to qualify any goods or services. It is called exchange value or **cost**. The properties of cost are described in detail in Subsection 3.1.3. The commonly accepted intermediary for exchange of commodities is money.

It is the cost of goods that acts as the primary instrument of market regulation, and the main qualities of the market are expressed in it through the **price**. The most important quality is **equivalent exchange**. At the market, the goods are to be exchanged against each other not randomly, but in accordance with their cost, which is confirmed by the society. If this rule is not observed, the entire market order is ruined, and market regulators cannot function efficiently. The inevitable consequences of this are disorder, chaos, and exploitation.

Therefore, the more equivalent the exchange of goods, the better market connections are maintained. Besides, the ideal market (often called “*free market*”, “*perfectly competitive market*”, etc.) is the one where goods are exchanged strictly according to their cost.

Equivalence should be present in all economic spheres. For the consequence is not only the lack of fairness that is essential for all human relations. The very process of labour differentiation slows down. And, as importantly, production incentives become less efficient, the criteria — less objective, and all economic regulators’ function is weakened.

Thus, market tightly binds together the processes of production and exchange of labour products between economic entities. During exchange of commodities, the advantages of social labour differentiation are revealed, and the functioning of the direct and reverse, and horizontal and vertical connections is improved. Furthermore, it becomes possible to assess the level of demand for specific goods, related to their quantity and quality, and production and consumption incentives are formed. This means that a system, an organism emerges, and this system is known as social production.

It is during this process that market proves its numerous advantages. For instance, it helps minimize the amount of human labour consumed for the production of any kind of goods. Besides, market stimulates the migration of knowledge, resources, labour, and technological advances. It also intensifies competition, which boosts the quantity and the quality of goods. That is why **SLP** growth is not imaginable without the market mechanism.

On the other hand, the strict interdependence of the demand and the offer, which is one of the pillars of the current economic relations, is not decisive. In fact, real life is so varied that it always surprises people with phenomena that do not fit in the system of economic regulation based on one factor only. Both demand and offer are autonomous and determined by multiple circumstances, that is why they cannot be limited to each other. Otherwise, market will turn into the simple scheme “*buy cheap — sell expensive*”. The demand for commodities is governed by human physiology, psychology,

and culture. On the contrary, the offer is determined by natural and technological factors, by scientific and social development, by labour productivity and many other things. It is market that brings them all together.

The offer tends to be aggressive, and it is fully backed by information and power resources. The consumers, in their turn, are often estranged, subordinated to money diktat, and forced to function in the conditions imposed on them by others. They are more dependent on consumer properties of goods than producers are. Therefore, the rights of sellers and customers are never and nowhere equal. Most of the existent resources are available to the seller only, and the customer is obliged to buy whatever is offered by them.

For instance, in 1996, in the US, 3.5% of the GDP was spent on advertising, while only 1.9% — on R&D. Simulation was considerably more profitable than productive activity. That is why limiting market regulation to the demand-offer interaction is as indecent as limiting it to the state of technocratic, physiologic, and psychologic factors.

The rule of equivalence in the market exchange of goods conditions the need for absolute equality between the seller and the buyer; it also results in an uncurbed flow of capital, goods, material and labour resources, and the need of absolute awareness of the society. There should be equal opportunities, personal freedom, sovereignty, and equal rights of goods owners and money owners. Besides, there should not be any prohibitions for any types of useful activities, on the contrary, there should be incentives to increase their variety and make impossible harmful activities. However, this dream has never yet come true.

**Real market and exploitation** are incompatible by definition. The equality of exchanges of goods presupposes the absence of all factors that could make the trade partners or their production relations unequal. At the same time, poor performance of financial institutions, parasitism, and exploitation of various countries and social groups, of the man and Nature, as well as all kinds of nationalist and social deviations prevent market from fully revealing its qualities. And these harmful phenomena are omnipresent and continuously expand their influence.

The ideal conditions for market connections are the existence of an unlimited number of independent sellers of the same merchandise, and an equally unlimited number of isolated solvent customers. The ideal market is an abstract field of absolute competition. That is why small commodity production of functionally similar items corresponds better to the ideal market concept than large-scale production. The functioning of the market is improved, first of all, not by the private property of production means, but by the full-blown competition between all economic entities. Otherwise, it is very likely that an oligopoly emerges, consisting in price collusion both among customers and among sellers.

At the same time, the more modern the goods, the more complicated their production technology and the bigger the plants that manufacture them, by consequence, the lower the number of plants required to satisfy social demand. As the result, the number of organisations with homogeneous production continues to decrease. Technical progress inevitably pushes economy towards monopolization. That is why in advanced economies, monopolies produce up to 80% of the commodities weight. For

instance, in the 1980s, 12% of all Soviet enterprises accounted for 75% of production in the country. Similarly, in modern Russia, an overwhelming part of energy is supplied by 5—6 companies, while most of the aluminium, rolled steel, and concrete are manufactured by two major enterprises — the list can be continued.

This situation is typical for production spheres, as well as for management, information, politics, and finance. Besides, it applies to both original and mass consumer goods. Indeed, does not the only shop, hospital or pharmacy of a small village enjoy a monopoly? Or, for that matter, the seller of unique goods or services? Is it reasonable to build ten parallel telephone and communication lines or roads in a city, or constructing several railway lines between the same station for the sheer purpose of stimulating competition?

There are even more grounds to consider certain economic sectors monopolies (see Figure 1) that do not admit competition as such. Even then, some have attempted to do that under the influence of the orthodox “market” ideology. As the consequence, modern heat energy, pharmaceutical, transport, communication, bulk sales, finance, household utilities and many other sectors enjoy the benefits of a monopoly in the unrestricted pseudo market conditions.

It is easy to observe that in all of the above-mentioned sectors market regulation is completely disabled. The demand increase does not boost the offer, on the contrary, it often pushes the offer down. Why would a monopolist improve production and multiply associated issues when profit can be made by letting prices soar? In the current conditions, monopolies do their best to have their competition with non-monopolies recognized as equal. For instance, in Russia, the bread cost price is just 10% of its retail price; many drugs cost in pharmacies over 50 times more than it costs to produce them. This situation is far from being rare. Such circumstances undermine the functioning of rational market regulation.

Therefore, monopolies cannot be governed by market at all. Every attempt to revive market by suppressing, splitting, or privatizing monopolies, harms the society and, in most cases, are doomed to fail. After all, economy monopolization is a natural process that increases SLP. Today this phenomenon results from labour cooperation, which is inevitable. Besides, it reflects the process of collaboration, as efficient as labour differentiation and regulated by competition.

By nature, monopolies can only be managed through administration. This fact serves as yet another proof of the market not being the universal, unique possible mechanism of economic regulation. Furthermore, this should not be seen as a drawback of the market, just as the incapacity of men to bear a baby is not a drawback. Market has its peculiarities, its capabilities, and its mission. **Rejecting cooperation is as absurd as rejecting competition.** It is stupid to break a complex machine to try to make its joints work independently from one another.

But monopolies are not the only structures that market fails to manage. In addition, there is a large category of goods for which the need faintly depends on the offer; it includes most of the vital commodities, such as foods, medicines, housing, clothes, security, etc. The demand for them is determined by the needs of survival, rather than by the offer. People are ready for anything to avoid dying and prevent their relatives from it. Not much equality to speak about here. This factor escapes regulation the more,

the more significant the deficit of such vital commodities. This pattern is the only limit for the market forces.

Moreover, the desire of monopolists and structures that live outside of competitive struggle by the other entities, as well as their egoistic wish to make rent in the current pseudo market conditions is not something new. In the end, every economic entity aspires to become unique. Through suppression of its competitors, market suppresses itself. The more actively it functions, the narrower the field of its rational regulation, and the more chances the strongest stand to survive. Consequently, the number of possible equal competitors for the consumer or the producer shrinks, the circle of market connections actors diminishes, and competition loses its usefulness. This is one of the most profound contradictions of the market.

There is yet another mechanism that disturbs the sphere of fair competition, in international trade, in particular. This mechanism is **protectionism**, often used by advanced economies to generate advantages for them in trade, production, access to resources, technologies, etc. All measures seem to be good for it: ideological propaganda, sanctions, duties, customs barriers, bribing of the elites of countries to prepare intervention, to cite just a few. They result in chaos and disorder, deprive the targeted countries of protection mechanisms, hamper their development and improvement. These economies switch to serving external consumers, instead of the nation. Protectionist measures lead to unfair deals and agreements, they exert a strong political, financial and military pressure, making a fortune out of it.

On the other hand, even provided that market reveals all of its capacities, it is not ideal. As every probable, stochastic process depending on many circumstances, the market mechanism is **inertial**, and its achieves success through a large number of samples, trials and failure only. That is why market is not efficient when the situation evolves suddenly, when connections are unstable, in the times of changes and lack of established processes both in production and in the society. Therefore, as social tension mounts, as wars and revolutions break out, together with crises and other unforeseen circumstances, market becomes disabled.

It is fairly capable of serving the current, momentary issues, but is not suitable for resolving long-term future problems. That is why advanced economies use other managements methods for their resolution, like new taxes, administrative execution, or creation of special structures or funds.

Market levels out social enterprises to elevate private ones. It helps turn organisations into a means of prosperity of their owners and workers, instead of serving the society. At the same time, “*The task of an enterprise is to produce for consumption, not for profit or speculation*”  (H. Ford<sup>[38]</sup>). That is why market works poorly when satisfying social needs. Its mechanisms cannot be employed directly to resolve national issues even in countries with stable market traditions, because market ignores these needs. This idea is applied to maintaining competition, to socially acceptable income distribution, and to construction of canals, protective structures, roads, and other social facilities.

Only administration can manage fundamental science, higher education, culture, art, legislative agencies, army, police, etc. Market cannot perform this function.

Market is incapable of preventing dangers to population or resolving social and humanitarian issues. The application of market realia to mobilization and creative potential of people threatens the very existence of the humanity. Besides, market does not help manage the media functioning, in particular, of large media, because turning them in business items deprives them of impartiality and objectiveness. **The truth that sells is a lie.**

Let us analyse an example. While in all epochs the wisest and most responsible people were usually entrusted with youth education, in the times of raging market this important task is given to those who are only interested in making personal profit. As the result, by the age of 20 an American child has seen on TV and in the Internet 100 thousand of acts of violence, 12 thousand murders and other crimes. This is much more than a soldier witnesses at war. And the result is quite predictable: the number of deaths caused by firearms in the US is 30—35 times superior to that of an average European country.

Furthermore, all “civilized” countries with advanced market economies are faced with another problem. Their population is dying out. And the reason is not wars, diseases, or lack of food; this phenomenon results from personal choice. People refuse to have a family and assure their progeniture, because it is unprofitable. By consequence, these countries need to constantly recur to work force from the countries whose psychology has not yet been deformed by the orthodox market relations.

Market ideology, **when not limited in its application**, makes too many things completely absurd. The orthodox market destroys everything that enters into contact with it, be it science, culture, education, art, or morality. It transforms love into sex, and friendship and collaboration — into servility. Market stifles all the truths human beings live by, only to elevate the material and to destroy the spiritual values.

Besides, market deforms motivational priorities of people. Thus, a private physician, a private pharmacist, or drugs producer are interested in their patients being ill much more than being healthy. Healthy people are just not profitable. A private shop owner gets more profit from selling alcohol, tobacco and other drugs, than from selling books. Lawyers are more appealed by multiplying the discords, disagreements, and conflicts, to put it straight — in legal wars between individuals and business structures, as well as the authorities. A car mechanic earns more as the number of accidents grows, a glazier would rather there were more hurricanes, and a swindler wants people to be as stupid and naïve as possible.

Market exploits vile human instincts and suppresses or deforms the elevated ones. It never accounts for the losses inflicted on Nature or the society, and is useless when it comes to educating the youth to instil them with morality and ethics. Market is disinterested in all that makes humans human and does not generate immediate profit. It struggles with individuals becoming a society, or the state developing as a form of social entity. Market entails a massive degradation of the population.

Modern market presents many other deviations that deform its function. For instance, the creation of a trade mark which drives the prices of similar goods so far apart. Advertising, which shapes a product image inconsistent with the reality. This allows

market to avoid serving people, but to subordinate them. Dishonest sellers get the opportunity to make enormous rent by way of information aggressions, instead of improving economy.

In fact, market does not need workers, engineers, scientists, doctors, and teachers; children or elderly persons; it only requires sellers and customers. Only sellable things are admitted to the market. He who can afford buying is respected. Thus, a considerable part of population capable of working that has failed to adapt to this ugly system is turned into outcasts. This contributed to turning states governed mostly through market into colonies that do not produce anything on their own, and cannot provide their population with means of existence; such states become raw material sources and dumps of excessive produce from advanced economies.

Market does not assure a fair distribution of income. For instance, average capacities of staff members in relatively large companies are quite similar. Nevertheless, the income of employees in different sectors and regions of Russia, as well as of other countries, is strikingly different. Thus, Muscovites earn around 3 times more than their compatriots, and people from the central parts of the country earn about 1.5 times less. Besides, the salaries of government officials, bank employees, and trade workers are considerably superior to the average.

By its nature market is cruel, immoral, and uncompromised; it does not contribute to social equilibrium. On the contrary, it promotes the racism of the strong towards the weak. Besides, market makes rich people richer and ruins the poor. This can be observed not only within human groups, but at the states scale as well. At the market, all fight for themselves, and nobody stands for all. There is no way such organisation could be efficient, because fighting is always costly.

An uncurbed market levels out national, ethnographic, civilisational, confessional and other differences between states and peoples that enrich the world. It deprives all of a human face and discolours the surrounding world. Besides, such market cuts a person away from his roots, from customs confirmed by the centuries, from language and cultural properties, to disrupt the link of times, and impede any progress of the humanity.

Market economy excludes natural resources from pricing processes and considers them as a “free” addition, a rent advantage. This encourages a fight for resources, as well as their thoughtless consumption. It was not by chance that the United Nations Conference on Environment and Development that brought together the governments of 130 nations in Rio de Janeiro in 1992 admitted that market economy entailed a global environmental catastrophe, and threatens the human beings’ existence.

At the same Conference, it was declared that the western social development model had reached its limits. The humanity, driven by market fetishism, is constantly confronted with crises, and this path leads to sharp controversies within the society. The market economy model with its unlimited consumption, speculation, power of money, and other negative phenomena cannot be seen any more as the only possible progressive force.

Indeed, “*Technical development and associated specialization make market ever less reliable, it should give way to planned economy*”  (J. Galbraith<sup>[41]</sup>). Taking into

account the experience of Serbia of his times, in 1994 D. Kalac writes, “*Applying the laws of ‘free market’ every state in reality destroys its proper market and economy*”.

Summing up, market is quite a complex phenomenon. Whether positive or negative market traits prevail in a specific country in specific conditions depends on the way market is used. Another factor is the administration, its equilibrium with the market and capacity to govern it. Otherwise, market cannot efficiently function all on its own.

Therefore, market requires a careful approach. It is essential to understand where it should be stimulated, and where not; when market is useful and when it is harmful. And, quite importantly, to what extent. Market has not emerged today; it has existed and functioned for a long time. Active market does not always make economies proper. That is why it should not be seen as a miracle cure for all troubles, as orthodox market liberals try to do. Despite the evident advantages, market should be well governed, otherwise it turns into a primitive bazaar. Unless there is competent market governance, “...we are more and more convinced that the ‘free market hand’ is pointing the wrong way”\* (A. V. Buzgalin<sup>[42]</sup>).

The vulgarized concept of market and market laws that dominates market reform of all CIS countries and other states across the world has eliminated the major part of market advantages. As the result, any immorality has become morally justified, any crime against the state or humanity has been acquitted and recognized as “progressive”.

Therefore, the biblical legend of cleansing of the Temple when Jesus Christ expelled money chargers from the Temple, has a deep symbolic meaning. It is an allegory of the incompatibility of spirituality and profit making.

### **1.1.12.      2.1.2. Power and administration**

*An army of sheep, led by a lion, is better than  
an army of lions, led by a sheep.* \*

Napoleon Bonaparte

It is well known that the world is governed by money and power. If money serves the market exchange of goods between economic entities, the mission of power is administration of this process. Obviously, in the complex current conditions both instruments of management interact and influence each other. Still, they conserve their specific functions. Let us, therefore, analyse the concept of power to determine its sources, instruments, mission, and functioning.

Western political science holds the definition of Max Weber published in 1922 as the classic definition of power: “*the probability that one actor within a social relationship will be in a position to carry out his own will despite resistance*”.\* The grounds for such probability are absolutely irrelevant here. In all cases it works as a means of physical and material constraint, stimulation and punishment capable of mobilizing the social resources and implementing the decision adopted. “*I am sometimes a fox and sometimes a lion. The whole secret of government lies in knowing when to be the one or the other*” (Napoleon Bonaparte).

Power can employ various methods: democratic and authoritarian; violence and deception; provocations, extortion, stimulation, promises, and ideology, but it always preserves its essential qualities. Power is always founded in authority and faith, in law and justice. Once they are gone, power collapses. The history of humanity remembers more than one such occasion, the most eloquent for Russia being the changes of power of 1917 and 1991.

One of the first treatises on power was Niccolo Machiavelli's *The Prince*, published in 1532 [43], still relevant today. This work describes the main aspects for social governance and requirements for the governors. The author demonstrates that power is expressed through all kinds of constraint, however, it should be presented in a noble form. Machiavelli's analysis was the first of a large number of studies on the subject, multiplying exponentially.

At the same time, *The Prince* points out that authority, strength, prestige, law, wealth, knowledge, charisma, mystery, and interest as *sources* of power. *The subjects* of power are the state and its institutions, elites and leaders, and political parties. *The objects*, then, are an individual, a social group, a class, and a society. *The functions* of power are the following: supremacy, rule, regulation, control, governance, coordination organisation, and mobilization. To perform these functions, power uses such *resources* as rules, constraint, violence, persuasion, encouragement, law, traditions, fear, myths, material values, and information.

Power can assume many *forms*. For instance, economic power is control over economic resources, property, and money. It is tightly related with social power that acts through distribution of positions on the social ladder, such as statuses, posts, advantages, and privileges. Modern states exercise considerable social power to influence the situation of large population groups, winning or losing their support. Cultural and information power is an instrument for influencing people through scientific knowledge, information, and its media. In addition, there exist judicial, moral, religious, intellectual, family, clan, and other types of power. However, in all cases power presupposes an unequal relation between those who govern (subjects of power) and those who are governed (objects of power).

Political power is a special type of power that consists in the capacity of a certain social group or class to impose their will, and to influence the activities of other social groups or classes. Compared to other types of power, political power is exercised on large groups of people through a specially created mechanism and other tools proper to it. Among the most sophisticated structures of political power there are political parties, the state and the system of administration conceived to exercise this power.

Cato the Elder (first century BC) was convinced that “*any power is better than anarchy*”. Without power, there is no place for social production that requires subordination of all participant to a single production process. Power also regulates the relationships between people within communities and the society. “*During the time men live without a common Power to keep them all in awe, they are in that condition which is called Warre*” (Thomas Hobbes) \*. Power is present everywhere, even among animals, where the leader of the herd rules the weaker and the subordinated. Similar phenomenon can be observed in the world of plants. Power emerged together with the

human society and will always be related to its development, in one form or another. Without power, it is impossible to regulate human relations in communities and in the society, as well as to organize social production rationally, it requires subordination of all participants to a single objective.

Indeed, if people only solve their personal problems ignoring social issues (the ideal of the liberal doctrine), such society is inefficient whatever effort people employ to improve their situation. The success of some is conditioned by the failure of the other, and total result of little consequence. Such social organisation can be compared to gas, where the molecules move chaotically at the average speed of 600 m/s, while the gas itself may remain motionless. Unless all molecules acquire the same direction, no draught, wind, or hurricane will emerge. Then the propeller comes into motion. Unless there is a uniting authority, an army is no more than an armed crowd. An orchestra without director is just a group of musicians. To assure an efficient social development, there must be a force capable of consolidating human behaviour. In a state this force takes the form of **power**, and **administration** is the mechanism of such power.

**Administration**, or “*the organizing agency of the state*” (K. Marx)  is an **ensemble of coordinated structures, as well as methods and means applied for rational regulation of the economy and the entire social life**. This ensemble is dialectically different from the market and serves an instrument of cooperation, to counterbalance the competition and labour differentiation. Its use helps regulate relations between economic entities and social entities not spontaneously, through the struggle of random forces, as at the market, but with the assistance of human mind.

To function, this administrative apparatus employs the principle of vertical and horizontal division and cooperation of management labour, which shapes a hierarchical administrative structure, comparable to the “organisation tree” in Figure 2. “*The defining of everybody's rights and duties is the road that leads to orderly government, but the not defining of everybody's rights and duties is the road that leads to disorder*” (*The Book of Lord Shang*, an ancient Chinese treatise [43]). The activities of officials are strictly limited, and all orders are put in writing. This allows to relay them without deviations, to objectively analyse the texts, and to control the execution of the decisions adopted. The procedure assures the continuity of power and its behaviour. This is, in fact, one of the strong points of administration, as well as one of its weaknesses.

Besides positive qualities this has created the bureaucrat, who is responsible for the letter of the order or law, instead of the task he is entrusted with. All actions of officials are now strictly regulated. As the President of Sberbank German Greff put it, “*A camel is an Arabian horse that has passed through all the red tape*”, and he was right.

Administrative system functions within the existing economic, political, and national realia, the established visions, conditions, traditions, experience, and production relations. It has absorbed the entire variety of the contradictory human nature. This makes it possible to abuse of power and use it to achieve personal aims. Indeed, as Paul Valéry said, “*Power without abuse loses its charm*” .

Governance **styles** can be divided into democratic and authoritarian. The first type is characterized by highly decentralized authorities. Subordinates take an active part in decision-making and enjoy a large freedom in the performance of their duties. A normal governor spends most part of his time to assuring the compliance of the production group purposes with the organisation goals and the supply of the group with the necessary resources. Democratic governance combines power with responsibilities, and includes the workers in the process.

Authoritarian governance gives absolute personal power to the governor, he is the one to set all group strategies. Authoritarian power never delegates any authorities, but delegates execution. It punishes the irresponsibility of public officers. Under authoritarian governance the duties and the responsibilities of an official often do not match. However, such governance is mobile and purposeful, the power apparatus works more smoothly and performs better its functions, and the margin for abuse is more restrained.

For democratic governance a lower executive discipline of the authorities is typical; they work more for themselves than for the social benefit. Under authoritarian rule, an official is as powerless as all other executives, that is why he is more impersonal and better disciplined. Therefore, both governance styles are imperfect, and have both advantages and disadvantages.

That is why, a new system should be created where both governing methods will coexist, make up for each other's disadvantages, and reinforce the advantages.

The **functions** of administration include unification, subordination, prediction, analysis, planning, operational and prospective management, and accounting for and regulation of all subordinate social and economic entities. “*To govern is to plan ahead*” (Napoleon I to the State Council of France) \*

On the one hand, the mission of administration consists in active governance, on the other hand, it should introduce self-organisation to the community and the society, which renders extensive intervention unnecessary. It is evident that no society can normally exist without self-organisation. It functions as a car does, when it is driven by a man, but does not require him to control the work of every valve and engine cylinder. The higher the level of social self-organisation, the less the need for manual control of it. Therefore, administration should shape a **social organism capable of self-development**, by combining rights and responsibilities, by subordinating private interests to common ones, and vice versa, and by implementing the principles of justice and solidarity in the society.

Unfortunately, current administration pays little attention to the self-organisation issue. It is wary of the problem and fails to establish an efficient cooperation on the subject. This impedes the formation of a civil society, even though it is this society that determines the potential for organisation and limits the administrative intervention. Besides, it assures the survival of the society confronted with unexpected circumstances.

Power determines many things. It makes thousands of people act good or evil, build and destroy cities, lay out gardens and burn harvests. It is power that shapes the lives and conditions the well-being of people, the health and education of children, the

chastity of women and the peaceful life of the elderly. It is the style of governance that determines the essence of the state. And unfortunate is the country where power is appropriated by selfish, immoral, stupid, or incompetent individuals, by those who see power as an instrument to quench their own ambitions and assure their prosperity. They want to implement certain ideas and ignore that power is a field for action and serving the society, comparable to that of monks — this is the way it should be.

Then, as if a contagious disease, all the filth slides down the administrative ladder and subordinates the entire state structure. It only elevates those who correspond to the image of such governors, and poses no threat to their prosperity. Then it is no more the Mission and the Duty that guide the administrators, but their proper selfishness, thirst for power, and servility. This has distorted the image of power, has made it the main source of troubles and cataclysms. Power ruins the result of millions' work, it suppresses the present and the future. The only thing capable of turning it in the right direction is the fear.

Thus, rational administration is essential for coordinating the effort of many people to perform social and economic tasks, to resolve common problems, and to protect shared interests. For instance, only thanks to the food rationing system was it possible to assure the survival of the belligerent states during the two World Wars. Market administration would have failed to do this.

However, it is indispensable for all types of cooperation and for developing collaboration between various entities. Besides, history has proven that only the state or the community of people that is administered in accordance with its functions can be successful. Only administration is capable of governing monopolies, of providing all people with means of survival, of managing the work of internal structures of enterprises and associations, and of joining their efforts.

It was solely thanks to centralized state planning that South Korea and Thailand succeeded in modernizing their economies through six five-year plans. After WWII, France implemented nine five-year plans to see its economy reborn. Portugal proceeded to industrialization through three six-year plans and one four-year plan. India's planned economy is very successful, too. The same situation — in Japan and other actively evolving economies.

Similarly, in the 1980s, thanks to state support and protection from the market, British and French electronic industries developed and made a success. It is also known that the Japanese Ministry of Foreign Trade (MITI) for a long time financed and otherwise supported (from the organisational, personnel, legal, information and other points of view) corporations that implemented daring technological projects. This permitted Japan to become a leader in the most important and innovative economic sectors. In the US, military contracts and technological initiative of the Department of Defence played an essential role during the initial stage of the information and technologies revolution of the 1940s-1960s. Eventually, the USSR entirely owed its success to centralized economy. Through state governance alone was it possible to restore the defined industry in the post-reform Russia, as well as revive the army. This means that the role of administration does not decrease with time, on the contrary, it grows.

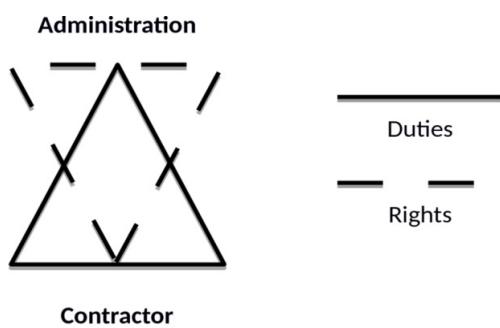
Administration is the only one to prevent unhealthy economic development, to which pure market regulation tends. Without state intervention, the prices of goods in

various sectors and monopolies could get out of hand and ruin the entire structure of the economy. Moreover, there could be a real price war, a war in which there can be no winners.

Indeed, nothing besides administration could impede price chaos. That is why all civilized countries severely control the monopolist prices of the key economic sectors. This allows managing the entire pricing policies, and assuring strategic economic management in market conditions. A complex system of compensations, subsidies and sanctions is applied to make possible maintaining economic order and coordinating interests of various groups. Besides, a sturdy legal framework is created to regulate the behaviour of economic entities. Through administration only can Nature and the society protect themselves from unlimited exploitation by certain individuals.

Though administration is meant for agreement and coordination of works, the current administrative model is based on **subordination** of the lower ranking officials to their superiors, and not organisation of fruitful collaboration. That is why the instrument of administration is **fear**, not **interest** in achieving common goals. It is evident why in such conditions the success itself is of secondary importance.

At the same time, **duties without rights** cannot be performed, just as no rights can be granted without corresponding duties (see Figure 3). Nevertheless, in the current administration the rights are mostly concentrated among the higher ranks, while the duties — among the lower. This controversy definitely does not contribute to efficient functioning of either category. Consequently, only the middle managers are capable of productive work, because their rights are balanced by their duties. It is thanks to these people that administration functions today, and owes its success to.



Pic. 3 Distribution of the rights and duties in administrative management

Undeniable advantage of administration consists in its lower inertia, which makes it more efficient in uncertain and extreme circumstances (wars, epidemics, and crises). For instance, joint-stock companies that owned the railways of the Russian Empire could not assure transportation in the period of Russian-Turkish war of 1877—1878. This was due to the utter lack of control and low management culture. Even a regular state investment and various forms of government support to stipulated for such enterprises could not resolve the issue. The Russian government had no other choice than nationalizing the railways by purchasing them.

This allowed to assure rational work of all railroad transport, to pass a unique rate reform, to reinforce the cooperation of certain lines, to improve the cargo transportation flows, to increase the comfort of travel, and to build a stable material and technical basis for the economy. Besides, the rights and liabilities of the railroad company and of their clients were revised; economies were made thanks to the newly created centralized state direction of the railroads known as the Ministry of Railways. As the result, abuse by private services was reduced, the railroads became more profitable and worked more smoothly. When at the beginning of WWI English railroads failed to cope with the military transportation, the problem could be eliminated through their nationalisation only.

Only the restoration of state regulation allowed E. M. Primakov's government to help Russia out of the default into which the liberals had pushed the country by August 1998. As the result, after a many years' degradation, Russian economy started to revive, and showed the first budding signs of convalescence. Without any doubt, the said government was then dismissed, and neoliberals took to power again. And the situation continues up to the present moment.

A large number of problems cannot be solved without administrative intervention. That is why, following the recommendation of the Nobel Prize winner W. Leontief, Japanese government controls now more than 2000 big companies, the US government — more than 600 companies. Such countries as France, Germany, Sweden, Japan and the US have introduced government control for up to 45% of all industrial production.

Without administration, it is impossible to satisfy the social needs of the population, or to proceed to prospective planning and management. All significant achievements are unimaginable without social resource concentration, which the market simply cannot provide. Its function consists in assuring labour differentiation, not labour cooperation. This applies not only to safety, but also to the construction of defensive and melioration systems, of roads and communication means, as well as other technical, defence, cultural, and scientific projects.

Administrative regulation is irreplaceable when resolving national, moral, information, and social challenges of the humanity. Administration alone is capable of preventing mean instincts, immorality and sin, to promote the preservation of the ethnocultural and moral human habitat, of all ethnic and social groups. It can fight against the spread of mass diseases, of information and psychological phobias, and destructive aggression.

On the other hand, the current administration has some negative qualities, too. They are conditioned, above all, by the qualitative content of power representatives, of all officials vested with power. It has always been understood that access to power cannot be provided to anyone, but only to those capable of using it efficiently. One can remember Aesop's fable about a snake whose tail rebelled against the head and demanded that he drag not at the end all the time but that the head and the tail alternate. And when it finally took the lead, it doomed the snake to evil death, as it had, against nature, to follow a deaf and blind leader. Similarly, access to power of random people costs too dear to the society.

Nevertheless, this particular issue is approached with fatal carelessness. The modern system of leaders' selection used both in Russia and in other states is beneath criticism. No one would agree to be operated by an unqualified surgeon, however, incompetent people are easily allowed to governance, which is a considerably more complex task. As the result, the higher ranks of power are attributed to people not on the basis of business or moral qualities, but due to their wealth, protection, connections, fight of political parties, clans, or political conjecture. In most countries, there is no real competition for the leading positions, partly thanks to those who are at the political rudder at present. A legitimate mechanism for replacing and making answerable those representatives of the ruling elites who do not cope with their duties has not yet been invented. This would still be less tragic, if the states had a stable and logical structure, but unfortunately, it is not so, and therefore state survival is under threat.

That is why it is not surprising that the snake's tail situation is quite frequent. Lack of professionalism, and incapacity to anticipate even the gravest consequences of administrative actions are fatal. Besides, this bears an impact on all results of current administrators work.

A way to assess the professionalism of the authorities is by is appreciation of true professionals, their experience and knowledge applied in all economic spheres. For instance, in modern Russia, the salaries of scientists, teachers, and doctors are significantly lower than those of financial experts, officials, and traders. Senior positions are often redistributed not due to the low qualification of those who hold them, but due to personal, conjecture, clan, or commercial reasons. Evidently, the mission associated with these positions does not benefit from such replacements.

On the other hand, the negative properties of existing authorities would not be so obvious if the power they are vested in was used for discharging their responsibilities, and not for achieving personal goals. Social interests have become captives of private interests. That is why often the behaviour of administrators is not guided by their mission, but by their selfishness and ambitions. This aggravates the inherent drawbacks of power. What is more, social interests are subordinated to private interests even beyond economy. The same situation is observed in all spheres of life: politics, ideology, property rights, social institutions functioning, etc.

The reason for such conduct of administration lies in the fact that the negative reverse relations in the administrative apparatus — object of administration are broken. Administration governs and decides everything, but is never responsible for anything. That is why in its current form it cannot be self-regulating, it cannot perform the physiological function of self-cleansing of its waste products, of rotten forms, principles, and people. It has turned out to be incapable of adaptation, of self-organisation whenever the circumstances and the society change. As the result, it quickly loses in productivity, and has been permeated by the sense of uncurbed freedom, impunity, bribery, and corruption.

Moreover, the only criterion for assessing the work of administration is the visible results of its work. Therefore, the authorities seek to achieve the promised results **at any cost**. On the one hand, this is an advantage of the administrative system, and

increases its efficiency. On the other hand, this results in excessive costs of administrative success. In this sense, the administrative and the purely market regulators are similar.

The problem would be half as grave if power had just one face. But in reality, all levels of power experience a struggle of various groups for positions, privileges, and money. There is no end to schemes, wars of officials, and backbiting. The authorities are thus distracted from their functions, which deforms the nature of power even more. The victory of some groups does not only result in the elimination of the adversaries, but often entails their physical eliminations notwithstanding their qualifications, morality, or usefulness. Supporting interests of the country and the people is no more than a lip-service. The state serves as a battlefield where these tragedies are constantly enacted. And, as every battlefield, its protection and prosperity are nobody's business.

Against this background, the desire of each boss to be an autocrat, to limit the initiative and the self-organisational tendencies, seems even more paradoxical. As the result, all responsible decisions are, as a rule, made by the "top", even though there are not so many competent decision-makers there. Besides, craving to preserve their positions, none of the officials are interested in having subordinates more intelligent, more respected, or more qualified than themselves.

This is the backbone of the personnel policy of the authorities, and it prevents the promotion of worthy and qualified leaders, and contributes to administrative degradation and eventual extinction of the administrative machinery. As the result, when the trouble comes, the majority of the ruling elite has to be quickly replaced with people capable of resolving the situation.

Moreover, the evolution of the modern administrative apparatus has revealed some other negative qualities. In particular, the overwhelming, cancerous desire of unlimited growth and multiple self-reproduction. At the same time, "*The rise in the total of those... would be much the same whether the volume of the work was to increase, diminish, or even disappear... An official wants to multiply subordinates, not rivals'* (Parkinson's law<sup>[44]</sup>).

The multiplication of administrators does not only fail to increase their efficiency; indeed, it is decreased. New work is introduced, which nobody needs, but which justifies the existence of supplementary positions, encourages the flourishing of bureaucratic structures, generates red tape and overcautiousness. The same as a stone in the middle of the road. Is there any use from it? But then it is impossible to ignore it either.

If at the beginning of the past century, in the US there were 40 workers per one clerk, by 1965 there was just one worker per each clerk. After privatization, the share of state property in Russia decreased more than three-fold. However, today there are 102 officials per 10 thousand of population, while in 1985 the number was equal to 73. God alone knows what these officials do. Especially when one takes into account the fact that liberal ideology requires no management, this task is performed by "the invisible hand of the market".

Therefore, the following question appears quite logical: unless administration nature changes dramatically, how long will it take for the state officials machinery to

swallow up half of the working population? And how long to devour the entire population? According to C. N. Parkinson<sup>[44]</sup>, in England, the first event will happen by 2145, the second — by 2195. Based on these growth rates, we can conclude that Russia will live through both stages much sooner.

Promotion of individuals to prestigious position is, as a rule, imposed from above. Should it be so surprising then, that authorities have broken off from people and stopped performing their functions. As the result, “...having lost touch with people, the elite gradually starts perceiving only those ideas that correspond to its proper beliefs” (M. G. Delyagin<sup>[6]</sup>) . The elites do not stand any efficient methods for their control by the society. They are so much trouble!

The qualities of administration discussed above are little dependent on the social classes that enjoy hegemony at a certain historic epoch, as well as on the values these classes stick by. **The administrative system preserves its properties across centuries, wherever it exists, without failure.** This is an inherent, genetic feature of such administration. Besides, it can be observed at all levels of organisation, within all structures of production and society. What is more, the negative qualities of the current system of administration have not changed much since the ancient days: “*Thy princes are rebellious, and companions of thieves*” (Isaiah 1:23). “*Wherein one man ruleth over another to his own hurt*” (Ecclesiastes 8:9). As monarchist I. Solonevich wrote about the state of the Russian tsar’s government, “*The same three pillars our ruling elite leans on: stupidity, lack of talent and irresponsibility*”. Not much has changed today; rather, the situation has aggravated.

In the light of the foregoing, it is obvious that the subsequent ramification of the existing administrative machinery does not only make it overblown, but also less efficient. This pushes the humanity into a deadlock, from where it is possible to escape only by improving the governance and changing the production relations.

At the same time, this is a forbidden way. In the end, **it is the methods of formation of the ruling elites and of their interaction with the society, when they are not a primitive reason for staff replacement, that are the source of all social upheaval, all revolutions and coups, of ideologies and socio-economic reforms.**

On the other hand, we have not yet worked out methods of promotion and vesting in power of the true intellectual, professional, and moral elites of the society. Neither authoritarian, nor democratic, nor ideological, nor religious or clan entities have proved capable of solving this issue properly.

In general, it can be argued that **there are no universal mechanisms for managing society under any conditions and situations**. So, if the society is self-consistent, develops successfully, and people live quite safely, then its democratic form of organization is more progressive. But if society shocks social cataclysms, the uneven distribution of income exceeds reasonable limits, and people live poorly, then the authoritarian form of government is more successful.

### **1.1.13. 2.1.3. Comparison of the market and the administrative regulators' qualities**

*Opposites are the same, differing only in degree. The pairs of opposites may be reconciled. Extremes meet. Everything is and isn't, at the same time. All truths are but half-truths.*

*Every truth is half-false. There are two sides to everything.* \*

The Kybalion

Let us compare the visible qualities of the market and the administrative regulators of the society. While the market is more consistent with the personal goals of economic entities, administration's mission is the achievement of common objectives. If the first mechanism encourages an equivalent exchange of products of labour, and the principle of individual justice; the second protects collective interests and increases social labour productivity. Finally, in market connections use money, administration functions through power.

Market regulators assure successful functioning of the economic entities themselves; administrative connections boost the results of joint efforts. Market helps economy develop self-organisation, and administration encourages the improvement of economic regulation. These regulators are asymmetrical, which means that they are dialectically equal, that they are meant to complete each other.

On the other hand, the harmonisation of the market and administrative regulation is possible provided that the two types of connections function together. Only then the market could be governed by administration, and administration could be guided in all its work by market realia. To achieve this, administrative regulation must integrate the market structure just as market should become part of administration's approach. After all, it is this which defines a civilized market as opposed to a bazaar, which renders it efficient, objective, and reliable.

This is why any administrative regulation of the market should contribute to its better functioning, to creating proper conditions for equivalent exchange of goods, to developing competition, and to stimulating the positive qualities while suppressing the negative ones. Besides, it should get rid of all obstacles that impede such improvement. Similarly, the market should assist in better administration's work, and encourage efficient execution of all of its functions. Only then will there be a true union, a regulation system where each component will not work on its own, but will partake in a specific regulation field, forming an alloy and substituting for the existent mix with alternated qualities of the market and the administrative regulators.

Market cannot be totally given over to the market elements, it cannot be regulated through demand and offer only, without intervention of the social intellect. It is evident that brainless economy is doomed to fail. Similarly, administration should not evolve on its own, unrelated to its mission and its duty before the society. The two regulatory instruments are not self-sufficient, and only together they can work without the deviations described above.

Therefore, following the dialectic laws, it may be concluded that **no country has ever had or will ever have purely market or purely administrative forms of production and social governance organisation**. The desire to depreciate the advantages of either of these forms, as it happened after the Russian Revolution of 1917, when the market regulators were impaired for the benefit of planned regulation, only to revert the approach now, entails imminent failure. The extremes tend to be ugly and inefficient, notwithstanding the political conjecture or the evolution of the approach to social organisation nature.

Orthodox “market economy”, where **everything** is sold and bought, is nothing but a wishful thinking of modern neoliberals. According such distinguished economists as W. Leontief and J. Galbraith<sup>[41]</sup>, free market has never existed and will never exist.

To achieve balanced management of the social production and increase its efficiency in the current conditions, it is important to reinforce the vertical management channels as shown in Figure 2. This, in turn, would help optimize the functioning of the horizontal channel, which stands for market regulators. At the same time, it is evident that reinforcing the existing administrative apparatus is a useless task, as it has already lost its capacity to function productively; it is high time to change the form of administration. With the modern concentration of power, and the current development of production forces, the drawbacks of the administrative machinery can annihilate the results of work of millions of people, which happens all too often. Simple adjustment of the administrative system in order to increase its morality and professionalism will not be sufficient, just as apparatus reduction, varnishing the reality, punishments, or introducing more sophisticated control. What is more, the purely market regulation is in similar state.

Obviously, **harmonious economics** should have considerably different administrative and market regulators. Even though they would preserve the main positive qualities, all the negative properties will be eliminated. Furthermore, where one type of regulators is weak, the other should make up for it. In order to demonstrate this correlation, let us place both regulators in Tables 3 and 4 and point out their advantages and disadvantages.

Analysing the data presented above, it is easy to observe that the two regulation mechanisms are asymmetrical. The drawbacks of one are made up for by the advantages of the other, and vice versa. Thus, they are complementary. That is why, only joint functioning of both mechanisms can make economics more productive, while implementing just one of the regulation approaches and ignoring the other will fail in turning economics either highly efficient, or socially-oriented.

## §2.2. ECONOMIC SYSTEMS AND THEIR FEATURES

*...heading for the market, one should not make a cult of it;  
adhering to planned economy, one should not idealize it either.*

Professor Liu Guoguang, Vice President  
of the Chinese Academy of Social Sciences

### 1.1.14. 2.2.1. Characteristic features of various politico-economic entities and their potential

It is widely admitted that there exist two fundamentally different economic systems: the capitalist and the socialist ones. The first is usually associated with the spontaneous self-regulating economic organisation governed by the market. The second, on the contrary, is believed to be a rational, human-controlled planned system governed by administration, by the authorities. Various combinations of the two can exist, which preserve the character of each of the systems. The main difference of the two lies in their approach to private property.

Nevertheless, the major differences between the politico-economic systems cannot be reduced to the concept of property alone, that is, to the legal deed that establishes the rights of possession, use, and management of production means. After all, in capitalist states public property prevails, which does not belittle its property nature. In fact, the two systems can be distinguished by **objective factors**; among them the key factor is **production organisation form**. The nature of property is determined by the production form, and not vice versa.

To clarify this idea, let us demonstrate, using Figure 4, the behaviour of one trademark “organisation tree” from Figure 2, as presented within different politico-economic systems [14]. Reliable links between entities are shown in solid lines, and poorly functioning connections — in interrupted lines. The abbreviation **Adm.** Signifies production administration, and **Ent. 1 & 2** — enterprises, i.e. trade corporations. As it has already been mentioned, the horizontal connections between the structures represent market exchange of goods, while the vertical ones stand for administration.

Structure **D** corresponds to socialist system. Here economic relations between economic actors run along administrative channels, and direct trade deals are complicated. They could be regarded as criminal offense. System **B** is typical of a capitalist economics, where only horizontal market connections work smoothly. Administrative connections are weakened, because private ownership of production means allows owners to pursue their independent economic policies.

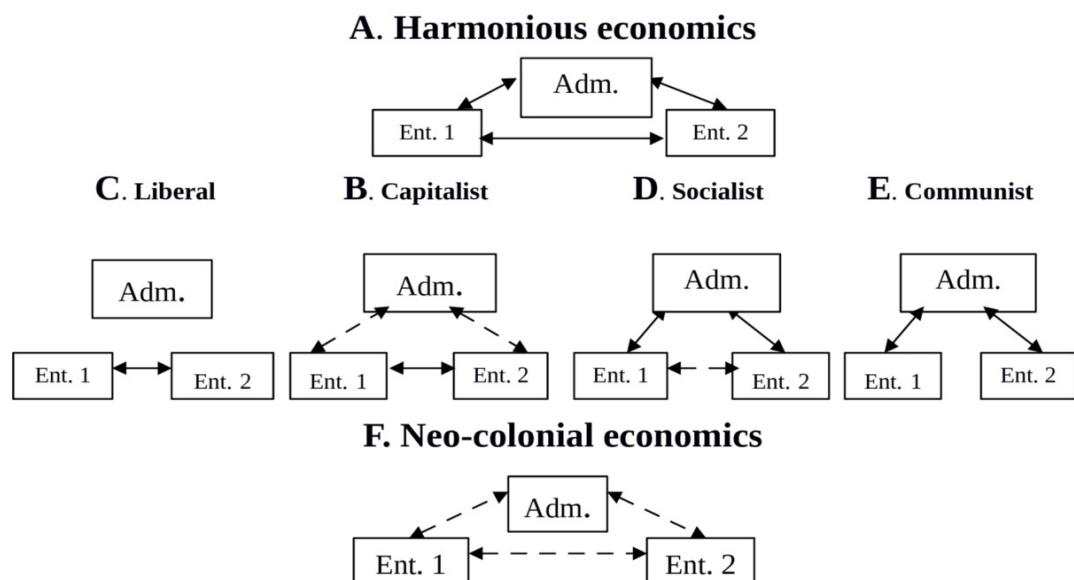


Fig. 4. Quality of connections in various types of economics

It is easy to notice that the socialist and the capitalist systems are asymmetric. While one primarily counts upon administrative regulators, the other prefers market ones. Therefore, quite logically, **socialist economies are familiar with all the advantages and disadvantages of administrative connections, and capitalist economies have all the benefits and drawbacks of market connections**. It is not surprising then that in the Soviet Union capitalist economics was considered at the brink of extinction, while the ideologists of capitalism saw socialist economics as unnatural.

Therefore, communism (structure **E**) is the socialist model reduced to an absurdity. Under communism, money disappears as such, and all governance is carried out by the administration. There is no place for equivalence of economic actors: *everyone is treated according to their necessities*. Labour is not stimulated, and the state takes equal care of all of its citizens notwithstanding their personal contribution to the public funds; it is absolute egalitarianism; no social self-regulation is permitted.

The situation is mirrored in liberal economics (structure **B**): administrative governance disappears, and market remains as the only available regulator. It is not surprising in this case that such economics today is often referred to as “market” economics. It represents the capitalist system, reduced, in its turn, to an absurdity.

Within this system the state is not at all answerable for the behaviour of economic actors. The governance functions are performed by the “*invisible hand of the market*”. The role of the government is limited to maintaining order, and managing monetary flows and preferences. In such a state, everyone is free to behave as they will, there are no limits to the liberal principle of economic freedom. In fact, economy is let to take its course, as well as the prices, and the people take care of themselves. No one should be held responsible for anyone else, and no collective incentives enter in play. As the result, implementation of socially significant non-profit projects is complicated.

Obviously, both models are theoretical constructs, they are unreal, and, as any extremes, unpromising. They are more of a play of imagination that has lost touch with the reality than actual examples of certain tendencies. At the same time, extremes are the easiest things to judge: no interpretations to make, everything is crystal clear. Decision-making requires no thinking at all, no qualification, of effort. In fact, one can just do what one loves: privatizations, preferences, investors, and forecasts.

Therefore, despite the visual differences, in essence the two models are quite similar. That is why orthodox communists could so easily transfigure into orthodox liberal market advocates.

Neo-colonial economics has neither the administrative, nor the market regulators working properly. It is total disintegration. After the elimination of socialist states, their full-fledged administrative structure was destroyed, but no market governance was proposed for replacement. Indeed, what market is there to talk about when the banking system serves itself only, and when the crime and corruption rates soar?

For the same reasons market governance suffered degradation in some capitalist countries, and was never substituted with a functioning administration. As the result, the newly emerged neo-colonial system turned out to be extremely inefficient. It resembled the capitalist model as little as it resembled the socialist one. It is not surprising

then that neo-colonial states concentrated all the drawbacks of both the administrative and market regulators, while not preserving the advantages of any of the two.

Only the well-balanced harmonious economics (A) is free from the said drawbacks. Within it, the administrative and the market regulators function in coordination, complementing each other and making up for each other's issues. The building of such an economic system is discussed further.

On the other hand, there is another possible approach to the analysis of politico-economic systems. It takes into account the main macro-parameters of modern capitalist economics that serve as its regulators. These are:  $x_1$  — aggregate demand for goods;  $x_2$  — aggregate offer of goods;  $x_3$  — profit norm;  $x_4$  — prices level;  $x_5$  — monetary mass;  $x_6$  — inflation or deflation;  $x_7$  — capital lending rate;  $x_8$  — wages;  $x_9$  — unemployment;  $x_{10}$  — average tax rate;  $x_{11}$  — investment in real economy;  $x_{12}$  — foreign trade balance, etc. Besides, gross national product (GNP), accepted as the integral indicator of states' performance, depends on all of the above-mentioned factors, it is the function, the result of their aggregate impact:

$$GNP = f(x_1, x_2, x_3, x_4, x_5, \dots, x_n \dots).$$

It is evident that economics dependent on so many factors is impossible to govern well. Imagine a car where instead of three control elements (steering wheel, brake, and gas pedals) had ten or more: would it be safe to drive?

To exert rational influence upon such economics and to reduce the number of regulators, modern theoreticians have come up with an idea to study these factors in pairs. They establish correlations between factors, like  $x_1 = f_1(x_2)$  or  $x_8 = f_2(x_7)$ , etc. In other words, they define the demand through the offer, and the rate of unemployment through lending rate, etc. Nevertheless, this approach is not very efficient, because the correlations are reliable as long as all the other factors remain unchanged. That is, if the demand only depends on the offer, and the monetary mass, unemployment rate, etc. have no impact upon the demand. However, such situations are impossible.

That is why capitalist economics is better governed spontaneously, through the market, instead of using administrative regulators. Target recommendations that are useful in certain cases fail to work in other. As the result, capitalist economics management today is more of an art, than of a science.

Within socialist economic system many of the factors mentioned above were either stable or disabled. For instance, prices, monetary mass, tax rates, and investment changed little in socialist countries, and inflation, lending rate, and unemployment were insignificant. At the same time, self-regulation was reduced to the minimum, therefore poorly thought of actions of the authorities were not compensated by the reverse connections of the economic system itself.

The 1960s-1980s reforms (primarily, A. N. Kosygin's reforms) boosted the economic independence of enterprises, and introduced new incentives for them. However, as the reforms were not completed, the market connections were not sufficiently reinforced, but actually rendered economics less controllable. As the result, despite the visual attraction of the new measures (introduction of market elements, of cost price,

and cost accounting, establishing direct connections between the producers and consumers of goods, etc.) and the initial positive changes, they doomed the economy to collapse. This attempt to combine the incompatible things had no chance for success, as the two models were too different.

For economics to be efficient, the administration should be able to regulate the market, and the market should regulate the work of administration. Only then the two will form an alloy, not just a mix. In order to achieve this, income should be combined with social benefit. Monetary mass should be correlated with the mass of goods it serves, to eliminate money deficit, usury, and inflation. Lending rate should be cut down, and the philosophy of taxation significantly changed. Besides, the system of assessment and remuneration of wage work should be revisited to increase the interest of each employee in the final results of their labour and make employees colleagues instead of adversaries. Finally, new principles and incentives for the functioning of administration should be worked out.

This will make unreasonable expenses impossible, and unemployment will be eliminated as such. Other macro-parameters will be well regulated by the market; administrative and market connections will be balanced. Administration will resolve current problems, while market will successfully assure self-regulation. The ways to implement such a system will be discussed further in this book. This type of economics is referred to as “harmonious” economics.

In harmonious economics it is not money deficit that determines the situation, as it is under capitalism, nor labour deficit, as it is under socialism, but general interest in achieving the best possible results, as well as in the balance of interests of individuals, communities, and the society. Obviously, the earlier the transition to this form of economic organisation starts, the more significant its future success will be.

Let us analyse the key qualities and potential of each of the politico-economic systems from Figure 4. For this, the description of the market and the administrative regulators from sections 2.1.1 and 2.1.2 will be useful. The objective is to determine the impact of the regulators on the potential capabilities of the systems.

### **1.1.15.      2.2.2. Analysis of capitalist system**

Capitalism is a system based on a convention known as money. Its aim is assuring the prosperity of certain people at the expense of others. A lot has been written about capitalism since the Soviet period and up to today. What is interesting, if before mostly the drawbacks of this systems were pointed out, now its advantages come to the foreground. It is obvious that neither of the two attitudes is impartial or comprehensive. That is why we shall emphasize those qualities of capitalism that are most relevant for the purposes of this monograph.

However, as no existent economic model is more efficient than capitalism, the best efforts of the planet are employed in to develop it. That is why capitalist economies have flourished more compared to other states. Though they are far from being perfect, nevertheless, they offer a wide assortment of products, and a relatively high quality of life. “*Capitalism has gained viability by associating economic success with access to*

*a variety of private-use goods*' (J. Galbraith<sup>[41]</sup>)  Order and rational organisation of everyday life provide the comfort of life. Science, healthcare, and education develop successfully; production and technology are front-edge. How is such performance assured?

As it has already been mentioned, capitalist ideology is based on the principles of liberal doctrine proposed by J. Locke<sup>[30]</sup> and widely supported by his followers<sup>[28], [45], etc.</sup> The key principles include personal freedom, trade and business freedom, as well as uncurbed prices, and highly stimulated competition. It has been particularly actively imposed since the 1870s when microeconomic approach dominated the economic theory. In accordance with this approach, the central element of analysis is economic actors (consumers and companies), who seek to maximize their profit in any economic relations. Theoretically, they should function in the conditions of ideal competition, and the efficiency of any specific company should contribute to the general economic productivity.

This theory was elaborated in the works of J. M. Keynes<sup>[33]</sup>, who studied the correlations between the main economic indicators: national income, savings, investment, and aggregate demand. The main issue, according to Keynes, consisted in achieving efficient national economic proportions of the above-mentioned factors. He claimed that the automatic balance of demand and offer does not always function. Besides, Keynes rejected the vision of national income as a universal value, and questioned the neutral role of money in economic processes.

In 1956, M. Friedman, future Nobel Prize in Economics (1976), published *The Quantity Theory of Money* that made him famous<sup>[46]</sup>. Since, he was considered the founder of **monetarism**. According to this theory, money emissions acts as the main regulator of social life. The quantity of money in production is determined randomly, and its circulation speed is constant. Besides, the changes in the total quantity of money impact the prices of goods. The competition between economic actors must be stimulated by all means, and the state has no right to interfere in economy. The flow of resources and capital outside of the country and within it is encourages and not limited in any way.

These principles, implemented in all possible forms, have become the foundation of the current economic system. In accordance with them, capitalist economics is based on private ownership of production means, on sale of usurious interest, and on transformation of various types of rent into a source of income. These actions involve self-regulation mechanisms assured through economic activity of the population, which is stimulated by all means. Then, every worker is interested in gaining personal income, which increases the predictability of social behaviour.

This system is enabled by the desire to optimize the consumption of financial resources in any type of activity. The ultimate goal of such organisation, of the entire machine of production relations, of all types of securities, and all kinds of economic relations, is increasing profitability of money, which is a secondary trade instrument. All aspects of life, and the entire organisational, informational, political, and ideological structure of capitalist countries is subordinated to this mission.

Therefore, it is not surprising that money, and money alone in all forms, dominates the capitalist economic organisation. All is reigned by money, and made possible by money. Moreover, all economic entities are built so that they could turn money into a source of profit, into monetary capital, and the state — into a machine for money generation. It is only just that such economics be called “capitalist”.

The monetary obsession of capitalism contributes to efficient spending of money (however, not of the material or labour resources). Social benefit is not economically justified, while all kinds of profit-generating activities, including criminal ones, are. As the result, corruption and crime rampage in all capitalist economies. But the substitution of benefit by profit does not mean everybody gets income. Consequently, the social gap grows significantly.

In full compliance with the positive and negative properties of market connections (see sections 2.1.1 & 2.1.2), it is these market regulators that had the deepest impact on the organisation of capitalist economies. Administration in such countries is weak. Competition is omnipresent, and it contributes to ramified labour differentiation, which is encouraged by private ownership of production means, though not always. However, human, natural, and intellectual resources are efficiently consumed.

It is no coincidence, then, the “golden billion” countries, which correspond most to the capitalist economic system, consume up to 86% of all world resources today. The remaining 6 billion people consume 14% only. That is why the rich countries, which account for 25% of the Earth’s population, use 70% of all energy generated, 75% of all metal mined, and 80% of all wood cut, and consume 60% of all food (UN Human Development Report 1992). It is obvious that such distribution of resources cannot be reasonably justified. *“World has enough for everyone’s need, but not enough for everyone’s greed”* (Mahatma Gandhi). The reason for the current situation is not only the global exploitation of periphery countries, but also their incapacity for processing these resources, which is not an issue for capitalist economies.

Severe, uncompromised and rigid competition averages the production capacities of various types of labour, and regulates income norms in different economic sectors. This encourages the implementation of cutting-edge techniques and working methods, and allows to withdraw outdated goods from the market, to update techniques. And close down uncompetitive enterprises and companies. Then, only productive knowledge is applied, and advanced mechanisms and technologies are implemented.

As the result, the employment, and the wages of workers in different sectors and different regions of capitalist economies level out. This encourages equality of economic actors, boosts the rights and the importance of individuals, and renders all aspects of life more democratic. To a certain extent, this tendency assures the equality of human and mechanized labour. Consequently, people who have equal qualifications but are employed in different economic sector and live in different regions have equal opportunities. The market is indifferent to the origin of goods and money, to the ethnic, political, and religious beliefs of the trade deals parties. The only thing that matters is the price of the goods and the demand for them. Everything is determined by one’s abilities and offer.

Market regulators contribute to the equivalence in exchange of commodities, when the goods are exchanged partially in accordance with their value, although this is not always the case. As the result, the society becomes more orderly, the relations between economic actors — producers and consumers of goods, customers and vendors, owners of money and owners of goods — become more balanced. This boosts the interest of economic actors in stable functioning of market regulators.

At the same time, the production of various kinds of goods grows in volume, and their assortment and quality increase. The only limit for production is the solvent demand, that is why the competition between producers is severe. By consequence, there is a tendency to increase the demand by encouraging consumption, and by overall increase of the needs of customers at home and abroad. This is the essence of the struggle for markets, for customers, for their attention, and money. As the result, economy develops rapidly, the stagnation is eliminated, and production intensifies.

To a large extent, capitalist economies owe their success to the energy and high competence of their business elites shaped as the result of a years' long natural selection. These people do not only display commercial acumen, but understand that sometimes pressure is not the best strategy. In these circles, reputation is in high respect, and a certain business code exists, i.e. there is a sophisticated business culture. All activity conforms with the laws that aim at combining the interests of individuals, the society, and social groups.

These people are alone at the rudder, they have subordinated all political and production forces of their respective states. Businessmen's activity is stimulated through excessive income, expressed as profit. Besides, they accept social responsibility and understand that highly efficient business is only possible under state protection, and provided the population is content with its life quality. It is thanks to such people that capitalist economics is possible, despite its numerous drawbacks. Other property forms (state, shareholders', collective, municipal, etc.) also exist under capitalism, and this broadens their capacities.

Capitalist production involves all profit-generating factors: labour and natural resources, education, scientific discoveries, and technologies. General effort is taken to increase labour profitability, and the proceeds from property, money, and the use of personal and hired talents. That is why not only human, but materialized labour is actively engaged, and labour instruments and production means are improved. They are encouraged to be as technologically advanced, ergonomic, efficient, productive, and cheap as possible. What is interesting, that all this happens almost automatically, without active administrative interference.

On the other hand, the success of capitalist economies is mostly due not to their extensive development, but to organized exploitation of the resource, intellectual, financial, and labour potential of the entire planet. That is why, besides sizeable benefits (adaptability, self-regulation, dynamism, etc.), this economic system preserves all market drawbacks. Under capitalism, money is unstable, and the property gap is huge. Moreover, the taxation system, which remains out of reach of the market, functions poorly.

As enterprises are managed by private owners, other workers have no say in the production management, they are estranged from the results of their labour, and serve

as irresponsible performers of the others' will, as an ordinary work force. Thus, the majority of the population has been converted from economic actors to passive business objects. Economy now serves businessmen more than it serves the society. This has alienated people, and has driven apart the goals of different social groups. Competition between workers have split the society in rivalling classes, which prevents the joining of effort for achieving common goals.

Furthermore, money deficit — the imminent component of capitalist organisation — makes production relations more profitable, and, by consequence, freezes production. It is well known that money is the blood of economy, and anaemia is harmful for everybody. It can excite the organism, help control it, but will not make it healthy again. Social tension, crime rate, and corruption ravage capitalist states. This is quite logical, as feeding the infinite personal greed and assuring the prosperity of the state and the society are two incompatible tasks.

Capitalist administration is inefficient, it constantly gets out of control, and demands attention. Natural resources are out of reach of market regulation, and, consequently, are consumed thoughtlessly. This destroys the human habitat and entails environmental catastrophe.

Due to uncontrollable competition and struggle of the demand and the offer, the prices are no more relevant to the cost prices and utility of goods for the society. Through advertising ("the driver of trade"), oligopolies, monopolies, trusts, cartels, syndicates, and wholesalers impose their priorities on the society. As the result, prices constantly increase, which makes all economic criteria become uncertain. Production is losing touch with reality, and economic relations become illogical. It is, therefore, unclear what is useful in economics, and what is harmful. "Long money" is in deficit, and economy loses its development perspective, and limits itself to resolving short-term conjecture issues. Financing of long-term projects is problematic.

Everything is governed by personal income, instead of social benefit, as the result economic potential is not fully realized. "*The business that serves the interests of capital alone under its pressure is doomed to perish*" (Henry Ford [38])  Population is exploited on a large scale, that is why capitalist economies need no neo-colonial countries to feed excessive production which does not correspond to the purchasing power of its proper people, drained by exploitation. The situation is aggravated by the wide use of foreign labourers, which washes money out of the host country, reducing the domestic market, pushing down the demand, and hurting the production. Thus, "*Capitalism is the product of world inequality... It could not exist as such without the obliging assistance of the others' labour*" (F. Braudel). As the result, the fight for foreign markets intensifies, which is the key reason of all conflicts and wars.

Social inequality under capitalism is excessive, and natural and human resources are consumed in a thoughtless manner. Production improvement does not lead to the expected increased leisure, but increases unemployment. This happens because the price of work force is not directly related to its productivity. As the result, an ever-growing share of the population, and even entire countries, end up being "unnecessary" within such economy. After all, in accordance with the liberal doctrine, business is free and is not supposed to have any duties before the population, or the state.

Cruelty, immorality, and inhumanity are the characteristics of market and they shape the respective social situation, as well as determine the state of all social institutes and correspondent production relations. Indeed, the reduction of economic purposes to money making under the capitalist domination inevitably deprives humans of their human nature.

Amorality is an integral part of capitalism. Every year, up to 14 million children in the world die of hunger, while millions of tons of food are destroyed in order to maintain “proper prices”. This is not excessive, or accidental, but logical within capitalist system. Market economics does not accept any consumer demand, but only solvent demand, which the children, unfortunately, do not have. The current food production could satisfy 110% of the needs of global population, and still, over 30 million people across the world die of hunger every year, while 800 million suffer from constant malnutrition [47].

The backbone of capitalist system is exploitation, i.e. inequivalent exchange of result of labour of economic actors and of private individuals. Each economic actor seeks to get the most possible for the lowest possible price, whatever the damage to others could be. This renders economy unpredictable; economic and political life — subjective and arbitrary; interferes with the equivalence principle, which is essential for proper functioning of the market regulators.

Summing up, capitalist system is far from being perfect. After all, capitalism is a legalized way for some people to live at the expense of others. Besides, exploitation, one of the pillars of this form of organisation cannot be contained to human relations alone. That is why this parasitism has spilt over the limits of personal relations, over communities, and counties to disrupt the very link between the human being and the surrounding world. “*Rampant egotism was the feature of the new [capitalist] production method*” (K. Kautsky [48]) \*. The result of this egotism is environmental disasters, wars, terrorism, and all crimes imaginable.

Capitalist economics promotes the animal nature in humans: egotism, greed, cowardice, weakness, fear, and submission. The elevated qualities, such as honour, dignity, and conscience, are ignored. This cannot but disfigure the man, deprive him of power, destroy his culture, and pervert his morality. Thus, according to The Center for Inquiry data, “*More than 50% of Americans under 44 years old read less than one book per year*”. SAMHSA reports that over 20% of Americans aged 18 or less suffer from psychic deviations, and 25% of teenage girls in the USA have contracted at least one venereal disease [36].

Thus, the liberal economic model is supported not by factors that unite and enoble people, that revive the human nature in them, but, on the contrary, on those that drive them apart and oppose them to each other. Capitalist system serves as the natural selection of the fittest ones, of aggressive people capable of fighting others, instead of working for the common prosperity of all humans. Obviously, such organisation disfigures human nature. As long as capitalism dominates, such crimes will be an ordinary thing.

On the other hand, as a wolf cannot live without fresh meat, capitalist economies cannot survive using their internally produced resources only. As the result, “*a modern*

*'capitalist society consumes more social capital than it produces'*\* (Francis Fukuyama [49]).

Indeed, the patriarchy of feudal system allowed for the formation of human capital, physically and morally healthy, God-fearing and honest, that still serves as the foundation of all existing capitalist achievements. Therefore, "*the West has built itself from the colonial material*" (C. Lÿvi-Strauss), without which capitalism would not have evolved. Indeed, in the middle of the eighteenth-century India generated up to 2 million pounds for Great Britain, and these were quite different from the modern pounds.

In the feudal system, human beings had real value expressed in currency that they were bought for. That is why human investment was a prerequisite for the prosperity of the owners. Nothing similar is imaginable under capitalism, where people are treated the same as natural resources. Therefore, they can be consumed up, and their well-being is of no consequence. Personal freedom has been transformed into complete disinterest of owners of production means in their existence as individuals. In fact, "*serfdom of the feudal epoch was much easier than the serfdom that came to replace it in the period of commodities production*" (Karl Kautsky [48])\*.

Disequilibrium of market regulators and their limited sphere of rational functioning are at the source of many of the capitalist system drawbacks. For instance, the functioning of monopolies and transnational corporations cannot be governed through market either. That is why their pressure on the authorities, the consumers, and the suppliers grows, put of control of the competition. They are neither interested in improving the quality of their goods, nor in decreasing the costs of their production, nor in cutting down the prices. In fact, the products of monopolies, especially if they are staple goods, will always be in demand, whatever their quality or price. The same can be said about vital commodities in deficit: food, housing, medicines, and medical care.

Social functions of the production are no more obligatory. "*The purpose of enterprise existence is not in earning money for the capital owner or for the worker. Both of them are equally short-sighted, and both have the same vision of the enterprise; the only question they do not agree upon is whom the profit shall belong to*" (H. Ford [38])\*

In accordance with the market nature that is one of the founding principles of capitalist economy, capitalism is cruel and destructive, is disfigures all that is true and that falls under its control. Administrative civil service is transformed into business, and becomes an ordinary instrument for generating personal profit and corruption. Culture, which is a fundamental value of people that serves for instilling spirituality and morality, turns into pop culture, a phenomenon that satisfies vile instincts of the largest population groups, into a source of profit and vanity. Science, an instrument of discovery and improvement of the world, is reduced to the servant of human greed.

Sport, which makes the population healthier, has become a business. Love gradually degrades into sex, and is an object of trade and commercial deals. Friendship evolves into mere partnership, a tool for earning income together, as well as rivalling

with the others for prosperity. Orthodox market kills patriotism, dignity, and unselfishness. All human relations are formalized, as well as feelings. What remains there of the man himself in these conditions?

In conclusion, capitalism does not benefit from peaceful creative and prosperous life on the planet, it grows fat on the constant problems, naturally occurring or artificially created, to generate profit for those who feign trying to resolve the issues at the expense of consumers of goods and services. For instance, could munition or arms manufacturers be ever interested in peace?

Unless changing their organisation dramatically, capitalist economies are incapable of confronting force majeure situations, crises, and other calamities. As soon as anything of the kind occurs, they are forced to quickly engage administrative control levers, change their attitudes and lifestyles. This situation could be observed in the US after the terror attacks on the Twin Towers on 11 September 2001, when emergency measures that were implemented to increase population security often infringed on human rights. That is why such system can only function in hothouse conditions, in a stable and predictable environment. All unexpected events threaten its survival.

Summing up what has been said above, it may be concluded that **capitalist economics has indeed accumulated all the benefits and drawbacks of market economics**. “*At present, millions of people are threatened by the aggressiveness of unbridled capitalism that only seeks power, profit, and inhuman efficiency*” (Pope John Paul II, 1992). Capitalism is not duly balanced by administrative regulators; however, it conforms with the western mentality and encourages the development of typical market drawbacks in western populations. This is the source of strength of this system, as well as its weak point.

### **1.1.16. 2.2.3. Socialist system typical features**

The beginning of the twentieth century saw fundamental changes in the economic and social life in Russia, and the entire world. Having annihilated the old power with all its capitalist attributes, such as private property and money diktat, during the 1917 Revolution, the proletariat faced the challenge of building a completely new system, a different economics, unprecedented in the world history. For obvious reasons, Marxism, the ideology that animated the Revolution, could not provide adequate responses to the new issues. The formation of socialism required different instruments, different stimuli, different parameters for accounting and supervision — all this did not exist before. The situation was complicated by the incapacity of the old authorities, with their knowledge and experience, to understand the new realia. Therefore, they refused to accept them, and even tried to confront the new phenomena. The building of the socialist system was inevitably a chaotic process, associated with resistance and its suppression.

In fact, the revolutionary ideology was based on the liberal principles of liberty, equality and fraternity. However, in Russia there is a different tinge to them, which makes these ideas considerably different from the traditional liberal vision. As Fyodor Dostoevsky wrote, “*One of the characteristic features of Russian liberalism is its utter contempt of the people... Our westernist liberals are a party ready to fight against the*

*people”*[93]. For instance, democrat V. G. Belinsky admitted: “*I am developing a specific kind of love towards people: for the sake of happiness of a part of them I am ready to destroy the other with fire and sword*”. The Bolsheviks, who were the followers of the liberals, having usurped the power, proceeded to the implementation of these ideas in practice: “*...let 90 per cent of the Russian people die, if 10 per cent make it to the day of the world revolution*” (V. I. Lenin). Leo Trotsky, one of the organizers of the October Revolution of 1917, claimed that “*...we have to turn Russia into a desert inhabited with white slaves who would live under a tyranny that the fearsome oriental despots have never dreamt of*”. These are just a few of the examples.

It is evident that a state founded on such principles could not but be cruel and immoral. Therefore, one should not underestimate the achievements of Joseph Stalin, who eliminated such fanatics from power and fought against them with their own arms. Instead of encouraging demagogic, Stalin got to the heart of the matters and tried to instill order into the post-revolutionary chaos. He sought to restore the state, family, legislation, science, education, industry, and culture. He wanted to have an economy based on different principles, and his success was significant.

At that time Russia could boast wonderful economists, organizers, governors, capable of revisiting the old concepts. And though their mission was limited to elaborating theoretical dogmas, they undertook creation of new instruments that would permit rational economics management in the new conditions. Thus, they have laid the foundation of socialist economics where capitalists were not allowed, and the workers were made the ruling class.

Compared to the old system, Soviet economics did not aim at satisfying specific individuals, but the people in general, it did not seek profit, but benefit, and was governed by intellect, not by the market elements. It was then that A. V. Chayanov became famous; he coined the term “moral economics”, characterized by costless assessment of products and expenses<sup>[50]</sup>. B. D. Brutskus elaborated similar ideas when analysing economics; he was the predecessor of Friedrich August von Hayek and Ludwig von Mises<sup>[32]</sup>. Among others, it is important to emphasize the importance of S. G. Strumilin’s work on economics, statistics, and theoretical studies<sup>[37]</sup>. As the result, by 1918, there was a ready project for a new, stabilizing monetary reform.

It was then that A. A. Bogdanov created “tektology”, the general systemic science, an attempt to analyse the functioning and the management of economic processes. Based on the scientific advances mentioned above, a number of financial leaders (G. Ya. Sokolnikov, N. N. Kutler, A. G. Khrushchev, etc.) proceeded to the monetary reform of 1922—1924 that implemented the new approach and the new principles.

According to this reform, the Council of People’s Commissars (Sovnarkom) by its decree dated 11 October 1922 entitled the State Bank to issue bank notes in terms of gold with a face value of 1, 2, 3, 5, and 10 chervonets. After that, by the Sovnarkom decree dated 26 October 1922, the People’s Commissariat for Finance was ordered to “proceed to coining gold coins named chervonets” that had the mass and the standard corresponding to those of a tsar’s gold 10-rouble coin (7.74234 grams of pure gold). This helped stabilize the entire monetary system of the country. Around the same time, silver roubles started circulating as well.

Many Marxist and pro-Soviet economists continued with their work. One of the most influential scientific figures was E. Preobrazhensky, who developed the theory of socialist saving, that shaped the USSR economic policies, as well as those of many developing countries. Eminent studies were authored by E. Varga, I. Trakhtenberg, and others. The end of the 1920s saw the fundamental work of G. Feldman on the economic growth models; it preceded western studies in the area by many years [51].

The pilot projects of the five-year plan and the control annual figures, worked out under the leadership of the distinguished economist V. G. Groman, were planned quite competently, and were pioneering ideas. Another original achievement in the development of the economic and mathematical school was the concept of intersectoral balance of production and distribution in the national economy in 1923—1924. This idea implemented by Soviet scientists helped order the chaotic post-revolutionary space. Thus, it has also laid the foundation for the future socialist economics. Besides, the methods of planning and management proposed in the USSR constituted a significant contribution to the world economic science.

This is how the first stones of the new, unprecedented socialist state organisation were laid. An innovative system of economic and political relations was shaped, and it had its advantages and disadvantages, but, most importantly, it did not resemble anything that had existed before. It was a new philosophy and ideology that used new criteria, new priorities, and new values.

Obviously, as all great shocks, these changes were inevitably accompanied by excesses, violence, and ruined fates. But similar events happened when the feudal system was eliminated and replaced with capitalism after all the bourgeois-democratic revolutions (in the fifteenth-sixteenth-century Netherlands; in early seventeenth-century England; during the Great French Revolution of 1789—1794; in Spain in 1820—1823; in Italy in 1820—1821; in Germany in 1848; during the American Civil war of 1861—1865, etc.). Despite the mechanisms of such transformation having been elaborated and tested in dozens of countries across decades, they still claimed numerous victims and caused material damage. Nevertheless, these collapses were less dramatic than the passage from capitalism to socialism, and the period was longer. Still, errors, stupidity, treason, and violence were imminent.

In general, the Soviet school of that period was at the front edge of science and made sizeable contributions to economics. Besides, it helped the USSR to successfully tackle the huge difficulties in the restoration period, under industrialization, during WWII, and when eliminating its consequences.

After WWII, on Joseph Stalin's initiative, the wording of the main economic law of socialism was adopted; this law consisted in the satisfaction of the growing material and spiritual needs of the Soviet population. This policy was, indeed, put into practice. The prices were reduced, the wages were increased, and food and light industries accelerated. As little as 2.5 years after the destructive war, since December 1947, the USSR assured annual price reductions that were regular up to the year when Stalin died. The result of such reductions is presented in Table 3.

Names of goods	Prices (RUB)		Reduction (times)
	1947	1953	
White bread (1 kg)	5.5	3	1.8
Black bread (1 kg)	3	1	3
Meat (beef)	30	12.5	2.4
Fish (pike perch)	12	7.1	1.7
Milk (1 l)	3	2.4	1.3
Butter	64	27.82	2.3
Eggs (ten)	12	8.35	1.45
Lump sugar	15	9.4	1.6
Vegetable oil	30	17	1.75

Table 3. Prices dynamics in the USSR in the 5-year period.

The formation and development of Soviet organisation in the post-war period is primarily associated with the name of A. N. Kosygin, the President of the Council of Ministers from 1964 till 1980, and an eminent state and economic actor. It was under his leadership that the reform of 1965 was elaborated and implemented; this reform aimed at decentralizing economic planning, at increasing the role of integral indicators of economic activity (profitability and expedience), as well as boosting the independence of enterprises. The number of directive planned indicators was reduced three times. As the result, the Eighth five-year plan (1966—1970) was one of the most successful in the Soviet history, and was known as the “golden” one. In these five years, the national income of the USSR increased by 45%, social labour productivity — by 39%, industrial production volume — by 50%, gross crops harvest — 1.5 times, and animal produce — by 34%. Besides, about 1,900 new enterprises were built, including the Volzhsky automobile manufacturing plant in Tolyatti [54].

A lot has been written about socialist economics. The positions of the authors mostly depended not on the results of purely scientific research, but on political conjecture, ideological dogmas, and orders received. That is why before perestroika socialist economy was usually presented as the pinnacle of civilisation. It was seen as the most cutting-edge and progressive doctrine that would assure bright future for the humanity. However, today it is described as “absurd economics” (for instance, by Jeffrey Sachs, one of the architects of the Russian reform), as a period of stagnation, as a source of general deficit and despotism. Obviously, neither of the two visions is scientifically objective or reliable. There is more politics than real lie in both of them. That is why we will consider this economic system from the point of view of the main features of administrative governance under socialism.

Administrative regulation is aimed at implementing cooperation of labour, without which no differentiation of labour is feasible. Indeed, only enterprises that pursue

a common goal can jointly resolve common problems. Only coordination between participants of a single technological cycle can make production of sophisticated items possible. Unless efforts are united, nothing significant can be achieved: neither general well-being, nor victories over enemies, nor environmental protection, nor fight against aggressions and epidemics.

Only administration is capable of creating conditions of the market chaos and general struggle of economic actors evolve into collaboration. It is administration that makes the state a single coordinated structure, that contributes to the equilibrium of the private, the collective, and the social; of producers and customers; of the country and its regions; of all economics sectors and social groups. Administration renders economic relations logical. That is why **without administration no state can exist**.

In the USSR, after the end of the transition period by the 1930s, administration managed for a certain time to cope with its functions. For instance, there was no outrageous prices, typical for purely market regulation. Prices for goods were not fixed by the market, but by state regulations based on the production costs and planned profit. That is why the prices always stayed relevant, encouraged development, and generally corresponded to the social costs. Money was fully backed with labour, and unemployment and inflation were almost non-existent. As a consequence, economic forecasts were reliable and long-term. ‘Long money’ was used actively, which allowed to implement not only commercially profitable projects, but also to resolve important social issues. Thus, socialist economy was rather well controllable and easily predictable. And this system bore its fruit.

The typical features of the socialist social organisation will be described using the example of the late-period USSR, when the state most corresponded to this system. It had already lived through the stage of formation, characterized by transition processes, excesses, and deviations.

The myth about the overwhelming backwardness of the Soviet Union compared to the developed countries of the world is nothing but a bluff. In reality, the socialist economic model implemented in the USSR had many advantages over capitalist economics. There were no urgent problems that would require destruction of the USSR and the entire area of its population’s habitat.

According to statistics, for many key economic indicators the USSR stably ranked number 2, or even number 1 in the world. For instance, the country’s GDP by 1990 stood at 46.3% of the US GDP and constituted 12.1% of the global GDP. For comparison, the US contributed 26.1% to the global GDP, Japan — 10.6%, Germany — 7.3%, and PRC — 5%. The national income per capita by 1985 achieved 46.2% of that figure in the US. By the 1980s, the share of the Soviet Union in global export of goods attained 14%, which means that the country was fuller integrated in the world economy than the present-day Russia (around 2%).

The USSR ranked among the top ten by labour productivity, and among the top twenty by quality of life. According to the UN assessment, in food and agriculture (FAO) the USSR was, by the mid-1980s, one of the top ten countries of the world with the best nourishment type (modern Russia has dropped to 67). By 1990, the Soviet Union, which had as little as 6% of the Earth’s population, produced 13—16% of the

global foods. The production was successfully controlled with the help of state standards (GOSTs), strictly adhered to, that is why the USSR had a firm 7<sup>th</sup> rank in the world by the quality of nourishment, though by 1996 it dropped to rank 40 by 1996. Such performance was maintained up to the mid-1980s, when a general food and goods deficit was artificially created.

Throughout this period, taxes were minimal, and up to 40% of the population income was assured by public funds. Workers and employees consumed 278 roubles worth of goods and services with the average wage at 196 roubles. Housing, healthcare, education, leisure, sport and cultural facilities were almost free of charge. In the area of science, education, culture, art, and sport the USSR had one of the leading positions. The same tendencies were observed in other socialist commonwealth countries.

Life expectancy and population showed stable increase. By the start of the neoliberal reform in the Russian Soviet Federative Socialist Republic, average life expectancy for men was 64.91 years, and for women — 74.55 years, which corresponded to the figures in developed economies. Soon after the start of the reform, this indicator plummeted to 59.2 years for men and 73.1 years for women. Taking into account the population of the country at the time, this decreased would correspond to the elimination of more than 7.4 million people. This was the minimal price of the perestroika, and it comparable with the losses of the Soviet Union in WWII.

In this prosperous period, social, medical, preventive, sports, youth, demographic, and educational institutions functioned rather well. Every citizen, notwithstanding their nationality, enjoyed equal rights, and felt social protection. Housing construction projects were completed successfully, as well as construction of medical and cultural facilities, roads, and revival of various economic sectors. In the most remote villages the best-looking buildings were those of schools and hospitals, and not the villas of the nouveau riches with dubious sources of wealth.

As the result, the USSR is still unrivalled in social security. All employees were provided paid leaves, and everyone could, for an insignificant fee, use the numerous facilities for children, resorts, sanatoriums, and holiday centres. The working time was limited to 8 hours a day. That is why people had time to educate their children, and improve their own education and cultural knowledge.

The labour code protected the rights of the workers, not only the interests of enterprises and the state. In all cities and towns, it was possible to see announcement of work force recruitment. Trade unions prevented any violations of the labour legislation. Crime rate was one of the lowest in the world, and the financial system was as reliable as a swing. This was a dream of all peoples of the world and all business circles come true.

Life quality in the ethnic habitats was relatively the same. All age groups of the USSR population enjoyed stable state support. Birth rate growth was stimulated, there were good facilities for children. Information policies inhibited propaganda of nationalism, violence, and moral and physical deformities. Besides, it prevented the spread of drugs, mass diseases, informational, economic, and psychological aggressions against the society.

As state property of production means dominated, the increase of productive qualities of labour benefited the entire population, and not specific individuals, as is

happens in case of private property. All negative consequences of private property were absent. Property gap in the society was minimal, and social needs were well satisfied. Moreover, democracy did not consist in elections only, but served as a real instrument for protecting the interests of citizens <sup>[52]</sup>. The USSR knew no mass money swindles — the financial system made it impossible.

Slums — the integral element of modern “civilized” urban landscape — were very rare. Obviously, a poor economy would have made it feasible. That is why the informational propaganda of the Soviet backwardness is so committed. Nevertheless, having implemented the “super-progressive” ideas of neoliberal reformers, Russia lost its prosperity and dropped to the bottom of ranking for all indicators.

National, demographic, and cultural policies of the USSR assured equal and kind relations between people. An enormous cultural project was completed that consisted in drawing alphabets for more than 50 small nations and translating the outstanding works of the peoples of the USSR and the world into national languages. All nations and ethnicities enjoyed equal rights and could preserve their ethnocultural and aesthetic habitat. Besides, they could speak their national language, have their children go to national schools, develop national literature and theatres, and maintain the cultural and moral skills, traditions, and customs.

Furthermore, strictly speaking, there was no technical underdevelopment either. A large network of front-edge scientific and research institutes and design bureaus, of sectoral and training laboratories and test centres functioned smoothly. That is why the USSR ranked first by the number of scientific advances, and had no rivals in fundamental research in mathematics, space, physics, and other spheres. Sizeable scientific advances were made, which allowed a dramatic technological breakthrough in many scientific areas and economic sectors in the nearest future

Needless to say, with the start of the “reforms” this potential was partly plundered and partly lost with the scientists and institutions that had built it up.

Here is an eloquent example of such scientific success. By 1985, the specific fuel consumption per on KW/h of electrical power supplied in the USSR was equal to 312 grams only, compared to 357 grams in the US, 340 grams in Great Britain, 354 grams in France, 327 grams in Germany, and 324 grams in Japan <sup>[53]</sup>. Another example: Soviet Union enjoyed military parity with all capitalist economies taken together. Russian-made arms and equipment are still among the world’s best.

When unforeseen circumstances occurred, the administration proved very efficient. The enormous awe-inspiring communist constructions were completed in a short time. Scientific schools were created, as well as new, previously unknown sectors of economics, education, industry, and culture. Moreover, they were provided with qualified work force, finance, and natural resources. Obviously, market regulators would not have been able to accomplish this. What is more, these results were achieved not through escalated violence and uncompromised competition, but by using the advantages of cooperation and administrative governance.

But it was back in the times when the administrative machinery primarily served the country, and not itself, was the serving, not the ruling class.

In fact, only full use of the achievements of the socialist period lets modern Russian businessmen be prosperous, as they have turned out incapable of creating anything

similar on their own. However, by now this potential has almost been used up, and this is the cause of the accelerating negative tendencies. The main capital has been ruined, looted, and depleted, the competent scientific, teaching, and other work force is getting old and dies out, and natural resources are consumed mercilessly.

Socialism, the century-old dream of the greatest minds, was an attempt to introduce an improved order in the structure of the human society, and to organize it according to rational principles. However, the method of implementation (inhuman), the attitude to property (mismanagement), the morality (permissiveness), the ways (uncompromised), the ideology (dogmatism), and the bureaucracy pushed it to the fatal extremes.

The disadvantages of socialist economics follow from the drawbacks of administration described in section 2.1.2, and they have particularly flourished towards the decline of socialism. Thus, the workers were disinterested in increasing the quality of products, as the result, it did not meet the demands of the production and the consumers. Planning failed to generate tasks for each enterprise, which reduced the assortment of goods, and accentuated their deficit. The plan — the formal indicator of enterprise activity — promoted formalism, and encouraged doctored records and whitewash. The rights were attributed so that the official vested in power would be answerable to the higher-ranking officials only. His subordinates, in their turn, would have no influence over him, except for risky criticism at party meetings.

As a consequence, by the beginning of perestroika, the authorities have already lost touch with the people. They have gone out of respect, and become incapable of adjusting their proper behaviour in unforeseen circumstances, of adapting, and being initiative. For the authorities to perform at least some of their functions, they had to be constantly pushed, corrected, controlled, or punished. Otherwise, they transfigured into a deformed monster, incapable of purifying itself from its physiological waste, from the outlived forms and personalities. The government turned formal, flooded with red tape, and indifferent to the image it had with the population and the society, and well as to the real results of its work.

At the same time, the efficiency of power wholly depends on the staffing of the ruling elites, of their qualification, morality, honesty, and organisation skills. Besides, quite often it is determined by the surrounding people. The weaker the “prima donna leader”, the more important his “chorus”. A typical example — all the Secretaries General of the USSR: N. Khrushchev, L. Brezhnev, K. Chernenko, M. Gorbachev, B. Yeltsin, and the entire Political Bureau.

As the result, all the successful initiatives of such administrative system, be it wars or peaceful construction, were paid for dearly. This was the case during WWII, during the communist construction projects, during the shaping of the power itself. Besides, the lack of market regulations in this system actually aggravated the administrative problems. The sores mentioned above became particularly hurtful at the decline of the Soviet Union, when the advantages of the administration faded out, and its defects flourished. Obviously, this could not but further weaken the state. Moreover, the margin of safety, assured by the Soviet ideology and economy, turned out to be narrow.

Gradually the socialist system became less and less efficient. Besides, it was dragged into a fierce arms race, which drained the Soviet economy. The use of outdated

technologies and imperfect criteria caused a serious overconsumption of raw materials: 30—40 kilograms per 1 kilogram of goods consumed by the population, or 7—10 times higher than when advanced technologies were employed. Russian production generated 20 times more harmful and toxic waste than developed countries, and this is not the only example.

Ideologic clichés were imposed everywhere, notwithstanding the damage caused to economy, morality, and the society. For instance, according to the dogma aimed at “preferential development of peripheral territories” (why not the central region, like in other states?), all republics of the Soviet Union lived mostly at the expense of the RSFSR and Belarus. It was there that innovative enterprises were being built, as well as new roads and infrastructure. The general food supply of the population was better. This situation is clearly observable from the data in Table 4.

Production/ consumption	1985	1987	1989	1990
RSFSR	14.8/ <b>12.5</b>	15.8/ <b>13.3</b>	17.5/ <b>12.8</b>	17.5/ <b>11.8</b>
Belarus	15.1/ <b>10.4</b>	16.1/ <b>10.5</b>	16.9/ <b>12.0</b>	16.6/ <b>12.0</b>
Ukraine	12.1/ <b>13.3</b>	12.7/ <b>13.2</b>	13.1/ <b>14.7</b>	12.4/ <b>13.3</b>
Kazakhstan	10.2/ <b>8.9</b>	10.9/ <b>10.4</b>	10.8/ <b>14.8</b>	10.1/ <b>17.7</b>
Uzbekistan	7.5/ <b>12.0</b>	7.2/ <b>12.9</b>	6.7/ <b>18.0</b>	6.6/ <b>17.4</b>
Lithuania	13.0/ <b>23.9</b>	14.6/ <b>22.2</b>	15.6/ <b>26.1</b>	13/ <b>23.3</b>
Azerbaijan	11.0/ <b>7.4</b>	10.8/ <b>12.7</b>	9.9/ <b>14.0</b>	10.6/ <b>16.7</b>
Georgia	12.8/ <b>31.5</b>	12.8/ <b>30.3</b>	11.9/35.5	10.6/ <b>41.9</b>
Turkmenistan	8.6/ <b>13.7</b>	8.8/ <b>18.8</b>	9.2/ <b>20.0</b>	8.6/ <b>16.2</b>
Latvia	17.0/ <b>22.6</b>	17.3/ <b>19.0</b>	17.7/ <b>21.7</b>	16.5/ <b>26.9</b>
Estonia	15.4/ <b>26.0</b>	17.6/ <b>27.8</b>	16.9/ <b>28.2</b>	15.8/ <b>35.8</b>
Kirgizstan	8.3/ <b>8.6</b>	7.8/ <b>10.2</b>	8.0/ <b>10.1</b>	7.2/ <b>11.4</b>
Moldova	10.5/ <b>12.8</b>	11.2/ <b>13.5</b>	11.6/ <b>15.8</b>	10.0/ <b>13.4</b>
Armenia	12.7/ <b>32.1</b>	12.4/ <b>30.1</b>	10.9/ <b>30.0</b>	9.5/ <b>29.5</b>
Tajikistan	6.5/ <b>10.7</b>	6.2/ <b>9.5</b>	6.3/ <b>13.7</b>	5.5/ <b>15.6</b>

Table 4. Production and consumption per capita of the republic of the USSR, thousand dollars (from newspaper *Sovetskaya Rossiya (Soviet Russia)*, 1992)

From the data presented in the table above it follows that an average person from the RSFSR, including elderly people and infants, in 1990 alone, provided **gratuitous** material assistance to the population of other republics in the amount of \$5.8 thousand, and every citizen of Belarus — in the amount of \$3.6 thousand. It is no surprise then that despite the low labour productivity the other republics enjoyed a considerably higher quality of life than the RSFSR and Belarus. This contributed to the illusion that it was not these republics who lived at the expense of others, but vice versa, which promoted separatist attitudes.

For instance, Georgia consumed 4 times more than it earned, Tajikistan — 2.84 times more, Estonia — 2.27 times more, Lithuania — 1.8 times more, and Latvia — 1.63 times more. Similarly, the USSR helped other socialist countries as well. Fine occupation that was! It is well known how such assistance contributed to the economic development of the country and what the consequences were. That is why the sovereign status generally benefited both Russia and Belarus: at least they did not have to feed all other republics any more.

Besides, in 1954—1989 alone, the USSR provided \$144.3 bn assistance to the allies; this amount was never repaid, and these were not quite the dollars we have today. This money was sufficient for building 3.575 large industrial and social facilities. Without any doubt, such actions degraded the quality of life in the country.

Nevertheless, the administrative regulation mechanism turned out to be so tenacious that it assured the impressive performance of the socialist economic model. This earned it respect on the part of many leading foreign economists. Thus, Harvard University and a number of other prestigious educational institutions in the West are working on the history of the soviet civilisation. Western scholars understand that despite every kind of opposition by western states, and the drawbacks of its own governance, during the socialist period of development the USSR became one of the two most powerful states in the world, and a space power.

This phenomenon is unique, and requires serious analysis. It has been understood that “*the economic process tends to socialize itself — and also the human soul. By this we mean that the technological, organisational, commercial, administrative and psychological prerequisites of socialism tend to be fulfilled more and more*” (J. Schumpeter [45]). Besides, the idea that the Soviet Union gave the world an example of successful construction of a socialist state, has been accepted. Thus, the capitalist economies have gotten access to the experience and instruments that considerably eased their internal tension.

If we compare the most typical feature of countries that have adopted the socialist model, it becomes evident that these are almost the same, notwithstanding the location and the culture of the state in question. In all cases public production develops rapidly, while the private production is weak. The state is powerful, and the individual, socially protected as he may be, is not independent. The bureaucratic machinery acquires considerable force, and political rights and freedoms are suppressed. Labour is in deficit, as well as commodities, however, there is no monetary deficit.

Summing up, both capitalist and socialist economic models are far from being ideal. Interestingly, their potential is relatively equal, and they equally suffer from significant faults. Under capitalism, production means belong to private individuals, therefore personal rights are a priority. Under socialism, production means are commonly owned, which contributed to better respect of social rights. Capitalist economies use money deficit as the instrument of management and activity, while in socialist economies the deficit of goods and labour plays this role. Therefore, capitalist countries tend to be more open than socialist ones.

Capitalism prioritizes exploitation, competition, and labour differentiation; socialism practices egalitarianism, planning, and cooperation. Socialism makes money serve people, and not vice versa. Capitalism puts individuals first, socialism cares for the entire people. And so on, and so forth. However, strictly speaking, neither of the two politico-economic systems is qualitatively superior to the other. This has let them compete each other for so long and so successfully

The positive and the negative experience of socialism building in the USSR is absolutely valuable in the context of the revolutionary movement involving all peoples of the world. Besides, it serves as an eloquent example of a socially oriented state and the ways to form it.

### **1.1.17.      2.2.4. How the USSR was destroyed**

*If we mess up in theory, then we'll ruin the whole thing.  
Without theory for us death, death, death!..*

I.V. Stalin

In fact, if there is no reliable theory adequate to the current situation, then instead of fighting ideologies, the struggle of individuals with all their weaknesses, misconceptions, their own ambitions and goals begins. And this can ruin any business, any cardinal transformation.

What happened when the USSR was destroyed. In the following section we will describe the ways and methods that are used, with certain variations, for building post-colonial economics in various countries. How did it happen that a mighty Power that functioned and developed so actively, so quickly broke into a number of independent and often rivalling republics? Why did its economy, without any internal causes, like wars or epidemics, come into such a pathetic state? No country falls apart without good reason. Such a collapse always results from a struggle of irreconcilable forces, where often it is the treacherous, reactionary forces provided with considerable financial, ideologic, and informational support from without that carry the day.

In order to understand this phenomenon better, let us consider the programme of destruction of the USSR worked out just after the victory over Germany in 1945 by A. Dulles. According to this doctrine, “... we shall secretly substitute their values by false ones and make them believe these false values. How can this be done? We shall find our accomplices, ...our assistants in Russia itself. Scene by scene we shall watch the

*skilfully planned tragedy of ruin of the most rebellious people on Earth, of final, irreversible extinction of its self-consciousness. Its literature, theatre, cinema — everything will portrait and glorify the vilest of human feelings. ...Shameless treason, nationalism, and hostility of peoples — this is what we shall encourage easily and imperceptibly... We shall fight for people's minds from their tender age, we shall always stake on the youth, we shall corrupt, pervert, and deprave them. We shall make them cynical, vulgar, and cosmopolitan\**

[54]

(original author's underlining).

This was the time when the Cold War against the USSR broke out. As any war, its mission consisted in weakening the adversary as much as possible. But wars also have their proper rules, order, and conventions. There are certain limits that should not be crossed by civilized states. This has been demonstrated by the Nuremberg process. However, the programme quoted above seems to ignore such limits, which makes it look even more cynical and mean than Hitler's plan. It is no coincidence that the Director of the CIA be appointed its leader. Is there indeed any moral in this country?

Unsurprisingly, the plan detailed about coincides completely with the subsequent stages of the collapse of the Soviet Union. What is more, the ruling Soviet elite not only did not try to prevent these actions, but in fact encouraged them. For instance, the dogmatism and the blinkers it put on the population with regards to information, slowed down national development, and lifted national immunity to ideological war waged on the country. The suppression of individuals, personal initiatives, and creation contributed to disrupting the normal life, as well as the technical and humanitarian progress. The authorities prevented people from using their brain, and being creative to fight the challenges they faced. Moreover, it would not let new people with fresh ideas, thoughts, and visions penetrate within the ruling class.

On the other hand, no system can be mined from the outside, including that of the USSR, the CPSU, the Soviet bloc, the Armed forces, and the entire country; they can solely be destroyed from inside. Indeed, “*We understood that economic pressure, arms race, and force were useless against the Soviet Union. It could only be destroyed by a blast within it*” (R. Gates, CIA Director). Margaret Thatcher, the British Prime Minister, seems to have echoed his words: “*Thanks to planned economy and a peculiar combination of moral and material stimuli, the Soviet Union managed to get high economic performance. The growth of the gross national product in the USSR was almost twice as high as in our countries. Besides, taking into account the huge natural resources of the Soviet Union, it must be acknowledged that provided it employed rational economic methods, the USSR had all chances to push us off global markets. That is why we have always tried to weaken the Soviet economy and to create obstacles within the country*\*

Such plans were most actively implemented after the US waged the so-called “energy war” on the USSR. As the result, the world oil prices decreased manifold in a very short time. The USSR was thus deprived of currency proceeds that were used for economic revival and for supplying the Soviet ruling “elite” to make it work.

At the same time, it should not be forgotten that power is the backbone of a socialist state; everything is controlled by it and subordinated to it. Nevertheless, here the authorities acted as the weak link. The type of power structure implemented in the

USSR had preserved all qualities of the outdated administration as described in Sub-section 2.1.2. That is why when the control levers went out of order, the authorities started revealing ever more negative qualities, and ever fewer positive ones. As the result, from a service to the society, the government became a sinecure, and cared more about its own interests than about the public ones. Therefore, when in the 1950s, by the order of N. Khrushchev, the ruling elite was freed from supervision by the KGB, the Soviet Union was doomed.

As the power was gradually appropriated by the top bureaucracy, by the early 1980s this elite was degrading rapidly, and becoming ever less professional, and more selfish and immoral. Hypocrisy, double standards, bribery, and betrayal of state interests were by far not a rare occasion. The bureaucratic establishment decided that it was better to be capitalists under capitalism than communists under communism. Then the first shadow businessmen appeared: people from the initiated few among the heads of CPSU agencies, OBKhSS (Department Against Misappropriation of Socialist Property), KGB and other security agencies, who had access to the criminal world and could thus make incredible profit. *“Woe is to the society where the vice does not hide in the shadow, but strolls proudly along the streets and squares in daylight”* (S. M. Solovyov).

Truly, as a Russian proverb has it, *“the fish rots from its head”*. That is why all the filth started descending from the top, subordinating the entire country’s lifestyle. Low quality of commodities and their deficit promoted materialistic attitude with people, and pushed them towards machinations, forgery, swindle, deception, and theft. Gradually, the properties that bind a people together cementing a foundation for its existence as a state and a nation vanished. The USSR had embarked upon the road leading to a socio-economic dead end.

Understanding that the corrupted elites posed a real threat to the country, Yu. V. Andropov, former KGB President, appointed in 1982 the General Secretary of the CPSU, was at the forefront of fighting corruption. On his order, the special KGB investigation teams carried out inspections in the Azerbaijan SSR, in Georgia, and Uzbekistan, and discovered schemers, arrested hundreds of party employees, officials, and even several local prosecutors. A wave of inspections started in the large cities’ organisations, too, and a war on the “trade mafia” was waged.

In the framework of this broad operation, in Moscow alone, over 15,000 workers of trade were charged with corruption. Among them, the director of the *Novoarbatsky* grocery Mr. Philippov, the head of the Moscow fruit and vegetable supply company Mr. Uraltsev, and the director of the Kuibychev district food supplier Mr. Begalman. In addition, a cleansing among the top party officials was initiated, which resulted in the replacement of over 30% of the party leadership in Moscow, 34 — in Ukraine, and 32% — in Kazakhstan. However, Yu. M. Andropov has not completed this work in his lifetime. After his death, corruption resuscitates and flourished even more than before.

It is not surprising that an atmosphere of general discontent with the existing government and its capacity to resolve urgent problems reigned the country. All these changes were occurring at the background of implicit and explicit frenzied propaganda of the benefits of capitalism, as well as of dogmatic propaganda of the Soviet system. People were disoriented, they started losing their biological and spiritual gene pool,

and rapidly ruined themselves with drinking. Besides, the population lost touch with the religious, moral, and ethical principles, lost its professional and life skills, its culture, artistic capacities, and even the self-preservation instinct.

At the same time, there were no objective reasons for a total destruction of the Soviet social system. Despite everything, the USSR continued to provide itself and the Soviet republics with the main types of high-quality industrial goods. All food-manufacturing enterprises worked at full capacity, and were supplied with the agricultural and other types of raw materials, and with the material and labour resources. For instance, by 1987, food production in the USSR increased by 30% compared to 1980. Meat production grew by 35%, dairy products manufacturing — by 31%, fish production — by 32%, and wheat and cereals production — by 23%. Thus, food production and life quality were improving rapidly, much more rapidly than the population and income did. In summary, the food industry could not have caused a total deficit of food products. It was not without flaw, but, after all, who is without them?

Nevertheless, the President of the Soviet Union M. Gorbachev and his circles decided that the Soviet system was not subject to reforming, and resolved to eliminate it as such. There is nothing more destructive than giving the highest power positions to traitors and ideological turncoats. *“Betraying one’s motherland requires extreme meanness of soul”* (N. G. Chernychevsky).

As M. Gorbachev himself, **being the General Secretary of the Communist Party of the Soviet Union**, admitted in an address delivered at the American University in Turkey in 2000, *“The goal of my life was eliminating communism... To achieve it I allied, in particular, with A. N. Yakovlev and E. A. Shevardnadze... I used my position in the Party and in the state to implement my plan; I had to replace the entire leadership of the CPSU and of all socialist countries of Europe”*. In the framework of this project, Gorbachev proceeded to the replacement of over two thirds of party workers in executive agencies, including the Central Committee secretary, as well as the secretaries of the regional, city, and district committees. Under this programme, many plant directors, collective farms and state farms heads, and presidents of scientific and educational institutions who did not support the policy aiming at country collapse were removed.

As the result, a considerable part of the new KGB leadership, of the top party officials, of the authorities of the Soviet Union and its republics, turned out to be careerists, national separatists, and political turncoats. Honest workers were replaced with party and Komsomol officials, many of them immoral, avid, and poorly qualified. The only reflex they had was laying their hands on anything they could reach. Thus, the national property that had been accrued thanks to many generations of Russian citizens was completely stripped of all protection by the very authorities.

In order to provide ideological support for this programme of plunder, they waged an information war on their own people, perverting its history and moral, aimed at destroying the ideology, the society, and the entire state; and this war was cruel and uncompromised. The freedom of speech did not exist as such; all dissent was suppressed. In no time, as if following somebody’s order, five to six leading Moscow media and the television, backed by foreign media, started inundating the country with destabilizing propaganda, and they did it in perfect coordination and continuously.

Indeed, “*The Soviet totalitarian regime could only be eliminated through glasnost and totalitarian party discipline under the cover of socialism improvement... During the first stages of perestroika we had to lie from time to time, to be hypocrite, to stretch the truth — there was no choice. We had to destroy the communist party, that was the peculiar requirement of restructuring a totalitarian regime*” (A. Yakovlev, the chief architect of perestroika, member of the Political Bureau of the Central Committee of the Communist Party of the Soviet Union [55]).

Against this backdrop, direct insider diversions against the socialist state were organized. For instance, M. Gorbachev and N. Ryzhkov insisted that the Comecon (Council for Mutual Economic Assistance) resolve to make all trade deals in dollars only. However, the Comecon countries had no dollars, so they were “helped out” by the IMF and the World Bank, which boosted the demand for the American currency. Thus, President M. Gorbachev deprived his own country of export markets and income, and gave to the US the control over the entire Soviet zone of influence.

Moreover, in the new budget for 1989, the income from alcohol and tobacco sales, the biggest and the most reliable, was eliminated. A series of measures implemented by the government turned out fatal for the Soviet economy, such as recalling the monopoly of foreign trade, permitting free exchange of non-cash roubles against foreign currency, and introducing a floating exchange rate. Cooperatives and small enterprises were allowed to trade in any kind of goods, including strategically important raw materials. This caused a budget deficit, and flared up the tensions in the country, which were already significant, thus providing new opportunities for its collapse.

Besides, M. Gorbachev and A. Yakovlev pushed for a sharp decrease of state order production and for a simultaneous transition of a large number of enterprises to direct contract scheme. This entailed disproportionately high prices, and plants and their management could easily make a lot of money. Their income grew almost 60% in the 1990s, while the production of commodities only increased by 19%.

Naturally, this caused another price increase; money for production and vital processes was scarce. Besides, the new money was extra cheap and was not backed by anything of real value. That is why it was fast drawn into the most profitable spheres with unsure benefit, such as trade, finance, and crime. As the result, a speculative money market emerged, which further ruined socialist economy. Consequently, real production ended up without any money to assure its functioning (see more in Table 13).

Enterprises were unable to pay each other; surrogate money appeared at the market and was used by enterprises for exchange; mutual settlements and defaults of payment became a common thing. There was no other way out besides going “shadow”, i.e. withdrawing from the state legal framework. Furthermore, the lack of national loan facilities was compensated by banks and corporations through foreign loans, which made Russia extremely vulnerable to financial speculations.

Wages were now paid in products, raw materials, and bills of exchange. Trade exchanges were created for barter of commodities. Inflation was hypertrophied, and it destroyed everything that was still functioning in the country. Doctors, teachers, professors, librarians, and other civil servants could not make both ends meet any more.

Their many years' savings had lost value. As the result, by the end of January 1992, elderly people were already roaming in the streets searching dustbins for food scraps. **This, in fact, was the reality behind the myth of overall inefficiency of the socialist economic model.**

Without any doubt, “*It was possible to implement the reforms with lesser social shocks. However, in those years the government did not have such objectives. They believed that ‘Nothing bad will happen to the people. Our aim is to build capitalism and create a market’. And this aim justified the means employed*” (G. Yavlinsky, one of the liberalism ideologists). Moreover, “*the programme of reforms did not include any mechanisms to prevent the impoverishment of the population*” (S. Yu. Glaziev, S. G. Kara-Murza, and S. A. Batchikov). As the result, by 1998 already, **the average per capita income was as low as 90.8% of the minimum living wage!**

As A. Chubais, deputy head of E. Gaidar's government, said, “*Why are you so worried about these people? If 30 million die, well, what of it? They have not fit the market. Do not take it too close to heart, new people will replace them*”. The same idea is in the words of Z. Brzezinski, one of the leading ideologists of the US foreign policy: “*The new world order will be built against Russia and at its expense*”.

The traitors' plan of the country's collapse affected the transport first. When there still were food and commodities in stock, they were no more shipped to big industrial centres. Those that were shipped, remained loaded in carriages and ships. As the result, in as little as two years, the unloading process at ports and railroad stations reached a critical state. Hundreds of thousands of carriages stayed loaded with goods, and more than 2.2 million tons of imported products remained at sea ports. In addition, 9,180 carriages waited at border stations to be reloaded, and 12,990 carriages more were stalled before they reached the border <sup>[56]</sup>.

On 20 October 1989, *Pravda* newspaper published the photographs of cargo railway stations of Moscow stocked with deficit goods, medicines, condensed milk, sugar, coffee, and other foods impossible to find in the shops. In October 1989, in Leningrad alone, 180 carriages with meat rotted on the tracks **for the simple reason that the city did not have enough refrigerating and storing capacities**. As Yu. Luzhkov, who was in charge of foods supply to Moscow in those years, said, “*there could have been more meat brought to Moscow, enough to totally satisfy the demand, if only there were enough refrigerator unloading capacities. There are few spur tracks, they do not allow enough time to unload a refrigerator*”. What a mysterious disappearance of railroad tracks!

It is not surprising then that in 1989 alone the Ministry of Railroads failed to provide more than 170 thousand carriages to sea ports: they were occupied. On 19 October 1989, at a session at the Ministry of Railroads, a complaint was presented regarding 71 thousand tons of imported goods delayed because no train carriages were available to transport them. In September 1989 alone, the port of Novorossiysk received 3,200 carriages fewer than planned. The same situation was observed in the ports of Odessa, Tallinn, and Riga (see <sup>[57]</sup> et al.).

In such conditions, a general product shortage was inevitable. The first to disappear from retail shops were meat and dairy products, as well as bread. Then, bed linen,

socks, cigarettes, razor blades, tea, washing powder, soap, and domestic detergent followed. What is more, by B. Yeltsin's order No. 1400 dated 21 March 1993, 26 out of 28 tobacco factories of the country were closed down in one day, and tobacco was nowhere to find. The reaction of smokers was quite predictable. The president of the Council of Ministers of the USSR N. Ryzhkov called this measure conscious sabotage and wrecking in the aim of total discrediting and elimination of the Soviet government. And right he was.

Naturally, the accumulation of thousands of carriages loaded with foods and commodities, including imported ones, could not fail to entice trade mafia, who, allied with the criminal mafia, started plundering this stock. Thus, the material basis for the new "capitalist elites" was formed. Moreover, the Ministry of Railroads was unable to assure protection and security of enormous amounts of cargo scattered across such a large territory. As the result, the rate of robberies on the tracks doubled almost each month.

What is interesting, as soon as the "liberal reform" was implemented, these goods flooded the retail network, but then they were sold as private goods. On 1 January 1992, "shock therapy" was announced, and on 2 January 1992, the shelves of shops were overladen with goods. This gave way to the myth that Gaidar "fed the country". However, the prices increased exponentially, and by the end of the year had grown 26 times. This was a purported boosting of hyperinflation and a destruction of economic order.

In summary, the inefficiency of the Soviet economic system is a bluff. **The products shortage and the collapse of the Soviet economy were provoked artificially.** It was all the doings of M. Gorbachev and his administrative elite, who degraded rapidly and did everything possible to destroy their proper country. The situation was aggravated by separatist and nationalist movements encouraged by the Soviet leadership and enjoying state support: "*Take as much power as your hands fit!*" (B. Yeltsin). The result was the bloody and cruel interethnic conflicts in Surgut, Nagorno-Karabakh, the Baltic states, and Georgia.

Understandably, this stirred the society up. The general discontent was near-explosive, and eventually, it totally discredited the Soviet authorities and the entire Soviet social structure, and eliminated the country and the socialist system as such.

However, the Soviet people were clever, and they understood that some trouble was brewing in the country and could foresee the consequences of the USSR's collapse for the population. That is why, on 17 March 1991, at the referendum on the future of the country, 77.85% of votes were cast for preserving the Soviet Union, despite everything. Nevertheless, the choice had been made, and the "democrats" who got hold of unlimited power ignore the popular voice. On 8 December 1991, three such "democrats" — heads of three of the Soviet republics — B. Yeltsin, S. Kravchuk, and S. Shushkevich announced the end of the USSR's existence despite the results of the referendum.

To implement the order that satisfied all of them, the "new elite" selected the approach recognized by all as the most risky and efficient, that is, the "shock therapy". It is based on the ideas of monetarism — a modern version of the liberal market theory

worked out by the Nobel Prize winner M. Friedman and his disciples. The actual scientific force of the country was not engaged in the implementation of this programme. The “reformers” rejected the positive achievements of the Soviet state organisation experience and ostracized the Soviet past.

What is more, the programme of overall remaking of all production relations was never made public. In fact, it is not known whether such programme ever existed. Furthermore, the “reformers” were outrageously incompetent in this task. In 1991, George Soros wrote, “*There is one factor — the total absence of the elementary economic knowledge, it is the country’s disease, up to the top authorities. The contrast with China is striking*”.

There is no surprise in this, as the former General Secretary of the Communist Party of China Zhao Ziyang, who led the reform of the country, was a prominent economist and disposed of an army of young minds driven by the desire to improve state structure. With rare exceptions, nothing of the kind existed in Russia of the perestroika times: none of the “reformers” were either honest, or competent.

What is more, while China adjusted its reform strategy several times (in 1950, 1979, 1981, 1984, 1991, and 2001) upon consultation with wide scientific and production community, which let the approach be successful, in Russia the programme never suffered a single change. Apparently, the results of it are satisfactory for the Russian “elite”! Apparently, it was not country revival and improvement of the life quality that were the true goals of perestroika, but the elimination of the strategic adversary of western countries and the personal enrichment of the “elite”. In this the selected “reform” approach has been quite successful up to today.

Indeed, “*Russian authorities surpassed the most daring Marxist ideas: they decided that the state should serve a narrow circle of capitalists pumping as much money as possible into their pockets, and quickly. This was not shock therapy. This was an evil, premeditated, sophisticated plan aimed at wide redistribution of wealth in the interests of a small group of people*” (J. Sachs, American economist, one of the authors of the “shock therapy” for Bolivia, Poland, and Russia; counsellor of E. Gaidar).

The theoretical basis of the reforms under way was built with the principles worked out by the IMF and the World Bank and formulated in 1989 by J. Williamson as a set of rules for economic policy for Latin America and other states living through financial, economic, and political difficulties. These rules were known under the name of the “**Washington Consensus**”, and they are still used for colonization of underdeveloped countries, for destruction of their economies, and for turning them into raw materials sources for international corporations.

In accordance with these principles, state economy was to be deregulated, fiscal discipline (minimal budget deficit) was to be imposed at the expense of the population, and tax rates were to be reduced. Besides, financial markets and foreign trade were to be liberalized, national currency was to be freely convertible, import duties cut down, and all obstacles for foreign direct investment, acquisition and exploitation of enterprises, and capital outflow eliminated. Finally, the rights of property owners (**not of the population!**) were to be protected, and economy diverted from serving home market to foreign markets.

This was the “*programme*” put into practice with the approval of President B. Yeltsin in Russia, without preliminary discussion with the general public. It was imported by a group of American experts led by professor J. Sacks to Moscow and became the very essence of the changes. Thus, Russia voluntarily gave up its sovereignty for the false “*inclusion in the European civilisation alliance*”. The Americans had insisted that the market reforms be entrusted to E. Gaidar, the former editor of the Central Committee of the CPSU magazine *Communist*, and otherwise unknown. This was done even though the USSR could boast brilliant economists. Simultaneously, hundreds of American counsellors, distinguished “*economic killers*”, were incorporated in all key ministries.

Following their recommendations, all state governance was done through monetary methods; the domestic market shrank, the social security and the quality of life degraded. Legislation was adopted to institutionalize the dependence of the country from international institutes; capital and natural resources outflow was facilitated. The reforms eliminated all price limits, and opened up the border to foreign goods, ideologies, and money. Disorganisation succeeded to cooperation as the result of the Comecon abolition, and the consequent disturbed relations between countries, republics, and individual enterprises. The produce quality standards were eliminated, and “freedom” of mass media was proclaimed, notwithstanding the fact that the said media lacked their proper resources and were highly dependent on “investors” seeking to achieve their own goals. Under “market” ideology, the selfishness of individuals was momentarily elevated to a state priority. In other words, the most primitive neoliberal economic model was implemented that did not provide for the well-being of the country or its population.

All the leading higher education institutions simultaneously had their rectors replaced with monetarism advocates. Using the American *Economics* textbook, they taught and shaped the overwhelming part of Russian economists. As the result, after this thorough “brainwashing” most of them still do not suspect that any other, more efficient modern economic models exist. This is not surprising, because “*a people that knows a lot is hard to govern*” (Laozi).

Against this backdrop, in accordance with the neoliberal vision of the champions of market, in December 1991-January 1992, B. Yeltsin ordered to privatize the state and municipal enterprises. As V. P. Polivanov who succeeded to A. Chubais as the State Committee for State Property Management head, said, “*the conception and the entire script of this privatization drama were the creation of the experienced employees of American consultancy ‘Deloitte and Touche’*. Besides, the European Bank of Reconstruction and Development drew a ‘*Privatization Manual*’ numbering 600 pages”.

The European Parliament deputy Giulietto Chiesa wrote: “*Do you know how the American organized privatization in Russia? The orders [the orders of B. Yeltsin] were written in Harvard and sent in Russian by fax to Gaidar’s government!*”. Indeed, as Peter Reddaway, professor from G. Washington University, reported, “*it was the foreign consultants who acted as ideologists of accelerated privatization which consisted in selling state property as fast and as much as possible, and selling the best enterprises first*”.

As the result of such machinations the most profitable state assets were plundered: enterprises, natural resources, and all savings of the population, which were significant. Thus, at the beginning of 1992, the main assets of Russian economy were estimated at 2 trillion roubles. All credit institutions of the country held around 600 billion roubles, and 300 trillion more were in the accounts of physical persons. It should be remembered that these were not the roubles of today. This money was enough to gradually buy out all the country's property. However, "voucher" privatization scheme was implemented, and it left everybody in the dust. All the money was stolen, and the country's gold reserves dropped from 2,000 to 200 tons. Moreover, federally owned shares were from then on transferrable to commercial entities.

The consequences of such "therapy" were easily predictable. Russia lost its economic and political independence and became a safe harbour for light-fingered people. *"The 1990s privatization is the largest expropriation event in the country's history... It was a military operation aimed at dismantling the political system of the USSR"*  (S. G. Kara-Murza<sup>[58]</sup>).

The necessity of building "market economy" served as a justification for all actions. However, the fact that it is **competition between economic actors, and not private ownership of production means that constituted the essence of the market (sic!)** was not taken into account. Indeed, advanced economies have private, collective, state, and public property. All the same, their market functions and demonstrates that each ownership type has its own niche and does not have any advantages over the others.

On the other hand, such privatization was **illegal. For in accordance with the Constitution of the RSFSR of those days, all property was owned by the people, and no referendum was held to resolve on its transfer to private hands!** Even the Constitution of the Russian Federation adopted in 1993 fixed strict limits for ownership of federal property. All such property had to be supervised by the Russian Federation (Art. 71), and the objects of ownership had to be covered by respective federal laws directly applicable throughout the country (Art. 76). But who cared to obey the law, when hundreds of billions of dollars were in the game?

Thus, the public property of the country was literally plundered. This is clearly demonstrated in Table 5 <sup>[59]</sup>.

Countries	Number of enterprises privatized	Budget revenue from privatization, bn dollars	Cost of one enterprise privatized, mln dollars
England	50	Over 80	1,600
Latin America	279	Over 95	350
Russia	181,000	12.7	0.07

Table 5. Privatization of enterprises across the world from 1992 till 2007.

From this table it follows that on average Russian enterprises, compared to foreign ones, were sold to private individuals at the cost of a shoe-repair shop. As the result, some Russian and foreign "investors" bought for a song the giants of the Soviet industry, previously owned by the people. For instance, heavy machine manufacturer

Uralmash was sold together with 34,000 workers for as little as \$3.72 million, Chelyabinsk metallurgy plant with its 35,000 workers was privatized for \$3.73 million; Kovrov mechanical plant that armed the Russian military, police, and intelligence services was bought for \$2.7 million. Likhachov Plant — famous as “ZiL” — was gone for \$130 million, of which \$13 million only ended up in the state treasury. For comparison, a similar Brazilian automotive giant was sold by the country’s government for \$13 billion.

Chelyabinsk tractor plant, which employed 54,300 people, was privatized for \$2.2 million. Thus, the aggregate cost of the most expensive and significant six auction sales of 1995 was 20 times lower than the real cost, and stood at \$1.867 billion only. However, just one year after, the cost of the same enterprises at the free market soared to \$39.713 billion.

Following these processes, 262 largest Russian plants, including most of the elite defence industry, all the best advances and achievements of the Soviet economy, were privatized (and 187 plants out of this number have been recently revived, partially or completely). What is more, often the enterprises were bought by foreigners, either directly or through dummies. However, the aim of such purchases was not production modernization at these plants, but elimination of strategic competitors.

As the result, soon after privatization, plants were closed down; equipment was sold as scrap metal; the formerly prosperous key industries of many cities were turned into ghosts; millions of people were left unemployed and without any means of existence. Large production holdings split into small private plants that often entered into competition with each other; there was no more cooperation between enterprises. That is why, while in 1990, the RSFSR had 21,900 large and medium industrial enterprises employing 23.2 million people, by 1997, when 95.6% of all plants had been privatized, their number dropped to 159,000 and they only employed 14 million people.

Voronezh excavator plant shown in Figure 5 is a typical example of the consequences of privatization for the overwhelming majority of enterprises.



Fig. 5a. Voronezh excavator plant before privatization.



Fig. 5b. Voronezh excavator plant after privatization.

Looking at the images one might wonder: what are the advantages of the private property thus imposed over the state property management?

Summing up, privatization was the key objective of the “reformers”, and it was by far a very selfish objective. They managed to do what the criminals of all times and countries have always been doing: they appropriated what belonged to others. Is there any surprise in such circumstances in the ballooning crime rate and the general chaos? But then, “*unprecedented opportunities to get rich opened up to the most active and the least scrupulous members of the society*” \* (S. Yu. Glaziev<sup>[60]</sup>).

Naturally, Russia saw an opposition to the government’s approach, and a struggle between the legislative and the executive powers. It was primarily conducted through legal measures by representative state agencies. For this reason, on 10 April 1992, the VI Congress of People’s Deputies voted 647 against 96 the resolution concerning a negative assessment of E. Gaidar’s government. However, President B. Yeltsin disregarded this decision, and Gaidar was only dismissed in December 1992.

The Supreme Council and the President entered the stage of active confrontation after on 21 September 1992 B. Yeltsin signed Order No. 1400 on the dismissal of the Congress of People’s Deputies and of the Supreme Soviet. This order was illegitimate, as the Constitution of 1978 did not enable the President to dismiss either the Soviet or the Congress. The Constitutional Court and its President V. D. Zorkin confirmed this. That is why on 24 September 1992, the X Extraordinary Congress of People’s Deputies convened by the Supreme Soviet qualified the President’s actions as a coup, and, based on Article 121.6 of the Constitution of the times, announced termination of Yeltsin’s authorities as President and the delegation of authorities to Vice-President A. V. Rutskoy. Nevertheless, B. Yeltsin continued the acting President of Russia, supported by the government and the leaders of the law-enforcement agencies. This determined the following events.

Between 21 September and 5 October 1993, the tragic events of the modern Russian history took place, i.e. the two-week confrontation that ended on 3—5 October with a mass shooting of the supporters of the Supreme Soviet at the Ostankino televi-

sion tower and in the White House itself. This is not surprising, because, as P. P. Konchalovsky said, “*a state which forgets what sin and shame are can only be governed through violence*”.

There were numerous victims among constitution supporters, as well as curious passers-by. People were shot by tanks and snipers, and burned in the White House. In 1994, *Novaya Ezhednevaya Gazeta* reported about the secret reference for government officials on the victims of 3—5 October events. This reference was signed by the Russian Defence Minister P.S. Grachev and the Minister of Home Affairs V. F. Erin. It quoted 948 people dead and an unspecified number of injured. According to other sources, the reference reported 1,052 victims. Many independent researchers have settled for 1,500 dead, among them the injured defenders of the White House who were later shot, and civilians. Moscow morgues were flooded with bodies. This was a mere attempt to intimidate all who disagreed with President Yeltsin’s policy of country collapse.

Thus, the system of government agencies remaining from the Soviet epoch was liquidated by the military, and the Supreme Soviet and the Congress of People’s Deputies ceased to exist. It was a military coup, and its results were later legalized by the new Constitution of the Russian Federation adopted in December 1993 and vesting the President in large powers.

What is more, this mayhem was fully supported by foreign mass media and the “*public opinion*” they shaped. For instance, in that critical moment for Russian democracy (i.e. in 1993), the “*free and independent*” American press called the democratically elected Russian Parliament “*anti-democratic, anti-western, anti-market, anti-Semitic... red-brown coalition*” (CRS Report for Congress, 93—884 F, 06.10.1993). It was qualified “*nationalist-communist block*” (The Boston Globe, 23.09.1993), “*nationalist, crypto-Soviet opposition*” (The New York Times, 24.10.1993), “*band of Communist apparatchiks*” (The New York Times, 30.10.1993), “*band of communists and fascists*” (The Boston Globe, 30.09.1993), and even “*communist fascists disguised as parliamentarians*” (The Boston Globe, 06.10.1993).

Russia’s previous constitution was described as a “*farcical document*” (Portland Press Herald, 06.12.1993), and “*until December 1993, Russia’s fundamental political problem*” (Foreign Affairs, No. 5, 1994). The legitimate defenders of the Constitution were declared a “*strange alliance of old communists, nationalists, monarchists, and anti-Semites*” (The Spectator, No. 8622, 09.10.1993). The confrontation between Yeltsin’s corrupt regime and his opposition was presented as a fight between “*democracy*” and “*demons*” (The Boston Globe, 12.12.1993), etc.

After this coup, the President and his milieu had no limits and counterbalances in Russia, which contributed to a complete lawlessness. As the result, their actions increased in cynicism and openly ignored all laws and conventions. For instance, in 1995, in accordance with Yeltsin’s orders No. 889 and No. 1535, a grand swindle was put in practice, known as “*loans-for-shares auctions*”. The idea consisted in fraudulent manipulation of the state financial flows between the Government represented by the Ministry of Finance (S. K. Dubinin) and the in-crowd of commercial banks (Imperial, Menatep, Stolichny Bank Sberesheny (Moscow Savings Bank), etc.).

Following the swindle plan, the Ministry of Finance placed its available assets in accounts opened with 9 commercial banks. Then, after the auctions were held, this money was returned to the Russian Government, but now in the form of a commercial loan of private banks with federal property (shares of the country's most profitable enterprises, such as YUKOS, Lukoil, Surgutneftgaz, Norilsk Nickel, Sibneft, and others) as a collateral. In fact, commercial banks granted loans to the Government with its own money against federal property shares!

After a fixed period of time the government was supposed to pay the loans back, otherwise the state holdings of shares would have become the private property of the banks' shareholders. In order to formally legalize this process, auction sales were held for several select banks. The government never paid the loans back, which meant that the billions-worth federal property passed into private ownership free of charge. Thus, the present-day oligarchs emerged, overnight, and they complicated the political and economic life of the country, generating numerous problems within and outside Russia.

It is interesting to point out that if the power in the country had been seized by criminal authorities, they would have adopted a similar policy, and would have passed similar laws, just as the Russian government of the time did. But even then there would have been more order in the country, because criminals live according to their "principles", while the reformers defied decency and knew no limits.

The general crisis that followed testifies of an error in the reform strategy, not in its tactic. Experts have estimated the material damage from Yeltsin and Gaidar's reforms in 1992—1998 alone as 2.5 times the losses of the Soviet Union in WWII, when the country lost 12 million people.

It is not by accident then that in 1997 the State Duma officially recognized the privatization as an "*unprecedented economic diversion*". "*Privatization was a shady enterprise that allowed a handful of nouveaux riches, bankers, traders, and foreign agents to enrich themselves in no time through appropriation of generations' savings and absolute impoverishment of the deceived working people*", claimed the Duma in its resolution. However, few were interested in its opinion.

As the result of the privatization, the major part of state assets became private. This deprived the administration of many of its productive functions, however, it remained powerful. Besides, in full accordance with its nature, the authorities had once again proved that their mission is of secondary importance to them. They can flourish in all kinds of conditions, as long as they were allowed to govern and manage public property. Besides, the administration cleared itself of all responsibility for the results of its actions. Therefore, its functions shrank, but then its expenses grew.

Having lost the ideological war against the western intelligence services, the Soviet party and economic entities were no more able and no more willing to object to the USSR collapse. The rest was the matter of approach and tried and tested techniques: propaganda — collaborators — anarchism masked as "human rights" — destruction of historic memory and national heroes — stealing public property — increasing exploitation of people — destroying the economy. Following this algorithm, during the 1990s reforms, the Russian reformers urgently replaced "totalitarian" economics (**D** in Figure 4) with capitalist model (**B**). In order to succeed, they were supposed to simultaneously eliminate the existing administrative governance and to form a new well-working

market governance — **a task beyond their strength**, because nobody is equally good at building and destroying.

It would be ridiculous to present these coordinated actions aimed at the USSR destruction as a mere coincidence. In reality, these were thoroughly planned actions prepared by **high-level experts from the US**. As President Bill Clinton said at a meeting of the chiefs of staff in Washington on 24 October 1995, “*In the past ten years, our policy regarding the USSR and its allies has proven that we have correctly adopted the course for the elimination of one of the world’s strongest powers, as well as a most powerful military block. Profiting from the blunders of the Soviet diplomacy, and the extraordinary self-sufficiency of Gorbachev and his circle, including those openly pro-American [sic], we managed to do what President Truman wanted to do to the Soviets using a nuclear bomb [sic]. The only difference is that we turned them into a raw materials source, instead of nuclear ruins.*

*Yes, this cost us many billion dollars... [But then] in four years, we and our allies received fifteen billion dollars-worth of various strategic raw materials, hundreds of tons of gold, silver, precious stones, etc. Over twenty thousand tons of aluminium, two thousand tons of caesium, beryl, strontium, and other metals were allocated for non-existent projects... Having undermined the ideological foundation of the USSR [sic] we have managed to force the main competitor of the US to withdraw from the war for global supremacy [sic] Our goal and task for the future is to help those who see our country as an example of western freedom and democracy...”* (highlighted by the author of this monograph).

One might suppose that the choice in favour of radical reformers was made by the Russian government due to its unawareness of alternative reform programmes, its naivety, and lack of competence. However, this was not the case, and a number of joint addresses to the governments of the USSR and of the Russian Federation signed by the eminent western and Russian economists proves this. For instance, the *Plan for stabilisation of money circulation* worked out by a group of American scientists led by J. Wanniski, president of Polyconomics corporation, was of such type. This plan suggested pinning the rouble to gold price, i.e. making it “gold” rouble. This would have assured the essential stability, allowed control over the economic situation in the complex perestroika circumstances, and prevented production and distribution crises. The authors of this programme offered their assistance in securing western loans to back up such a currency. In particular, they were ready to accept “gold” obligations as interest rate payment under these loans.

An open letter signed by the 30 leading US economists wishing to prevent the economic collapse of the Soviet Union was addressed to the USSR President <sup>[65]</sup>. Among the signatories there were four Nobel Prize winners in Economics. The key idea of the address consisted in the necessity of introducing rent for natural and land resources during the transition to market economy. The scientists warned M. Gorbachev against idealisation of the western economic model. However, their appeal fell on deaf ears, as the Russian government had a different objective.

Similar plans were developed in Russia by the academicians of the Russian Academy of Sciences L. Abalkin, G. Arbatov, O. Bogomolov, V. Ivanter, D. Lvov, V.

Makarov, A. Nekipelov, N. Petrakov, S. Sitaryan, E. Gilbo, the head of the “Modernization’ centre [114] and many others. They analysed the measures required for economic improvement and their possible consequences. Besides, they pointed out the country’s sore spots and suggested the ways to cure these ills. In this way, massive production collapse and significant degradation of life quality could have been avoided. In addition, the ways to boost the state’s economic indicators were proposed. However, all was in vain.

What is interesting, few distinguished western economists positively assess the results of Russian reforms. This means that the economic policy of B. Yeltsin and Y. Gaidar is unanimously recognized as erroneous in the western economic literature. That is why the negative experience of Russian reforms is actively used in the modern Keynesian criticism of the monetarist theory. Therefore, the self-rehabilitation of the Gaidar’s neoliberals is in discord even with the neoliberal establishment.

For this reason, the liberal reforms implemented in Russia found no support even with such a prominent advocate of the convergence theory as J. K. Galbraith: “*The reforms put into practice in Russia mostly produced negative results. And still, their architects insist that what has been done is not sufficient. Even though at a certain stage they should have said, ‘Stop! Enough is enough. After all, any kind of policy is tested not by its promises for the distant future, but by its capacity to assure sustainable growth in present’*” [61].

In 1994, a number of Russian and American scientists worried about the course of Russian reforms created a joint “Economic Transformations Group”. Its objective was working out alternative proposals regarding Russia’s economic policy. The declaration of intent signed by 39 scientists, including five Nobel laureates, suggested that extreme economic measures, including the most radical “shock therapy” approach, be counteracted [62]. However, this proposal was ignored by the authorities, too.

In the runup for the presidential election of 1996, the government received another open address entitled “New Economic Policy for Russia”. It was signed by five Russian economists and seven eminent American economic experts (among other, by the Nobel Prize laureates K. Arrow, L. Klein, W. Leontief, R. Solow, and J. Tobin). They called for increasing the role of the Russian state agencies in the economic reforms, and insisted that Russian government control the entire economic process, as it was done in the US, in Germany, or Sweden. According to them, “*authorities should play the leading, coordinating role in the creation of public and private institutes required for the functioning of market economy*” [63].

The authors of the address further advocated the need for a state policy of restructuring and implementation of market institutes, such as currency back-up; a legislative system that would guarantee compliance with the laws and regulate the activities of private enterprises; for property rights, and a facilitated taxation regime. They suggested not fixing the currency exchange rate based on stock trading results, but pinning it to the PPP — the purchasing power parity of the money. Besides, it was explained that many of the modern economic troubles of Russia were “*directly or indirectly related to the fact that the government has failed to take a proper stand within market economy*” [64].

The destructive policy of Russian authorities perplexed not only the country, but the entire world. “*Most western economists specialized in Russian economics tended to side with the Russian critics of the “shock therapy”*” (J. Millar). A special report of the “Agenda’ group drawn in 1992 expressed the “concern of the [western] public related to the drawbacks of the current reform programme [in Russia]”  [67].

One of the world’s leading economists wrote the following about the “peculiar position” of Russia by 1998: “*It had an abundance of natural resources, but its Government was poor. The Government was virtually giving away its valuable state assets, yet it was unable to provide pensions for the elderly or welfare payments. The Government was borrowing billions from the IMF, becoming increasingly indebted, while the oligarchs, who had received such largesse from the Government, were taking billions out of the country*”  (J. Stiglitz [16]). He called on the Russian government to learn to take 90% of superprofit from raw materials exporters, just as other countries did.

On the other hand, the world’s leading economists never cherished the illusion of the good intentions of the West concerning Russia. Many peculiarities of the course of the Russian reforms were explained by the desire of certain western states to get rid of a dangerous competitor at the global market. They believed the West would have never agreed to such reforms as Russia was implementing.

However, the Russian “reformers” turned a deaf ear to the advice of the eminent Russian and foreign scientists. On the contrary, they obeyed to the recommendations of such experts as J. Sachs and A. Eslund. Even, despite the fact that an American court fined Harvard University \$120 million for its employees using Russian economic reforms for personal enrichment.

Thus, the internal and external pressure of Russia’s enemies turned out to be so powerful, that the socialist state had not sufficient strength to resist it. It managed to repulse the aggression of entire Europe in WWII, but failed to defeat the insider ideological and political diversion.

Needless to say, the drawbacks of the Russian economy described above still exist today, because the financial and economic power in the country is still in the hands of Gaidar’s successors, as well as those who turned rich as Croesus thanks to Gaidar’s government. They are quite satisfied with the turn the situation has taken. This is how the requirements to the ruling elite were set, together with the programme of the country’s future existence. Truly, “*Ye shall know them by their fruits*”  (Jesus Christ).

On the other hand, degradation is manifested not only in economic, but also in cultural, scientific, educational and moral spheres. In fact, great things are born only a great idea. And the universal desire for profit, for personal well-being, for money does not apply to this. Truly, “*While you, self-contented and dormant, | Like worms you will crawl on your way; | No tale shall relate of your doings, | No poet shall sing you a lay!*” (M. Gorky) .

In the light of the foregoing, the economic sanctions declared by the US and Europe on Russia, whatever the justification for them might be, are nothing but the continuation of the policy of total destruction of Russia.

## **1.1.18. 2.2.5. Properties and productive capacities of Neo-colonial countries**

*One should realize that there is nothing more difficult, more dubious of success, nor more dangerous, than being a leader who introduces new ways of doing things.*

N. Machiavelli \*

It is obvious that if the construction of a new organisation starts with such fraudulent methods, it is ridiculous to expect that anything good comes out of it. Besides, it is naïve to think that the Russian “reformers” did not understand this. There are many reasons to criticize them, but one should not imagine that they were stupid and had no idea of what they were doing. Therefore, the logical conclusion would be that indeed, the revival of the country’s economy, the improvement of the quality of life, and building of a market economy were not the true goals of the reforms. That is why such a crooked organisation system was formed. Let us consider its main features in more detail.

Model F shown in Fig. 4 schematically represents a system of economic relations where neither the administrative, nor the market regulators function properly. Here it is referred to as neo-colonial because this was the organisation of most of the former colonies once they gained political independence, of former countries of the socialist camp, and of Russia, together with all post-Soviet republics and states. Therefore, it is **the most popular economic model in the world**. Nevertheless, its theory has not yet been written. What is more, it has no standard name or definition. This monograph, as well as other papers [10]—[14] the author gives probably the first systemized description of this model.

Most of the postcolonial countries believe themselves to be capitalist economies, while in reality they are quite distinct. To be more accurate: the two models do share certain characteristics (private property owners, big capital, similar financial and taxation systems; postcolonial states even have pseudo democratic institutes), but the way of life and economic activity in postcolonial states is considerably different from those of both capitalist and socialist economies.

Some states, for instance, the former Soviet republics and the countries of the socialist camp, adopted this model after the destruction of their administrative governance and a failed attempt to build a full-fledged market system. Others have lived through a degradation of market connections and have never succeeded in implementing an efficient administrative regulation. A third group of countries, mostly, former colonies, have never experienced either type of governance properly. That is why it is reasonable to presume that all of the above-mentioned countries are the logical consequence and the victims of globalisation, its essence and final result.

Neo-colonial countries have a lot in common. For instance, all of them serve as raw materials sources to advanced economies, as well as sources of partially processed natural resources, and cheap work force. Besides, they are the consumers of advanced economies’ produce with a high added value. It is in neo-colonial countries that this added value is sold, because it is not in demand in developed countries that exploit

their proper population, thus limiting its purchasing power and preventing them from buying the goods they have themselves produced. Indeed, “*workers engaged in capitalist production can only buy an amount of goods with the total cost equal to their aggregate work force. All goods with materialized added value will be bought by somebody else*” (S. G. Kara-Murza<sup>[66]</sup>).

All neo-colonial countries are highly corrupt, all have significant property inequality, and social tension. Moreover, all of such countries use similar exploitation instruments and demonstrate all attributes of exploitation (people, money, property, resources, power, ideology, violence, and crime). Most neo-colonial states have a poorly functioning monetary system, and undervalued currencies. This means that the PPP of their currency is more than one (this shows to which extent the cost of the consumer basket recalculated in the national currency at the current exchange rate is superior to that of the US). It is not surprising then that the majority of leading western states have their PPP lower than one. Often the foreign trade balance of postcolonial countries is positive, while the most advanced economies have negative balance. This is what allows them to flourish, pumping resources and valuables from poor countries, and paying their comprador elites “for loyal service”.

To demonstrate this affirmation let us analyse the PPP and the foreign trade balance relative to the GDP for some of the world’s countries. The data was obtained in reference books<sup>[68]</sup> and<sup>[69]</sup>. The results are shown in Table 6.

No.	Country	PPP	Trade balance, % of GDP	No.	Country	PPP	Trade balance, % of GDP
1	US	1	-4.3	15	Lithuania	1.42	-2.9
2	France	0.83	-2.7	16	PRC	1.46	3.5
3	England	0.94	-6.2	17	Mexico	1.46	-0.3
4	Italy	0.87	-0.1	18	Indonesia	1.49	5.1
5	Israel	0.94	-0.6	19	Poland	1.58	-1.4
6	Japan	0.96	2.4	20	Argentina	1.59	4.4
7	Germany	0.89	6.6	21	Peru	1.61	-
8	Brazil	1.08	0.6	22	Malaysia	1.7	16.4
9	Venezuela	1.09	11.7	23	Morocco	1.7	-21.5
10	Kazakhstan	1.12	22.2	24	Thailand	1.74	11.0
11	Russia	1.21	9.4	25	Ukraine	1.89	-2.8
12	Chili	1.21	5.0	26	Bulgaria	1.98	-7.7
13	Azerbaijan	1.4	40.6	27	Uzbekistan	2.01	9.8
14	Turkey	1.42	-6.7	28	India	2.71	-8.8

Table 6. PPP and relative foreign trade balance of some countries for 2010.

Obviously, the data presented in the Table is determined by a series of factors, not only by the type of state organisation. That is why not all of the countries mentioned correspond to the qualities described above. However, it is possible to discern some tendencies. Let us use the example of modern Russia to identify some properties and opportunities of postcolonial economies.

After the end of all of the manipulations aimed at the country's ruin that have been described above, Russia was on the verge of collapse. That is why Russian businessmen evacuated money abroad to purchase property, and build their villas and offices, instead of finding a useful application for this finance at home. It is not surprising therefore, that the corruption level in Russia of those times was one of the highest in the world. A *Transparency International* report ranked Russia as 119 out of 168 countries of the world for the level of corruption.

At the same time, for justice' sake, it should be pointed out that in most cases the businessmen themselves are not as much to blame, as the circumstances they acted in. The rules, the taxes, and the entire economic lifestyle were organized in such a peculiar way that under these conditions it was easier to seek personal, rather than public benefit, and commit crimes, rather than practice useful activities. **Labour exploitation in such a state was less profitable than property and capital exploitation.** As the result, unemployment was sky-high, and the employees were completely deprived of all means of protecting their rights. All was subordinated to money; however, when you see young and healthy men distributing flyers, it is hard to admit that the approach is correct.

**Labour differentiation**, which guarantees efficient functioning of market regulators and uses competition as its main instrument was never implemented in Russia. This project has been impeded by the dominance of monopolies that feel so free in the pseudo market economy conditions, and the legislators and placemen that lobby for monopolist interests. Besides, the ratio of the applicable and the actual rates for natural monopolies stands at 1.7 (1.1, officially). For utilities services payments, this figure equals 2.4 (1.2, officially) [70]. As the result, from the beginning of reforms alone, the prices of fuel and water supply grew 5—10 times faster than those of industrial and agricultural produce. By the end of 2004, bread prices had increased 4—5 times compared to the price of an average car (VAZ-2105), while that of a trip in the underground grew 26 times. This situation undermined the competitiveness of the Russian production, and caused its stagnation.

Another factor that contributed to the situation was the oligarchical property form adopted in the country, which had placed the overwhelming share of public wealth in the hands of several hundred of individuals. What is more, this transfer did not cost them a penny, and many of the "purchasers" were foreign citizens. For instance, acting through a shell company, American Nic and Si Corporation acquired the holdings of shares of 19 aviation manufacturers of the military-industrial complex. Another example, by 1999, 34.45% of the shares of RAO UES of Russia were held by foreigners, although they were legitimately allowed to own as many as 25% of stock. These are just two out of numerous examples.

As the result, the 500 richest people of Russia became the owners of financial assets worth dozens of trillions of roubles, that is, a sum that exceeded the state budget

costs. But did these 500 people bring **benefit** to the country comparable with their income? Evidently, they did not earn this money themselves, but appropriated it thanks to fraudulent schemes. Nevertheless, the authorities still neither collect appropriate taxes from them, as it is done in other countries across the world, nor engage them in the restoration of the state they have ruined, nor punishes them. To analyse this situation in detail, let us study the data in Table 7 [71].

Production factors	Contribution to Russia's revenue growth, %	Share in levied taxes, %
Labour	5	70
Capital	20	15
Rent	75	15

Table 7. Contribution of production factors to Russia's revenue growth and their share in tax revenue.

This table demonstrates that the increase of the natural and property rent is 75%, while the increase in the tax levied on this rent constitutes 15% only. Such state by nature can be neither social, nor productive. In addition, unlike advanced economies, Russia still applies a flat tax rate. If we compare the tax revenues of the budgets of various countries, the situation is as follows (Table 8 [72]).

	Russia	US	France	Germany	England
Tax rate for rich people	13	40	56	53	40
Tax rate for poor people	13	0	0	19	25

Table 8. Share of income tax in the revenue of various countries of the world, %.

If income tax for rich people in Russia was at least as high as in the US (40%), then in four years (2003—2007) the country would have received additional 4.338 trillion roubles of revenue, or even more, provided that the shady economy is taken into account. However, strange as this is, the government renounces to levy such tax, and all the revenue remains in the hands of the millionaires. But then, while in Italy and Spain pensions constitute 90% of wages, in Sweden and Germany — 65%, in France, Japan, and the US — 50%, in Russia this amount is as low as 24%. Still, the state continues to save on the retired population. Thus, the Russian government has turned out to be **the most liberal** in the world. Therefore, while in China only 9% of the GDP is determined by the trade, and in the US, only 17%, in Russia this figure stands at 27% [73].

It is not surprising then that with such large-scale fraud under way, the share of state property in Russia is one of the smallest in the world. As the result, the share of the budget in the country's GDP has dropped further (see Fig. 6 [71], [75]—[77], as well as the CIA and Eurostat data for 2013).

**The ratio these two indicators is 0.824.** This means that the share of state property and the budget are almost proportionate to each other. Therefore, it may be concluded that **the higher the share of privatized enterprises in a country, the worse its economy functions, and the smaller the budget revenue.** This assumption is further confirmed by the data from Table 1.

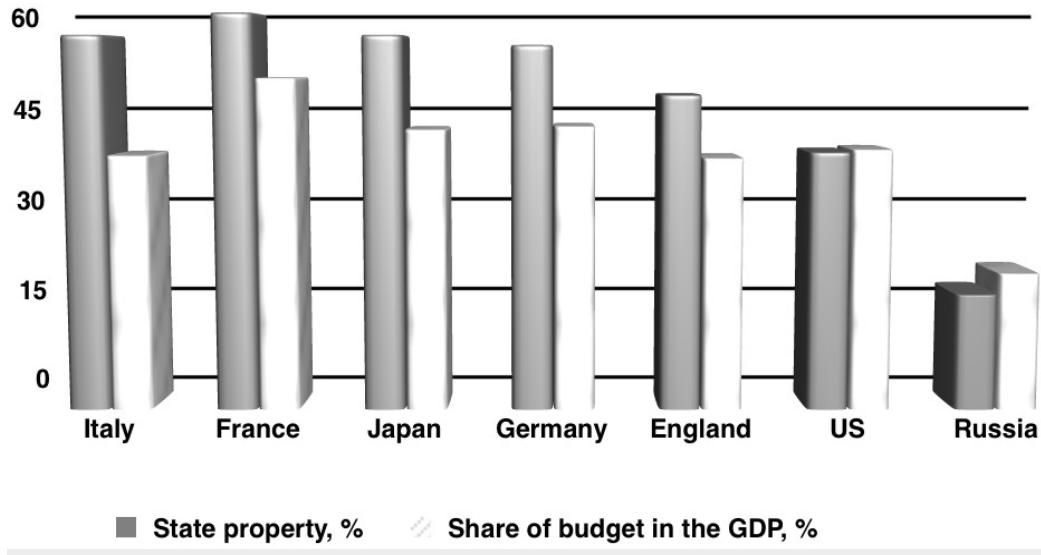


Fig. 6. Share of state property and budget share in the GDP of some countries of the world in 2007.

In such circumstances, the impact of the state on the social life continues to decrease significantly. The major part of state revenue is appropriated by certain individuals, which increases their privileges. That is why the main liberal idea of private property being more efficient than state property remains unconfirmed by statistics. And this is not surprising, since if private property is aimed at securing personal interests, generating income and profits, then the public is interested in the interests of the state and all people.

As the result, by the end of the 2000s already, Russia had surpassed the US in capital concentration and centralisation. This accelerated growth of private capital could not be natural; it was driven by the determined and selfish project of the top authorities, who created the favourable conditions for it. That is why, in accordance with the World Wealth Report, 62% of Russia's wealth is currently owned or managed by dollar millionaires, and 26% — by dollar billionaires. Thus, 88% of the country's wealth is controlled by the superrich. For comparison, in the US, this social group only manages 32% of wealth, and in Japan — solely 22%. Consequently, the material basis for the small and medium business development is almost non-existent in Russia. It is not surprising then that while in advanced economies the SMB accounts for 50—60% of the GDP generated, in Russia this contribution is just above 20%.

For this reason, Credit Suisse ranked Russia number one among the most unequal economies of the world. According to estimations, 1% of Russia's population owns 74.5% of the wealth of the country. India comes second in the ranking, with the top 1% controlling 58.4% of national wealth; Thailand ranks number three with 58%.

On average, this indicator stands at 46% across the world, at 44% — in Africa, at 37% — in the US, at 32% — in China and Europe, and at 17% — in Japan.

That is why, as Knight Frank consultancy affirms, between 2004 and 2014, the number of multimillionaires with assets valued at \$30 million and more, of centimillionaires (\$100 million and more), and billionaires in Russia has grown 3.5-fold for each of the revenue categories, and is forecasted to have increased some 1.5 times more by 2024. Even during the crisis, in 2014, Russia saw an increase in the sales of luxury goods and premium class cars. It is Russian, as well as Saudi aristocrats who own the biggest and most expensive yachts in the world; Russian top managers are among the main buyers of private jets.

Still, for truth's sake, it should be pointed out that the oligarchical privatization prevented the country's wealth from being dispersed among many owners, and many enterprises from being disintegrated, which gives hope of restoring their proper functioning in the future.

In these conditions, the new "elite" has abandoned all its responsibility for the Russian people; and propelled its exploitation to one of the world's highest levels. The share of labour remuneration in the Russian GDP for the past 15 years has stood at 31.1%. For comparison, in China, it was equal to 47%, and in advanced economies — about 66%.

It is obvious that in such circumstances, only rivalry is conceivable among the nouveaux riches, and not productive competition. For these people, production improvement is not of vital importance, because exploitation of natural resources, and wringing out new privileges and tax breaks from the government is more profitable. Enjoying their monopolist position is more enticing than making costly and risky investment in the technical or organisational innovations. Therefore, science, education, and R&D financing in Russia has dropped to derisory level. For instance, by 2015, the share of the state scientific programme in the total budget expenses was equal to 0.98%; however, by 2019, it is to be further reduced to 0.87%. For comparison, in Japan, it stands at 3.4%, in Germany — at 3%, in the US — at 2.9%, in South Korea — at 2.7%, and in China — at 1.7%. Even then, in Russia they dare talk about the coming neo-industrialization!

Full-fledged competition is also inhibited by the extensive criminalization of the economy and of all levels of power. According to the criminal authorities, they spend up to 50% of their revenue on bribing government officials through subornation and kickbacks payable to public officers. Criminal groups are omnipotent and have spread their influence to all the entire country and to all economic sectors. The venality of the mass media, forced to finance itself through fraudulent advertising and lobbying of the interests of specific power entities, foreign groups, and financial structures, contributes to further deformation of order and logic.

It is obvious that in such conditions no **equality** of economic actors, of all economic sectors, and of human and materialized labour, as required for healthy market functioning, could have formed. The very Labour Code of Russia, adopted on 30 December 2001, established a fortiori unequal relations between employees and employers. In accordance with the Code, all real rights are held by the owners, while wage workers, i.e. the vastest social stratum, are deprived of any state support. They cannot

protect their rights through associations, trade unions, or strikes, therefore, there is nothing to counterbalance the selfish objectives of the owners.

Thus, the population of Russia has become unnecessary. People have been deprived of work and income. Consequently, they have lost their qualification, have turned to drinking, degraded, and died out. Work force price plummeted, while the level of exploitation ballooned. As the result, the share of labour remuneration in the price structure have become lower than property revenue. For comparison, in the West this figure is around 60—70%, and in imperial Russia it reached 80%. The Global Age Watch Index, which assesses the comfort of life for elderly people, ranked Russia 79 out of 91, with its insignificant pensions, poor health, and low-quality social environment (including transport accessibility, physical safety, and social relations). In addition, Russia ranks 119 in the Global Burden of Disease Study for 2015.

That is why the 10/10 coefficient, that is, the official ratio of the revenue of the 10% of richest Russian to an equal number of the poorest citizens, stands at 16, or 28—36, if covert revenue is taken into account; and the ratio continues to grow. As recently as in 1991, it was equal to 4.5. What is more, the maximal ratio acceptable for national security, as estimated by G. Osipov, director of the Institute of socio-political research of the Russian Academy of Sciences, is equal to 10, which means that in Russia this indicator exceeds the norm three times. In Moscow, the income differentiation coefficient is even higher, it stands at 41.7, i.e. 2.5 times superior to the average value. Is it possible to qualify this as fair income and equal market relations?

For comparison, in the Czech Republic this figure stands at 5.12, in advanced economies — at 8.06, in developing economies (Spain, Chili, Israel, etc.) — at 8.23, in other states (Mexico, Thailand, Poland, China, etc.) — at around 13.7, in the US — at 16.94. Brazil is the only country with a result comparable to Russia: its R/P index is equal to 51.9 [78].

Moreover, the main source of wealth in Russia is the revenue from the sale of natural resources and property (rent, coupon stripping, rent payments, and uncurbed markups for goods and services). That is why by 1995, this type of revenue already constituted 44% of the Russian GDP, and at present has exceeded 50% of the GDP. A similar amount is spent on labour remuneration of all wage workers. This means that half of each rouble produced in the country is tightly related to exploitation. Obviously, nothing good can come out of this. ‘*Wealth is the source of satiety, and satiety is the source of impudence*’ (Greek philosopher Solon).

It is evident that such a huge revenue gap has contributed to the degradation both of the administration, and the owners; it gives dishonest people access to power, and gives the hands over to those who satisfy the private interests of the nouveaux riches, instead of the people who do useful work. Besides, in the current conditions, the subordinates and executives are defenceless against the arbitrary will of their superiors and of owners. As the result, the system of administration, of officials’ selection, and of regulating their work that has been shaped is such, that the efficiency of the current administration is beyond all criticism.

Other worrying tendencies are observed in modern Russia, too. For instance, the commercialization of all types of activities, that is, the subordination of enterprises to

the so-called “efficient managers”, causes their imminent destruction. This is not surprising, though. Such managers have neither knowledge, nor experience to competently control modern technological processes, science, and education. The only thing they are capable of is money manipulation. And while at first, they do boost the revenues thanks to the previously accumulated reserves, later the retribution arrives.

In addition, Russian government officials often raise their salary at the expense of their employees, and they do this legally. Following the order of the Minister of Telecom and Mass Communication N. Nikiforov dated 31 October 2016, the salaries of directors of enterprises may exceed those of their average employees 500-fold, the salaries of deputies — 350-fold, and of chief accountants — 150-fold. That is why the average salary at an enterprise does not correspond to the average income of its employees. For instance, if a company employs 1,000 people, their actual income would be less than half of the official amount. Same situation is observed in other sectors.

In such conditions, the difference between the manufacturers’ prices and retail prices is on average 3.2 times (officially, 1.5 times). In agriculture this ratio equals 4.0 times (officially, 1.3 times), in state procurement, 1.6 (officially, 1.1) [70]. The cost price of such staple goods as bread, flour, and cereals is at least three times lower than the retail prices. The resulting markup is appropriated by wholesalers, intermediaries, and public officers, who do not produce anything themselves. Little market to speak about, isn’t it?

The gap is even more absurd when the per capita GDP for different regions is analysed. In February 2016, the figure stood at 3.65. That is, the average income of a Muscovite being 67.1 thousand roubles, that of a Dagestani is only 18.4 thousand roubles [79]. Up to 80% of all of the country’s resources are concentrated in Moscow and the Moscow region, while other regions suffocate in poverty. From the social point of view, Russia cannot be considered a united country any more. While Moscow life quality is comparable to that of the Czech Republic, the Tuva Republic live as well as Mongolia does. *“And Jesus knew their thoughts, and said unto them, Every kingdom divided against itself is brought to desolation; and every city or house divided against itself shall not stand”* (Matthew 12:25—26).

As a consequence of all these processes, in 25 years the Russian Federation has nourished an unprecedented “fifth column”. According to the Great Britain taxation agencies, in London alone, over 300 thousand Russian citizens purchased real estate valued at one billion pounds or more. And these are the people aiming at taking the key positions in the state structure, in business, and the media. They plan and make the decisions that determine the fate of the entire country. *“Russia may have as many nuclear briefcases and nuclear buttons as it wants, but as 500 billion dollars of Russian elite are in our banks, it is not that easy to determine whose this elite is, yours or ours?”* (Z. Brzezinski). Thus, a considerable share of Russian “elite” has become “anti-elites”.

All mechanisms that unite people within a state and a society have become feeble in Russia. The mechanisms of counteracting extreme phenomena do not function, and extremes now determine all spheres of life. For instance, the interindustry ratio of salaries was at 5.84 in February 2016 (the average salary in financial sector being 90,170 roubles, and in sewing industry, as little as 15,441 roubles). For this reason, the same

work in finance and management is valued higher than in science, education, or healthcare [80]. “*Besides, the cheapest work force is engaged in the sectors that necessarily contribute to economic modernization*” (S. D. Bodrunov [81]).

It is not surprising then that the real Russian economy is in a miserable state, and Russian-made goods are hard to find in the shops. Almost all consumer goods, from house appliances to cars, from food to clothes and construction materials, are purchased abroad. In turn, Russia exports partially processed raw materials and heat carriers — they already make up to 85% of the country’s export. Thus, for the first time in its centuries-long history, Russia has become a classic colony, with all the ensuing consequences. Once the leader of the industrial world, in the past 25 years, Russia has been reduced to a neo-colonial raw-material state.

The unprecedented exploitation has limited the domestic market capacity to the cost of the work force. This has boosted the added value, which the population cannot afford to buy. Russia is failing the competition with advanced economies. That is why the country has a huge positive foreign trade balance, comparable to its budget, and often reaching 65% of the total Russian export. This means that easily convertible goods are exported from Russia and exchanged against green bills that are not backed by any value (the cost of a dollar bill is 4 cents) and that are redirected abroad through the official and unofficial channels.

This is easily explicable, as foreign money finds no use within a state with its proper currency. And in 1994—2017 alone, the official difference between Russia’s export and import was \$1.372 trillion. But this is only the official figure, at least as much had passed through unofficial channels. This would be the minimum amount of **significant and free** assistance that Russia has provided to the “poor” West since the beginning of the reform.

On the other hand, the positive foreign trade balance testifies of other typical phenomena. In particular, it signifies that Russia does not need such intensive export. On the contrary, **it is ruinous for the Russian economy**. Besides, the demand for convertible currency within the country is too high. This is due to the fact that in the current “business elite climate”, this elite’s revenues are excessive, and it is unwilling to invest them into anything useful. Moreover, these revenues are often illegal and are rejected by the population, which is entitled to confiscate this money. Therefore, businessmen seek to hide their money abroad, where it is impossible to place roubles in deposits.

As the result, all the investment potential is evacuated from the country, and Russia desperately lacks money for replacement of its main assets. Consequently, the real economy loses its foundation and perspective. Against this background, the Russian government attempts to attract foreign investors, however, in vain. Who in their right mind will invest in a country which sees its own capital withdrawn in such large amounts?

Therefore, the existing foreign trade balance is the key source of finance for crime and shady economy, as well as an instrument for robbing the country’s wealth. Obviously, the businessmen who plan to work in the state and improve its well-being are not taking money out of the country, nor exchanging it against foreign currencies, nor selling to the ruin of their proper state.

Summing up, **not a single advantage of the market regulation mechanism functions properly** in modern Russia, **its drawbacks alone are observed**. In this light, let us consider the state of the administrative mechanism.

It is evident that **labour cooperation**, the main purpose of administration, could not remain the same after production means passed into private ownership. During the reform, large enterprises were split into smaller, even tiny ones, better adapted to the savage market. In the best of cases, this led to reduced production; in the worst case — to change of assortment and the end of production of sophisticated goods the country needed; or else, to complete ruin.

The most profitable and prosperous enterprises (manufacturers of alcohol, tobacco, oil, timber, fertilizers, gas, etc.) were turned private. Besides, the tax revenue from privatized companies was much lower than the income they generated for the state treasury. Thus, by 2015, Russia's budget was as small as 20.8% of the GDP, much lower than the average figure for Europe, 43.6%<sup>[82]</sup>. The Russian state budget has shrunk to a derisory sum, and therefore, all government programmes lack financing.

However, the most outrageous element of the situation is the general injustice that took the reign, the perverted logic and order, the lack of expediency and of reason as such. Vice, avidity, and conceit shaped the majority of the ruling elite and determined its collective image.

The consequences were the most tragic imaginable. The losses Russia suffered in the 1990s were comparable to those of the most difficult periods of the country's history. At the bottom of its decline, Russia lost over 55% of its industrial potential. This was more than the US lost to the Great Depression (30%) and similar to the Civil War losses (70%). What is more, this suicide happened without any objective reasons, such as wars, epidemics, and natural calamities.

Obviously, if in few years the Russian real production (and therefore, the social labour productivity, too) dropped more than two-fold, and then started reviving a per cent at a time, this means that the reforms that stood at the source of such changes are far from being progressive.

In summary, **none of the administrative governance advantages function in neo-colonial countries either**. This situation is observed not only in Russia, but in other states that have adopted the neo-colonial model, too. Besides, it should be pointed out that all of the processes described above are to a certain extent dependent on each other.

In the light of the foregoing, it may be affirmed that judging by all its features, the neo-colonial economy has built its proper system, has created a unique type of organisation. **However, instead of the advantages, it has accumulated all the faults both of the capitalist and of the socialist economic models.** Neither the market, nor the administrative regulators function within such economy, that is why it is beyond any superficial repair. As any other system, neo-colonial economy is unable to improve on its own. It is naive to assume that if nothing changes, things will still work out. This system has no proper future.

Other neo-colonial countries equally live through processes typical of the post-reform Russia, however, the frequency and the extent of these phenomena differs from

Russian reality. That is why our country has become a standard image of the neo-colonial model. This, in turn, accentuates all the negative processes in the country.

The negative qualities of the current neo-colonial economic model that were described above are so frequent and universal, that they cannot be eliminated gradually, nor one by one. Nevertheless, all economic revival programmes are based on either of the two approaches. They can only entail social and political shocks, but they are inefficient. To achieve success, systemic measures are required that will shape a harmonious organisation and resolve several issues each. Such measures will be discussed further.

### **1.1.19. 2.2.6. Harmonious form of social organization**

Ibn Sabey

Due to the asymmetry of the market and administrative governance (see section 2.1.3), these two systems can only function successfully in cooperation, so that they will mutually compensate each other's disadvantages and multiply each other's advantages.

Any expert in management will confirm that model A, where both types of connections are active, is perfect. It is this model that best employs the advantages and makes up for the drawbacks of the administrative and the market regulators. It becomes possible then to use reasonable planning and simultaneously to stimulate the spontaneous market-mediated regulation of economy. This model comprehends, besides the black and white vision of economy, various shades of grey. But compared to the extreme attitudes where details are of little significance, this model make one think of where, what, when, and to which extent. It demands knowledge and skills.

That is why the theory of convergence emerged, i.e. the synthesis of the capitalist and the socialist economic models that combines the advantages of both. It was worked out by many eminent economists of the world (P. Sorokin (US), W. Rostow, J. Galbraith, M. Duverger, and others). Their conclusion was unanimous: “*the emergent society and culture will not be dominated by the capitalist or the communist types, but by sui generis, that should be considered an integral type*”  (American economist Pitirim Sorokin [23]).

It is for the harmonisation of economic relations that all advanced economies strive today. The economies of highly developed modern capitalist countries are improved through reinforcement of administrative connections and preservation of market regulators. The reason behind this is that “*both the planned and the market economy models have serious faults*”  (K. Eklund, ideologist of the Swedish economic model [84]).

As the result, “*since the end of the nineteenth century, almost all countries witnessed a steady expansion of economic functions of the state*”  (P. Samuelson [35]). For instance, following the 1929 crisis, American administrative governance was ex-

panded, currency operations were placed under supervision, and the share of state expenses in the GDP grew from 8.5% to 25—33%. These measures allowed the US to recover from the global economic crisis. The same attitude is still practiced today.

In the framework of this tendency, ever more sophisticated forms of state protectionism emerge. “Voluntary export limitations” are imposed, anti-dumping cases are filed, and front-edge and competitive enterprises, industrial sectors, and agriculture enjoy state support. New economic policy strategies are worked out and tested. Special rules are established for international cooperation, technical standards, accounting, audit, and taxation. Struggle for currency and financial markets across the world is encouraged. Finally, the role of various ways to entice the customer, to “shape customers’ taste”, increases.

All advanced economies go through this. According to the law formulated by A. Wagner<sup>[85]</sup>, the state expenses of advanced economies grow faster than the production volume and the national income. For instance, between 1960 and 1995, in Germany, the share of state expenses in the GNP increased from 32.5% to 49.4%; in France, it grew from 34.6% to 54.3%, in Great Britain — from 32.2% to 42.1%, and in Spain — from 21.4% to 46.9%, etc. In the past decades, this has allowed the countries mentioned to resolve many of their social issues, to boost economic efficiency, and to contain the destructive impact of economic crises.

One of the most profound economic schools, the Stockholm school, has successfully implemented the so-called “mixed economic model” in Sweden. It is a reasonable combination of private and public property, and introduces the system of communes. The market and the state administration coexist within this model; competition is encouraged, and an efficient social policy is implemented. Under this system, the state sector is behind 62% of all expenses. As the result, the labour productivity and the quality of life in Sweden are among the highest in the world.

Here is another example. Large industrial enterprises of the Belarus SSR were not privatized in the 1990s. All plants, institutes, research laboratories, and social infrastructure remained under state control. Market instruments are used in the country to complement the existing administrative governance. Belarussian industry has undergone a technological upgrade, while remaining part of the state property. This refutes all dogmas concerning the inefficiency of the state in the role of a property owner. As the result, today Belarus is competitive not only at the domestic and Russian markets, but at the European market, too. The export of high-tech produce from Belarus to Western Europe and other countries grows steadily. This constitutes a significant achievement not only for the former Soviet republics, but for Eastern Europe in general.

Still, one of the most eloquent examples of efficient economic reform is that of the People’s Republic of China. It follows the market course, but has not renounced the political and administrative market regulation. State-owned plants, factories, and institutes are not sold for a song. The state continues to be the owner in the sectors of energy, mining, oil production, transport, and finance. Besides, state ownership of land has been preserved, although part of the lands is allocated for the use of cooperatives. Each peasant is entitled to rent a plot of land to become an individual self-employed farmer.

Moreover, Chinese industry is reorganized and taken public. Special tax exemption economic zones are created to attract foreign capital. At present, the country is completing its twelfth five-year plan. Its objectives include turning the country into an innovation centre; as the result, by the number of scientists China can rival the US. The share of high-tech products among Chinese-made goods constantly increases. The Chinese economy grows approximately 10% a year. That is why, since 2014, the Celestial Empire has outstripped the US by the amount of the GDP; today it ranks number one in the world. Thus, the PRC demonstrates that mixed economy is significantly more efficient than the liberal model [10], [86], and [87].

On the other hand, China is an example of a mix of the market and the administrative economic regulation models, and not an alloy of the two approaches. That is why its economy uses the same money without real value. Besides, it applies the labour time-based wage labour remuneration system, which contributes to preserving the inequality of the production relations. Finally, the country has a typical imperfect taxation system that corrupt the state administration machine, and an archaic form of governance, with all of its advantages and drawbacks (see Subsection 2.1.2). That is why, despite sizeable success, the administrative and the market models do not combine in a harmonious entity. There is no qualitative unity of these essentially different factors, which are, nevertheless, similar in their purpose. Their fusion is the prerequisite for the full realisation of the system's potential.

In fact, superimposing the disharmonious models **C** and **D** from Figure 4, or adding the respective budget items, as it is done today, is not sufficient for creating a harmonious economy. This goal requires a fundamental change in the system of the administrative and market governance. The market should be governed by the administration, and the administration should be controlled by the market. Besides, the monetary system should be restructured, the taxation and customs policies should be improved, the wage labour remuneration forms should be changed, etc. Only then will the existing governance mechanisms form a harmonious alloy, replacing a mixture of incompatible ingredients. By consequence, the human labour productivity will increase dramatically. The ways to achieve this will be discussed further in this monograph.

Each of the politico-economic structures presented in Fig. 4 has its specific features, advantages and faults, and its proper potential. As it has already been mentioned, the capitalist and the socialist systems are asymmetric, that is, the disadvantages of one are made up for by the advantages of the other. It seems useless to argue that one of these systems is preferable over the other, as their potential is similar. While the neo-colonial model, which has been implemented in Russia and many other countries, combines the typical faults of the capital and the socialist economic system, the harmonious economic model from Fig. 4 is about putting their strong points together.

Within each system, various correlations of factors may exist. For instance, while in some states private ownership of production means prevails, in others it has a less significant role. Depending on the country, collective or state property in various forms predominates. Sometimes, state functioning and all economic activities abide strictly by the laws; in other countries the legislation is not that efficient. In certain economies wage workers are deprived of all rights; in others the law does not protect

businesses only. Some states are more open to their neighbours, while others are more closed, etc.

Nevertheless, these differences do not impact the efficiency of organisation, nor the production relations between people. States can be either “human” or inhuman. But the type of system that serves as their foundation predetermines the main characteristics of every state.

Let us sum up all that has been discussed in this Section. It has been established that **the modern level of economic development allows for the existence of four fundamentally different economic models only**, that is, the socialist, the capitalist, the neo-colonial, and the harmonious economies (see Fig. 4). **No other systems exist nor are imaginable**, because the relations between economic actors cannot be combined in any other fashion. That is why, once the particular type of economy is determined for a specific state, its main properties can be easily predicted, **even without knowing its name or location**.

Moreover, not only the socialist countries, but also the most advanced capitalist countries, are increasingly turning to the neocolonial form of organization, as the simplest and most primitive system of economic relations. They are also experiencing an increasingly large-scale destruction of market ties, the suppression of equal competition, the level of exploitation and corruption are growing, all kinds of protectionist, prohibitive and subsidizing measures are being introduced. Therefore, if over time, states do not begin to transform into a harmonious form of organization, then neocolonial degradation awaits them all.

In this regard, consider the features of a painless transition of countries from any formations to their harmonious form. In the following Section we will analyse the possibilities for a painless transition from various economic models to the harmonious system.

### **§2.3. GENERAL THEORY OF ECONOMIC SYSTEMS**

*There is no doubt that social system is an organized entity, just as an individual is; it is bound by a network of relations; it has its proper dynamics where circular feedback processes play an important role.*

N. Wiener, founder of cybernetics

#### **1.1.20. 2.3.1. Economic systems and their properties**

Economics is a science that studies the instruments used for creating highly efficient production. Economic laws are objective and as binding as the laws of any other discipline, such as physics, mathematics, or metallurgy. They function whether they are known or not, whatever this or that classic wrote about them, and whatever recipes are suggested for achieving specific goals.

Indeed, human society is not a special supranatural structure that lives by its own laws different from those of the surrounding world; the society is built into Nature and constitutes an integral part of it (see works of V. I. Vernadsky, L. N. Gumilev, A. Sheveitser, G. Nikolis, I. Prigozhin, and others [88]—[98]). And if humans sometimes forget

about this and attempt imposing man-made laws or acting by other rules that contradict the basic natural laws, then their own actions turn against them. This has occurred numerous times; still we seem to have learnt little from the past experience. However, there is no doubt that the more human organisation conforms the natural regulation mechanisms, the more perfect it is. Nature and God are wiser than men. Therefore, it is time to stop reinventing the wheel and to start studying the natural laws instead, to learn to use them properly.

**A system is a group of elements that are related to each other by a specific principle to form a new quality that cannot be reduced to the combination of the system's components.** A system is the opposite of the chaos, because it is based on what we call "order". Within a system, the whole is not just the sum of the components, as Aristotle taught. Any cell of the human body, any organ, as well as any human being, and the human society itself are examples of systems. The Earth, the biological and social life on it, the production and social relations, and many other things are systems, too.

Systemic patterns are based on the statistical law of large numbers, according to which small deviations in the behaviour of various global structures are mutually compensated, and they manifest common qualities, connections, structural properties, and behavioural patterns. That is why a systemic approach makes it possible to introduce common rules, methods, and optimisation criteria for most varied phenomena: from physical, mathematical, and physiological, to economic, and social. In this way, the achievements of specific scientific spheres may be applied to other spheres.

Therefore, provided that all natural and social phenomena abide by the same laws, highly efficient economics cannot ignore them either. As the knowledge of geometry laws lets human beings measure distant stars and describe their motions while sitting at an observatory, the understanding of the above-mentioned principle allows to make the transition from the known to the unknown. Any deviation from the principles, whatever its reason might be, decreases organisation efficiency. This means that **the true purpose of any reform should consist in conciliating the existing system with the highly organized natural systems.**

The vertical structure of the "organisation tree" is shown in Fig. 2. In the section made in the plane corresponding to people and associations of people, various combinations of the two can be observed, and it becomes possible to study, for instance, the relations between workers within teams, communities, and other structures. Then, if the section is made in the plane representing production workshops, the characteristics of internal plant cooperation may be analysed, and in the section of enterprises, the typical features of the administrative and market cooperation of plants may be visualized. Figure 7 presents a typical "tree" section in the horizontal plane with all of the systems it comprises.

What natural forces contribute to the formation of such structures, and what are the laws of their development?

It is obvious that any economic organisation is based on the principle of expediency, expressed in labour differentiation and cooperation. The model of any cell of the economic system has the structure shown in Fig. 8. It comprises both external connec-

tions (A) (material, informational, labour, energy, financial, etc.) and internal connections (B). The square corresponds to the administrative governance, whose mission consists in coordinating the work of all units of the systems, as well as the financial structures that assure all financial flows. The limits of systems are determined by the area of functioning of external connections, by legal and functional documents, by administrative division, or by a simple fence.

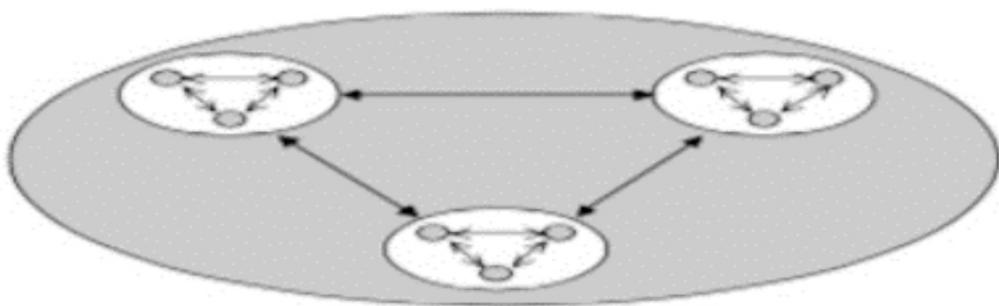


Fig. 7 General model of economic system.

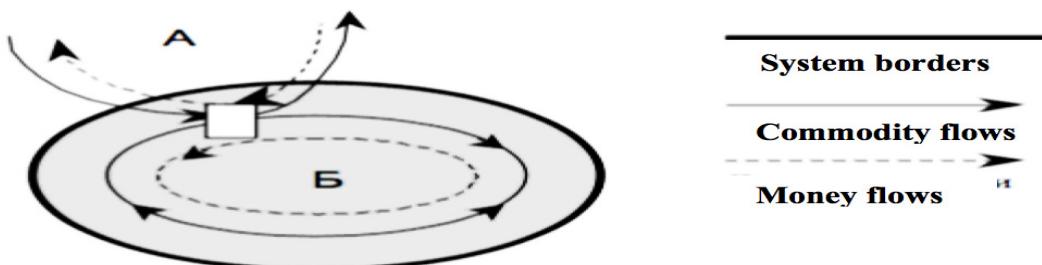


Fig. 8 Structure of any economic chain link.

Besides commodity flows, a properly organized economy has financial flows. Besides, it is important that the financial flows mirror the commodities flows, and vice versa, and that both types of flows always promptly react to all changes in trade relations. Thus, the production and the financial images of any system should be comparable, reflect each other, have similar borders, and share functional properties. Only then will it be possible for financial flows to reliably manage the economy and to promptly react to any production changes, and vice versa.

Thus, in a highly organized economic system, commodity flows and financial flows should function jointly, as a pendulum; just as arterial and venous blood pump through the human body, these two flows should move simultaneously in opposite directions. Only then they will be mutually connected and will help each other. Besides, the better their cooperation, the more perfect and efficient the economic system is, the more tightly the commodities and the money that serves them are related, and the more reliably market and administrative regulators function. As it has already been mentioned, the current economic model, as well as virtual economy, see these flows diverted away from each other, which entails various pathologies.

In the light of the foregoing, the main purpose of any reorganisation is the shaping of economic structures that would conform with the principles above, as well as creation and coordination of external and internal connections networks.

### **1.1.21. 2.3.2 Principles of functioning of economic systems**

What are the distinctive properties of highly organized systems, and what is their difference with poorly organized systems? What qualities should be developed when optimizing the economy; what image should serve as an example? Let us consider these questions in more detail.

Any complex system has its proper development scenario, its own fate, if it may be said so, its mission, and its function. This makes it possible to accelerate or slow down the system's development; however, no system can change randomly. Therefore, it is useless to impose any foreign qualities in it. Only the understanding of the true mission of the system will make any targeted influence on it effective.

In fact, any system that has gone through the transition stage of development and is stable conforms with the following laws:

**1.** It has a proper **order**, a structure that is preserved, with slight alterations, throughout all links of the “organisation tree”. This means that within all economic structures of any system, the rules of execution, administration, accounting, supply, management, and marketing should be formulated following identical principles, so that they do not contradict, but complement and reinforce each other;

**2.** All structures that form a system have a **likeness**. Each component contains the information about the structure and the qualities of the whole. Besides, “*the solidity of the whole depends on the minimal relative resistance of all of its components at any moment*”  [91]. This means that if a system possesses a certain quality, then all of its components possess it, too. It can be compared to metal crystallites, which, whatever their size and form, always have the same crystal lattice as the crystal itself. This pattern is sometimes called **hologram law**, as it enabled one to reconstruct the whole using just a fragment of it. Therefore, any pathology that has emerged in one of the structures, would affect the entire system. It will also spread to all subsystems, as they follow the likeness principle;

**3. Resonance** qualities are characteristic of all systems and their components. Their oscillations should conform with each other, because only similar vibration frequencies can accentuate the action. These qualities are developed at enterprises by the adjustment of the production cycle length. Besides, the higher the level of organisation, the more the production cycles of systems and their components (i.e. their own oscillation frequencies) should coincide. This applies to single-product and multi-product enterprises;

**4.** One of the most important qualities of highly organized systems observable at all levels of the “organisation tree” is their **compatibility**, i.e. mutual consistency of their global goals and methods, as well as a possibility of cooperation. In other words, “*the prerequisite for cooperation between objects is that they possess a relative prop-*

*erty of compatibility*\*<sup>[92]</sup>, of qualitative and organisational homogeneity. Compatibility tolerates competition between systems, as well as struggle for success, but they should not fight or contradict each other. This principle is applicable to all natural structures. In living organisms, no cell develops on its own, without executing its liabilities before other cells. Parasitic cells that seek to suppress their neighbours to live at their expense are considered diseased and, unless they are timely eliminated, they die together with the organism they have destroyed. This means that economic actors that only seek personal profit ignoring the interests of others cannot form a highly organized system. The same is true of those that act solely through competition ignoring cooperation, and value individual qualities of plants over public ones. Only a concordant functioning of all economic instruments is capable of producing a harmonious and vital melody instead of a cacophony. For this, the potential sphere of interests of all economic actors should be coordinated. It should be unprofitable to harm the society and the surrounding world, and profitable to bring them benefit. The more the interests of individual persons, communities, and the society coincide, the more efficient the economic system will be, and the more it will merit the name of a civilized, reasonable, and human system. After all, “*civilisation is the skill of living in a society*” (from Smithson Committee report, 1895);

**5. Hierarchy.** This system property determines the rules of structuring of the entire world and its components. Through hierarchy, all cooperation levels of the constituent structures are alike, but functionally diverse. Within the system there should not be any structures without specific functions, or with overlapping functions. Any system’s mission is to perform its function, which cannot be substituted by another one. However, the hierarchy does not determine the importance of the functions, i.e. it should not be assumed that the higher levels of hierarchy are more useful than the lower or vice versa;

**6.** All economic systems, notwithstanding their scale, are **adaptive**, i.e. following a spontaneous or targeted selection of useful mutations, they are capable of taking on a structure, of developing connections and forms that boost their viability, and allow achieving better results at a lower expense. For instance, the 1990s “reform” in Russia, and the savage capitalism that emerged afterwards were violent events, that is why they entailed huge material, moral, and human losses. This means that they did not conform with the above-mentioned principle and could have never made the economic system more productive. Large systems combine progressive, stabilizing, and extinctive structures. All of them are functionally complementary, and contribute to the internal system processes. This is an inherent quality of natural systems; any ideologic, political, or theoretic clichés and stereotypes that impede system development are bound to die out;

**7.** On the other hand, each system a certain **resistance**, i.e. a genotype: it can preserve its structure and organisation under limited external and internal fluctuations. The adaptability and resistance thus form a dialectic pair and shape the main system qualities. In turn, structuring and variability assure dynamic equilibrium of the system;

**8.** Each system is characterized by the **immutability of its key features**, i.e. by **inheritance**. Each system has its proper development scenario, which cannot be randomly changed. Any attempt to impose foreign behaviour on the system is doomed to fail. Therefore, it is impossible to get rid of certain qualities of the system without changing its very basis. For instance, negligence was typical of the socialist economic model, and despite all efforts to fight it, this trait was only eliminated with the state system itself. Unstable financial circulation, taxation difficulties, money deficit, and high crime rate are natural for capitalist economy, and have become apparent in Russia during its transition to the present-day organisation. For example, the US receives at least 10% of income from shady economy (in modern Russia, this figure exceeds 40%). In the Soviet Union this type of income accounted for 1—2% of the total, and its sources were well known. A system cannot be adjusted. In order to get rid of its specific drawbacks, it should be replaced by another system without these faults. Obviously, this new system will manifest its own new advantages and drawbacks;

**9.** Any system **rejects foreign qualities**, however attractive they might seem. The road to hell is paved with good intentions. There should be no illusion about it: the system only lets survive what conforms its nature. That is why it is **impossible** to simply combine the socialist and capitalist features without systemic changes, hoping to avoid the faults of both models. Not every mix can become an alloy, it is impossible to conciliate two incompatible things, as centaurs only exist in legends. Nevertheless, similar attempts have been made in the framework of practically all economic and political revival programmes for modern states.

**10.** All systems are capable of **self-organisation**. Besides, “*an object is deemed organized only provided that the properties of its components (parts) act as this object's preservation and development functions*”<sup>[92]</sup>. This means that not all parts of the system should be closely controlled, a significant share of system functions is performed automatically. It is comparable to a car, where the driver does not have to interfere with the work of all individual mechanisms during the ride. Besides, the better this principle is observed, the more grounds to consider the system highly organized. But then, in an administrative model where obvious decisions can be implemented only upon government interference no other argument is required to prove a complete degradation of such administration.

**11. Conservation laws** function within each system. They are reflected in the internally essential, steady connection between phenomena that assures their orderly change without any alteration of the system properties. First of all, these are the laws of conservation of matter and of energy, as well as laws of symmetry, which describe the states imposed by specific combinations of the extremes. Besides limiting the results of various interactions, these laws determine their potential consequences. “*All changes that occur in nature are of such consequence that where some quantity is taken away from one body it will be necessarily added to another; where a certain amount of matter is gone, it will increase to the same extent in another place...*” (Conservation law is formulated by M. V. Lomonosov). It should also be pointed out that Nature creates all things from parts that are insignificant by their size, but powerful in their expression. This is what renders scientific analysis of natural phenomena so complex.

Therefore, laws of conservation within economic systems play an essential role and are extremely useful for studying the processes whose mechanism are not yet familiar to people.

### **1.1.22. 2.3.3. Connections within highly organized systems**

On the other hand, all system characteristics and behaviour are determined by the **connections** that are active within such systems. Moreover, these connections can be considered separately as system components subordinated to the same hierarchy. It is through influencing these internal connections that a system can be most efficiently regulated, whether the impact is direct or indirect. Besides, this is true for both economic and other natural systems. Therefore, in this subsection we will provide a description of the main qualities of connections within highly organized systems.

**1. Economic system connections** may be related to trade, labour, financial, energy, resource, information, cultural, psychologic, human, etc. Besides, as like interacts to the like, systems that have nothing in common cannot influence each other;

**2. All of the above-mentioned system qualities apply to internal system connections**, too, because neither external, nor internal system properties can contradict the properties of the structures forming the systems;

**3. Connections can be divided into internal and external.** They are not qualitatively different, as all external connections serve as internal ones for another larger entity. For instance, external connections of a production workshop are internal connections for a plant, etc. This fact proves the conventionality of the system borders (of economic, physical, psychologic, physiologic, social, and other systems), for all of them are just various expressions of unique Nature. Besides, this demonstrates that there can be no limit to the size of natural systems. After all, the Universe is not confined to the Earth, our Galaxy, and the rest of the world we are familiar with;

**4. System borders** are shaped by the limits within which their internal connections function (see Fig. 8). This is the way work teams, workshops, plants, communities, etc. are organized. The more precise the borders are, the clearer the distribution of rights and liabilities between various levels of organisation hierarchy, the system, and all of its components, the closer such system is to highly organized structures. All ambiguity concerning the system connections, when they are insufficiently determined, leads to development of the same problems throughout the system they serve;

**5. External and internal system connections** (see Fig. 2 and Fig. 8) should be **coordinated**, including in their production rate. This means that all necessary material, information, financial, and other resources should be integrated within the same cycle; they should be supplied and shipped timely. Only then will the system be reliable, and resonate with all its structures to boost their joint efficiency. Consequently, this increases system solidity and productivity;

**6. Based on the correlation of the aggregate flows that serve the internal trade circulation (*i*) and the external trade circulation (*j*), systems can be divided into open and isolated systems.** If  $k = i/j$  tends to zero, i.e. the system mostly cooperates with foreign partners and ignores local ones (its borders are transparent), it is considered

open. However, if the system serves itself exclusively ( $k \rightarrow \infty$ , its borders barely allow the passage of entering and exiting flows), then such system is deemed isolated. Obviously, no system is entirely open or isolated, as all pure structures have low chance of survival. Therefore, each system has an optimal isolation grade  $k_0$ . It depends on the system size, type, and nature of production forces it employs, as well property type, corresponding production relations, etc. As long as  $k < k_0$ , the system stability decreases, and the influence of the internal factors that determine its functioning as a whole is reduced. This system functions poorly and is incapable of self-organisation. It was this state that modern economy of Russia in general, as well as the economy of its regions has been left in due to the “openness” policies. More generally, all neo-colonial countries have been brought to similar situation thanks to the effort of the “globalisers”. But when isolation  $k > k_0$ , then the connections with other systems weaken, and the system is deprived of external flows of resources, knowledge, and technologies, and stagnates. This applies not only to interstate relations, but to all economic structures;

**7. Limitation.** No external system connections can impact its internal properties, unless the system had them from the very beginning, because, as it has already been mentioned, like only influences the like. Otherwise, how can something emerge out of nothing, and what impact can be exerted through closed channels?

**8.** Any system **evolution** is started by a double influence from the inside and the outside, as the Sun makes the grain shell burst. *“A seed is useless and powerless until the moment when it falls into fertile soil”*  (Rosicrucianism doctrine [99]). Besides, the impacts are coordinated so that the external efforts contribute to development of the internal qualities, and the internal qualities, in their turn help the external connections extend towards more global systems. This is how the universal World Unity is formed, and the big and the small, the “top” and the “bottom” are expressed in it. Thus, the external and internal forces always act together, and as soon as they reach the limit of their development, the evolutionary cycle of the system cones to an end;

**9.** External system connections within the “organisation tree” can be **vertical** and **horizontal**. The connections directed from the system into each of its constituent structures, as well as to each of the superstructures (Fig. 2), are called vertical. On the contrary, horizontal connections link systems within one level or several similar levels. Besides, as it has already been mentioned, vertical connections are administrative in nature, and horizontal connections are related to commodities and market. Moreover, internal system connections are formed according to different, but comparable principles;

**10.** Connections can be **strong** and **weak**. Besides, they differ by the force of impact on the structures and the general system behaviour. While weak connections are numerous, strong ones are limited in number and have specific characteristics. They can be further divided into **system-destructive connections** (their impact ruins the system), **system-stabilizing connections** (they prevent destructive changes), and **system-building connections** (they contribute to the formation of new systems) [11]. Indeed, *“to survive, an unstable system needs the presence of something absolutely firm that would become the centre of consolidation for other system components, otherwise,*

*this system could transform into a different one, or perish*' (ordained monk Appoliny Dubinin). Thus, privatization, transformation of money into a commodity, and price liberation — the methods that the Russian "reformers" used and that led to the destruction of the socialist economy, may be classified among system-destructive approaches. On the contrary, the group of system-stabilizing connections includes patriotism, religion, culture, and traditions instilled in the overwhelming majority of the population, which prevented the country's final collapse. This explains the frenzied propaganda of the western media aimed at destroying the centuries-old values of the Russian people, its character, and patriotism. Finally, system-forming connections will be described further;

**11.** Connections are typically divided into **positive and negative** ones. Positive connections activate the system, and negative ones stabilize it<sup>[100]</sup>. While positive connections make system more adaptive, negative ones boost their resistance. That is why efficient systems management is only possible by influencing positive connections, and useless when negative connections are engaged. These connections can be either immediate (order or commission), or mediated (providing incentives, conditions, and determining preferences). While the first type of connections produces a direct impact, the second type acts through an intermediary, through other connections, and through typical factors of economic structures;

**12.** By type of realisation, connections can be classified into **direct and reverse**<sup>[98]</sup>. Direct connections impact the system, and reverse connections influence the system's reactions to this impact. In highly organized systems both types of connections are balanced, i.e. their reaction to any stimulation is adequate to this stimulation. The reaction is not explosive or excessively passive, as is occurs in poorly organized systems. Direct and reverse connections complement each other and work as two cups of a scale, which is the key to their efficient functioning. Positive and negative connections, as well as direct and reverse connections, shape the self-organisation and self-improvement capacities;

**13.** Highly organized systems are based on the **adequacy principle**, i.e. the influence of all types of connections on others are similar in nature. That is why the feedback, and the transfer of any values or information by the system is fully made up for by other connections. All kinds of pathology in the relations of economic actors (i.e. parasitism, exploitation, inequality of rights and liabilities of the performers and the customers, and of the superiors and their subordinates) reduce the productivity of economic systems. System operability is determined by the rights required for performing their liabilities, and never beyond that. The current administrative system does not conform to this rule, because under it rights are concentrated in the top echelons of power, and liabilities — in the lower ones. Such system is based on subordination principles and ignores partnership. This prevents successful functioning of the entire administrative hierarchy, corrupting its organisation, and rendering it inefficient. It loses the capacity to cleanse itself from decadent structures, from personalities that do not correspond to their functions, and from all kinds of waste. By consequence, solely the middle level of such administration remains productive, because its rights and liabilities are well balanced (Fig. 3). It is thanks to this level that administration survives. Similarly, market relations become crippled when money face value is unstable (i.e. in

times of inflation or deflation, when various money speculations and securities gambling are practised, when usury flourishes, etc.). Within harmonious economy, administrative connections are subordinated to market connections, and market can be governed by administration;

**14. Any limitations of connections**, as blood accumulation in the vascular system of a living organism, are fatal, because they prevent normal functioning of the system. This happens, however, if banks, the heart in the vascular system of economy, serve primarily themselves, instead of social production, for the sake of which they were instituted and from which they feed. This occurs when commodity flows are impeded by obstacles (poor functioning transport, telecom, communications, or wholesale trade; difficulties in finding trade partners, imperfect legislation, etc.). Another possible situation is money deficit, when the monetary flows are interrupted by banks or financial intermediaries, or when enterprises lack circulating assets for mutual settlements, and they recur to payment defaults, surrogate money, etc.

It is important to point out that the laws formulated for economic systems are objective, i.e. they function whether they are known or not. They are applicable everywhere, even if the current economic model is far from the harmonious ideal, because a rule remains a rule even when it is violated. At the same time, the more a specific economic structure conforms with the principles of functioning of highly organized systems, the more perfect and the more efficient it is, and vice versa.

### **1.1.23. 2.3.4. Special features of formation of highly organized economic systems**

As usual, the most important question is the following: what should be done to create a true highly organized system? It is easy to furnish general truths, but what specifically should be done to produce the desired result, not another empty argument or brutal shock for the country?

It is obvious that to turn the current economies of the neo-colonial countries as described by models **C, D, or F** from Fig.4, to a harmonious, well structured, and highly efficient state (model **A** of the same Figure), it is useless to act at random, to mend up the numerous faults, to solve local issues, etc. The reason is that all problems of any country are related to each other, so that neither simultaneous, nor consecutive elimination is possible. As it has already been mentioned in [14] and in paragraph 10 of Sub-section 2.3.3, the transformation of one system into another requires, first of all, system-forming changes. They will create proper conditions for further development.

It has been demonstrated that **the number of system-forming factors, i.e. of the chromosomes that determine the genetic code of the system, is rather limited.** For instance, the socialist economy was based on public ownership of production means, on omnipotence of administration, and on the use of inequivalent production relations and of egalitarian form of labour remuneration, for wage workers only. Among other important features, there were suppression of individuals for the sake of the society, and absence of usurious interest rate.

These were the factors that shaped the economy, which, despite a number of sizeable advantages (flexibility, social value, easy governance, etc.), suffered the imminent evils of poor management, low adaptability, dominance of bureaucracy, suppression of individual will, and a tendency to resolve global problems, instead of satisfying the current needs of the population. To get rid of this model, **system-destructive** methods were required, in particular, privatization, turning money in a commodity, opening up borders, and price liberalization. After these measures, the rest of the system died out on its own, with little interference from any Chubaises.

In comparison, the capitalist system is based on the private ownership of production means, on the wide use of market regulators, on the usurious interest rate for capital, and the predominance of private profit over social benefit. This is quite logical, as he who lives at the expense of the society wished his interests to be protected better than those of the society he milks, and will not spare money on that.

Therefore, besides considerable advantages (adaptability, self-regulation, activity, etc.), the capitalist system has a number of inherent faults. For instance, under capitalism, the money is unstable, and the property gap is large. The resulting social tension, crime rate, and corruption cannot be contained, as the administration is weak; besides, levying taxes presents a serious challenge. On its way to capitalism, Russia's economy has clearly manifested many of these drawbacks. As the antidote to them has not yet been worked out in Russia, the results have been rather dramatic.

This is not surprising, after all. In the early years of perestroika, Russia lacked business-like people that would possess a capitalist ethics, culture, education, as well as any established traditions of entrepreneurship. Therefore, passing the national wealth to random people could not have produced a successful result or compensate for the faults of the capitalist model. The new owners laid their hands on large pieces of public property almost for free, and used it mostly for profit generation, instead of useful work: "*We witnessed that creation of favourable conditions and granting of freedoms to business did not make a new class of people emerge, people who would grow rich and would also make the entire society happy. This was but a fatal illusion, which, in fact, still deludes many people'* (former Deputy Minister of Home Affairs, present-day Deputy Chairman of the Russian State Duma V. Vasiliev).

That is why the new property owners started getting rid of highly liquid resources, and then lease the rest, leaving it at fate's mercy. This was quite expectable, as wealth comes as it goes. True owners cannot be created by the simple transfer of public property to private ownership, whatever the badge is. True masters have to educated over generations of harsh natural selection, which Russia could not, unfortunately, apply.

Thus, nature has no universal solutions acting in a similar way in all circumstances, just as there is no cure for all diseases. Private ownership of production means is not only the miracle cure for all troubles, on the contrary, it often becomes the origin of new problems. Therefore, shaping the Russian economy according to the capitalist standard did not generate a capitalist content for the new shape, but deformed the old one. Such actions inevitably brought about a neo-colonial economy, instead of the civilized one. This means that a **completely different approach** is required for this type of reform.

On the other hand, an economic progress can be achieved by two types of actions. First, some kind of ideology can be imposed on the society in a violent and oppressive way. Then the new system activation energy (i.e. the required amount of monetary, labour, human, and material resources) will be considerable, while the results will be modest. The other option is to study the nature of systems and try to interact with it, to develop its potential, instead of suppressing it. Then the activation energy will be minimal, and the results attained — incomparably high.

For example, the Russian Revolution of 1917 was accompanied by a simultaneous elimination of the commodity and market relations of economic actors and their replacement with administrative relations. However, any destruction always concerns the people who have cast their lot with a specific production type, as well as the relations of people with each other. Therefore, such a dramatic collapse could not fail to claim huge human victims, and produced a massive social resistance, the Civil war, and the associated surge of evil and violence.

The modern ‘revolutionaries’ retraced the same path, although in a different direction: they destroyed the administrative governance and tried to replace it with market regulation. Without any doubt, they had exactly the same cynical attitude to the lives of their compatriots and to the cost of such experiments born by the society.

On the other hand, by nature people can be divided into destroyers and creators. These are two quite different things: nobody is equally talented for building and demolishing. As these two types of activity are fundamentally different, they required people of different dispositions for their implementation. In this all destructive revolutionaries are alike. However, for justice’ sake it should be pointed out that the early twentieth-century revolutionaries proceeded to expropriations in the name of the people, those of the late twentieth century worked for their private interests, which is enough to put their unselfish intentions to doubt.

The process of creation is not associated with any negative qualities. It is obvious that if the earlier revolutionaries did not concentrate their efforts on the destruction of the market connections, but on the creation of the administrative ones, while the later revolutionaries gave more attention to the restoration of the commodity and market relations, there would have been less damage, fewer broken lives, and less violence in achieving a more sizeable result.

And still, where should one start? Analysis has proven that to form a highly organized system just one system-forming measure should be implemented at any enterprise. In particular, a proper **system of labour accounting and income distribution** should be introduced, i.e. the production relations should be changed. One of the possible solutions to this issue is described in Section 4.1. If this is done, then a considerable part of the enterprise problems will be resolved. This will put an end to negligence and social tension, to inefficiency and hypertrophied administrative machinery, as well as many other issues. Finally, enterprises will be capable of processing efficiently human, material, and financial resources, of developing and improving. Otherwise, they function in vain.

At the level of a district (municipal entity) and a state, another system-forming measure is required, that is, **reorganizing collective consumption and the associated**

**taxation system.** This will allow to resolve all tax levying issues, increase taxable income and improve tax payment, develop the human habitat, and render the social and production practices more civilized. Thus, the conditions for reorganisation of the administrative governance will be created. This programme is described in Section 4.2.

In order to bring harmony to a region, besides the two above-mentioned factors, a third one is required, in particular, the opportunity **to restore the money circulation system** (see Chapter 3). At a lower hierarchy level this factor is difficult to implement, because the number of cooperating economic actors is low. However, when it is done at the scale of a region, leave alone the state level, the efficiency of all of the above-mentioned system-forming measure is boosted, and their production and economic co-operation is fortified.

In the framework of a state and of separate communities, the number of system-forming factors, or system freedom grades, is increased to four, which means that in addition to all of the above-mentioned actions, **a reorganisation of the administrative governance system is required** in order to make it functional, concise, and competent. Then the officials will not act as omnipotent managers of public wealth, as now, but performers, hired for specific functions. They will earn their living by working, and organizing production and consumption in an efficient way. They will contribute to SLP increase, promote productive cooperation of social structures, and will not flourish at the expense of the state, justifying their prosperity by their sinecure-type positions. This will make administration market-manageable. The ways to do this are presented in Section 4.3.

As the result of the proposed measures, the market relations that determine the functioning of social labour differentiation will undergo changes, too. A reasonable administrative governance will be introduced, and it will assure cooperation of all working structures. Besides, the market will be reliably governed by the administration, and the administration will conform with the market realia <sup>[11]</sup>.

System-forming measures may be implemented one at a time, consecutively, or simultaneously. In the last case, the formation of a harmonious state will turn out fastest and least costly.

**Once the system is formed, it then functions by its own rules, transforming the surrounding world in accordance with its proper image.** This means that within a harmonious economy all evil will be transformed into good, and it will be more profitable to lead an honest life, just the opposite of a pathologic economy. A harmonious economy will turn dishonest people into law-abiding citizens, while a pathology-stricken economy constantly forces decent people to fraud, bribery, and crime.

Thus, we have all witnessed the disorganisation of all the good progress made under socialism, the degradation of culture, ethic, and morality caused by the pathologic economic model realized in Russia. If a harmonious economy is implemented, all the disharmonious factors will be eliminated, or transformed into harmonious ones: crime and corruption, personal and social suppression, inflation and deflation, negligence and exploitation, bureaucratic administration and parasitism of certain individuals and social classes, environmental destruction and democratic paroxysms will be gone. Then, there will be no need to eliminate or isolate from the society the many

energetic and business-like young people who are obliged to live by crime. They will be given a chance to achieve the success that their talent and hard work merit.

On the other hand, besides system-forming factors, a number of **auxiliary measures** are required for the successful work of a harmoniously created economic organism. These include solutions to specific economic, ideological, political, and social problems. In particular, comprehensive economic revival programmes should be worked out for specific economic sectors, transport and communications spheres; the food security problem should be solved; the work of medical, educational, housing and utilities, and logistic services should be improved. In addition, there is need for measures aimed at increasing social and production security, at promoting physical education and sport, and at pushing human cultural and moral development. Besides, system-forming measures should create proper conditions for finding the least expensive and the most efficient solutions to the above-mentioned problems.

What is more, specific measures are capable of rationally influencing the system as long as they conform with the spirit of the system-forming measures, and do not impact the genetic qualities of the systems. Such actions are useful for improving or worsening the economic system's condition, but they are not appropriate for introducing systemic changes. They should contribute to the harmony within the system, instead of contradicting it. Otherwise, they would not work as required.

Therefore, when implementing system-forming measures, it is essential to assure an absolute conformity of all actions that shape the genetic code of the system to **the requirements of highly organized natural systems**. No compromise, no special interests of particular individuals, social groups, or clans, no mistakes are admissible, because the resulting disharmony imminently cripples the system. As a consequence, system mutations occur, i.e. the system develops some qualities that reduce the efficiency of economic organisation, and harm everybody. Restoring systems is always a difficult task. On the contrary, auxiliary measures do not require such strict discipline. Here it is possible to recur to compromise, to take into account special interests of some districts and groups, even mistakes are not so fatal.

Harmonious economy does not reject private property, but it makes this property serve the society, as well as the owners. Possession will not be regarded as a primitive exploitation instrument, but will be the tool for potential realisation, for enterprise and prestige, and for serving the people who have created the property. Such economy does not limit the amount of income; however, it should be earned through personal labour, energy, and talent, multiplied by the advantages of cooperation with other people. The society is no more repressed or deprived of its rights; partnership is valued over violence, and wealth multiplication over distribution.

This economic model harmoniously combines public, collective, and individual interests, and equally satisfies individual, collective, and social needs of the citizens. Both the active and the passive members of the society, and all nations and ethical groups living in a country are able to have a decent life. The production relations thus formed should allow an optimal consumption of social resources, as well as application of most advanced production forces, their development and efficient use.

Besides, the system has not evident faults.

The system-forming factors integrated in its foundation fully conform with the natural mechanisms of self-regulation and life support of structures, therefore, judging by all properties, such a system would be the most productive and efficient possible. That is why the countries that are the first to implement it will benefit a lot.

Further on, we will analyse specific actions and system-forming measures for developing a harmonious economy.

## **II. System-forming measures for harmonious economy**

# CHAPTER 3. LABOUR AND MONEY, THEIR UNITY AND INDIS-SOLUBLE CONNECTION

*Wealth is a blessing when it spreads comfort over all classes... Hence it is not the equality of ranks, but happiness in all ranks, which the legislator ought to have in view*

Simonde de Sismondi \*

## §3.1. LABOUR AND ITS CHARACTERISTICS

*All work... is noble; work is alone noble.*

T. Carlyle \*

### 1.1.24. 3.1.1. How can human labour be measured?

As the legendary caloric \* invadmeasuredes all bodies, similarly, human labour is present in all objects around us. Its amount cannot be weighed on a scale, nor its taste, colour, or smell can be assessed. However, it is this quality that all man-made objects share. Through labour, men interact with the surrounding World, reduce the entropy, complete their mission, and earn their well-being.

William Petty was the first to formulate the idea that today is one of the founding principles of classical political economy: “*Labour is the father of material wealth, and earth is its mother*” \*. His attitude was not unique: D. I. Pisarev wrote, “*All wealth of the society, without exception, is contained in its labour*”. “*Every child knows a nation which ceased to work, I will not say for a year, but even for a few weeks, would perish*” (K. Marx) \*.

What is more, all natural wealth, all resources, capital, and property are meaningful only when they have been fecundated by human labour. Otherwise, they are nothing but opportunities, fields of activity, or factors capable of influencing labour productivity, but they are not related to the results of labour.

Thus, human labour constitutes a unique creative substance, incomparable to anything else. Labour has shaped the man, and he is nothing without labour.

Therefore, following the ideas of G. Leibnitz [27], it is logical to suggest that, in the end, the problem with economy improvement can be reduced to minimization of materialized labour contained in each specific item produced to satisfy human needs. Afterwards, it is possible to increase the number of goods produced, to improve their quality, and raise the quality of life of the population. That is why the mission of economics, as a science, consists in determining the methods and approaches for labour minimization and for increasing efficiency of human labour in general (i.e. increasing SLP), the rest is just about auxiliary instruments for putting this project into practice.

On the other hand, besides labour, all objects contain a natural component. Its minimization is another essential task of economics. Moreover, the way labour inter-

acts with other production factors determines the properties of the social model. If labour just accompanies money, then its production qualities depend on the profitability of the money invested in this labour. However, labour that is supposed to achieve certain social results, to implement a plan, or perform a task, notwithstanding their usefulness, is typical of a socialist model. Finally, if the man is in the centre of the system, if the main goal of economy is optimisation of the social labour productivity, then the quality of labour is determined by its social benefit. In this last case, economy may be characterized as harmonious.

Thus, **labour is the main subject of economic science**, as well as its main instrument. It is economics that studies the way human labour is transformed into commodities that are required for human procreation and survival (see Fig. 1); the way natural components, energy and other resources are used during this process; the way people interact during joint activity, the way they distribute the results of their labour, and use the human and materialized labour forms. Besides, economics does not simply analyse these issues, but also works out the methods for best management of all these processes.

Despite all said above, there are still no satisfactory methods of labour measurement and assessment. That is why modern economics is more qualitative than quantitative. Thus, it is more of an art, than a science.

The first step towards making economics a true science consists in **adopting a universal unit of measurement of human labour**. Indeed, physics only became a serious science after units of measurement for fundamental physical quantities, such as metre, second, kilogram, and ampere, were introduced. Before, physics was considered natural philosophy. The same is true about technology, transport, communication, etc. In economics, the indicator in question is definitely human labour.

In the paper [11] **it was suggested that labour spent by one average worker in a unit of time be considered as an abstract standard**. The place and the economic sector where this worker is engaged are of little importance. Any kind of labour present in the graph in Fig. 1 is taken into account, including work in the spheres of defence, education, science, trade, culture, and finance, provided that it is socially required.

This unit of measurement of human labour possesses all qualities required in a standard. It is stable, it does not depend on the time or conditions of labour, on the equipment used, on the average qualification and health of workers, or on the type of organisation. **Average labour remains average** and changes automatically with the alteration of all of the above-mentioned circumstances. This unit of measurement is easy to understand; it is universal, i.e. is applicable to all types of labour without exception. Besides, it may be used both for assessment of a worker's labour and that of a working team, any enterprise or entity.

Various types of **specific** labour, just as various types of abstract human labour, are distinguished by **quantity** and by **quality**. The amount of labour depends on the **time** of work, as well as on labour **intensity**. The **quality** or **complexity** of labour is determined by the qualification and the intellect of the worker, by the working conditions, and the level of responsibility during work. Thus, the amount of labour is calculated as the amount of physical and intellectual energy spent by a worker, while the complexity of labour — as the relative productivity or the efficiency factor of energy

use. Besides, the coefficients of intensity and complexity of specific labour are calculated based on their average value for a particular state.

This approach to labour assessment is significantly different from that K. Marx, who distinguished **simple** and **compound** labour. Following this classification, labour that does not require special training, i.e. unskilled labour. Compound, or skilled labour, in turn, is that of qualified workers. Besides, according to Marx, “*skilled labour counts only as simple labour intensified, or rather, as multiplied simple labour, a given quantity of skilled being considered equal to a greater quantity of simple labour*”  [39].

The difficulty of using this criterion consists in the impossibility of identifying the concept of “simple labour”. The idea of unskilled labour is so vague, and depends on so many circumstances, including the epoch, the state of society, its average level of education, population health, level of technical equipment, etc., that it is not feasible to propose any satisfactory mechanism of identification.

Our approach eliminates this uncertainty, as average labour does not depend on the circumstances listed above, but evolves simultaneously with them. If a nation’s qualification increases or drops, this change is reflected in the average labour. On the contrary, the concept of “simple labour” can only be used for defining the types of labour that are remunerated with the minimal wage, that reduce SLP, and that it is better to get rid of.

What is the actual sense of the coefficients of labour intensity and complexity, and how these values can be practically measured? The method is described in detail in the monograph [11].

**Labour intensity coefficient is the amount of efforts spent by a worker /a team of workers during production as compared to the efforts of another worker/ another team, in a unit of time.** Thus, the intensity coefficients act as comparative values for economic accounting of enterprises where purely market relations between people or structures are impossible, including within enterprises and working teams. Besides, this coefficient can be employed for assessment of workers’ labour in a hierarchically superior organisation. Moreover, for the enterprises themselves, as well as for other production entities, the value of these coefficients should be equal to the target value (see more below).

In order to set specific value for the above-mentioned coefficients, it is possible to use the priorities setting method (PSM), as improved by the author [11]; it is one of the variations of the well-known paired dots method. This method consists in comparing labour results for pairs of workers for all workers of all units (including the administration), as well as of separate structures; the assessment is carried out by a group of experts or by the team members themselves. After a special processing of the data, each worker is attributed a numerical value of his labour intensity coefficient for a particular month, taken into account all possible circumstances. Besides, the average labour intensity coefficient of each unit should be equal to one.

An example of such analysis is provided in Table 9, where the ratio of the maximal intensity coefficient to the minimal is taken to be five.

No.		1	2	3	4	5	<u>Result</u>
1	Smith	=	>	<	<	=	<b>0.32</b>
2	Jones	>	=	<	>	<	<b>1.61</b>
3	Williams	<	>	=	=	>	<b>0.48</b>
4	Taylor	<	>	>	=	>	<b>0.97</b>
5	Davies	=	=	=	=	=	<b>1.62</b>

Table 9. Use of PSM for assessment of work of various workers within a team.

In this table,  $A > B$  reflects the comparative labour intensities of workers  $A$  and  $B$  for the period analysed, when the intensity of worker  $A$  is higher than that of  $B$ . The reverse ratio is represented by the  $<$  sign, and equal values are marked with  $a = \text{sign}$ . Then,  $a > \text{sign}$  is replaced with a **2**,  $a = \text{sign}$  — with a **1**, and  $a < \text{sign}$  — with **0**. As the result, the coefficients for the entities analysed are determined as related to the average results of these entities.

In addition, the PSM can be successfully used not only in economics, but for other types of expert assessment of achievements of individual persons or teams, including for different kinds of competitions, sports tournaments, when using a points system, etc.

**Labour complexity**, i.e. the labour intensity in a determined period as compared between workers  $A$  and  $B$ , depends on the workers' qualification, on the working conditions, and workers' responsibility during work. Here, "qualification" embraces the worker's level of education, position in the company, and role during work. This coefficient is also determined by the working conditions, grade, experience, talent, self-discipline, and skills for working with people, managing human resources, and decision-making, as well as many other factors. Similarly, the labour complexity coefficients may be determined for specific teams, enterprises, and entire economic clusters. For instance, in the USSR, there existed several categories of plants, industries, and regions. Depending on the category, staffing schedules were worked out, payroll funds were allocated, and average wage was set. There existed special northern, maritime, underground and other types of works related coefficient, as well as special increments for hazardous work. It would be quite reasonable to re-introduce this idea.

For example, the coefficients described above should be higher in the spheres of management, gas production, nuclear energy, aviation, military, law enforcement, medicine, science, education, etc. That is, in the spheres which require high qualification, impose high responsibility, or have hard working conditions. On the contrary, they may be lower in the industries which are not so demanding in terms of skills, or which offer more comfortable working conditions, such as trade, certain spheres of agriculture, housing and utilities sector, some service sectors, etc.

The level of responsibility during work depends on the resources at the disposal of workers, and the extent to which the life and health of people depend on their actions.

Indeed, any mistake of a doctor, or a civil servant entails huge losses for the society. These professions cannot be practiced by persons that lack the required qualification, honesty, or morality, nor by those who are not ready to make supplementary mental and psychic efforts.

On the other hand, as the number of industrial sectors and large entities is limited, this assessment is not that complicated. Besides, once determined, complexity coefficients only vary faintly with time. However, there is a strict requirement that the average labour complexity coefficient in the state be always equal to one. Therefore, if in some sectors these values exceed one, in others they should be lower than this quantity. What is more, they should conform with the labour quality coefficient determined for each economic sector, entity, or region. This factor precisely should be assured by administration.

Similarly, the labour complexity coefficients can be adjusted for labour significance for all units of an enterprise. The product of such coefficients for all units that a worker makes part of is equal to the total complexity of this worker's labour. For instance, if a worker's labour complexity coefficient is **1.2**, that of his team — **1.1**, and that of his workshop — **0.8**, then the worker's total labour complexity coefficient is equal to  **$1.2 \cdot 1.1 \cdot 0.8 = 1.056$** . This calculation method does not interfere with the functioning of the market regulators, and with the competition between economic actors, but renders them visible and **equal**.

Let us point out another important factor. The method that has been discussed should be applied to measure labour, not to determine labour remuneration, which, as we will see further, should be set using a market approach. The complexity coefficient regulates, to a certain extent, the level of social requirement, of comparative value of labour of a particular worker, team, or entity, within a specific enterprise, but does not have more ambitious goals. The way this labour is used by the workers and working teams is determined by the respective labour intensity coefficients.

In this case, the product of time spent by a particular worker and his labour intensity and complexity coefficients is equal to the amount of labour spent, measured in time units, usually hours.

Thus, labour amount is determined by the time of work, the amount of efforts of a worker, and the quality of his work, i.e. by his place in the social production hierarchy. For example, if someone worked for eight hours, and his labour complexity coefficient is equal to **1.056**, and his compared labour intensity coefficient is equal to **0.9** (this means, in this specific month, the person has not worked well), then the amount of labour will be calculated as  **$8 \cdot 1.056 \cdot 0.9 = 7.6032$  hours**.

A similar approach may be used for assessing the amount of labour for each unit and team within an enterprise.

Besides, it should be remembered that the amount of labour calculated by this formula corresponds to the labour that is **spent**, and **not to the socially required labour**. This latter value can only be measured through comparison of the results with those of workers from other enterprises engaged in the market interaction process.

Without any doubt, these indicators do not reflect the true values precisely, but this will not result in any grave distortion. One should not seek absolute precision, but sufficient accuracy of measurements for creating conditions where all indicators will

actively function and be automatically adjusted. This will allow to set the correct priorities in the society, as well as correct emphasis for personal goals achievement.

The method proposed in this subsection can be used for all types of labour notwithstanding its area of application. Besides, it works for individual persons, teams, and the entire society. These indicators function independently of type of enterprise or property form. That is why this calculation method is simple and accessible to everyone, whatever their knowledge and experience might be.

### **1.1.25. 3.1.2. Social labour intensity of commodities (SLIC) as key parameter of enterprise work**

As it has already been mentioned, social labour productivity (**SLP**) is a qualitative economic macro parameter. It can be used for assessment of the dependence of a country's economy on large factors, in particular, on correlations between economic sectors, on social production and consumption forms, on social policies implemented, etc. However, this criterion is not easy to use at plants, factories, departments of scientific and research institutes, companies, etc. There is a need for a different indicator that would be more convenient to apply at any enterprise, that would be calculated more easily, and that would be more sensitive to factors that function on a smaller scale, such as the changes in the correlation of personal and added labour at every workplace, the level of labour mechanization, the working schedule, the influence of overhead costs, the type of organisation, etc.

The **social labour intensity of commodities (SLIC)** is just such a parameter. It corresponds to the amount of labour spent by the entire society for the product of a certain commodity or service. This criterion is directly related to **SLP**, because any decrease in **SLIC**, other conditions being equal, results in a **SLP** increase. Therefore, these two indicators **complement**, and not contradict each other.

How is this new parameter calculated? The method of measuring the amount of a worker's labour notwithstanding the sphere of its application, which was described in the previous section, will be of use here. Thus, it is possible to take into account the specific contribution of any labour engaged in the production of any commodity or service.

On the other hand, various types of labour contribute differently to the production process. For instance, the work of a machine operator has a different impact from the work of a specialist who sets the machine up, or that of a provider who delivers workpieces to the machine, or of a manager who supervises the entire production process. While an operator's work contributes **directly** to the production, the labour of all other categories of specialists is engaged **indirectly**.

Therefore, we suggest dividing all labour of workers at an enterprise into **direct** and **indirect labour**. **Direct labour is labour that directly contributes to production of goods**, while **indirect labour assures better productivity of direct labour**. Similar to the labour of production means producers, **indirect labour boosts the direct labour efficiency and is only necessary to the extent where its use reduces SLIC** (i.e. increases **SLP**), and saves social labour.

At the same time, the two types of labour are not equal to each other. Thus, **indirect labour is senseless without direct labour**. However intensely the management, the planning and supervision departments, the providers, or the accountants work, their effort is lost in vain unless a worker gets down to his work.

The division of all labour into direct and indirect labour is relative and depends on the level of cooperation (see Fig. 2). For instance, in a working team, the labour of workers who produce the commodities or provide the services is considered direct. The indirect labour then embraces the work of all those who create the conditions of direct labour workers' efficient work, that is, foreman, service engineers, cleaners, etc. In a production shop, the labour of all working teams at the shop is deemed direct, while all those who help increase its productivity — workshop master and his assistants — are seen as indirect labour workers. The same pattern applies to all structures and all co-operation levels, up to the Government (see [11]).

This approach contributes to building an orderly system of accounting for labour contribution of each subunit, similar to the “organisation tree” from Fig. 2. This facilitates management and supervision of the work results of each of the services. Besides, this method allows to determine the specific contribution of any labour to any item produced, as well as to combine the interests of various categories of workers, and of all structures within an enterprise.

Therefore, it becomes evident that **provided that the organisation is correct, the efficiency of direct and indirect labour, taking into account their complexity, should be equal**. If the equilibrium deviates in any way in a working team, this means that the ratio of direct and indirect labour should be adjusted, or their functioning should be improved. In particular, if hiring one worker saves the labour of at least one worker, such employment is necessary. Otherwise, such worker should not be hired.

If an economic mechanism that contributes to the above-mentioned equilibrium is created, this will put an end in all economic links to such phenomena as hypertrophied expansion of the managerial machine, bureaucratic methods of administration, inefficient functioning of services, or lack of correlation between the labour remuneration and the economic effect of this labour.

The amount of direct labour contributed to an item produced is determined directly by the actual labour expenses at the workplace. In order to calculate the contribution of direct labour in a working team, we assume that it is proportional to the ratio of all labour of a team to the total direct labour of all workers of the team. The same procedure is repeated for all levels of cooperation.

For example, let us assume that the aggregate labour costs of all teams in a workshop stand at **10.000** man-hours, and the total labour of the workshop, including its substructures, is equal to **5.000** hours. Then the indirect labour coefficient (**ILC**) is calculated as  **$ILC = (10.000 + 5.000) / 10.000 = 1.5$** . Besides, if the item was produced by several unit within an enterprise, then their labour contributions to the item are summed up. For instance, if the direct labour costs in a team stand at **5** hours, then the labour intensity of the item after it gets out of the workshop will be equal to  **$5 \times 1.5 = 7.5$  hours**, etc.

On the other hand, the higher-level structures that participate in organisation of work of enterprises and economic sectors also contribute to the production of any commodity. Their *ILC* can be calculated, too, using the same method as described above. In this way, the labour contribution of all levels of hierarchy, up to the Government, to the item produced can be measured. That is why this labour intensity is referred to as social.

Besides, when a commodity is produced, not only human labour, but materialized labour is engaged, too. This includes equipment wear, working spaces amortization, resources, energy, semi-ready products consumption, etc. This means that in this case, the work of external or previous performers and contractors corresponding to the costs related to any commodity or service should be taken into account. The method of calculation of such costs for each item produced by an enterprise is well-known and makes part of the regular accounting procedures for produce items. This allows to calculate the full labour intensity of items at any stage of their production. This approach accounts for all types of labour that are engaged in the production of any commodity or service. Then it becomes possible to optimize the human time and efforts costs during production of a specific item.

The accounting for the added labour allows not only to assess the total amount of labour spent for production of any item, but also to introduce the concept of **basic**, objective price of goods (see Subsection 3.3.5). Thus, it become possible to analyse production as a whole. Then the relations between various economic sectors, enterprise structures, and labour types may be established. The administration is forced to work for socially important results, and the mechanism of stimulating such results is enacted. Consequently, the administrative machinery is reduced, while its efficiency increases. Besides, this provides a strict criterion for the assessment of social labour costs at any stage and in any link of production. Finally, it constitutes a serious obstacle for negligence, and irrational use of social labour, money, and natural resources.

If this criterion is applied, no labour will be unaccounted for, provided that it is engaged in the production of a commodity, and no labour will be accounted for twice. As the result, a tight area of production will be identified, so that its reserves are used, too; besides, there will be incentives for implementing front-edge technologies and methods of social organisation. Eventually, indirect labour workers will be encouraged to put all their efforts towards increasing the efficient of direct labour, as well as cutting down their own costs; workers, in turn, will develop a more respectful attitude to the indirect, supplementary labour, and contribute to making it more productive.

The algorithm for calculating social labour intensity of commodities is described in monographs <sup>[14]</sup> and <sup>[15]</sup>. It is quite simple and does not involve any significant factors, besides those which are used when assessing the cost price of items today. Moreover, the SLIC can be easily calculated with software.

### **1.1.26. 3.1.3. Value and value-forming factors in harmonious economics**

*Economics is about value.*

Yu. M. Osipov

“This is why all things that are exchanged must be somehow comparable... There must, then, be a unit, and that fixed by agreement...”  (Aristotle [26]). This “agreement” is traditionally referred to as **value**.

Many people believe that value is a natural attribute of economics, and that it has definite forms and content. Once the properties of value have been established, it is possible to manage all economic processes. Others, on the contrary, hold that value is a virtual substance that is shaped in accordance with its proper logic. Then value is considered a fetish with a supernatural sensitivity to all slight changes in real life economy and capable of reflecting global processes. The gap between these two visions is enormous.

However, value as such is not a physical concept, but a social one. That is why one should not attribute to it any supernatural properties not related to the existing social relations. Value reflects real, socially important processes, and not imagined formal relations. Therefore, it is logical to assume that **value is the characteristic of the costs component of items produced**. Only then value becomes an equal actor in the market relations, a natural counterbalance to the consumer cost that described the utility of objects. D. Ricardo suggested that the exchange value of objects did not depend on the wages of workers, but only the ratio of wage and profit shares in the value of a commodity change [101].

Under such disposition, it is essential to understand what basic production costs mean. If the issue of optimal money spending is the most important, then money should be made the determining factor of value. However, if the purpose consists in best consumption of natural resources, these resources should be made the basis of value. Finally, if human labour is taken as the determining factor, it should be accounted for when comparing the costs of commodity producers and the value they generate. A simultaneous use of these factors is unreasonable, because this entails unsolvable problem of establishing a correlation between them.

On the other hand, each of the above-mentioned factors has a significant impact on the production results. Indeed, any production is determined by the mining and processing of raw materials, and an optimal resources consumption is essential for the society. Besides, at present, no work can be done without money, which has to be spent expeditiously, too. Finally, no production is possible without labour.

However, the direct inclusion of the natural component complicates the situation considerably. The natural contributions to commodities can vary in type, therefore, their objective comparison is quite problematic. How can a ton of iron and a ton of grain be confronted, or a square metre of tissue and a square metre of rolled steel? After all, **only objects that have something in common, that have a certain likeness are comparable, and exclusively for this shared feature**.

The natural component of commodities lacks such shared property, as the result, it cannot directly contribute to determining their value. If it were accounted for as well, the assessment would become less comprehensible rather than clearer. One cannot fail to agree with K. Marx, who insisted that “The forces of nature cost nothing; they enter into the labour process without entering into valorisation process...” [102]. That is why

this problem should be resolved in a different way, for instance, through price (see Subsection 3.3.5). One factor cannot apply to everything.

The scientific and technical equipment of labour actually influences labour productivity. Besides, this factor does not exist on its own, but is the product of materialized labour. The same applies to energy, outside services, spare parts, resources, etc.

Many economists believe that value embraces the production capital in one or another form. Therefore, they insist that labour is not a source of exploitation, but that it pays itself off, and generates value on its own. As if money could actually generate money!

Everyone can prove this idea wrong by putting their purse aside for a year and checking how its contents change after this period. It is beyond doubt that capital cannot work or generate profit on its own. Only human labour is capable of realizing the value that corresponds to the capital. That is why capital cannot be considered the foundation of anything, since it is fruitless unless engaged by labour.

On the other hand, production means, energy, and semi-finished products are the results of human labour that has been contributed to their production and that is materialized. Seen from this angle, **optimisation of the correlation between human and materialized labour contained in any object that would contribute to SLP increase should be prioritized** over spending more money, or increasing the profitability of investment into the above-mentioned components of the production process. These two approaches are quite different.

Nobody opposes the role of labour in the creation of value. After all, neither money, nor property, nor even natural resources have any value unless fecundated with labour. It is human labour that has traditionally been taken into account when optimizing production processes; it is present in all products of human labour, without exception. That is why labour is the key component of both **SLP** and **SLIC**.

Furthermore, it was the man who introduced the idea of “value”, therefore, it would be strange if he had forgotten his proper contribution. That is why it would be logical to assume that **value is created exclusively by human labour**. The impact of all other factors should be taken into account for price formation (Subsection 3.3.4). Thus, “labour, which never sees its value change is a real and final measure that is always capable of being a standard for assessment and comparison of the value of all goods’ (Adam Smith [31])\*. Besides, “Value is the social labour of commodity producers as reflected and materialized in a commodity... The value of a commodity is determined by the amount of labour that is socially required for the production of this commodity, and is calculated as the working time required for the production; this value sets the proportions used for commodities exchange’ (K. Marx [39])\*. What is more, “determining the value through working time constitutes an absolute, universal law’ (D. Ricardo [101])\*.

This approach makes it possible to identify the true roles of all production factors, to concentrate efforts on increasing human labour productivity, above all. It also facilitates economic analysis, liberates economic concepts from ambiguity, and renders the results more precise.

Summing up, from here on, **value should be understood as human labour represented through its results**, nothing more. Value is not a natural quality of commodities, but a social phenomenon. It is determined by the social priorities, whether it is labour, resources, or capital. In this fashion, behaviour is shaped, priorities are set, and economic rules are implemented.

## §3.2. MONEY AND ITS TRANSFORMATION IN MODERN GLOBAL CONDITIONS

*Money makes a good servant, but a bad master.*

Francis Bacon \*

*“But he [the King] has nothing on!” - a little child cried out at last.*

H. Ch. Andersen \*

### 1.1.27. 3.2.1. Money, its evolution and forms

Money is the cornerstone of the modern economic system. Money determines the type of organisation, culture, and morality of the society, as well as labour productivity and life quality. It is money that shows to which extent a specific society values truth and justice. Money functions as a standard, a universal indicator for a large array of things: from wealth and prosperity, to the guiding star of any action and enterprise. Finally, money is the source, as well as the solution of all problems.

Many tend to believe that money is a natural phenomenon, a certain material substance that, once determined, forever preserves its form and contents. However, this is not true. In reality, money undergoes constant changes; it evolves, adapts, and loses its former properties only to acquire new ones. Money is live. Each new stage of social evolution bears an impact on money, too. It is not surprising then that as peoples **choose a monetary system with specific qualities, they also choose their fate**.

In the light of the foregoing, let us analyse money in more detail. What is money? How have the vision of money and its function changed throughout history? What is the unique role of money; what are its strong and weak points? What is money in reality: precious metals, printed images, or figures with lots of zeros? After all, money is not bread, raw material, or oil, to be in such deficit; it is just the result of a convention adopted by people. A virtual entity capable of taking on various forms and being exchanged against real values.

In the past 100 years alone, Russia has used money with the tsar's profile, with swastika (first Soviet roubles), with portrait of pilots and infantrymen, with Lenin's profile, and with palaces. All of these banknotes could be exchanged against real goods. But where it is now, this money? Why has it lost its value and turned into mere paper? Indeed, what is money?

Money belongs to a transcendental and mythical category. There is no other thing as mysterious, as massively desired, as tightly associated with tales, hopes, and legends, as money is. And there is no crime that would not be committed for money. Money is “*everything that men care for... at the same time, politics, war, diplomacy*” (Guy de Maupassant) . Money is an idol, a certificate that entitled to all delights of life, all imaginable values: “*Money bewitches people. They fret for it, and they sweat for it... Money is a captivating, circulating, masquerading puzzle*” (C. R. McConnell and S. L. Brue) .

Money is coined freedom: he who possesses money, possesses all that is tangible. He dominates in the society, and dictates proper rules of conduct: “*today almost all components of authority and power can be purchased at the market*” <sup>[101]</sup> . Money is often referred to in popular sayings, and is the subject of fairy-tales, legends, and proverbs, such as “*The rich get richer and the poor get poorer*”, or a Russian one, roughly translated as “*Money is the instrument of war, the object of trade, and its absence is the cause of trouble*”.

Money is attributed such functions as a measure of value, a means of circulation, of payment, of saving; it acts as an intermediary in domestic and global trade. Besides being a visible instrument that serves the market and contributes to personal enrichment, money is a reflection of the profound principles of social being.

In fact, modern money is absolutely different from the early capitalist money, leave alone the Soviet money. It is money that functions as the most appropriate yardstick for assessing the production relations. In the course of circulation money does not wear out; it serves as a universal exchange object; it is divisible, and does not deteriorate when saved. Compared to commodities, money is not withdrawn from the circulation, and is reusable. Is there anything in this world as versatile as money?

At all times, people have been curious about the nature and the features of money as a phenomenon. William Gladstone observed that “*even love has not turned more men into fools than has meditation upon the nature of money*” . Many remark generality, universality, and illusiveness of money: it “*is valued because of social convention*” (P. Samuelson <sup>[35]</sup>). Numerous unusual properties of money have been discovered, for instance, money is “*the universal instrument of commerce*” (Adam Smith <sup>[31]</sup>); “*money is... a mediator that enables exchange*” (David Ricardo <sup>[101]</sup>) . “*Money, like a lubricant that assures smooth functioning of a sophisticated machine, is used in all industrial spheres and facilitates circulation of goods, which otherwise would not have been possible*” (J. B. Say <sup>[103]</sup>) .

On the other hand, money is an illusion made true, it is similar to a dream. However much money one possesses, it is never sufficient, for some — to afford bread, for others — to afford diamonds. “*The man needs nothing besides what nature has given him, except money*” (Yousef Bester).

Nevertheless, money is not omnipotent, and it does not buy the most valuable things, such as happiness, health, true friendship, motherland, honour, and dignity. “*True, that man who struggles in the unique hope of material gain will harvest nothing worthwhile*” (Antoine de Saint-Exupery, *Wind, Sand, and Stars*) . Therefore, true

value cannot be bought with money, or bartered against something imaginary or illusory. And still, this happens so often.

At the same time, same money can behave differently. There exists clean money, and dirty money; money-creator, and money-destructor; moral, and immoral money. Despite similar appearance, money varies according to the nature of its source. It is hard to imagine money made in drug trafficking to be invested in healthcare. Or stolen money that would encourage creation. In Russia we say, “*money comes as it goes*. The modern world has accumulated a large quantity of evil, criminal money, and very little intelligent money. Should the miserable state of today’s economy come as a surprise in this case?

The invention of money dates back to the end of the fourth millennium before Christ. Ancient people regarded money as a universal image of a material reality deprived of spiritual content. That is why money was used with caution. Insatiable desire of money was condemned as a way of bringing the human soul to earth, i.e. associating it with the earthly world at the expense of its supreme spiritual essence. Money was seen as an instrument of commerce, but was never considered a goal even in a limited short-term perspective.

The first comprehensive theory of money developed under the slavery regime. It acknowledged the uselessness of spoiling money with the aim of increasing a state’s revenue. Later, the interest to a theoretic explanation of money grew consistently. For instance, since the times of Xenophon, Plato, and Aristotle, till the early twentieth century, more than 6,000 papers were published on the subject of money. Presently, the amount of money-related research grows exponentially. Most of the theories view money as the product of civilisation, as the result of the production relations shaped over time, as a calculation unit, or as a symbol, a representation of value. Money is presented as a special mediator commodity, the “great cynic and equalizer”, the yardstick of values, the universal equivalent, the materialization of working time, etc.

Social labour differentiation is impossible unless labour results are exchanged among economic actors. This process requires intermediaries, generally recognized and demanded, and exchangeable against any commodity without limitations. Otherwise, barter becomes complicated. Money has taken on the role of such an intermediary. What is more, its special features are not determined by any inherent properties of money, but are conditioned by the general convention artificially vested with the power to substitute real values.

In the course of evolution, money has adopted a variety of forms. For instance, at the dawn of human civilisation, several commodities were in particular demand during barter. They were used as an admitted yardstick and compared with other goods. Somewhere, it was cattle, in other places, grain, metals, vekshas and kunas \*

Often, animal skins, polished or carved stones, or cowries, small smooth shells found in India, China, and Africa, were used as money. Melanesians paid with pig tails and dog canines; Ethiopians, Ancient Romans, and peoples of Central Asia — with salt; the population of the Yap Islands in the Pacific — with aragonite stone disks known as “fe” \*; on the New Hebrides, rare feathers and even scalps (on Borneo) serve as money [104].

However, as commerce grew and social labour differentiation reinforced, yardstick goods were unified. “*God created the two mineral ‘stones’, gold and silver, as the [measure of] value... All other things are subject to market fluctuations, from which [gold and silver] are exempt*” (Ibn Khaldun, Arab genius of the fourteenth century) \*

Gold was used as money as early as 1.500 years before Christ, in China, India, Egypt, and Mesopotamia. In Ancient Greece it became a currency in the eighth-seventh centuries before Christ. However, then gold was not the only recognized yardstick for commerce, and copper, silver, and other metals and minerals were widely used, too.

The gold and silver popularity can be quite easily explained. In relatively small amounts noble metals have a high value, besides, they do not lose their qualities over time; they are resistant to atmospheric phenomena; can be easily stored; have high liquidity; and are used to produce luxury items. Once these two metals were recognized as universal money, the world commerce attained a new level: gold and silver money encouraged a wide cooperation of people and served as the factor of international labour differentiation and cooperation.

Nevertheless, it was not very convenient to break up gold and silver casts into small fragments and weighing them for every transaction. Therefore, **coins** were made of noble metals and their alloys. For the first time, this technique was used by the Hittites, one of the Slavic tribes in the eighth-seventh centuries before Christ: “*So far as we have any knowledge, they were the first nation to introduce the use of gold and silver coin, and the first who sold goods by retail*” (Suetonius, 1.94) \*. In the 550s before Christ, metal money arrived to Lydia, where King Croesus ordered to make small disks of gold and silver, thus introducing the principle of bi-metallism. Later, coins made of precious metals became widely popular.

Rome, which had no gold or silver reserves, coined its first money of copper. It was there that in 289 before Christ, the first mint was founded at the temple of Juno Moneta (from the name of which the Russian “moneta” was derived) \*. For five centuries, denarius was the main currency of the Roman Empire. It was at the origin of the Byzantine gold solidus and the Arab dinar. After the fall of the Empire, the coins production was no more Rome’s privilege. For instance, Charlemagne introduced the silver denarius, as well as the denier, the pfennig, and the penny.

The first silver thalers were coined in Bohemia in 1528, and then started circulating in other European countries, as well. All this money did not only contribute to organizing commerce within one state, but also helped reinforce international relations. Besides, it created the conditions for a better social labour differentiation and cooperation, for specialization of territorial and national production entities, and for collaboration across countries and continents. Thus, money constituted a most powerful factor of social labour productivity growth.

In Russia, the first gold coins were produced in the ninth-tenth centuries. The silver rouble was introduced in 1654, under tsar Alexis, and weighed 28 grams; more sophisticated silver coins came into circulation following the monetary reform of 1839—1843. However, the content of pure silver in coins gradually decreased. By

1764, it had reached 18 grams and then remained unchanged till 1915. A unified monetary system was adopted in Russia in 1535, and introduced the silver copecks, dengas, and polushkas. The copper roubles of 1726 looked like copper disks 19 by 19 centimeters in size and 1.638 kilograms in weight.

The first Soviet silver roubles coined in 1921, 1922, and 1924 were equal to tsar money in weight and silver content. In 1931, silver coins were replaced with money made from copper and nickel alloy, then the rouble was reintroduced after the 1961 monetary reform.

The simultaneous circulation of two types of coins, gold and silver ones, aggravated the problem with their correlation. To resolve the issue, gold was made as the only money measure. In Great Britain, gold monometallism (standard) was introduced in 1816, in Germany — in 1871—1873, in France — in 1876—1878, in Austria — in 1892, in Russia and Japan — in 1897, and in the US — 1900. Only then the gold grade in a monetary unit became the only measure of its value, and a universal standard for prices.

Furthermore, money was attributed a fixed gold grade (occasionally decreasing), used for setting the currency exchange rate. For instance, the official value of the pound sterling as of 1 January 1972 stood at 2.13281 grams of pure gold, that of the Spanish peseta — 0.0126953 grams, of the US dollar — 0.818513 grams, of the Soviet rouble — 0.987412 grams, and of the French franc — 0.16 grams. As the result, gold was selected the natural standard of the value component of different currencies, and made international trade equal and predictable.

However, the gold standard has been abandoned by now, which has deformed the global situation considerably.

On the other hand, the introduction of gold and silver coins entailed a series of problems, previously unknown. For instance, it was inconvenient to produce coins of a small face value, as they were too tiny in size. This impeded retail trade development; by consequence, cheaper copper was then used to make such coins, which increased their weight significantly. Thus, people were forced to coin money with the face value superior to the value of the metal they were made of.

Besides, already in the ancient times, people noticed that real precious metal content of money was not that important. Indeed, the wear of the coins in circulation did not affect their face value. Random spoiled coins, degradation in their content, decrease of weight, etc. did not cause the face value to reduce. Such money served the market as efficiently as full-value coins, until the latter started to be regarded as ordinary precious metals.

Furthermore, the undefined value content of gold and gold metals prevented from making gold the universal yardstick of value. Various hypotheses, principles, and theories have been suggested to resolve this issue. For instance, according to one of the Roman legal dogmas, the value of money had to be determined by the emperor. Later, people tried setting the face value of money through laws, decrees, or violent actions. However, all such attempts were unsuccessful, and the real purchasing power of money was still determined by the market.

The logical consequence of the money value being independent from its materialization was the denial of any consumer qualities to money. What is more, while metal

money partially obscures its symbolic nature, money-symbol openly displays it. This has allowed the creation of paper money. Their convenient use and storage, low cost, light weight, and small size, as well as the possibility of unlimited issue and of any face value gradation, have made bank notes popular throughout the world.

The first paper money was recorded in China in the ninth century; Marco Polo, who arrived to China in 1286, makes the mention of this paper currency. In North America (Massachusetts), first paper money came into use in 1690, in France — around 1716—1721, in the US — in 1775—1780.

The first Russian bank notes were issued in 1769 under Catherine the Great. Despite its obvious advantages, this new type of money was not recognized at once. The struggle between paper and metal money lasted several centuries. For instance, according to the Russian Government Decree dated 18 December 1797, bank notes were not regarded as money, but as a “*true general debt to the treasury*”. That is why, by 1800, they value compared to that of silver roubles already stood at 66.3%, and by the end of 1810, one rouble in bank notes cost the same as 25.4 silver kopecks. One of the authors of the famous “*Financial Plan*” of 1809, M. Speransky, believed that paper money had to be eliminated: “*In reality, a bank note is a paper based on a suggestion. As bank notes cannot be justified as such, they are nothing more than covert debts*”. Due to such vision, bank notes were used as a perpetual loan, a form of state rent, and became the main form of state loan in the Russian Empire. However, people sought to repay such “debt” as soon as possible.

Later, the law adopted on 14 November 1897 permitted unlimited exchange of bank notes against gold in Russia; thus, paper money acquired the power of a means of payment equal to gold coins, which contained 0.774234 grams of pure gold at the time. However, after the industrial revolution of the 1890s, Russia lived through an economic downturn, which entailed an increase in the free capital deficit, and a decrease in the exchange rate of many securities. As the consequence, in the twentieth century, bank notes were recognized as money of full value. Eventually, they substituted all other forms of money in everyday circulation. This constituted a revolution of the monetary system, and resolved many problems, however, creating new ones.

As the result of this change, money was completely transformed into symbols deprived both of consumer and face value. Paper bank notes were nothing but representatives of “money of full value” with a forced exchanged rate. Besides, up to now, money has similar content.

As the result, it became obvious that by nature money is no regular commodity with a consumer and an exchange value. Money should not be confounded with resources or material values, as it occurs frequently at present. People have developed an understanding that **money serves exclusively as an exchange value carrier**, its representation, symbol, and equivalent. Its material shell is of no significance. It can be compared to the mirrored image of any object that testifies of the object’s presence, but cannot be equated to the object itself. It became clear why “*money borrows the value of things [solely] through their capacity to buy these things*” (A. Smith [31]) \*

Thus, **money reflects the general property shared by all commodities without exception, i.e. their value generated by labour**. This fact is behind money universality, versatility, and capacity of being exchanged against any commodity. Besides, it constitutes the most essential quality of money.

The introduction of paper money made it possible to significantly increase the variety of money forms, and, by consequence, discover new loopholes for making profit. As the result, by now paper money has become **fiat** (symbolic) money in the form of treasury notes issued by the state, of bank notes emitted by banks, electronic and non-cash money, and bank cards. Besides, there is **credit** money that constitutes the right to claim future payment from physical persons or legal entities, in the form of a security. Promissory notes, cheques, and bonds are examples of credit money. It is one of the most eloquent expressions of the usurious nature of the capitalist system. Within real economy, credit money functions worse than fiat money, and complicate the situation.

That is why, in the early twentieth century, Russia implemented a monetary reform led by S. Yu. Vitte; this reform was aimed at getting rid of credit money, and provided fiat money with gold backing. This allowed to reduce the sphere where credit money still functioned, as well as of all related phenomena. As the result, the economic relations were revitalized, and their speculative potential was curbed.

On the other hand, money acts as a commodity only when it is a deficit object of sales transactions. Otherwise, money is not a commodity, has no consumer value, and does not satisfy any needs on its own. One can starve to death having a bag of money, if there is nobody willing to exchange a piece of bread against this money.

At the same time, the monetary mechanism is the easiest and the most efficient among the wealth redistribution mechanisms. Therefore, as exploitation grows in scale, and morality gets corrupt, money is becoming less of a means of exchange, and more of an instrument for profit-making. This applies to both interpersonal and interstate relations, and has turned out to be the key source of all negative tendencies that are gradually intensifying. Money is now viewed negatively: “*Eliminate money — and you will put an end to wars*” (Marcus Fabius Quintilianus, 1<sup>st</sup> century AD).

As the result of the processes described above, financial circulation has become a process of continuous movement of money in cash and non-cash forms, not necessarily related to serving the actual commodity flows. Besides, “*Bank gets revenue from all money that it makes out of nothing*” (Patterson, founder of the Bank of England, 1694).

However, up to recently, gold functioned as the natural yardstick for value-based comparison of different currencies in the international trade. This rule guaranteed justice and order in the trade relations between states. That is why, in order to make their currency stable and reliable, many states provide money with visible material backing and assure their exchangeability against gold in accordance with the set rate. Nevertheless, with time, the real and the declared exchange rate have deviated too much, and the mechanism has proved faulty numerous times.

The actual return to the gold standard occurred in 1994 in Bretton Woods, where the US, using its advantage of a state unharmed by WWII, imposed the recognition of the US dollar as the global reserve currency provided that it is exchangeable against

gold at the old rate. However, in reality, the US has always avoided such operations even when dealing with the central banks of other states. This is not surprising, though. The amount of “surface gold” circulating in the world is estimated at 181 thousand tons — this is all that has been mined by men from the ancient times till today. In fact, half of this amount was mined after 1970, when the quantity of gold produced saw an annual increase of 2.1%.

This gold was not enough even for serving the foreign trade. That is why, since 1971, President Nixon’s administration cancelled the gold standard, and stopped the regular exchange of US dollars against gold. This move was imminent, as otherwise, the US would have had to pay for its ever-negative foreign trade balance with its constantly shrinking gold reserves. Afterwards, all other countries of the world renounced to the gold backing of their national currencies, too. In addition, since 1978, gold does not serve as global money any more.

Since then, national currencies have lost their objective content. In fact, money has been reduced to a convention, a fiction, an empty shape. Not many have noticed this dramatic collapse in the global financial system. It entailed the dominance of globalism, destroyed the world order, and eliminated all objectiveness of international trade relations.

As the result, national currencies of most states were left vulnerable to the global expansion of the world capital. A huge financial rent emerged, for the poor economies to pay out to the rich ones. The international trade relations have become unbalanced, which has brought about an unprecedented exploitation of the weak economies by the more powerful ones, and of the general population by the money owners. The life quality in advanced economies has improved, while all other states have been forced to survive. Crime and terrorism have spread through the world, and drugs and moral degradation have become the problem for all states.

The face value of various currencies is now determined not by their purchasing power or by natural selection, but as the result of speculative stock trading, non-economic factors, information technologies, or monopolies, organisational, or military pressure of the world’s advanced economies. Furthermore, a large securities market has emerged, which is dominated by the derivative securities; the money market has been thus deprived of any logic or predictability.

Moreover, following the USSR collapse, the world became one-polar and lost its financial equilibrium. Money has become its main victim. That is why, nobody knows today what the US dollar, the pound sterling, the rouble, or the yen really are. Are they abstractions with indefinite content that have acquired enormous significance? Or pretty wrappers that are backed by the illusion of their perception, by the artificially attributed capacity to substitute real values?

Money has become a toy of the selfish, egoistic, ardent people, an object of trade, an instrument of pressure and exploitation. Liberated from its function of serving people, but made indispensable for human existence, money has subordinated all aspects of human life, has turned from a servant into a master. It is more and more employed to generate non-labour profit, instead of facilitating commodity exchange. Money behaviour is not determined by its profitability, not by the benefit they produce for the society.

### **1.1.28. 3.2.2. Fundamental drawbacks of modern money**

*...and thou shalt lend unto many nations, but thou shalt not borrow; and thou shalt reign over many nations, but they shall not reign over thee.*

Deuteronomy 15:6

In the light of the targets of the liberal economics that prioritizes selfish motives of individuals over social prosperity, no other money can exist except the money we have today. The modern money performs this specific function well. Indeed, despite the complicated state experienced by all world's economies, oligarchs earn ever more money, the number of millionaires increase, and the share of wealth of the richest persons keeps growing.

On the contrary, if the well-being of people and the state are placed over all, i.e. **if the “beneficial” economic model is put into practice**, the money we use today will acquire destructive power and a new payment instrument will be required, new money that will have the necessary properties. As it has already been mentioned, money is the most eloquent indicator of the state of the society and relations developed within it. Therefore, the easiest and most efficient way to improve these relations is to modify the functions and the nature of money. Otherwise, all attempts will be doomed to fail. What has this new money be like? We will discover it further.

The financial state of the overwhelming majority of the countries of the world leaves much to be desired. They are submerged in debt and have to allocate a considerable part of their wealth to pay this debt back. As the result, not enough money is allocated to resolve the burning issues of the state and the society. National currencies' purchasing power is low, and the goods countries produce are sold at a price lower than their real value, while foreign-made commodities are bought at a price which exceeds their value. Investment is scarce, and fails to contribute to rational processing of natural, intellectual, financial, and labour resources. That is why it is put where money can be most profitable, not bring biggest benefit. It is not the industries important for the state and the society that get financed, but the raw materials production and export for solvent, often foreign, manufacturers.

On the other hand, the recent financial crisis shook the entire world, rocking both rich and poor countries, and impacting the lives of regular people as well as millionaires. For instance, the losses of the US alone were estimated at \$1.5 trillion. And neither the economic theory, nor the actual experience had helped to prevent this downturn or propose reliable methods of economic recovery. To understand this situation better, let us study in detail the modern financial system and its properties.

From the point of view of harmonisation of relations between economic actors, the present-day money has three major faults that cannot be simply eliminated under liberal economics.

**I.** The first fault lies with **the lack of any objective content of money**. While before we abandoned the gold parity money was backed by an objective value, now it is empty. The currency exchange rate is determined by the results of stock exchange

speculations, and by the selfish aspirations, arbitrary will, and informational, and often military pressure exerted by advanced economies. However, no other more objective instrument of money comparison available today. This contributes to the development of destructive tendencies, renders exchange inequivalent, and financial transactions — unpredictable. As the result, the financial system loses stability, become capricious and highly vulnerable.

The world has not yet forgotten G. Soros who managed to crash, almost without assistance, the pound sterling, one of the most solid world currencies. What is more, this example is by far not unique. In 1998, a Singapore clerk's clever computer manipulations fevered the global finance. Another example, when at the end of 1997 one of the news agencies spread the false news of B. Yeltsin's death, the rouble plummeted in just a few hours. Besides, independent experts were curious enough to discover that this "mistake" earned around \$25 billion to a certain well-informed firm.

Once the US decided to dump \$1 trillion at the financial market, as so they did. Nobody moved a muscle. As long as there are those willing to exchange real values against flat money, why prevent them from doing this? In 1987, American President Ronald Reagan only had to mention casually (if indeed) at the G8 meeting in Venice that "*The US dollar should remain stable, but it would be nice to reduce its value as compared to other currencies*". The currency market panicked immediately, and dollars were sold 5—10% cheaper than a minute before this statement. Similarly, as soon as sanction were imposed on Russia for its returning of the Crimea, the rouble dropped more than twice in value, while the economy remained almost unchanged.

Is it possible to describe such financial system as stable, reliable and objective? Indeed, as Mayer Rothschild (1744 — 1812, founder of a dynasty of bankers) said, "*Let me issue and control a nation's money and I care not who writes the laws*".

**This is one of the main faults of modern money.** That is how money has managed to exploit individuals, and entire states and continents.

**II.** Another drawback of money as we know it is its **continuous devaluation**, a general fast or sluggish **inflation**. It originates from the disproportion between various economic sectors (see Figure 1), between the accumulation and the consumption, between the demand and the offer, between the state revenue and the spending, and between the money mass in circulation and the monetary needs of economies. Inflation is further boosted by budget deficit, growing debt, money emission, government backing of currency exchange rates, etc. Among non-monetary factors, we could put state policies in the taxation, pricing and economic spheres.

Creeping inflation results from the permanent price increase, which is inevitable in capitalist economics. In turn, this price increase is due to a number of reasons. Among them, unjustified money emission by the state to cover its momentary needs, arbitrary actions of banks, constant pressure on the financial market exerted by property owners and economic actors, who wish nothing else but money, and the struggle of wage workers for their well-being, that brings about the compensation of their wages through inflation.

Another inflation factor is the added value, as the sale of it is not backed by the income of the workers due to their excessive exploitation. All changes to the social production structure that contract the among of goods and services produced contribute

to inflation, too. There are other reasons as well, for example, accelerated money circulation, which, other conditions being equal, produces an economic effect similar to that of supplementary money emission. Finally, inflation is boosted by overproduction of money that circulates in the financial sphere, as compared to the commodity mass this money is supposed to serve.

Besides, credit expansion through widening the scale of loan-granting contributes to inflation. The increase in speculative revenue is treated by real economy as a source of inflation, as well, just as market circulation faults due to its imperfect administration, or poorly efficient economic structure, decrease in social labour productivity, national money depreciation as compared to foreign currencies, etc.

External inflation factors are the following: global structural crises (raw materials, energy, or currency crises), monetary policies of certain states aimed at exporting inflation to other countries, and illegal export of gold and currency. Thus, inflation is a complex phenomenon that is conditioned by the lack of balance in the social production development, and by the lack of equivalence in money circulation.

On the other hand, paper money devaluation was not always caused by the increase in the market price of gold or by additions to the official prices of gold coins, but also by the decrease in the gold content of money. For instance, the US Gold Standard Act of 1900 established the value of one US dollar at 1.50463 grams of pure gold. However, as soon as by 1934, this value was reduced to 0.889 grams, in December 1971, to 0.818 grams, and in February 1973, to 0.737 grams. What can be said then of paper money which lacks any kind of real backing?

Inflation strikes the “long money” that is required to finance socially important projects with no immediate revenue. It entails constant inflation tax, imposed on everybody. Besides, any type of economic activity becomes unpredictable, and it is impossible to plan and manage economic processes in a reliable way.

In the past, inflation emerged due to devaluation of coins as the result of dishonest production practices or coining of defective money at the face value of regular money. For instance, in 198 before Christ, the Roman Emperor Septimius Severus increased the share of copper in silver coins to 50—60% of coin weight, and his successors made the proportion of cheap metals in coins even higher. Before 1280, a Cologne pfennig contained 1.315 grams of pure silver, but by the last quarter of the fourteenth century, the proportion of silver had dropped to 0.076 grams due to repetitive corruption of the money standard [103].

Similarly, the French king Philippe IV Le Beau, who reigned at the end of the thirteenth century, arranged for coin turning, to make new money from the scraps. Thus, 100 coins could be easily converted into 110 or even 115. When the Russian tsar Alexis fought against Poland to liberate the Ukraine in 1654, he experienced constant money deficit.

To resolve the problem, the boyar Fyodor Rtishchev proposed buying West-European Joachimsthals, or tolars (named after the Czech town of Joachimsthal or J6chymov, and known in Russia as “efimki”) at the face value of 50 kopecks and coin 1 rouble on them. As the result, cheap money flooded the country, which made the purchasing power of money drop, caused prices to grow, and entailed numerous other

problems. Finally, at the end of the Middle Ages, the substitution of silver coins with copper ones without modifying their face value was widely practised.

The invention of paper money opened up new opportunities for manipulation. For instance, in the past ten years alone, the amount of dollars in circulation has doubled. This means, that in this short period the US had issued as much money as in the previous 150 years!

At the same time, the use of the gold standard and the unlimited exchange of paper money against gold at an established rate automatically activated an anti-inflation mechanism that assured stable and manageable national and international monetary circulation. However, by now this mechanism has been abandoned. As the result, with time, all capitalist currencies without exception degrade against their face value. To prove this, let us analyse the inflation rate in some of the world's countries, as given by professor V. T. Ryazanov and presented in Table 10.

Countries / Years	1965 – 1979	1980 – 1989
USA	6.5	4.0
Japan	7.6	1.3
West Germany	5.2	2.7
Great Britain	10.7	6.1
France	8.6	6.5
Sweden	8.0	7.4
Italy	11.4	10.3

Table 10. Average annual inflation rates of some advanced economies

This table demonstrates that during the 25 years analysed, the purchasing power of the US dollar dropped 3.87 times, that of the Japanese yen — 3.14 times, of the Deutsche Mark — 2.79 times, of the pound sterling — 8.3 times, of the French franc — 6.47 times, and of Italian lira — 13.46 times. For comparison, in 1991—2001 alone, the purchasing power of the non-redenominated Russian rouble decreased more than 52.5 times! And when one takes into account that the exchange rate of the rouble is currently pinned to the US dollar, one might doubt the reliability of this standard.

The monetary system of the Soviet Union was much more stable. For example, in the USSR, even during WWII, the inflation was inferior to that of the US or other capitalist economies engaged in the war, although their losses were sizeably smaller. The country was protected of financial and economic shocks.

Chronic inflation inflicts huge losses to the global economy. Every person in the world is now obliged to pay the “inflation tax”, which never disappears. Besides, as money serves as the key economic yardstick, all economic indicators are completely

deformed, which prevents reliable analysis, long-term forecasting, and economic planning. Furthermore, this deregulates the market and hurts the economy and the society.

It is not hard to imagine how modern devices would have functioned if the physical standards of kilogram, metre and second that they use modified randomly just as economic instruments do!

Obviously, some may gain profit by weighing loads with reduceable weights, measuring cloth with a shortened metre-stick, etc., but this would not benefit all people. Industry and science have long understood that. For this reason, legalized physical standards are made of special alloys, and they are used to build up and to preserve the standard bases of the leading countries of the world. Besides, this approach is practised by the national metrological laboratories (the National Institute of Standards and Technology in the US, the National Physical Laboratory of Great Britain, the National Research Council of Canada, the Physikalisch-Technische Bundesanstalt of Germany, the All-Russian Scientific and Research Institute of Metrology named after D. I. Mendeleev, etc.). International standards are created and preserved to unify the measuring units, and to be used for comparison for all national standards.

However, economists, just as tightrope walkers, are forced to manage economy with unstable and unpredictably changing tools. They have already got used to this, and have learned to survive and even to make profit. The current state of things even appears natural and inevitable to them. But this is not an original thinking, 300 years ago technologists practised a similar approach, until strict physical laws were introduced followed by rigorous standards for the key units of measurement.

The lack of stability of monetary equivalents bears a negative impact on the global economy, deprives it of its harmony, renders it capricious, and dependent on numerous objective and subjective circumstances. As the result, various speculations and disproportions are widely spread. Economy then fluctuates severely, becomes weak, vulnerable and inefficient.

On the other hand, the existing liberal financial circulation model is incapable of creating money that would be immune to inflation. This is its imminent, inherent drawback.

In order to stabilize money, we should stop treating it **as a commodity**, and deprive it of the capacity **to make non-labour profit**, i.e. we should modify the production relations. “*Money should assure the regular functioning of real economy, instead of serving a convenient instrument for swindlers and usurers*”  (V. T. Ryazanov <sup>[8]</sup>). But once the liberal system gets rid of these disadvantages, it will not be a libero-capitalist system any more.

**III.** Finally, the third major fault of money consists in **its ability to generate profit without taking part in the real production process**. This circumstance, which results from the artificially provoked monetary deficit, has led to economic stagnation. Besides, it served as the main cause of exploitation, and other pathologies of human and economic relations. It stood behind the destruction of fundamental human values, and behind all past and future financial crises. Money is the blood of economy, and anaemia is considered a condition. In this case, it can excite a person, make them work for their own benefit, but cannot give them health.

Total monetary deficit is, in fact, one of the pillars of liberal economy. It limits commodity exchange, impedes the generation of productive income, as well as payments to contractors and taxation. That is, this deficit hampers all productive activities, and complicated social labour differentiation. Without it, would anybody ever borrow money against an interest rate? Would money capital ever generate revenue?

Anyhow, this deficit is ever-present, it is the inescapable companion of the capitalist system. After all, it is also the result of the established production relations, the product of capitalist organisation, and of financial management. Otherwise, money would become ordinary exchange tools and would never bring any profit. In other words, “*finance cannot be left to free markets*” (H. Minsky <sup>[106]</sup>).

The absence of monetary deficit is beneficial for the real economy, but not for the virtual economy, as money is made for production, and not vice versa. Therefore, **money deficit is vital for capitalism, without it capitalism cannot exist as such.** All incentives disappear, and interest rate is eliminated. Money on its own stops generating profit, that is, making more money. Besides, self-regulation function is disactivated, and money can no more act as the drive of economy.

In this case, nobody will be tempted to do anything as long as they are paid. Money injections into economy will not revitalize it, and make it instantaneously produce what the money was invested for. That is why all troubles that are traceable to money deficit are noting but the tribute humans pay for the capitalist system to function, together with the corresponding social structure and financial circulation model.

The reason of the current monetary deficit is the superlight character of money, its lack of correlation with anything useful, and its ability to transform into treasure. Indeed, as Plato said <sup>[25]</sup>, money should be used as the instrument of circulation and measure of value of commodities, and no individual is entitled to accumulate gold or silver.

Understanding this idea, Lycurgus, the legendary ruler of Sparta (IX century BC <sup>[106]</sup>), prohibited the circulation of gold and silver coins and introduced iron money. Besides, these iron coins were so heavy that even a relatively poor person had to carry his “purse” around in a cart. During trade transactions, the parties did not exchange money but the rights of their ownership. This money could not be stolen, saved, or used for bribes. Moreover, it could not be melted down to metal, because fresh coins were soaked in vinegar, which made them fragile and brittle. As the result of this policy, during five centuries Sparta remained the most prosperous and powerful Greek state.

However, “*When once the love of silver and gold had crept into the city, closely followed by greed and parsimony in the acquisition of wealth and by luxury, effeminacy, and extravagance in the use and enjoyment of it, Sparta fell away from most of her noble traits, and continued in a low estate that was unworthy of her down to the times when Agis and Leonidas were kings... For the men of power and influence at once began to acquire estates without scruple... and speedily the wealth of the state streamed into the hands of a few men, and poverty became the general rule...*” <sup>[107]</sup>.

As the result of the comprehensive effect of the factor described above, one of the most destructive scourges of the humanity emerged, that of usury. This phenomenon has significantly influenced the history of the humanity. Thus, if in the year Jesus Christ was born someone had lend 1 gram of gold against a 3% annual interest, by now

this person could have claimed a lump of gold of the size of the Earth. In reality, this interest rate and the amount of credit money circulating at the market is much bigger. Therefore, evidently, the influence of this factor on the life of people is hard to underestimate. It stood behind protests and their suppression, of all kinds of wars and crimes, of global and personal tragedies, of struggles and cruelty. There is no crime that would not have been committed for money.

It is not surprising then that those initiated, the saint founding fathers of all world religions (Moses, Christ, Mahomet, Luther, Gandhi, Confucius, etc.) called to fight the economic and social evil resulting from usury. “*If thou lend money to any of my people that is poor by thee, thou shalt not be to him as an usurer, neither shalt thou lay upon him usury*” (The Bible, the Book of the Law of Moses) \*. “*If you have some money, don't lend it out at interest but give it to someone who will not return it to you*” ... *Therefore all things whatsoever ye would that men should do to you, do ye even so to them* \* (Jesus Christ). “*Those who swallow down usury, shall arise in the resurrection only as he arises whom Satan hath infected by his touch. This, for that they say, "Selling is only the like of usury"; and yet God hath allowed selling, and forbidden usury*” (Quran) \*. The second Lutheran Council resolved that “*those who claim interest cannot be buried according to Christian rituals*”. Finally, Gospel of Luke tells us to “*lend, hoping for nothing again*” \*.

The eminent Italian theologian Thomas Aquinas referred to usury as a “*dishonorable occupation*” and considered interest rate collection as the selling of something nonexistent, and as the key source of social inequality. Aristotle wrote in his *Politics*, that “*The most hated sort, and with the greatest reason, is usury, which makes a gain out of money itself, and not from the natural object of it. For money was intended to be used in exchange, but not to increase at interest... Wherefore of all modes of getting wealth this is the most unnatural*” [26]. He compared people who lend money against interest to “*brothel owners*” and claimed that similarly to drugs, when used uncontrollably for a considerable time, interest destroys any social or economic entity.

Unscrupulous selfishness was publicly condemned, and the term “usurer” was always associated with a shameful trade. For instance, an English preacher of the fourteenth century declared that God created clergymen, noblemen, and peasants, while burghers and usurers were created by Devil. A well-known German enlightener of the seventeenth century believed [107] that God “...shall destroy all murderers, thieves, usurers, rogues, adulterers, whores, and catamites in the said way” [108] — what a jolly company these make!

Classical literature has seen a strong negative attitude towards usurers. For example, “*He is enormously rich, with money to burn, but he is a public disgrace, the lowest kind of miser, and lives in a total squalor. He's a usurer on the grand scale and only accepts gold and silver as pledges...*” (Apuleius, II century AD) \*. Or, as seen by F. M. Dostoevsky, “*she was fond of money, that she hoarded it, and lent it at a wicked rate of interest, that she's a merciless cheat and swindler*” \*. Nevertheless, this attitude has never stopped selfish people from usury, and it is still widely practised

today. What is more, it has become number one priority in banking and has penetrated all pores of the existent economic structure.

Moreover, it has been discovered that in the current conditions money may be completely separated from the commodity production, and generate profit simply through stock market speculation, i.e. the transfer of money by stock market “gamblers” from one pocket to another. This is how besides the money and commodity market; the financial sphere has developed a parallel purely monetary virtual market. There, the length of the production cycle is no more limited to the velocity of money circulation, as the result, the annual financial rent turns out to be 5 to 10 times superior to that of the real economy [109]. It is not surprising them that the amount of money engaged at the virtual market is several times higher than the amount of money serving real economy. Besides, in the past 15 years alone, it has further increased from \$1.5 trillion to \$5.3 trillion. Or, to be more precise, even more — once the derivatives from securities are taken into account.

To consider a specific example, the volume of currency-related speculations at the Moscow Stock Exchange has quintupled, and the aggregate sum of all transactions has been 15 times superior to the GDP of the Russian economy. Thus, more than 100 trillion roubles circulate at the Moscow Exchange every quarter. Besides, around 95% of the transactions are not in any way related to production, export, import, or investment attraction. This is a fabulous business for those who manipulate the rouble, and it earns them a 100% or higher annual revenue. Moreover, it should be specified that two thirds of income from stock exchange operations is appropriated by foreigners [109]. There is no doubt that this contributes to the degradation of the current liberal economic model, however, it is this model that takes the lead today, when profit is seen as the utmost priority. It is liberal economics that is on the news, in the media, and in the words of experts.

As farcical as this is, the trouble would be half smaller if such financial system could function on its own. However, virtual economy can only produce virtual values. That is why, to survive, it enslaves the real economy and subordinates it completely. Its main method consists in depriving the productive economic sectors of proper financial resources. As the result, we have seen an unprecedented accumulation of debt in all spheres of economy.

For instance, in the US, the sovereign debt, as well as the liabilities of households, corporations, and financial institutions, turned into securities, have already surpassed the three-year American GDP. Besides, in 2000—2014, this country had to increase its aggregate national debt by \$5 to have its GDP grow by \$1. In such conditions, banks serve the society less and less and are converted into an ordinary usury machine. This phenomenon is at the origin of global financial crises; it drives down the efficiency of world’s real economy and causes it to degrade.

Indeed, as long as money is used as an ordinary profit generation tool, the overwhelming majority of the Earth’s population suffers. For example, as M. Kennedy [110] assessed, 80% of German population paid more interest than they had from borrowing against interest, for 10% these amounts are approximately the same, and only other

10% had more profit than they paid in interest. Thus, in reality interest is not the evidence of money's ability to produce more money, but just a cunning mechanism for money redistribution.

Usurious profit burdens countries, freezes initiatives, and limits productivity of the economy. Furthermore, it causes profound and dangerous changes in the macroeconomic proportions between production and consumption, saving and investment, real production and financial flows, export and import.

As the result, it is not the most efficient, useful, or technically advanced products that bring the biggest revenue, but the interest, the share quotations, and the stock exchange trade. This is how the destructive financial capital gains ever more ground in politics, ideology, and authorities. The key economic parameters (interest rates, and currency and stock market exchange rates) are determined by the interests of the people working in the financial sphere, and not by those who produce useful things. The priority development of the securities market limits the financing of the real economy. Production-related labour differentiation is replaced with financial differentiation based on debt liabilities. This is not surprising though, as (and it has already been pointed out) the monetary mechanism is the easiest and most efficient of all wealth distribution mechanisms.

The consequences of this situation for real economy has been dramatic. Created by humans, money has escaped their control, and behaved as a cybernetic monster who devours its creators.

Besides, as it should be emphasized once again, these properties of money are inherent to the liberal financial system and, therefore, inevitable. They may be reinforced or weakened, but they cannot be eliminated, because liberal economics just needs money that would generate the highest revenue.

Understanding the destructive impact of usury on the social and economic life of people, economists have attempted to find a way out of the existing situation. They have tried to transform money from treasure to an instrument of commodity exchange. Indeed, as the recognized expert in monetary policies S. Gesell said, “*And it is clear that money cannot be simultaneously the medium of exchange and the medium of saving — simultaneously spur and brake*”<sup>[11]</sup>.

To accelerate this transformation, there has been an urge to boost the interest of commercial banks in financing real economy, instead of virtual economy. This means an increase in the profitability of the production sphere and a simultaneous decrease in the financial sphere. In order to do this, the key rate of central banks has been reduced as much as possible, sometimes to a negative value. Then money owners do not use their wealth as a source of bank revenue, which has been a norm in the established capitalist system, but are actually forced to pay for keeping their money at the bank. This measure works as an economic sanction for the refusal to invest money in real economy. Thus, the revenue is redistributed from capital into production.

For instance, in 2016, the Zurich ABS bank was the first Swiss bank to introduce a fee for deposits. It was determined at 0.125% annually. This experience was later adopted by other banks, too. In industrially developed countries it varied from minus 0.75% (Swiss banks) to plus 0.5% (English, Canadian, and American banks). This rate is inferior to the inflation rate and does not benefit capital owners unless they start

investing their money into real production. In this way, banks do not act just as usurers, but as money keepers who pursue their own purpose.

An opposite tendency observed in developing states drives interest on deposits above inflation to let it generate profit. It varies from 3.75% (Bank of Mexico) to 10.5% (Central Bank of Russia) and 14.7% (Bank of Brazil). These countries willingly follow the policy of increasing money profitability, instead of assuring economic improvement. This is partly due to the elevated level of corruption in their financial sectors. As the result, economy succumbs under debt. The consequences of such approach are easy to see when one compares the economies of developed and developing countries.

It is evident that once the interest on deposits is given up, factors that contribute to returning cash into the economic circulation are put to work. Besides, capital stops generating revenue on its own, which seems to undermine the capitalist system.

In reality, this is not so, as under liberal economics money will always stay where it makes most profit. No administrative or market instruments are capable of reversing this tendency. Money will always find a loophole to circumvent the obstacles. **Unless investment into real economy brings more revenue than investment into virtual economy**, this will remain so. The only change is that then the issue of crediting real economy will be not topical any more.

As long as this is not so, the liberated credit money is drawn to the securities (derivatives) market engaged in serving the expected commodity flows. Besides, as Gresham's law states, "*bad money drives out good*". At present, this bad money takes the form of futures and options. They secure the owner from decreases in commodity prices, such as grain, oil, shares, currencies, and other values. The same financial market mechanisms are used to make profit, with the only difference that real values, and not money, act as the object of transactions.

As commodities do not directly participate in the deals, such transactions can be carried out multiple times and generate as much profit as financial speculations do. Due to this fact, the amount of financial futures for oil are already several times superior to its value. That is why the reduction of interest does not alter the essence of liberal capitalist economy. There is nothing to be done with the usurious nature of capitalist money. For this reason, all modern capitalist economies develop successfully even with a small interest rate, and do not stop being capitalist for this reason. Besides, when money serves as an economic pillar, the abyss between real and financial economies is inevitable, and the consequences of such abyss are too well known.

The faults of present-day money described above are not unfamiliar to the overwhelming majority of economists. Nonetheless, this issue and the possible solutions to it are little discussed in economic literature. This is justified by the fact that the existent money is appropriate for generating personal revenue, and that this is the goal of the modern liberal economic doctrine.

### **§3.3. PRINCIPLES OF FORMATION OF A HIGHLY ORGANISED FINANCIAL SYSTEM**

*There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency.*

J. M. Keynes \*

#### **1.1.29. 3.3.1. Labour and money**

How should the existing financial system change to get rid of all of the drawbacks listed above? To answer this question, let us first study the following statements.

1. As money was, above all, created for commodity exchange in the existent conditions of labour differentiation, first of all, it should be liberated from all other functions imposed on it. That is, we should start with separating the wheat from the chaff. It should be recognized from the very beginning, that all kinds of uncertainty, inequivalence, and other related factors are evil for the society and do not encourage its prosperity. On the contrary, they complicate the economic theory and practice, deform regulators, and prevent efficient functioning of the entire economic system, making it opportunistic and poorly productive.

2. At the same time, one should remember that according to the conclusion drawn in the previous section, economy must serve not only individuals, clans, social strata, like the proletariat or the businessmen, but the entire humanity without exception. Therefore, the goal of economy is uniquely the production of commodities, while all other products of labour are included as their components only. Within such approach, any labour that is socially required is considered useful labour, and **the aggregate cost of goods and services exchanged between the commodity manufacturers will always be equal to the total value created by the social labour**.

3. As neither capital, nor property, nor natural resources can produce anything unless they have been fecundated with labour, in the absence of labour these factors are empty. In reality, everything is created by labour, and labour exclusively makes capital, property and natural resources productive, valuable, attractive, and useful. This is why it should be acquainted, as it has been concluded in Subsection 3.1.3, that **value is created uniquely by human labour**.

4. As opposed to other factors that cover money, labour is the only one to be directly related to the commodity mass produced by it, and money should serve labour. This means that within a balanced financial system, the amount of money engaged in the economy, depending on the velocity of its circulation, should correspond to the total value of the commodity mass and services produced or consumed. This is an obvious idea, and any attempt to abandon this principle due to conjecture, or in the profit interests of certain individuals or clans is fraught with grave social losses. Besides, these principles are always observed whatever the official science and the daily practice make of them.

5. This signifies that the face value of money is determined by its labour content, whatever form it might take. Moreover, the labour referred to is the labour of the entire

society, not of a limited part of it, because all commodities without exception are created by the aggregate labour of all workers. The way money functions actually determines its justice and efficiency, and no excuses ruining this proportion are accepted. For virtual economy does not exist in reality, and real values are created by real economy only. Virtual economy is nothing but a parasitic growth, a cancerous tumour on the living body of economy.

In reality, it is the actual amount of labour that determines how the money it has created is allocated to various needs and economic sectors. After all, by definition, money is not an individual instrument of trade, but a social one, and despite it seeming independence from labour and the society, the face value of money is always determined exclusively by labour.

Based on the foregoing, it would be logical to assume that an hour of a country's average labour generates the value of, say, 10 roubles. Then, money turns into a fixed measure of value and, at the same time, a yardstick for labour. It becomes clear what amount of money is required to assure regular market exchange of products of labour in all economic sectors, for this money not to be excessive or insufficient. For instance, if we take the annual average amount of labour in Russia as equal to 170 billion man-hours, and the value created by human labour in an hour as equal to 10 roubles, then Russia would need 1.7 trillion roubles to serve the commodity mass produced by workers, taking into account the velocity of its circulation. Then the average price of goods will not be different from their average value determined by the amount of labour contributed. Besides, all faults of the modern money will be non-existent.

Indeed, under these conditions money will be solidly backed, which means that any financial manipulations, swindles, or inflation will be rendered impossible. Money will become inseparable from labour resources and tightly associated with the commodity mass, so that it cannot be used from making profit unrelated to human labour. Besides, such money cannot be in deficit, it will be just sufficient to satisfy the demands of the market, but not more or less than that amount. And while some goods will be overpriced if the amount of money remains unchanged, other commodities will certainly be under-priced. The reason for this correlation is simple: you can only sell as many goods as the customers can buy.

A similar situation was observed under the socialist system, where each enterprise had a fixed staffing schedule and was allocated a corresponding payroll fund. This is how the labour equivalent of money was established.

This idea cannot be overestimated. Global experience has shown that the more stable the national currency, the better the country's economy functions. For instance, in the Roman oikumene, with a population of 50 million people, order was instilled and prosperity was assured exclusively through the use of one unchanged imperial coin denarius. Byzantium, which had prohibited lending, maintained the value of the solidus, its national currency for over 600 years. That is why the country could successfully develop its economy and culture within the Orthodox Christian religion.

Summing up, only when money is stable and covered by labour, it is possible to make long-term economic forecasts, and practise strategic management and planning. Only then the "long" money becomes available and can be used for the implementation of commercially unprofitable but socially significant projects.

### 1.1.30.

### 3.3.2. Velocity of money circulation and its dependence on the state of economy

On the other hand, one might wonder why the required amount of money cannot be supplied in the framework of the existent financial system. Why is money deficit and all related economic troubles inevitable? After all, in reality, money does not represent actual material values, like oil, gas, or grain, but reflect a virtual convention, printable in any quantity desired. How can such a conventional thing be in deficit and where does all this money go?

In order to understand this phenomenon better, let us use the main statistical correlation of money circulation (the Fisher's formula):

$$T \times P_{av} = M \times V_{av}$$

Letter **T** stands here for the commodity mass circulating at the market, **P<sub>av</sub>** is its average price, **M** is money mass, and **V<sub>av</sub>** is the average velocity of circulation in a given period of time. The most informative value in this equation is that of the velocity of money circulation. What is this parameter and how is it measured?

To start with, let us distinguish four economic sectors whose velocity of money circulation differs by definition. The most obvious ones are the following (Figure 9 [11] – [15]). The arrows in the figure correspond to financial flows that move between the sectors and within them.

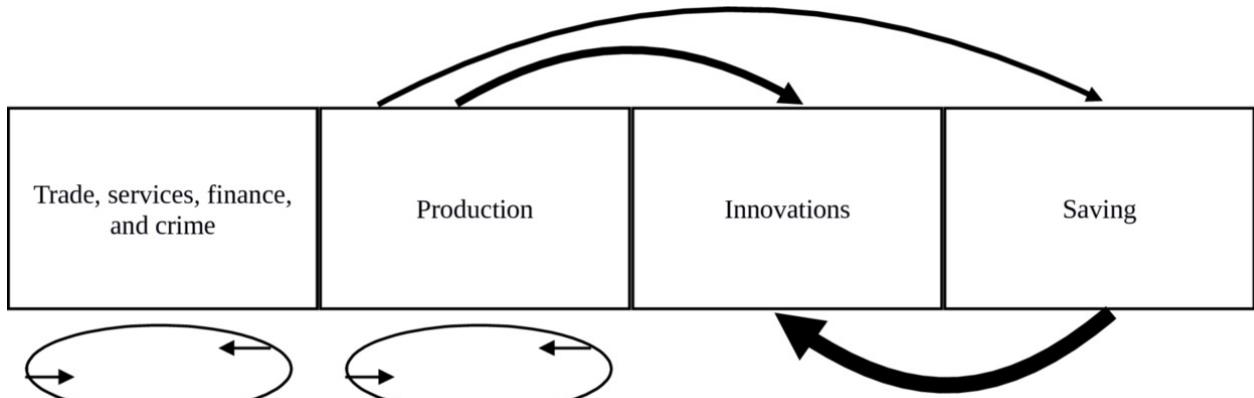


Fig. 9. Money flows movement in modern economy

**1. Trade, services, mediation, and crime.** This sector does not only distribute the entire commodity mass supplied to the market, but also assures the movement of the principal money flows. It encompasses shadow and virtual economies, circulates speculation and criminal money, and sees the illegal revenues laundered. Besides, a fair share of this sector's functions is not directly related to the execution of social duties, and does not require significant time or labour effort, therefore, in this sphere the commodity flows are the fastest and they complete 30—50 cycles per year. Therefore, this sector influences the most the average velocity of money circulation in a country; besides, it generates the most considerable profit.

**2. Real production**, where the velocity of money circulation is conditioned by the length of the production cycle. For instance, if it takes two years to build a ship, this is the duration of investment circulation. On the contrary, pies can be sold every single day. Another example, if harvest is reaped once a year, money cannot circulate faster in agriculture. Therefore, this sector can never have a high velocity of money circulation. What is more, the more complex the products, the longer it takes to make them, and the lower the profitability of the financial resources engaged in this production. Take a car as an example: its production as an end product involves the work of metallurgists, chemists, electrical engineers, scientists, builders, etc. That is, all economic sectors shown in Figure 1 are engaged, and all of them need money to work.

In advanced economies, labour differentiation and cooperation are better developed, hence, their structure is more sophisticated, and money flows circulate slower. Considerable resources are spent on development of new technologies and equipment, on deep raw materials processing, and production of goods with a sizeable added value. On the contrary, underdeveloped countries put most of their efforts into little processed goods, into mining and exporting slightly processed raw materials, and into cottage industries with a low level of cooperation. In this way, they manage to increase the velocity of money circulation, and make money more profitable.

**3. Innovation sector**, which contributes to economy in the form of scientific advances, knowledge, trained professionals, front-edge technologies, roads, defence structures, environmental measures, etc. It is this sector that is responsible for demography, for national health, for physical, moral, and intellectual development of the nation, and for the life of the country's population. This sector provides everything that production needs for efficient functioning. Here, the production cycle is considerably long, and the velocity of circulation is around 5—10 years for a rotation. That is why the more the specific weight of this sector, the lower money in the country circulates, and the lower its profitability.

**4. Saving sector.** This is where amortization and investment resources of enterprises, money savings of the population, retirement savings, and policy-holders' funds accumulate. By consequence, the money circulation here is slow (about one rotation in 20 years), and it serves as a natural reservoir for financing long-term innovation projects, and other commercially inexpedient but socially important work. However, in modern economy it has been reduced to a source of cheap money for highly-yielding enterprises.

Set free, money is inevitably drawn to the sector where their circulation is faster and profitability, by consequence, is higher. That is, to financial institutions, to trade, mediation, and crime. On the contrary, the production and innovation sectors are left without sufficient funding. Any attempts to finance them by injecting money produce no result. Whatever administrative obstacles are created, money circumvents them and ends up in the first sector, where it is already plentiful. It is not surprising that this state of things generates inflation.

Average velocity of money circulation depends, first of all, on the state of economy and on its capacity to process monetary resources in various forms without triggering inflation. Let us consider the monetarization coefficient (the GDP to money

aggregate (M2) ratio) of various economies. The data presented in Table 11 and in the following section has been obtained from reference publications, including [112]—[117].

Countries	1990	1995	2000	2005	2010	2011	2012	2013	2014
<b>Japan</b>	105	106	123	139	161	170	174	172	245
<b>China</b>	82	100	136	162	181	181	188	176	185
<b>USA</b>	56	48	48	52	59	61	66	72	85
<b>Great Britain</b>	54	59	61	73	84	84	106	133	150
<b>Russia</b>	72	15.5	15.8	28	34	45	38	43	44

Table 11. Coefficient of monetarization of some of the world's economies (M2/ GDP %, as of the end of the year indicated).

The above table demonstrates that the more dynamic the country's development, the bigger the money mass that its economy can process without giving rise to inflation. To prove this idea, let us study the average velocity of money circulation in various countries. But before, it should be pointed out that the velocity of money circulation is inversely proportional to the monetarization coefficient.

Countries	Japan	China	Canada	USA	India	South Africa	Brazil	Russia
$V_{cp}$	0.5	0.685	0.7	1.27	1.47	1.59	1.7	4.39

Table 12. Average velocities of money circulations in 2007.

The relatively low velocity of money circulation in advanced countries is due to the fact that in efficient economies most money is engaged in the production and innovation sectors, where the circulation is slow, and not in the distribution, where velocity peaks. To show it more clearly, below the dynamics of average velocity of money circulation in Russia has been reproduced (Figure 10).

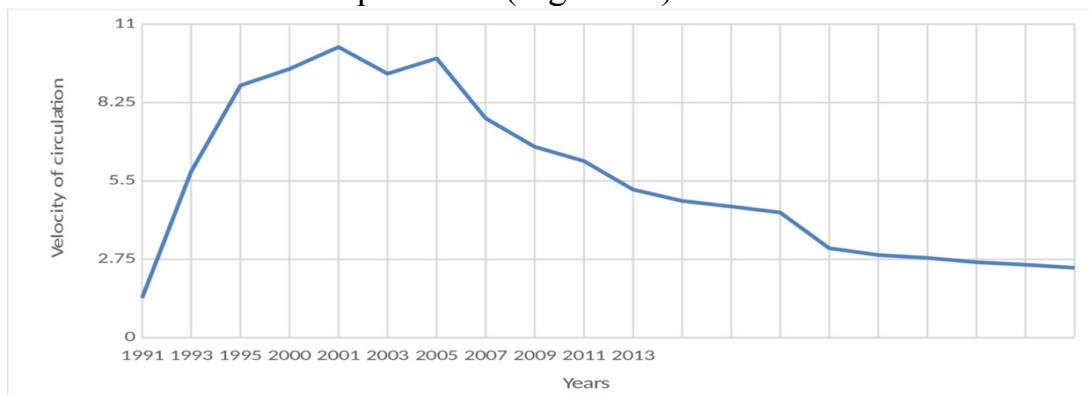


Fig. 10. Velocities of money circulation in Russia in different years.

Obviously, money-generated revenue is the bigger, the faster this money circulates. The graph shows that in the most difficult years, when inflation and lawlessness literally destroyed everything in the country, money circulated fast and yielded a lot. However, as order gained ground, the velocity of money circulation gradually dropped.

In this light, the anti-inflation policies of the Russian Central Bank authorities ended with democratization of Russian economy, “*an obviously ugly phenomenon that defied forecasts to emerge in the framework of theoretical constructs of traditional macroeconomics... evidently, we are facing very peculiar monetary dynamics which, despite all estimations, has been engendered by politics, which willingly reduced the level of economic liquidity*” (L. Turgeon [67]) . Therefore, the monetary deficit encouraged by the Russian government, as ruinous as it is for the country, benefited certain individuals.

Summing up, it may be said that **the faster money circulates**, i.e. the less money there is, **the bigger the revenue of money owners, and the worse economy functions**. That is why capital owners are interested in maintaining a monetary deficit. The worse the state of things in the country, the more money in their pockets.

In the light of the foregoing, it would be interesting to remember one of the basic ideas of monetarism, according to which the key reason for inflation is the surplus of money in economy, and not the low economic productivity, and to prove this idea wrong. The example of the recent dollar injection operated by the US without inflation is an excellent argument against this statement. It might be concluded from Table 11 that the level of monetization of Russia is much lower than that of advanced economies (to remind the reader, that this value is inversely proportional to the velocity of money circulation).

To visualize this idea, let us look at the data corresponding to the live money provision of various sectors of the Russian economy (Table 13) [118]—[120].

<b>Years</b>	1 9 9 3	1 9 9 4	1 9 9 5	1 9 9 6	1 9 9 7	1 9 9 8	1 9 9 9	2 0 0 0	2 0 0 1	2 0 0 3	2 0 0 5	2 0 0 6	2 0 0 7
<b>Total</b>	12	10	28	0	-6	-17	-12	-7	-7	-8	-12	-13	-10
<b>Industry</b>	13	11	16	-5	-12	-21	-12	-	-	-	-	-	-
<b>Agriculture</b>	20	22	36	-14	-1	-19	-14	-	-	-	-	-	-
<b>Construction</b>	9	8	7	-6	-15	-26	-12	-	-	-	-	-	-
<b>Housing and utilities services</b>	3	3	2	-1	-2	-5	-9	-	-	-	-	-	-
<b>Communication</b>	9	12	6	16	12	-58	-76	-	-	-	-	-	-

Table 13. Coefficient of provision of Russian enterprises with proper resources, %, by years

Analysing Table 11, it can be observed that the overwhelming majority of modern Russian enterprises pertaining to the real economic sector (except those that produce mineral resources, serve foreign goods manufacturers, produce and distribute electric power, oil, gas, and water) do not only lack circulating assets required for regular production, but are, in fact, debt-ridden. This could be explained, first, by the fact that a considerable share of new owners has purchased enterprises not with the aim of operating them, but for increasing personal wealth. That is why the most liquid assets are not allocated to production, but serve private interests; innovative equipment is sold to buy new villas, islands, and palaces. As the result, enterprises are obliged to recur to expensive loans, to foreign money, monetary surrogates, mutual settlements and defaults of payment. This dramatically decreases their competitiveness at the market.

As the result, in 1992—1999 alone, the provision of Russian economy with money dropped 12-fold. As few as 20% of economic transactions were done with live money, and the rest — with money substitutes.

Thus, the situation can no more be controlled by individual enterprises and a targeted state interference is required to resolve this issue. Unfortunately, the state does not make this move. But then, how can production enterprises function normally in the market conditions without circulating assets, without the possibility to set up cooperation with other enterprises passing by the mediators, how can they still pay the interest, the wages, the taxes, finally, pay for the raw materials, semi-ready products, and power supply?

It is no surprise in this case that the specific weight of unprofitable enterprises in Russia is 40% (though the official figure is as low as 8%) [70].

It may be concluded from the above that one of the priorities of administrative governance consists in **bringing real economy to a position where it would be able to consume the most money at the lowest circulation speed and without triggering inflation.**

### **1.1.31. 3.3.3. Founding of a reliable financial system**

*Upon discovering the way life was organized on the Earth,  
the aliens asked its inhabitants:*

*“Why do you have so much rubbish, and so many poor and ill?”*

*“That’s because we don’t have enough money”, replied the earthlings.*

*“Then tell us where you get this precious resource from, and  
we will use our technologies to help you get enough!*

*“In fact, it’s us who print the money”.*

*“??????!?”*

*After this encounter, the aliens did not consider  
the inhabitants of the Earth as intelligent any more*

Parable

In the previous section it has been demonstrated that the use of the same money in various economic sectors inevitably leads to an unequal distribution of financial resources. No administrative or market regulators are capable of changing this. Without control, money always ends up there where it can generate the biggest profit. Therefore, it would not be unreasonable to separate money flows that serve production and consumption. This can be done by introducing different forms of money with distinct functions.

Indeed, the Soviet financial experience has proven that if uniform money is given up, and the production and the consumer markets are served by different money, then the main faults of money disappear. That is why the credit reform of 1929—1930 in the USSR introduced a two-flow money model. Cash and non-cash money was not mutually convertible. Non-cash money served production, construction, industry, agriculture, science, and education. Cash money, in turn, was limited to retail trade.

In these conditions, non-cash money could no more be saved or transformed into treasure. This idea fit well the logic of the socialist economy, where money was to serve the social benefit, and not be used for personal profit-making. Non-cash money could not be stolen, used for bribes, or converted into foreign currency, because it could not be used at the market. It could only be employed in accordance with its actual function, that is, assuring the economic connections between production enterprises.

As the industrial (non-cash) and the market (cash) flows were isolated, the country could invest into its own development as much non-cash money as it needed and as its labour capabilities would allow. Non-cash money could be easily injected into economy when necessary and withdrawn once it was not demanded any more. Besides, there was no inflation, no increase in prices, for non-cash money that served production could not escape into the consumer flow, and vice versa.

Moreover, the rigid association of money with labour adopted under the socialist model (payroll funds corresponded to the staffing schedules of the enterprises) locked the money in the production cycle, gave it a certain weight, sense, and stability. This Soviet money was not weightless and irresponsible, as today's money is. It had to actually serve the cause, instead of obeying its careless desires. Money was bound to serve the society, and generated much less trouble. It was solid, independent from the international conjecture, from the aggressive expansion of the global capital, and from internal issues. Otherwise, how could have the Soviet economy survive when surrounded by such powerful and aggressive neighbours?

The advantages and disadvantages of various economic models can be discussed in great detail; however, it appears doubtless that the Soviet monetary system was more perfect than the present-day capitalist system. It functioned reliably, did not allow any delays or robbery, and financial resources were always used for what they were allocated for. Inflation was almost non-existent, just as monetary deficit, and there were sufficient funds for the most daring projects. Nevertheless, having adopted an older monetary system during the reform, Russia lost these advantages.

The Soviet experience of setting up a two-flow money circulation and its results could not have remained unnoticed for other countries. A similar idea was implemented by the German Minister of economy H. Schacht in 1935. The country needed a lot of money to prepare for the war, and it almost completely lacked funds. Then Schacht

proposed introducing promissory notes called “bonds” used exclusively for paying defence manufacturers and backed by the state.

A number of large companies (Krupp, Siemens, Rheinmetall, and GUTHOFFNUNGS-HUTTE) founded the MEFO (Metallurgische Forschungsgesellschaft) with the authorized equity as small as 1 million Reichsmarks. Reichsbank took on all the MEFO’s liabilities related to securities, and bought bills without limitations; these bills were later used for paying arms suppliers. They were accepted by all German banks and cleared off by Reichsbank. The total amount of such “money” was estimated at 12 million Reichsmarks. However, it was not reflected in the bulletins of Reichsbank, nor in the state budget.

Thus, the scale of Germany’s war plans could be kept secret and the war could be waged without serious financial issues. Besides, unemployment was eliminated, and the quality of life was improved. Money was created out of nothing, nonetheless, it functioned successfully to assure the completion of all state projects, as criminal as they were. Thanks to this financial policy, the country had escaped inflation up to the year of collapse of Nazi Germany [121], [122].

A two-flow money circulation model similar to the Soviet one is currently used by China. The American money emission mechanism could be also compared to this system. In the US, all money issued by the financial system has to go through state control. As the result, 95% of all dollars are issued for purchasing the bonds of the US Treasury and then used for financing the country’s budget. That is why the US has such a solid economic policy, spends a lot on R&D, and development of military industry. All this is thanks to the money emission system back exclusively by the government bonds [109].

How can this idea be applied to the modern market realia? It is obvious that at present it is not possible to assure a smooth functioning of such a system purely through administrative governance, as it was done in the USSR. There is a need for self-coordinated, automatically managed instruments capable of functioning under the market regulators.

It is essential to emphasize that all human activity fits into two huge cycles; within one cycle money is **earned**, and within the other it is **spent**. In the first cycle, commodities are produced, and in the second one, they are consumed. Therefore, it is quite logical to use two types of money, as it was done in the USSR, one suitable for the production market only, and the other used exclusively for the consumer market.

Besides, all production costs of the economic actors, such as spare parts, power supply, science, construction, machines, equipment, transport, trade, etc. (see Fig. 1), required for the production and sale of commodities will be paid for with the **production money**. On the contrary, the **consumer money flow** will assure the purchase of goods that the production sector supplies to the market.

With such an approach, the key issue lies with setting up the cooperation of the two financial flows. It is obvious that the financial system will not work properly unless both flows are linked to each other, and money is naturally transformed from one type to the other. Each of the two types of money is dependent on the counterpart to assure the regular function of the system. In the Soviet period, this problem was resolved

through rigid administrative governance, but under market conditions, it should be settled automatically.

In the light of the foregoing, it is curious to address one more essential aspect of this problem. In a well-coordinated economy, i.e. **when the foreign trade balance equals zero, the amounts of money payable by the consumer sector to the production sector, are always equal to the total value of the commodities delivered by the production sector to the consumer sector**. In other words, the manufacturer of goods and services makes as much money as the consumer pays for these goods and services, and this cannot be any other way. Therefore, **the money masses that serve the consumer and the production markets**, taken into account the velocity of money circulation in each case, **are equal**.

Furthermore, the aggregate value of goods both at the consumer and the production markets is equal to the GDP. Then, **the GDP stands for all the newly created value in a specific time period**, for example in a year. It has nothing to do with the total amount of wages, rent revenue, interest on consumer credits, corporate profits, and net income of property owners — all the factors taken into account to calculate this value today.

Besides, when money is pinned to labour, **the GDP becomes a fixed parameter for the country and is determined exclusively by its labour resources**. This invariable opens up new opportunities for reliable planning and economic management, and for stabilizing the economic life of the country in general.

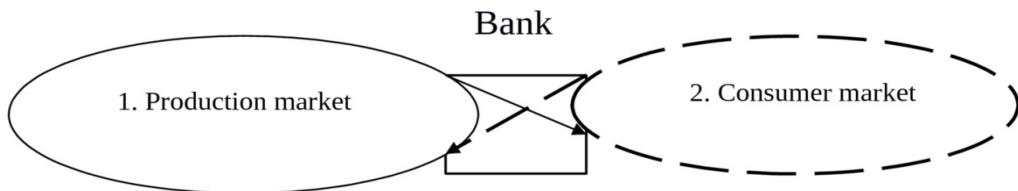


Fig. 11. Circulation of money in the production and consumer cycles

This fact makes it possible to set up the self-regulated functioning of both markets where money circulates, as well as the natural transformation of one type of money into the other under market conditions. Moreover, part of the non-cash money returns to the production cycle, i.e. to the enterprises that produce production means, energy, spare parts etc. The other part of resources is exchanged into cash through the bank, as shown in Fig. 11.

Thus, at the consumer market, part of the cash is spent for buying goods from enterprises that manufacture commodities, and the rest returns to the same market. This does not only assure a spontaneous and equivalent transformation of the money from one type into the other, while preserving the different velocities of its circulation. As the result, the two types of money become equal, and the demand and offer for them are tightly linked to each other. Then the market exchange between the two types will be automatic and will not require administrative interference, or any kind of discount.

The link between the two financial markets will be the State Bank. It will convert one type of money into the other, and vice versa, as required. Therefore, the State Bank

will be one of the key instruments of the social management of enterprises of any property regime; it will be the heart of the system, instead of an ordinary usurer's office.

It is obvious that in order to put this theory into practice it is necessary to introduce the peculiar non-cash money, which the modern economy lacks. Indeed, the present-day non-cash money is barely different from the modern cash, as it is not attributed specific functions and easily travels between the consumer and the production sectors. And as money makes more returns in the first sector, it is there that it ends up, while the production sector lacks finance. Therefore, it might be assumed that non-cash money is almost non-existent in modern Russia, and it can virtually be drawn out of the thin air. This will not trigger inflation though, because Russia also lacks real money for the normal functioning of its economy (see Tables 9—11).

That is why if the total amount of money in the country is increased, but limited to the real production, this will boost the economy. At the same time, **the better the real production is provided with money, the more successful the economy is**, and vice versa. The reforms of the 1990s proved this idea true. To sum up, the positive opportunities of money management are currently greatly underestimated.

It should be pointed out that the proposed system is comparable to the blood system of the human organism, where the pulmonary circle is represented by the production market. There just as the blood is oxygenated, the non-cash money is gradually substituted by the commodities produced with the help of this money. The consumer market corresponds to the systemic circle, where the blood releases oxygen into the body, just as commodities give their consumer properties over to the population in exchange for cash, to be later converted into non-cash money at the State Bank.

This analogy proves that the financial circulation system proposed here befits a highly organized economic system to the same extent that the blood circulation system is an integral part of the human organism, the most perfect organism that nature has created. Therefore, this system is natural, efficient, and absolutely reliable. Besides, it is backed by the experience accumulated in the Soviet period, as well as that related to the history of other world currencies.

Based on the foregoing, the following equations could be proposed to describe the market regulation of the two money circulation cycles in harmonious economy:

$$T_1 \times P_1 = T_1 \times P_2 = M_1 \times V_1 = M_2 \times V_2 = N_w \times W_{av} = GDP$$

Here,  $T_1$  and  $T_2$  stand for all the consumer (1) and production (2) commodity mass in the country;  $P_1$  and  $P_2$  are the average prices in each of the circles;  $M_1$  and  $M_2$  are the money masses that serve the circles;  $V_1$  and  $V_2$  are the average velocities of circulation,  $N_w$  reflects the total number of workers in the country, and  $W_{av}$  stands for their average income or wage. It is calculated as the annual number of working days  $N_d$  multiplied by the money equivalent of labour  $C_m$  (the constant face value of money that corresponds to one hour of social labour, as described in Subsection 3.3.1), therefore,  $M_{av} = N_d \times C_m$ . That is why if in a harmonious economy labour turns out to be excessive for some reason, then the number of workers or of working days per year should be decreased, instead of generating unemployment, as it is done today.

**GDP** is the gross domestic product, which corresponds to all the newly created value for one year. In a harmonious economy, this parameter is equal to the aggregate value of all the commodities produced by social labour. It is calculated as the money mass engaged at the consumer or the production market, taking into account the velocity of the money mass circulation. Besides, as all value is created by labour, as long as the labour resources remain unchanged, this parameter will be constant, too.

Thus, this indicator differs from the one used in modern economics, which takes into account both the value of the consumer goods and the production goods. The new value reflects both the results of creative labour and parasitic activity (interest on consumer loans, corporate profits, net revenue of property owners, criminal profits, etc.). As the result of this mix, the **GDP** calculated will be at least twice lower than the value we know today.

Based on the foregoing, it may be concluded that the average income of workers is determined by the part of the **GDP** that corresponds to the labour contribution of workers to the state money box. Therefore, **all value** created by labour **constitutes its income** (including the wage, the taxes, extended production funds, and revenue). It is then possible to introduce wages based on the amount of labour. The way income is actually distributed, depends on the production relations practised in the country (See more in Chapter 4).

Thus, the efficiency of the proposed financial system is assured by many factors. On the one hand, its stability is guaranteed by the use of such objective indicators as the number of work force, the average working time, the use of the labour equivalent of money, and the immutable value of the GDP. On the other hand, there exist numerous equations that must be strictly observed, because any deviation will betray the factors that need to be adjusted to restore the balance.

Furthermore, another correlation derived from the equation above would be  $M_1 / M_2 = V_2 / V_1$ . This signifies that **the money masses that serve the consumer and the production sectors of market economy are inversely proportionate to the average velocities of money circulation in these sectors**. As the final commodity mass in both sectors is composed of the same commodities, sold by one and purchased by the other, then  $L_1 = L_2$ . Therefore, the average prices in both sectors can only be equal to each other, and  $P_1 = P_2$ . This further proves that it is essential and possible to maintain the equivalence of market exchange between all economic actors.

There is one more important thing to point out. This model does not distinguish cash and non-cash money. One type is simply used for production, the other — for consumption. At the same time, none of the equations presented above require that the money circulating in the two circles be different. It may be concluded then that **all of the processes described above function in current economy, too**. It does not matter whether these correlations are known or not, used willingly or hidden under a weight of selfish or sincere delusions.

However, nothing surprising here, as the above-mentioned invariables logically follow from the nature of real economy, and are not just the fruits of theoretical analysis. That is why they can be applied for the assessment of the current economic state of Russia and all other countries of the world.

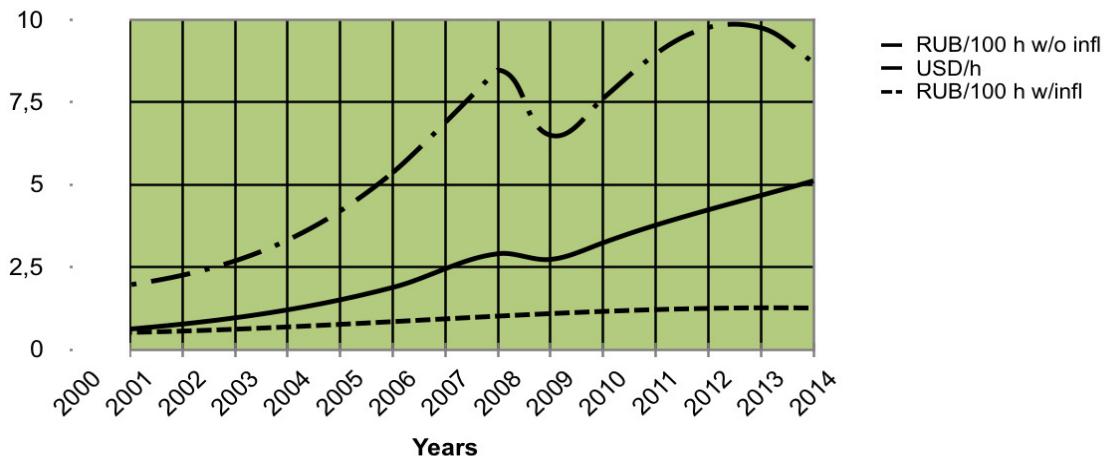


Fig. 12. Coefficients of labour equivalent of money in roubles, with and without inflation, as well as US dollars, with inflation

In particular, using statistical data from the Russian Federal State Statistics Service reference books, as well as the data provided at websites [123]—[126], we can establish the dynamics of the money equivalent of labour  $C_m$  in modern Russia, measured in roubles and in US dollars. In order to do this, we will use the average per capita income of working Russian people, assuming that they are twice as high as the average income of the population in general (taking into account the unemployed family members). The average annual quantity of working hours is taken as equal to **2.000 h/year**. Then, we get the ratios observable in Fig. 12. Such use of statistical data does not produce strict results, but no other more precise indicators are available at present. On the other hand, all of the values used were calculated according to the same method, therefore, this dynamic reflects the comparative state of the phenomena in question rather well.

The graphs show that in the 15 years analysed, the rouble equivalent of labour grew from **RUB 50/h** to **RUB 512/h** or **RUB 126/h** with inflation. As the same time, the dollar equivalent of labour increased from **USD 1.77/h** to **USD 8.71/h**, that is, **1.87** times more than the rouble equivalent. Besides, while the US dollar has dropped 34% in value during this period, the Russian rouble has become more than 4 times cheaper.

Summing up, as the modern economy is improved, and the real labour productivity is increased, the wages of workers grow, and the prices do not drop, as they should. In reality, an increased labour productivity entails a decreased cost price of products. That is why it would be logical to assume that such growth should not cause an increase in the amount of money required to serve the growing commodity mass, but a decrease in the commodity prices. However, this is only possible as long as the correlation between labour and its money equivalent is unchanged.

The values of the labour equivalent derived above can be useful not only for analysing the state of economy as a whole, but also to study the functioning of specific economic sectors. They can be applied for an objective assessment of the existing prices, especially those of natural monopolies, as well as for control of wages, various types of allowances, etc. At present, these are determined through subjective comparison of the demand and the offer, which does not always reflect the actual state of things, and does not benefit the society.

### **1.1.32. 3.3.4. Setting up an equal foreign trade of states, and the result of implementation of the new financial system**

On the other hand, no country can develop successfully without trading with other countries. From this point of view, the foreign trade exchange rate of its currency is of primary importance. Following the principles of market fundamentalism, today all financial problems are resolved through comparison of the demand and the offer for money. That is why at present the currency exchange rate is determined by means of exchange trading by several hundreds of “gamblers” interested exclusively in personal gain. Therefore, this assessment cannot be objective by definition. For instance, since the beginning of 2014, the exchange rate of the Russian rouble against the US dollar has dropped more than twice. Does this mean that Russian economy has degraded to the same extent during this period? And if it has not, what is the sense of exchange rates established in such a manner?

Besides, the currency exchange rates have a strong influence on the internal and external life of countries, on the state of their economies, and the equivalence of commodity exchange. The entire system of international labour differentiation suffers from it. It is obvious that the existing method of determining the currency exchange rates is indeed absurd. Not only does it make their assessment subjective, but it also lets the process be managed from the outside, which makes money highly vulnerable. As the result, some countries suffer a lot, while others enjoy sizeable benefits.

At the same time, if the proposed reform of money is adopted, the problem will be resolved easily and naturally. To prove this, let us assume that any commodity and money exchange is a barter, i.e. its final result consists in the substitution of certain commodity masses by other commodity masses. Money is just a thin layer between them that helps their mutual exchange. That is why for such trade to be just and equal, **the aggregate value of the goods exchanged by states should be equal**. This means that “*...purchases are balanced on either side so that their mutual action results in an exchange of values for equal values*” (F. Quesnay). Unless it is so, the foreign trade of countries remains inequivalent and all market realia are deformed.

Indeed, blinded by the desire to get the biggest positive foreign trade balance possible, the current Russian authorities do everything possible to boost it even more. As the result, in certain years, this balance reached two thirds of all state export. That is, convertible goods were exported from Russia and substituted by green pictures, not covered by anything, and worth 4 cents for each 100-dollar banknote. Besides, afterwards, these dollars were sent back abroad through various channels.

The last circumstance is not at all surprising as foreign currency is useless in a state that has its national money. Thus, Russian goods are sold abroad for as little as one third of their real value. Moreover, the “surplus” money generated during this process ends up outside of the country, too. Without it, such a positive balance could not exist, and the real value of exported and imported goods would be equal. It is logical then that advanced economies with wiser governments mostly keep their foreign trade balance negative (see Table 6).

On the other hand, the negative consequences of a positive foreign trade balance are not limited to a legalized robbery of some states by others. What is more, this balance provides currency for legal and illegal export of capital that is bought with the national money. And this national money is reduced to added value that has not been consumed within the country because its population is overexploited, and flows abroad. The exploiters are left with no other choice, as foreign banks accept no rouble deposits. Thus, a positive foreign trade balance causes the internal market to shrink, reduces the innovation basis, boosts crime, and increases the level of population exploitation.

It should be emphasized once again that the most comfortable foreign trade balance for a country is equal to zero. Then the state does not exploit nor is exploited. To achieve this, the aggregate prices of goods sold recalculated according to the currency exchange rates of trade partners should be identical. For instance, if France sells to Russia 1,000 shirts, 500 cows, and 200 machines for the total value of 200 million francs, and Russia sells France 1,000 tons of oil, 500 tons of grain, and 5,000 tons of fertilizers for the total value of 1 billion roubles, then the natural correlation of the Russian and the French national currencies is 5 roubles to 1 franc.

It is interesting to note that the exchange rate as presented above is similar to the purchasing power parity (PPP), calculated based on the price of the same basket of goods expressed in the national currencies compared to the price of this basket in the US dollars. By the way, this particular mechanism was proposed by five Russian economists and seven leading American economists (among them, K. Arrow, L. Klein, W. Leontief, R. Solow, and J. Tobin) <sup>[64]</sup> for establishing a fair exchange rate for the rouble at the beginning of the perestroika period, instead of currency exchange trading.

The proposal made in this monograph is different from the above-mentioned methods by accounting only for those goods that specific countries exchange between them, and including internal prices, custom duties, export and import limitations, and transportation costs into calculation. Thus, the exchange rate is determined by the actual direct commodity exchange between the trade partners, without any third parties acting as a partial judge, and not established artificially as the result of currency exchange trading with the use of any foreign money.

Therefore, **the real comparative exchange rate for the currencies of different countries is conditioned by the balance of foreign trade between these countries**. If the balance is positive, the national currency is undervalued, and the state loses in such trade. On the contrary, if the balance is negative, the country's national currency is overvalued, and it wins a lot from foreign trade. Finally, only when the balance is equal to zero, will trade between two states be equal, and their comparative currency exchange rates will reflect the real values of these currencies.

This assessment of currency exchange rates of various countries is objective and does not depend on any external circumstances. It reflects the real ratios of money flows of trade partners, instead of the virtual correlations that have nothing to do with the actual state of economies or their foreign trade balance. Besides, the comparative indicator of the social labour productivity in different countries becomes visible. It is independent from the currencies of any third states and is easily adjusted as the circum-

stances evolve. Moreover, it is determined by trade partners directly, without intermediaries. At the same time, it can be applied to trade relations between multiple countries.

It should also be pointed out that the model of money circulation described above has no limitations as to the system scale, therefore, it can function in any fairly large territory or production corporation. This reflects the evident idea that any social production flourishes provided that its foreign trade balance is equal to that of its partners and corresponds to the actual state of affairs. This means that market can fully function, as the main purpose of the market is to assure an **equivalent** exchange of commodities between economic actors.

The system proposed here, with certain variations, may be applied in the state in general or in specific economic sectors, large cities, regions, relatively large enterprises, and associations. Besides, it is exactly in this manner that this system should be implemented, because this would create additional incentive for an equal international and national trade.

The use of labour backing of the rouble and of non-cash money for serving real economy, as well as the balance of the exchange rate of different currencies, **give many advantages**, and allow to resolve numerous problems. In particular, the understanding that money has objective backing by labour encourages a better understanding of the nature of other ugly phenomena, as unemployment, corruption, wealth redistribution, virtual economy, and destructive foreign trade balance.

Besides, **the lack of circulating assets stops being the reason for stalling production enterprises**. After all, what they need is not money, but all that money buys and that is necessary for their functioning, such as raw materials, equipment, energy, and work force. It does not matter how all these things are paid for. What is important is that enterprises will be able to pay in time with non-cash money for the spare parts and energy, for heat and semi-ready goods provided to them, to pay taxes, to exchange cash for paying wages, etc. As the result, a full-fledged market exchange of commodities will function reliably not only in the distribution sphere, but also in production. Both cash and non-cash money will be able to circulate without the risk of losses, delays, or misappropriation.

Moreover, this system will not trigger inflation. To prove this, it is sufficient to turn back to the data on the average velocity of money circulation in Table 10. Taking into account that the amount of money engaged in real economy as compared to its GDP is more or less inversely proportionate to the average velocity of circulation, it may be concluded that at present Russia lacks about the same amount of money for proper functioning of its economy, as circulates in Russian economy today. Additional non-cash money will fill up the vacuum that exists today.

Furthermore, non-cash money will be **inseparable** from labour resources, it will be impossible to **steal** it, to exchange against foreign currency, unless production requires so, to use it for bribes, or **conceal** from tax authorities. Therefore, such money will be a powerful way of improving the economy, as well as the overall business environment of the country. The monetary origin of corruption will disappear, and enterprises will be forced to give up shadow business. Finally, as non-cash money is tightly related to cash, the entire economic life of the country will be normalized.

As the result, money will stop being **superlight**, and will be pinned to real labour. This means that it will no more act as an irresponsible and independent substance, but will turn into a fixed means of exchange of labour results in the established conditions of labour differentiation. And when money is stable, everything is stable. Furthermore, “long’ money will appear that is required to implement the projects that the state and the society benefit from, but that are not commercially expedient. This will be the end of the “envelope wages” concealed from taxation, a practice widely used today by Russian enterprises. By consequence, the total amount of taxable income will increase, the efficiency of tax authorities will be improved, etc.

Foreign **investment** will only be required in the form of equipment, technologies, and spare parts, and national money will be used for their implementation. In this case, it will not be as important to attract investors, as work force to specific organisations. The present-day situation is just the opposite: as long there is money, there are workers.

Further, **money deficit will disappear** both in the real and the consumer sectors of economy. They will be able to develop in accordance with their objective capabilities. Besides, they will enter into equal competition. Trade with **foreign partners** will become equal, too, and “external actors’ will have no more impact on the economy. As the result, the country will be more stable, and better protected from all kinds of financial and other manipulations and sanctions.

Non-cash money can be electronic and assume any form authorized by the legislation. For instance, it can be used for mutual settlements by enterprises and organisations, as a clearing standard, warranties and insurances, promissory notes, certificates, and other financial instruments. Besides, the fiscal functions of this new money are not the specific goal of the project. Therefore, the benefit of the state and any other organisation from the transfer of this new money to enterprises in the form of non-cash financial resources will not consist in the increase of revenue, but of the efficiency of work of all economic sectors.

Indeed, such money can be handed over to enterprises in the form of zero-interest and possibly non-recoverable loans. This will not only allow to set up full-fledged market relations in the production circle, to assure smooth functioning of enterprises in accordance with their competitiveness, and to let all people work and live a decent life, but also to make huge profits. Then, these profits can be used for reducing tax burden, and increasing budget revenue of the country and of its regions. As the result, **state and regional budget deficit will not be possible any more**. There will be enough money in the country for all the most daring innovations, because they will be assured by work force.

Under such a system, the role of the banks will increase and their functions will change considerably. Banks will become equal participants of the financial and economic process. Besides, interest on loans will be limited as that of all economic actors by their proper revenue and by the service risks arising from money transactions. And this already is a regular state of things. For instance, Japanese and many western banks grant loans to nationals against a derisory interest rate that barely covers banking services, and some Muslim country have a ban on interest rate as such. Nonetheless, these countries live quite well!

In reality, this is how it is supposed to be. It is unnatural when banks, the heart of the financial system, prefer their own prosperity to servicing the state they have been created for, and are fed by. When the proposed system is implemented, banks will no more flourish if their prosperity is acquired at the cost of the state and the population. They will have to really earn their money, instead of acting as usurers. Then banks will become an essential instrument of success for real commodity and market relations. As the result, money will work, instead of being treasured, or used for exploitation and irresponsible actions.

If the above-mentioned plan is put into practice, **unemployment, inflation, and deflation** will be eliminated. **Social tension** will dissipate, and the quality of life will gradually improve.

It is important to point out that all of these positive developments do not result from some kind of targeted actions, or manipulations, but result from the change in the systemic monetary factor. This means, they are obtained automatically. And all systemic factors work in this way.

According to estimations, the implementation of such new money and better functioning of economy alone will **increase the state budget at least 1.5—2 times in as little as five years**. The only price paid by the state will be the provision of enterprises with circulating assets, elimination of corruption, revival of the national economy, getting rid of unemployment, and improved quality of life of all people of that state. All of this — by means of increasing social labour productivity.

This will not cause social cataclysms, property redistribution, or punishment for all who have violated the law. The only change will affect the rules of functioning of the financial system, and will consist in creating conditions for productive labour, in applying political will and the respective legislative acts.

The model of money circulation described in this Subsection has been described in several articles (see <sup>[123]</sup>—<sup>[125]</sup>), as well as in a number of papers presented by the author at Russian and international conferences, and it has been welcomed by many.

### **1.1.33. 3.3.5. Price structure and its influence on economy**

Market is, first of all, about prices. It has never been a secret that besides being free, prices have to be logical. Therefore, at large markets there always were special evaluators who kept the prices within reasonable limits. They controlled the correctness of measures, weights and volumes, as well as the quality of goods.

Back then it was already clear that if prices are determined exclusively by the struggle of the demand and the offer, then the entire economic order is destroyed, and chaos and uncertainty take the rule over all the commodity and market relations. Instead of encouraging production and consumption, prices suppress both. As the result, price, information, and commodity racketeering develops, and all kinds of fraud become the key instruments of “market” regulation. Besides, monopolies, oligopolies, cartels, syndicates, and trusts actively interfere with the pricing. By consequence, the costs of the commodity manufacturers are no more the main price component, and their revenue turns out to be much smaller than that of traders, intermediaries, and speculators. This is exactly the state of things we observe today.

It is obvious that such “market relations” do not contribute to developing real production, increasing labour productivity, and improving the quality of life of the population. On the contrary, they impede an honest and wise distribution of social wealth. Nevertheless, it is this type of relations that dominate in the current “market” conditions.

The situation is aggravated by the fact that the money used today is not pinned to anything, or, at least, its correlation with other things is not evident. This entails a permanent growth of prices for all goods. Then it becomes impossible to figure out where such increase is justified, and where the vendors are tricking the customers and making profit thanks to their dexterity, greediness, monopolistic position, or collusion. As the result, competition is no more about improving the quality of goods or decreasing the costs, but about selling all the products at the highest price, about getting profitable offers, or wringing out a tax exemption. Without any doubt, the customer always loses in such conditions.

In order to establish efficient management of these processes, it is essential to work out the principles of formation of the objective commodity value, i.e. to decide which components should be taken into account when pricing, and in which way. Then it would be possible to determine whether prices are justified, to control pricing processes, without interfering with the work of market regulators. Besides, such principles should be formulated for such commodities as material labour products, as well as services, including utilities services, science, education, and healthcare.

The main component of the commodity price is undoubtedly the added value created by the employees of enterprises and companies. Let us designate it as  $V_a$ . It is calculated as the social labour intensity of commodities (SCIC), described in Subsection 3.1.2, multiplied by the money equivalent of labour, described in Subsection 3.3.1. It should be remembered that when assessing SCIC not only the labour costs of the workers at manufacturing plants should be taken into account, but also the efforts of all people who create proper conditions for labour, including the employees of the superior organisations in the hierarchy and of the state administration, who provide required services; vendors, etc.

On the other hand, besides live labour, the value of products is also shaped by materialized labour. Therefore, it is important to take into account the prices of all production means spent during production of the commodity, such as natural resources, semi-ready products, and energy, including the expenses of the sellers. In addition, amortization costs should be included in the assessment for each item (e.g. wearing of machines, equipment, buildings, communications, production tools, etc.). Otherwise, not only is it impossible to reflect equally all social costs of a commodity, but also the continuity of the economic cycle is interrupted. In the conditions of intense competition, modern enterprises first use up their main assets without renewing them, and only later they start looking for investment, loans, etc. to reproduce these assets. This practice deforms the pricing policy, undermines competition, and enterprises that seek short-term profit fail to survive.

Moreover, the minimal admissible amortization per cent should be pre-set. As it is reasonable to speed up equipment renewal, each enterprise should be entitled to determine its proper amortization period, however, it should not exceed the officially

adopted value. The production means thus created should be accumulated at the accounts of enterprises and spent for the target renewal of the main assets. This approach will accelerate equipment regeneration process, and boost quality and efficiency. Besides, it will create conditions for successful functioning of science, education, machine engineering, and construction. From here on this price component shall be designated as ***Am***.

The two components of commodity value described above are basic components. In addition, other factors should be taken into account during pricing. Among them, production expansion related costs. They are the source of production means that do not only help to increase the main and the circulating assets of an enterprise, but also to encourage scientific research projects, design and development work, improving personnel qualification, etc. That is, they contribute to the growth of enterprises and companies towards reinforcing their positions at the market. The value of these factors may be proportionate to amortization costs, to payroll funds, or any other indicator that is prioritized by the enterprise economic policy. These factors shall be designated as ***Pe***.

The correlation between the basic price of goods and the resources used to produce them is rather complicated. No item can be manufactured without the use of natural resources; therefore, the issue of optimal resources distribution is very topical. Unless it is addressed, the Earth will remain at risk of an environmental catastrophe threatening to wipe life of the planet.

On the other hand, simple inclusion of natural resources use related costs into the value of commodities will entail a disbalance of all of the invariables derived above. It will encourage the commercialization of natural rent, will wreak havoc in the production relations, depriving them of any certainty. After all, real income should be earned by labour, not acquired through rent. Otherwise, we will witness a truly barbarian consumption of natural resources, and will see the human habitat destroyed. In other words, the existing economic trends will be developed and will bring their fruit. Is it even possible to produce commodities and harm nature as little as possible while using its resources as intensely as possible?

Present-day human activities have made people realize that the Earth's potential has its limits and that the future of the humanity will be hard unless the natural resources engaged in economic production are renewed. By consequence, the following economic principle was adopted: we should cut down the use of non-renewable resources, and recur more to such resources that nature is capable of recreating on its own or with the assistance of men. Numerous resources regeneration technologies have been worked out. Among other, it is possible to cite agrotechnical methods of plant cultivation, melioration, and development of arable lands, as well as the use of organic and inorganic fertilizers that do not only boost the harvest, but also preserve and improve the soil.

However, this is not enough. The production process should be set up in such a way that the waste of certain types of production activity becomes the resource for other types of activities, without hurting nature, or the society. Indeed, the use of waste products and toxic emissions even at the current level of technological development is so efficient that it could surpass the production itself. “*Clever use of byproducts helps*

*to obtain the actual product at no expense. Then it is hard to distinguish, which is the main product and which is the byproduct' (H. Ford [127]).*

Harmonious economy should strive to reproduce all successful natural mechanisms. After all, “*nature knows no waste. Every next production should be based on the waste of the previous one*” (D. I. Mendeleev). For instance, all living beings consume oxygen and produce carbon dioxide. But the latter serves as a nutritive environment for plants, which produce new oxygen. The same principle is applicable to all natural systems. Nature is balanced to the point where every its component is compensated by other components, everything complements and supports each other. Isn’t it the best example for our economy to follow?

It is evident that modern production is mostly parasitic and to a large extent lives at the expense of the surrounding world.

However, it is controlling these processes that one of the missions of science, technologies, and administration consists in. Obviously, the market mechanism alone cannot fix the situation, which only aggravates the harm inflicted by production upon people and Nature.

Correct pricing method lets hazardous industries not only minimize the damage inflicted by enterprises of the sector, but also to eliminate the consequences of such damage. Then, it becomes more profitable to switch to resource-saving and resource-regenerating technologies, instead of pumping rent out of resources. To achieve this, the price structure should include an environmental component. Let us designate it as *Env*. Its value should be equal to the real damage that an enterprise produces to Nature and the society.

Part of the assets generated in this manner should be put towards target expenses by the enterprises that consume resources in order to minimize the harm of their activity. That is, to get rid of waste dumps, to improve soils, to compensate the damages suffered by the population, to purchase special equipment, to set up necessary technologies, and to finance eco-friendly production. Besides, the enterprises could use this money for paying for environmental research, training personnel, setting up special services — thus, putting all efforts towards reducing the harm of their work.

The other part of assets can be employed to stimulate eco-friendly production. Then, for certain enterprises the value of *Env* may not only be equal to zero, but even go below it. This will allow the market to encourage non-pathological enterprises and to limit the activities of the pathological ones.

A similar attitude should be developed towards customs and import duties. The latter are expedient exclusively for goods that are produced or can be produced inside the country, but for some reason do not stand the competition with foreign analogues. The money received in duties should be allocated to the enterprises with an insufficient foreign trade rating and used uniquely for improving their competitiveness. Thus, it will contribute to creating the conditions for successful competition at the international and national markets. These financial resources can be used for re-equipment, purchase of machines, and training of personnel; for scientific and technological research, that would boost the competitiveness of enterprises. Once equal competition with foreign

partners is achieved, these duties should disappear. On the other hand, part of the revenue from duties should be spent on stimulating enterprises that have high competitive advantages, and are assigned the priority in accordance with economic policy of the country. These funds shall be designated as **Ie**; this indicator can have either positive or negative value.

Besides, the amount of export and import duties should such so as to assure optimal foreign trade balance, i.e. a zero balance, as well as equal competition between enterprises and economic sectors.

Thus, these duties should be deprived of any fiscal contents and should not serve as a source of revenue for companies or individuals. Once the duties are implemented, prices will function as instruments for market regulation of economy, and labour and its efficiency will become the unique source of income. All other production factors, as much as they improve its efficiency, assure regular accounting, analysis, and redistribution of resources, do not diminish the role of labour. This will allow to curb selfish desires of property owners and groups when performing their social functions. Besides, it will become possible to concentrate attention on increasing the productivity of social labour, instead of seeking out sophisticated methods to get free revenue from Nature, one's neighbours, or employees.

Still, we should not forget that life is a complex phenomenon, and often it requires fast solutions to certain issues from us. For this reason, it would be expedient to introduce fines and bonuses. However, their influence should be limited to the aggregate revenue of employees and property owners. Otherwise, they will lose their regulator capacities. We denote them by the symbol **Fb**.

Summing up the foregoing, the following formula for the initial commodity price (i.e. the price of commodities before they get at the market) **Pr** could be proposed:

$$Pr = Va + Am + Pe \pm Env \pm Ie \pm Fb.$$

Besides, each of the components of the initial price plays its proper role, and has as its unique mission the encouragement of non-pathological economic development and optimisation of economy.

The price that is calculated using the above formula is not obligatory; it is the basic price. It should be used for setting prices of monopolies, and of manufacturers of certain goods and medicines that are nor controlled by the market. All other producers may use prices different from **Pr** in accordance to their market position.

It should also be pointed out that when the money mass is determined, the increase of prices as compared to **Pr** for some manufacturers will inevitably entail a decrease in the prices of other manufacturers. Thus, a growth in one place will always be accompanied with a drop in another. This rule makes prices flexible, and finely tuned to economic conjecture, but at the same time, prevents prices from raging, and competition becomes more efficient.

As the result, the prices of all commodities that get to the market will be limited by the amount of money available to purchase them. Therefore, all deviations of the market price for a certain item from its average price determined by the competition and the production costs will be easily detectable. It will not be difficult to find out

who has increased their prices, and who has undervalued the commodities, who sells at an honest price, and who sells at random prices. Any excessive price for any commodity as compared to the basic price will then be compensated by a decreased price for other goods. This will encourage market price regulation, and keep them under rigid control at the same time. Moreover, monopolists will increase their revenues by way of improving production, and not through mere increase of prices for their products, which is quite reasonable, because if the society benefits in the former case, it definitely suffers in the latter. What should the state encourage, then?

Under this approach, besides a certain liberty, prices will also acquire an objective content and will perform socially important functions. That is, prices will no more be governed by extremes, like the rigid administrative management, or absolute prices outrage, but both will combine harmoniously. Prices will reflect all costs related to production, and the area of functioning of the demand and the offer will be limited by social expedience.

That is why the respective administrative services should be created or reorganized from the existing ones at the local, regional, and federal levels. Taxation services should take part in the process, too. The common goal of administration is not only collection and processing data on the state of enterprises, but also regulation, and control of current commodity prices. Furthermore, these agencies should assure target distribution and spending of the financial resources in accordance with the principles described above.

On the other hand, if an enterprise is strong and it takes part in full-fledged competition, its prices can be given absolute freedom. This will not result in a drift of the price content of the rouble, because the equality of the money mass and the aggregate value of the commodity mass will automatically launch the adjustment mechanism. Once any deviations are detected, in any region and within any enterprise, the government will have enough leverage for direct or indirect influence on the deviant factors.

Thus, the sale price of the product of labour for most manufacturers can be different from the established price  $Pr$ . Besides, in accordance with the market conjecture this difference can be both positive and negative. Nonetheless, in any case this difference, just as fines and bonuses is the responsibility of working teams and property owners, and characterizes the general efficiency of their work.

If the deviation is positive, then the wages and the profit of each worker will grow. On the contrary, if it is negative, each person engaged in the labour process will feel the repercussions, including the employees of organisations situated at a superior hierarchical level who serve the production process. Such arrangement will contribute to better functioning of production structures, and will make labour more efficient. By consequence, increased labour productivity will drive prices down, and will not simply generate a bigger amount of money and a wider spread of unemployment.

Besides, the main efforts of commodity manufacturers will be directed towards increasing the amount of goods produced, their assortment, and quality, instead of just raising their prices. Then the production relations between individuals and economic actors will change dramatically.

As the result, **a dialectic unity of two methods of distribution, the market and the labour one, will be formed**, which will render the system quite flexible. The

market will be self-regulated, which will allow including administrative governance in the sphere of market relations, making it automatically dependent on the results of its work. In turn, market relations will be governed by administration. Thus, reverse relations will be introduced into the system of management and object of management. This will encourage the transformation of administration into a highly organized system.

### **Specific measures**

- Money should be attributed a labour-related content;
- Two types of money should be introduced, one of them to serve the production, and the other — the consumption;
- Foreign trade currency exchange rate should be determined by the mutual trade parity with specific countries.

Then, all other financial circulation issues will be resolved automatically.

# CHAPTER 4. HARMONISATION OF ECONOMIC ACTIVITIES OF ENTERPRISES AND REGIONS

*Robbery is not a way of production, although apparently many economists disagree with this.*

K. Kautsky

*When we expect lunch, we do not hope for the benevolence of the butcher, the brewer, or the baker, but we hope that they attend to their own interests.*

Adam Smith

## §4.1. LABOUR REMUNERATION AND ITS ECONOMIC IMPACT

### 1.1.34. 4.1.1. Requirements for effective labour remuneration. Pareto principle

One of the pet measures of the Russian government is attracting investment into the Russian economy. There exist objective reasons to do so. For instance, according to the Russian Federal State Statistics Service, by 2012, the physical wear of the main assets of the real sector was officially 48.1%, and in reality, 75.4% [130]. The obsolescence of equipment turned out to be even more significant. It is not surprising then that the specific weight of unprofitable enterprises was equal to 8% according to the official statistics, and in reality, reached 40%. Therefore, the modern commodity production in Russia fails in the competition with world production leaders not only due to the elevated cost price of the goods manufactured in Russia, but also due to the low quality of commodities.

Despite all efforts of the government, the success of innovation leaves much to be desired. This is quite expectable, because the majority of modern Russian enterprises have been brought to such a condition that they are no more capable of rational processing of any resources, including financial, natural, human, and intellectual resources. The idea of investment consists in getting two or three dollars payback for each dollar invested. If there is no return on investment, then it is charity that the country needs, however, charity is non-existent in economics. Without any doubt, any amount of money may be used, spent, or stolen, but this does not affect the productivity of enterprises. It is sufficient to make money invested in production generate big revenue, and no investment stimulation by the government will ever be required.

The state cannot entirely assume this function. Indeed, most of enterprises are privately owned. They have been passed over to individuals in an almost perfect state, and have been driven into bankruptcy by these people. Therefore, nobody can warrant that state subsidies aimed at revival of production will not end in the same way.

In fact, the low productivity of most Russian privately-owned enterprise just proves the opposite. Most of the plants constructed in the Soviet days stagnate and slowly deteriorate. As the result, a kilometre of a road built by modern national companies costs twice as much as in the West, while the quality is very low. This should not come as a surprise, as under the archaic form of production management that has been adopted in Russia, it is not possible for the situation to evolve in any other way.

At the same time, enterprise nationalisation is not the most efficient policy either. Besides, neither the existent administration, nor the society, nor the property owners are ready for such a change.

By consequence, the production enterprises and the population in general have nobody besides themselves to count upon. They have long lost the hope that some kind and naive person will come and raise the dying enterprises from the ruin through generous investment. **They are forced to employ their internal reserves.** By the way, this is what Russia has always been very good at during the hardest periods of its history. The main hidden resource is the human factor. Its potential is unlimited, and life has proven it on numerous occasions.

For instance, it is well known that the physical production at Soviet plants was almost two times higher than in the 1980s, despite the fact that during the war women and children with little qualification worked at plants. In the harsh winter of 1941, in two months alone, three quarters of the USSR production enterprises were evacuated into uninhabited parts of Siberia and set back to work. All this was possible because everybody was interested in winning the war, and no effort was spared to achieve this goal. This common purpose did what numerous repressions have failed to do, as forced labour is always less productive than free labour. History remembers many similar examples.

For example, in the early 1980s, the Japanese automobile manufacturer Toyota used the outdated American equipment produced in the 1960s. Nevertheless, the Japanese produced 4.5 more engines per employee, and these engines were of better quality than those made at the American Ford and Chrysler plant equipped with front-edge machines. The only reason behind this was that 93% of Japanese wage workers were sure that the better they worked, the more they earned, while in the USA only 13% of employees believed this.

Why is the present-day labour organisation so unsuccessful, and what could be done to make enterprises realize their human potential in the best manner possible, engaging the latent forces of the nation?

It is evident that the harmonisation of the monetary system alone will not resolve the problem of shaping a harmonious economy. Without any doubt, provision of enterprises with circulating assets, as described in the previous section, will help to improve their functioning, but will not be sufficient to put an end to all problems. Other system-forming measures are required. Among them, one of the most important factors demanding change are the production relations, i.e. the change of the form of wage labour remuneration. After all, only if the economic system lives up to the people's ideas of the kind and of justice and combine them harmoniously with its own main principles, will the state be viable.

No country in the world could claim that its wage workers work better when employed by property owners than they do when working for themselves. That is why this issue has long been in the centre of discussion. It is studied by the “*social systems*” school (Ch. Barnard, H. Simon, and others), which analyses the forms of moral and material incentives for workers. Besides, they look for the ways to combine the interests of workers with the interests of the company, including by distributing shares and parts to the employees. For instance, at H. Ford’s plant, the workers were paid wages not when they worked, but when the equipment they served functioned normally. In addition, today psychological research of human motivation is engaged in economics, too, and automated management and control systems are used. It is the times of a true fight for the hearts of the proletariat.

Despite the unflagging interest towards this issue, the insignificant results attained testify of a complete impossibility of resolving the problem by traditional approaches. It becomes evident that as long as the human being remain just one of the technological components of the production cycle, neither encouragement, nor violence, nor fraudulent methods will make him employ his entire potential when working. The worker understands that his well-being is not one of the goals of production, that is why he refuses to be a donkey chasing a carrot on a string.

The destructive effects of exploitation are mostly visible in the labour remuneration system. However, the criteria of distinguishing between the exploiters and the exploited are unclear. They cannot be reduced to the use of violence, or to the absence of private property, or to a certain level of income. Life is more complex than that, and often the master works more than the others, but uses little of his labour’s products, and the wage worker is not paid according to the usefulness of his work. As H. Ford claimed, it was not 80 thousand employees who worked for him, but him alone who worked for them <sup>[131]</sup>.

In reality, people differ a lot by their productive capabilities. Therefore, total equality in income distribution is as inappropriate as a large gap. The only difference is that in the former case the weak live at the expense of the strong, and in the latter — vice versa. Nevertheless, these nuances become clearer as soon as one discovers the statistical law regarding the distribution of human capabilities that determines how merited is what people acquire.

One of the most interesting studies on this topic was conducted by the Swiss economist Vilfredo Pareto <sup>[132]</sup>. In his papers, he presented the results of processing of statistical data on the relative income amount and the comparative number of people who have an income in a number of countries during different historic periods (in Ancient Egypt, in Rome, England and Basel of the Middle Ages, in Prussia and Saxony of the end of the nineteenth century, in Renaissance Florence, in Augsburg in the fifteenth-sixteenth centuries, in late eighteenth century Peru, and in capitalist states of Pareto’s times). He discovered, that the actual **income distribution was similar in all cases and was not much dependent on the type of state or social structure, nor on the historic period**. For instance, if 20% of the population earned as much as the rest of the people, this was the case in slave-owning, feudal, and capitalist societies.

Therefore, Pareto concluded that the increase in quality of life could not be achieved through simple redistribution of wealth, through “expropriation of expropriators’, as V. Lenin said, etc., but only by way of increasing the social labour productivity. This means that the type of state structure has little incidence on income distribution, and affects the amount of income exclusively. Therefore, all revolutions, reorganisations, the introduction of private property, or nationalisation, are always regressive unless they contribute to the solution of the issue in question, whatever mottos these events take on. In other words, **only labour and any kind of increase in the social labour productivity are capable of making people both rich and happy.**

As it has already been mentioned, social labour productivity can be boosted, first of all, by improvement of organisation, by raising the quality of administrative governance, by accentuating labour differentiation and cooperation, by better equipment the enterprises, and better distribution of labour products. Besides, it is essential to improve the life of the workers, their qualification, capacity for work, and health; workers’ interest in the results of their labour should be developed, and their wages should live up to their ideas of justice and ethics; proper labour conditions should be provided; workers’ needs should be satisfied, and the interests of different social groups should be reconciliated. Besides, many other factors should be taken into account; we have already addressed them before (see Subsection 1.3.4).

V. Pareto proposed an analytical equation that linked the relative number of people  $y$  who have an income and their share  $x$  in the national income (NI) of the country, which can be equal or inferior to their income. This equation is presented below:

$$y = A / X^\alpha$$

The parameter  $A$  is conditioned by the level of social labour productivity (SLP), and  $\alpha$  is determined by the extent of inequality of income distribution in a society. Its value varies from **0.7** to **2** or more. The average, optimal value of  $\alpha$  is **1.5**.

V. Pareto was convinced that deviations from  $\alpha = 1.5$  could be observed in all types of states, and that they inevitably entail negative consequences. For instance, if the workers acquire an advantage in the fight for their right, then this value surpasses **1.5**. Then the share of NI of the poor grows. Such a situation occurred in the USSR, in Spain, in Italy, in 1930s’ Germany, and other countries, both in the twentieth century and in other historic periods. In such cases, the weak mostly live at the expense of the strong. The elites of the society try to defend their interests and return the revenues by all kinds of undemocratic measures. Obviously, the consequences of such a situation are rather dramatic.

When  $\alpha < 1.5$ , the inequality of income in the society deepens, the revenues of the poor drop, and the number of the rich increases. Social differentiation aggravates, which witnesses of the elite’s desire to get more than they merit. People are exploited more and more, and the number of destitute individuals, who have nothing to risk, rockets. As the result, social discontent grows. The atmosphere becomes tense and

fraught with various kinds of social outbursts, property redistribution, increased profits and privileges, revolutions, wars, etc. This is how self-regulation works, and reverse connections are activated, which contribute to returning the society in a stable state, described as  $\alpha = 1.5$ . If these forces remain inactive, the society perishes. It is inevitable, and world history has seen it more than once.

As the society tends to distribute the income unequally, so that  $\alpha = 1.5$ , many researchers conclude that this trend is not occasional. Moreover, they assume that such distribution reflects profound social relations, and act the criteria of the most fair, merited, and justified inequality of income distribution. Thus, it conforms with the statistical ranging of people by the **merited** remuneration of their labour, i.e. by their **capacity** to work efficiently and to bring benefit to the society. That is why **Pareto principle with  $\alpha = 1.5$  became known as the Human Capabilities Principle**. This makes it clear why any income distribution that does not observe this equation leads to all kinds of social crises.

There have been attempts to check the correctness of Pareto's conclusion based on the direct measurement of human capabilities. For instance, the American economist G. Davie gives a number of examples that prove that show that the results of exams in Mathematics, the number of publications in scientific journals, the golf-playing skills, etc. are also distributed according to Pareto's principle when  $\alpha = 1.5$  [133]. On the other hand, the law of randomness works in communities, too, therefore, the distribution of revenue within communities suits more to the normal principle described by Gauss's formula.

At the same time, the correspondence of the population's income distribution to Pareto's principle does not prove that the income is merited by each individual. Indeed, the rich are not always the most intelligent, intellectually developed, literate, cultural, or kind-hearted people, just as the poor are not always unskilled and lazy. In reality, the capabilities of people and the social priorities that are the pillars of the society often diverge considerably. That is why among those who earn a lot there are often people with mediocre capabilities, while many of those who merit a decent income are deprived of it.

Thus, **the official elite never coincides with the real elite, i.e. the representatives of the true culture, of the scientific, technical, and moral achievements of the nation, of their talent and skills**. Pareto's principle is statistical in nature; therefore, it applies to the society in general, and does not work of each individual taken separately.

The inconsistency of the income of social groups with their capabilities harms the society a lot. It produces irrational spending of human capital and resources, and entails various psychological and moral losses. Indeed, "*it is stupid to force a talented violinist to be a carpenter, a gifted mathematician — to serve in the navy, a genius poet — to act as a bureaucrat, a skilful vendor — to work as a cook, a born forester — to choose the profession of a mechanic. But it is equally absurd and harmful to turn a robber into an official, to give to traitors and fraudsters the right of vote, to introduce a spy to the ministry of foreign affairs, to appoint a forger a minister, to promote a*

*coward to a marshal, and to a party schemer a cardinal?* (philosopher I. A. Ilyin [134])



At the same time, all similar problems are resolved by the same method, i.e. by **introducing wages according to the amount of labour, and by combining personal, collective, and social interests**. As long as these principles are observed, most of the issues will not surge any more.

Based on Pareto's principle, let us link the parameter  $\alpha$  with the known indicator of income distribution inequality, the decile dispersion ratio (**DDR**), which is calculated as the ratio of income of the richest 10 per cent of the population to that of the poorest 10 per cent of the population. A detailed approximation of the equation is available in the monograph [11]. As the result, the following correlation is derived:

$$DDR = 19^{\alpha} \text{ or } \alpha = 2.944/\ln(DDR).$$

The analysis of the two equations shows that **the optimal value of DDR, when  $\alpha = 1.5$ , is 7.12**. In the USSR of the 1980 s, the **DDR** stood at **4.5**, that is,  $\alpha$  was equal to **1.96**. Thus, drunkards and idlers often lived at the expense of zealous workers. Once this is understood, the protest of the elite, who did not earn an income in accordance with their contribution to the national economy, is understandable. In the end, this protest evolved into the reform that was adopted and actually produced a reverse, but equally grotesque situation.

On the other hand, it should not be forgotten that the Soviet elite enjoyed numerous privileges, which compensated to a large extent its low income. In modern Russia, the **DDR** is estimated between **0.922** and **1.06**, sometimes even at a lower level.

Using the statistical data from the Russian Federal State Statistics Service we can determine the value of the  $\alpha$  coefficient for other countries of the world, too. The most ideal distribution of income is observed in developed and developing states, where  $\alpha \approx 1.4$ . This means that the ruling elite of these countries' societies minds its interests but observes the limits. In other states, like Mexico, Thailand, Poland, and China,  $\alpha \approx 1.1$ , i.e. the society lives at the expense of the poor population. In the US, where **DDR** is equal to **16.94**,  $\alpha$  approaches **1.04**. However, in the US, the average income is so much higher than in other countries, that this value of  $\alpha$  does not result in significant social tension. The only country that has an even lower value of  $\alpha$  is Brazil, with  $\alpha \approx 0.746$ .

Thus, **in the modern world**, with a rare exception (Czech Republic and Sweden), we observe **a manifest exploitation of the population by the business and power elite**. In some countries this trend is more visible, in others it is less pronounced. This is the logical consequence of the functioning of the liberal economic model.

Therefore, it is not surprising that liberal economics is so much cherished by the authorities of many states, and so much despised by the wide public.

Using the data derived above, let us see how the national income of states is distributed among each of the deciles (10 per cent) of the population, taking into account the states' income differentiation coefficients. The correlations are shown in Fig. 14. It is evident that only for the 10 per cent of the population whose income is closest to that of the richest people (the 9<sup>th</sup> decile) the income is not strictly dependent on the way income is distributed in the society, while the income of the remaining 80 per cent of the population is determined by the revenue of the richest people. Thus, **it is the selfishness of the richest part of the population that conditions the extent of injustice in the way social wealth is distributed**. Indeed, "*Poverty always follows in the steps of wealth*" (J.-B. Say). What is more, the super income is formed at the expense of both the poorest and the middle classes. It is obvious that this entails an irrational consumption of national wealth, and impedes improved employment of human potential, i.e. the increase in the amount of this wealth.

deciles

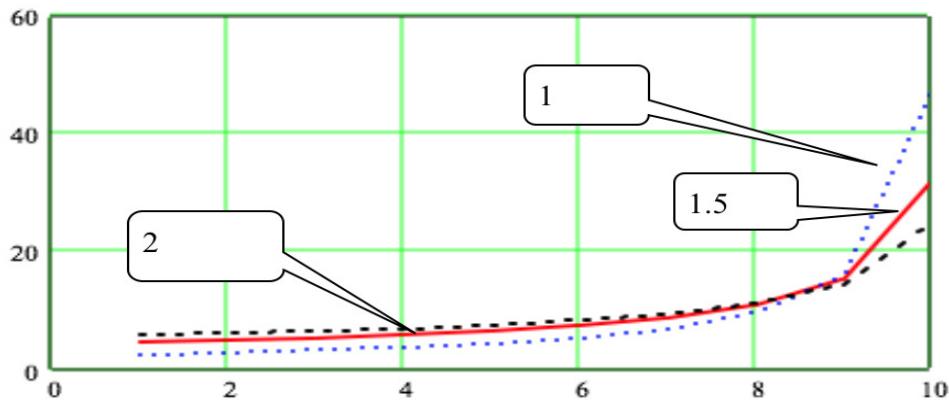


Fig. 14. Distribution of national income of states (%) between various population categories, with different  $\alpha$  coefficients.

However, the most tragic is not the unjust appropriation by the "elite" of the income it did not earn, but the consequences of such unequal distribution. Having a lot more than necessary to live a good life, disregarding its social liabilities, the elite inevitably loses its labour capacity and stops serving the society in the way it is supposed to. This is the situation Russia is currently living through. But the elite holds the reins of power. On the one hand, this signifies that a large share of the intellectual potential and the material resources of the state are excluded from the efficient circulation; on the other hand, it prevents the functioning of the entire economic system, and the replacement of the key personalities by those who are capable and ready to perform these functions, i.e. the replacement of the official elite with the real one. The consequences of this are very dear.

That is why the raising of social labour productivity and of quality of life of the population should start with reducing the excessive income of the "elite", as well as with the elite's qualitative improvement.

### **1.1.35.      4.1.2. Difficulties of adopting a harmonious form of labour remuneration**

Since the capitalist economic model emerged and till our days, several forms of labour remuneration have been used to pay wage workers, such as time wage, efficiency wage, efficiency rate with bonuses, lump-sum payment, and other similar types of payment. All of them are based on the time rate that is linked to the market price of work force. All forms of labour remuneration are based on the duration of work. This means that the worker sells his working time to the employer at a specific price, sufficient for the worker and his family to live and prosper. All other types of labour remuneration are aimed at improving the quality of labour. Therefore, the emancipation of women, and their involvement in work has resulted in two people, the man and the women, working together to provide for their family. Besides, the wage worker is little dependent of the final results of his labour, and therefore, has no incentive to work better. As the result, the worker is detached from the results of his work.

Therefore, the issue can be approached from a different side viewpoint; let us consider the real basis of the modern wage labour remuneration mechanism. According to its principle, wages, as well as production means, semi-ready products, energy, third-party services, etc. is just one of the production costs. Thus, the profit **P** (i.e. the income of enterprise owners) can be calculated as the difference between the gross revenue **D** and the total costs. These costs embrace the expenses related to the purchase of goods for the production process **E**, as well as the payroll fund **F** (taxes are not taken into account here, they will be discussed later). Summing up, in modern economy,

$$P = D - E - F.$$

At the same time, these two types of expenses are different in nature. While external costs boost the efficiency of the employees' labour, the other type of expenses is the very source of such efficiency. On the one hand, such approach encourages a better spending of the money engaged in production. On the other hand, it contributes to the wage decrease trend, similarly to all other production expenses.

As the result, an irreconcilable contradiction emerges between the purposes of property owners and employees. Other conditions being equal, the bigger the payroll fund, the lower is the profit of the owners, and vice versa. As the result, enterprise owners save as much as possible on workforce remuneration, and the workers do everything possible to prevent it. They are disinterested in increasing profit of the owner, just as the owner does not seek to increase the workers' well-being. Under such conditions, it is not surprising that we currently witness increased social tensions and low productivity of the economy.

In order to resolve this contradiction, such a form of labour remuneration should be introduced that production relations stop being the source of struggle. In other words, **it is important to encourage factors that unite people rather than those that divide them**. The workers should be as interested in the final results of their labour, as enterprise owners are.

In the light of the foregoing, it is suggested that the payroll fund be transferred to the left part of the equation cited above, i.e.

$$\Pi + \Phi = D_{\Sigma} = D - Z,$$

and that the correlation between profit and payroll fund be fixed. Then

$$\Pi = (1 - \beta) \times D_{\Sigma}, \text{ and } \Phi = \beta \times D_{\Sigma},$$

where  $D_{\Sigma}$  stands for the total income of the workforce and the owner, and  $\beta$  is their ratio. What have we got as the result?

This approach extends beyond a simple arithmetic operation, as it may seem at first. In reality, it engenders profound processes that reform the production relations dramatically and bring together all actors of the labour process. In this case, enterprises do not seek profit any more, but net revenue which consists in the aggregate income of the workforce and the owners. It is determined by the efficiency of common activity of enterprise owners and wage workers, by the value attributed to this labour in the society, and by the costs of the final product of labour. Production is not obsessed by making profit at any cost, but serves all participants of the labour process, including the property owners. By consequence, all employees of an enterprise stop struggling and become allies.

Nonetheless, it is evident that the suggested measure is not sufficient. It is essential to set up a fair distribution of the profit thus made among the enterprise workforce, so that other production consolidating factors are not affected, while stimulating the desire of each worker to get the biggest share of profit possible. Therefore, the real labour contribution of workers to the common income should be assessed in a reliable way. To do this, their labour is compared to that of other people within the same workforce, as well as with the labour results of other units of the same enterprise.

Let us assume that a manufacturing enterprise sells goods at market price. If this price is superior to the individual value of the commodities produced by the enterprise, which corresponds to the social labour intensity (see Subsection 3.3.5), then the enterprise has additional income, while it suffers additional losses if the sale price of its products is lower than their value. Besides, it should not be forgotten that as long as money available at the market for purchasing goods remains unchanged, both additional income derived from commodity sale and additional losses are equally probable.

Furthermore, the total revenue obtained should be reduced by the costs of materials, spare parts, and semi-ready products, utilized for the production of specific commodities, as well as the cost of power, heat, third-party services, amortization costs, production expansion costs, etc. that are included in the commodity price. This includes not only the expenses of the enterprise in question, but also those of the organisations at a superior hierarchical level that contribute to earning the income.

**The remaining sum constitutes the net revenue of all participants of the labour process within an enterprise, and is to be distributed among them depending on their labour contributions and on the results achieved through common effort.** This means that a fixed share of the sum is passed over to the owners. The remaining lump is given to the performers, to direct and indirect labour workforce, and to the

employees of superior organisations who took part in production. Besides, the amounts of remuneration are determined by the labour contribution to the social labour intensity of commodities established in accordance with the SLIC calculation method described above (Subsection 3.1.2).

Another topical issue for any enterprise is the optimisation of its structure, the reduction of the overhead costs, the elimination of the excessive links of the production process, and the improvement of each of the remaining links functioning. This can be achieved through consolidation of the interests of all employees conditioned by the method of payroll fund constitution described above. The engagement of indirect labour workers in this system will allow accounting for everyone's contribution to the commodity production, and will make these employees dependable on the final products of common labour as much as all other workforce is dependent on them. By consequence, the number of administrative workers will decrease, while the productivity of its work will grow.

Then the correlation between the principal and the auxiliary labour will be set up for each of the production chain links. Besides, the direct dependence of the labour remuneration for superior organisations on the results of work of the enterprises these organisations manage will encourage their participation in the production process, and will boost the work efficiency of the higher ranks of administration. As the result, administrative connections of the economic system will be reinforced, and they will exert a more productive and targeted influence on the production. That is, administration will be governed by the market.

This will put an end to bureaucratic governance methods, excessive administrative hierarchy, unnecessary types of work, corruption, inexecution, and red tape, as this will immediately affect the common labour results and, by consequence, the labour remuneration of all employees of both the enterprises and the superior organisations. It will be easy to track down the persons responsible for any such losses, and to prevent such deviations in future. As the result, the administrative governance will become more efficient, and will cost less to the society. Besides, **this cost reduction will proceed unless the efficiency of direct and indirect labour becomes equal in all structures, and at all organisational levels** (see Fig. 2).

However, this is not the end of positive consequences. The above-mentioned development will activate reverse connections within all production structures, which will lead to a better determination of the volume of labour, as well as of all other indicators describing the work of all employees and workforce; their qualifications, and the intensity and productivity of their labour will be determined more clearly. The objective and the subjective components of this process will complement each other, which will render such labour remuneration flexible, fair, and objective. Both underpaid and overpaid labour will disappear, because none of them is beneficial for the society. **This will guarantee the conciliation of individual, collective, and social interests.** These changes will finally create the prerequisites for introducing labour amount-based remuneration, which is the best way to encourage production.

Labour remuneration of employees will then depend not only on themselves, but on their colleagues, too, and the more, the tighter the production relations, i.e. the higher the impact of each worker on the results of common labour. Thus, workforce

will exercise better self-control. Drinking, absence, poor management, red tape, stealing, and other phenomena that cause production fluctuations will affect the remuneration of each of the workers. Therefore, the workforce will oppose to them without any efforts of the administration and the owners.

Thus, the net revenue of the entire workforce after taxation (on taxes, see Sub-section 4.2 below) will be distributed according to everyone's real contribution determined by each worker's share in the SLIC. Furthermore, labour accounting and remuneration will mirror each other, and function jointly. After all, this is what labour amount-based remuneration is about. Only the will all the proposed measures combine in a comprehensive programme to shape a self-regulatory system of labour accounting and remuneration that optimizes enterprise structure and number of units, harmonizes the entire labour process, decreases the labour intensity of commodities, and encourages each person's creative labour. What is more, all this is achieved automatically, without supervision required at each workplace.

**The proposed labour remuneration system is based not on the price of work, but on the value of labour products.** Then the worker is not paid just the minimum wage, but the equivalent of all the value he created (after the deduction of taxes and of the owner's revenue). Workers will not be just paid, but earn their income. This will increase the comfort of labour of each worker, and encourage them to use their potential better, which will increase the labour results, too. At the same time, the goals of employers will be achieved, as well.

This form of labour remuneration limits the possibility of appropriation of the value created by the workers by other people. By consequence, exploitation will be reduced, and the main reason of the struggle of interests between workers will be eliminated. Without any doubt, civilized competition will be preserved, but its goals will be modified. Competition will no more serve to destroy or to subordinate the weak, but will help to develop the potential of all, strong or weak. All economic actors will be linked together by rigid production and financial relations, so that any attempt to make profit at the expense of other people, of the workforce, or the society in general will immediately become evident. That is why the collective counteraction will be so powerful that such tendencies will disappear.

At the same time, the increase of economic productivity will not result in an ever-larger number of devaluated money received by the workers, but in a price decrease, as it should be when social labour productivity is increased. This will change a worker's contribution to the common objective, compared to other employees.

**The proposed labour remuneration system can be employed in all spheres. It does not depend on the form of property; it is simple and easily understandable by everyone, and equally easy to implement.** Besides, it conforms with the human mentality, and encourages people to fully realize their potential and goals.

The computer algorithms for the implementation of this labour remuneration system at specific enterprises have been described in monographs <sup>[14], [15]</sup>, as well as in special Methodologies.

## Specific measures

**1. The interests of the workforce and the property owners should be reconciled, as well as those of all production entities, of the administration, and individual employees;**

**2. Labour remuneration for each worker should be determined by the results of competition at the market, as well as by his labour contribution to the common goal calculated as part of the social labour intensity of commodities.**

## **§4.2. ORGANISATION OF THE COLLECTIVE CONSUMPTION SYSTEM**

*The economic existence of the state is taxes* .

K. Marx and F. Engels

### **1.1.36. 4.2.1. Taxes as a tool for financing of collective and social needs of the population**

By definition, taxes are obligatory payments to the state by physical persons and legal entities obtained by way of administrative enforcement. The socio-economic nature of taxes in each country is determined by its political system and the resulting functions of the state. That is why the current taxation system is a good example of the contradictory nature of the modern state reforms.

Taxes emerged in the form of tribute, quitrent, robbery, and duties, and has long served as the source of prosperity for the rulers and the privileged social classes. Nevertheless, as states developed, taxes lost their function related to nonmarket redistribution of income, and gradually acquired the new role of active tools for provision, defence, and protection of social interests of the population. For instance, the US budget has three functions: it assures the functioning of the state apparatus (government, army, navy, etc.); it redistributes the income among different social strata and regions of the country to shape a favourable social environment; and it serves as the instrument for stimulation of economic growth.

In capitalist states, income tax is the main source of revenue for the state budget. For example, in the US, the share of labour remuneration levied in taxes and incorporated in the budget is 33—34%, in Great Britain, Denmark, and Belgium, it is 31—33%, in Sweden — 40%. Besides, income tax is rarely regressive, i.e. the relative share of taxes does not increase, but decreases, as income grows. For instance, in the mid-1970s, in the US, a family who earned under \$5 thousand per month paid around 31—34% of their income in taxes, while a family with a revenue over \$15 thousand only paid 28% in taxes.

Moreover, the biggest monopolies were entitled to contribute part of their income to special funds for production expansion, which were exempt from tax. Some countries allow their enterprises to allocate a significant share of profit to accelerated capital amortization. Thus, Germany permits to use up to 20—30% of capital for this purpose annually. Similarly, in Great Britain, during the first year of new equipment

operation, the income equal to up to 50% of this equipment amortization is exempt from taxes, etc.

In socialist countries, taxes were the way of withdrawing and redistribution of income to assure economic growth, to reinforce the country's position, to finance social needs, and to provide a social bonus to the wages. The budget was formed by the proper revenue of the state, by indirect taxes, by sale tax, and by progressive income tax. Besides, in the USSR, the share of taxes collected from the population was minimal and did not exceed 8.7% of the total amount of tax, as of 1977.

A large part of the budget thus formed was spent on improving social well-being. For instance, in 1975, the share of the social consumption fund in the aggregate income of Soviet families stood at 22.5%. Education costs constituted 7.3% of the national income, social welfare and insurance — 4.3%, healthcare and sport — 3.74%, and housing — 0.4%. Therefore, while in 1977 the tax revenue of the state was 20.9 billion roubles, the allowances and bonuses provided through social consumption funds achieved 99 billion roubles.

On the contrary, the tax policies implemented by neo-colonial countries are highly contradictory. They remind of a blackmail of law-abiding enterprises and citizens. Such a system encourages to conceal the revenues, to bribe, and to reduce taxes; it increases the number of "shadow" employees and deprived individuals; it depresses production and consumption. The taxes are collected not from those who are supposed to pay them, but from those who cannot get away from paying taxes. Usually, this latter category embraces the population, honest entrepreneurs, and state-owned enterprises, while oligarchs, corruptors, tradesmen, and criminals avoid paying taxes.

Instead of increasing taxes for certain types of activities (alcohol and tobacco sale, trade, and finance), for monopolies, and big business, the Russian government surtaxes small business and the population. Instead of increasing property tax, mining tax, which today stands at 0—8%, and introducing a progressive tax rate for large revenues, the state proceeds to impose more taxes on useful activities and decrease social allowances. This means that the state is so weak that it cannot tax the rich at a progressive rate; however, it is strong enough to suppress the rest of the population.

According to *Paying Taxes 2013* report, the aggregate average tax rate for business in Russia exceeds 54.1%, which is superior to the tax burden experienced by the European enterprises (42.6%), as well as that of the global economy (44.7%). Besides, the share of income tax payable by physical persons has increased by 44% between 2006 and 2015, and has reached 32%. At the same time, the government functioning has worsened due to the privatization of the most profitable state assets and to the inefficient management of the remaining assets. This situation inevitably entails a chronic budget deficit, which haunts every government initiative.

On the other hand, tax revenue has no target use, therefore, its spending is independent from the type of taxpayers. As the result, we often witness an irrational and improper use of the budget, often bordering on stealing. It would be difficult to name an economic activity that is less regulated than the spending of the state budget.

At the same time, taxation is the weak point of all capitalist economies. For instance, despite the centuries-long experience in tax system improvement, \$221 billion was spent in 1995 for the Federal Tax Service in the US, i.e. 15% of the federal budget,

while only 14% was allocated for defence spending. In addition, only 85% of all taxes due were levied. The reason behind this situation is that the market payment equivalence principle and the its consequences were excluded from the taxation system. It sticks by the trick-or-treat principle, that is why so much effort is required to force people to pay taxes.

As the result, modern states are not capable to levy enough taxes to supply the budget required for performing their functions, and they constantly live in the state of financial starvation. It is further aggravated when various cataclysms occur, such as wars, natural catastrophes, epidemics, or when daring state projects are put into practice. Therefore, governments are obliged to recur to various loans. They issue bonds, sell state assets, issue additional money, borrow from private and public organisations, banks and insurance companies, and raise credits with national and foreign entities. Thus, the state falls the victim to the monetary deficit, while remaining the primary source of this deficit.

In the USSR, this issue was unheard of. The country did not have to institute special taxation agencies, tax police, etc. All fiscal functions of the tax authorities were regularly performed by the Control and Audit Administration of the Ministry of Finance of the USSR, which also collaborated with the auditing departments of the enterprises. There were no delays or problems with tax levying, the money was received and transferred to the budget within several days, without failure. Therefore, the USSR did not experience acute money deficit, with the exception of the force-major occasions, like WWII. The Soviet system functioned without fault until it was destroyed by the “reformers” we are already familiar with. Then, the Russian taxation system degraded beyond that of other states of the world.

Taxes can be divided by their form into direct and indirect taxes. Direct taxes include payment for owning of production property (land, industrial and trade entities, money capital, etc.) and private property (houses, estates, vehicles, possessions, etc.). Income tax, profit tax, VAT, and social taxes can be classified as direct taxes, too.

Indirect taxes are divided into customs duties levied on goods imported to and exported from a country. They are used as a protectionist measure, and comprise excises that help control national market prices, monopoly tax, etc. Besides, inflation functions as an indirect tax, too, and it is imposed on the entire country’s population and business.

In fact, the overwhelming majority of taxes is fiscal by nature. Nevertheless, advanced economies have been using more and more regulatory taxes recently. As the result, taxes have become the key factor of indirect economic management under market conditions. For instance, in the years of economic upturn, Sweden imposes a tax on investment, which prevents their growth and thus forms an investment reserve that is decreased or eliminated altogether in case of an economic downturn. In the US and in France, when two companies merge, the newly created entity is exempt from tax for a year or allowed a deferred tax payment in order to accelerate capital concentration. These are just a couple of examples.

A classic example that proves the regulatory property of taxes is the tax on the physical output of radio valve plants introduced in the US in the 1930s. After the new tax was imposed, research was carried out to reduce as much as possible the size of the

valves, so that the volume of each radio valve decreased dozens of times. This made it possible to decrease the size and the cost of all radio equipment and electronic devices, and boost their competitiveness at the market. Both the manufacturers and the state enjoyed an enormous benefit from this regulatory tax.

#### **4.2.2. Principles of formation of a harmonious tax system**

The existent taxation philosophy is not the unique possible one. In reality, there are different ways to pay for the people's needs to be satisfied. For instance, we might imagine a society where one's labour is remunerated with the full value that this person has created. Obviously, in such a case everyone will have to pay in full for his and his family's needs, such as education, medical treatment, use of public transport, protection of life, health, and property, maintenance of roads and other facilities. If you need to cross the road, you must pay first; if you required a police officer's help, pay them first, and you will be protected, etc. This type of society is closest to the liberal ideal.

Another extreme is equally possible: there is no wages as such, but all human needs are covered by the social funds. This arrangement conforms with the communist ideals.

It is easy to notice that both types of society described above, as extreme versions, are far from being optimal. Indeed, it would be hard to live under a system where you have to pay for all your needs yourself. Just imagine how many people will be required to collect this money, to control the payments, and to assess the price of everything...! If such model of human needs satisfaction is introduced, half the society will be paying the fees, while the other will be busy collecting them and checking what they are spent for. This system is both expensive and inconvenient.

The communist social distribution model is contradictory, too. Under such a system the connection between labour and its results is disrupted, and production and consumption are no more dependent on each other. The reverse connections between the two are not activated, therefore the social organisation system is extremely amorphous and poorly structured. Besides, it is economically inefficient. Summing up, as it has already been mentioned, extreme social models are not viable.

But then, the state of things is much less complicated in the reality. Certain goods and services are only consumed by people jointly, such as the army, science, communications, defence structures, etc. Other may be only consumed individually or at the family level; these include food, clothes, housing, etc. Finally, there are certain categories of commodities that can be paid for by everyone individually from their wages, but can be assured for the community by way of retaining a share of wages. This last category embraces education, healthcare, physical education, sport, transport, communications, etc. — all things classified as collective needs above (see Subsection 1.2.3).

It is obvious that social needs can only be financed by taxes, while personal needs should be paid for from wages exclusively. The case of collective needs is more complicated, and this is not at all surprising. Each of the methods of needs satisfaction mentioned above has its proper advantages and disadvantages. For instance, individual payment for collective needs conforms more to the labour contribution model. As the

performers depend more on the consumers, the quality of the services provided is better. On the other hand, this arrangement does not observe the social equality principle. In this case, the one who has money will get education, not the one who is the most talented. Medical assistance may not be provided to those who require it most, etc. this entails additional labour costs for the collection of individual payments and for the accounting and the control of such “taxes”.

When the collective needs are covered by collective payment, the principle of social justice is better observed, and this required less significant labour costs. All the advantages of cooperation are enjoyed, and, other conditions being equal, services cost less to the users. But then the labour amount-based remuneration principle is discarded, and some people start enjoying the benefits that others have paid for. Besides, the influence of consumers over performers is weakened, and there are more opportunities for abuse. What method should be selected then?

Evidently, all collective needs should be individually assigned such a payment method that would bring out the advantages and would mitigate the drawbacks of both ways of consumption. In particular, there should be ways for the consumers to affect more the performers, for social justice principle to be respected, etc.

However, the way collective needs are covered should be determined exclusively by those who use these services and pay for them. That is, **the market principle of spending of personal revenues and tax revenues should be applied here**. Only then will the users be able to select the appropriate ways of collective needs satisfaction, to monitor the work of the respective services, and assure that they fulfil their duties.

For example, it may be decided to pay collectively for city transportation, public toilets, electric power supply, and central heating. This will facilitate the life of people and reduced labour costs of these services provision: no more tickets, controllers, and meters. The labour liberated from such an arrangement will be used in a more productive way, which will increase the social labour productivity (SLP). In a different country it may be resolved to maintain individual payment for such services. Then the one who spends entire day at home will not have to pay for those who use transport daily. It is normal if one region implements direct payment for pre-school children facilities, while in other the collective or mixed approach is used.

The workforce of some enterprises, just as back in the Soviet time, will prefer to set up their proper medical assistance for the employees and their families, and will provide sports facilities, leisure centres, etc. Other enterprises might decide against this, and they will not be paying part of their wages towards the system. The same principle may be applied in housing and utilities sector, as well as in many others. Besides, it is also possible to conceive mixed payment schemes for certain services.

The sums paid for the satisfaction of each of the above-mentioned needs may vary considerably on the decision of taxpayers themselves. For instance, if the international situation becomes tense, people may resolve to increase army provisions. If the crime rate decreases in a specific city, it will be possibly to cut down the police financing. If the medical institutions are not working properly, the form of payment may be modified to act as an incentive for better functioning. If the kindergartens are expensive and inconvenient, respective bonuses for teachers may be introduced and kindergartens

may be reformed. When the social need for a specific type of labour, or specific services drops, it will be possible to adjust the financing accordingly. **In any case, the amount and forms of collective needs coverage should be determined by the tax-payers who pay for the services.**

On the other hand, of all needs satisfaction methods, the ones that **influence production most and are affected by production most** should be preferred. Only then will the reverse connections between service users and service providers become more efficient. Otherwise, a harmonious combination of production and consumption will not be possible. The modification criteria applicable should be saving provided that the convenience and quality of services is improved, and increase in the social labour productivity that is automatically achieved once these connections are optimized.

Thus, under harmonious economics, the tax philosophy is changed as compared to that of the socialist or the modern capitalist models. Under socialism, taxes were a sort of **duty** payable to the state and the society (people **had to** pay to public officers, law enforcement agencies, pensioners, etc.). On the contrary, in capitalist countries taxes serve as a compensation for the right to do business, to keep business and personal life in order, to have one's property, and personal and social interests protected. None of the two approaches is acceptable in harmonious economics. **Taxes should become an instrument for satisfying the personal needs of taxpayers, capable of stimulating production at the same time.** Then the partnership principle will function reliably, and equivalence of exchange will be guaranteed. If a person pays taxes to the state, what is the state's duty towards this person?

In accordance with the market ideology, if a tax for law enforcement is levied, then law enforcement agencies **have to** assure **complete** safety, rights protection, and order to the taxpayers. Otherwise, entrepreneurs will be **forced** to arrange special protection and refrain from paying some of the taxes that the law enforcement bodies have not earned.

Similarly, if a tax for road repair is collected, the roads **have to be** in a decent state. If the tax levied is used to finance the administration and the financial bodies, the administration **has to** perform its liabilities fully and without additional bonuses, and the financial circulation — to encourage a favourable conjecture and benefit businesses. As for retired people, they have already earned their money, and the state just has to pay it back. Otherwise, fiscal taxation will be perceived as basic racketeering, which is quite often the case. Then all ways of tax avoidance will be celebrated by the society.

It should be reminded that under market conditions money is not appropriated, but earned. Russian authorities tend to forget this, which produces all sorts of negative consequences during tax collection. In fact, the functioning of tax authorities requires reorganisation more than the conduct of taxpayers. Nonetheless, in Russia reality tends to be overturned.

This monograph suggests **introducing payments towards the satisfaction of social needs in the form of a share of income levied at a flat rate**, as exploitation as the source of unequal wages will have disappeared, and income will be the merited

remuneration of the workers who **have earned** it. This will maintain the balance between taxes and revenues, and will facilitate taxation, especially when one person has several employers.

On the other hand, the peculiarity of social needs consists in the possibility to fix the amount required for their satisfaction. Indeed, provision of the army and the military complex is determined by the current defence doctrine, by the international situation, and the state's capabilities. The expenses of the administration, of basic science, of higher education system, etc. can be specified in advance, too.

Such a tax will be easy to collect and to control. The amount of tax revenues for social needs should correspond to a determined share of income of the working population, which is not subject to change in harmonious economy, as it has already been demonstrated. That is why the per cent of tax collected will grow considerably. This will cure the country from the chronic budget deficit, and will permit state agencies to better perform their functions; the country will have access to real resources for efficient management of all its internal processes. Besides, it will be easier to control tax collection. In addition, the rich will partially pay for the needs of the poor, and wages will no more be regarded as charity.

A special role is attributed to pension tax. It is based on the following principle: retirement savings are the property of the taxpayers and cannot be expropriate in any circumstances. They are considered to be personal savings of the population obligatorily accrued at personal accounts and available for spending after the person reaches a certain age, or upon a court decision. The stability of money face value will contribute to this project, as the saving will not become devaluated with time.

As all savings, retirement savings will be inheritable after the death of the owner, or they may be gifted, or used to any other purpose. If for some reason a retired person runs out of savings, this person is reclassified as a regular dependent citizen and will be provided for by the social fund. As every person wants to be well provided for upon retirement, these saving cannot be used for commercial purposes. They serve as a natural reservoir for financing long-term innovative projects, which improve the living conditions of the population.

The proposed tax system is completely different from the existing one. This new way of financing collective and social needs and services insists on determining the purposes of tax collection and the persons to pay the taxes. Therefore, it becomes possible not only to control the spending of the tax revenues, but also manage tax collection and distribution.

Everyone will understand clearly that the taxes levied are used for the satisfaction of population's own needs, and do not end up in the bottomless pockets of the state. Then, if the taxpayer avoids taxes, he will be obliged to pay for the same needs himself, and at a higher price. For instance, he will face additional charges for healthcare, law enforcement, education of his children, etc. If the needs are poorly satisfied, it will always be evident who is to blame in this case. Therefore, everybody will be personally interested in timely collection and reasonable spending of the taxes they pay.

In addition, the proposed approach will reform the idea of state spending. It will no more be regarded as an act of care, or charity of the bureaucratic elites (“free” education, medical assistance, sanatoriums, etc.), but will result from the execution of the paid order for satisfaction of the personal needs of taxpayers.

Thus, an entirely new taxation strategy is proposed. **Taxes will no longer be part of income that is alienates without compensation for resolving state problems, but will be the payment for satisfaction of the proper collective and social needs of the population;** thus, taxes will be harmoniously integrated in market relations.

Furthermore, under such approach, taxes will be deprived of their fiscal content. By consequence, the worker will stop being the source of state income, and the milking cow of the government, but will act as a Customer, a User. In turn, public officers will cease controlling everything and everybody and will execute their functions as performers of the collective and social needs of the taxpayers he is entrusted with, and will seek the best possible satisfaction of these needs. Public officers will then become just one of the necessary categories of workers within the labour differentiation system. **Only then will a reasonable collaboration of the People and the Authorities finally emerge.** Furthermore, the very notion of the state as a form of human entity will be revisited.

The author of this monograph has worked out a draft Tax Code called *Ladzemlya* in accordance with the principles described above. Below are the contents of this code.

*Ladzemlya* consists of 15 new laws (chapters) composed of 184 articles. Modifications are proposed for Article 32 of the current Tax Code of the Russian Federation. Its adjustment to a specific territory will allow to avoid errors and to improve the state taxation system. This is not an attempt to replace the existing Tax Code, but a proposal to modify and to supplement to some of its articles related to regions and municipalities. The full test of the Code is not presented in this monograph due to its length.

### **Specific measures**

- 1. Taxes should be turned into a way of financing collective and social needs of the population;**
- 2. Social needs of the population should be covered by deductions of a determined share of incomes;**
- 3. The amount and the form of tax revenue for financing collective needs of the population should be determined and controlled by the taxpayers themselves;**
- 4. Retirement savings should be accrued by way of deducing a share of the taxpayers’ incomes; these savings are private property of the pensioners and cannot be alienated.**

## **§4.3. ORGANISATION OF ADMINISTRATIVE GOVERNANCE SYSTEM**

### **1.1.37. 4.3.1. General recommendations on organisation of efficient administrative governance**

Currently, the system of promotion, election, training, and control of leaders is very primitive. This was not the case in USSR and in modern Russia alone, but is equally observed in other countries of the world. At present, almost all political leaders are elected in a national vote. However, popular election is nothing but an illusion. In reality, the voters have a vague or, often, a false understanding of who they cast their vote for. As the result, the posts are attributed not to the most appropriate and capable candidates, but to those who have succeeded in winning the favour of the public. Needless to say, in such conditions, the wide public knows little of the true qualities of the candidates. Is this what an election is about?

Obviously, such an approach to the election of leaders turns the process into a theatre show, into a farce. The decisions are made by the puppeteers who control the “elections”, by PR technologies, by the results of political gambling, and backbiting. Without any doubt, this increases neither the quality, nor the morality of the authorities. As the result, the true social leaders are not the same as the official leaders. And if ever the two categories coincide, it is celebrated as a miracle.

Administration cannot be improved without creating proper conditions for harmonious production relations. Despite the aggressive and dominant governance style, administration is to a large extent the product of the time, it mirrors and controls the social processes under way. Low professionalism, poor culture, and amorality of the current authorities are the features that reflect the economic exploitation, immorality, disharmony, cruelty, and other ugly administrative practices. Nevertheless, **this is precisely the authorities that the current economic system merits.**

As it has already been mentioned, the qualities of the current authorities are largely conditioned by the people who hold the reins of power. Therefore, all countries have an issue with the promotion of leaders, governors, and production and social co-ordinators, as well as with their training, retraining, carrier counselling, control, and rotation. Prosperous are the countries that have managed to elect leaders that relatively correspond to the social priorities, that have a well-oiled system of election, training, and responsibility distribution for leaders. Besides, the better the system functions, the higher the prosperity of the nation. This is the true difference of advanced, civilized states from the rest.

Leaders determine many aspects of social life. Contrary to the Russian proverb, one soldier does make a battle, if he is true soldier. And the non-soldiers will never become true warriors, however many they are. Anyone can govern a society that works according to an established principle. But once unpredictable circumstances emerge, once original decisions, fast reaction, and life-changing actions are required, the outcome fully depends on the right person being in the right place. Thus, every nation, every people has its moment when the entire course of history turns dramatically.

If Lycurgus of Sparta had not introduced his famous laws in the ninth-thirteenth centuries before Christ, there would have been no Sparta, and the history of Ancient

Greece and the humanity would have gone a completely different way. If Atilla had not existed, then the Huns would not have terrified Europe in the middle of the fifth century before Christ. If merchant Kuzma Minin had not walked into the marketplace of Veliky Novgorod and had not thrown his hat on the ground calling for sacrificing everything for the sake of the motherland, who knows what would have happened to Russia after the Time of Trouble in 1612. If in 1810 Simon Bolivar had not rebelled against the Spanish rule, what would be modern South America like? Would there even be the state of Bolivia, named after the eminent revolutionary? If the son of a sailor Giuseppe Garibaldi had not joined the struggle for the unification of Italy in 1833, the country would have been very different from the Italy we know today. What would France be without Napoleon, without his victories and his state reforms? Or what would have Russia become without Aleksander Nevsky, Peter the Great, or Joseph Stalin? What would have happened to Asia and to Europe without Genghis Khan or Tamerlane?

Furthermore, many historians link the fates of states and nations to the behaviour of their leaders. For instance, the huge empire of Alexander the Great collapsed immediately after his death; the same happened to the empires of Atilla, Genghis Khan, Tamerlane, and other great conquerors. The entire conglomerate of states shaped by Napoleon vanished soon after his abdication. Therefore, it is often hard to distinguish whether it is the peoples who promote true leaders to achieve their global goals, or the leaders themselves decide the fate of their states.

Three main forms of vesting leaders in power exist: authoritarian, democratic, and oligarchic, as well as various combinations. The authoritarian power declares autocrat rule: "*I am the tsar, a tsar by the will of God and not by the unbridled popular wish*" (Ivan the Terrible). Monarchs received special education from their tender age. Tutors, teachers, and parents did not spare efforts to train the future sovereign. Each hour of their lives was governed by a strict schedule that prevented unnecessary distractions. The best teachers, priests, and generals taught general, religious, and military subjects to the monarchs, and instilled the sense of duty, morality, and glory, and of loyal service to their country. For instance, the great Aristotle was the tutor of Alexander the Great, and he fostered the sense of responsibility, of beauty, harmony, and sympathy in the future conqueror.

Elevated above the mere mortals, the monarchs did not depend on the changing opinion of the masses, of party mottos, and political struggles. As the result, they were the personification of the country they reigned; they assured the stability of power and defended it from the influence of extreme doctrines, and of people unskilled for ruling a state. In the words of Aesop, they prevented the snakes tail from guiding its head. Thus, they confirmed that "*Monarchy is the best government that humanity knows*" (Henry Ford).

The democratic form of government is currently considered the most advanced one, and its ideologists interpret its main principle as the sovereignty of people. A democratic government embraces a system of counterbalances capable of bringing together the interests of various social groups. It is assumed that under democratic rule, candidates for leading positions are in true competition, and the judges are all the people entitled to vote. The reality, however, is slightly different. True competition requires

at least ten candidates running for each post, and these candidates should have equal possibilities, which is rarely observed in practice.

In civilized countries not more than 2 or 3 true candidates run for one office, if not fewer. They enjoy the support of the leading parties, and can fully use the financial, organisational, penal, and information resources, which other candidates are deprived of. Therefore, it is impossible to avoid electing such a leader or to remove them from power. The experience of decrepit leaders of the Soviet Union and its consequences clearly demonstrate this inconvenience.

On the other hand, the voters are far from ideal, too. The realisation of the democratic model inevitably entails the prevalence of quantity over quality. The criteria of kindness, justice, and wisdom are determined by the quantitative majority of uneducated puppets of population. As the result, 51% of the voters impose their will on the 49%. In addition, various methods of rigging are employed, and the election process ends up being a show.

Through various PR technologies, and other tricks, election organizers fool the poorly informed voters and naïve masses. That is why modern democracies are nothing more than demagogies. Real leaders are not ready to share their power with the people. Besides, “*nowhere is tyranny more probable than in a society whose constitution and ruling ideology legalize the unlimited power of the majority*” (Gaetano Mosca). After all, true democracy is not just nation-wide elections. It is about the leaders’ capabilities of governing the society they were entrusted with and of serving its interests, and about the ways to remove such leaders who do not perform their functions and do not transform their rights into duties.

Some countries practise a fusion of the monarchic and the democratic forms of government that is known as constitutional monarchy. The sovereign acts as the guarantor of the constitution, of stability and order, while the executive and the legislative authorities are democratically elected.

Nevertheless, the oligarchic form of governance is the most popular now, that is, the elitist, or clan-based authority, whatever name it may go under. It is observed within all kinds of structures: state, parties, trade unions, economic, ideological, and financial entities. Besides, it is practised in the most democratic and the most backward countries of the world. This type of power is usually camouflaged as other forms of government; however, its essence remains immutable: the king is always defined by his suite. In all cases, the candidates for elections undergo a rigorous selection operated by the ruling elites, which is mostly guided by personal interests rather than social benefit.

That is why the presidential rule is usually a concealed oligarchic form government. Therefore, the leader often is a nominal figure, while the real power is in the hands of his milieu. As the result, the political history is a rotation of political elites. Old clans submerged in idleness, luxury, and conservatism are replaced by new clans who seek exactly the same and use the same methods as their predecessors. The Russian “reform”, for instance, has exposed such a scheme.

Some civilisations, for example the Indian, the Japanese, the Chinese, and the Arab civilisations, understand social justice not as equality, and the independence of people from the state and the society, but as the strong taking care of the weak, the

older — of the younger, the healthy — of the ill, the intelligent — of the not-so-intelligent. That is why the current form of democracy with its equality and independence dogmas appears absurd to them.

Similarly, in Russia of the past, the relations of the ruling and the ruled classes were rather peculiar. The master was respected by the serfs as if he were their father, and he would usually take good care of his serfs, too. Therefore, power was recognized as one of the Orthodox forms of serving people, comparable to monkhood. “*State power is seen as a specific type of service, similar to the service that the clergy render, similar to the monastic work of penitence*” (Metropolitan Ioann). Besides, property was deemed the merited result of labour, and not conceived as the fruit of cunning.

Therefore, while the western democracy is built on individualism understood as equality of rights in competition, in Russia it is a collective form of governance with equality of all members. In the west, rights are expressed in laws imposed from the top, while Russian democracy evolved nourished by the centuries-long traditions and customs, which up to recently both the state and the ruling elite were afraid to encroach on.

That is why a Russian commune was in fact an autonomous entity. It was vested in so many important rights (self-governance, election of seniors and rural policemen, collective resolution of main issues at meetings, common ownership of land, and some other types of property) that the western ‘free’ society could not even dream of. The commune assembly collected the duties, according to the common understanding of truth and justice, resolved disputes, tried offenders (except violent crimes). Such organisation fully corresponded to the Russian mentality.

Summing up, democracy is limited to the external form of power. It can be shaped in different ways; but the true democracy, based on the principles of personal enrichment, is impossible as such, as it inevitably evolves into a demagogic and an illusion.

It becomes thus obvious that the current system of vesting leaders in power and the way it is implemented is absolutely inappropriate. Under the present conditions, most of the attempts to force the administration to perform its functions fail miserably. Neither administrative, nor penal, nor democratic, nor legislative measures are capable of revolutionizing the administration. But the problem cannot remain unresolved. The conditions of life have evolved considerably, and unless the society adapts to them, it will perish, including the advocates of the current form of government. The modern economic and social management system has outlived its capacities and is beyond repair. A completely new, system approach is required to resolve the situation.

For instance, in the past years, the electoral system has demonstrated its absolute incapacity. The competing parties that fight for power and have relatively equal intellectual potential and equal absence of original proposals, manage to get very close votes. As the result, the struggle is intensified, and a considerable part of the population feels lost, and sees the newly constituted authorities as illegitimate, which encourages all sorts of “colour revolutions”, protests, and manipulations. In this way, the government sees the existing electoral system discredited.

On the other hand, the procedures of removal from power are overcomplicated, which deepens the gap between the authorities and the people, and prevents any control of the actions of the leaders elected and of the public officers that serve them.

But in fact, the solution is just before us, inspired by the experience of our forefathers. In the ancient times, the leader was elected by all legally capable persons. The communities were relatively small, and everybody knew each other, and the limits of each other's capabilities. That is why to elect a leader it was sufficient to say "*Be our chief, and take care of our troubles!*"  [135]. Under such conditions, the wisest, the most experienced, courageous, and morally pure persons were mostly elected to power. They enjoyed the deserved respect, and shaped the image of the authority. They could not ignore the interests of the tribe members who elected them, and had to perform their functions diligently: otherwise they risked removal or punishment.

However, as human communities grew in size, the conditions altered, and it was no more possible to know every tribe member well enough, therefore, it became more difficult to come to an agreement. The struggle between candidates emerged, which was fraught with significant costs. The fight for power often ended with bloody conflicts, wars, and mass devastation for people. Then the power was handed over to nominal leaders who represented the interest of the parties and clans whose support they enjoyed. The chiefs lost touch with their tribes, and cared more for personal and clan needs than for social interests. This gave way to a system of officers, lackeys, and power officials who served this new system. In the end, the modern image of power was shaped, more relevant of the western, than the Russian mentality, as it served the interests of the profitable economics, not the beneficial economics.

On the other hand, the existing scenario of social administration development is not the unique possible. Many problems that occur are easier resolved through intermediate elections. "*Each clan did this, and the clans presented each their prince, and the princes elected the senior prince*" (*Book of Veles* [135]). The same principle was used for electing the leaders of ancient communes and of Mysteries. For instance, ancient Germans, Slavs, Scythians, and Greeks applied this method when electing the cast of supreme hierarchy, as well as Egyptian priests, and religious and ethical sects of India and China; in a similar manner Muslim Sufis and tribe leaders of Native Americans were selected.

Besides, this strategy was applied for electing adepts of sacred sects, which permitted such organisations to survive any circumstances. For example, to be admitted to the Order of Druids, the candidate had to be a descendent of a respected family, to have elevated moral values, and to present no bad habits or harmful intentions. Before he was submitted to temptations and trials to prove that he was a of a strong character, before his took the required oaths, he could not be vested in power, nor trusted any significant secrets. Only when the person had completed one by one all the six levels of the Order and passed all the intermediary selections, he accessed the position of the Chief Druid or the spiritual leader. Finally, at the last stage he had to be elected by the wisest, most intelligent, and honest members of the highest hierarchy steps. Besides, as these persons vested the elected candidate in power, so they are entitled to remove him.

Thus, the system described above is based on a gradual delegation of power by the society members in an upwards movement, accompanied by the attribution of the respective rights and duties. It is evident that this approach prevented any random persons from being vested in power and acting at the expense of the voters.

Another example: to put an end to the arbitrary will of kings and the discontent of the citizens, Lycurgus of Sparta appointed two persons as kings at the same time, making them rotate each month. They only were in power during wars or when Sparta was in danger, and they had to avoid proving their noble descent or their right to have the throne, but to command the troops efficiently and to fight with courage at the battlefield. In the times of peace, the city was governed by the Council composed of thirty seniors, who were elected for life among sixty-year-old citizens distinguished for their wisdom, strict morals, and valour. To avoid abuse of power, another Council was elected for a year; it consisted of adult men. For the people not to feel alienated from power, the popular assembly was preserved, too. But it never turned into a chaotic gathering, as this body could only approve or reject the resolutions of the kings and the Councils. Thanks to these measures, during five centuries Sparta remained one of the most stable and wisely governed states of the contemporary world.

The biggest success in governance was achieved by the medieval Novgorod democratic government. Besides the city popular assembly, street and district assemblies took part in resolving local issues and discussing common problems. This system cut short the selfish intentions of individuals, and made them work for the benefit of all. Besides, the city population was not split into parties striving to implement their own political, ideologic, and personal plans. Novgorod knew no bureaucratic structures which would disregard their duties and exert pressure on the popular opinion. For instance, all finance of Veliky Novgorod, one of the world's richest cities of the times, was managed by just one secretary.

In the past, the wisest and the most deserving persons were vested in power, instead of dummy public officials guided by the puppeteer. Each person who had authority was visible and, as compared to the modern leaders, fully accountable for their words and actions. This was very beneficial for the society. For over 600 years, this system proved its utmost vitality. Novgorod was powerful, and its population was rich and prosperous.

It is obvious that the despotic power of Moscow princes, conditioned by the need of extreme centralisation for surviving under the unlimited aggression of the neighbouring peoples, could not put up with such freethinking. That is why the ancient Russian democracy and its long and rich experience were suppressed, and this advocates of democracy were dispersed throughout the country.

Other nations have lived through similar experiences. That is why it would be logical to revive this form of popular power under the current conditions. The elections tend to be more conscious and professional, when the qualified minority is given the right of vote. On the contrary, if the unqualified majority votes, any random person can have access to power. Then, the lobbying of the legislative and the executive authorities increases, as well as the role of the mercenary and subjective mass media, with all the negative consequences that ensue.

**1.1.38.**

### **4.3.2. Nature of administrative governance in a harmoniously organized**

*Man is duty personified.*

From the letter of the Holy Fathers \*

If the production conditions are such that the main purpose of enterprises is benefit, and not profit, then **the interests of individuals, workforce, and the society will coincide**, and the issue of harmonisation of the production and the social relations will be automatically resolved. This will result in harmonisation of all power institutes, and will make the system of election, promotion, and rotation of administrators and leaders reasonable.

Under the current conditions, this approach can be put into practice in the following way. At the stage of indirect, consecutive election of the people's representative and of the ruling elite, the first-stage electors are elected by the population in a direct vote. For this, the population is divided into groups within which people are familiar with each other or can rely on the opinion of those whom they trust. For instance, in a village, everyone knows the rest of the inhabitants, as well as their capabilities, therefore, during free election of representative or governors from among the villagers there can be no deception. This level is represented by small villages, large apartment blocks, groups of such blocks, or various organisations. At this level, the most deserving candidates will be selected by way of primary voting, and all those who do not enjoy the trust of the people and cannot represent their collective and social interests, will be removed from the competition.

It is obvious, that within such an electoral system neither money, nor administrative connections, nor PR technologies will have any effect, because the vote will be cast by the people directly. And the people will understand that they depend on the choice they make, and will make it conscientiously, not at random. Neither mentally challenged persons, nor those incapable of serving the society, nor demagogues and populists, nor corrupters and their puppets will be entrusted with power. And if any of them manage to filter through this first stage, they will not be able to advance any further.

The said electors will form local or municipal authorities. There, in common discussion, joint activities, and other ways of getting to know other people better, higher level electors will be elected from among the members of these government agencies. The requirements of the second level are stricter, and a bigger importance is attributed to the professional and moral qualities of the candidates. Besides, the electors will be better prepared, better informed, and intellectually developed. The same principle should be applied at each level up to the top of the administrative "organisation tree" presented in Fig. 2. The rights and liabilities within such an electoral system will be passed on from the bottom to the top, and not vice versa.

This will give the society a better control of the authorities. It is the population who will vest the leaders in powers required from a regular discharge of their functions. Nobody else will be allowed to be this, or to hold the authorities responsible.

The power structure will see both the direct and the reverse connections work within it shaping a harmonious and efficient management system, similar to all natural entities. The competition between the candidates will be intense, but their capabilities will be equal. Therefore, the election of the ruling elite will not only be just, but also rigorous. The decision regarding the moral and professional qualities of every candidate, and his capabilities to function in the specific position, will be made not by an ignorant crowd or by the biased government, but by a comprehensive electoral system. Within it, the higher the position, the higher the moral, the experience, and the skills of the candidates and the electors should be, as undoubtedly, the level of cultural development of the elected correspond to that of the electors.

Besides, it is evident that those who vest in power, are equally entitled to recall their decision, thus the removal of incompetent officials from power is done easily and without hindrances. The removal procedure is less complicated than that of the election. This will increase the responsibility of the elected person before the voters, and will make it impossible for the authorities to act against the benefit of the people.

Summing up, a several-stage election system implements the promised democratic advantages, such as the priority of majority of minority, as well as the requirements of rigorous election of candidates, of monitoring of the leaders' work, and of vesting them in power and responsibility. This will ensure a true competition of candidates for positions in power. In addition, the higher the post, the more competent the voters will be. Altogether, this system will create conditions for promotion of true social leaders, instead of dummies. Power will be entrusted to those who are most capable of performing the associated functions, and not to demagogues and populists.

Furthermore, the implementation of systemic measures will change the production and social relations dramatically. Then it will be no more need for enforcement, as a free person who works for themselves as well as for the society, does not require external incentives. Besides, tax collection will need no supervision, because tax avoidance will hurt both the non-abiding citizen, and the society. Income will not have to be redistributed, as money will be pinned to productive labour, which will boost the morality of the production relations. The very market connections will be modified to become fair, equivalent, and efficient. Wealth will be earned and merited; therefore, it will be respected, and will not be the source of discord and aggression.

In other words, in harmonious economics part of the functions of the modern administration will be performed automatically. Therefore, the new administration will be able to concentrate its effort on the issue that no one else can resolve, without getting distracted for routine everyday work. Then there will be no need for the huge and uncontrollable monsters of administration that tend to subordinate the society and the workforce.

How can be such administration functioning set up and financed?

First of all, **the production and the distribution functions of the administration should be distinguished**. When describing the social labour intensity of commodities, it was suggested to account for the labour costs of superior organisation engaged

in assisting manufacturers in the value of each item, and the ways of financing such costs were proposed (see Subsection 3.1.2). Therefore, the provision of the superior organisations related to production has to be assured by the entities that use their services directly. Then no budget money will be required to do this, as all financing will be earned by the administration itself; besides, it will not be done through administrative racketeering, as it is often the case today, but by performing specific duties that bring real benefit to the organisations that finance the administration.

As soon as this payment is implemented, production administration will cease being an idol who is given a tribute for the simple reason that it holds power and money, and can cause someone trouble. The administration will be held accountable for the results of the governance. Besides, its functioning will not be controlled uniquely by superior entities, known for their subjectivity and red tape, but also by those whom the administration serves, by the people who finance the administration and depend from it.

Besides, the administration will not only be controlled on specific occasions, in the times of crisis, but in its everyday work. The remuneration of the employees of superior organisations will be directly tied to the results of their labour, the same as for all other workers. This means that the administration will have to earn the favour of those who finance it, proving that it is useful. Besides, it will be materially responsible for inefficient governance and poor decisions that hurt the customers, and do not bring them any benefit.

As the result, the market principle will be activated in this sphere of human activity, too. Instead of being an omnipotent and irresponsible suprasocial structure, the administration will be obliged to live by the same laws, as all other production entities.

It is obvious that this measure will help reinforce considerably the vertical connections of enterprises, making them appropriate to the situation, flexible, and efficient, while also reducing the size of the administrative machine. This will encourage the implementation of productive reverse connections between the governance system and the object of governance.

On the other hand, once the new taxation system is put into practice, a financial flow will be formed for satisfying the collective and social needs of the population; it will be fed by the federal, regional, and local taxes (see Subsection 4.2.2). In order to process and manage this tax flow, a special sector of consumption economy management will have to be created, separate from the production economy management. In fact, all the world's countries have such a sector at present; however, its functions are vaguely determined and the border with the production sector is unclear, that is why both sectors are treated and financed in a similar way. This certainly does not improve their functioning, because producing commodities and distributing them are two different activities.

The new sector mentioned above is composed of entities that provide consumer services to individuals, working teams, and government agencies. These entities include the army and law enforcement bodies, hospitals and educational institutions, stadiums and holiday centres, communications and defence structures, etc. Besides, this sector comprises electoral bodies of all levels that work out laws and control their implementation, as well as trade unions and charity institutions.

Therefore, it is evident that the financing of the consumer sector of the economy cannot be the same as the financing of the production sector. It should be assured by the taxes levied, i.e. by way of direct deductions from the workers' labour remuneration, as it has been suggested above. Depending on the nature of needs these taxes have to cover (collective or social needs), respective executive bodies should be created.

Furthermore, **the consumer sector** can be provided both through direct sales of its services and through respective tax deductions from the workers' income. The decision should be made by the consumers, based on the convenience, quality, and prices of goods. In order to coordinate and manage the entire consumer sector apparatus, a respective administrative body should be formed. On the other hand, this body should only exist provided that it is required. Thus, the organisation forms are similar here, the difference between the two sectors lies in the source of financing and in the areas of their functioning. In fact, this arrangement improves the stability of these systems.

It is interesting to point out that the existence of the consumer sector of the economy does not affect the invariables derived above. Indeed, within them labour is productive, too. The reason is that all the properties of production described above are true of consumption as well. Part of the money earned in the production sector is simply transferred into the consumer sector in the form of taxes in accordance with the revenues of the production sector. In reality, this guarantees the efficient functioning of the entire complex economic administration system.

In the proposed governance system, money ends up exactly there where commodity flows pass that this money serves; besides, it is available exactly in the required amount for reliable provision of the commodity flows. No counter movements of money are possible. At the same time, when necessary, the efforts may be concentrated to implement global or urgent projects. This excludes the possibility of financial pressure from any entities either in the production or in the consumer economic sectors.

After all, money is not crisp banknote or gold nuggets. Money is potential, resources, labour, commodities, and energy. For instance, shall you invest money in any economic sector, and all government and private entities will get engaged in this sector more willingly than under threats and orders. For the authorities to get well integrated in the social organisation structure, it must, above all, have sufficient financial resources for performing its functions. At the same time, it should not have more money than is sufficient. Only then will administrative governance be liberated from its ever-present bureaucratic features, and will serve the country and the people efficiently.

The proposed organisation has all the properties of highly organized systems (see Subsection 2.3). Its structure is bound by direct and reverse connections, and it is capable of fully shaping a living organism tying its components together, determining their functions and type of interaction. The human society deserves as good an organisation as the organism of each of its members is.

Summing up, to render economy harmonious, both administrative and market governance should be reformed. The administration should be fully controlled by the market, and vice versa. Only then will a harmonious organisation of the production and the society be possible, as the necessary fusion of administrative and market governance will be assured.

What is more, it is impossible to improve each of the mechanisms of rational governance separately. They are so tightly bound to each other, that the destructive qualities of one compensate for the positive qualities of the other. But, in fact, the progressive changes that affect each mechanism work exactly in the same manner.

#### **Specific measures:**

- 1. Leaders of enterprises, departments, state and municipal authorities should be elected by way of intermediate elections that combine the advantages of the democracy and of promotion of qualified candidates;**
- 2. The production administration should be financed by way of deductions of a share of the income of enterprises that the administration controls;**
- 3. Social needs of the population should be covered with targeted tax collection.**

#### **1.1.39. 4.3.3. Funds economic management mechanisms**

*For no virtue, by the fame and credit which it gives, creates more envy than justice, because both power and credit follow it chiefly among the common folk.*

Plutarch 

Let us consider another mechanism of organisation that employs the harmonious combination of labour differentiation and cooperation, of market and administrative regulation. This mechanism is essential for one more reason: the sophisticated system of labour differentiation and cooperation requires a uniting structure to hold it together. This mechanism is a special form of vertically integrated cooperation where market relations and competition are used to a limited extent in which they contribute to the overall effect. The name of this instrument is the funds economic management mechanisms (FEMMs). It results from the productive synthesis of science, technology, and distribution, which allows for improved coordination and impressive achievements of their common work.

These mechanisms are widely used in advanced economies. To find out more about them, the reader is encouraged to refer to monographs <sup>[135] – [139]</sup>, and others. After slight modification, the ideas from these books became the basis of the system described below. In addition, a brief description of the mechanisms in question can be found in monograph <sup>[14]</sup>.

**The funds economic management mechanisms are the science, the art, and the practice of management of all types of property based on the private-public production relations and competitive incentives for more efficient provision of the priority areas of state and social development.** These mechanisms embrace a series of organisational measures that contribute to cooperation among the engineers of the latest scientific advances with educational, cultural, financial, production, resource, and administrative entities of the state and the economic actors. The basic idea of this system reflects the obvious fact that all of the above-mentioned entities cannot equally participate in the competition created by the market relations.

The FEMMs are backed by the well-known fact that the commodity properties of goods are only realized after the final stage of production. All the preceding stage only create the conditions for obtaining a ready product. Therefore, these mechanisms allow making profit only upon the sale of goods to the end users, instead of generating revenue at the stages which condition the development and the actual making of the commodities. Besides, it becomes possible to finance the costs from the final revenue of the entire manufacturers' cooperation, which seems logical from the point of view of social production.

The advantage of the FEMMs consists in the possibility for the society to make additional profit from the implementation of the newest organisational and scientific and technical achievements not only at the enterprises where these have been developed, but also throughout the chain of organisations that maintain production relations with these enterprises. This means that if some enterprises have discovered a way to improve production quality or to reduced production costs, then, according to the FEMMs principles, these achievements will be reproduced by other enterprises, too. In addition, the consolidated income of the society produced by all enterprises together will be increased manyfold compared to the income generated by the enterprise that developed the technology in question, if the new approach is implemented by way of regular commodity and market relations that spread through the entire production chain. This mechanism will be even more productive when fixed money that consolidates the society is used (see Section 3.2).

Obviously, nothing similar happens under the current conditions when economy is guided by profit, and all the scientific and technical progress observed at individual enterprises is converted into excessive revenue. All other enterprises linked by production relations benefit very little from such advances.

Basic and applied scientific and technologic developments of specific scientists or research centres serve as additional sources of profit, and enrich the entire social production. This circumstance opens up huge opportunities for implementing large scientific and technological advances, and for setting up mutually beneficial cooperation in all areas of knowledge with the users of this knowledge. At the same time, this fact proves that the classical private property model based on the principles of economic independence and isolation of individual commodity producers is becoming obsolete and slowly dying.

The principles of organisation of the fund economic management mechanisms were introduced in Russia in the early twentieth century by the Volgograd first guild merchant Kh. S. Ledentsov. In 1905, he bequeathed his enormous capital to **the Society for promotion of experimental research and its practical application** that he had founded and whose mission consisted in synthesizing science, education, and production. Later on, this society was financed through investment by entrepreneurs interested in the commercialization of the latest scientific achievements and in the development of the country. Thus, the foundation of integrated social production type of property (that came to replace private capitalist property) were laid; this new property form was aimed at creating conditions for successful support of promising research and its implementation within the organisations which were the members of the Society.

In the framework of this new foundation, Kh. S. Ledentsov created a series of agencies that provided free targeted financial assistance to Russian scientists in setting up special institutes for practical application of their inventions. The Foundation was launched nine years after the creation of Alfred Nobel Foundation initiated by the dynamite inventor and the founder of the Nobel Prize. While the latter awarded the authors of scientific advances, the former shaped the conditions for their development and implementation.

It is hard to underestimate the influence of the Ledentsov Foundation on Russian science and technical progress during the twelve years of its existence. Almost all eminent Russian scientists of the early twentieth century made their first thanks to this organisation. For instance, it financed the research conducted by K. A. Timiryazev and I. I. Mechnikov, by D. I. Mendeleev and V. I. Vernadsky, by K. E. Tsyolkovsky, N. E. Zhukovsky, I. P. Pavlov, P. N. Lebedev, and many other giants of Russian science. These people are more than internationally renowned researchers and outstanding personalities, but the founders of entire scientific schools that are still recognized as pillars of science, and the source of many modern achievements of Russia and the world.

The basic principles of the Ledentsov Foundation turned out to be so efficient that they soon surpassed the sphere of science and production financing and were spread across advanced economies as a universal social development mechanism. The western economic literature refers to this phenomenon as “*the Russian wave*” coined in the period when the FEMMs were implemented in western countries. After 1918 (when the Ledentsov Foundation was closed in Russia following the decree of the Supreme Soviet of the National Economy signed by V. Lenin, under the pretext of “*use of private capital*” by the Foundation), **the FEMMs became the sacred and most protected secret of the political and financial elites of advanced economies.** By consequence, even today little has been published on this subject.

Throughout the twentieth century, the US and Russia were recognized as the world leaders in application and forced implementation of the FEMMs. All developed countries are, in one way or another, reproducing their experience and refer to the US and Russia as the examples to copy. That is why, in the first half of the twentieth century, the US witnessed a rapid emergence of all kinds of philanthropic foundations that accumulated money for non-budget financing of breakthrough projects in science, education, healthcare, and art, to be able to jointly use the achievements in the framework of this programme. More than 20,000 foundations were born in that period, including several hundreds of large ones that had over \$50—60 billion in capital.

By the end of WWII, the FEMMs were actively used by the state bodies and the leading agencies of the US Federal Government. Then many state (government) foundations emerged, too; they inherited the private foundations’ highly efficient methods of non-budget financing of scientific research and development, and of industrial and organisational advances in all economic sectors. In addition, the Federal Government prioritized the FEMMs improvement and the accentuating their socio-economic effect as the goal of the state policy in the field of science and technology.

The present-day holders of the leading positions in the US authorities (secretaries of state, ministers and deputy ministers of defence, finance, etc.) were educated and got their first experience working in various Foundations described above. Among

these personalities, E. Stettinius, H. Stimson, F. Kellogg, D. Acheson, etc. In 1950—1952, the Rockefeller Foundation was headed by J. F. Dulles. The Carnegie Corporation of New York was led by J. W. Gardner, Secretary of Health, Education, and Welfare. D. Packard, appointed Secretary of Defence by President Nixon, invested \$300 million to the Hewlett-Packard “charity”. Finally, H. Kissinger, special adviser of President Nixon, who still plays an important role in the US state politics, formerly participated in the “brain trust” of the Rockefeller Brothers Fund.

The former US Secretary of Defence R. McNamara introduced the targeted programme and industrial target economic mechanisms in the practice of all military agencies, and of the industrial companies that worked on their orders. Following the brilliant implementation of this project, he was appointed President of the International Bank of Reconstruction and Development and entrusted with a opposite mission: to prevent the implementation and the spread of the known FEMMs in other states, primarily, in the USSR and the socialist commonwealth countries — a task that he completed with equal success.

Meanwhile, in the US these mechanisms grew more popular, and many more special state foundations emerged. Thus, by 1990, the aggregate amount of financial resources held by such foundations had achieved \$136.9 billion, by 1991 — \$158.6 billion, and by 1992 — \$171 billion.

At present, all large scientific and technological projects of the state are financed exclusively by trust funds. Besides military programmes, these projects include: strategic computer technologies development programme (1984—1989), high-speed integrated circuit development (1980—1989), and creation of a research laboratory in space that cost \$30 billion. The FEMMs principles were utilized for the construction of the super-power superconductive particle accelerator (\$6.3 billion), for the study of the human genome (\$3 billion), the HIV research project (\$20 billion), etc.

According to different estimations, in the US alone, from 28 to 35 thousand of legal entities employ the FEMMs. This is the mechanism used by the International Monetary Fund, by the Open Society Foundations created by G. Soros, by the Carnegie Endowment for International Peace, by the Ford Foundation, etc. These organisation develop and finance up to 70% of all scientific and technical and social innovations of the advanced economies. It may be assumed that **all states that have widely developed the FEMMs are advanced countries, while the states which do not implement these mechanisms live in misery**. In addition, these latter countries are similar to islands inhabited by savages.

With the help of the FEMMs the post-war Japan, Germany and other countries were quickly revived and have now prospered. It is these mechanisms that have assured full renewal of the main assets and many other vital changes. Besides, they do not only allow the least costly and the most efficient solutions for local and global problems, but also generate a considerable profit from various side effects. In particular, this approach is currently used by multinational corporations, as well as other types of large companies.

What is the idea behind the fund economic management mechanisms?

First of all, all such funds are **non-for-profit organisations**. They are instituted to support promising scientific and technological developments that do not produce

momentary profit. This investment pays back at the last stage of production only, when the ideas have acquired a saleable form. Besides, the taxes are levied after the sale of the final products, too. Thus, the processes of production and sale are separated, as they should always be for high technology products. For instance, scientists, engineers, metallurgists, chemists, electricians, and many other professionals are engaged in automobile production. However, their labour pays back only after the completion of production, i.e. when the ready cars are sold.

As the result, the end products are much cheaper than similar goods produced according to the “buy-sell” principle. Besides, the quality of products is improved, because it becomes possible perform all technologic operations required for production without hurry. Otherwise, before it reaches the consumer, the new product is so much suppressed by the taxes, market conjecture, and money deficit, that it comes out of production unfinished and uncompetitive.

Thus, the use of the FEMMs takes this type of production beyond the traditional “marketplace” relations. In addition, the profit stops inhibiting the development function, and the revenue is no more considered as the purpose of production. Under the funds management mechanisms, capital’s mission consists in assuring the progress of science, education, production, and society, and additional income is the mere result of such development. Another effect of this approach is the active socialization of capital.

Under the FEMMs, it is not the task that is matched to the worker, but workforce is selected in accordance this the missions to be completed. All obstacles for their successful work should be eliminated, including financial, resource, personnel, organisational, and others. Only the required experts are engaged in the work, wherever they live and work. Besides, they are not provided with excessive resources, workers, and financing; at the same time, all the three should be sufficient. Thus, the expert knowledge, the talent, and the organisation skills of the personnel are maximized. The workers are not distracted by tasks they are not qualified for, or by production and routine problems to be solved, which boosts their productivity.

What are the organisational forms of the fund economic management mechanisms?

I. The funds management mechanisms originally emerged as a **System of individual targeted projects (1905 year)** [137]. They are supported by a series of funds that provide subsidies for the implementation of specific research projects. In fact, in this manner, the second rang of the scientific and technical progress is formed, which complements and reinforces the scientific and technological laboratories run by individuals, government agencies, or the state. In scientific literature this superstructure is often referred to as “business services sphere”, “independent R&D sector”, “external sector”, “non-profit sector”, etc. The absence of this sector was the reason why many breakthrough developments of Soviet scientists were never implemented in the Soviet production and are not currently used by modern Russia.

This system serves as the environment for the emergence of small scientific and innovation companies created by scientists for the implementation of their proper inventions. For instance, in 1989—1990, many scientific and innovation cooperative, and small companies of such type emerged in Russia, but were stifled by the government policies, absence of financing, and poor tax system.

In the 1960—1970ss, such companies form large science and technology clusters in the US. Besides, the state assistance of initiatives of scientists and entrepreneurs provide by the US Federal Government, as well as by the regional administrations and other authorities was not limited to financial subsidies and privileges. These organisations benefited from equally precious organisational, economic, socio-political, moral and psychological, and other assistance from government agencies, which often proposed their own initiatives.

Furthermore, such companies absorbed the resources of scientific and technological progress, which were mortified by companies and state agencies, to revive them and transform them into functioning scientific and technological potential. As the result, this sector became a stable and unlimited source of new knowledge, inventions, and qualified personnel. In addition, the peculiar relations developed among the employees of such companies often result in higher quality and less costly products than within traditional scientific and engineering firms.

**II.** As individual targeted projects became more popular, new FEMMs forms appeared; in particular, the **System of institutional research programmes** was created (1952).

This system is based on the one described above and is superior to it. Besides, both levels of the same superstructure can function both separately and combined.

The essence of the system of institutional research programmes and the special features of this instrument of scientific and technological progress consist in the following: within this system, individual projects and programmes become cooperative, i.e. interdependent. This allows to rapidly increase the total amount of scientific and technological resources in the areas that show signs of success; these resources then become available to everybody. Besides, the scientific foundations take on the duties special organisation and management bodies.

For instance, in the US they often act as sectoral and intersectoral independent non-profit institutes. A well-known example of such an entity is the Electric Power Research Institute in the US, whose scientific fund equalled \$325 million as of 1984. The Institute contributed to 1,500 intersectoral comprehensive programmes, each of them composed of numerous tightly bound multi-target projects. Its work was described in detail monograph [137].

The capacities of such a system are several times superior to those of the system of individual targeted projects. One of its key advantages lies with the possibility to start the shaping of comprehensive programmes from a scrupulous advisory and expert analysis of the complex of existing scientific and technological, and socio-economic problems faced by the respective economic sectors or social population groups, already in the framework of the system of individual targeted projects.

**III.** The next stage of development of FEMMs was the shaping of the **System of cooperative innovation programmes**. It emerged in the late 1970s in the US, and resulted from the contradiction between the FEMMs forms described above and the corporations and state agencies with their characteristic bureaucratic mechanisms of implementation of scientific and production projects.

This contradiction is an objective one. **The system of individual research projects** contributes to the fast accumulation of new knowledge and inventions. **The system of institutional research programmes** consolidates these advances and transforms them into ideas ready for implementation in practice. However, there are no sufficient capacities for such implementation, therefore, the link between the development and the production is weakened. That is why the system of cooperative innovation programmes that brings together the traditional and the innovative economic mechanisms was created to resolve this problem.

It is based on the respective scientific and technological foundations, but these are qualitatively different from the foundations described above. These funds' mission consists in the implementation of the innovations into production at a large scale. Such foundations adopt the form of innovation cooperatives, associations, and other groups of companies and state agencies from different economic sectors.

These associations are considered provisional or limited, because they are created for the achievement of specific targets in limited time periods. These can be a competitive scientific innovation, a new technology, or an original idea. Each participant of the project contributes to its joint realisation in accordance with his professional qualifications. This contribution may take the form of money, production capacities, raw materials, marketing services, as well as designs, ideas, and technologies. The revenue from the project implementation is distributed among the project participants depending on their contribution. Such organisation allows to fill up the gap that has formed between science and production, and encourages a faster implementation of breakthrough innovations for generating the biggest consolidated economic effect possible.

**IV.** The further evolution of the FEMMs resulted in the **System of information and technological projects of new production facilities and economic sectors (1970)**. This system was shaped by the cooperative innovation programmes on the basis of information and computer technologies and nanotechnologies progress. It embraces the sphere of industrial production and sales of new high-tech products, and contributes to the fusion of all of the above-mentioned forms of the FEMMs into one integrated complex.

Besides, it conditions the qualitative change of the relations between the state monopolist economy and its superstructure composed by various foundations. These foundations are based on a hierarchy of minds, not of positions. In particular, subsidies are provided to the experts who are known for their scientific innovations and their morality, and they are provided on an independent and non-profit, but also on irrevocable basis. These subsidies do not have to be paid back, and incur no interest rate or taxes. The only thing important is the resulting scientific and technological advances.

Thus, this system rejects the key principles of capitalist economics: interest rate and profitable capital. The revenue is not pinned to the investment but to the spheres where the investment results are implemented. Besides, it is split among the Foundation members according to their contribution to the common cause, which entails a qualitative transformation of the entire modern economy.

**V.** All of the above-mentioned FEMMs forms combine to create a complex of funds management mechanisms that encourage the most efficient development and implementation of all kinds of innovations. However, this system would not be complete without a mechanism for targeted implementation of the promising strategic innovations. This function is performed by the **System of initiatives (ideas) of global importance (1973)**.

A certain idea of such initiative can be provided by the Japanese system known as the “System of development of original scientific studies” or the “System of targeted programme initiatives”. It was conceived for the creation of “key equipment and technologies for the industry of the future”, and provides initial financial and organisational support of respective innovations that peer into the future in order to accelerate its arrival. This system is implemented by the specially created Association of industry, government, and science of Japan.

Each such programme is entrusted to one outstanding person who has the required knowledge and authority in the scientific, industrial, and government circles. This person is charged with the responsibility of extra urgent development of the key equipment and technologies of the industries of the future, and their project is financed, supported, and the head of the project is vested in unlimited powers as the envoy of the government, industry, and science.

For the realisation of these powers, the responsible person has a financial fund of 2—3 billion yen at their disposal. Thus, they may recur to paying services of any experts, without hiring them as wage workers and distracting them from their main occupations.

Such programmes typically have a small number of participants which are dispersed through different entities and even states. Besides, all kinds of bureaucratic workflow or reporting forms are absent, as well accounting and taxes, because these projects are not meant for momentary profit. On the contrary, they widely use various knowledge, patents, and inventions. Full attention is given not to the scientific and technological content of the programmes, but to their “social context”. They have to be highly economic in terms of resources and labour consumption, and environmentally friendly.

The system of initiative programmes emerged in Japan in 1981. One year later the first centre of initiatives was jointly created by companies and government agencies. In 1983—1984, the number of centres grew to 25. In 1985, 15 laboratories were founded that provided services to innovators for the industrial implementation of their ideas. By 1984, there existed 64 such centres, and by 1985, 140 centres.

From Japan, the original research programmes quickly spread to other countries, where they were known as “targeted programme initiatives”. For instance, the US Strategic Defence Initiative (SDI), or the Strategic Energy Initiative are based on this principle. The system is gradually getting better integrated in the established scientific and technological progress structure and is supported by all of the FEMMs principles described above. This approach improves the quality of innovation and encourages its faster implementation.

**VI.** In the late 1990s, the Academy of New Thinking functioned in Russia under the leadership of Yu. N. Zabrodsky; this Academy worked out the following stages of

the FEMMs that have not yet been introduced neither in the west, nor in the east. They present a series of subtle but essential modifications that transform all the preceding FEMMs stages and boost their capabilities. The primary stage is **the System of ideas and programmes of non-pathological development (1985)**. It consists in the application of the FEMMs logic, purified from selfish tendencies and aimed at achievement of social results, at transformation of production pathologies into new production resources, and at elimination of human-generated waste. In addition, this system embraces various programmes and information and technological knowledge related to environmentally friendly funds and market economy. This additional mechanism permits to upgrade the scale of innovation from individual enterprises to the global society — Nature level, which serves as the foundation for all other relations: society — humans — thinking — biosphere — space.

VII. In addition, the following levels of the fund organisational economic systems of the scientific and technological progress developed by Zabrodsky's Academy of New Thinking belong to this type, too. For instance, the **System of programmes of accelerated accumulation of the main production workforce assured by its dynamic equilibrium (1995)**. The main production workforce is understood as the people, Nature, Earth and the Universe, as well as all of their components.

In the framework of the above-mentioned system, the **System of programmes of accelerated development of the spiritual, moral, physical, and intellectual human potential** was worked out. The implementation of this programme does not only allow to revive the human habitat, but also to transform human personalities. It cures the natural and social organisms, and contributes to overall improvement of the society. Through activation of the reverse connections that order the chaos it purifies the society of waste in the form of politicians and other negative personalities, and dogmas that hypnotise people.

Summing up all that has been said above, it may be concluded that the funds economic management mechanisms are based on the methods of organisation of a harmoniously integrated application of the intellectual potential of the society and its organisational, material, and financial resources. This principle is primarily based on the scientific and educational innovations and creates appropriate conditions for their full-scale implementation. In addition, an integrated production cycle is shaped to bind together scientific advances and education and make them equal components of the technological production process that are active at the initial stage of the process. Then, the actual production involves the factors that used to be cast aside, such as culture, healthcare, art, the military and law enforcement agencies, etc. — all the components presented in Fig. 1.

Besides, two main production process components are distinguished: the creation of conditions for the production of high-quality high-tech goods and the very making of these goods. The first stage is considered preparatory stage; therefore, it does not assure any revenue. The full revenue resulting from the project is made available only upon the completion of the production stage.

At the first glance, this approach renders the production cycle, i.e. the period of time between its commencement and completion, longer. However, this is just an illusion. In reality, none of the stage of production of modern commodities can be skipped.

Nonetheless, with the help of the FEMMs it is possible to reduce its duration considerably, as well as optimize the consumption of the intellectual and financial resources of the society. In addition, this approach will help activate the supplementary advantages of a long production cycle.

The twentieth century technological breakthrough resulted in new operation being added to the production cycle of almost any type of commodities. For instance, it is not sufficient to produce beef any more: special procedures are required to make it ready for consumption. Then, both the storage and the consumption of such products becomes waste-free, and cooking is rendered simple and effortless.

Indeed, it is one thing to raise a harvest, and another — to preserve it, process the waste, pack the product, and deliver it to the consumer. This sequence applies to most other commodities, too. This signifies, that the production of any kind of goods is technologically expanded, social, and cooperated, and largely uses the advantages of labour differentiation and cooperation. That is why no modern state can rationally function without applying the front-edge innovations provided by the FEMMs.

It is obvious that the funds management mechanism, as any long-term process, cannot exist without utmost support of the state, and without financial and resource contributions. Moreover, in order to set up the process, private capital should be engaged, and incentives should be introduced (tax reductions, protectionist policies, and guarantees). In additional, special state banks creation might be required. This is quite logical, as one should not expect to reap the harvest unless he sows the field.

Thus, the funds economic management mechanisms establish an ideology, a principle, and a decision-making method for resolving all kinds of problems and assuring the most efficient consumption of all resources available. Besides, these mechanisms allow to concentrate the main efforts of the society on resolving the issues that provide the quickest and most effective results and the most efficient application of efforts. In addition, they help reorient the work of the society towards the most promising areas; they mostly engage the intellectual and moral potential of the society and seek for the best ways to use it. As the result, it becomes possible to achieve social benefit not only thanks to the innovations of specific individuals, workforce, economic sectors, and scientific spheres, but also make use of the ideas that are born at their borders.

The above-described methods are universal and have been applied by Pinochet regime in Chili, the presidential republic regime of the US, and the British constitutional monarchy. Besides, they are useful for resolving both technical and all other types of problems that the humanity faces, as they are not aimed at simple adding and deduction of money produced by various population categories, but at multiplying the social wealth and setting up their distribution in accordance with everyone's contribution to the production.

When the state proposes discounts for capital functioning, i.e. it does not link the privileges to a legal entity, but to the targeted use of resources, it comes out double winner. First, this encourages a better use of the intellectual and material potential of the society; second, the tax revenue increases as the result of such economic policy.

The FEMMs permit to manage not the various types of property, but the development function, by way of similar incentives for all property forms. The use of funds

management mechanisms in advanced economies has already led to their banking systems transformation, to creation of fund banks, to accelerated capital circulation, and lower emission; as the result, the passage from banknote money account money.

In addition, these mechanisms help use all capital towards socially important results; contribute to capital socialization, which does not infringe on property owners' rights; shape socially active entrepreneurship aimed at the development of culture, education, and healthcare, as well as at improvement of the general quality of life, instead of personal enrichment of certain individuals. Finally, funds management mechanisms provide possibilities both for nationalisation and privatization of production means.

Russia, where the funds management mechanisms emerged in the early twentieth century, has all the required and sufficient conditions for their use for the benefit of the state and the society through the quick and cheap creation of a system of economic management that would be independent from the political conjecture. The implementation of these mechanisms will not require big investment, but will help engage the waste of previous economic activities back in the production process, and shape a single environmental and economic space. Then, it will be easy to reconcile private and social interests, sectoral and territorial, state and interstate ones, as well as marry politics and entrepreneurship.

Global experience has proven that no truly civilized market is possible without funds economic management mechanisms.

The FEMMs can only be opposed by other FEMMs that are better adapted to the existent opportunities and challenges, that are more perfect and efficient. Only the funds and market relations can improve all administrative spheres through natural competition. Besides, only these mechanisms are capable of purifying the country from individual, group, national, and other selfish tendencies, and to revive the entire planet Earth.

If the funds management mechanisms are not used at the level of the country, its regions, and industries, then this country lacks a truly efficient instrument of economic democracy, of harmonisation of private and social interests thanks to one national development project. Therefore, such a country develops many negative phenomena and processes, including the growing gap between the consumption and the production sectors.

The use of the FEMMs allows resolving a significant share of current issues not by gradual elimination, but almost in one step. The measures of harmonious economy creation described above will contribute to the implementation of the funds management mechanisms, and vice versa. As the result, these mechanisms will be further improved, and new ways of applying them will be discovered, which will boost social production efficiency and raise the quality of life of the population.

# **CHAPTER 5. PROGRAM FOR CREATION OF A HARMONIOUS AND SUCCESSFUL TERRITORY (LADZEMLYA)**

*To govern means to foresee!*

Aristotle

## **§5.1. PROGRAM SUBJECT AND METHODS**

*Savage peoples aspire for freedom, enlightened people aspire for order.*

N. M. Karamzin

### **1.1.40. 5.1.1. *Ladzemlya: founding principles***

A Ladzemlya (from Russian “good, prosperous land”) is a harmoniously organized territory where highly economically efficient and socially balanced entities are formed [11].

The Ladzemlya can be a city, a district, a region, or an entire country where internal commodity flows can be organized. According to the Ladzemlya rules, any large economic entity can be created there. The patterns observed above are universal and can be applied for harmonisation of administrative and production structures not only in Russia, but in all developed and developing countries across the world.

In the Ladzemlya, the enterprises do not function separately, but constitute an integrated system, a complex. Production improvement is not a purpose, but a method for achievement of a decent quality of life of the entire population. In order to form a Ladzemlya, not extensive, but intensive methods should be applied, and labour cooperation advantages should be given equal attention as profound labour differentiation.

Besides production, consumption and distribution of goods are optimized, too. This allows to link the economic and social factors of the human habitat to shape a self-regulating entity. Production contributes to better functioning of consumption, and vice versa. The stupid and unmanageable economy is substituted by a rational and socially-oriented one.

Besides, the key goals are not achieved through investment or sophisticated system of population exploitation, but by way of using the proper natural and labour resources, and intellectual and financial potential of the Ladzemlya. This territory is revived thanks to improvement of its organisation, and not exclusively by reequipment. In fact, this approach turns out to be cheaper, faster, and more efficient.

The harmonious development of the Ladzemlya, and its economic and social prosperity growth will be assured thanks to coordination of the production relations at all organisational levels, and within all economic entities. Thus, the conditions will be created for the implementation of the latest scientific and technical innovations, because the production workforce will always correspond to the level of progressiveness of the production relations. By consequence, this system will benefit not only wage workers, teachers, and pensioners, but also active legal business owners, honest managers, and administrators. The success will be guaranteed by the interest of everybody

in the results of joint activity, notwithstanding the position or post that the person holds. General initiative and creativity will keep the system vital.

#### **1.1.41.     *5.1.2. Measures required for creation of a Ladzemlya***

Specific measures can be worked out only with a particular territory in mind; therefore, only the general principles of organisation of a Ladzemlya are described below.

In order to implement the harmonisation programme, the following should be done:

**I.** A Management Centre should be created as the basis of analytical, informational, and administrative control of the Ladzemlya. Its mission consists in working out all programme measures and assuring their implementation, as well as finding financial resources, accounting for enterprises and workforce and analysing their activity, training workers, studying the character of the infrastructure, and the moods of the population. Besides, the centre will distinguish the advantages of a territory to suggest the best ways of their utilization, and familiarize the leaders and the performers with the basics of the Ladzemlya theory;

**II.** A system of internal money circulation should be worked out and implemented to eliminate the deficit of circulating assets and financial resources required for a harmonious development of the territory, and all the enterprises and organisations located on it. As the result, the production and the consumer markets of the Ladzemlya will function in parallel and perform their functions, while being served by the money they generate (see Chapter 3). This new money should be put in correlation with the money of the foreign trade partners to get access to new sources of finance for the implementation of the Program. In addition, a special Bank should be founded, or one of the existing banks should be reorganized to suit this purpose;

**III.** In accordance with Section 4.1, the Ladzemlya's enterprises should provide training in, promote and implement the new system of income accounting and distribution that increases the interest of the workers in the results of their work. By consequence, labour productivity will grow considerably, the structure of enterprises will be optimized, and the efficiency of resource consumption will be increased (for financial, natural, labour, and intellectual resources). Finally, the contradiction between labour and capital will be decreased, and income will be earned and not appropriated through struggle and bargaining;

**IV.** The innovative taxation system (described in Section 4.2) that boosts the interest of the citizens in paying taxes regularly should be put in practice in the Ladzemlya. Then taxes will no more be an instrument of expropriation of income to pay for the state functioning, as it is today, but will serve specific purposes. Thus, they will become a way for the taxpayers to cover their proper social and collective needs. Taxes will be transformed into one of the most efficient tools for managing the economy and the entire life of the territory in question under market conditions. Money deficit will no longer impede the resolution of social and routine problems, and the administration and the municipal authorities will be more productive;

**V.** A multi-stage electoral system should be used for the election of leaders of representative and executive bodies, and the administrative entity that manages the economy and the social development of the territory should be reorganized (see Sub-section 4.3.3). Then, the inconsistency between the official and the true leaders of the society will be gone. The administration will no longer be hypertrophied, costly, inefficient, and thievish, but will become solid, competent, and efficient;

**VI.** A Price Committee should be instituted in the Ladzemlya to assure rational pricing policies. Using the methods described in Subsection 3.3.5, individual prices for commodities and services produced by the enterprises and organisations should be calculated and made the basis of pricing. Besides, the free prices flotation should be limited to the sale of commodities that are in the position of real competition, and exclusively to the extent where such a measure is beneficial. Unjustified price increase by monopolies for vital commodities should be prohibited. By consequence, market relations will be managed reasonably and bring real benefit;

**VII.** The basics of Ladzemlya, its features and advantages should be taught to the population;

**VIII.** The appropriate forms of the funds economic management mechanisms should be worked out and implemented in the Ladzemlya;

**IX.** Comprehensive harmonisation projects for Ladzemlya should be devised, too.

The success of the Program of Ladzemlya creation is guaranteed by the implementation of all of the measures described above to assure the proper conditions for regular social development. It will be further reinforced by the personal interest of the citizens in the success of such reforms, by the enthusiasm these reforms generate, as well as by the general initiative and support accentuated by visible progress. In addition, superior organisation of the region and the state, public organisations and political parties will support the programme as well. The only obstacles to its implementation could come from corrupted officials, criminals, and isolated businessmen who are used to make profit from the uncertainty that rules the modern economic and organisational relations.

The following sources of investment are available for creation of a Ladzemlya:

**1.** Target funds of the regional, city, and state budgets that are allocated for the support of the reform under way. These funds are mostly required at the initial stage of the Program as primary financial resources that let the territory achieve the break-even point;

**2.** A certain share of tax revenues that the territory currently contributes to the regional and the state budgets but that will be redirected towards the implementation of the Program measures;

**3.** Repayment by enterprises of the loans granted to them for constituting their circulating assets funds (see Subsection 3.3.3). In fact, this money will be produced almost out of nothing, simply by the use of production money only, which will stabilize the money circulation. This will not result in any inflation, as the money for serving the enterprises is currently insufficient;

**4.** Amortisation payments by enterprises. These are required to compensate for the regular wear of the main assets by their upgrading to latest equipment and technologies. Besides, they can be used both by each enterprise separately, and through cooperation of enterprises;

**5.** Securities in the form of bonds and loans issued by the Ladzemlya, local authorities, and individual enterprises. This source of financing will only function successfully provided that visible progress is made, i.e. approximately six months after the beginning of the reforms;

**6.** Targeted savings of the population and of organisations. This source of financing will equally work as soon as the population starts trusting the reforms and accumulates excessive money. It also requires special entities that will keep these savings;

**7.** Targeted tax deductions from organisations and individuals for reform implementation. It is assumed that this tax will be implemented when the enterprises and the citizens have faith in Ladzemlya, and will learn to serve its causes, i.e. about a year after the start of the reform;

**8.** Short-term loans and investment that will be provided as needed by national and foreign creditors and investors.

## **§5.2. DESCRIPTION OF SPECIFIC PROGRAM MEASURES**

### **1.1.42. 5.2.1. Auxiliary measures and control of their implementation**

As the result of the Ladzemlya creation, the economic, environmental, and social well-being of its population will continuously increase. This is the expected consequence of the reforms, for “*the wealth of the population makes the country wealthy*” (Pyotr Stolypin). That is why this Program includes a series of comprehensive projects (plans) that cover the key aspects of life of the Ladzemlya and resolve its current problems.

For instance, it is known that a significant share of equipment and technologies employed at the Russian enterprises has become obsolete and deteriorated. Meanwhile, at foreign enterprises it is upgraded every 5—7 years. Therefore, the restoration of the main assets of the Ladzemlya enterprises is an essential condition of the reform.

However, the attraction of external investment for reequipment of enterprises is not easy. That is why the enterprises should primarily count on their own internal reserves. This will be made possible when the new labour remuneration system is introduced, for it boosts the efficiency of any resource. Protectionist policy of the government will help, too. Besides, a significant share of the population will be liberated from inefficient labour to perform its logical functions. This will result from the revival of the market relations logic accompanied by improvement of the administration work, and by the implementation of a stimulating taxation strategy.

The reproduction of the main assets of the economic actors will be encouraged by the joining of their financial and other resources in order to adopt a coordinated investment policy, to set up cooperation and provide mutual assistance. Banks will

collaborate in the process as well, as they will be more interested in the economic growth of the Ladzemlya. In addition, it is essential to assure gradual refinancing of certain enterprises by the amortization funds of other enterprises, as well as to put in practice specific projects using the revenues generated by other projects. State orders will provide occupation to the territory's enterprises, even when these projects are not profitable. These expenses will be justified by the collective outcome, and by the resolution of the issues the Ladzemlya faces as an entity, for cooperation and joint targeted activity are often more efficient than uncoordinated actions of competitors.

Furthermore, funds economic management mechanisms will be introduced in the economy, starting from the **System of individual targeted projects**.

After all, a country's economy and that of any of its territorial entities is not just a series of isolated organisations and enterprises that perform certain functions; it is a system, a complex. That is why when certain elements of this system are in a poor shape, this inevitably affects the others. For instance, malfunctioning transport will hurt production as much as inefficiency of educational, healthcare, police, and cultural institutions (see Fig. 1).

Among the projects proposed by the Ladzemlya enterprises, the following types should be assigned the priority:

- Projects that use local renewable resources;
- Projects that encourage the realisation of special advantages of the Ladzemlya;
- Projects that benefit a large share of the population;
- Projects that implement existing innovations, organisational methods, scientific, technical, and educational programmes;
- Projects that are based on the cutting-edge technologies and knowledge, capable of a breakthrough in technology, mechanisms, and equipment spheres;
- Projects that educate the younger generation, improve the population's health, and resolve environmental problems;
- Projects that demand less investment but generate a bigger collective benefit and pay back faster; projects that the enterprises are ready to invest themselves.

All these measures will guarantee the Ladzemlya a stable economic revenue. However, production development is not a purpose, but only a way of assuring a high quality of life to the population. In reality, this latter goal is as powerful economic factor and the production itself. Therefore, the production and the consumer sectors of the Ladzemlya should be bound together. In order to achieve this, a number of targeted projects should be worked out and put in practice.

Among these projects, the ones listed below are applicable for all territories and can be implemented both by way of spontaneous market regulation and of rational administrative governance:

1. All production and life infrastructures of the territory, such as roads, telecom, communications, operation and repair services, should be renovated;
2. The level of education and qualification of the workforce should be raised through improvement of school and higher education, as well as professional training of workers and employees; vocational schools and further training centres for engineering and technical experts should be founded; higher education should be revived;

**3.** increased labour productivity of the Ladzemlya inhabitants will not create “excess” workers, as it happens in the modern economies. Instead, the labour load will decrease, first and foremost, by liberating women from their production load. As the result, unemployment will be eliminated, and women’s mental and physiological health will improve, and their level of education will increase. Healthy children will be born, they will be brought up in good conditions, and the demographic problems will be resolved. Men, for their part, will be encouraged to work better to provide better for their families; thus, the family as a social unit will be strengthened.

**4.** The development of basic and applied science should be encouraged; science should be aimed at the implementation of the special advantages of the Ladzemlya, at increasing its production competitiveness, and raising the share of high-tech production;

**5.** The territory’s ecologic situation should be improved through organisation of production facilities within which the waste of certain production processes can serve as the material for the other. Besides, environmental technologies should be encouraged to assure economical consumption of natural resources and increasing the environmental safety of the population;

**6.** The efficiency of mining industry enterprises should be raised by introducing deeper processing of raw materials, as well as targeted taxes on the import of partially processed goods;

**7.** A series of measures should be implemented to develop the construction industry of the Ladzemlya, the production of construction materials and mechanization instruments that increase the quality of construction, the labour productivity, and, by consequence, the provision of the population with housing, production, cultural, and social facilities;

**8.** Assure the functioning of automobile manufacturing plants, the production of modern equipment for large-, medium-, and small-scale mechanization of works at the Ladzemlya enterprises;

**9.** Improve the retail and bulk trade system, to reduce non-productive expenses, limit the number of intermediaries, introduce automated storage and modern logistics facilities;

**10.** Contribute to the development of healthcare, pharmacology, physical education and sport to boost the productivity of human labour, and reinforce the psychologic, physical, and physiologic health of the population; implement measures for protection of motherhood and childhood, for increasing birth rates, and decreasing mortality;

**11.** Adopt a coordinated social welfare policy for the Ladzemlya by harmoniously combining the interests of all social strata, ethnic communities, and professional associations, and by creating new and improving the existing social welfare agencies;

**12.** Encourage the resolution of the food security and other vital issues of the Ladzemlya’s population;

**13.** Introduce a series of measure for development and servicing of the housing and utilities sector and all its services;

**14.** Increase the protection of the Ladzemlya population from criminals, anthropogenic catastrophes, and social cataclysms;

**15.** Encourage cultural and moral development of the population as the basis for education of the younger generation, for boosting their production capacities and creative activity;

**16.** Proceed to rational policy of information provision of the population that will improve their culture, morality, and the general environment in the society;

**17.** Try to eliminate the mafia from economy and social relations at the territory of the Ladzemlya, to increase the safety and the productivity of any person's labour;

**18.** Encourage the development of cultural and tourist centres in the Ladzemlya, as well as preservation of historic and national monuments;

**19.** Resolve other current issue of the territory, including with the help of the funds economic management mechanisms.

The pilot project of the Program may be fine-tuned at any fairly large territory, even one with numerous problems, in order to use its results for creation a Ladzemlya system at other territories and in the entire state.

#### **1.1.43.     5.2.2. Assessment of socio-economic consequences of implementation the Ladzemlya program**

As the result of implementation of all measures included in the plan above, the Ladzemlya will turn into a harmonious and prosperous territory where the functioning of all production and social structures will be coordinated. The enterprises will be provided with the needed circulating assets and will be able to work and generate revenue in full accordance with their competitive capabilities. Besides, they will upgrade their production facilities. People, in their turn, will be paid their wages, pensions, and allowances on time and in accordance with their contribution to the social well-being.

Production relations will change, too. They will no more be conditioned by the need of survival, where the strong are entitled to treat the weak as they wish, but will be based in the principle of reconciliation of individual, collective, and social interests, which would make it impossible to make profit at the expense of the state and the population.

Labour remuneration under the new system will correspond to the value created by each worker, who will, by consequence, become personally interested in the final products of his labour, whatever his position and his property status are. Therefore, the irreconcilable contradiction between private property owners and wage workers will be eliminated. Then, all the potential of the enterprises and their employees will be realized, and social relations will be improved.

Money will no more serve as an irresponsible business tool, and will always be sufficient for all progressive developments. Then, its position as the heartless masters of people will be reverted, and money will be turned into reliable servants of men. It will be impossible to steal or misappropriate it, to take it out of the country, or use it for bribes.

The taxation system will be deprived of its purely fiscal functions, and will become one of the most productive instruments for managing economy and the entire Ladzemlya's life. Production administration will not be financed from the budget, but forced to earn its income. By consequence, budget spending on collective and social

needs of the citizens will be more efficient. As the result, the administration will be purified of its historic disorganisation and inefficiency, and will stop serving its proper interests alone. Once it is subordinated to the market realia, and regulate the market in parallel, the efficiency of its functioning in the Ladzemlya will grow dramatically.

As the Program described above is gradually put into practice, the social environment in the Ladzemlya will become more favourable. There will be money available not only for equipment upgrade of the enterprises, but also for resolving social problems. Natural and human resources allocated for this purpose will pay back significantly more, than they do today. The implementation of the planned innovation projects will allow to complete the reequipment of the Ladzemlya enterprises, to attract investment, and breakthrough technological developments.

Furthermore, such progressive production relations will affect the way human beings interact with nature. This will provide economic justification for the waste-free technologies and will make the human habitat cleaner.

The first phase of the Ladzemlya creation Program spans two years from the beginning of the reforms. It comprises three stages. The first one lasts six months and requires the implementation of the preparatory measures: creating the Management Centre, personnel training, start of revival and development of production, systemic actions, and resolution of the organisational and financial issues.

The following six months are given to complete the organisational and systemic measures and solidify the basis for further implementation of comprehensive plans and projects. The third stage should be finished within twelve months. It is associated with the implementation of the approved comprehensive development plans for the creation of the Ladzemlya. The amount of resources required and the details of projects are to be specified during the realisation of the Program.

It is assumed that upon the completion of the planned actions, in two years only, the state of things in the Ladzemlya will have changed dramatically. Real economy will be functioning regularly, unemployment will be gone, the territory will be revived, and the quality of life of the population will have increased at least 1.5 times and will continue improving in the years to come. But, most importantly, the population will grow hopeful and sure of their own capabilities and their bright future, without which no country or society can be revived.

Obviously, the Program presented above is preliminary and will have to be specified after the territory for the project is selected. On the other hand, the main component of the Program can be fine-tuned at any isolated territory for further reproduction of the experience in other places. This is the way it should be, as only he who walks will reach the destination.

## CONCLUSION

*Always look into the hearts of people. If you see peace and tranquillity, then you can truly say: these are blessed people*

A. N. Radishchev

The present monograph attempts to resolve the task of building harmonious economy for organizing a society of justice. The main obstacle along this path is the current economic paradigm. Instead of looking to provide people with means of existence, modern economy seeks to make profit. These two objectives are dramatically different. For instance, the production of drugs is very profitable for certain individuals, but can hardly be considered beneficial for the society. Similarly, the sales of counterfeit medicines and low-quality foods generate huge revenues, but harm national health. It is not rare that some people make a lot of money at the expense of others. For example, the flourishing of the financial sector often entails the suppression of productive economy, and a decrease in the social labour productivity.

This is why across the world, the social gap is deepening: the rich are getting richer, and the poor are getting poorer. As the result, many people can no more provide for themselves with legal methods, which is why corruption balloons, social unrest intensifies, and crime and terrorism are constantly gaining ground.

However, it has turned out impossible to set up an economy that would be free from the faults of the present-day economic and production relations system, using the existent principles. As long as property and money ownership are more profitable than useful work, real economy will not function as it should. Therefore, visual improvement will not be sufficient. The pathological metastases have already penetrated all the pores of the modern economic and political organism, have acquired an ideological camouflage, and have poisoned the minds of billions of people. What is more, the further the process evolves, the less we notice it.

In fact, many people do not realize that economy aimed at creation, and not at consumption of goods by the select few it still feasible. They do not suspect that the present system is inefficient, immoral, and outdated. They are not told that it is possible to build a new economic model that would not be guided by profit at any cost, but will take the well-being of all as its mission: the prosperity of the light- and the dark-skinned, of the rich and the poor, of the young and the elderly, of the intelligent and not-so-intelligent. After all, every human being is entitled to live! An economic model that would allow to exercise this right is described in this monograph.

The economic theory described in this monograph belongs to basic science, because it refers to all the modern forms of social organisation allowing to compare them, and to point out the advantages and drawbacks of each individual model. Besides, it proposes criteria for attributing countries to specific groups, and to further predict the major part of their characteristics even without knowing the name and the location of

the country. In addition, this approach makes it possible to develop a harmonious, co-ordinated, and integrated system of social organisation that reconciles the interests of different social groups, associations, and states, of Nature and the Humanity. This model will conform with all natural rules, instead of contradicting them.

The monograph consists of two parts. The first one presents the theoretical justification of the application of harmonious principles in economics. The second provides practical advice, lists specific measures required for the creation of a harmonious economy.

The theory of harmonious economy is built according to the classic example of any basic science. That is, a number of ideas are assumed; they cannot be logically justified and follow logically from the defined objective of setting up a self-coordinated economic system. The most important of such assumptions are presented below:

1. Economy's mission consists in assuring the well-being of the entire population, and not a one of its parts;
2. Any labour that is socially required is recognized as productive. All other types of labour should be eliminated;
3. Value is created exclusively by human labour, as neither property, nor resources, nor money can produce anything unless they have been fecundated with labour;
4. The state is a form of association of people aimed at resolving their shared problems, and not an isolated politico-economic actor.

Then, the logic of creation of a harmonious economics seems quite evident. First, the mission of this science, its tasks, and tools are analysed, as well as indicators to assess the compliance of results with the set goal of general well-being, the conditions and correlations of such indicators.

It has been determined that the form of social organisation is the main factor of economic progress. This form reflects the rational combination of labour differentiation and cooperation within all economic entities and all types of organisations. While the market is the instrument of labour differentiation, administration and governance help to cooperate it. As all opposites, these two processes form a dialectic pair that conforms with the law of unity and struggle of opposites and balances the processes that occur within all natural structures.

On the other hand, as all natural mechanisms, neither the market, nor the administration are self-sufficient governance instruments. Each of them has certain advantages, as well as faults. However, the drawbacks of one of them are made up for by the advantages of the other, and vice versa. It is not surprising then that the capitalist economic model, which is governed by market relations, has all the positive and negative features of market connections. On the contrary, the socialist economies experience all the benefits and faults of the administrative regulation.

The states where neither the administrative, nor the market regulators function properly, which is to a certain extent true for most countries of the world, are referred to as neo-colonial. This classification is rather logical, as this was the shape given to the former colonies once they obtained their independence. In reality, such economies are faintly similar with the capitalist and the socialist states, and still function as colonial adjuncts of the wealthy economies: they serve as sources of cheap raw materials

and workforce for them, as well as a dump for excessive commodities that could not be purchased by the own population of wealthy states because their population is too much exploited by the domestic market. These former colonies usually have a poorly functioning financial system; their administration is sapped by egoistic tendencies, liberal ideology, and bribery of the elites and the persons of influence, while full-scale market mechanisms have not been activated.

It is this form of organisation that all post-Soviet countries, including Russia, have acquired after their administrative system was destroyed and was not substituted with a regular market management. It should not come as a surprise that in these countries the administrative and market regulators do not compensate each other's drawbacks, therefore, the negative qualities of both regulation systems flourish, while the positive ones are not developed.

This makes it clear why advanced economies, which are the current world leaders, put all their efforts in forcing the economies of other states assume this post-colonial system: they would rather have weak partners than strong ones. As the result of such policies, over 80% of the global resources are consumed by the "golden billion" countries at present, while the post-colonial states cannot count but on miserable leftovers. This is the true source of well-being and prosperity of the "civilised" countries, this is the actual purpose of globalisation, of "integration" of countries in the global economy, even though the progress of their organisation is advanced as the primary goal. However, this is nothing but a put-up.

Any management expert clearly understands that the most perfect organisation is the one where both the market and the administrative regulators function well. Only then will their drawbacks be effectively compensated for by each other's advantages. That is why such a system was given the name of harmonious economy. It is quite probable that one day it will substitute all other economic models.

In addition, it should be remembered that all existing economic organisation forms are systems shaped by the direct and reverse connections that bind them together. As in all systems, these connections are so inter-dependent, that it is not possible to proceed to a gradual or partial transition, because modification of one connection will inevitably be resisted by the other.

That is why the present monograph provides the theory of economic systems, describes their qualities and potential, as well as possibilities of a smooth transition from one state into another. It further demonstrates that it is useless to try to mend the existing economic problems, to replace leaders or property owners, as it is futile to try to impose the qualities that do not fit the nature of the system. It should be substituted with a harmonious system, which excludes all main faults altogether.

This monograph proves that under the modern conditions attempts to influence specific factors that should be eliminated does not produce the desired results. To achieve effect, as few as four systemic measures should be implemented to effortlessly transform the current diffused organisation into a harmonious one. First of all, the principles of the financial system functioning should be modified, i.e. modern money should be replaced with money backed by some real value. It should not be covered by gold or other valuable, but be provided for by labour, which is the actual generator of all the commodity mass exchanged by the economic actors. Then, money will become

a fixed instrument of market exchange, but will not be able to govern the market. It will serve people, instead of acquiring ever more sophisticated forms to generate more profit at the expense of the society.

Such new money is based on the well-known postulate of the labour content of money. When applied to all kinds of organisational forms, this concept simplifies economy, and makes it more efficient and reliable. The face value of money no longer changes under the pressure of the economic conjecture, politics, or speculations. Moreover, it becomes possible to determine the amount of money required for serving all the commodity mass created by social labour, so as to avoid money deficit.

Besides, it is suggested that two types of money be used; one of them, as it was back in the Soviet times, used exclusively for serving the production, and the other — for the consumption. Ten the value of the consumer mass sold by the manufacturers is always equal to the value of the commodity mass purchased by the consumers. Thus, a non-discount exchange of one type of money against the other can be set up, as needed.

Furthermore, it is proposed that the currency exchange rate for the money of trading countries be determined based on the equal value of the commodities exchanged by such states, measured in their national currency. Only then is the inequality of foreign trade eliminated, and the currencies face value comparison become objective. However, today this exchange rate is established as the result of speculations of the “financial gamblers”.

The second systemic factor is the development of civilized relations between the property owners and the wage workers, i.e. the change of the labour remuneration form. This will make the workers as interested in the results of their labour, as the owners of the enterprises are. Then the interests of both parties are reconciled. All become participants of the same economic process, which reflects the actual state of things. This new form of labour remuneration is described in the monograph.

The third systemic factor concerns the change in the philosophy and practice of taxation. It is obvious that the liberal no-taxes ideal, when the needs of people are paid for directly by them, or the communist approach, which eliminates wages as such and provide for all with the help of social funds, are far from being impeccable. Under these systems, the revenue does not stimulate production efficiency, therefore, labour productivity drops.

The taxation system proposed here is based on the evident idea of each person having a series of personal, collective, and social needs, which he depends from, but in different ways. Therefore, it is expedient to have these needs covered in different ways. Only then will taxes encourage production, instead of suppressing it, and the needs of the population will be satisfied in the best possible and the least costly manner.

Thus, personal needs can only be paid for using the wages of the population, while the social needs should be exclusively covered with taxes. Finally, the collective needs may be financed directly from the income, or provided for through targeted taxes, the decision should be made by the taxpayers. Then the taxes will become an efficient instrument for managing the economy and the entire country’s life under market conditions. Besides, tax avoidance will be disadvantageous both for the taxpayers

and the rest of the population. There will be enough money for resolving all economic problems of the state, its municipal entities, and any workforce groups.

The fourth systemic measure is the reorganisation of the administrative governance system. It is evident that at present the administration has become an utterly inefficient, hypertrophied, and thievish body. For the sake of its selfish projects and power ambitions, it is ready to stifle all progressive ideas, which we witness so often today. In fact, it is useless to try to limit the administration's powers, to replace its leaders, to cut down the number of officials, or put them under strict control. The administration has got so accustomed to enjoying these privileges, that its behaviour cannot be rectified.

In order to implement a rational reform of the administration, the following steps should be completed:

**1.** Improve the system of election, promotion, training, and social control of the administrative leaders at all levels. It is suggested that the direct election of officials be replaced with a multi-stage indirect election, combining the democratic principle of the priority of the majority over the minority, with the increasing competence of the voters at every level. This system can be applied for the election of both the higher ranks of the administration be elected and of all intermediate structures, and, by consequence, the professional competence and the morality of the ruling elites will be improved. In the past, this system functioned successfully for all peoples, and was used for the election of religious and other leaders, because of its doubtless advantages over other systems.

**2.** Modify the principle of financing of the administration. It is proposed that the administrative officials be divided into two categories in accordance with their functions. One category, as any market actor, will be responsible for the cooperation of enterprises and will be financed by the enterprises directly, based on the usefulness of such governance. The other category is the consumer category; it provides for the collective and social needs of the population and it is financed by the taxpayers. Both types of payment are described in the monograph in detail.

It is evident that once the administration is reorganized in this way, its efficiency will grow. Besides, the relations of the people and the Authorities will undergo a dramatic change. The state will perform its natural function, that is, will be the instrument of organisation of regular life and work of the country's population, instead of acting as an isolated economic actor. This will allow qualitative changes in the entire administrative governance system. It will become concise, natural, and extremely reliable. The principles of administration will be preserved, but they will be integrated in the logic of market relations.

The monograph further analyses the funds economic management mechanisms that make it possible to bring together the scientific, educational, and organisational forces of the society, to improve their collaboration considerably, and to boost the overall social production efficiency. These mechanisms also shape socially active entrepreneurship aimed at the development of the country and at improvement of the quality of life of its population, instead of just encouraging the enrichment of certain individuals.

Finally, the Program of specific measures is proposed to be able to transform the current economy from post-colonial to harmonious system without significant losses

and social shocks. This is a Plan of revival that can be used for isolated territories, for large production cooperatives, for economic sectors, and entire states.

The systemic measures listed above will allow to modify the social organisation system dramatically, to make it highly efficient and human. Both the market and the administrative regulators will function in coordination within the system, thus creating a foundation for a harmonious and highly productive social organisation.

On the other hand, it is not external properties that define various politico-economic models, but their potential. The capitalist and the socialist system had relatively equal capabilities, which let them compete successfully. The modern post-colonial economic model is approximately two times less efficient than both the capitalist and the socialist ones. This can be observed in present-day Russia, as well as in other former Soviet republics. This model is incapable of overcoming this uncertainty on its own. After all, it is hard to qualify as progressive a system that makes production efficiency first plummet, and then increase by a per cent at a time. Without any doubt, the reforms implemented in Russia in the 1990s knowingly made the country less productive.

Therefore, it may be logically assumed that harmonious economy based on real human labour productivity will be at least twice as efficient as the capitalist or the socialist model, and up to four times more productive than the post-colonial one. Upon the implementation of the measures described above, in a very short time the quality of life of the population and the power of the state will increase sizeably, i.e. by 20—30% annually. This will not entail any financial or social shocks, property redistribution or punishment for the offenders. The only thing that changes is the “rules of the game”, for it is not the same thing to play cards as to play chess. That is why the proposed reform will benefit all, from honest entrepreneurs and public officials, to every worker or retired person.

This assumption is based on the following circumstances that will be realized upon the completion of the above-mentioned systemic reforms:

**1.** The economy will be aimed at creation, and not at distribution; it will contribute to making the state more powerful, instead of letting certain individuals get excessively rich;

**2.** Money will have a real labour content. Therefore, it will be inseparable from labour, and it will not be possible to misappropriate, or steal it, as well as use it for bribes, or send it abroad, which will decrease the level of corruption in the country;

**3.** Money deficit will be a thing of the past; all entrepreneurs and enterprises will have sufficient money at their disposal for serving the commodity mass they produce at the market;

**4.** Inflation will be eliminated; money will become a fixed instrument for productive activity, and control of all economic processes. As the result, “long money” will emerge, which is required for the implementation of commercially unprofitable but socially required projects.

**5.** Prices will be objectively justified. Their average amount will be limited by the fixed amount of money required for serving the entire mass of commodities produced. This means that the increase of prices for a specific item will be followed by a decrease of prices for other goods. Then the actual social labour intensity of the goods

and services will become visible, and the market will contribute to the optimisation of human capital consumption, instead of financial capital consumption;

**6.** Foreign trade will be balanced, and the external and internal economic conjecture will be predictable, while exploitation of certain economies by others will disappear;

**7.** The administration of the state and all economic entities will perform its functions diligently. It will be more controllable, and the quality of its work will increase;

**8.** Labour amount-based system of labour remuneration will be implemented, so that the interests of the workers and the entrepreneurs, the state and the society are reconciled. Everyone will be interested in the results of enterprises activity, and will aspire for a fair distribution of their distribution. The human being will no longer be judged by the nation, race, clan, or class they belong to, but by their capacity to work. Then, all social problems will be automatically resolved. The society will be governed by equality and law, instead of egotism and avidity;

**9.** Unemployment will be gone, because human labour will be the only source of revenue. In addition, it will be pinned to the money required for the sale of the goods it produces;

**10.** Taxes will no longer finance state spending, but will be turned into mechanisms of provision for the collective and social needs of the taxpayers. As the result, no budget deficit will be possible at any level, and taxes will become one of the most efficient tools of economic management under market conditions;

**11.** Natural resources will be better processed, which will improve the environmental situation of the entire human habitat;

**12.** Science, education, and production will enter into a harmonious synthesis, which will significantly increase their joint productivity. Finally, the global contradiction between labour and capital will be resolved.

Is there an honest person that will refuse to live and work in such a state?

Besides, as it has already been mentioned, all these achievements will not result from targeted actions, but will naturally ensue from the implementation of the four systemic factors described above that are the pillars of the new system.

Harmonious organisation based on real human labour productivity will contribute to the revival of the human creative potential, will promote the recovery of the honour and decency, and encourage the moral and ethical development of the society. In addition, it will create the conditions for the realisation of the inexhaustible human potential that has long been under the burden of ideologic and political dogmas, of ambitions for power, and selfishness of the ruling elites.

There is another essential factor to point out. All known programmes devised by modern economists assume that the most vital issues of the country be resolved first, followed by the remaining problems. However, in reality, all economic factors are so tightly bound to each other that the attempts to change any single one will be inevitably resisted by all the other factors. Therefore, parallel or consecutive modifications will not help improve the situation. Any proper system is capable of defending its inherent structure.

That is why the current global crisis is not a local problem that emerges and dies away from time to time, but a phenomenon that affects all aspects of life of states and

societies, without exception. By consequently, it can only be stopped by systemic measures that resolve several issues at a time. It is not about gradual modification of each of the factors, but about changing the rules of economic interaction, changing the very form of social organisation.

In addition, almost none of these programmes embraces the factors described above. They are treated as “sacred cows”, that are untouchable and immune to radical changes. But unless the economy changes radically, can we expect it to improve in quality?

The proposal presented in this monograph comprises systemic measures for economic harmonisation, which, in turn, create favourable conditions for a smooth transition to the new system. This means that the harmonious principles will serve as the basis for the implementation of auxiliary measures for resolving specific problems of the state and the society, of territories and production entities. They will help provide the population with quality foods, education, healthcare, culture, infrastructure, etc. Only then will these factors be integrated in the social organisation system and shape its complete, coordinated, and harmonious image.

By consequence, the country and each of its territories will become healthier; the economic and political conjecture will be protected from neighbours’ expansion and from aggression of financial actors. There will be finally some order to restrain the current chaos. The state will become a solid, integrated, and harmonious structure, liberated from outrageous extremes and faults that are so common today.

Still, this is not the most essential change. The modern economy is fed by the meanest human qualities: avidity, cruelty, and permissiveness. As the result, the moral and ethical pillars of the society deteriorate, and the psychology of normal people is deformed. Thus, the risk of transformation of certain latest developments of science and technology into a scourge of the humanity is accrued.

The theory presented in this book is so simple and evident that it can only reflect the actual processes that occur in Nature. Therefore, the laws it is built upon are already active, and they try to penetrate through the centuries-long obstacles that were artificially drawn by human selfishness and thirst for power. Similarly, Newton’s law worked even before they were discovered. That is why, sooner or later the organisation described here will become a reality, notwithstanding the current economic opinions. The faster this change occurs, the bigger benefits will be reaped, and the less significant the destructive consequences of the existent neoliberal doctrine will be.

In conclusion, this book is not about the economics that exists today, but about the economics that should be, about a system that would not distribute social wealth, but multiply it, and serve all people, instead of the select few.

The issue of economy harmonisation is particularly burning today. Indeed, throughout the twentieth century and at the beginning of the new millennium still, Russia has been deceived, destroyed, robbed, and humiliated, because the western economic model that the country employs does not conform with the national mentality. The situation will not change until Russia adopts its proper harmonious system of social and economic organisation that will respect the natural laws and reflect the Russian national character.

The entire world is currently living through a deep crisis that engages ideology, politics, economy, spirituality, and morality. This crisis is the precursor of global changes. It announces the formation of a new World Order, capable of resolving the problems that have accumulated. The new Order will be based on kindness and justice, and will reject the selfish and aggressive dogmas. It will allow people to lead a decent life not through exploitation and suppression of other peoples and nations, but thanks to their own talents and labour.

To make this new World come true, strong political will, targeted state influence, and absolute support of the people are required, and the latter cannot be assured in any other way than by living up to the human ideals of Truth and Justice.

Saint-Petersburg, 1960 — 2018

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Modern economics, which is powered by profit, and not by benefit for people, inevitably follows pecuniary principles, and lives from rent and exploitation. It fails to stand up to modern challenges. For economy to turn into a plant producing useful goods, it should give up all liberal principles, change the economic philosophy, as well as its priorities and instruments. The theory and the properties of such an economic model are described in this monograph.