

Interests and Coalitions

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We must see the urgent need of the broad social coalition for the modernization of Russian society itself, business and the Russian state.

Russian society realizes that the problems it is facing today are rooted not only in its Soviet past, but also in the nature of its transition period. The transition has resulted in an irreversible departure from the Communist experiment of the twentieth century and in the formation of a new Russian capitalism marked by profound inequality and broad diversification of the interests of various social groups, regions, and types and groups of businesses. Therefore, the nation as a whole should be modernized by revamping its civil society, the economy and the state. The prospects for economic growth in the country remain generally favorable, which makes it possible to set new, much more ambitious tasks.

It is also important to understand the current and long-term interests of the players taking part in the transformation, and where these interests differ or coincide. Conflicts of interests may slow down development, but a coalition of social forces in the interests of the country's modernization also suggests self-restraint; that is, making it impossible for the main players to achieve their current goals in the here and now.

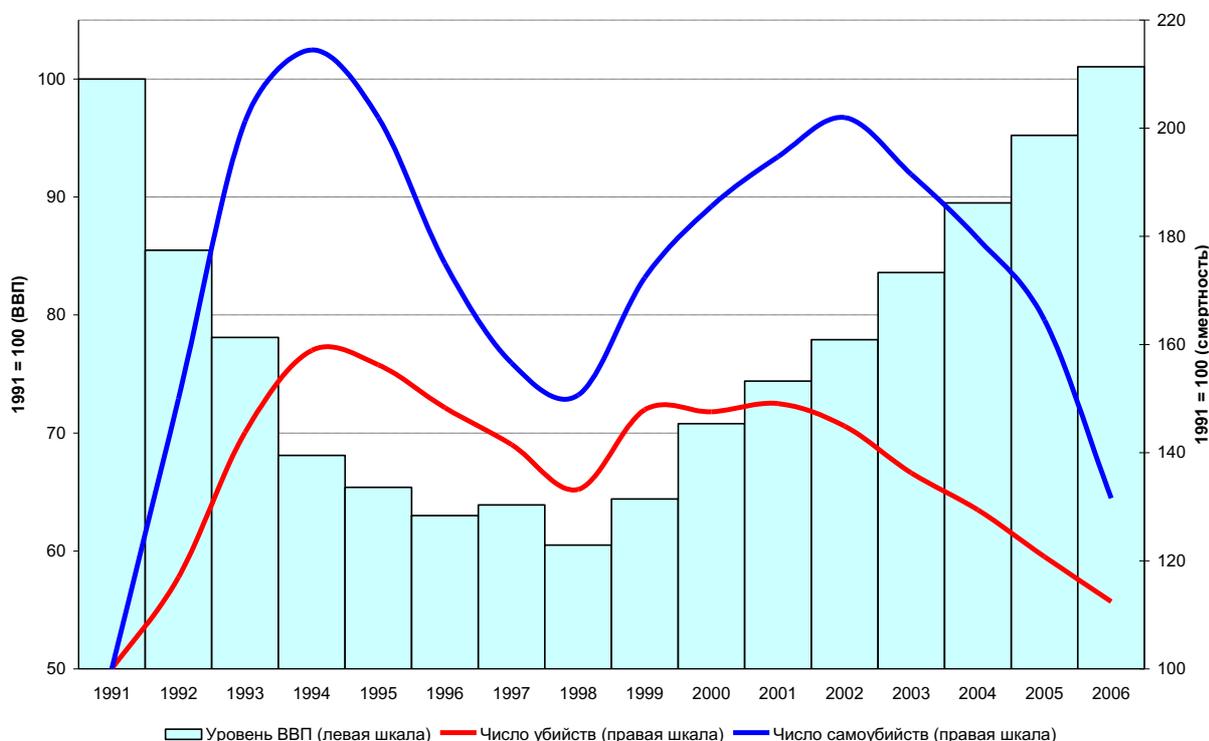
The general goals of Russia's modernization in 2007 largely coincide with the goals of the transformations in the late 1980s and early 1990s: the development of democracy, the formation of a civil society, a growth in Russian living standards toward the European level, an effective economy, the reorganization of the state in these new conditions, and a withdrawal from senseless global confrontation. In other words, Russia would like to emerge from the Soviet political system and the Cold War without lowering the country's standard of living, but while maintaining the development of science and culture, the stability of the state and the country's position in the world.

Russia, in the previous period of its history, faced the problem of "triple transition:" from the Soviet (authoritarian) state to a democracy; from a planned economy to private property and the market; and from a republic within another huge country toward an independent state. Russians under 35 years of age never experienced a planned economy and they did not live in Soviet society or in the Soviet Union (as adults). Stable economic development during a transition depends largely on the supremacy of law, political stability, security, and reliable guarantees of property rights. The combination of these three transformation processes resulted in enormous adaptation costs. The decade of crisis only briefly suppressed people's natural need for a normal social life, for a dynamic economy and an effective state. Poverty made them endure or emigrate and now a better standard of living is causing people to set higher standards for their quality of life and economic policy, and these standards will keep increasing.

Russia's macroeconomic success over the past few years has created a feeling of euphoria among the political elite; as everything seems possible now – from social stability to modernization and an active foreign policy. Many of the problems of the previous fifteen years have gradually become insignificant. The government now has the freedom to maneuver in using budgetary resources; and additional funds are available for social programs, the Army and the defense sector. Leading oil, gas and steel companies have amassed huge financial resources and have actively started positioning themselves on the global market. Real personal consumption has grown at an average annual rate of 11 percent over the past eight years, or to approximately 80 percent higher than in 1999.

However, even this strong growth over many years has failed to solve many of the country's pressing problems. The magnitude of these problems can be measured indirectly by a drop in GDP, which has fallen 43 percent from the 1989 level. GDP losses amount to five yearly volumes of 1989 (the maximum level) over the period from 1990 to 2007. Even if we assume that GDP will grow by 2 percent, GDP losses would already equal seven yearly amounts. The depth of the social crisis in the country can be illustrated by the trends for murders and suicides (Graph 1). Russia's 1998 financial default fueled a wave of depression among Russians, even though there was a quick rebound in GDP growth. The number of violent deaths only dropped to the early 1990s level by 2006.

Graph 1. Rates of murders, suicides and GDP (1991-2006)



*** GDP (left scale) xxx Homicides (right scale) +++ Suicides (right scale)

1991=100 (GDP) 1991=100 (death rate)

Source: Federal State Statistics Service, estimates by the Institute of Energy and Finance

Russia lagged far behind developed democracies in many ways when the transition period just began. The costs of the transition and the severe consequences of the crisis – in particular, social costs and losses of human capital – increased this gap still further.

Two decades later, one can see what development opportunities were missed, where foreign competitors have caught up with and overtaken Russian producers, what kind of people have left the country and where they have gone. The results of global competition over these years are immense; new countries have entered a period of rapid growth, including in industries where Russia had some chances.

Russia has considerable reserves today, yet they are not large enough to implement a large-scale modernization of the country. In the current market-based world, a country can administer budgetary financing within a few percentage points of its GDP – business must make the main investment of 15 to 20 percent of GDP. The fifteen years of post-Communist development have been lost from the point of view of renovation and modernization. Forecasts for rapid modernization without adequate institutional grounds are only consoling fantasies.

Russia must now work out a development and modernization strategy for the next generation, and not just for another political cycle. Russia is hoping again for a large-scale modernization, for an improvement in people's living standards and for a respectable place in the world in the third millennium. These general goals unite all the public forces in the country, but the objective situation of individual groups makes them rivals with regard to each other, with conflicting interests.

GROWING INEQUALITY

A general growth in consumption amid economic growth stands in contrast to growing inequality. Russia has changed from a quasi-egalitarian Soviet society to a society with an Anglo-Saxon income structure over a short 17 years (see Table 1). However, it is wrong to evaluate social inequality based only on income and consumption. The available data on property is incomplete, while the huge concentration of property in Russia, to all appearances, is comparable to or even superior to the situation in major Latin American countries. This kind of social structure (especially the distribution of property and income) supposes to be highly rigid: the concentration of wealth and poverty on the fringes of society. The Anglo-Saxon version of social inequality, even though it is characterized by a high disparity, still has chances for a vertical mobility.

The division of the Russian population into the well-to-do (20 percent), the medium income (40 percent by Russian standards) and the poor (40 percent) does not coincide with similar categories in European countries. The 40 percent medium income layer is part of the middle class in developed countries, which is a source of stability. The income and consumption levels in this group in Russia

are not enough to live comfortably. This induces feelings of injustice and this group exerts pressure on employers and the state for higher social spending. The income distribution structure in Russia has gradually stabilized over the past decade: the rich 20 percent account for about 50 percent of total income (40 percent in Europe), the medium-income 40 percent range account for 35 percent (40 percent in Europe), and the poor 40 percent account for 15 percent (20 percent). It is important that the richest ten percent people in Latin America and Russia account for 35 percent of visible income (25 percent in Europe).

This disparity narrows the political choice for Russia: one can expect a struggle among various social programs, which may result in keeping the structure or its enhanced mobility – movement “from Latin America to the United States,” rather than to Europe.

Table 1. Inequality: Income distribution of population (2005), by quintiles, %.

	Russia	U.S.A.	Germany	Poland	Brazil
GDP per capita, \$'000 (PPP)	12.1	43.4	31.1	14.9	9.1
First (min income)	5.5	5.4	8.5	7.5	2.6
Second	10.2	10.7	11.4	13.7	11.9
Fifth (max income)	46.4	45.8	36.9	42.2	62.1
Gini index	0.405	0.408	0.283	0.345	0.58

Source: World Bank, IMF, estimates by the Institute of Energy and Finance

Social disparity is noticeable even in Russia’s developed regions, but friction is checked by a fast growth in consumption, owing to income in the private sector and to the national budget. With an average annual growth in real consumption at 11 percent, even the poorer sections of the population believe that their living standards have improved somewhat. However, there are still dangers for social stability: if overall growth rates for income and consumption slow to a moderate 3 to 5 percent, many groups of the population may find themselves in the zone of “zero consumption growth” – especially if the situation remains tense in the social sector. Therefore, a deep distribution conflict is emerging inside Russian society at its present stage of post-Soviet development.

Unfortunately, despite statements by reformers about the importance of the middle class, little has been done so far to support the intelligentsia. The latter now has the right to go into business and to emigrate, but there is an absence of clearly stated intellectual property rights. In order to implement technological ideas, their authors still prefer to go to the West and use the services of Western

innovation firms. Furthermore, the government does not protect small businesses against extortion, protection rackets or corrupt officials.

The emerging middle class is still relatively small, yet its influence and role will grow. Yet the question is how this growth will affect the socio-political processes in the country and how soon the influence of the middle class will become comparable with the “weight” of bureaucracy and big business. Most of the Russian middle class still has limited assets and limited financial stability; therefore there is not much hope for its political activity. In addition, there is a distribution conflict between groups within the middle class: businessmen must pay taxes, while scientists and the bureaucracy have quite different views on how these tax revenues should be spent.

The weakness of a civil society in Russia is acknowledged not only by its active members, but also by representatives of the authorities and business. On the face of it, businesses and the authorities find life easier when civil society and its organizations cannot exert strong pressure: the weaker public control, the less accountability on the part of businesses and the authorities. In a situation like this it is easier for corporations to evade responsibility for violations of labor or environmental legislation. The local authorities find it is easier to ignore public complaints about corruption and other violations of public interests. Unpopular ministers find it is easier to “survive” in their posts. However, this “easiness” results in losses for the country in global competition and affects how state and businesses can withstand external challenges. The weakness of civil society and the limited possibilities for political competition or for influencing the decision-making process only create an illusion of peace and bring about mistrust, disappointment and cynicism among the country’s citizens. Given a favorable economic situation and a growing resource rent, Russia can continue living in this way for another five to ten years, but it cannot be modernized under conditions of mistrust and social apathy (especially among businesses and the intelligentsia). A civil society is one of the foundations of a government and a partner for business. The consolidation of civil society and the improvement of citizens’ well-being would mean the success of the country’s transformation. Currently, however, the weakness of civil society is slowing down Russia’s modernization, while inequality is a potential threat to it.

CENTER VS REGIONS

The redistribution of budget revenue from exporters of natural resources in favor of agricultural regions has a very limited impact on a regional development. Some studies have revealed that such a policy has a disincentive effect on both recipients (an addiction to dependency) and donors (“the government will take away revenues all the same”). Adjusting the budget does not help to even out regional development – despite economic growth, the gap between regions is only deepening (see Table 2). There is a conflict between consumption and accumulation in economic terms – subsidy recipients use these funds largely to maintain consumption. Therefore, the transfer of financial resources from the rich

to the poor has a dual effect – donors cannot invest the resources, while the recipients become accustomed to consumption for free. In Russia, there is a strong similarity of their GRP (Gross Regional Product) dynamic between the more and less developed regions, while medium-developed regions are going along a different path. This observation points to two implications: economically weak regions have sufficient bargaining power to get a share of the country's progress through federal redistribution mechanisms; rich regions are capable of preventing this redistribution from affecting their growth rates.

Table 2. Share of regional groups in Russia in major economic indices (2000-2005), % of national totals.

	Population		Gross Regional Product		Export	
	2000	2005	2000	2005	2000	2005
Metropolitan areas	14.6	15.1	27.6	29.9	30.3	39.4
Exporters	10.8	10.8	20.4	21.9	27.8	23.0
Balanced industry	27.4	27.3	24.8	22.8	25.8	20.6
Medium-developed (coastal) regions	13.9	13.9	10.7	10.0	8.7	7.6
Medium-developed (inland) regions	11.6	11.2	6.8	6.6	3.9	5.6
Less developed regions	21.7	21.7	9.7	8.7	3.5	3.8

Source: Federal State Statistics Service, estimates by the Institute of Energy and Finance

The greater the distribution spreads of income in the country, the more difficult and more intensive redistribution conflicts may be. In Russia, there is a conflict between poor strata of the population in the more developed regions, for example in metropolitan areas, and poor regions. It goes just the same as developed countries in the world have to choose between the aid financing for developing countries and for the poor in their own societies. Alike poor regions in Russia are also demanding redistribution and aid, but their interests often do not coincide with the general interests of the poor sections of the population in developed regions.

There are significant differences between various Russian regions regarding their economic development, institutional settings, and the conduct of local political and business elites. These differences are comparable to the global diversity of countries in the United Nations. This factor, along with the equally complex diversity of borders and neighbors, plays a crucial role in Russia's domestic policy and complicates dramatically the process of modernization. Significant regional differences and gaps in standards of living are typical for many countries, including in members of the European Union. The EU is trying

to make the development levels of its members more balanced, but the gaps between these levels in EU countries are much less than the gaps among Russian regions. In Russia, the regional factor (not to mention national, religious and other peculiarities) requires balancing very diverse interests, a system of incentives, compensation, etc.

CONTRASTS IN RUSSIAN BUSINESS

Russian capitalism has been developing in a very unusual way and it is still very far from looking like the models that many thought it would follow.

Unlike “normative” privatization, which supposes specification of property rights and a possibility for new owners to receive guarantees of the inviolability of these rights, Russia used a method of maximum de-specification. It resulted in weaker corporate control and the concentration of huge controlling stakes (full control only at 75 percent of shares – much higher than is practiced in Western business) required for resale or for preventing hostile takeovers. The restoration of clear-cut property rights will require a great deal of time and effort. Moreover, a phenomenon of “quasi-hidden” owners has emerged, who are represented on boards of directors through nominal offshore holdings, yet these owners do exist, use their rights, manage their assets, etc.

Russia is the largest economy in which the bulk of private property belongs to offshore owners rather than to national owners. This factor explains why transactions to buy or merge companies are conducted abroad – such transactions often do not affect processes of domestic fixed capital formation .

There are several categories of co-partners exercising control over production assets in Russia who want a share in income (rent). These include former and incumbent officials, shady-business figures and representatives of local administrations who took part in the initial privatization or assisted in its implementation, but who could not make legal claims and become shareholders, and who now claim that they have a right to income as hidden creditors or portfolio investors.

Due to the lack of clear-cut property rights, privatization dragged on and entered a phase of redistribution, which continues to these days. If an owner receives assets at zero value without encumbrance, he does not have much incentive to maximize the current value of these assets. It is much easier for him to resell his assets until their value reaches the market level than to bear the commercial and other risks of a strategic investor. Redistribution may take the forms of seizure, false bankruptcy, or abuses of material and procedural law in corporate conflicts.

There have never emerged (from privatization) millions of shareholders in Russia because of the high concentration of property, large controlling interests and offshore ownership. The Russian population is not very interested in buying shares, which is one of the obstacles to the legitimization of large amounts of private property in the eyes of citizens.

The legitimization of property acquired through privatization has slowed

down greatly. A formal amnesty has already taken place: the statute of limitation for privatization transactions has expired. The government has made respective political decisions to prevent the institution of legal proceedings against violations committed over the course of privatization, but Russians still have a deep mistrust toward large private property. The vague nature of the property rights and violations committed during the transition period open up the possibility for new players, who did not participate in the distribution of assets in the 1990s, to demand some share now, for which they often do by using so called “administrative resources”.

Many “co-partners” seek advantages that are not related to the creation of wealth and new value (rent-oriented behavior, accompanied by the disguising of the true owner and his income), which keeps high risks for owners. The rate of national savings stands at 33 to 35 percent of GDP for years, while the rate of accumulation only rose from 16 to 19 percent in 2001-2006. There is a surprising phenomenon at the same time: there has been capital outflow amounting to at least 10 percent of GDP a year during the last seven years along with relatively expensive and short money inside the country. The balance of payments for 2006-2007 is unusual (for other countries), as well: there is huge capital outflow which stands in contrast to a huge import of portfolio capital. Russian companies borrow heavily abroad, while Russian securities and the stock market as a whole have become attractive again for portfolio investment. However, an investment boom is not coming.

All of these factors have a negative impact on the pace of the country’s modernization, increase risks for business projects, and create a feeling of dissatisfaction among the educated population and the political elite. Ministry forecasts and programs have kept their plan for the accumulated growth rate unchanged at 25 percent for the past ten years. Now the state is trying to involve big business in large-scale projects through public-private partnerships. Thus, it is actually offering a deal: reduce political risks and support the export of capital (for macroeconomic reasons the government must get rid of excess savings all the same) in exchange for cooperation in the investments.

DOMINATION BY GIANTS

The emergence of two dozen Russian companies on the global arena, while Russian per head GDP is at \$7,000 (or \$12,000 if measured by the purchasing power parity), came as a surprise for many outside observers. The formation of a group of national giants in Russia is following the path earlier taken by other mid-developed countries (Brazil and Spain), yet the industry diversity is much broader. Together with large companies from India, China and Brazil, Russian business is entering the fast-growing second tier of world corporations. By using its natural advantages, they are making its way into the ranks of the global majors. These advantages naturally include government support, as it happened during the advancement onto global markets half a century ago and now – of large companies that are member countries of the Organization for Economic

Cooperation and Development, among them Airbus, Statoil, Air France or South Korea's *chaebols*. The consolidation of Russian companies in the aluminum, shipbuilding and aircraft industries and their emergence as world heavyweights in their respective sectors is in line with global trends.

The performance indicators of Russia's leading companies (see Table 3) largely resemble figures for U.S. companies during the first few decades of the twentieth century, which were marked by a high concentration of capital and savings. Unlike small businesses, which are unable to effectively resist the bureaucracy, large companies are better protected against corruption and can prevent the diversion of their funds from investing. At the same time, the consolidation of the public sector in large-scale industry may provoke a conflict of interests in such a sensitive area as property rights, which shapes the vector of development.

Table 3. The share of the 10 largest companies in some countries (2006, % of GDP) ????

	Sales	Net profits	Market capitalization
Russia	28.9	5.1	66.7
U.S.A.	14.1	0.9	13.0
Germany	34.8	2.6	20.2
Brazil	19.7	2.5	27.9

Source: Financial Times, Forbes, estimates by the Institute for Energy and Finance

The domination of giants complicates the performance of medium-sized regional and small businesses. The latter suffer because their interests are ignored by officials and large companies. Meanwhile, small business is a natural occupation for the active part of the population and immigrants and it needs a special economic environment and the restoration of pre-Soviet forms of relations with the population and the state, especially regional and local authorities. The problem of developing medium-sized business is related to foreign competition and access to financing on domestic markets, which is more expensive and short-term. Small and medium-sized businesses gradually take root in a free economic space. If the rent-oriented behavior of large local companies and the authorities does not slow down the legalization and the development of competition, the development of small and medium-sized business will promote the growth of the national economy, accelerate vertical social mobility, and may liberalize economic activity from bureaucratic oppression. The legalization of small businesses depends primarily on the nature of taxation and on the reduction of unofficially paid rent and corruption. Businesses cannot function normally if they have to pay "double taxes" – the official one is paid to the state, and the other, unofficial one is paid as "protection money" to racketeers ("roof").

The state acted as a creator of formal institutions during the transition

period. Simultaneously, the State as *reformer observed* the emergence of informal market and property rights institutions, apparently failing to keep pace with the course of events. The need to transform state institutions amid a deep and multifaceted crisis caused difficult problems for the new state and its apparatus. One such problem was the initial impoverishment of the bureaucracy, which had previously belonged to a relatively privileged group. One can say that at the start of the reforms Russia had a Reformer-government (whether it succeeded or not is another matter), but did not have a government that would be capable to regulate economic activity.

Decision-making was ineffective because of an internal struggle for power and influence and because of difficulties involved in the formation of a new elite, which is inevitable in a new state. Additional difficulties were caused by the conflict of interests between the new business class and the old nomenklatura, as well as by the interference of regional elites. Plans for the first few years of reforms reflected “institutional nihilism”. Conflicting interests were not understood and formulated, and no attempts were made to link formal institutions with the real behavior of economic agents. In those years the people still believed that the market would itself form a basis for effective economic management. The vacuum of institutions was in many ways filled with chaos; the dominant positions were taken by various informal institutions, which now will have to be painfully reformed.

The later strengthening of the state changed the balance of forces and the state apparatus began to grow again. The federal apparatus increased from 377,000 to 593,000 employees in the period from 2001 to 2005 alone, while the number of executive agencies grew from 60 to 84. The number of federal officials (not including with law enforcement agencies or in the Armed Forces) increased 20 percent in 2005, (and 29 percent since 2001). The ratio of this number to the total number of employees in the country grew from 2.6 percent to 4.15 percent. In 2006, the total number of civil servants in Russia increased by another 8 percent. A growing economy makes such enhanced regulation unnecessary, while administrative barriers and bureaucratization are the main obstacles to modernization. Business administrative costs are still high and the number of supervisors and their powers and rights keep growing. Meanwhile, innovative-based development presupposes maximum freedom for scientific and social creativity and a high level of vertical mobility. Figure 2 illustrates not so much the growing number of civil servants as the ineffectiveness of the government apparatus. Highways are complex facilities which require stable property rights, transparency of the nature of financing and management principles, as well as a balance of interests between users and the authorities. The fact that amid intensive economic growth the number of highways has not only failed to increase, but has even begun to decrease is a clear indication of inadequacy of the institutional basis of investment process in the country.

Graph 2. The number of government officials and the length of highways with solid pavement (2000-2006).



Number of employees at federal and regional authorities and local self-government agencies (in thousands), left scale

Length of highways with solid pavement (in thousands km), right scale

Source: Federal State Statistics Service, estimates by the Institute of Energy and Finance

There is no doubt that a strong state is needed to implement any chosen policy and oppose special interest and lobbying groups. Many problems of development and modernization cannot be solved without a full-fledged government. At the same time, one should not mix up the interests of the state and those of bureaucrats who now seek growing and excessive control (that is, control that is not necessary for effective market operation), which increases business costs and brakes productive investments .

Corruption has become a national problem, while mistrust toward government agencies and officials at various levels inevitably reduces the effectiveness of governance. Universal corruption is now viewed as a norm, which is making the public even less hopeful for legal solutions to even simple problems. The implementation of laws, even the most reasonable ones, is still a problem in Russia. New legislation is often passed hastily without considering the possible side effects and long-term consequences. Occasional campaigns against individual corrupt officials cannot change the situation. Moreover, the repetition of such campaigns, especially if they fail to produce stable positive results, will require ever more political and other resources.

A strong state is an engine of development, but a state that is too strong is a bureaucratic brake. Attempts to put social development and businesses under

bureaucratic control weaken the innovation potentials of both and complicate the solution of national problems. The Reformer will still have something to do for the foreseeable future: its task is to prevent the Regulator from “cutting off oxygen” to innovations. The state must increase the effectiveness of governance in the next decade, reduce corruption, and see laws are implemented and that the actions of government and executive agencies are predictable.

COALITIONS FOR THE COUNTRY’S MODERNIZATION

Creating a large and long-term coalition for modernization in democratic conditions is an extremely difficult task. A strong leader might play an important role initially, but later the significance of social forces grows. A technocratic implementation of reforms and strategies has its limits – sooner or later the voice of large social groups must be heard.

In stable democracies with a mature market economy, there is a consensus on basic principles for the social and state systems among an overwhelming majority of citizens, regardless of their party affiliation. In Russia, where there is still no consensus on such issues, there is a need to take into consideration the interests of many social groups, which may differ essentially or even to be in conflict. The political parties in the country are unable to consolidate and express group interests.¹

The set of expectations in society and the nature of demands by individual groups may significantly change under the influence of political interests and as the situation changes. Therefore, coalitions may be fluid and change their configuration. Accordingly, the implementation of one or another strategy supposes the creation and maintenance of a broad coalition. For example, a coalition of social forces against corruption may be the most popular and most useful one from the point of view of modernization of both society and the state.

The interests of various social forces may differ considerably. There are dozens of goals for the country’s development, various limitations and conflicts of interests (see Table 4). Yet one must form a coalition of political forces and ensure support for the public and various (competing) business groups in order to maintain a modernization choice for a long time – the most desirable but, unfortunately, not the most likely scenario for Russia.

¹ The programs of Russian political parties do not differ much from each other, especially in election years. All parties recognize the existing problems and difficulties and promise to solve them, not saying a word though about the timeframes, the costs of reforms or how compatible the different goals are. They almost never analyze issues pertaining to the establishment of social coalitions that could support potentially painful reforms and do not mention the need for accord among various social forces. In fact, their programs imply different goals and different methods and instruments for achieving them.

Political parties oversimplify the tasks facing the country and focus in their programs on the public’s well-being, which sounds noble but is not nearly enough. The emphasis on the redistribution processes might bring about rent-seeking attitudes, a waste of resources, and attempts to please everyone and miss out on the chance to modernize the country.

Table 4. Variety of interests and coalition formation (author's judgment by surveys of public opinions)

Groups \ Subjects	Increasing non-oil budget revenues	The country's image abroad	Investment in modernization	Fighting corruption
Intellectual elite	+	!	!	!
Political class	!	!	+	!
Federal government	!	!	!	+
Rich regions	=	!	!	+
Poor regions	!	=	=	+
Big business	=	!	!	+
Regional business	=	+	+	!
Small business	=	=	=	!
Upper class – 20%	=	+	!	+
“Middle groups” – 40%	+	+	!	!
Poor – 40%	!	=	=	!

! – extremely important

+ – important

= – not so important

The specific of socio-economic development and the current political conditions suggest that events in Russia may develop according to various scenarios.

The “Renter” scenario is an attempt to go on living on rent. Various groups in society eagerly support this strategy as long as the federal authorities can continue distributing resources. Under this scenario, modernization is pushed to the background. While there may not be enough resources for everyone; moreover, in case of an external shock (a fall in export revenues or financial turmoil) the risk of a redistribution conflict grows markedly.

The (neo)mobilization scenario is based on the concentration of resources in critical (presumably correctly chosen) sectors, such as the implementation of infrastructure projects, or efforts to increase Russia's economic influence in the world. This scenario supposes large-scale involvement of the state budget financing and state-owned companies and development institutions, as well as semi-compulsory private-state partnerships. The main problem of this approach is the low efficiency of a big government, coupled with a high concentration of resources, which must be maintained for a long time.

The inertia scenario is tactical maneuvering among interest groups, where problems are addressed when they become acute. This is constant maneuvering between populism with the distribution of subsidies and partial mobilization, and

attempts to continue the reform of market institutions in order to meet the interests of various social groups in addressing the most pressing tactical tasks. There is not much of a chance for strategic success under this scenario, yet it makes it possible to meet the requirements of the stronger social coalitions or to suppress emerging threats.

The modernization scenario enjoys wide support in words and has no opponents, yet everyone understands it in their own way. To date, this strategy is the most difficult one for all participants, and therefore it is not very likely that it will be implemented. The modernization scenario supposes high costs for some of the players, while the positive effects for the country and the economy are not immediate and require some patience from both and the population, and elites. Modernization is impossible without a strong civil society, joint progress of market and state institutions, and effective business. Since the modernization of the country and its search for a place in the world will take a generation, a broad coalition – the support base of this project – must exist for a long period of time, although its composition may change.

If the emergence and maintenance of such a coalition is possible – which is not at all obvious – this scenario would be a more reliable basis for modernization than a “benevolent dictator.” However, the New Deal Coalition of Franklin D. Roosevelt, created in the 1930s, united such unlikely allies as southern whites, urban liberal intellectuals, Trade Unions, poor blacks in large northern cities, Poles and Italians, Catholics and Jews, etc. In Russia, the combination of its deep problems, its large national ambitions, and the consequences of the all-embracing crisis leaves a lot for natural skepticism about the feasibility of the modernization scenario.

The first three scenarios would lead the country into a deadlock and each would involve its own group of risks. Although they do not pose any immediate critical threats, they do not solve the main problem of the country either, namely universal modernization and advancing to a new level of development. Attempts to overcome a serious crisis and launch the process of modernization can be compared to trying to climb out of a deep well. Neither the state, nor business nor civil society can possibly climb out alone on its own. The three forces will only be able to move upward if they realize that they must pool their efforts (pressing backs of all three) to transform the country. And one must keep in mind that they should not try to climb over each other, or they fall into the well down back.

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