

# ECONOMY AND SOCIAL ENVIRONMENT

Author\*: Oleg BOGOMOLOV

**Abstract:** Market reforms in the post-socialist countries have brought into sharp focus the problem of interconnection and interaction between the economy and the social environment. The economy is inseparable from politics and the operation of the political system, from the state of the social consciousness, the moral and cultural level of the population and from many other aspects of human life and behavior, in short, from everything that can be described by the concept of social environment. Society in every country is a single organism with closely interconnected and interacting parts and systems. Their conjugation and mutual influence are not always apparent and are often overlooked. It is quite easy to see how changes in policy affect the economy and then trace the feedback effect of the economy on policy. It is more difficult to discern the direct and feedback relationship of the economy with administrative relations, with the state of culture, science, morals and public opinion. Meanwhile, an underestimation of these mutual influences is a frequent cause of failures in socio-economic transformation. It is to be regretted that the reforms in Russia were accompanied by a dangerous disruption not only of the economy, but also of the entire system of social relations. What was primary here and what was secondary? In order to answer this question the paper takes a theoretical look at the problem of interaction between the economy and the social environment.

**Key words:** Development Planning and Policy; Economic Development

**JEL Classification:** P20

## Does Politics Have Primacy Over Economics?

Marxist theory holds that the economy is the basis for the political, ideological and cultural superstructure, that material being determines consciousness and that, consequently, the role of the political superstructure cannot be decisive. Current reality is at variance with these assertions. The revolutionary breakdown of social relations in countries that first took the road of socialist construction and then proceeded to dismantle that system and restore capitalism shows the indisputable primacy of ideology and policy over the economy. At any rate, this has been the case in recent decades, if not over the centuries.

In times of transition, the political choice and will of the new authorities determine the overall vector and the stages of change in the economy. Sound political decisions and properly chosen strategy and tactics ensure success, whereas erroneous policies are fraught with economic disasters and social upheavals. Of course, even a sensible policy will not guarantee good results unless the authorities control the situation in society and have at their disposal effective instruments for achieving the set goals.

The policy in question consists of the ideological tenets and actions of the policy-makers at the head of the state designed to maintain and consolidate power and to create favorable economic, social

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\* Akademik O. Bogomolov, Institut za međunarodne ekonomske i političke studije Ruske akademije znanosti. Ovaj je rad prezentiran na međunarodnoj konferenciji koju je organiziralo Hrvatsko društvo ekonomista pod naslovom "15 godina tranzicije", u povodu obilježavanja 80-godisnjice Dragomira Vojnica. Konferencija je održana u Zagrebu, u hotelu "Westin", 4. studenog 2005.

and external conditions for the country's development. True, it sometimes happens that policy is mostly confined to an effort to protect the interests of the powers that keep the reins of government, while national interests are pushed into the background. In short, policy is inseparable from government, from the government structures and mechanisms used to put this policy into practice.

Any policy rests on definite ideological tenets or, in other words, has an ideological component. It is known that ideology takes shape on the basis of theoretical concepts assimilated by the ruling class. Views and theories prevailing in society, even when they are erroneous, can for a long time hold sway over people's minds, set the course of policy, shape the economy and determine the social setup. Herein lies the distinction between knowledge about society and knowledge about nature.

Cognition of the laws of nature helps man to influence the natural world, but it cannot repeal these laws even for a time. The object of research lies outside the human consciousness, existing and developing independently of it. Society is a different matter. Social development laws formulated by scholars, even when their knowledge is false, can be adopted as a guide for state policy, be disseminated by the mass media and become an official ideology; they can govern the behavior of millions of people and change the very nature of society, at least for a time. The object of research undergoes a change and falls into dependence on the dominant ideology and theoretical views. One gets the impression that the given theory is correct, because the social system itself has been fitted to the theoretical model.

History has seen many examples of such social distortions. The record of socialist construction based on the Bolshevik doctrine is a case in point. I believe that Russian society today has also fallen victim to yet another ideological experiment. But sooner or later the fallacy of the dominant type of social thinking and behavior reveals itself, often through crises, cataclysms and revolutionary upheavals, and scientific truth, previously unknown or unacknowledged, finally prevails in the minds of the political elite and the general public. In all likelihood, such a future is also in store for Russian liberal fundamentalism, which has been at the root of state policy for more than ten years now and whose impotence is ever more apparent.

The main deficiencies of the Russian economy today are clearly demonstrated in a fundamental work by Professor Stanislav Menshikov, *An Anatomy of Russian Capitalism*. He writes: "Our capitalism as it has taken shape over the past ten years was bound to take an oligarchic turn, that is, to tilt towards absolute domination by a few banking and industrial monopoly groupings. This inevitably entails two other fundamental macroeconomic disproportions: (1) a skew in the economy in favor of natural resource and fuel industries oriented towards the external market and generating immense superprofit (rent); and (2) a huge imbalance in the distribution of national income in favor of gross profit at the expense of wages and salaries, and this implies a narrow domestic market, extreme poverty of a significant part of the population, and the economy's inherent inability to grow at a sufficiently high and steady rate without any special props in the form of favorable conditions in the foreign market. Such an economy is caught in a trap from which it can escape only through a radical breakdown of its oligarchic structure with the state playing an active role."<sup>1</sup> There is a growing public awareness that such a situation cannot last and that the political line has to be reviewed. And the sooner this is done the less risk there will be of major upheavals. Changes in the social consciousness will sooner or later bring about changes in politics, economics and the state system.

On the other hand, even a reasonable and justified policy can prove to be a failure if it ignores the people's inner spiritual world and their habitual perception of the surrounding environment. The mental attitudes of large masses of people are sufficiently inertial. Having taken shape in definite conditions, the human consciousness is not prepared for rapid or drastic change, to say nothing of "shock therapy" transition from one social system to another. In order to avoid a sense of spiritual bankruptcy and

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<sup>1</sup> S. Menshikov, *An Anatomy of Russian Capitalism*, *International Relations Publishers, Moscow, 2004, p. 7 (in Russian)*.

confusion among the masses and to prevent a dangerous split in human minds, the transition should be gradual, with a certain degree of continuity between the past and the present.

For example, one should not ignore the traditional notions of good and evil, honesty and dishonesty, human dignity and solidarity. It is dangerous to discard overnight people's notions of social justice fostered during the years of communism. Ideals motivate people and consolidate society. The educational role of ideology and policy, their ability to inspire masses of people with new understandable goals and to uphold society's moral and cultural values are crucial to the formation of a healthy market economy.

Since the political superstructure in the post-socialist countries is undergoing reform as well, this raises the question of what kind of innovations can best help to select optimal decision alternatives and guarantee against serious miscalculations. Or, more broadly, how to organize political power so that it would best promote social stability, the rule of law, respect for civil rights, selection of the most talented and honest politicians and business people, and enhancement of cultural and moral standards? All of these are known to be important prerequisites, even if not necessary conditions, for the economic welfare and prosperity of a nation.

Faced with difficulties and social instability in the transition period, some ideologues and political leaders are inclined to turn to the idea of maintaining order with the help of authoritarian rule. In their opinion, democracy at the stage of transition to the market, when unpopular measures have to be taken, hinders the implementation of economic reforms. The politically immature population may support unworthy politicians, put its trust in populist appeals and come out in protest against progressive but as yet not understood innovations. That is why, they argue, free elections do not always guarantee the establishment of effective and trustworthy institutions of government. They see the way out of this situation in a transition to democracy managed from above, which in actual fact amounts to an imitation of democratic institutions or even to a replacement of "government by the people" with downright usurpation of power, appointment of cronies to positions not only in the cabinet, but also in regional governments. However, such ideology and policy are usually driven by self-interest: by an urge to retain power in the conditions of growing discontent among the electorate.

It goes without saying that people in the post-Soviet (FSU) countries cannot be expected to enjoy the benefits of democracy right away and without much difficulty. After long years of totalitarian rule, the population has little experience of taking part in free elections. The habits of the past are still alive in the thinking and behavior of the new democratic leaders. The multiparty system is still in a state of flux, and political parties are at the stage of emergence and self-identification. Civil society institutions are just beginning to take shape. Voters have no immunity to the various tricks being used to manipulate their opinion, let alone to electoral bribery. Meanwhile, electoral techniques are becoming ever more sophisticated, and ever more money is being spent on advertising campaigns, mass rallies and demonstrations in support of the appropriate candidates. Financial and political involvement by the West on the side of politicians who suit its purpose is practiced ever more frequently. All these manifestations of immature democracy were in evidence during the latest presidential elections in Ukraine and Georgia, and Russia here is no exception.

In short, it is quite possible to find arguments in favor of guided or decorative democracy, restriction of political liberties, curtailment of open discussion, and the need to vest the head of state with authoritarian power. Development along these lines is already underway in Russia, especially since the population, apathetic and disenchanted with the country's weak and corrupt elected bodies, may prefer a firm hand and "public order" to democratic window-dressing.

There is a fairly widespread belief that a market economy, rising living standards and the formation of a numerous middle class are a spur to the establishment of democratic political regimes. The only thing to do is to be patient and wait until the market does its job. The general global trend

towards democratization seems to support this belief. However, it would be a mistake to think that political freedoms derive from market freedoms. George Soros, the well-known financier, wrote: "...There is a more fundamental difficulty with the argument that capitalism leads to democracy. Forces within the global capitalist system that might push individual countries in a democratic direction are missing. International banks and multinational corporations often feel more comfortable with a strong, if autocratic, regime."<sup>2</sup> I believe that Russian oligarchic clans would also prefer such a regime, provided it was obedient to them.

Of course, today there are sufficiently influential social forces in the world that are interested in a democratic system of government and are convinced that the economy is in need of such a system. They are particularly influential in the developed and civilized countries. These forces maintain that state power should rely on the support and trust of a majority of the population and that it should be able to resolve social contradictions, consolidating society and so ensuring its stability and progress.

Such democratic mechanisms as checks and balances or separation of powers are the best guarantee against arbitrary action by authoritarian rulers, against political blunders and accession to power of chance comers and cruel tyrants. Many nations have drawn such lessons from their own bitter experience. Characteristically, recent studies on country competitiveness in the world economy regard quality of governance as one of its main indicators. This quality is measured in terms of the effectiveness of government policy and its institutions, competence and integrity of government officials, government transparency and capacity for self-improvement, and the existence of democratic procedures for control of government. Authoritarianism and a hierarchical "power vertical" requiring unconditional subordination of its lower rungs to higher ones imply a suppression of the voice of dissenters, whose rights are thus infringed. In Russia, for example, the imposition of an ideology and policy that do not meet the aspirations of a significant part of society has always led to economic and social upheavals. Thus, as a result of the dissolution of the Supreme Soviet in 1993 by President Yeltsin, followed by tank fire at the parliament building, the advance to democracy was artificially interrupted. Instead of that, the authorities began to imitate people's power, gradually moving away from society and getting out of its control.

The slide towards authoritarianism and presidential autocratic rule has continued under Vladimir Putin. The elevation of a small ruling clan with its own leader and a bureaucratic entourage which is beginning to control the leader calls into question the viability of the political regime. In Russian history, such a state of affairs has time and again resulted in destructive conflicts and toppled thrones. Today this threat is looming up once again. The authorities at every level are increasingly compromising themselves by their inability to resolve economic and social problems and by rampant bureaucratic abuses and corruption. They cannot stop the process of social and economic degradation. The pressing need to clean up the political system calls for a consistent improvement of democratic procedures instead of their phase-out. In spite of its difficulties, this is the only reliable way to consolidate society and ensure sustainable economic development.

The role of the state in the economy continues to be a matter of dispute among scholars and politicians alike. But contrary to neoliberal rhetoric that warns the state against intervention in the economy and private business, reality tells a different story. Government influence on the economy in the industrialized countries over the past century has steadily increased. This is evident, in particular, from the share of state budget spending in GDP. Over the past century, it increased in these countries from 6-13% to 50% or over (see Annex, Table 1). To account for this fact, one should bear in mind that in modern societies there can be no reliable national defense and no fight against terrorism, crime or other breaches of law and order without significant financial participation by the state. Active social,

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<sup>2</sup> *George Soros, The Crisis of Global Capitalism: Open Society Endangered, Perseus Publishing, 1998, p. 111.*

scientific and technical, structural, and also cultural and educational policies are equally inconceivable without government financing, just as a healthy nation or a good natural environment.

Given the essential economic and social functions performed by the state, it is particularly important to upgrade administrative relations. They determine the hierarchical subordination and cooperation of various elements within the administrative apparatus, decision-making and control procedures, and personnel policy. These relations are based on administrative coercion designed to get citizens, market participants, government officials and various agencies and institutions to act as required. By nature they are not market relations, although the market can distort them through bribery and different kinds of pressure. The con-commingle fusion of bureaucracy and business recorded in some transition economy countries is particularly dangerous, since it deprives the market of the benefits of free competition, and the judicial system, of impartiality and independence.

The character of administrative relations depends not only on departmental regulations and instructions laying down the duties and responsibilities of government agencies and their personnel, but also on the personal contacts of government officials, their honesty and competence, and their likes and dislikes. Confidential relations based on long-standing friendship or joint work are of great importance in their selection and activity. Problems tend to arise when informal, non-statutory and purely personal factors begin to prevail over the business qualities or duties of administrative personnel and to have a crucial effect on the performance of the entire government machine. Unfortunately, favoritism and corporatism in the upper echelons of power based on personal loyalty and allegiance are an ever more conspicuous feature of life in today's Russia.

Our practice of forming government institutions and selecting personnel has little in common with the practices of civilized Western countries. Europeans, especially the British, are sufficiently conservative as regards changes in the structure or powers of state administration, as well as changes in legislation. Evidently, they know from past experience that any radical reform of government institutions paralyzes the machinery of government for a long time and encourages bureaucracy. The new administrative relations are adjusted and fine-tuned for years. It takes time to select and train competent and incorruptible administrative personnel. In spite of all that, Russia has plunged headlong into reform. Over a short stretch of time, cabinets have been repeatedly reshuffled, premiers and ministers replaced, and ministries amalgamated or liquidated; the authorities have launched a major overhaul of the state education system, health care, pensions, scientific research, and even theaters and museums. The effect from all this is measured in terms of questionable budget savings, while the direct and indirect losses for the economy, culture and health of the nation, in short, for the country's future are not really assessed by anyone.

### **Is the Market in Need of Ethics?**

In the socio-economic transformation underway in Russia and other countries, the role of social ethics and its influence on the economy and state administration is clearly underestimated. No matter how perfect the laws and government institutions that lay down the rules of market conduct and verify compliance with these rules, there should also be a set of ethical principles underlying the activities of market players. Only then can we hope that the market will become civilized and will promote the country's economic prosperity.

What exactly does this mean? What are the moral values that society should cherish for the sake of its own progress? For example, it should value honesty and integrity while denouncing dishonesty and failure to keep one's word. After all, confidence in one's business partner is a basic principle of market relations, and even stringent laws can do nothing without it. Public confidence in the authorities is another fundamental characteristic of the moral climate in a country. Such confidence cannot be imposed

by law or by force, but has to be deserved and justified. To ignore the need for public confidence is to sacrifice social stability and, consequently, the prospect of socio-economic progress.

The pursuit of profit and the severe competition generated by the market can lead to barbarism and inhumanity unless market relations are put within a strict framework of law and moral requirements. Former West-German Chancellor Helmut Schmidt wrote with great concern that morality has never been a priority for the market and that it does not arise from competition. "Some top executives have overstepped the bounds of decency. Predatory capitalism is a threat to the open society... These outrages are rooted in a rapid degradation of morals."<sup>3</sup>

Although moral rules, which are not legally binding, play a subordinate role compared with legal rules, compliance with them in large part determines the social situation in the country. In due course, as material and cultural standards in society go up and self-organization processes intensify, use of government coercion to get people to observe certain legal rules, including the rules of fair play in the market, will possibly give way to moral imperatives. But today it is government intervention and not the conscience of market participants that is the main barrier to economic abuses.

The law cannot be all-embracing. It has gaps, leaving out of its orbit various aspects of economic activity or economic relations. This can be used to achieve selfish advantages to the detriment of society as a whole. One could also recall quite a few cases where laws or presidential decrees were adopted in Russia and other FSU countries in the selfish interests of influential persons or groups, while certain aspects of market relations were deliberately left out of the sphere of legal regulation for their benefit.

When other people's belongings are appropriated as the result of theft, robbery, fraud, etc., it is clear to all that this is a criminal offence. The specific nature of modern financial, exchange and other market mechanisms makes it possible to use loopholes and deficiencies in legislation in order to get hold of other people's property, to avoid paying taxes and rob the population on seemingly "legal" grounds.

From a legal standpoint, such actions often appear to be admissible, although in actual fact they are immoral and deserve public censure. Unfortunately, even exposures in the press and on television often have no effect. A typical situation in Russia today is when immoral acts do not entail social ostracism and when the institution of legal proceedings against those who commit such acts is more of an exception than a rule. Faced with sheer lawlessness and arbitrary rule in their daily life, people get accustomed to them and gradually become indifferent to what is going on around them. This is a disturbing symptom of society's ill health.

Violations of the code of social ethics, norms of social justice and notions of civic honor and responsibility are rife in transition societies. One could cite numerous examples of such violations: Russian privatization of public property without its real evaluation and without society's consent; the financial pyramid designed to raise funds for the budget with the use of government treasury bills bearing super-high interest which finally collapsed in 1998; fraudulent bankruptcies of enterprises; tax "optimization" schemes, etc. All these immoral but not necessarily unlawful activities have made it possible to amass huge fortunes and to create oligarchs overnight. Such methods of enrichment also include stock watering, monopolization of markets, cartel agreements, use of insider information for personal gain, and many other things. Such practices defy people's moral notions. Unless they are resisted, they will not only harm the economy, but will also heighten social tensions.

Fraud, collusion, extortion and bribery, to say nothing of more serious crimes, distort the market and deprive it of the benefits of free competition. Competitiveness and efficiency are very low because, among other things, businesses and their owners are obliged to employ private security forces and bodyguards, whose army in Russia already numbers hundreds of thousands. Such "overheads" also include kickbacks to government officials and payments to racketeers, estimated in Russia at no less than

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<sup>3</sup> Die Zeit, 2003, No. 50.

\$4 billion a year. All these "costs" connected with a criminalization of the economy and immoral behavior on the part of many government officials and businessmen are ultimately borne by the consumers.

Who should accept responsibility for the state of morals and pursuit of common interests? Is it possible to put up a barrier against market egoism and profit-seeking? I think this is possible if the state, the mass media and the Church assume an active role in this effort. We cannot pin our hopes solely on the instinct of self-preservation intrinsic to any society. A great deal here depends on the state, which must set an example of moral policy and practice and must show a true concern for the country's cultural heritage, science and art, for the best representatives of the intelligentsia. The authorities must set the standards of ethical behavior, refraining from downright lies, falsehoods, half-truths and demagoguery. When the authorities bear no responsibility for the serious mistakes or even crimes they have committed and when they ignore the codes of honor and ethics, this has a destructive effect, on the country.

Among the moral concepts a special place belongs to social justice. It is often thought that "justice" is a purely moral category and has no direct relation to the market economy. Such was the view of Adam Smith, who believed the self-interest of entrepreneurs to be socially useful. One of the idols of liberalism, Friedrich von Hayek, put this even more bluntly: does the concept of social justice have any meaning within an economic order based on the market? No, it is "strictly empty and meaningless".<sup>4</sup> Today's Russian liberals are followers of Hayek in this respect.

Meanwhile, the actually existing economy develops not only in accordance with purely economic laws. It is also influenced by the view of social justice prevailing in society. There is no need to prove that this is so both in Russia and in the Western countries. Observance of justice is undoubtedly one of the factors of successful economic development. It has an impact on people's attitude to work and to the means of production, on their political as well as business activity, and on the consolidation of society. That is why it is extremely important to ensure what most of the population believes to be a fair distribution of wealth created by past and present generations and to prevent an excessive social polarization of society. Fair remuneration of labor from the standpoint of employees is equally important.

Such statements may naturally be disputed on the grounds that justice is a very vague concept and cannot be measured by objective criteria. That which appears to be fair to some people may seem to be unfair to others. Nevertheless, there is a prevailing perception of this moral category in society, which influences the behavior of large masses of people. For example, the distribution of generated income should enable the average employee to maintain and reproduce their ability to work, to upgrade their professional skills and to bring up and educate their children, and should ensure a decent living standard for the average pensioner. Depending on the country's economic development level and per capita GDP, the average wage will differ, but this does not obviate the problem of fair remuneration.

As regards moral assessments of wealth and poverty, in the mass consciousness both extremes (with a yawning gulf between the upper and lower classes) are usually seen as unacceptable. For example, the appearance in Russia of multibillion dollar fortunes within a period of three to five years and the sumptuous luxury and extravagance of their owners against the background of a deep recession in the economy and mass poverty are seen as a challenge to public morality.

Annual GDP in Russia is distributed mostly in the form of capitalist profit (56%) and to a lesser extent in the form of earned income (44%). These average figures were obtained as the result of a thorough analysis and comparisons of data from the input-output matrix and the system of national accounts, which has made it possible to produce a sufficiently true picture (see Annex, Tables 2 and 3). Such a glaring disproportion in the distribution of national income has long been abandoned by modern capitalism in view of the danger of social cataclysms. Data obtained with the use of more sophisticated

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<sup>4</sup> *F.A. Hayek, Law, Legislation and Liberty, Vol. 2, Routledge, 1982, p. 68.*

methods of assessing hidden income than those applied by Russian official statistics will show that in 2002 the gap between the average income of the poorest 10% and the richest 10% of the population was 25 times. This is two or three times more than in the European Union. Russian privatization has not only created millionaires and billionaires overnight, but has also enabled them to pay ridiculously low taxes on their income and property. For example, it is hard to find another country in the world where progressive taxation of income has been abolished as in Russia and where income tax is the same for all at 13%, while dividend tax is 9% (recently it was 4%).

Social inequality in Russian society has increased in recent years because the much vaunted increase in real household income is mostly concentrated in the upper stratum of the bourgeoisie, whereas most of the population has not seen any tangible improvement. In contrast to Russia, the gap between rich and poor in Europe is not only much smaller, but tends to narrow still further.

### **Should Culture Be a Stepchild of the Market Economy?**

It has been noted that countries with a higher cultural level of the population have a more developed economy as well. That is why the greater the inputs into national education, science and culture, the more purposeful the government's policy in this area and the greater the understanding shown by the business community, the better are the prerequisites for socio-economic progress.

In speaking of culture, people usually mean art, literature, science, education and religion. The spiritual and intellectual potential of a nation is usually judged by achievements in these areas. But the concept of culture, apart from its highest manifestations, also includes everyday and behavioral culture and the state of public morals. Of course, culture as personified by its best representatives influences the level of mass culture, setting moral and civilizational benchmarks for the whole of society. This affects the economy, because the economy today, more than ever before, is driven by knowledge and intellectual creativity. As regards the cultural standards of human behavior and interaction, the standards of daily life and people's spiritual needs, their connection with economic development is even closer.

Lack of an elementary sense of solidarity, undisguised egoism, love of gain, profit-seeking at the expense of others and even to the detriment of society as a whole—such is the typical picture of behavior of many people in Russia and some other FSU countries. Are these manifestations of immorality or lack of culture? Actually, the two are inseparable. Human culture implies observance of ethical rules.

When partners in Western countries are negotiating a deal, they realize that both of them must benefit, whereas a Russian businessman usually prefers to swindle his partner instead of sharing the benefits. His purpose is to make the maximum amount of profit in the shortest possible time, and he doesn't care a damn about anything else. Insatiable greed pushes up prices, leads to all kinds of fraud, circumvention of the law and tax evasion, which ultimately lowers consumer demand and consumption, reduces budget revenue and slows down the pulse of economic life. All of this entails losses for the economy as a whole.

What is one to think, for example, about the behavior of some pharmaceutical companies that flood the market with counterfeit drugs, which are harmless at best and are often dangerous to human health. The share of such drugs sold at Russian pharmacies is variously estimated at 20% to 30%.<sup>5</sup> This is the height of immorality. In Western countries, such abuses endangering human health are regarded as criminal offences and have been reduced to a minimum. In Russia, there is virtually no criminal responsibility for such activities, just as there is no moral responsibility. The profits of the pharmaceutical business are soaring, while patients are deprived of the necessary assistance.

Behavioral culture includes law-abidingness and elementary human solidarity. Their absence is clearly evident in the behavior of millions of drivers on Russian roads. There is no sign of respect for

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<sup>5</sup> *Tribuna, November 18, 2004, p. 4.*



each other or for pedestrians and no equality before the law for all traffic participants. The bigger and more luxurious a person's car, the more brazen is their behavior on the road. All of this leads to an increase in traffic accidents (in which Russia is well ahead of the European countries), to traffic jams and higher transportation costs. Our roads mirror the standards of the nation's everyday culture. These standards are also reflected in our attitude to nature, which is mercilessly polluted, deforested and disfigured by huge dachas and mansions. To leave empty bottles and other litter in the streets and in public places has become a matter of course for many people. But the worst thing is that the authorities and the general public seem to have resigned themselves to such a state of affairs and are not even trying to do anything about it.

People are demoralized by the arrogant, rude and insulting behavior with which they are confronted in their daily life. All of this poisons the social climate and affects labor productivity and performance. Until ethical norms and principles become part of general culture, society has to compel its citizens to abide by laws and obey the rules of community life by using government authority, the press and television. A great role in fostering morality and culture belongs to the entire education system. But children at Russian schools are rarely taught in real earnest to master the rules of decorum, daily hygiene, public conduct and many other things, either as part of the curriculum or by the teacher's own example. Far from every family can fill these gaps.

Rich countries undoubtedly have greater opportunities than poor ones to raise the level of education and general culture of the entire population. But, on the other hand, the difficult economic situation in transition economy countries can be seriously improved by concentrating the efforts of the state and social institutions on raising the educational, behavioral and moral standards of a majority of the population.

The rampant crime and corruption in Russia and some other FSU countries results not only from the weakness of the state and its law enforcement institutions or the impoverishment of large masses of people, but also from the fact that in the course of hasty and ill-conceived reforms society's spiritual foundations have been undermined and its cultural values have been depreciated. Moreover, public morals have been deliberately corrupted. The press and television appeal to people's basest instincts, focusing on stories of crime, violence and sex. The mass media propagate the luxurious life of the upper classes and Western consumption standards inaccessible to most Russians. Honest-minded working people who can barely make ends meet and are faced with numerous everyday problems feel humiliated. They are no longer of interest to the cinema, television or literature, which are not required by the market to create images of positive heroes, to show a moral ideal that would set an example for millions of young people. All of this dooms society to spiritual bankruptcy.

In the dispute on whether market freedoms are conducive to the development of culture in society or whether they act in the opposite direction, pessimists are so far gaining the upper hand. There are numerous examples of an antagonism between the market and morality or culture, while positive facts are very few. That is why we are hearing ever louder calls for the need to restrain market self-interest and unbridled profit-seeking and to make businesses bear social responsibility. In other words, the state and society should let them work not only for their own benefit, but also for the common good. And this is largely a question of moral duty, although government coercion is also quite appropriate.

Morality and culture take shape in the process of long historical development. Their state is the result of many vicissitudes of social being. The situation in this area cannot be remedied overnight. It will take years of persevering effort to raise the people's moral and cultural standards. Only those who are looking for short-term gain, who simply want to convert power into capital instead of working for the country's future prosperity can neglect the development of culture, education and science and try to save budget funds at their expense.

## ANNEX

Table 1

**Government expenditures/GDP, 1870-1998 (percent)**

Countries	1870	1913	1937	1960	1980	1998
Australia	18.3	16.5	14.8	21.2	31.6	32.9
Belgium*		13.8	21.8	30.3	58.6	49.4
France	12.6	17.0	29.0	34.6	46.1	54.3
Germany		14.8	34.1	32.4	47.9	46.9
Italy*	11.9	11.1	24.5	30.1	41.9	49.1
Japan		8.3	25.4	17.5	32.0	36.9
Netherlands*	9.1	9.0	19.0	33.7	55.2	47.2
Norway	5.9	9.3	11.8	29.9	37.5	46.9
Sweden	5.7	10.4	16.5	31.0	60.1	58.5
United Kingdom	9.4	12.7	30.0	32.2	43.0	40.2
United States	7.3	7.5	19.7	27.0	31.8	32.8
Social transfers	1880	1910	1930	1960	1980	1990
Australia	0.0	1.1	2.1	7.4	12.8	15.4
Belgium	0.2	0.4	0.6	13.1	30.4	29.7
France	0.5	0.8	1.1	13.4	22.6	27.8
Germany	0.5	na	5.0	18.1	25.7	21.2
Italy	0.0	0.0	0.1	13.1	21.2	24.5
Japan	0.1	0.2	0.2	4.0	11.9	16.1
Netherlands	0.3	0.4	1.2	11.7	28.3	31.7
Norway	1.1	1.2	2.4	7.9	21.0	23.0
Sweden	0.7	1.0	2.6	10.8	25.9	21.3
United Kingdom	0.9	1.4	2.6	10.2	16.4	16.8
United States	0.3	0.6	0.6	7.3	15.0	16.3

\* Central government only through 1937

Source: World Economic Outlook. Supporting Studies. IMF, 2000, p.35

Table 2

**Distribution of Russian gross national product  
according to income sources**

	1991	1992	1996	1997	1998	1999	2000	2001	Average 1992-2002
GDP in current prices	100	100	100	100	100	100	100	100	100
Wages and salaries	43,7	36,7	49,6	50,0	47,2	40,9	39,9	45,0	44,8
Concealed wages and salaries			11,7	11,7	10,1	11,0	11,1	11,0	10,2
Official wages and salaries	43,7	36,7	37,9	38,3	36,1	29,9	28,8	34,0	35,6
Adjusted wages and salaries	43,7	36,7	43,7	44,1	41,6	36,4	34,3	39,5	40,3
Clear taxes on output and imports	4,5	3,4	13,5	14,4	15,2	15,9	17,0	15,6	12,3
Gross profits and mixed incomes	51,9	59,9	36,9	35,5	37,8	43,1	42,9	39,6	42,5
Mixed incomes	2,6	7,0	11,8	11,9	12,7	12,1	10,7	(9,0)	10,6
Gross profits	49,3	52,9	25,1	23,6	25,1	31,0	32,2	(30,6)	31,9

Source: calculated by Prof. S.Menshikov using the official statistical sources

Table 3

**Labor incomes and households consumption in Russia  
(share in GDP in %)**

	1991	1992	1996	1997	1998	1999	2000	2001
Wages and salaries	43,7	36,7	49,6	50,0	47,2	40,9	39,9	45,0
Concealed wages and salaries	-	-	11,7	11,7	10,1	11,0	11,1	(12)
Adjusted wages and salaries	43,7	36,7	43,7	44,1	41,6	36,4	34,3	30,0
Households consumption	41,4	33,7	48,8	50,0	54,4	50,4	45,5	49,6
Adjusted wages and salaries in ratio to households consumption (%)	105,6	108,9	101,6	100,0	86,8	81,2	87,7	90,4

Source: National accounts of Russia 1993-2001, Russian Statistical Yearbooks 2000-2003.

**Table 4****Non-labor incomes in ratio to wages and salaries (%)**

	1991	1992	1996	1997	1998	1999	2000	2001	Average 1992-2002
Gross profits and gross mixed incomes in ratio to wages and salaries	119	163	74	71	80	105	108	88	97
The same including concealed non-labor incomes	119	<sup>4</sup> 179	81	78	88	116	119	97	107
Adjusted non-labor incomes in ratio to official wages and salaries	119	179	107	102	116	158	164	132	133

*Source: calculated by Prof. S. Menshikov using the official statistical sources*