

*A special bulletin of the Russian Institute dedicated to 'The Yaroslavl Initiative' of Russian President Dmitri Medvedev initiated a debate surrounding the issue of the 'focal' model of modernization in Western intellectual circles. Russian Journal investigates further by interviewing Jonathan M. Feldman, a well-known American economist and sociologist, who is currently Professor of History of Economic Thought at Stockholm University in Sweden. The author thinks that the major challenge facing Russian society has to do with proper social organization and general economic reform rather than modernization.*

## DECENTRALIZATION IS IMPERATIVE FOR THE RUSSIAN ECONOMY

Jonathan M. Feldman

There have always been different ideas of what modernisation means, and there are different gaps in economic and political theories. It has always been somewhat contested concept. In the U.S. context and to a certain extent in the European context there have been different views about what modernisation means. One view has been a kind of version of what is called “trickle-down theory” (trickle-down economics is a populist economics of the times of Ronald Reagan administration). The idea is if you develop businesses and industries organised by certain groups, the benefits of that trickle down and eventually fall to all citizens.

There were those who criticised this – the so-called “dependency theorists.” They suggested that if you bring big transnational companies into a region of the third world, i.e. to a less developed region, that will be highly problematic because the value added of these businesses will be relatively low. However, after the cases of South Korea and new industrialised countries it was understood that the outlying regions, the so-called developing or peripheral economies, could develop and become highly competitive.

And then you have another case – **countries rich in resources and exploiting them**, like Russia and the Middle East. This created a contradiction for the “dependency model,” which is that normal capitalist growth does not provide net benefit to the economy.

### *Capitalism and Democracy*

**One of the vital questions of today is the question of whether you can have capitalist development without**



**democracy or not.** Ecological costs of economic development are another problem. Thus, the Chinese model was successful in some terms, but in terms of ecology it was not. In addition there have been several critical analyses done on the development in China, showing it is been highly uneven - in other words, some groups have benefited and others have not.

One of the best models, quoted by the reforms that certain elite economists proposed for Russia after the fall of the USSR, was economic democracy. One of the best models for that are Mondragon industrial cooperatives in Spain. This is a model, which integrates several things: technology, specialised banking system, worker’s ownership and control.

Since **people are more involved in business, they are more likely to make a greater commitment to work places**, which improves productivity. So if you compare companies like General Motors in the United States, which has become very, very dysfunctional, with those of Mondragon, you will see that Mondragon is far better economically, even though it is an industrial cooperative. The idea that cooperatives like Mondragon are primi-

tive and low tech is also a misconception that many people have. It has robotics, it has technical university and it has its own bank.

### *For Russia decentralisation is a must*

Within Russian society you had certain thinkers who advocated some kind of decentralised economic system where the people would be more involved. These propositions should be taken into account by President Medvedev while projecting a plan of Russia’s long-term development. The problem is **if you have concentrated economic wealth, you have concentrated political power**, because those with greater wealth have greater access to the media, they have more ability to manipulate people in management and bureaucracy, etc. That is why economic equality is a necessary condition to political quality.

This is a big problem. In order to solve it you have to figure out how to create the centres of economic autonomy. And you have a kind of chicken-and-egg problem, because **to reform the political system and to get rid of the deterrents you need to reform economics**. However, it is very likely that political class, which is to be reformed, will oppose to it. One way to break out of this chicken-and-egg dilemma and to create new business sectors is by developing networks better cooperative with forces outside of the given country – in my writings I call them *franchise cooperatives*. The idea is very timely, particularly given the great degree of disruption caused by the world economic crisis and the environmental crisis, which is to come. ■

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