

Left Turn – 2
Mikhail Khodorkovsky
11 November 2005

The heated controversy caused by my *Left Turn* article raised a few crucial questions that should be answered immediately:

1. Does Russia have today any legally viable opposition forces with left and left-liberal political beliefs?
2. What is the actual economic program of the “left turn”[movement]?
3. Does the country have adequate human resources to enforce the “left turn” and to implement its political and economic program?

And finally:

4. Prisoner Khodorkovsky *et alii* [and others], do you really believe that a change of government in Russia would ease your fate?

This question, either explicitly or implicitly put, reached me from right-liberal circles that suddenly turned out to be the ideological backbone of Vladimir Putin’s regime. Therefore I will start with the answer to this question, which is the last one in all senses of the word.

Nightmare 2008

It is generally believed that dozens, even hundreds of Russian politicians and administrators are dreaming of taking over the post of President in 2008 in order to control Gazprom, Rosneft, military exports and imports, as well as the three leading national TV channels. To earn billions of dollars, hold receptions in the Kremlin, Peterhof and Strelna, go hunting with the President of France and go fishing with the President of the United States, and then you just sing your own praises on TV, and sleep easily. At least, until the expiration of the constitutional term of presidential authority. Or even longer.

This reflects the parasitic way of thinking of the Russian political elite today. The only thing that this elite is really concerned with is how to get hold of something tangible out of this country called Russia in time. The question “What have you done for Russia?” is not being raised at all.

Russia has given a great deal to me personally. In the 70s and 80s, [I received] an education that one can be proud of. In the 90s, it made me the richest (according to *The Forbes*) person in the post-Soviet era

In this decade, it has taken away my property, put me behind bars where it gave me an

opportunity to receive another education, this time a human and humanitarian one. And I can tell you that the people who are going to rule Russia in two and a half or three years will have to realize that the parasitic approach no longer works. For the country is not competitive, and the reserves of strength formed by the Soviet Union are not sufficient any more.

So, by the year 2008, the Russian Federation will have the following objective problems – I stress that word, objective, because they exist regardless of our willingness to consider them:

- our national infrastructure overwhelmed with a systemic technogenic disaster will be exhausted;
- a demographic crisis; the drop in the country's population at the rate of nearly 1 million people per year will result, among other things, in the situation in which in a number of the regions of Eastern Siberia and the Far East the Chinese population (consisting mainly of illegal immigrants) will nearly equal that of Russians; citizens of China will dominate in various sectors of the Far East economy – from retail to new raw material investment projects;
- paralysis of a number of heavy industries, primarily aircraft construction, machine-tool manufacturing and agricultural engineering, which, on top of negative results in the economy, will lead to the liquidation of nearly 3 million jobs;
- a systemic crisis of the military complex and the high technology sector that developed from it, which today is “eating up” the remains of Soviet research and development achievements, but is trying to master “third-wave” Western technologies and yet for a long time has not come up with any independent creative developments;
- the transition from stopping the rejuvenation of scientific development to its actual extinction; fundamental science projects no longer utilize staff under 30, which will make its existence a chronicle of narrowly declared death;
- Moscow's actual loss of control over the internal situation in the North Caucasus, first of all in Chechnya and Dagestan, where the activities of Wahabis and other extremist groups will increase dramatically; the crisis in the Caucasus is related along with some others to an unprecedented level of unemployment and lack of any program for development of the North Caucasus; the only way in which the Federal authorities participate in the fate of these regions comes down to sending financial pittances periodically - pittances that are immediately stolen by clans that fight among themselves for the right to steal every rouble sent from the state budget.
- the ruin of our armed forces that today do not form a modern Russian army but a degraded and far from battle-ready fraction of the armed forces of the long non-existent state - the USSR;

- paralysis of the law enforcement [security] system that is left with hand-to-mouth prospects, who are used to racketeering and other kinds of particular economic activities, but are incapable of solving the real problems either in the violent Caucasus or in Russia's other regions; there is no question of halting the awful illegal immigration going on in the East of the country under the current system of law enforcement.

These are not all the problems - just some of them. Are you still eager to get into the Kremlin, dear successors to Putin?

When Putin leaves (within the statutory period, not a day too early, not an hour too late), the country should be taken over by a new, responsible elite, who would see power as involving a long-term, maybe thankless (at first) process of reconstruction, and not just total division and redistribution. And this elite will not be dominated by the question: "What do you need it for?" It is not we, it is our country that needs it, dear sirs, otherwise it will never become a modern, well-developed and respected state, and will collapse already during the lifetime of our own generation. And we, citizens of Russia, cannot put up with the disintegration of our country - we don't want that and we are not going to [allow it].

But to find a solution to all these complicated problems, both those listed and not listed above, we need a traditional mobilization of all the people. And not a penal mobilization, but a creative one, calling on the intellectual resources of tens of millions of our compatriots on the basis of a single national idea. The people who are used to the fact that state power is so many miles away from them, that they are not responsible for anything, that the so-called elites do not care about them, - these people should feel once again that Russia is our common country which thinks and cares about those who live in it and to which they are also responsible. And this will be achieved principally by qualitative changes of state and social policy principles, the revival of democratic methods of management of the country, including state paternalism as an instrument of solidarity of the state with the people, as an acknowledgement of the fact that the state and the economy exist for the needs of the people.

Yes, democracy is a hindrance to the realization of an ideal liberal model in which "everyone is for himself"; yes, the electorate will demand to have a part of the oil wealth that fell from heaven used for the needs of those who, because of their health, education, age, or other reasons, are unable to achieve their own personal success in a modern society without its (society's) help.

That is why this left turn is essential. To overcome the pathological, existential alienation between the elites and the people, those in power and those who are ruled by this power. And not just to ensure, as some theoreticians of "Putin's stability" believe, that the opposition after winning the Duma elections, would release Khodorkovsky from prison. Without bridging this gap, one single national concept would be impossible, and without a national concept there can be no salvation or revival for the country. If people do not like the word "left", then let them find another one. That does not change the essence of the turn. In addition, a left turn is inevitable, because the new, "leftist" cycle in major

Russian politics began long ago.

And any recourse to various tricks preventing its manifestations, or the rapidly growing number of attempts of propagandist (pre-election) stimulation will not accomplish anything except further degradation of the state and people. The earlier this leftward force has a chance to manifest itself and undertake its share of responsibility for the present and the future of Russia, the more creative and less dangerous it will be. If the present ruling elite is transformed by democratic means, then we will have a peaceful change of power. If they procrastinate, or even, by following the least responsible part of the elite, provoke an extremist scenario in the hope of thus justifying an authoritarian regime – the consequences for the country would be sad and completely predictable, and we would have to forget about stability, post-industrial development, and a worthy place in the world for a very long time.

Program 2020

The political and economic program of the future ruling elite of Russia (the program may be called social or social liberal, and that would be correct, although only partially) is intended to cover twelve years. That is a reasonable term for its implementation. We should not regard twelve years as being "three presidential terms." The program may be implemented efficiently only subject to changing the state and political model of Russia, that is, its transition to a presidential and parliamentary republic – in which the President would be the moral leader, the guarantor of the country's unity, the commander-in-chief, the direct supervisor of law enforcement agencies and the center forming foreign policy. And the whole range of economic and social issues should rest with the government, formed by the State Duma and responsible to Parliament for the results of its work.

Moreover, revival of true federalism is needed; a transition to the election of heads of regions and members of the Russian Senate, establishment of real local self-government that has the necessary authority and resources, including fiscal responsibility. Only in this case we will have responsible regional elites, interested in long-term development, and the "cultivation" of their territories. A bureaucrat sent to a region "in order to feed" (himself and his superiors), definitely does not care about any kind of long-term development. On top of that, it is only under the conditions of federalism with a clear and interrelated distribution of rights and responsibilities that we will be able to reach an agreement with "problem" regions, first and foremost with national republics, and counteract the growing or emerging element of separatism.

The objectives of this program that can be substantially implemented by the year 2020 are as follows:

1. Increase Russia's population to 220-230 million people which would make it possible [to increase] the domestic population of Eastern Siberia and the Far East by Russian people and avoid dissolution of the country through "Sinification" of the eastern regions. The program fighting depopulation should suggest, firstly, establishment by the state of comprehensible strategic landmarks for new generations and secondly, direct financial

stimulation for reproduction, ensuring at least subsistence level for every newborn child (which would require about \$10 billion a year).

2. Developing the following structure of the national economy:

40% – "knowledge economy";

40% – oil, gas, metal, licensed production;

20% – agriculture, including processing and trade.

Transition from the “oil and gas pipe” economy to the “knowledge economy” would foster Russia’s GDP increase within 12 years by 3.5 - 4 times – to \$4-5 trillion. It should be noted that the size of the GDP is used here simply as an indicator but not as the final objective of development. Achievement of the objective, in particular, means: establishing an efficient system of free and special economic areas for high-technology production; development of the necessary technical infrastructure – initially at least within technological parks; formation of venture funds with a share of state-funded capital to ensure the attractiveness of investments in priority sectors; formation of a system of public and public-private grants for education and research; systematic protection and encouragement of innovative activity by creative and enterprising young people as state policy.

3. Preservation of the Russian territory and consolidation of its current borders, among other things, by means of implementing various investment programs in Eastern Siberia and the Far East. Achievement of this objective involves the creation of large-scale Russian business activity centres in the East and beyond the Urals. The volume of investment programs that can be implemented both by private capital and through private-public partnerships will reach \$200 billion within 10-15 years.

4. Renewing Russia’s armed forces virtually from scratch. We can no longer live with the remains of the army of a different state, long deceased, as I said earlier. The amount of initial investment in creating a new army is about \$50 billion.

5. Re-establishment of universal education and fundamental science [instruction] as a system for encouragement of the nation’s intellectual potential. Russia cannot live on imported scientific achievements, and not only for reasons of “national pride.” If we do not have a powerful science foundation of our own, not only will we be unable to create a knowledge economy, we would also lose our best young intellects. They would all go to the West (and not only to the West, for example, India, the modern world centre of offshore programming, will welcome them with open arms). And without the intellectual potential of generations to come, there will be no revival of Russia and certainly no "Russian breakthroughs." Such a program would require an increase in basic science education funding by 2.5-3 times compared with current figures.

6. Drastic updating of the common national infrastructure and development of new transportation communications – cars and railroads – mainly in the East and South of the country. This would require about \$80 billion in investments, both private and public, over the next ten years.

7. Development of a system of social welfare that is historically and psychologically traditional for Russia, including free high-quality medical care and quality compulsory secondary education for 100% of the population, free higher education for 50% of young people, and guaranteed provision in full of the social benefits that existed earlier or their real money equivalent.

Implementation of this program would require about \$400 billion in public investment and about \$500 billion in private investment. The situation is better as far as the latter is concerned – these would flow to the country as soon as the notoriously inefficient, phantom “vertical of vertical” is abolished, a full-fledged federalism is revived and a responsible elite emerges that is prepared to undertake responsibilities and give guarantees. It is more difficult with public investment, as usual. Where can we get that from?

There are three sources

1. Changing the rules of using the income from raw material. The Kremlin forecasts that the RF Central Bank reserves for the year 2008 will be \$300 billion. That is an increase of \$140 billion within three years. The stabilization fund already has \$50 billion saved, and it is going to accumulate \$100 billion within three years subject to minor deviations of the cut-off price. Thus, the state has \$60-70 billion available resources annually. These are resources that can and must be invested in our own economy.
2. Legitimizing privatization – through a special compensatory tax – will contribute about \$30 billion to the federal budget and special-purpose extra-budgetary funds.
3. Additional fiscal revenue would rise when the tempo of economic growth is changed. Annual growth by 12-15%, which is quite attainable if the structure of the economy and its management model are changed, would yield additional federal budget revenue at the \$20 billion level.

Thus, there are sufficient financial resources to ensure the necessary level of investment in the public sector.

Legitimizing privatization

We cannot say that the privatization of the 90s was completely inefficient from an economic point of view. Yes, many largest enterprises in Russia were sold for a token value. But it should be borne in mind that the principal objective of that privatization was not immediate budget replenishment at the expense of revenue from selling the facilities, but establishment of an efficient owner institution. And on the whole that undertaking was fulfilled.

I remember the condition that YUKOS was in when I arrived there in 1996. Yet the company, compared with other state-owned oil giants, was at that time in a relatively

satisfactory state. Nevertheless, oil production was decreasing by 15% per year, debts to all suppliers approximated \$3 billion, wages were up to six months overdue, workers were at one point complaining quietly, then openly expressing their resentment, stealing was terrible in every unit. When I left YUKOS (in 2003), the [average] salary was about 30,000 roubles per month, there was no questions of any delays, and taxes paid to different budgets had already reached \$3.5-4 billion per year – and that was when the price of oil was still \$27-30 per barrel, and not \$60, as it is now. This means, that due to this privatization, real management had been formed, management that simply had not existed in the era of “red directors.”

Nevertheless, the process of privatization was inefficient both from a political and social point of view. Because over 90% of Russian people did not believe it to be fair. This means that the results of the privatization were not accepted by our compatriots, and under those conditions, a permanent and never-ending redistribution of property is inevitable.

I propose not to reinvent the wheel but to employ the successful plan for legitimizing privatization which was used in the late 1990s by the British Labor Party – Tony Blair’s government – for the infrastructure of companies denationalized as early as the 80s. The plan consists in imposition of the so-called tax on unfair revenue from a favorable environment [windfall tax]. The amount of tax, in our situation, may equal the actual annual turnover a company had in the year of its privatization, and in order to register funds stolen by the then directors through dummy companies, we have to multiply the production output by market prices without being deluded by utterly useless financial statements drawn up according to Russian accounting standards.

I know how to do this as I, like many other people, had to get rid of heaps of criminal plots that caused the economy to collapse from 1993-1995. This situation clearly reflects the condition of Russian companies at the time when they were being denationalized, taking into account all the parameters determining their capitalization: world prices for raw materials, management quality, level of political risk in Russia at that time, etc. In other words: anyone who wants to finally settle the issue of legitimacy (fairness) of privatization of his large industrial property, will have to pay to the federal budget of Russia or to some special-purpose fund (for example, a reproduction stimulation fund, out of which subsidies would be paid for newborns) a tax in the amount of the company’s turnover in the year when it was privatized. From the moment of payment, the owner will receive from the state and society an unlimited “writ of protection” – saying that his property shall be considered legal and fair.

Legitimizing must be the result of a meaningful treaty between the state and the owners, big business. The businesses that are going to live and work in Russia for a long time must be prepared to enter into such a treaty, following the immutable principle that it is better to give away a part today than everything tomorrow. The plan for a nonrecurring tax and the simplicity of calculating it will make the legitimizing procedure transparent, prevent corruption and selective application of regulations in this process.

According to my preliminary calculations, the quality of which is limited by conditions of my living in a group cell and the Krasnokamensk prison camp, legitimizing privatization would yield \$30-35 billion within three to four years.

To open the flood-gates

My opponents say: the country lacks the human resources to carry out such large-scale transformations. In the process of reforms, everything will be either messed up or stolen.

I could not disagree more. Representatives of the current ruling elite judge everything and everybody by themselves. I have had the experience of building the largest Russian corporation – YUKOS. And if this company could rise from the ruins of post-Soviet society to the level of a world giant with a \$40-billion capitalization, that was first and foremost due to its policy on human resources.

In all the spheres we selected:

- a) the best people;**
- b) wherever possible – young people (under 35).**

If we, like the Kremlin today, had focused only on the applicant's ability to look in the boss's eyes obsequiously and just carry his briefcase behind him, then YUKOS would have ceased to exist long ago.

It is necessary to formulate the right criteria for selecting staff and Russia has always been rich in talent and it always will be! The Kremlin selects people following the feudal criterion of 100 percent loyalty and controllability, and that is why the result is the inefficiency of that archaic "vertical". A competent person cannot be controlled 100% – that is the fate of complete conformists and people who grab as much as they can. If we open the floodgates of upward social mobility, invite the most intelligent, educated, and, consequently ambitious people – we will have no problems with professionals. I am moved by the discussion in Kremlin circles on the topic of human resources: look here, we lack specialists, we are suffering greatly, we are dying, but we will not let anybody inside our circle anyway; we'd rather die, but we won't invite outside professionals into our kitchen cabinet! Well – the results can be compared. On the one hand - YUKOS in the years from 1995-2003, on the other hand – today's Kremlin.

So – don't worry. There are and there will be sufficient human resources. We will involve new generations in real cooperation and these generations will build the Russia of the future. And these people of the future will not be stealing from themselves. And if we continue being afraid all the time that "they will steal something at any given moment," then no progress, no investments, no development are possible in principle.

Modernization as a salvation

Russia's current political elite is seeking to save itself by giving up modernization and

attempting, according to a kind of joke from Brezhnev's time, to rock a railway car rotting in a dead-end, pretending that we are going somewhere. "What station is it – Bologoye or Popovka?" However, nobody answers anything from the platform – people are keeping quiet.

I agree: for many bureaucrats and those who live off the sale of prestigious raw materials, this way of life is fine. For the next three to four years, until the alarm sounds, it will be pleasant to leave the country for the beaches of the Maldives that have not yet been consumed by tsunamis.

But we need a real modernization project for Russia. Without that, the country will simply not survive in the new century. It will not be able to meet its objective historical challenges. The outline for this project is already visible. Quite close, over there, beyond the left turn.

Mikhail Khodorkovsky
Private citizen, YaG 14/10