

## Preface

This book is like a three-layer cake. One layer is Russia. Why did the purported market reforms, arguably the boldest in history, end up in one of the greatest peace-time economic contractions? Why, in addition, has Russia lived from one default to another—in fact, has lived off defaults? And, how can Russia be uplifted from contraction and defaults to economic growth and prosperity?

A second layer is socialism. In modern tradition, socialism is equated with big Government (with a capital G). But the Hobbesian jungle, in which predatory animals and predatory humans alike socialize the output of every person and every species by killing and stealing, is also socialism. On reflection, socialization, in the sense of predatory redistribution of output and income, with or without big Government, is socialism by definition. Predation, redistribution, and socialism are synonymous terms. Central planning, which took place under Communism (with a capital C), is only a special case of socialism with very big Government. This fact brings us back to Russia and to the question of its so-called market reforms and subsequent big contraction. Was Russia's transformation the result of market reforms or, in marked contrast, a mutation of socialism? This is a loaded question. It puts the economic philosophy of the last 300 years under siege. If what transpired in Russia was market reforms that resulted in a market economy, then the market system is not a universal road to prosperity. Indeed, it is not even universally viable.

We submit the case of socialist mutation in Russia in the 1990s. Russia mutated from socialism with big Government (with a capital G), or from Communism with a capital C, into a new, hitherto unknown species of socialism, without big Government. It mutated into communism with a lower-case 'c.' Moreover, for perhaps the first time in history, a second, parallel government emerged, which has the full power to tax the public and make the Central Bank print money. This parallel government is a network of enterprises. We will call this new economic species Enterprise Network Socialism, or ENS in short. This term helps to convey that the government lost its traditional dominance which defined socialist regimes under central planning. What happened is that after the abolition of central planning, the inherited network of enterprises took over fiscal and monetary power and has since been redistributing most of the national income.

That the literature *en masse* has confused this new species of socialism with a market economy, and generally identified socialism with the government, leads us to the third layer of this book. This is the missing link in the evolution of the market economy, which is also the missing link in the attempts of various post-Communist countries to become market economies. We ask: What separates a market from a non-market economy? In the spirit of the earlier point on socialism, it is the absence of socialization of income, the presence of privacy of income, when income is internalized by its earners.

Private income is, admittedly, a contentious idea. It reduces the scope of the market economy to

only that type of voluntary exchange which internalizes income and excludes situations, like today's Russia, wherein economic liberty intertwines with predatory redistribution. The concept of private income brings back John Locke's view that only the private fruits of production and exchange, not **any** private interest and free exchange, create social good.

Can this missing link, which slowly evolved and adapted in Western market economies, be reproduced nowadays through managed public policy? The recent experience of many formerly non-market economies and some post-Communist economies, such as China, suggests an affirmative answer. But what policy set would fit today's Russia? This takes us back to the first layer, Russia.

The organization of the book contains all three layers in its three parts. Part One introduces the issues sketched above. It discusses private income and its socialist antipode, common income. The latter is the income that is socialized by the government or various predatory forces. Then it places Enterprise Network Socialism among other types of common income. Part Two marshals the data on Russia's economic experience in the 1990s and explores the causes of serial defaults and protracted contraction. Part Three offers the mechanics of our proposed policy recommendations. We spell out how to break up Enterprise Network Socialism and reroute Russia from predation to prosperity.

A special word is due about the language that appears throughout this book. We found it necessary to define the vocabulary, and sometimes redefine existing vocabulary, in order to understand the new Russian economic species.

Our new concepts cluster around the principal dichotomy of "common and private." Private means internalized, common means socialized. We apply this dichotomy broadly, employing such opposites as private income and common income, private expenses and common expenses, private finance and common finance, private bills and common bills, private payment and common payment, private prices and common prices, and private balance sheet and common balance sheet. The dichotomy private versus common supplants the traditional dichotomy of market and government. The perspective of a new dichotomy is different. While private income is a foundation of the market economy, individual market measures are ambiguous from this perspective. For example, liberalization of transactions and privatization of assets are not universal productive forces. In the presence of private income, they may create a market economy. In the absence of private income, they only mutate socialism. The role of the government is ambiguous, too. It may protect private income and it may socialize income and manage access to common income. Thus the new dichotomy represents a different observation platform. We drop from usage the familiar terms reform and transition, which have become meaningless cliches in the real world of a variety of post-Communist economies.

In addition, we prefer the term economic species to economic systems, although we may sometimes use them interchangeably. The word species conveys uniqueness, a special station in an order of things, taxonomy, and the spirit of evolution instead of transition. This usage implies that some economic species are viable and others are not. The market economy is viable. Thanks to incentives created by private

income, it adapted human behavior from predation to production, expanded, and spread over the world. In contrast, central planning devolved to extinction. Enterprise Network Socialism in Russia is also not viable over the long run. It moves from one default to another and down the slope of perpetual contraction, causing incredible human misery. This is the point to start the first chapter of the book.