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# THE BASIC ELEMENTS OF THE POST KEYNESIAN ANALYSIS OF THE POST-SOVIET MODEL OF RUSSIAN CAPITALISM

According to the Post Keynesian Economics, uncertainty is the most essential characteristic of the real world in which we live (Carvalho, 1992; Davidson, 1972; 1991; 1996; Rousseas, 1998, p. 17). Emphasis on uncertainty is the characteristic that differ Post Keynesianism from all other schools of economic thought. We can remind that *uncertainty* is the situation when agents do not know both quantity of possible future events and probabilities of these events. Therefore, the probability theory is irrelevant for an analysis of situations in which uncertainty takes place (Davidson, 1991). As Keynes (1937, pp. 213 – 214) wrote: "By "uncertain" knowledge, let me explain, I do not mean merely to distinguish what is known for certain from what is only probable. The game of roulette is not subject, in this sense, to uncertainty; nor is the prospect of a Victory bond being drawn. Or, again, the expectation of life is only slightly uncertain. Even the weather is the only moderately uncertain. The sense in which I am using the term is that in which the prospect of a European war is uncertain, or the price of copper and the rate of interest twenty years hence, of the obsolescence of a new invention, or the position of private wealth-owners in the social system in 1970. About these matters there is no scientific basis on which to form any calculable probability whatever. We simply do not know".

In turn, the uncertainty of the future can be classified as *ontological uncertainty* and *epistemological uncertainty* (Davidson, 1996). The latter implies that future is uncertain but knowable. In other words, epistemological uncertainty is a kind of uncertainty explored by the Austrian school. Each agent almost does not know about knowledge, preferences and expectations of other agents. Therefore, the government will never be able to give those "good" outcomes provided by the market system. However, the market system gathers this information and generates true decisions. It means that information gathered and processed by the market is knowable.

*Ontological uncertainty* implies that relevant information is not only uncertain but also unknowable. The point is that a lot of information is *not created yet*. It means that between the present and the future there are *ontological* differences. Ontological uncertainty is the characteristic of a transmutable reality or non-ergodic environment (Davidson, 1996). In a transmutable reality "the future can be permanently changed in nature and substance by the actions of individuals, groups… and/or governments, often in ways not completely foreseeable by the creators of change" (Davidson, 1996, p. 482).

The essential principle of – inspired by Post Keynesianism – comparative analysis of various economic systems is to analyze how institutions of these systems try to reduce uncertainty. "How we try to cope with uncertainty defines the system under which we live. Capitalism has one way of doing it, socialism another" (Rousseas, 1998, p. 17).

The market capitalism – or, according to the Post Keynesian terminology – *monetary economy* – is the economic system which tries to reduce uncertainty by means of such institutions as forward contracts, money and the state. It is necessary to note that money matters in this context as a means of discharging contracts – therefore, "… money and contracts intimately and inevitably related" (Panagopoulos and Spiliotis, 1998, p. 650 – 651; see also Davidson, 1977). The state is very important as the enforcer of contracts (Davidson, 1972; Carvalho, 1992). Contracting without state enforcement is unreliable, insecure and frail. That is why, according to Post Keynesian Economics, *monetary economy* is the economy based on a system of forward contracts (Carvalho, 1992, p. 102). "Without forward contracts… life under capitalism would be violently unstable" (Rousseas, 1998, p. 23).

These and some other uncertainty-reducing institutions provide some order and predictability in the economic life under capitalism. In particular, institutions "contribute to the stability of the social world, by stabilizing people's way of acting" (Dequech, 2004, p.372). At the same time, contracts and other institutions cannot completely eliminate uncertainty regarding, first of all, financial flows of private agents. "In a monetary economy output is determined by effective demand and there is no reason why effective demand should be at the level of full employment" (Marangos, 2002, p. 575). *As a result, business cycles, crises and unemployment are the normal outcome of market capitalist economy's functioning* (Carvalho, 1992; Davidson, 1972; Minsky, 1986), and, therefore, there is a need for discretionary macroeconomic – fiscal and monetary – policy of the government. Such stabilization policy can reduce uncertainty regarding financial inflows of firms and other private agents. Other means of further uncertainty-reducing activity under market capitalism can be Central Bank activity as a lender of last resort (Minsky, 1986) and "monopolistic concentrations of market power through vertical and horizontal integration, conglomerate mergers, product differentiation, and still other ways of amassing economic power" (Rousseas, 1998, p. 22).

All these arguments are the fundamentals of the Post Keynesian approach to an analysis of the Western types of market capitalism. Post Keynesian Economics takes into account features of the contemporary advanced economies of the Western capitalistic countries

and can offer relevant "cures" for various economic "diseases" of these countries.

What about other varieties of capitalism and other economic system? According to the Post Keynesian approach, social and economic successes and failures of such systems should be concerned, in the first place, with uncertainty-reducing institutions and their influence on key macroeconomic decisions, in particular, investment and financial ones. I think that *it is precisely Post Keynesian Economics that explains essential problems of "backward" models of capitalism*. One of such examples is the Post-Soviet Russian capitalism. Post Keynesian approach was already applied to different aspects of the Post-Soviet Russian economy (see Dzarasov, 2010; Dzarasov; 2011) or post-socialist economies in general (Dow et al., 2008; Lah and Sušjan, 1999; Marangos, 2002), but this paper tries to analyze successively the most essential features of the contemporary Russian economic system using the basic principles of Post Keynesianism. I emphasize Uncertainty, Institutions, Investment, Money and its surrogates as the main "building blocks" of the Russian economy's analysis on the base of Post Keynesian Economics.

**Institutions of the Post-Soviet Russian Capitalism and Uncertainty**

The starting point of the arguments is as follows: *institutions of the Post-Soviet Russian capitalism reduce uncertainty very ineffectively, and contemporary Russian capitalist economy is the system characterized by higher uncertainty* (in comparison with the Western capitalist economies). In order to understand reasons for it is necessary to analyze how the Post-Soviet Russian model of capitalism emerged.

The most part of the Russian economic history in the twentieth century was the history of the planned economy. According to the Post Keynesian view, such economic system can be treated as the alternative – to capitalism – set of uncertainty-reducing institutions (see above quote from Rousseas, 1998, p. 17). The centralized plans' directives, fixed prices, guaranteed employment (and sales), absence of private entrepreneurship and stock exchange are elements of institutional environment that reduce institutions under the planned socialism. The detailed Post Keynesian analysis of such system' performance waits in the wings.

In the beginning of the 1990s Russian system became economy in transition. There was an "institutional transformation": the economy moved from the planned socialism to some model of capitalism. Such transition itself generated serious problems of economic coordination. The *institutional hiatus* (Kozul-Wright and Rayment, 1997, p. 643) emerged: "the old command system had collapsed before the new coordinating mechanisms of the market economy could be put in its place and generate effective responses". Such phenomena as "transition uncertainty" (Marangos, 2002, p. 575) and transformational recession (Kornai, 1993) took place.

The important point is that the transition to the market capitalism was carried on the principles of shock therapy (Dzarasov, 2010; Dow et al., 2008). It is strategy implying quick transformation with simultaneous implementation of all main reforms. These reforms are price and trade liberalization, privatization and financial stabilization. Such approach was inspired by the famous doctrine known as the Washington Consensus (Davidson, 2004).

The point is that some reforms – for example, price liberalization, – require short period for its completion, other reforms – for example, creation of clear legal framework for market economy – require long one. So, strict shock therapy policy was transformed into the process treated by me as "reverse gradualism". Those reforms that must be implemented later, took place more early (and vice versa). It is the definition of the "reverse gradualism". Such "bad" succession really complicated the transition to the market economy and also generated chaos and increased degree of uncertainty of the future. That is why, according to Post Keynesian perspective, shock therapy is adverse mode of transition (see also Tsang, 1996; Dow et al, 2008).

*The shock therapy policy's implementation implied not shift but break in the institutional base of the economic system*. As a result, "the destruction of the old was hardly matched by the creation of market-oriented institutions of economic control" (Murrell, 1993, p. 137).

This argument is relevant for the Russian capitalism born in the 1990s. In 1991, this country had still some analogue of the planned economy: "Price controls and state orders each applied to about 75 percent of economic activity" (Murrell, 1993, p. 132). Contract law and other basic institutions of the market capitalism were not created yet. The 1992 year was the first year of implementation of the shock therapy policy. The outcomes were the following: privatization without rules of law, price liberalization without workable competition, the government refusal from enterprise administration and control without emergence of efficient entrepreneurship and management, advertisement of "conspicuous consumption" and "luxury life" without introduction of moral rules of civil society, etc. The Russian government had refused from administration of state enterprises in this period and become to perform very badly functions of legal protection of forward contracts. Moreover, it often violated its own contractual obligations. All this generated extremely high level of uncertainty in comparison with the Western capitalist economies and most Eastern-European post-socialist ones.

The Russian version of shock therapy created incentives for various "shadow" and "black" activities ranging from trials to conceal income for the sake of tax evasion to real criminal acts. In other words, many Russian firms were engaged in the 1990s in diverse forms of the "shadow economy". Shock therapy – especially via privatization – generated "a breakdown of institutional norms resulting in corruption and illegal activities" (Marangos, 2002, p 573). The Russian capitalism was emerged, to a considerable degree, as a criminal capitalism. It is not surprising that now both businesses of many influential Russians have criminal origin, and

some actions of the Russian governmental officers violate (international or domestic) law.

The 1990s were the period of "oligarchic discretion". As a result of shock therapy, the most of property was acquired – often illegally or something like that – by different oligarchic groups. Some of them had roots in the criminal world. The Russian agents wanted and very often were forced to circumvent the government. The emerged illegal economy took various shapes: tax evasion and all by-products of it, transactions with rights and licenses, production and selling of drugs etc. The perspectives of survival for private businesses not linked with oligarchic groups were very blurred in the 1990s. This capitalism was non-competitive. Oligarchic business had big "comparative" advantages; small and medium businesses that have no any protection from criminal or semi-criminal groups had big "comparative" disadvantages. This "state-of-the-art" was supplemented by contradictions between many formal laws, slowly developing legal system, slow and inefficient work of courts, and other aspects of the underdeveloped institutional environment. The slogans of "quick enrichment" and "conspicuous consumption" showed by the oligarchic aggressive advertisement also did not contribute to the successful economic development.

In the 2000s, *"bureaucratic discretion" substituted for "oligarchic discretion"*. New President – Mr. Putin – started to form "power vertical". Different oligarchic groups – that were not loyal to President and his friends – had been weakened or destroyed (case of Khodorkovsky is the most famous example). In order to survive in the business world close links with the power authorities started to become more and more important. The bureaucratic raids of the private property and businesses became more and more "popular". The Russian capitalism remained non-competitive. Institutions – as in the 1990s – did not protect agents investing money in the productive assets. At the present time, the situation with lack of institutional protection of investors' and owners' rights is likely to be worsened.

**Uncertainty and Productive Underinvestment in Post-Soviet Russia**

During the 1990s Russia had suffered from fantastic collapse of productive investment. In 1998 real investment was equal to only 21% of pre-reform 1990 value (Dzarasov, 2011, p 199). Such investment collapse was not only factor of the great fall of aggregate demand and GDP (In 1998 real GDP was equal to 57% of 1990 value), but also a phenomenon contributing to deindustrialization and technological degradation of the Russian economy. For example, the average age of industrial fixed capital has fallen from 11 years in 1990 to 21 years in 2004; and later data are not published at all. Some branches of highly technological manufacturing were partially or completely destroyed in the 1990s and later.

It is Post Keynesian economics that explains thoroughly negative tendencies in the dynamics of productive investment on the macro level. According to the Post Keynesian approach, not relative prices but investment "… is the central point in the economy. Investment is dynamic, constantly in motion, and never resting in an "equilibrium" position" (Marangos, 2002, p. 575). *The fluctuations of business activity are concerned, mainly, with changes in the demand for durable assets*: increasing investments as purchases of productive durable assets contribute to rising GDP and employment but increasing demand for money and other non-productive assets do not contribute to GDP and creation of new jobs (Davidson, 1972; Minsky, 1975; Carvalho, 1992). In turn, choice of durable assets is the inherent feature of any economy faced with the uncertainty of the future.

The point is that *institutions of the Russian transitional economy discouraged productive investment and encouraged purchases of various non-productive liquid assets.* These institutions failed to reduce uncertainty in a considerable degree. Broadly speaking, the idea of the negative influence of uncertainty of the future on fixed investment is commonplace for Post Keynesian economics (Carvalho, 1992; Davidson, 1972; Keynes, 1936, ch.12; Minsky, 1975; 1986). We already mentioned above that shock therapy have generated extreme uncertainty of the future. In this environment, the Russian potential investors had no any bases for sensible investment decision-making. It was not very surprising, at least, for Post Keynesian economists that collapse of fixed investment took place.

*Higher uncertainty contributed to low animal spirits* (Keynes, 1936, ch. 12) *and total lack of confidence of investors.* I already suggested that in the 1990s only those investors who had close links with influential criminal and "quasi-criminal" groups could hope for the protection of their property and contract rights. The most agents preferred to acquire various "surrogate store of values" (Grahl, 1988) in the forms of foreign currencies and other financial assets, precious metals, antiques, Old Masters rather than fixed capital and other productive assets. For example, according to various estimations, capital flight from Russia in the 1990s was equal to 100 – 500 billion US dollars. These forms of non-productive investment can be treated as arational reactions to higher uncertainty and impossibility to make calculated decisions. Such *fixed capital investment collapse is a something like an effect of mass psychosis due to sharp break with the planned economy's institutions and lack of new effective "market" institutions in the process of the shock therapy policy's implementation.*

After 1998 – year of the Russian government' default – there were not radical changes in this situation. Various private "shadow" oligarchic groups were displaced in the 2000s by the "agents" possessing close links with the "friends of the President" and other "influential people" from the government. As I already mentioned, "bureaucratic discretion" substituted for "oligarchic discretion". It hardly improved a protection of those who made decision to invest in durable GDP-creating assets. "Climate" for productive investors – if they were not concerned with "friends of the President" – remained "cold" in general.

Increased investment in the period between 1999 and 2008 was a reaction to both sharp rouble depreciation in 1998 August (after the Russian government default) and rising oil prices in the 2000s. However, there are no reasons to say that institutional environment strongly improved. It became clear since 2008 when GDP not concerned with oil and gas sectors ceased to grow, and especially since 2013 when total GDP ceased to grow. The current 2016 year is the year of the continued crisis with decreasing investment activity. Potential investors do not trust each other and have no confidence in the future of the Russian economy.

*Inability of the Post-Soviet institutions to reduce uncertainty generated such phenomenon as investor myopia.* What does it mean? In order to give the answer I would like to start from mentioning *short-termism*, which in *mainstream economics* is usually defined as "the pessimistic under-weighting of expected future returns and/or the excessive discounting of expected future returns" (Juniper, 2000). It is clear that so defined short-termism leads to refusal from realization of some investment projects. Furthermore, as Juniper (2000) has pointed out, short-termism favors strategies of labor-shedding and asset-stripping instead of strategies of skills formation and asset-renewal.

The very important point is that all mainstream analysis of short-termism encompasses only equity market (Miles, 1995). Usually short-termism is explained through an exploration of relationships between shareholders and managers (for instance, see Dickerson et al., 1995). Moreover, short-termism as the behavioral feature regards only these types of economic agents. The main reason for it is turnover on managerial or shareholder side (Dickerson et al., 1995; Juniper, 2000).

However, short-termism can be represented in more extreme form, although this form is often treated as a something that is different from short-termism itself. I imply *investor myopia* that means that *agents evaluate consequences of their decisions only over short-time horizon* (Juniper, 2000; see also Bellais, 2004, pp. 430 – 431). In other words, *investor myopia implies that agents exclude from the consideration values of future variables after some threshold time point.*

Unfortunately, there is no consistent theory of investor myopia as the most radical and important form of short-termism. In order to construct such theory, it is necessary to reject treatment of both short-termism and investor myopia as a phenomenon confined only to the equity market (Juniper, 2000). It seems to me that it is necessary to exceed the bounds of equity market in order to provide full analysis of this phenomenon.

The point is that choice among durable assets is rather more "expanded" event than some decision regarding equity market. It is completely consistent with the mentioned above Post Keynesian theory of durable assets' choice. Acquisition of fixed (and also human and health) capital, different non-equity speculations, various illegal activity – all these things can be both type of choice of durable assets and transactions beyond equity market. *Investor myopia can exist whenever decision about purchase of durable asset(s) should be made.* - Investor myopia shows always itself to be a shift toward assets bearing short-term income across the whole spectrum of durable assets. Therefore, investor myopia affects not only structure of stock market and choice between asset-renewal and asset-stripping (Juniper, 2000). *This phenomenon can determine ratios between productive and mediatory activities, between skills formation and skills erosion, between health promotion and health loss, between technical-progress-inducing industries and other ones, between legal and illegal activities*, and so on. The abovementioned surrogate stores of value (Grahl, 1988) attract mainly agents whose behavior characterized by investor myopia

Investor myopia is complementary to very low animal spirits (Keynes, 1936, ch. 12). The latter is a something like "spontaneous pessimism" regarding an expected profitability of any productive investments; the former is a something like "pessimism" regarding an expected profitability of any productive investments after some threshold point in time. Agents suffered from investor myopia are interested in exclusively short-term gains from any projects. Because the most productive investment projects generate incomes only in the long-term future, such agents do not want to buy productive equipment and prefer to make purchases of various non-productive assets.

I offer *to consider investor myopia as a reaction to ineffective institutional environment failing to reduce strongly uncertainty and to protect private owners and investors*. *The economy populated by the agents suffered from investor myopia has been doomed for the chronic underinvestment and technological backwardness.*

In turn, long fall of investment decreases capital stock and, consequently, capital-labor ratio, which can be treated as the argument in the technical progress function together with level of investment itself (Palley, 1996; see also Bellais, 2004).

**Underinvestment and Degradation of Monetary System in Post-Soviet Russia.**

During the 1990s the Russian economy had faced with another adverse tendency: *displacement of bank money from monetary circulation*. Barter and various "quasi-monies" started to play enormous role. Monetary "surrogates were of countless varieties. They were issued by government, and local authorities, banks, enterprises, and even individuals" (Dzarasov, 2010, p. 34). "The rise of… pure barter transactions, transactions in promissory notes, and mutual debt write-offs, was observed in almost all of the 20-plus transition economies in the 1990s. However, it was most severe in Russia and Ukraine…" (Dow et al, 2008, p. 28). According to Makarov and Kleyner (1999), the share of barter in the transactions with industrial products was equal in 1991–94 to 40%, in 1995–1996 to 75%, and in 1997–99 to 80–90%. According to Dow et al (2008, p. 18), "at its peak in 1998, nonmonetary transactions such as mutual write-offs, promissory notes, and pure barter transactions constituted more than 50 percent of industrial transactions in Russia". Another substitute for bank money was cash: M0/M2 ratio had increased from approximately 18 per

cent in 1992 to almost 40 per cent in 1998. These events were accompanied by demonetization of the economy. Coefficient of monetization had fallen from 19.9 per cent in 1993 to 14.8 per cent in 1999, while in the UK, USA, Germany, France in the 1990s and 2000s this ratio was between 50 and 100 per cent; in Eurozone between 1995 and 2005 it had increased from 72.5 per cent to 89.2 per cent.

So such changes in the structure of media of exchange were opposed to tendencies in financial evolution in the Western economies characterized by fall in M0/M2 ratio and expansion of new *bank* types of monies (Minsky, 1986). I believe that the described dynamics of the monetary system of Russia in the 1990s was, to a considerable extent, due to the described above investment collapse. *The great decrease of investment discouraged monetary evolution: banks and other financial institutions had no incentives to invent new kinds of monies.* Such "monetary degradation", in turn, limited investment activity because led to a lack of finance for purchases of productive assets.

In the 1990s economic agents forgot about investment and concentrated on purely production and (even more) exchange aspects. However, working capital turnover – unlike additions to fixed capital stock – can take place by means of using cash money, barter and mutual arrears. Furthermore, *barter and arrears provided survival of insolvent firms, especially when bankruptcy law really did not work* (as in Russia in the 1990s; later bankruptcy law was used by corporate raiders). So, one the one hand, such deterioration of monetary system was the reaction on sharp macroeconomic slump induced by shock therapy, on the other hand, it created barriers to "revival" of investment activity. It implied that there was improvement of technologies of concealment of outcomes of economic activity and/or this activity itself – I can repeat that the Russian capitalism emerged as, to a considerable degree, as a criminal capitalism. Thus, the possibilities for expansion of shadow economy became wider.

It is necessary to note that, unlike back money, cash and barter are anonymous. Use of it does not imply disclosure of information about the name(s) of transactor(s). In this respect, cash is ideal mode of financing illegal activity in comparison with bank money. However, barter (and mutual arrears) has even more advantages. Firstly, barter allows to conceal genuine (monetary) value of goods. Secondly, accounting of material things flows is more difficult than accounting of monetary flows. These advantages frequently more than offset disadvantages of barter that are concerned with its "awkwardness". Therefore, with "help" of barter and mutual arrears the Russian agents often financed illegal activity in the 1990s.

In turn, these events led to both further fall of GDP and cost-push inflation. In other words, displacement of bank money by cash, barter and arrears could inject cost inflation irrespective of the central bank policy. For example, in 1997, "the Severovejsk engineering plant paid by surrogates (which means on barter terms) for the delivery of cast iron 2 million roubles per ton. In cash, its cost at the time was only 0.7 million roubles" (Dzarasov, 2010, p. 35).

It is not surprising that such adverse changes in monetary circulation could induce the government to restrict more its policy. For example, decrease of tax revenue due to diffusion of barter and arrears might lead to new increase in tax burden. This increase was directed to balance the government budget. Similarly, acceleration of inflation due to the same cause might lead to tightening of monetary policy; such policy was directed to disinflation. In the 1990s "Russian authorities started what, probably, was the most consistent experiment of the restrictive monetary policy in recent history" (Dzarasov, 2010, p. 33). Such policies are approved by the reforms-inspiring international organizations like IMF. However, described tightening was ineffective because it only intensified further expansion of barter and arrears.

However, *the most dangerous effect of described bank money's displacement was concerned with disintegration, "fragmentation" of the economy*. The point is that "normal" money, as is well known, is *universal* means of payment, unlike goods used in barter or obligations of the enterprises. Arrears (or some commodity utilized in barter relations) of Firm A can be accepted by Firm B or Firm C; but Firm D and Firm E may refuse to make it and, therefore, will break economic links with the former three companies. That is why endogeneity of bank credit money and endogeneity of obligations of enterprises are fundamentally different things: the latter is extremely far from "full-fledged" money, because it cannot be both "the means of contractual settlement" and "one-way time machine" (Davidson, 1977, p. 542).

Here I should emphasize the role of informal links between agents in shadow economy and the meaning of "bad" media of circulation for survival of insolvent firms. Barter and arrears allowed to strengthen above links and to provide more sharp divisions between "friends and foes". *The economy broke into disconnected local groups of economic agents.* Furthermore, inefficient (and therefore insolvent for conditions of normal market economy) companies continued to live and did not to try to improve own efficiency, productivity, level of its technology etc. The main consequence of all this was both absence of incentives to technical progress and impossibility of horizontal diffusion of innovations (Makarov and Kleyner, 1999). *Such economy could maintain standards of living that are compatible with bare subsistence, but it had doomed on deepest technological stagnation and decline.* This doom took place irrespective of liberalized prices, privatized enterprises, low rate of money supply growth approved by IMF, etc. It means that *not only money is not neutral, but also the structure of money is not neutral.*

The described "monetary degradation" was stopped in the end of the 1990s due to positive macroeconomic (including external) shocks and successful shift in the government regulations (by prime-minister of those days Primakov), and also attainment of bare subsistence level. Almost all this happened in 1999 – 2001: "Only after the restrictive monetary policy was

violently stopped by the crisis, did economic recovery ensue in Russia" (Dzarasov, 2010, p. 35).

"The steady rise of oil prices also contributed to macroeconomic stabilization. As a result, since 1999, the economy's reliance on cash money has steadily been declining and the importance of banking has slowly been increasing" (Dow et al, 2008, p. 18). The level of use of barter and monetary surrogates reached to 2001 the very low, almost "non-visible", level that is typical for the developed countries. Nevertheless, some legacies of the described adverse tendencies in the monetary circulation in the 1990s remain now. These ones are low coefficient of monetization, large M0/M2 ratio and absence of such monetary aggregates as M3 and M4. Above I already wrote that in 1999 coefficient of monetization was equal to 14.8 per cent. It did steady increase until 2013 when it was equal to 47.1 per cent that is very low value according to the international standards. During 2000 – 2014 M0/M2 ratio has fallen from 0.37 to 0.22. This was a good tendency, but 22 per cent of M0 relatively to M2 is very large size, according to the standards of the developed countries (less than 10 per cent). The economy with "degraded", "underdeveloped" structure of media of exchange cannot rapidly grow on the "internal base": local groups of informally linked agents are closed and self-contained structures that have no ability to develop and to innovate. It is the reverse side of the "bureaucratic discretion" in the contemporary Russian economy.

**Conclusions.** *According to the Post Keynesian Economics, the most essential feature of the Post-Soviet Russian model of capitalism is higher uncertainty due to ineffective institutions.* Property rights of the Russian agents are poorly protected. Contracts are not enforced effectively. Some laws are not consistent with other laws. Courts work slowly and inefficiently. Corruption and bribes are the commonplace of the economic activity. Barriers to entry are very high for almost any company that has no links or friendship with "influential groups". In the 1990s "links and contacts" with private criminal groups were often necessary condition for survival of many private businesses. In the 2000s and 2010s similar "links and contacts" with the state authorities became necessary prerequisites for survival of almost any businesses. As a result, in contemporary Russia – especially Russia of the "Crimea period" – different types of agents have different degrees of legal protection and abilities. Companies created by or concerned with different "friends of the President" and "friends of the friends of the President" are in the best position. "Ordinary" businesses without any "important links and contacts" are at the "opposite end of the spectrum". Owners of such businesses have no adequate protection against possible raiders concerned with the authorities.

*This institutional environment reduces uncertainty very ineffectively. It discourages many productive investment projects because rights of the most potential and actual investors are very poorly protected.* Various dangers surrounding any productive investment projects are supplemented – in the contemporary Russian economy – by the dangers generated by the ineffective institutions. Therefore, many potential investors prefer to buy – instead of GDP-creating productive equipment – various "surrogate stores of value" in the form of different non-productive assets like foreign financial assets, antiques, precious metals, Old Masters, old part of real estate etc. *Animal spirits are very low, and investor myopia rules the roost.*

In 2015 investment/GDP ratio was equal to 18%. This figure is very small for the country that has plans of massive "import substitution" strategy and "autonomous", "independent development". Russia of the "Crimea period" has doomed for the underinvestment and technological backwardness. This situation is aggravated by low coefficient of monetization, high M0/M2 ration and absence of monetary aggregates M3 and M4. The backwardness of monetary and financial systems contributes to a "fragmentation" of the economy: many groups of agents are closed and self-contained structures with no incentives to develop and to innovate. In order to escape from this situation is to reform radically existing institutions. The Russian institutional system should provide more predictability for those who invest in GDP-creating productive equipment.

All these conclusions are derived from an application of Post Keynesian Economics to the Post-Soviet Russian economy. *The contemporary Russian model of capitalism "copes with uncertainty" very ineffectively and, therefore, discourages productive investment. The Russian agents prefer to buy non-productive durable assets not contributing to GDP and employment*. As a result, economic backwardness of Russia becomes stronger.

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**Розмаїнський І. В. Основні елементи посткейнсіанського аналізу пострадянської моделі російського капіталізму**

У статті зроблена спроба дати посткейнсіанське пояснення найбільш важливих проблем пострадянського російського капіталізму. Основна ідея полягає в тому, що інститути капіталізму такого типу неефективно зменшують невизначеність. Основною причиною цього є нездатність держави як ефективного виконавця контрактів. У свою чергу, більш висока невизначеність призводить до хронічного недофінансування, деіндустріалізації, технологічної деградації і схильності занурюватися в пастку відсталості. Супутнім явищем є недостатньо розвинена грошова система. Всі ці фактори сприяють значній економічній відсталості сучасної російської економіки.

*Ключові слова:* посткейнсіанська економіка, невизначеність, контракти, перехід, Росія, капіталізм.

**Розмаинский И. В. Основные элементы посткейнсианского анализа постсоветской модели российского капитализма**

В статье сделана попытка дать посткейнсианское объяснение наиболее важных проблем постсоветского российского капитализма. Основная идея заключается в том, что институты капитализма такого типа неэффективно уменьшают неопределенность. Основной причиной этого является неспособность государства как эффективного исполнителя контрактов. В свою очередь, завышенная неопределенность приводит к хроническому недофинансированию, деиндустриализации, технологической деградации и склонности погружаться в ловушку отсталости. Сопутствующим явлением есть недостаточно развитая денежная система. Все эти факторы способствуют значительной экономической отсталости современной российской экономики.

*Ключевые слова:* посткейнсианская экономика, неопределенность, контракты, переход, Россия, капитализм.

**Rozmainsky I. The Basic elements of the post keynesian analysis of the post-soviet model of Russian capitalism**

The paper tries to give Post Keynesian explanation of the most important problems of the Post-Soviet Russian Capitalism. The main idea is that institutions of this type of capitalism reduce uncertainty ineffectively. The main cause of it is a failure of the state as the effective enforcer of the contracts. In turn, higher uncertainty leads to chronic underinvestment, deindustrialization, technological degradation and tendency to sink into the underdevelopment trap. The accompanying phenomenon is the underdeveloped monetary system. All these factors contribute to the significant economic backwardness of the modern Russian economy.

*Keywords:* Post Keynesian economics, uncertainty, contracts, transition, Russia, capitalism.

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