

# Will Russia Become An Industrial or A Post-Industrial Society?

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## Abstract

Viewing a society as a collection of thinking participants tends to focus attention on thoughts and conversations. We suggest that Russia is facing a choice about its future which is not being sufficiently discussed. If Russia acts so as to become an industrial society, there will be fewer jobs for highly educated workers. However, acting to create a post-industrial society will require reconsidering the beliefs and values in Russia's cultural heritage.

## 1 Theoretical Background

In earlier symposia at this conference it was suggested that the field of systems science offers four basic models for analyzing systems [Umpleby, 1994 and 1996].

- 1) Regulation assumes two analytic elements -- the regulator and the system being regulated. This model works well when thinking of the management of a corporation or of a centrally planned economy.
- 2) A self-organizing system has a large number of elements whose behavior is governed by certain interaction rules. This model works well when examining a free market system. By changing regulations, such as tax policy, a government can change the structure of incentives and hence the interaction rules.
- 3) A self-referencing system is a self-conscious system. The basic elements are a system and the system's thoughts about itself. This model fits therapy, whether of an individual, a group, or a society.
- 4) A society can be thought of as a collection of thinking participants. This model makes use of the previous three models.

Using the fourth model to understand a social system requires that considerable attention be paid to the ideas that people have about the nature of the social system and

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their role in it. This model requires that we look at where people think a social system has been, is now, and is likely to go. It also requires that we understand how people are trying to affect the direction in which the society moves. We shall use this fourth model to understand the present course of development in Russia.

## 2 A Strategic Choice

We suggest that the people of Russia are facing a strategic decision about the future of their country. Either Russia can choose to export its raw materials in exchange for manufactured goods and services, or Russia can choose to join the world economy and to produce goods and services itself. If it chooses the first alternative of being a raw materials supplier, the country will continue to be an early industrial society with many jobs for blue-collar workers, but few jobs for more highly educated professional workers. If it chooses the second alternative, Russia will become a post-industrial society with a large percentage of highly educated knowledge workers.

One variation of this choice is the question of who will manage Russia -- Russian managers or foreign managers. If Russia decides to import consumer goods, foreign manufactureres will soon begin setting up factories in Russia in order to reduce distribution costs. This would be a very effective way of importing technology, management expertise, and jobs. However, the managerial positions would be held by foreign managers while the lower-skilled jobs would be held by Russian workers. Hence, if the new factories are managed by foreign firms, Russia would become a semi-colonial state with key decisions being made by people with a different cultural orientation.

Russia currently has a highly educated population and an extensive network of universities. But if Russia chooses to be an industrial rather than a post-industrial society, there will be less need for professional workers. Universities would be less well-funded, and educated people would have less social and political influence. However, the Russian scientific community is not thinking about its future in this way. They speak about their future in theoretical rather than pragmatic terms. They

tend to look back to Russia's previous period of empire rather than thinking about the future.

Presently this choice is not being discussed in the press or by the political parties. If Russia does not confront this choice directly, it is quite likely to make the first choice by default. The first choice is the easy choice. Russia has huge reserves of oil, natural gas, gold, diamonds, lumber, and other resources. These materials can be sold on international markets in exchange for consumer goods and high technology equipment. The second choice is more difficult. In order to follow the second path Russian intellectuals and professional workers will need to organize themselves to put pressure on business and government to adopt policies consistent with the creation of a post-industrial society. Much work would need to be done by educators, journalists, and policy analysts.

### 3 Building A New Society

Making the choice to be a post-industrial rather than an industrial society is not a decision that is made just once, for example on election day. It is a matter of transforming the old society and building a new society. In order to build a new society there is much work to be done. Russian society lacks many things.

Viewed from outside it may appear that Russia has the key elements of a modern society, for example banks, trade unions, and a legal system. But a close look reveals that these organizations are not very professional. They do not play the necessary role in society. For example, the trade unions keep silent despite the fact that workers are not paid for months. The banking system is not well-developed. It does not provide sufficient loans to industrial enterprises, small entrepreneurs, or private individuals. The legal system is controversial and inconsistent. All of these institutions need a great deal of work to be brought up to Western standards. But the primary concern is a reconsideration of spiritual values [Medvedeva and Umpleby, 1998]. Russian values are not favorable for capitalistic society. Russia has never thoroughly developed private property or private enterprise.

The current period is the third attempt to build capitalism in Russia. The first attempt occurred in the latter part of the 19th century. The second attempt was Lenin's New Economic Policy during the 1920s. The current reforms are the third attempt. The first two attempts failed. One of the reasons for failure was that society as a whole was not prepared from a cultural point of view for these changes.

Russian literature and the principal religion, Orthodoxy, were against private property. In the Russian religious heritage money, property and private activities are not positively evaluated. They are viewed as sinful because they help the rich, and helping the rich is considered to be bad regardless of the way the wealth was accumulated. Hence, there is a psychological barrier in the minds of Russian people to entrepreneurial activity. It is necessary

for a person to overcome this barrier before one can launch one's own private business.

Some Americans have organized business incubators and have tried to train Russian businessmen or businesswomen. They have found that it is necessary to provide psychological training after a period of training in business and management [Warnecke, 1996]. Current societal values are not accepting of profit and individual achievement. Russian people must be encouraged to launch a business. The hesitancy to engage in entrepreneurial activity is one part of the Russian cultural heritage which is not favorable for the development of private enterprise.

What is needed is to rethink the cultural heritage from the point of view of the desired society. The task is to divide the Russian spiritual heritage into positive and negative features with respect to the new society that needs to be created. Then promote the spiritual values that would help society to develop an honest, legal, private order while at the same time blocking the negative features that prevent a legal economic order. However, Russian educators and intellectuals do not do this now. They are more inclined to praise old Russian values which are not favorable for a new society [Gouchtchina and Umpleby, 1998].

### 4 Continuous Process Improvements

A major obstacle to social, economic, and political development is the Russian approach to change, which is quite radical. The idea has been that a reformer must first destroy everything to its foundations and then begin anew with a blank page. This radical approach to change prevents accumulation of capital and experience and has retarded the pace of social, economic and political development in Russia.

An alternative is continuous process improvement. Process improvement methods have proven to be quite effective at raising productivity in Japan, the U.S. and Western Europe [Walton, 1986]. These methods could be adopted by business and government and taught in universities. Some work on quality improvement methods has begun in Central and Eastern Europe, but in general productivity in these countries still lags behind Western Europe, parts of Asia and the United States. Each time quality improvement methods have been adopted by another country, they have been modified, and new procedures have been added to make the methods acceptable in the new cultural context. This work will need to be done for Russia as well.

One advantage of adopting continuous quality improvement methods is that this approach to problem solving helps an organization or a society make a large number of small improvements on a continuous basis rather than falling into despair over the large number of problems that exist.

## 5. The Asian Examples

Several countries in Asia have had high growth rates for several decades. However, lately they have suffered financial reversals. Some important lessons can be learned from the Asian experience.

First, quality improvement methods were critical to the success of Japan in capturing world markets for products such as automobiles and consumer electronics. These methods offer an alternative strategy for the development of Russia. See Figure 1. Loop (1) depicts the strategy of development through raw materials exports. A desire for consumer goods leads to the sale of raw materials, which generates foreign exchange earnings. Imports increase, and the standard of living increases. Loop (2) depicts the strategy of development through production of high quality goods and services. The use of quality improvement methods leads to quality goods which increases exports of manufactured goods, which are exchanged for imports, thereby raising the standard of living.

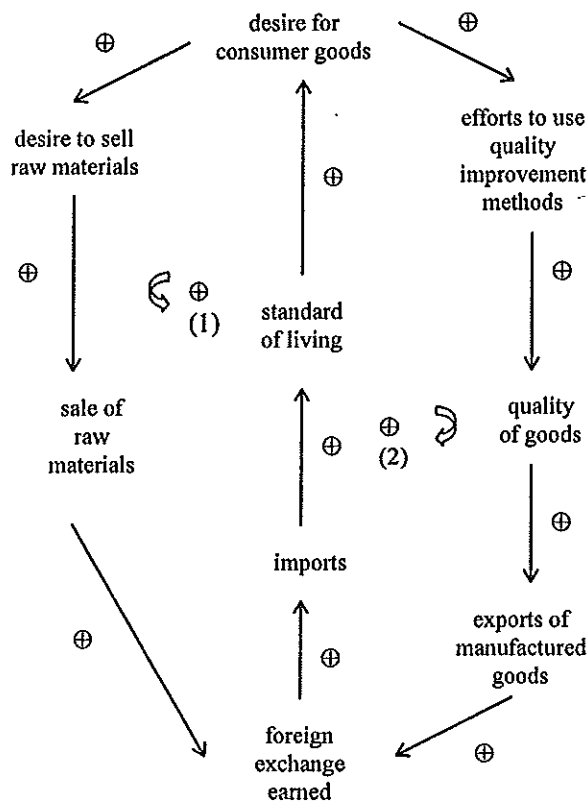


Figure 1. Two Development Strategies for Russia

Second, a strategy of export-led growth, as pursued by the Asian countries, has limitations. The Asian countries have had high savings rates and high levels of investment in productive capacity. Loans were often financed through a system of "crony capitalism" now emerging in Russia [Kranz, 1998]. Figure 2 presents some features of the development process in Japan. Loop (1) shows how saving and capital investment led to exports and rising

salaries for workers. But loop (2) shows how competition from other Asian countries pursuing similar strategies led to a decline in exports and to a decline in the value of the currency. Russia has an opportunity to learn from the Asian countries -- both what to do and what not to do

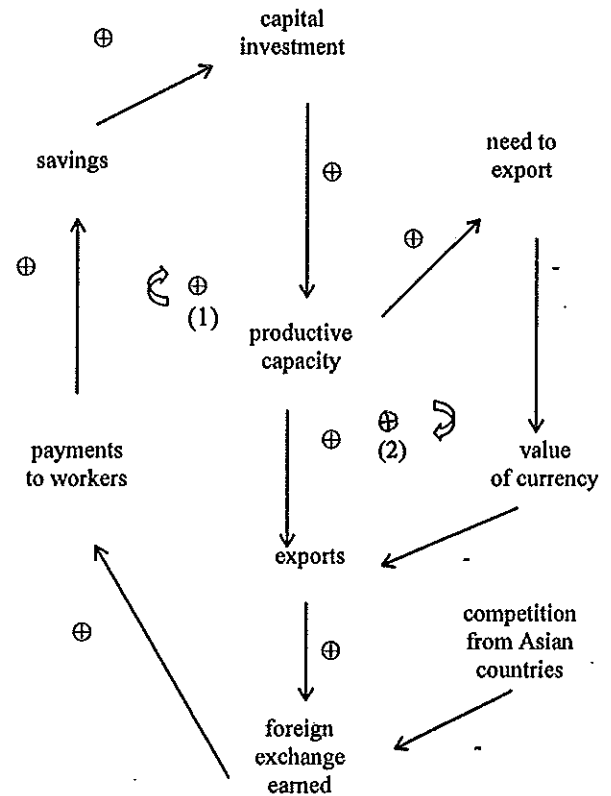


Figure 2. The Development Process in Japan

Management education in Russia is having a new revival [Rapoport, et al., 1993]. New business schools are opening. The number of faculty in these fields has doubled. But the curricula in these schools often focus on general laws of economics. The science and art of management is undervalued, and there is little attention to personal qualities or to personal initiative, especially in comparison to American management education which sometimes encourages students to launch their own businesses while they are students. This kind of training does not exist in Russia. If the system of education continues to develop at the speed that it has recently, this type of education will be developed as well.

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