

Russia's Zombie Ideas Never Die

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Nobel economics laureate Paul Krugman is one of the most influential op-ed columnists in the U.S. His influence has grown even more as a result of the financial crisis. Time after time, he turned out to be right when he wrote about the dangers of the housing bubble, the ineffectiveness of the fiscal stimulus and the need for easing monetary policy.

But there is a fundamental difference between the work of a prominent newspaper columnist who focuses on economic matters and an academic economist. An economist's job is to create a new economics model, put forward a counterexample and prove a point to a dozen or so professional colleagues, whereas a prominent columnist like Krugman must persuade many thousands of readers, most of whom have no background in economics, and the politicians who represent them. Tired of fruitless attempts to enlighten his audience, Krugman coined a term to describe concepts that practical experience has convincingly disproved but that politicians and journalists nonetheless continue to believe and promote. He called them "zombie ideas" because they have no life of their own and yet are impossible to kill.

Russia has its own zombie ideas to purge. The most egregious one is the belief that the government should play a dominant role in managing economic entities, much as it did during the Soviet Union. Although the government already regulates too much in this country

and does so not very successfully, it is not for me to say how great a role it should take in the economy.

The world offers examples of economic development resulting from both large-scale and small-scale government intervention, and both approaches are potentially valid. The real zombie idea here is that the government can effectively manage a business enterprise — for example, dictating to a state bank which businesses it should lend to and telling businesses which goods they should produce. This idea was advocated last week by presidential economic adviser Sergei Glazyev.

How do economists know that government cannot manage the economy at the level of individual businesses? They learned that fact the same way all people learn things — from experience. The Soviet economy was a huge experiment that tested the hypothesis that government can manage individual businesses. That experiment, which was repeated on a smaller scale in other socialist countries, gave an unequivocal answer: no, it cannot. The government's gross inefficiency in managing the Soviet economy led to economic disaster and, after the collapse of the Soviet Union, widespread human tragedy bordering on humanitarian catastrophe.

The Soviet experiment with a socialist economy was what modern scientists call a "natural experiment," almost ideal in its isolation from the world economy and the scale on which it was carried out. Although the negative results of that experiment should be obvious to all, a number of human and political factors make the subject difficult for many to discuss objectively.

But Russia even now has a great many examples of mini experiments in which government plays a direct role in business, in the form of corporations wholly or partly owned and controlled by the state. Do the results of those experiments really indicate that the government should play a greater role in the economy?

The belief that the state can effectively micromanage the economy is an unnatural zombie idea. Unfortunately, in Russia this idea has been artificially preserved, like Lenin's body on Red Square. The idea cannot die from natural causes, as it should have decades ago.

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