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Putin Takes a Populist Turn

By Anders Aslund

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After a long rest, alternating between publicity stunts and foreign trips representing Gazprom, Prime Minister Vladimir Putin has suddenly woken up with the announcement about his renewed presidential ambitions and several substantial policy statements.

Putin's speech to the United Russia convention on Sept. 24 was downright populist. His discussion at a VTB Capital conference on Oct. 6 offered an uncommonly serious policy line. A Russian television interview on Oct. 17 rested somewhere in between. In discerning solid policy from propaganda, a rather clear policy emerges.

Putin has evolved the most on the World Trade Organization. He pursued Russia's accession vigorously from 2000 to 2003, but during Dmitry Medvedev's presidency he has impeded Russia's entry. Now, he has sorted out this struggle with himself. He answers the question about whether WTO accession is good or bad for Russia. "I will say it's 50-50, but overall there are probably more pluses than minuses for Russia," he said at the VTB conference. "We are not abandoning this goal, and we are ready to join the WTO in full, but we will do so only if they don't set unacceptable terms for Russia."

He has vacillated between East and West, but never has he been as pro-European as in his VTB speech. He declared that European culture goes all the way "to the Pacific Ocean because this territory is populated mostly by Russian people and people of other ethnicities, but they are still people steeped in European culture. ... This is a single space. ... Either we join forces or gradually leave the international arena and make room for others. ... So, we will go ahead and establish a free-trade zone with the European Union ... and keep on promoting these integration processes."

Putin seems to have accepted Medvedev's foreign policy toward the West, while he remains positive on China and accepts Russia's junior position.

All his talk about the Eurasian Union does not amount to much. Russian politicians have talked about the CIS as a future European Union since its launch in 1991. Agreements of a free-trade area between the 11 CIS members have been signed before, first in 1994, but those agreements never came into force because Russia did not ratify them. A free-trade area is beneficial because it liberalizes mutual trade, while a customs union causes trade diversion by forcing other countries to adopt Russia's higher customs barriers.

Putin's very populist statements at the United Russia convention appear to have provoked Finance Minister Alexei Kudrin to resign. Defensively, Putin insists that he is fiscally conservative and his country well prepared for another financial crisis. This is a far cry from his speech about Russia being a safe haven in the global financial crisis in September 2008. He maintains the goal of a balanced budget in 2014 and a minor deficit of only 1.6 percent of GDP next year, but Kudrin responded harshly in Kommersant on Oct. 18.

The critical issue, however, is the oil price. This year's budget is balancing at the average oil price of $109 per barrel, but next year's budget would need a price of $117 per barrel. Putin anticipates an oil price of $100, whereas Kudrin points out that a fall of the oil price to $60 would cause a budget deficit of 5.5 percent of GDP next year and the sizable reserve fund would be exhausted within a year.

Kudrin advocates a deficit-free federal budget at an oil price of $90, which would mean large budget cuts. His departure means that these widely expected cuts after the presidential election in March would not take place. Admittedly, public debt is only 8 percent of GDP, but if the oil price falls significantly, even a very solvent Russia might find it difficult to raise the volumes required on foreign debt markets.

On the expenditure side, the main conflicts concern total public expenditure, pensions and military procurement. Putin's greatest pride, and Kudrin's main concern, is the 45 percent hike in pensions in 2010. Kudrin has long been calling for a major pension reform, which was widely expected after March 2012 but now seems to be off the table. The extreme increases in arms procurement that have been promoted by both Medvedev and Putin seem unrealistic and unmotivated. They are likely to be the first to be cut, but Kudrin evidently takes them seriously.

A positive novelty is that Russia is finally getting inflation under control. As the Central Bank had planned, it is set to become only 7 percent this year, and Putin plausibly promises "to reduce it further." Partly, this is the result of abating inflation throughout the world economy with the onset of slowing economic growth, partly a consequence of Russia finally having

moved to inflation targeting, letting the ruble exchange rate floating with commodity prices.

Putin goes through the motions of favoring modernization and privatization of shares in state-owned companies. He even talks about "new industrialization," but he is not credible since he does not suggest any policy initiatives. He claims that he is opposing corruption but hardly more, clarifying that nothing will be done and this is Russia's dominant problem for which he is the main culprit. Characteristically, he states that "we will strive to reduce all kinds of unnecessary construction projects and the like, where corruption is rampant." But he should fight corruption instead so that Russia can build roads again as it actually did under Boris Yeltsin.

He is at his weakest when he discusses his beloved Gazprom, whose market capitalization has gone from $360 billion in May 2008 to $120 billion today. Putin refuses to see that Gazprom has done anything wrong or that it needs to change in any regard. He dismisses the European Union energy deregulation as unacceptable and understands nothing of antitrust. He also defends Gazprom's pegging of the gas price to the oil price, as if these two prices cannot decouple. With such a master, Gazprom can do nothing but continue to decline.

After first having said that Russia must return to a growth rate of 6 percent to 7 percent a year without suggesting any means to do so, Putin came down to earth at the VTB conference accepting a growth rate of 4.1 percent in 2011 and hoping for 4.6 percent in 2014.

My conclusion is that Russia's growth is likely to be mediocre at 3 percent to 4 percent a year because serious structural reforms are unlikely, with the whole emphasis on stability. But foreign economic policy will probably be sensible, and no financial disaster is likely unless the oil price falls drastically.

Anders Aslund is a senior fellow at the Peterson Institute for International Economics.

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