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Heated, Open Discussions at the Gaidar Forum

By Anders Aslund

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Each year, Moscow hosts a couple of major economic conferences. Yevgeny Yasin will organize one at the Higher School of Economics in early April, and Vladimir Mau organized the Gaidar Forum on Jan. 18 to 21. These events offer a good overview of Russia's economic policy discussion.

The Gaidar Forum attracted 3,000 people, including 400 journalists. As U.S. Ambassador Michael McFaul pointed out, Russian and Western economists speak the same language, which is not true of other social sciences. The strangest thing about this Gaidar Forum, whose theme was "Russia and the World, 2012-20," was the calm atmosphere. Most of the many ministers were defensive, but few speakers went after them.

Economic Development and Trade Minister Elvira Nabiullina stated clearly that the dominant concern is economic growth. It has slipped from 7 percent a year to 2 percent to 3 percent a year, and the question is whether it will be possible to raise it to 5 percent to 6 percent a year. A broad consensus acknowledged that the main reason for the low growth is the poor business and investment climate, which is a code word for corruption.

The age-old Russian question of "Who is guilty?" attracted no attention because everyone knows who, although few named him. Nor were people interested in the other old Russian question: "What is to be done?" Instead, Kirill Androsov, deputy minister of economic development and trade from 2006 to 2008, talked about how to do it. The cure presupposes a democratic breakthrough leading to a cleanup of top-level corruption, which is the big political, social and economic question for Russia today. But these panels, which were dominated by the country's establishment, preferred not to delve too deeply into that topic.

Macroeconomic policy was characterized by an equally broad consensus. Because of the unexpectedly high oil price in 2011, Russia ended up with a budget surplus of 0.8 percent of gross domestic product. Public debt remains minimal, while international reserves hover around $520 billion. Since the Central Bank has embraced full-fledged inflation targeting with a floating exchange rate, inflation has fallen as it should to 5 percent in January. Russia has finally adopted quite a strict monetary policy with positive real interest rates.

Everyone is painfully aware of the euro crisis, but the direct risks it poses to Russia are not perceived as great. Instead, two indirect risks arouse worries: the oil price and capital flows. Finance Minister Anton Siluanov acknowledged that the federal budget for 2012 will balance only at an oil price of $117 per barrel. Yet, with strong oil demand from emerging economies and the risk of conflict in the Middle East still hovering, officials are not too concerned in the short term. The International Monetary Fund's idea that Russia should halve its "nonoil budget deficit" of 10 percent of GDP to 5 percent of GDP sounds outright deflationary because that would mean a budget surplus of 5 percent of GDP.

The other macroeconomic risk is capital flows. Quite surprisingly, Russia experienced a net capital outflow of $84 billion in 2011, according to the Central Bank. It consisted of three major elements. The biggest flow derived probably from oligarchs and corrupt officials that wanted to diversify their political and commercial risks. Another flow comes from Western European banks that have deleveraged and withdrawn funding on a large scale from Moscow to raise their capital-to-assets ratio. The third outflow is caused by many medium-sized businessmen who exhausted by red tape and lawlessness have sold their Russian assets and moved to the West.

Dmitry Pankin, head of the Federal Service for Financial Markets, showed the poverty of financial markets in Russia. The market capitalization of the stock market that used to be 100 percent of GDP has now fallen to less than 50 percent of GDP, and the country's stock market is largely a remnant of mass privatization. In 2010, domestic initial public offerings were minuscule at 0.1 percent of GDP. The volume of corporate bonds is extremely small, amounting to only 6 percent of GDP, and mutual funds barely exist at 0.3 percent of GDP. The causes of this dearth of financial market are to be found in poor law enforcement and judicial services. The road to render Moscow a financial center is very long.

I was struck by two disputes: one over fiscal policy and the other over regional policy. A panel on fiscal policy saw a sharp exchange between former Finance Minister Alexei Kudrin and presidential economic adviser Arkady Dvorkovich, who harbor old principal differences.

Kudrin is a fiscal conservative who wants less public expenditures and less state interventions, while Dvorkovich desires a greater role for the state in all regards. The current long-term government strategy foresees an increase in public expenditures by 4 percent of GDP until 2020, while Kudrin and many liberal allies want to keep their share of GDP constant. Nobody advocates higher taxes, and all are afraid of increasing public debt, given the current instability of global financial markets.

In particular, Kudrin and Sergei Alexashenko, professor at the Higher School of Economics, attacked the plans to increase defense expenditures from the current 3 percent of GDP to 6 percent of GDP in 2020. They complained that these military expenditures lack purpose. Russia cannot realistically compete with the United States, whose GDP is 10 times larger. Russia's arms procurement is notoriously inefficient and corrupt, and its armaments industry is hopelessly unreformed. These liberals also propose to intensify the battle against corruption and spend less on enterprise subsidies than the government does, but spend more on education, health care and road construction to render Russia more competitive.

The other sharp dispute erupted between Regional Development Minister Viktor Basargin and four governors. Basargin discussed a complex, Gosplan-like bureaucratic methodology for evaluating the efficiency of public expenditures in the regions. It consisted of hundreds of indicators but seemed to lack political content.

The governors, spearheaded by Sergei Morozov of the Ulyanovsk region, complained that all this was irrelevant. What really mattered was the business environment and best practices, but the federal government did not care about that. In effect, the federal evaluation system favored the richest regions and federal grants were distributed on arbitrary grounds.

Perm Governor Oleg Chirkunov complained about the lack of transparency in the federal government and the low confidence rating of the governors. In reality, a governor was evaluated by how much money he extracted from the federal treasury. The underlying message from the governors was that they were preparing to be elected and therefore no longer cared about what the federal government said.

Intellectually, Russia is ready for an excellent economic policy. The question is whether political preconditions for such a policy will finally be created.

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