The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Putin's Pipedreams Recycled

By Martin Gilman

April 17, 2012



In the days following the inauguration of President-elect Vladimir Putin on May 7, he will appoint a new government under future Prime Minister Dmitry Medvedev. A new government, even with some familiar faces, is still a new beginning. Ideally, what should be the government's program, at least in the economic and social spheres, and could such a program be implemented?

Before answering these questions, it is important to remember that Russia is an unpredictable country, and expectations of what might be considered normal elsewhere are too often confounded. It is also important to remember the country's history of major economic and social reforms that have been carried out in post-Soviet Russia.

Just over 20 years ago, Russia's development path was hotly debated within the country and abroad. With an economy so distorted by the 20th century's most ambitious social experiment, the immediate focus was on taming hyperinflation, stabilizing the exchange rate and reversing the decline in output.

Soon the focus broadened to economic transformation. In April 1996, prior to President Boris

Yeltsin's reelection, the government introduced an ambitious three-year structural reform program supported by the International Monetary Fund and the World Bank. It brought together Russia's foremost sectoral experts, and they elaborated an extensive set of reforms covering a wide spectrum — from agriculture, banking, competition, housing, taxes, privatization to pensions, the judiciary and official institutions. But their subsequent application was selective and lackluster. The easy measures were implemented, while the politically controversial ones were delayed.

In late 1999, Putin assigned German Gref the task of developing an ambitious reform program. His Center for Strategic Reforms, in consultation with the country's leading experts, devised a comprehensive 200-page economic plan that was adopted as government policy in July 2000. Then, Gref was given the responsibility of implementing this plan as the head of a new super-ministry of economic development, trade and industry. It covered much of the same ground as the 1996 program with a view to the transformation of the state and economy. Likewise, its application was selective and lackluster. And once again, the easy measures were done, while the politically controversial ones were delayed once the urgency resulting from the August 1998 default faded and oil prices became buoyant.

Even when there was strong political resolve — for example, the monetization of social and housing benefits in 2005 or the long-postponed reform of the military in late 2008 — implementation was partial and fraught with difficulties.

So once again this year, brushing off the dust from earlier attempts, the Russian government has adopted a new long term plan called Strategy 2020: New Growth Model — New Social Policy. It was released a month ago and consists of six parts and 21 chapters that cover a wide range of both general and rather technical aspects of economic and social policy. The plan acknowledges that a lack of competition, an inefficient public sector, a lack of incentives for innovation and many other well-known problems, such as Russia's excessive dependence on external factors — commodity prices in particular — need to be changed.

As to the question of what a new Russian government should do, the needed reforms are pretty clear — and have been for a long time. Nuances may evolve, but the basic need is to diversify away from the overreliance on gas and oil exports, develop human capital, promote the rule of law and transparency, reduce corruption and maintain macroeconomic stability.

The government's 2020 strategy sounds very reasonable in this sense, involving the collaboration of many of the same experts from earlier plans and covers many of the same issues with similar recommendations. The strategy has much to commend itself as a roadmap to guide the country through what could be a period of volatility and an unusual degree of uncertainty in the global environment. And it is not just a few marginal liberals or multilateral institutions espousing such policies. In Russia, there is a broad majority in favor of these reforms in general terms.

If the policy agenda is so obvious, then why hasn't it been implemented already? From a technical point of view, many of these proposals have been sitting on a shelf since 1996. A seemingly highly centralized government had ample opportunity — especially since 2000 — with high oil prices to cushion whatever the social costs of reform might entail. And why

would the new-old team of government leaders be expected to do now that which they have been reluctant to do for the last several years?

Russia may be far from an ideal democracy, but that doesn't mean the Kremlin is insensitive to public opinion. As elsewhere, general support for policy change comes up against the hard reality that real change affects vital interests. This is never easy to manage, and maybe even more so in Russia, where civil society remains rudimentary, the elite is divided into multiple, powerful factions and resentment brews just beneath the surface.

Perhaps this explains why Putin did not even bother to mention specifically this strategy in his last address to the State Duma as head of government a week ago. Instead, he focused more on generalities about the investment climate or demographic developments and referred to the same old longstanding issues of innovation, developing social services and welfare, raising the standard of living for teachers and doctors, and improving education.

It is tempting to attribute a seeming disregard of the critical need for a comprehensive package of reforms to an arrogance of power and latent inertia. But it may not be so simple. In a sense, delaying the inevitable is hardly a surprise and far from a uniquely Russian experience. Even in the United States — where there is a broad consensus to reduce budget deficits and public debt, improve education and infrastructure, and reform the tax system — there seems to be a profound disagreement as to how these goals should be achieved. Barring a crisis, chances of implementation even in the United States are low. The same is true in the countries of the euro zone at the present time.

The same logic may well apply to Russia. Muddling through has been a relatively successful strategy both politically and economically for many countries in the last decade or so. Since initiative is inherently risky, the forces of inertia are most likely to dominate in the new-old Russian government. They know what to do, but it doesn't mean that the needed reforms will actually be done.

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