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# What Putin's Piecemeal Reforms Will Look Like

By Anders Aslund

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In my last column, "Putin's New Economic Liberalism," published April 25, I pointed out how President Vladimir Putin has changed his tone on economic policy from speaking like the chairman of Gazprom to become more reformist. Many skeptics objected to this argument because Russia has barely reformed anything for the last eight years. But that is the very reason why there is now a big backlog of reforms, and everybody realizes this.

The Russian government has just gone through its biggest personnel change since 1991, with 20 out of 28 ministers being first-time appointees. The same skeptics, however, claim that it does not matter because Putin decides everything. But Putin is not omnipotent. Moreover, he is a clever politician who knows that now is the time to retreat. His transfer of seven former ministers to nondescript positions in the presidential administration is simply his way of softening the blow to them.

The respected Center for Strategic Research, headed by economist Mikhail Dmitriyev,

published a convincing study last week about the likelihood of serious economic and political instability and violent protests during Putin's third presidential term. Using focus groups, the study shows how public opinion restricts the options of government policy.

Regarding the mass protests, the most important political event in the past year, the center's report points out that the government has already been deprived of the opportunity to effectively repress the protests. At the same time, however, the report states that the continued protests put the authorities in a vulnerable situation by persistently demonstrating how deep the political crisis is and how helpless the Kremlin is in dealing with it. "Therefore, to ignore the protests and not to turn attention to the demands of the protesters is becoming impossible," the report concludes.

The report also notes that a broad consensus has formed concerning social and economic problems, including the need to reform education, health care, infrastructure, housing and the legal system. This list of priorities is no surprise to anybody who has followed the Russian economic debate, but the novelty is that a broad consensus has formed about these issues. This consensus embraces both the middle and working classes.

Each year, Russia organizes several economic conferences, attracting more than 3,000 participants. They include the Gaidar Forum, former Economics Minister Yevgeny Yasin's conference, the Kransnoyarsk Economic Forum, the St. Petersburg International Economic Forum, the Sochi forum, the Troika Dialog Russia Forum and the VTB Capital forum. I don't know any country that organizes so many economic conferences that attract the cream of the government, academia, business and journalism.

Over the years, a broad and well-informed consensus has evolved. This consensus reflects the original program that then-Deputy Prime Minister Yegor Gaidar developed in 1991, which was later expanded into the German Gref economic program of 2000. The basic platforms of these programs were transformed into "Russia 2020," which was adopted by the government in 2008, and it has been updated and expanded further to become "Strategy 2020," a 864-page government program. We may dispute some details, but overall this is a sensible and comprehensive reform program. A broad policy community contributed to it through 21 working groups, and this means that intellectually Russia was ready for reform.

But two more elements were needed for reforms to gain momentum. One was a change in the government because the ministers set the agenda for economic and social policy.

The other change required for reform is a fall in the oil price to force leaders to realize that reform is necessary. This fall seems to be under way.

Moreover, with the new government in place, most former KGB officers, the most corrupt ministers and all but one of Putin's friends from the Ozero dacha cooperative have departed.

Considering all these preconditions, what economic reforms are likely to occur?
A comprehensive reform is not likely, but a piecemeal reform wave is likely with many conflicts between the comparatively liberal government and the old-style state corporations, with Putin emerging as the arbiter.

Russia's accession to the World Trade Organization has already been concluded, and it may be

a game-changer. Russia is currently working hard on joining the Organization for Economic Cooperation and Development, which would impose vital legal standards on Russia.

Education and health-care reforms are already under way through pilot projects. With a new set of policymakers in charge of social policy — notably progressive social reformer Olga Golodets as deputy prime minister — substantial but quiet and pragmatic progress is likely. The latest news is that the degrees from 210 foreign universities will finally be automatically recognized in Russia, meaning that foreigners working in Russia will no longer have to obtain an apostille certification of their foreign degrees.

Mayor Sergei Sobyanin and St. Petersburg Governor Georgy Poltavchenko tried to block large government road projects — including those that may have hurt the business interests of Mostotrest, a road-construction company owned by Putin's close ally Arkady Rotenberg. The Kremlin saved Rotenberg's Moscow project with a presidential decree, but will it dare to do so again? The audit of major state procurement is actually rather easy.

The most interesting battle is likely to occur in the important energy sphere. Incredibly, Igor Sechin was replaced as deputy prime minister for energy by Medvedev's liberal economic aide, Arkady Dvorkovich. Moreover, the new energy minister, Alexander Novak, comes from Norilsk Nickel and the Finance Ministry. Sechin, who has been closer to Putin than anybody for the last two decades, was soundly demoted to head Rosneft. This must presage a long-overdue major change in energy policy. The first step is likely to be higher taxes for Gazprom and lower taxes for oil development.

Given that Medvedev now has got his lawyer friends from St. Petersburg in most key judicial positions, we should expect a reform of criminal justice, similar to what has occurred in the economic courts. What's more, the announced deregulation of small enterprises is likely. The persistent discussions about making Moscow a financial center should finally result in some sensible reforms.

Yet we can also see what is less likely. Putin seems fully committed to his stillborn idea of a Customs Union and a Eurasian Union. An all-out attack on corruption is impossible until a real democratic breakthrough takes place. Major privatization of state corporations is unlikely as long as all of Putin's appointments still head these companies and stock prices are low. Pension reform has to wait for a while.

In the end, while political uncertainty has increased, political instability can be good for reform.

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