

Russia Doesn't Need Luck, Just Better Policy

By [Mark Adomanis](#)

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Russia is a mess right now. No, the current economic problems aren't as bad as the 2009 crisis, much less the crippling 1998 government debt default, but they're plenty bad on their own merits. Russian companies are almost totally isolated from the Western markets where they were accustomed to raising capital.

It's not just that these companies cannot access new loans: The plunging value of the ruble makes servicing past borrowing substantially much more expensive in real terms. There are some bills coming due that simply cannot be met without substantial assistance from the Central Bank.

Most analysis I've seen suggests that the Russian government has sufficient cash on hand to prevent the mass default of Russian corporations on their foreign currency denominated debt. At an absolute minimum it is clear, though, that bailing out irresponsible borrowers is a very poor use of taxpayer money that was intended to serve as a welfare fund.

When you consider the inevitable growth in pension obligations due to the aging of Russia's population, handing Rosneft a big pile of cash doesn't just look like a bad idea, it looks downright crazy.

So, yes, things are bad and they're likely to get worse, particularly now that the oil market is in deep turmoil and prices are plunging at their most rapid rate since the midst of the global financial crisis.

But why have things suddenly taken such a massive turn for the worse? What explains the sharp downward plunge of an economy that, until quite recently, was, if not dynamic, than at least stable?

Among many analysts, the answer is simple: "Putin's luck ran out." At Bloomberg View, for example, Leonid Bershidsky wrote a column simply titled "Putin Can't Handle Life Without Luck." Brian Whitmore, at RFE/RL, wrote a broadly similar article which heavily emphasized the point that Putin's "luck" had finally turned.

Proponents of this hypothesis are largely in agreement that, under Putin, Russia has always been incompetent and shambolic but that these deficiencies were totally papered over by an accidental increase in world commodity prices. The recent downturn, then, is merely a regression to the mean, Russia performing as poorly as it "should" have for the past 15 years.

There is clearly some truth to this argument: Not even the most ardent Putinist would claim that he caused the world price of oil to increase sharply in the years after he came to power. Russia is integrated enough into the global economy that its trajectory is deeply influenced by forces totally outside of the Kremlin's control, particularly market prices for energy and metals.

And it is true that, on the whole, these forces have been more positive than not, and that Russia was well served by trends in the global commodities markets.

But anyone who thinks that a surge in oil prices must automatically lead to material prosperity should take a look at Iran, Venezuela or Nigeria, massive energy exporters that never experienced even a fraction of Russia's economic dynamism.

An increase in oil prices gives a government the opportunity to get its financial house in order but it absolutely does not force it to do so. The ranks of oil exporters have always been full of places with chronic budget deficits, massive piles of debt, and totally out of control consumer inflation.

By and large, Russia in the years before the financial crisis followed the standard economic textbook to the letter: It paid down its sovereign debt way ahead of schedule, it stocked away tens of billions of dollars in various reserve funds, and it prevented the overly rapid appreciation of its currency.

The financial crisis hit Russia harder than any other large economy, but its prior prudence had given it lots of "ammunition," with which it could respond. Russian economic policy since the crisis was a bit less orthodox and stingy, when oil prices rebounded in 2010 and 2011

the influx of funds was not saved but was instead spent, but inflation was coming down to an unexceptional level of about 6 percent and the government continued to run balanced budgets.

That is to say that Russia's economic policy was, on the whole, pretty reasonable: The government didn't spend more money than it took in, it had (mostly) brought inflation under control, and it had committed to modest reductions in tariffs as a condition of its World Trade Organization membership. People had enough faith in the system's stability that the ruble's fluctuations were within very narrow bounds.

As I hope the above overview makes clear, Russia's policies have changed rather drastically. Almost everything that I've mentioned above — fiscal responsibility, a tentative openness to foreign goods, effective monetary policy — has changed.

Much more than "luck," the recent problems are attributable to it doing stupid things like annexing part of its neighbor, banning the import of foreign foodstuffs, and attempting fiscally ruinous increases in defense spending. It's not "bad luck" that the ruble is crashing, it's the easily foreseeable consequence of a sharp anti-Western turn in policy and a rapid deterioration in the business environment — symbolized by the seizure of Bashneft.

"Luck" didn't cause Russia's prior economic success, it isn't causing the current problems, and it won't do anything to rescue Putin. That is to say that the good results were largely due to good policy, and the bad results are largely due to terrible policy.

The path out of the crisis is as simple as it is politically unlikely: Stop making terrible policy.

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