

# Russia's Response to Crisis Risks Cutting Off Future Growth

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A student working with a electronic board as part of a technology initiative, now threatened by budget cuts.

Although slashing economic development budgets may help Russia deal with its oncoming recession in the short term, the government should continue to spend on innovation if it wants to avoid long-lasting trauma, officials and economists gathered at the Gaidar Economic Forum in Moscow said Wednesday.

The state's 2015 budget certainly needs some cutting, as it is based on the now hopelessly optimistic forecast that oil will average \$96 per barrel — about twice the current price of benchmark crude oil Brent.

But participants in a panel Wednesday said that curtailing state support for innovation and the development of Russia's human capital could be a fatal blow to long-term economic development.

"Innovation won't get us out of this crisis. But what is our main task now? To take those steps and decisions that will keep us from entering the next one," said Mikhail Abyzov, a prominent businessman who is charged with coordinating the government's relations with the expert community.

"Budget restructuring may go toward cutting investment in human capital, and we mustn't let this happen. It is curtailing our own future," added Alexander Auzan, dean of Moscow State University's economics faculty.

But judging by the comments of top officials, spending on human capital and innovation — both long touted as sources of long-term growth — may well be coming under the ax.

At the same panel, Deputy Economic Development Minister Oleg Fomichev said spending on innovation will most likely either stagnate or fall this year. Meanwhile, Finance Minister Anton Siluanov said Wednesday that his ministry will ask the Russian parliament to cut all 2015 spending by 10 percent, with the exception of massive defense allocations.

This is bad news for the long-term prospects of an economy that, as this crisis has poignantly demonstrated, is still trapped in the boom and bust cycle that typically accompanies an overreliance on natural resources.

The importance of escaping this cycle is news to no one. "We are saying things that we said a long time ago," Andrei Sharonov, dean of the Skolkovo Moscow School of Management, noted during the discussion.

The Russian government has repeatedly trumpeted the importance of innovation, and some concrete strides have been made in recent years. The appearance of such institutions as the Skolkovo innovation hub and Russian Venture Capital, a state-financed collection of venture funds, has created "a rather effective system of institutions for innovative development," Abyzov said.

But progress is slow and a whole complex of deep and abiding obstacles remain, from Russian companies' own disinterest in investing in innovation to ineffective governance, participants said.

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