Research Paper

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Russian Economic Policy and the Russian Economic System

Stability Versus Growth

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Summary

- Russia's economic management is currently praised for its achievement of macroeconomic stability. Inflation has been brought down; the budget is in surplus; national debt is low; and the reserves are ample. At the same time, there is much criticism of the failure at present to secure more than very slow economic growth.
- The macro-stabilization of 2014–18 was of a conventional, 'liberal' kind. Public spending was cut, and a budget rule was introduced that (so far) has weakened the link between increases in oil prices and increases in budgetary expenditure. The austerity campaign was harsh. Pensioners, the military, regional budgets and business all lost out, but in reality put up little resistance. The austerity drive was facilitated by the autocratic nature of the regime.
- The growth slowdown dates from 2012, and cannot simply be blamed on falls in the oil price and sanctions. Rapid growth in 1999–2008 consisted in large part of recovery from the deep recession of the 1990s and the initial development of a services sector. These sources of growth are no longer available; investment is low; and the labour force is declining. The Western world also has a slow growth problem, but at a higher level of per capita output. In Russia, private investment and competition are inhibited by an intrusive and corrupt state. If the rule of law were in place, the economy would perform better in the long run. That would require a profound reform of formal and informal institutions.
- The leadership wants faster growth, but has powerful incentives not to embark on systemic reform. Even the pragmatic ministers of the 'economic bloc' of government, who understand the problem, share this interest in maintaining the status quo. Growth is thus being sought through a highly ambitious programme, in 2018–24, of 'national projects', state-led and largely state-financed. This is already running into difficulties.
- The contrast between successful stabilization and a (so far) unsuccessful growth strategy illustrates the difference between policymaking within a given system and reform of that system. Systemic reform brings with it more potential unintended consequences than do changes in policy. In the case of Russia, movement towards a rule of law could destabilize the social and political system. It is therefore unlikely to be attempted.

Introduction

In February 2019 Moody's, one of the big three international credit rating agencies, upgraded Russian sovereign debt to Baa3, making it 'investment-grade', where previously it had been classified as 'junk'. Moody's commented:

> The upgrade of Russia's ratings reflects the positive impact of policies enacted in recent years to strengthen Russia's already robust public finance and external metrics and reduce the country's vulnerability to external shocks including fresh sanctions.[1]

That apparent endorsement of Russian policies was dated 8 February. On 25 February it was reported that a paper by Moody's analysts had ascribed chronic low investment and slow productivity growth in Russia to the dominant role of the state sector and excessive state influence more generally, reducing competition and weakening property rights.[2]

These diverging assessments by the same agency of Russian economic management reflect the view taken by many observers: macroeconomic stabilization good; growth bad. Some authors focus more on the achievements in macro-stability, others on the lack of dynamism.[3] Reports on the Russian economy by the IMF, the World Bank and the OECD in recent years convey the same double judgment.

This paper examines the reasons for the divergence in what might be called economic management. How is it possible for the directors of the Russian economy to pursue an orthodox stabilization policy with a great measure of success and yet to have achieved so little to stem the growth slowdown and recession in Putin's third and (thus far) fourth presidential terms? Has the pursuit of financial prudence, security and 'sovereignty' been conducted in a way that damages growth? Or is it simply that macro-stability is a matter of policy that can be conducted within the overall constraints of the existing economic system – albeit with some radical policy changes – while a sustained improvement in growth requires a reform of the system itself, and basic reform is problematic? If so, what reforms are needed? And what makes them so difficult?

The paper is organized as follows. First, Russia's recent performance in macro-stabilization is summarized. Then the problem of slow growth since 2012 is assessed, drawing some comparisons with apparently more successful outcomes in what is in many ways a similar economy, that of Kazakhstan. The current attempt to galvanize growth by state-led investment is then reviewed. Next, the relations between stabilization and growth in Russia are considered. In conclusion, the paper offers an account of the gulf between economic policy and systemic reform. Macro-stabilization has been achieved by policies pursued within the framework of the existing economic system. Indeed, that system facilitates stabilization. A sustainable and significant acceleration of growth, however, probably requires the system itself to be changed.

[1] Moody's Investors Service (2019), 'Rating Action: Moody's upgrades Russia's rating to Baa3 from Ba1; changes outlook to stable from positive', 8 February 2019, https://www.moodys.com/research/Moodys-upgrades-Russias-rating-to-Baa3-from-Ba1-changes-outlook--PR_394165 (accessed 22 Oct. 2019).
[2] Fainberg, A. et al. (2019), 'Monopolizm i "dirizhizm": za chto Moody's raskritikoval ekonomiku Rossii' [Monopolism and "dirigisme": what Moody's criticized the Russian economy for], RBK, 25 February 2019, https://www.rbc.ru/economics/25/02/2019/5c7276d69a7947a62be84e98 (accessed 22 Oct. 2019).
[3] See for example Miller, C. (2018), *Putinomics*, Chapel Hill, NC: University of North Carolina Press, and Oxenstierna, S. (ed) (2015), *The Challenges for Russia's Politicized Economic System*, Abingdon: Routledge, respectively.

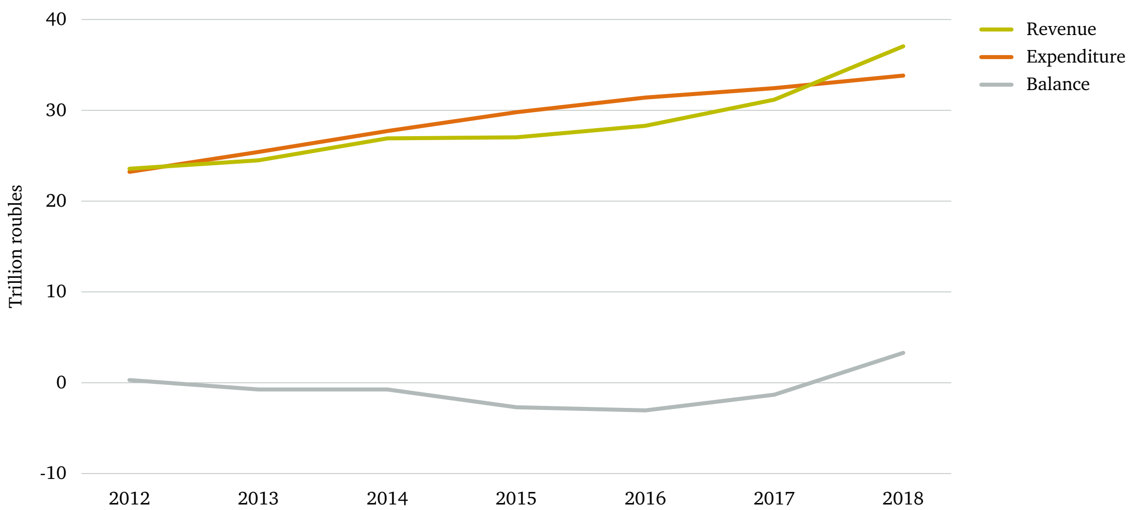
Macro-stabilization

When Vladimir Putin returned to the presidency in 2012, after the Medvedev interregnum, Russia's economy appeared stable, though growing more slowly than in the 2000s. Average inflation came down to 5.1 per cent in that year, from 8.4 per cent in 2011, while gold and foreign exchange reserves at year-end stood at more than $537 billion, around three times the annual import bill.[4] There was a small general government surplus – i.e. the combined revenues of federal and regional budgets, plus the revenues of off-budget funds such as the Pension Fund, slightly exceeded their combined expenditure. This was not an unusual state of affairs for a major oil-exporting country at a time of historically high world oil prices, but it nonetheless also reflected a general stance of financial prudence.

In 2013 the general government balance became marginally negative, annual inflation accelerated to an average of 6.8 per cent, and gold and foreign reserves decreased slightly. 2014, with the start of sanctions and the – more immediate – impact of a steep fall in the oil price, brought the beginning of recession and very slow growth, combined initially with high inflation and a large drop in the exchange rate.

The response of the Russian authorities was orthodox – in a Western, liberal sense – and decisive. The Central Bank of Russia (CBR) switched from exchange-rate targeting to inflation targeting in November 2014, letting the rouble sink and setting interest rates clearly above the rate of inflation. The annual average of the consumer price index rose to 15.5 per cent in 2015, but came down to 3.7 per cent in 2017. Public spending was cut in real terms, affecting even defence spending from 2016.[5] By 2018, with a modest recovery under way and the oil price volatile but on average higher, the government was back in surplus (see Figure 1).

Figure 1: General government revenue, spending and balance, 2012–18 (trillion roubles, current prices)



Source: Ministry of Finance of the Russian Federation.

[4] Bank of Finland (2019), Russia statistics, https://www.bofit.fi/en/monitoring/statistics/russia-statistics/ (accessed 22 Oct. 2019).
[5] A one-off settlement of defence industry bank debts by the state in 2016 complicates the picture; new resources committed to the military fell in real terms.

The austerity campaign was pursued comprehensively and determinedly, with major constituencies badly affected. For instance, in 2016 state pensions were indexed according to the CBR's inflation target of 4 per cent, rather than, as is customary, the rate of consumer price inflation in the preceding year – which would have meant an increase in double digits.[6] For those 9 million pensioners who were still working, pension increments were suspended altogether.[7] Yet pensioners did not storm the Kremlin, nor were their complaints as vocal as, for example, they had been a decade previously over benefit reform.

Federal budget transfers to the regions were cut. The value of transfers to the regions in 2015, in constant prices, was only 77 per cent of their equivalent in 2009 – also a recession year.[8] Regional real-terms spending on health and education was reduced, and poorer regions' bank debt increased.[9] That the regions suffered harsher treatment in 2015 than was the case in 2009 may be explained in part by the existence of sanctions this time around, but the difference is still striking. All the same, no region attempted to secede from the Russian Federation.

There were real-terms cuts in spending on 'national defence' – the official Russian designation, which is about 1 per cent of GDP less than the standard Western definition. If the fulfilment of past credit guarantees in 2016 is excluded, there was a clear fall – in both nominal and real-terms – from 2015. In real terms, Western-definition defence spending fell by about 8 per cent year on year.[10] One account, from 2016, of a clash over military spending states that in a discussion of the draft military modernization programme for 2018–25, the defence minister, Sergei Shoigu, 'yelled' at the finance minister, Anton Siluanov, accusing him of undermining the modernization of the military and threatening national security.[11] A *Kommersant* report of the same incident refers rather more euphemistically to 'raised tones'.[12] At all events, there was no military coup.

Russia's business community complained about high interest rates, but got nowhere with the central bank. Elvira Nabiullina, the CBR governor since 2013, had Putin's explicit endorsement; in March 2017 he confirmed his intention to appoint her for a further term of office.[13]

An important legislative restriction on federal public spending came into effect in 2017: under this new 'budget rule', tax revenue from oil at prices above $40 per barrel (this threshold rising at 2 per cent a year from 2018) is not available for budget expenditure but is instead paid into the National Welfare Fund (NWF).[14] There was some grumbling, but as at late 2019 the rule has held.

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[6] See criticism by Maleva, T. (2015), 'Obrushenie dohodov naseleniya – bolshaya oshibka vlastey' [Collapse of household incomes is a huge mistake of the government], *Novaya gazeta*, 21 October 2015, https://www.novayagazeta.ru/articles/2015/10/17/66043-171-obrushenie-dohodov-naseleniya-8212-bolshaya-oshibka-vlastey-187 (accessed 22 Oct. 2019).

[7] Kuvshinova, O. (2016), 'Rabotayushchie pensionery ne poddalis' uchetu' [Working pensioners were not taken into account], *Vedomosti*, 8 August 2016, http://www.vedomosti.ru/economics/articles/2016/08/08/652052-rabotayuschie-pensioneri-poddalis-uchetu (accessed 22 Oct. 2019).

[8] Development Center of the Higher School of Economics (2016), *Noviy KGB*, 221, https://www.hse.ru/pubs/share/direct/document/194866051.pdf (accessed 22 Oct. 2019), p. 53.

[9] Zubarevich, N. (2016), 'Deneg net – no net i svobody' [There's no money – but there's no freedom either], *Vedomosti*, 29 December 2016, http://www.vedomosti.ru/opinion/articles/2016/12/29/671648-deneg-net (accessed 22 Oct. 2019).

[10] Cooper, J. (2017), 'Russia's Military Expenditure in 2015, 2016 and in the 2017 Federal Budget', unpublished paper, 14 February 2017. Cooper uses Russian budgetary data to reconstruct a Western-definition military budget, slightly larger than the official 'national defence' category. (This includes, for example, expenditure on the border guards and on military pensions.) He uses the GDP deflator to adjust for inflation in defence spending.

[11] Felgenhauer, P. (2016), 'Russia's Relations with West Deteriorate as Military Prepares for "Resource Wars"', *Eurasia Daily Monitor*, 13(177), https://jamestown.org/program/russias-relations-west-deteriorate-military-prepares-resource-wars/ (accessed 22 Oct. 2019).

[12] Safronov, I. (2016), 'Esli ne skhod, to razval' [If not convergence, then collapse], *Kommersant*, 17 September 2016, https://www.kommersant.ru/doc/3092628 (accessed 22 Oct. 2019).

[13] Tanas, O. and Kravchenko, S. (2017), 'Putin nominates Bank of Russia head Nabiullina for new term', Bloomberg, 22 March 2017, https://www.bloomberg.com/news/articles/2017-03-22/putin-nominates-bank-of-russia-head-nabiullia-for-new-term (accessed 22 Oct. 2019).

[14] See Sanghi, A. and Kojo, N. (2017), 'Will Russia's new fiscal rule end its oil and gas dependence?', Brookings, 6 December 2017, https://www.brookings.edu/blog/future-development/2017/12/06/will-russias-new-fiscal-rule-end-its-oil-and-gas-dependence/ (accessed 22 Oct. 2019).

There is one disagreement over the budget rule between the IMF and the Russian government. The government plans to make available some NWF money for domestic infrastructure finance, over and above a minimum level (7 per cent of GDP) of the liquid resources of the NWF; the IMF would prefer that the whole of the NWF be invested in foreign assets, completely sterilizing the inflow of petro-dollars – i.e. excluding this revenue from the domestic flow of money.[15] In June 2019 CBR governor Nabiullina notably also suggested that the threshold of 7 per cent of GDP should be reconsidered.[16]

One bit of intra-elite fighting – albeit only indirectly related to austerity – did become visible with the arrest of the economic development minister, Aleksei Ulyukaev, in November 2016. Ulyukaev had apparently displeased Igor Sechin, the boss of Rosneft, by objecting to Rosneft in effect 'privatizing' the smaller state oil company Bashneft. The link to fiscal austerity is that the sale of a controlling stake in Bashneft and of a minority stake in Rosneft was a device to boost the public finances.[17]

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All in all, Russia's austerity campaign was pushed through more easily, as far as outside observers can judge, than such programmes usually are in Western countries. The main constituencies ultimately proved biddable and obedient. That is not to say that such passivity has no limits: the subsequent raising of pension ages may have pushed at those limits. It seems reasonable, however, to conjecture that Putin's own support for financial prudence sent a pretty clear message to the political and business elite. An authoritarian system has advantages when it comes to implementing austerity measures.

Can the macro-stabilization effort be described as a success? Yes, in so far as inflation has been brought down, public finances are in good order,[18] and there has been a recovery in economic activity – albeit a recovery that leaves the Russian elite and many ordinary Russians dissatisfied.

'Economic security'

The austerity campaign may also have benefited from the fact that it was conducted at a time of confrontation with the West. Domestic economic troubles could be blamed on malign foreign influences. Austerity was framed as self-defence, and the reality of Western sanctions reinforced the message. Even if the Russian public did not fully buy this line, at least the authorities had the opportunity to use the 'fortress Russia' narrative.

Russian economic policy has long been deeply concerned with what is termed 'economic security'. Understandably, this concern intensified from 2014. And this preoccupation on the part of the elite – and among the defence and security elites in particular – also facilitated acceptance by the elite of a rigorous policy of financial prudence.

15 IMF (2019), 'Russia: Staff Concluding Statement of the 2019 Article IV Mission', 23 May 2019, https://www.imf.org/en/News/Articles/2019/05/23/mcs052419-russia-staff-concluding-statement-of-the-2019-article-iv-mission (accessed 22 Oct. 2019).
16 Kholovno, A. et al. (2019), 'TsB predlagaet priderzhat' sredstva FNB' [The Central Bank advocates holding back FNB funds], *Vedomosti*, 16 June 2019, https://www.vedomosti.ru/economics/articles/2019/06/16/804283-tsb-priderzhat-fnb?utm (accessed 22 Oct. 2019).
17 For a little more detail, see Hanson, P. (2018), 'Managing the Economy' in Sakwa, R., Hale, H. E. and White, S. (eds) (2018), *Developments in Russian Politics 9*, London: Red Globe Press, p. 145.
18 The planned federal-budget balance for 2019 is a surplus of 1.9 per cent of GDP. Ciechanowicz, A. and Wiśniewska, I. (2018), 'Russia's budget for 2019–2021: increasing reserves, decreasing transparency', OSW, 28 November 2018, https://www.osw.waw.pl/en/publikacje/analyses/2018-11-28/russias-budget-2019-2021-increasing-reserves-decreasing-transparency (accessed 22 Oct. 2019).

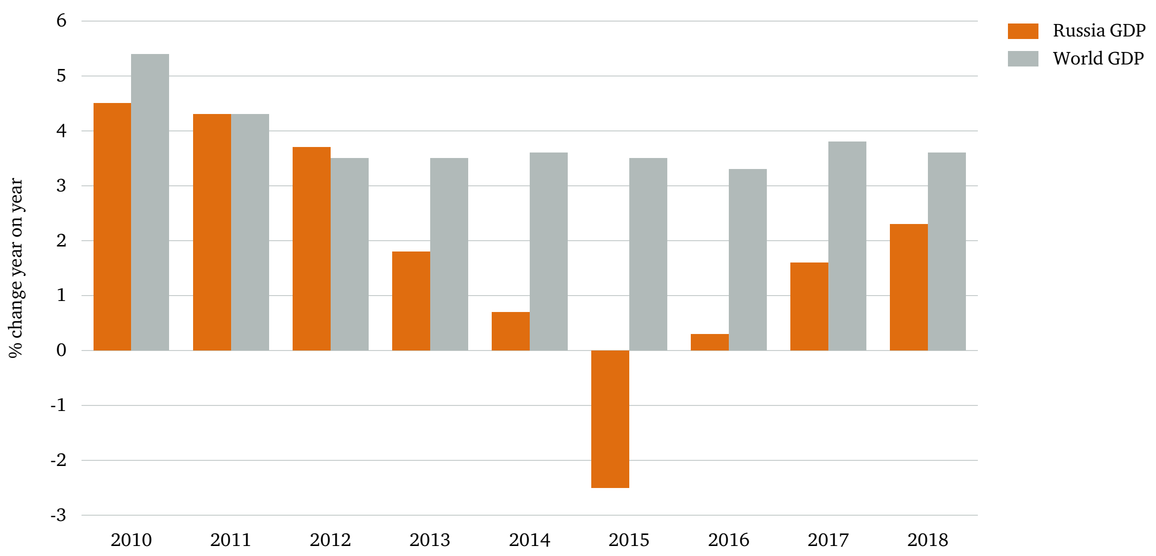
These specific security concerns were eventually codified in the Strategy of Economic Security of the Russian Federation to the Year 2030,[19] published in May 2017. The strategy document defines economic security as the preservation of national sovereignty by defence against external and internal threats.[20]

Rosstat now publishes a list of 40 indicators of the state of economic security of the Russian Federation.[21] Many of the indicators are of a very general sort: e.g. GDP growth; industrial output; inflation. Others are concerned with macro-stability: domestic state debt as a percentage of GDP (debt/GDP); external debt/GDP; the deficit [sic] of the federal budget/GDP; net capital inflows or outflows; reserves/imports; the share of imports in market supplies of food (there are also separate indicators of import-substitution). Others again reflect the concern with slow growth: Russian GDP as a share of world output in purchasing power parity terms; fixed investment/GDP; the percentage of the population officially defined as living in poverty. The list tells us that Russia's economic security, in the eyes of the authorities, requires sustained growth at above the global average, and technological development as well as macroeconomic stability.

Slow growth

Lately, Russian economic growth has been below the global average. In other words, Russia's weight in world economic activity has been edging generally downwards. Figure 2 illustrates the comparative growth performance since 2010.

Figure 2: Russia and the world: GDP growth, 2010–18 (% change year on year in constant PPP dollars)



Source: IMF.

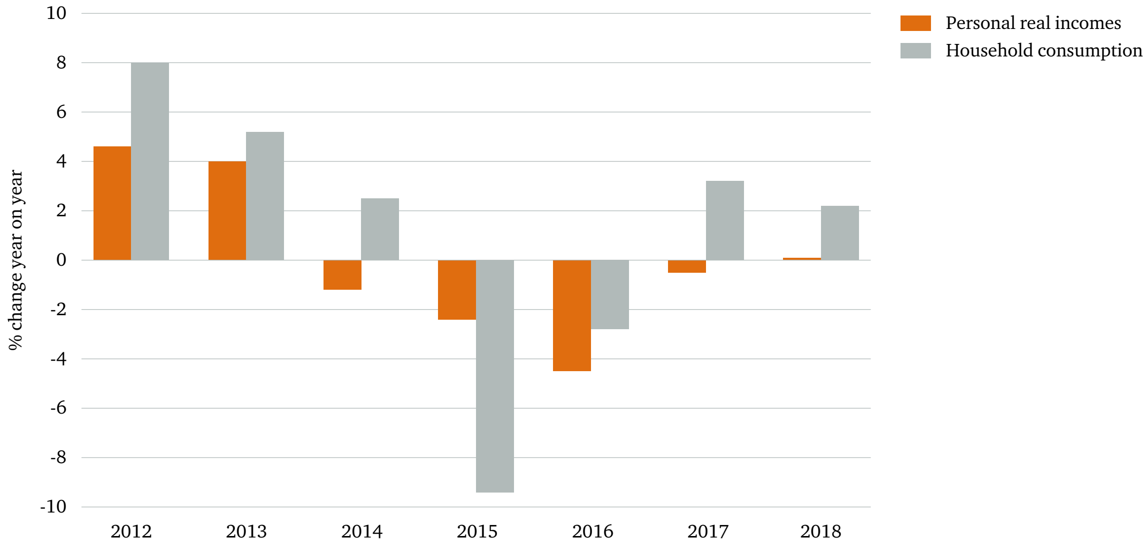
[19] Decree of the President of the Russian Federation (2017), 'On the Strategy for Economic Security of the Russian Federation for the period until 2030', 13 May 2017, https://www.prlib.ru/en/node/681513 (accessed 22 Oct. 2019). For a discussion of this strategy, see Hanson (2018), 'Managing the Economy', p. 142.
[20] Ibid., p. 4.
[21] Federal State Statistic Service (2019), 'Pokazateli dlya otsenki sostoyaniya ekonomicheskoy bezopasnosti Rossii' [Indicators of the state of economic security of the Russian Federation], https://www.gks.ru/econSafety (accessed 22 Oct. 2019).

A falling share of world output does not fit well with the ambition to make Russia great again. It is, moreover, a disconcerting reversal of fortune: in the 2000s Russia's growth outpaced that of the rest of the world. Hence all the talk about a new growth strategy that will once more give Russia an increasing weight in global economic activity.

Russia's leadership is also worried about the implications of slow growth for living standards. That was apparent from Putin's February 2019 address to the Federal Assembly, in which he called for additional expenditure on family, housing and other benefits.[22] The evidence suggests that austerity can be imposed quite brutally in the course of a short-term exercise in stabilization, but that it is not considered to be a long-term option.

As shown in Figure 3, indicators of income and consumption from 2011 are certainly weak.

Figure 3: Real per capita disposable income and total household consumption, 2012–18 (% change year on year)



Note: Household consumption in 2011 prices.
Source: Rosstat.

The figure points to two further things. One is the problematic nature of the official statistical series of per capita real disposable income: it is not clear how this deals with the informal economy, and it may paint too gloomy a picture of household incomes. The data show a net decline from 2011 to 2018 of 2.7 per cent, while total household consumption shows a rise of 8 per cent (5.1 per cent per head). The other message from Figure 3 is that, even by the more favourable of the two indicators, gains in consumption since the start of Putin's third presidential term have been modest: 0.7 per cent per head per year. For most of the population, this may be too slow to register as a real-life improvement.

Russia's economic problems resemble, at a headline level, those of the world's advanced economies: an ageing population, low investment, and sluggish productivity growth. One big difference, however, is the development level at which these problems are occurring. Russia, with its modest level of labour productivity, could be catching up rather than lagging behind, because it has a backlog of technology

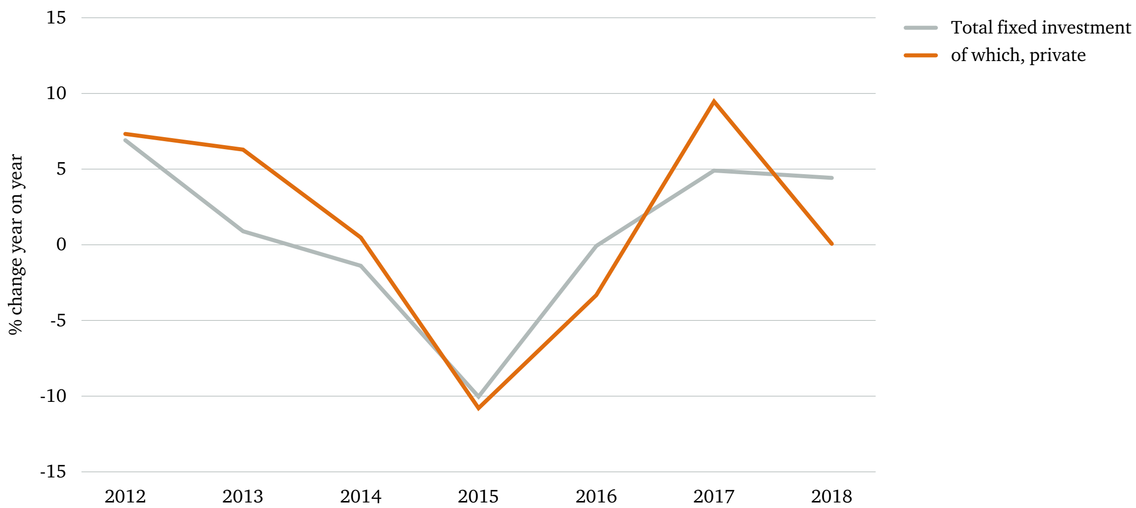
[22] President of Russia (2019), 'Presidential Address to Federal Assembly', http://en.kremlin.ru/events/president/news/59863 (accessed 22 Oct. 2019).

to make up. The 'secular stagnation' that some economists detect in the West[23] is different in origin from the Russian variety of 'stagnation', and is perhaps more affordable for rich countries in so far as the population is missing out on a smaller proportion of income.

Why the Russian slowdown? It began in 2012–13, so is not solely the effect of the 2014–15 fall in oil prices. Indeed, it could be said to have started earlier, since growth in 2010–11, recovery years after the global financial crisis, was below the average level in 1999–2008.

Slower growth than before in employment and investment are part of the problem.[24] Any expansion of employment is limited by the decline in the working-age population. That extends into the mid-2020s, and is partly offset by net immigration and the rise in the retirement age from 60 for men and 55 for women to 65 and 60, respectively. The reasons for the sluggish record of investment are less obvious. Inward foreign direct investment (FDI) fell in part because of sanctions, and latterly also because of a global decline in FDI. But FDI was not a large part of total fixed investment to begin with. It appears that Russian private domestic investment has been growing, in real terms, at only about 1.1 per cent per year in 2012–18, while total fixed investment fell (see Figure 4).

Figure 4: Year-on-year changes in total fixed investment and in fixed investment by Russian private companies, 2012–18 (at constant 2011 prices, % per year)



Source: Rosstat, http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/accounts/.

Weak private investment probably reflects increased uncertainty about the state of the world economy (and especially economic performance in Europe), about international political tensions, and perhaps about changing rules of the economic game in Russia as state influence expands.[25]

[23] Wolf, M. (2019), 'Monetary policy has run its course', *Financial Times*, 12 March 2019, https://www.ft.com/content/08c4eb8c-442c-11e9-a965-23d669740bfb (accessed 22 Oct. 2019).
[24] For more detail, see Hanson (2018), 'Managing the Economy'. Reported total employment in fact increases from 2015 but even if the acquisition of the Crimean labour force is excluded, the increase is mainly the result of a change in statistical method applied to the employment series. See Federal State Statistic Service (2019), 'Labour force size and composition', https://eng.gks.ru/labour (accessed 22 Oct. 2019).
[25] The IMF estimates that the state accounts for 50 per cent of employment in the formal sector of the economy. The Center for Strategic Research estimates the state share of GDP at 46 per cent in 2016. The Russian Academy of the National Economy and Public Administration (RANEPA) estimates this share at 43.8 per cent in 2017. Krasnushkina, N. (2019), 'Gossektor Shredingera' [Schrödinger's state sector], *Kommersant*, 11 March 2019, https://www.kommersant.ru/doc/3906498 (accessed 22 Oct. 2019).

Weak investment and a declining working-age population might in principle be offset by strong growth in the productivity of labour and capital combined (i.e. total factor productivity – TFP). This has not been the case in recent years. In a working paper for the World Bank, Okawa and Sanghi estimate that TFP growth averaged 2.9 per cent annually in 2000–09, and that it was down to 1.3 per cent in 2017.[26] Their baseline projection of potential output (i.e. output at full employment of capital and labour) has it edging down from 1.5 per cent in 2017 to 1.3 per cent in 2023.

Examining possible sources of acceleration, Okawa and Sanghi estimate that pension reform could add 0.3–0.4 percentage points to annual growth in 2020–28. A rise in the investment share of GDP from 23 per cent in 2017 to 34 per cent in 2028 would raise GDP by 0.6 per cent per year by 2028. A reform scenario (achieving more competition) could lead to a 0.1 per cent increase in average annual TFP growth in 2017–28, instead of the 0.2 per cent decrease projected in their baseline scenario (to 1.1 per cent growth). All of the above, plus a rise in net immigration, would by their assessment contribute to an enhanced growth rate in potential output of 3 per cent by 2028.

This would be a less rapid acceleration than Putin is calling for, but it would be a step in the right direction. What are the obstacles to such an improvement? Demographics account for the near-zero growth in employment, but what are the influences that sap investment and productivity growth?

According to Aleksei Kudrin, speaking in a personal capacity and in one of his more radical moments, Russia is in a ‘stagnation pit’, ultimately because of the lack of political competition.[27] The general line of argument is that corrupt political incumbents at local, regional and national level offer protection in deals with favoured firms, creating unpredictable risks for firms without such protection (particularly asset-grabbing by insiders) and thus weakening both the confidence of potential losers and the competitive pressures on incumbents to invest and innovate. The overall result is low private investment, slow innovation, stunted development of small firms, and therefore slower growth than would otherwise be achieved.

What is meant by asset-grabbing in today’s Russia? To give a typical example, firm A conspires with law-enforcement officials to bring charges of ‘economic crime’ (say, fraud) against the main owner of firm B. A complicit judge rules that the accused must go into pre-trial detention – where conditions can be harsh, and the custody of uncertain duration. The ‘raiders’ (i.e. asset-grabbers) work on the detainee to surrender some or all of firm B to firm A and eventually he or she gives in and is released. The case does not come to trial, and the judge and the law-enforcement officials get their cut. There may or may not have been any fraud to begin with.[28]

There are two obvious objections to this linking of weak growth to the lack of political competition. One is that there was no political competition in the 2000s, when the Russian economy was growing quite strongly. The other is that there are countries with an apparently similar political economy, notably Kazakhstan, that have continued to grow at, or a bit above, the global average rate.

[26] Okawa, Y. and Sanghi, A. (2018), *Potential Growth: Outlook and Options for the Russian Federation*, World Bank Policy Research Working Paper 8663, http://documents.worldbank.org/curated/en/437251543855591590/pdf/WPS8663.pdf (accessed 22 Oct. 2019).
[27] Solov’eva, O. (2018), ‘Vmesto pervoi pyaterki Rossia popala v glubokuyu zastoinuyu yamu’ [Instead of [being in] the top five, Russia has fallen into a deep hole of stagnation], *Nezavisimaya gazeta,* 27 November 2018, http://www.ng.ru/economics/2018-11-27/1_7449_crisis.html (accessed 22 Oct. 2019).
[28] See Hanson, P. (2014), *Reiderstvo: Asset-Grabbing in Russia*, Programme Paper, London: Royal Institute of International Affairs, https://www.chathamhouse.org/publications/papers/view/198133 (accessed 22 Oct. 2019).

So far as the change in trajectory over time is concerned, it appears that Russian economic growth of the 2000s was supported by other factors that have subsequently ebbed. A substantial growth accounting exercise for the boom period, estimating the contributions to growth of different factors, makes this clear (see Table 1).

Table 1: Estimated growth rates of output, by source, 1999–2008 (% annual average change)

GDP	6.9
Fixed capital	0.7
Capacity utilization	1.4
Labour: hours worked	0.7
Labour: skills	0.2
Residual: total factor productivity	3.7

Source: Entov and Lugovoy.[29]

There was a large element of recovery in this boom period. This shows up in capacity utilization and in hours worked. The residual will also include an element – possibly large – of productivity increases attributable to shifts in resource allocation as labour moved out of inefficient, Soviet-era manufacturing into previously underdeveloped services. That source of growth is now much reduced. Take these changes together with the levelling-off in employment and the slowdown in fixed investment, and there is ample reason for the overall deceleration. As far as 'similar' ex-Soviet countries are concerned, there may be other influences on their economic performance that are more favourable than they are in Russia.

The general line of argument put forward by Kudrin – and many more – has some substance. Russian economic growth did benefit from temporary favourable conditions in the 2000s, and there is evidence that the problems associated with insecure property rights have worsened.[30] The need for 'reform' is widely accepted. But what reform or reforms would be most significant? The IMF, in its August 2019 Article IV Consultation report, summarizes needed reform areas as follows:

> After exiting the recent recession, it is time to accelerate necessary reforms to improve productivity and foster new sources of growth. Long-standing weaknesses include inadequate infrastructure, a large footprint of the state, lack of competition, excessive regulations, weak protection of property rights, corruption vulnerabilities, and adverse demographic trends.[31]
>
> …
>
> To achieve significant growth dividends, reforms will need to address the long-standing problems of lack of competition in the economy, and relatedly, the large footprint of the state–both in terms of its high share in the economy and its intrusiveness into business activity.[32]

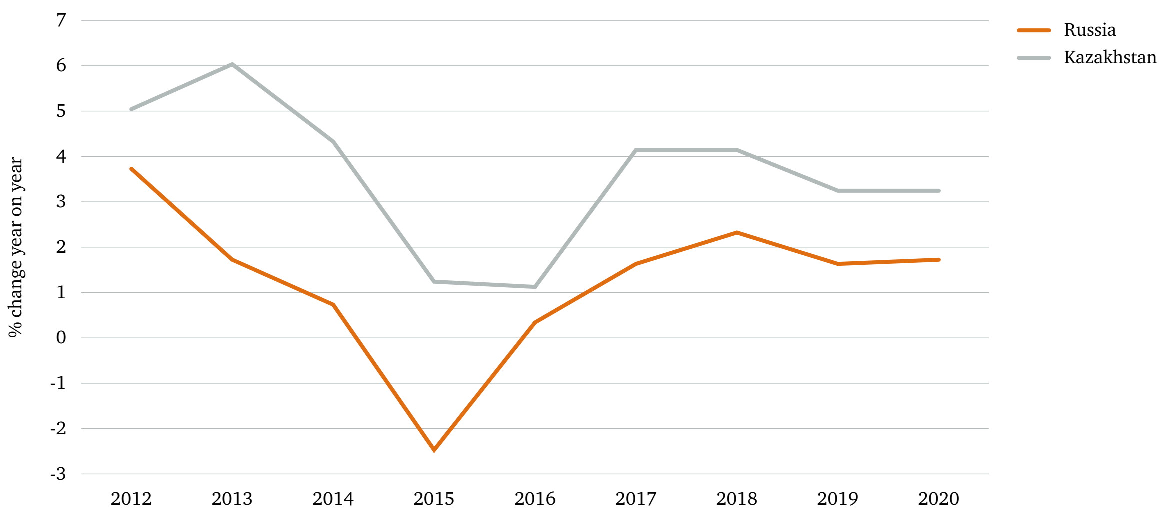
[29] Entov, R. M. and Lugovoy, O. V. (2013), 'Growth Trends in Russia after 1998', in Alexeev, M. and Weber, S. (eds) (2013), *The Oxford Handbook of the Russian Economy*, Oxford: Oxford University Press, pp. 132–61, at p. 144.
[30] See summary of report by Business Ombudsman Titov, B. (2018), 'No significant drop in number of economic crimes in Russia', RAPSI, 6 February 2018, http://www.rapsinews.com/news/20180206/281868062.html (accessed 22 Oct. 2019). See also the Novosti report on FSB pursuit of economic crimes, Finanz (2019), 'Kolichestvo ugolovnyh del FSB protiv biznesa podskochilo vtroye' [The number of FSB cases against businesses increased threefold], 1 April 2019, https://www.finanz.ru/novosti/aktsii/kolichestvo-ugolovnykh-del-fsb-protiv-biznesa-podskochilo-vtroe-1028074261 (accessed 22 Oct. 2019).
[31] IMF (2019), *Russian Federation: 2019 Article IV Consultation—Press Release; Staff Report*, IMF Country Report No. 19/260, https://www.imf.org/~/media/Files/Publications/CR/2019/1RUSEA2019001.ashx (accessed 14 Oct. 2019), p. 18.
[32] Ibid., p. 23.

Infrastructure is being addressed under the Integrated Infrastructure Modernization Programme associated with the ambitious 'national projects' (described in the next section). Some improvements can therefore be expected in this area, albeit at high cost. Adverse demographic trends are to some extent offset by the raising of pension ages. The other reform areas highlighted by the IMF have one critical factor in common: all would be ameliorated by clear movement towards the rule of law. This would require the appointment and maintenance of judges to be made independent of the executive, and it would also require a reduction in the *de facto* power of the security organs – a formidable requirement politically.

Lack of competition, weak property rights and corruption would all diminish as problems if there was an independent judiciary capable of upholding the law in the face of attempts at exploitation by corrupt agents of law enforcement and regime-favoured businesspeople. This would make the large footprint of the state, in the sense of GDP share, and the mass of formal regulation less toxic.

The comparison with Kazakhstan is instructive on two other possible sources of Russia's weak growth: rent addiction and geopolitical pretensions. The two countries have similar development levels (in terms of per capita GDP in PPP dollars[33]), similar fiscal dependence on oil and gas, and a similar institutional past. For what the two GDP series are worth, Kazakhstan's recent overall growth performance is significantly better.

Figure 5: Kazakhstan and Russia comparative GDP growth, 2012–20 (annual % change)



Source: IMF World Economic Outlook database, April 2019. The figures for 2019–20 are IMF projections.

Kazakhstan does have demographics in its favour – in that it does not have a shrinking labour force – but this is probably not enough to account for all the difference in GDP outcomes. It is likely that Russia's performance has been held back by a relatively large sector of uncompetitive production, as well as by its leaders' commitment to the recovery of 'great power' status. (It can be assumed, here, that rule-of-law deficiencies are similar in the two countries.)

[33] IMF (2019), World Economic Outlook database, https://www.imf.org/external/pubs/ft/weo/2019/02/weodata/index.aspx (accessed 22 Oct. 2019).

Gaddy and Ickes, and Connolly, in their work on Russia, shed some light on the first of these constraints.[34] They place the Russian state at the centre of a system in which rents (earnings above normal profits) are systematically transferred from an internationally competitive sector A (mainly oil, gas and minerals) to support an internationally uncompetitive sector B (much of Soviet-legacy industry). Connolly adds a sector C, chiefly made up of services, that is outside the rent transfer system and more detached from the Russian state, and treats the financial services sector as a further division of Russia's economic activity. The rent transfer system is dominated by the state, and dampens competition in sectors A and B. The larger sector B is, as a part of the economy as a whole, the greater the impediments to growth. While it might be speculated that Kazakhstan and Russia are systemically closely similar, Kazakhstan has a relatively smaller sector B to support. At all events, Russia's 'rent addiction' (as Gaddy and Ickes call it) is part of the story of the slowdown.

The second constraint may be that Russia has a far larger geostrategic burden weighing on its progress than does Kazakhstan. Table 2 gives some indicative estimates of annual public expenditure on certain projects and commitments in some or all of the past five years:

Table 2: Average annual public expenditure on selected commitments (billion roubles), various years, c. 2012–16

Sochi Winter Olympics	822
Bridges to Crimea	228
Operations in Syria	81
Subsidies to Chechnya	30

Source: The Bell.[35]

Together, these particular commitments were equivalent to some 4.7 per cent of consolidated budget expenditure in 2014 – not a huge burden in itself, but possibly symptomatic of a larger, more general commitment of resources that tends to crowd out more productive activities. The pursuit of some of Russia's geostrategic goals has also resulted in sanctions – another influence on economic activity that is not benign.

In summary, the social and political system impedes growth because it makes property rights insecure. A large sector B, together with Russia's geopolitical ambitions, probably worsens the outcome. Circumstances that favoured Russian economic growth in 2000–08 no longer apply. The current trend growth rate of output seems to be between 1 and 2 per cent per year. In this context, what policies and what reforms to raise that growth rate are being implemented? And what are their chances of success?

[34] Gaddy, C. and Ickes, B. W. (2005), 'Resource Rents and the Russian Economy', *Eurasian Geography and Economics*, 46(8), pp. 559–83; Connolly, R. (2018), 'Russia's System of Political Economy', in *Russia's Response to Sanctions*, Cambridge: Cambridge University Press.
[35] Mironenko, P., Malkova, I. and Amzin, A. (2018), 'Pobediteli, proigravshie i bolshoe padenie: glavnoe o 2018 gode v chetyreh grafikah i odnom reitinge' [Winners, losers and a huge fall: main [stories] of 2018 in four graphs and one rating], The Bell, 28 December 2018, https://thebell.io/pobediteli-proigravshie-i-bolshoe-padenie-glavnoe-o-2018-gode-v-chetyreh-grafikah/?utm_source=Bell+Morning+Weekly&utm_campaign=44b3d52e85-EMAIL_CAMPAIGN_2018_12_28_08_32_COPY_04&utm_medium=email&utm_term=0_11a75532e9-44b3d52e85-73708405 (accessed 22 Oct. 2019).

Growth strategy

Before the 2018 presidential election, there was a competition of sorts to devise a new growth strategy for the new president to adopt. Aleksei Kudrin's Center for Strategic Research (CSR) carried the liberal flag. Boris Titov and the Stolypin Club advocated acceleration led by a surge of state spending. The Ministry of Economic Development (MinEkon) was closer to Kudrin.[36] All called for an improvement in the business environment, with the CSR specifically urging judicial reform.

The new president of course turned out to be the old president. The new government was mostly the old government. And the new strategy was new only in places.

There has latterly been a small shift of budgetary allocation in favour of the more 'productive' expenditure headings of health and education – as advocated by the CSR. The revision of business regulation continues – the beneficial outcome of which process never seems to materialize. The main focus of the current strategy, however, is the state-led investment programme of 'national projects'. This is faintly – and only faintly – reminiscent of the Stolypin Club strategy: notably, it is not financed by large-scale borrowing.

There are 12 national priority areas, consisting of 69 federal-level projects. The overall cost of implementing the projects is estimated at 26 trillion roubles, or about 4.3 trillion roubles ($65 billion dollars) annually, equivalent to approximately 4 per cent of 2018 GDP. Some 70 per cent of funding is supposed to come from the budget.[37]

All Russian policymakers speak and write about the projects as if they are of the highest possible importance, and beyond any questioning.

These projects follow on from a presidential *ukaz* (edict) of 7 May 2018.[38] This means that all Russian policymakers speak and write about them as if they are of the highest possible importance, and beyond any questioning. Criticisms of any other policy – by Aleksei Kudrin, for instance, in his role as head of the Audit Chamber – are couched in terms of whether or not that policy serves the implementation of the national projects.

The objectives laid out in the *ukaz* can be summarized as follows. Nine national goals are to be achieved by 2024: (1) ensure sustainable natural population growth; (2) increase life expectancy to 78 years; (3) ensure sustainable growth of wages and pensions above inflation; (4) halve the numbers of people living in poverty; (5) improve housing conditions for at least 5 million households annually; (6) increase the share of innovating organizations (a curious measure that is officially monitored) to 50 per cent; (7) speed up the digitization of the economy and the social sphere; (8) become one of the world's five largest economies. with growth rates above the global average and inflation below 4 per cent; (9) support high-productivity, export-oriented businesses in the

[36] See Hanson (2018), 'Managing the Economy', pp. 147–48 for more detail and sources.
[37] Bank of Finland Institute for Economies in Transition (2019), 'BOFIT Weekly 8/2019: Russia', http://bof-en.mailpv.net/a/s/23941951-45fdeca5e38150e914783con13ee465638/2975153 (accessed 22 Oct. 2019).
[38] President of Russia (2018), 'The President signed Executive Order On National Goals and Strategic Objectives of the Russian Federation through to 2024', 7 May 2018, http://en.kremlin.ru/events/president/news/57425 (accessed 22 Oct. 2019).

key sectors of the economy, doubling non-raw-material and non-energy exports. The government will execute the *ukaz* by implementing 12 national priority areas, as well as the Integrated Infrastructure Modernization Programme.[39]

The national projects approach means that the key role in acceleration is given to state investment. Privatization, and reform of the private sector's ecosystem, are neglected. MinEkon, which provides the official government forecast underlying budget plans, envisages GDP growth of 1.3 per cent in 2019, 2.0 per cent in 2020, and 3.1 per cent in 2021 – the acceleration to be generated by the national projects.[40] By contrast, the Higher School of Economics (HSE) GDP forecasts for 2019–21, as of November 2018, saw the growth rate edging up only to 1.9 per cent by 2021, implying little gain from the national projects.[41]

The trajectories of investment (per cent annual change) forecast by MinEkon and the HSE could hardly be more different.

Table 3: Investment forecasts, 2019–21

	2019	2020	2021
MinEkon	3.1	7.6*	6.9*
HSE	2.0	2.4	2.5

* In April 2019 MinEkon adjusted the forecasts for 2020 and 2021 to 6.9 per cent and 6.2 per cent respectively.[42]
Source: RBK, 24 November 2018.[43]

The projected average annual rate of spending on the national projects – the 4.3 trillion roubles cited above – would amount, if it were all brand new lines of expenditure, to a 19 per cent increase on the rate of fixed investment in 2018. Evidently, however, much of the spending on the national projects will be a continuation of existing work. And new lines of expenditure may crowd out some unrelated investment projects, pre-empting finance and construction capacity, for example. At any event, the national projects' net impact on investment seems to be open to interpretation: what looks like a gale-force wind to MinEkon is a barely detectable breeze to the HSE. One assessment by Alfa-Bank economists associates the national projects with only a 0.2 per cent annual near-term direct effect on GDP, and a 0.1 per cent annual indirect effect.[44]

There are differences, too, over the anticipated longer-term effect of the national projects on output. How productive are they likely to be? Kudrin, for instance, underscores that they are not accompanied by anything much in the way of privatization or reform of property rights; while Vladislav Inozemtsev cautions against state-led investment programmes in general.[45] Bureaucratic, top-down management

[39] Kudrin, A. (2018), 'Russia's economy after 2018: Long-term challenges, short-term solutions', *Baltic Rim Economies*, 4, p. 5, https://www.utu.fi/sites/default/files/media/drupal/BRE_4_2018.pdf (accessed 22 Oct. 2019). On the infrastructure programme, see *Moscow Times* (2019), 'Russia's Massive Infrastructure Overhaul, in 5 Examples', 3 April 2019, https://www.themoscowtimes.com/2019/04/03/russias-infrastructure-overhaul-explained-a64839 (accessed 22 Oct. 2019).
[40] Ibid.
[41] Ageeva, O. (2018), 'Ekonomisty nazvali glavnie riski dlya ekonomiki Rossii v 2019 godu' [Economists named the main risks for Russia's economy in 2019], RBK, 24 November 2018, https://www.rbc.ru/economics/24/11/2018/5bf7e7449a7947baac456f6f (accessed 22 Oct. 2019).
[42] Shapovalov, A. (2019), 'Den'gi natsproektov otdadut v rost' [The money [spent on] the national projects will contribute to growth], *Kommersant*, 10 April 2019, https://www.kommersant.ru/doc/3938872 (accessed 22 Oct. 2019).
[43] Ageeva (2018), 'Ekonomisty nazvali glavnie riski dlya ekonomiki Rossii v 2019 godu' [Economists named the main risks for Russia's economy in 2019].
[44] Starostina, Y. (2019), 'Ekonomisty otsenili vliyanie natsproektov na rost VVP' [Economists evaluated the influence of the national projects on the growth of GDP], RBK, 22 April 2019, https://www.rbc.ru/economics/22/04/2019/5cbda5859a794737baaeed81?utm (accessed 22 Oct. 2019).
[45] Kudrin (2018), 'Russia's economy after 2018: Long-term challenges, short-term solutions'. Inozemtsev, V. (2019), 'Gosudarstvenno-chastniye soblazny: kakie riski neset vskrytie FNB' [Public-private temptations: what risks attend the opening of the FNB], RBK, 27 February 2019, https://www.rbc.ru/opinions/economics/27/02/2019/5c74ed319a79474cba65f3c8?from=center (accessed 22 Oct. 2019).

seems likely: witness the 15 prescribed key performance indicators for regions, designed to assess the work of governors in promoting the national projects.[46] Some sort of state intervention in the building materials industry may follow from the finding that, to accommodate the national projects, supplies of sand must increase by 42 per cent, and of gravel by 44 per cent, over the period 2018–24.[47]

The Russian leadership is deploying state spending against its growth problem. Critically, it is not deploying institutional reform. Moreover, this spending is being conducted while a budget surplus is to be maintained. Policy rather than reform has served well in stabilization. However, it may not be enough to bring the desired results when it comes to growth.

Stability versus growth in Russia?

In any country, the pursuit of macro-stability can have consequences for growth. A protracted austerity campaign, entailing cutting budget expenditure and maintaining tight monetary control, can limit output and income over several years. In some cases – in Greece from 2010, for example – the argument that there is no alternative is weak.[48] An overzealous or wrong-headed pursuit of stabilization can damage growth.

On the other hand, in a weak and inflation-prone economy the achievement of macroeconomic stability may be a necessary precondition for subsequent sustained growth. Stable prices and a stable currency provide the predictability that private investors need. This was a tenet of the Washington Consensus, derived from IMF and World Bank experience in Latin America and variously applied, misapplied or not applied to societies in transition after communism.[49] That ‘consensus’ no longer exists, but it does not follow that tough stabilization policies never worked as growth incubators. They contributed, for example, along with liberalization and privatization, to later strong development in Estonia and Poland.[50]

In Russia, the 2014–18 macro-stabilization was thoroughgoing and in some aspects brutal. But it was swift. According to Rosstat, GDP fell in only one year, i.e. in 2015. Inflation came down rapidly. There were accompanying policies that inflicted some economic damage, such as import-substitution and counter-sanctions on food imports. Both of these weakened competition and raised prices of affected goods and services, and the former slows technological change. Both have created vested interests in their continuation. But they were not stabilization policies; they were products of traditional Russian economic security concerns, heightened by sanctions.

The tentative conclusion is that Russian stabilization policies did not harm (or perceptibly help) growth. What about the converse? Have measures aimed at growth affected stability? The most obvious way this could happen is when aggregate demand is stimulated in the cause of acceleration but labour is fully employed and the only acceleration that occurs is faster inflation. The national projects exercise

[46] Butrin, D. interview with Oreshkin, M. (2019), ‘Net ni u kogo takoi zadachi – uvolit’ gubernatora’ [Nobody has such an aim [in mind] as the sacking of a governor], *Kommersant*, 29 April 2019, https://www.kommersant.ru/doc/3960042 (accessed 22 Oct. 2019).
[47] Kryuchkova, Y. (2019), ‘Natsproyektam ne khvataet peska i shchebnya’ [There is a shortage of sand and gravel for the national projects], *Kommersant*, 7 May 2019, https://www.kommersant.ru/doc/3962486 (accessed 22 Oct. 2019).
[48] See Varoufakis, Y. (2016), *And the Weak Suffer What They Must?* New York: Nation Books.
[49] See Williamson, J. (1999), ‘What Should the World Bank Think about the Washington Consensus?’, Peterson Institute for International Economics, https://piie.com/commentary/speeches-papers/what-should-world-bank-think-about-washington-consensus (accessed 22 Oct. 2019).
[50] For data going back to 1994, see IMF (2019), World Economic Outlook database, https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/index.aspx (accessed 22 Oct. 2019). On the transforming policies and reforms, see Laar, M. (2002), *Estonia: Little Country that Could*, London: Centre for Research into Post Communist Economies; Balcerowicz, L. (1995), *Capitalism, Socialism, Transformation*, Budapest: Central European University.

might, if it becomes too much of a campaign, have such an effect, but that looks unlikely. The budget rule continues to be observed, fiscal surpluses are planned for 2019–21, and the CBR and independent forecasters project inflation subsiding to the bank's target rate of 4 per cent in early 2020.

The economic bloc of the Russian leadership espouses financial prudence. In this it so far has the backing of President Putin. That sets limits – probably desirable limits – to any spending-led dash for growth. But faster growth may be achievable, in the course of four or five years, by reform in the sense of institutional change. Why should that be so difficult? (It might be assumed that, in focusing on reform, two other possible growth depressants – rent transfers to sector B, and the preoccupation with geopolitics – remain unchanged.)

Reform versus policy: changing the system

The most fundamental line of reform in Russia, for the reasons set out above, would be a strengthening of property rights. This would not be just a matter of passing a few new laws. In reality, that would be the easy part. It would require a change of arrangements of an order that would substantively alter the informal norms and rules of the game observed by thousands of Russian regulatory, judicial and law-enforcement officials.

Three practices incorporate these norms and rules: the *krysha* (meaning 'roof', or protection), *kormlenie* (which directly translates as 'feeding'), and covert patronage.

> Property rights reform would require a change of arrangements of an order that would substantively alter the informal norms and rules of the game observed by thousands of Russian regulatory, judicial and law-enforcement officials.

Krysha can mean the protection provided by criminals to individuals or businesses in exchange (usually) for money. But it has mainly been used in recent years to denote the protection provided by well-placed officials to other officials, individuals or firms. Protection in this second sense can come at different levels – from a municipal official covering a small local firm, to a top national official looking after a 'strategically important' corporation. And it can come in various strengths, from a senior official of one of the security or law-enforcement agencies downwards. The protected business stands ready to show its appreciation, not necessarily in money and not necessarily at once.

Kormlenie, or 'feeding', is a term that dates back to early Russian history. It refers now to officials extracting material benefit, over and above their pay, from those they regulate or supervise. This could take the form of bribery. It is in a general sense the quid pro quo for protection, but the two do not necessarily match case by case. Indeed, it is the firm with a weak *krysha* – or no *krysha* at all – that risks losing out to a combination of a better-protected rival and officials on the make.

The practice of covert patronage is almost undocumented. Much less can be said about it with confidence than can be said about *krysha* and *kormlenie*. It appears likely that oligarchs, as part of an understanding with the authorities, secretively provide very senior state officials with substantial personal wealth, not as a bribe for any particular action but to mark them as 'made men' and perhaps to immunize them against anything so middle-class as backhanders.

One possible example is Igor Shuvalov, the former first deputy prime minister. His family's Sevenkey company and an affiliate reportedly made loans to the oligarchs Alisher Usmanov and Suleiman Kerimov that were astronomically profitable: the former brought in a rate of return in dollars of more than 30 per cent a year in 2005–07.[51] It is hard to find evidence that covert patronage is a standard practice. However, something like such patronage is needed to account for the assets personally controlled by a number of senior politicians, including Prime Minister Dmitry Medvedev.[52]

In most countries most of the time, money is a route to power and power is a route to money. Russia, like other 'limited-access social orders', has this characteristic in a brazen and extensive form, including widespread bribery.[53] More to the point, it exhibits patterns of corrupt behaviour, including asset-grabbing, that are unpredictable. These present a disincentive to investment.[54] Predictable bribes can be planned for. Having your company taken away from you is a contingency that doesn't lend itself so well to project management.

Kormlenie, krysha and (probably) covert patronage are part of the way things are done in Russia at present: part of what Alena Ledeneva calls simply '*sistema*'.[55] Introducing the rule of law and therefore stronger property rights would entail a change in *sistema*. How would the necessary reforms of the judiciary and law enforcement come about?

One thing is clear: the political elite has three powerful incentives not to develop the rule of law:

First, very many mid- and lower-level officials are supported by the present informal rules of the game. The political elite, under a rule-of-law state, would risk losing the allegiance of the great mass of officialdom.

Second, it would also lose a key means of control over officials – and indeed over people in general. As long as the powers that be can use the law selectively, officials, activists and business figures are in a state of, to borrow another term from Ledeneva, 'suspended punishment'. Anyone can always be arrested for *something*.

The third disincentive arises from the prospects for the political elite themselves under a rule of law. They may be beyond routine bribery now, but they have a past at lower levels that could be investigated. And currently, as top officials, they have an exalted system of *kormlenie,* in the form of covert patronage, that could also come under legal attack.

These are disincentives for everyone within the political elite. The pragmatic modernizers who dominate the machinery of economic policymaking will be aware of the benefits of a rule of law and the costs of its present weakness. But the motivation to acquiesce in the present state of affairs – even if they could prevail on the *siloviki* (officials of the security and law-enforcement services) to change it – is powerful.

[51] Weiss, M. (2014), 'The Kremlin's $220 Million Man', *Foreign Policy*, 29 October 2014, https://foreignpolicy.com/2014/10/29/the-kremlins-220-million-man/ (accessed 22 October 2019).
[52] See Aleksei Navalny's video on assets controlled by Medvedev, 'On vam ne Dimon' [Don't call him "Dimon"], YouTube, 2 March 2017, https://www.youtube.com/watch?v=qrwlk7_GF9g (accessed 22 Oct. 2019).
[53] For definitions of 'limited-access' and 'open-access' social orders and the difficulties a country has in moving from the former to the latter category, see North, D. C., Wallis, J. J. and Weingast, B. R. (2009), *Violence and Social Orders*, Cambridge: Cambridge University Press.
[54] Levina, I. A., Gregory, V. K., Marques, I. I. and Yakovlev, A. A. (2016), 'Uncertainty as a Factor in Investment Decisions: The Case of the Russian Federation's Regions', World Bank Policy Research Working Paper No. 7806, https://publications.hse.ru/en/preprints/189954907 (accessed 22 Oct. 2019).
[55] Ledeneva, A. (2013), *Can Russia Modernise? Sistema, Power Networks and Informal Governance*, Cambridge: Cambridge University Press.

The existence of these disincentives to fundamental reform does not make reform impossible. It does, however, make it unlikely in the medium term. A Russian shift to the rule of law will more probably come about through gradual evolution and accumulation of institutional changes.

There is one change currently being pursued that may make a contribution. This is the digitization of government services. In principle, operating online entails more transparency than do more manual processes. Notably, it allows records to be checked more easily. For example, the planned transfer (from mid-2019) of the privatization of local state-owned enterprises to a wholly electronic platform could help foil the insider dealings that currently prevail.[56] But entrenched norms and informal rules will not give way to the internet alone.

Might they give way to presidential exhortation? In April 2019 First Deputy Prime Minister Anton Siluanov, speaking at the HSE, explicitly connected the fulfilment of the national projects with the pressure put on business by the law-enforcement agencies: '[T]he law-enforcement organs must also take part in the targets and aims set by the president, and create the necessary conditions and comfort for the work of entrepreneurs'.[57]

This is a discreet way of saying that asset-grabbing hinders a presidential campaign. It goes beyond an appeal to team spirit by implying presidential displeasure. But it comes from a 'mere' first deputy prime minister. To make a difference, it would probably need to come from the president himself.

Boris Titov, the presidential ombudsman for business, continues to seek Putin's involvement in moves to reduce asset-grabbing. On his initiative, an interdepartmental working group on 'the systemic problems' of business has been set up, to report to the president in late 2019. The working group was to be overseen by Andrei Belousov, an economic aide to Putin, and was reported as including representatives of the economic ministries but not the security services.[58] This could be a challenge to the *siloviki* and a step towards reform, but only if Putin acts on its recommendations and decriminalizes at least some 'economic' offences.

Conclusions: policy versus reform

A state can change the workings of the economy by changing policies – fiscal or monetary, for example – within a given framework of institutions. Or it can do so by changing the institutions themselves. Writing about Soviet-type economies, Anthony Chawluk showed how policy changes could produce significant results; he noted that reform was more problematic for decision-makers because the risk of unintended consequences was greater.[59]

Major institutional change can certainly have unforeseen consequences in developed economies as well. For the UK, two examples will suffice: the deregulation of financial services in the 1980s; and now Brexit. The same would very likely be true for Putin's Russia if reform was allowed to happen.

Policies of macroeconomic stabilization in Russia from 2014 were tough but, by and large, successful. When it comes to the imposition of austerity in the pursuit of stabilization, having an authoritarian regime helps. It does not help when reform is required. Policies for faster growth now consist very

[56] Pushkarskaya, A. (2019), 'Privatizatsiya ukhodit na federal'niy rynok' [Privatization moves to the federal market], *Kommersant*, 1 April 2019, https://www.komersant.ru/doc/3930392 (accessed 22 Oct. 2019).
[57] Shapovalov (2019), 'Den'gi natsproektov otdadut v rost' [Money [spent on] the national projects will contribute to growth].
[58] Krasnushkina, N. (2019), 'Zhaloby biznesa vzyali na ekspertizu' [They have taken the complaints of business to expert assessment], *Kommersant*, 13 June 2019, https://www.kommersant.ru/doc/3999113 (accessed 22 Oct. 2019).
[59] Chawluk, A. (1974), 'Economic Policy and Economic Reform', *Soviet Studies*, January 1974, pp. 98–120.

largely of state-led investment projects, of which the chances of success are more doubtful. Time will tell, probably in 2020–21. Major reforms establishing a rule of law offer a better prospect for stronger growth in the long term. However, they also bring the prospect of a liberalization of the social and political order. Thus they are unlikely to be carried out.

A gradual process of reform towards a rule of law could begin with the removal of some so-called ‘economic crimes’ from the criminal code, or with restrictions on the use of pretrial detention. Both have been discussed, but so far the interests ranged against them – chiefly the security organs – have blocked progress.

The most likely consequence of a lack of progress is a trend rate of economic growth below 2 per cent a year. That implies a similarly sluggish trend rate of growth in personal incomes. If the national projects do not unblock Russian growth over the next couple of years, is it possible that the leadership, in its search for growth, might even take risks with the system?

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Independent thinking since 1920

Cover image: Bank of Russia Governor Elvira Nabiullina, Economic Development Minister Maxim Oreshkin, Deputy Prime Minister Vitaly Mutko, Labour and Social Safety Minister Maxim Topilin, Economy and Finance Department Head Valery Sidorenko, and Russian presidential aide Andrei Belousov (l–r) after a meeting on stimulating economic growth, at Gorki residence, Moscow, on 8 October 2019.

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