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## [Without reforms, economic sclerosis awaits](#)



Kremlin officials expect President Vladimir Putin will soon launch his 2018 presidential election campaign. That is if Putin decides to run for a new presidential term, of course. Meanwhile, everyone believes he will. What will Putin offer the Russian people this time round? What economic policy options does he have on the table?

While this topic has been discussed both in the Kremlin and in wider government circles for the past several months, the debate has not been noticeably heated. Nevertheless, a number of different economic visions are emerging. Which vision will win Putin's approval and end up as part of his platform? Or will Putin blend the various options that already exist?

In early summer, the head of the Centre for Strategic Research (CSR) Alexei Kudrin and the head of the Stolypin Club and the Business Ombudsman Boris Titov presented their strategies for economic growth to the President. These options have been discussed since the beginning of the year as two key competing visions. However, while the Stolypin Club [published](#) its full 'Growth Strategy' (developed at an advanced expert level) a long time ago, the 'Kudrin Plan' can only be assessed on the basis of [second hand](#) opinions. These accounts have an air of mystery around them and Kudrin is apparently one of the few people Putin trusts when it comes to economic matters. Does this mean that the final choice will be made in favour of the 'Kudrin Plan', little known to the general public? Well, not necessarily so. Following his unofficial rule of 'balancing all who are trying to influence him', the President is likely to merge Titov's and Kudrin's plans, and add some elements from the plans developed by the Medvedev's government (which generally draw on the existing plans, processes and trends).

The 'Growth Strategy' developed by the Stolypin Club opts for 'going big' once a decision is reached. 'Think big' is the motto used by those who want to 'make America great again' under Trump's leadership. Although the current relations with the United States are dismal, Boris Titov suggests that America's example should be followed in some respects. After all, that country has sorted out its own economy. For instance, it did so by applying the monetary policy of quantitative easing, which Titov proposes to adopt in Russia. Liberal critics take note of the enormous budget set aside for the special programme to stimulate economic growth (1.5 trillion roubles a year). This leads to the conclusion that Titov, much like the presidential economic adviser Sergei Glazyev, wants to 'print money'. However, this view would be a simplification. However, of course, there is the risk that such a programme (much like Titov's proposed easing of lending terms for business) may drive high inflation and corruption, one reason being that government institutions in Russia are not quite the same as their counterparts in the USA.

However, we should also take into account that 'stifling the inflation' as an end in itself is not quite such a trendy idea in any more in current liberal economic thinking in the West. Moreover, if we look at the current stagnation, which is likely to lead to decay and aggravate the technological and economic backwardness of Russia vis-à-vis developed countries, things can't get any worse. In recent years, Russia's share in the global GDP has shrunk from 2.6% to 1.7%, while the number of poor people has risen to at least 15% of the population, and continues to grow. In terms of per capita GDP, in 10-15 years' time Russia may fall behind India, a country plagued with mass poverty despite its vast middle class.

Titov proposes to drive the economic growth in the coming years to reach 5-6% per annum (in 2020-2025). Moreover, in addition to direct government financing and stimulation of investments, the growth should be propelled by increasing demand. The policy instruments would include, for instance, housing mortgage loans at 5% per annum, subsidised consumption for the poorest groups, financial incentives for vehicle purchases, or quadrupled tax incentives for expenditure on education and medical treatment. Another proposed measure is to reduce tariffs applied by natural monopolies, to grant tax incentives to innovative business, and to reduce administrative pressure on the business sector as a whole.

Many of these stimulating measures are the perfect heresy for the current financial and economic bloc in Prime Minister Medvedev's government. For him, budget discipline and austerity, including steps such as cutting back on all sorts of social spending, is an absolute priority at present. The term 'stimulating the demand', in either the Keynesian or the Neo-Keynesian sense, is completely unacceptable for the current government. Little is known about similar proposals in the 'Kudrin plan', either.

The former Minister of Finance is a proponent of tight fiscal discipline, and cutting inflation at any cost. He is not afraid of suggesting even such an unpopular measure as raising the retirement age, being well aware of the current 'pre-infarction' condition of the Pension Fund, with its deficits running into trillions of roubles (Titov, in turn, [believes](#) that 'those material, financial benefits that we receive from increasing the retirement age do not compensate for the negative social effect in our society.'). At the same time, Kudrin suggests that a greater emphasis should be made on reforming institutions of the state, which is a fairly typical suggestion that can be heard from Russian liberals. In their view, Russia will not move forward without a new quality of the state, and this view is hard to challenge.

Both Kudrin and the politically more cautious Titov (who continues to work in the presidential administration, as the ombudsman for entrepreneurs' rights) suggest a judicial reform. While differing over details, their opinions have one thing in common: suggesting an increased independence of judges and an improved quality of the judiciary (for example, Titov suggests that the quota of judges with the background of working as attorneys should be increased to weaken the current 'accusatory bias' of Russia's justice system). The latter fact indicates that, most likely, the very idea of a judicial reform, which was contemplated even during Putin's first presidential term, is considered by the country's political leaders not only as acceptable and politically admissible, but also desirable. Perhaps this is because the Kremlin has finally realised that the dominance of various security forces in the country, including across much of the economy, and their symbiosis with the judiciary radically undermine the investment climate in Russia (property rights are not protected against seizures or blackmail involving power structures). In the long run, this situation also poses a threat to the existence of the current regime and the principle of continuity where today's leaders and owners would like to transfer the levers used to manage the economy and the leading corporations to their heirs. This can be viewed as a typical 'illumination' for any regime that has gone through the period of initial wealth accumulation: they want their descendants to live according to more transparent and stable rules under the protection of independent courts.

Of course, the new round of tightened sanctions against Russia does not create more favourable conditions for economic reforms, whether based on Titov's or Kudrin's ideas. In the very mentality of the current Russian leadership, there is a 'protective matrix' aimed at preserving the existing order in all ways, in order to avoid, as they say at the top, 'a destabilisation of the socio-political situation in the country'. This phrase should be understood as meaning something much simpler: the fear of losing the control over the country and, as a consequence, losing power. Therefore, it might be better not to change anything. It is better to 'sit and wait' until the situation improves, all by itself. For instance, oil prices might go up, or the Western political leaders who are more hostile towards the Kremlin will step down, etc. These sentiments suggest that no large-scale plans for economic reforms will be adopted in the near future, and if at all, they might boil down to mere lip service.

However, looking at the socio-political stagnation and, as a consequence, the economic standstill in the country (which resulted not only from the falling oil prices or Western sanctions but also from the deteriorating performance of government-controlled institutions), changes seem more urgent than ever. This time, purely technocratic economic measures will hardly suffice. After all, corruption is one of the results of efforts to suppress the independent press and political competition.

Admittedly, it is increasingly difficult for a country like present-day Russia to survive and 'wait through' the present. The longer anyone postpones the political decisions about launching some 'healing measures', the larger the scale of economic and technological collapse there will be; the economic model will inevitably become less and less competitive the more policy makers sit on their hands. In fact, it can serve as a model of stagnation rather than development and economic growth.

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