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*From the Editorial Board.* The following interview with Ye.S. Savchenko has been reprinted from the Russian Economic Journal (Rossiyskiy Ekonomicheskiy Zhurnal) (2013. No.4. P. 40-45).

Ye.S. Savchenko worked as a collective farm agronomist, then he was appointed Director of a state farm; he also worked in the district and regional party bodies, in the CPSU Central Committee and the RSFSR Ministry of Agriculture. Since 1993 he has been the Head of Administration, and then the Governor of the Belgorod Oblast. He was re-elected as the Oblast Governor in October 2012. He is a Professor and has a Doctor of Economics degree.

Ye.S. Savchenko writes in his blog: “Life has proved that our estimations and actions are right. The landmarks in the region’s economy, which we have chosen, proved to be right as well. Having focused on the production of meat and milk in agriculture, on individual housing construction in the construction industry, on the modernization of mining and metallurgical industry and boosting small business, we have laid the foundations, which helps overcome difficulties and develop our country... At present, we have managed to implement many programmes aimed at improving the quality of life of our fellow citizens... But I think that our main priority is the creation of such spiritual and moral environment in society that raises the quality of human relations to a new level” (quoted from: <http://www.savchenko.ru/info>).

Savchenko Ye.S.

## **On the necessity and content of the change in macroeconomic policy**

For more details on the results of the socio-economic development of the Belgorod Oblast over the recent years see the above article from the Chief Editor of our journal.

*The facts indicate that the urgency of such a change is openly declared even by certain representatives of the “power vertical” (moreover, they propose the actual options for this change*

*in keeping with the recommendations appeared in our journal as well) that has for 13 years pursued a socio-economic course, which, under the conditions of maintaining high world oil prices reduced Russia’s economy to a condition, argued to be “still a stagnation or already a recession?”\* Considerations of this sort are expressed in the media and scientific*

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\* The main features of this condition and the substantiation of proposals on its alteration can be found in the following publications of the Russian Economic Journal in the current year: Yershov M., Tatuzov V., Uryeva Ye. Guidelines for innovation development: “memories of the future”? (Macroeconomic dynamics–2013 denies the pre-crisis forecasts). 2013. No. 2; Zhukovskiy V. Oil and gas Titanic at the end of the first year of the “new-old” political cycle (commentary to the official macroeconomic statistics). Ibid.; Glazyev S. Once more on the alternative system of measures of the state policy for the modernization and development of domestic economy (proposals for 2013–2014). 2013. No. 3.

*journal publications, in particular, by Yevgeniy Stepanovich Savchenko, the Corresponding Member of the Russian Academy of Agricultural Sciences\*\*, the Governor of the Belgorod Oblast, the territory famous for its achievements in agriculture and animal husbandry (its profile economic specialization). These considerations are expressed in the following interview.*

– **How would you evaluate the current situation in Russia's economy?**

– It is a known fact that the country has developed a classic raw material (neocolonial) type of economy, main features of which are: the growing export of raw materials – oil, gas, iron ore, coal, wood, grain, fish; the loss of competitiveness; the dominance of imported goods and services in the domestic consumer market; the violation of the balance of interests and the growth of contradictions between national producers and consumers (at that, consumers' interests dominate).

A relative economic stability of the recent years is explained by an exceptionally favorable situation for export goods and raw materials; though it is no longer preventing the actual stagnation of economic growth. Moreover, our accession to the World Trade Organization legally secures Russia's status-quo as a source of raw materials in the global economy.

Thus, the state of national economy is determined largely by the influence of external factors. Their slightest changes, in whatever region of the world they may occur, have an impact on Russia, and not only on its economic situation, but also on the social sphere and internal policy.

– **In your opinion, what are the main reasons for such a poor condition of Russia's economy? Is it possible, without repeating the well-known stories concerning the "turbulent 1990s", just to stay in the given aspect within**

\*\* See, for example: Savchenko Ye. Russia's macroeconomic policy: problems and solutions. APK: ekonomika i upravleniye. 2013. No. 6.

**the limits of the post-default period that covers the years of the second, third and the beginning of the fourth ("new old") post-Soviet political cycles?**

– I think that these reasons are connected with the wrong macroeconomic policy pursued since the turn of the century. The famous post-default economic growth in Russia was determined by the then sharp rise in world prices for hydrocarbon energy as our main export commodity, and, moreover, in the first years after the 1998 events, by the post-devaluation effect to a greater extent. Import price hikes made our manufacturers competitive, especially in the domestic market, which gave an impetus to the development of the non-resource sector of the economy, the import substitution processes, in particular, in the consumer goods industry and food production. Unfortunately, Russia completely lost this advantage afterwards, and the so-called economic stability is maintained only at the expense of high export prices for oil and gas.

The mechanism of this loss for over ten years has been largely associated with the paradox consisting in the fact that domestic inflation in this period had been continuously strengthening the ruble exchange rate. Since the average annual inflation over the past 13 years has amounted to approximately 12%, it is easy to calculate that it has reached 400% in total for the specified period. But since the official rate of US dollar in 2000 and 2013 remained unchanged and was approximately 30 rubles, this has led to the fourfold increase in the cost of production of one and the same product (while the technology remained essentially unchanged) not only in rubles, but also in US dollars.

This means only one thing: the competitiveness of Russia's economy has decreased in four times over 13 years in relation to the world economy (except for a little minus associated with the US dollar inflation).

For instance, in 2000 the costs for production of a conventional unit of output in Russia in hard currency were 1.5–2 times lower than those in Western countries; in the beginning of 2013, however, they increased by the same rate. The outcome is clear: over this historical period Russia's economy has shifted from a sustainable competitiveness to its complete loss.

I will not dwell on the motives for the adoption of respective macroeconomic decisions in the period of “fat petrodollar years”, though it is obvious: the persons responsible for their adoption, strived above all to bring domestic prices for goods and services of natural monopolies in line with the world prices, to ensure Russia's accession to the WTO and facilitate the “general integration of the country into the global economy”, at the same time improving the condition of banks and corporations that have accumulated huge external currency liabilities. The fact remains that Russian economy is now in a macroeconomic deadlock; certain stability rests only on the shaky foundations of trends in world prices for Russia's export commodities, primarily oil and gas. It seems necessary to substantiate this fact with several informational and analytical statements.

Firstly, due to inflation at the constant exchange rate, Russia's economy “gained more weight” not only in rubles, but also in dollars. Its dollar capacity over these years has increased in at least eight times, including that in connection with inflation – in four times, and in connection with actual growth – in two times. Under the conditions of an almost tenfold rise in hydrocarbons prices, the country has become a vessel for the bundling of US dollars, the annual emission of which has recently exceeded one trillion. This circumstance was a powerful factor in maintaining the stability of the global financial system, but Russia has paid for this by losing competitiveness of its national economy.

Secondly, if the actual value of the ruble in terms of dollar (exchange rate) in the period under consideration had been the same as in 2000, then our country would have additionally received about 200 trillion rubles with regard to export alone; this figure is almost equal to three annual GDP or ten consolidated budgets of Russia. In other words, due to the ruble appreciation, our country has been working for the benefit of a foreign economy for three out of thirteen years.

Thirdly, although an ordinary buyer is known to be the main investor of any economy, three-quarters of Russia's retail turnover, due to the revaluation of the ruble, is currently formed on the basis of imported goods, that makes over 10 trillion rubles (or more than 300 billion US dollars), which are annually withdrawn from the country to support foreign manufacturers. We should also point out the capital outflow of around 100 billion US dollars a year. This is another component of the price that we pay for the excessive appreciation of ruble.

Fourthly, all these years, Russian banks granted credits to our economy under 12–18% per annum, explaining such a high interest rate by the level of inflation. The Bank of Russia gave similar explanations in respect of an over-the-top refinancing rate. At the same time, the bankers of different levels did not highlight an important fact, to put it mildly, that under the conditions of the constant exchange rate of the ruble, the ruble interest rate remains identical to that of the dollar. Therefore, for 13 years our commercial banks have loaned money to legal and natural persons under the terms three-five times more tight than those of Western banks. As for the Central Bank's refinancing rate, it was actually dozens of times higher than the price of money, established by similar global financial regulators. Yet it is not clear why in such circumstances the Bank of Russia placed the country's gold and foreign currency reserves abroad under 1–2% per annum?

After all, over these years, it would have been possible to earn not less than a trillion US dollars by crediting our financial system at least under 8–10% per annum in rubles at the constant exchange rate of the national currency. As a result, the profitability of the country's banking system for the past years has increased both in rubles and in foreign currency almost by a factor of ten; but the other side of the coin has been the increase in production costs, rise in the prices for goods and services, and most importantly, the loss of competitiveness. Thus, freezing the exchange rate of ruble has launched a powerful "finance-pumping" mechanism concerning the facilitation of not only the outflow of capital abroad, but also the transfer of capital from the real sector to the financial sector.

Fifthly, it seems appropriate to refer in this regard to the experience of other countries with a much more flexible macroeconomic policy. Take, for example, China, which has created the world's second largest economy with a powerful export potential over a short period of time. One can name quite a few reasons for the "Chinese economic miracle", but one of its fundamental factors was the devaluation of the national currency at the end of the previous century – from 0.40 to 0.12 US dollars for the yuan, i.e. in 3.3 times. And only recently, under the powerful pressure of the United States, China has slightly appreciated its currency up to 16 cents per yuan.

Similar behavior was once demonstrated by Japan, which in the conditions of the advantageous exchange rate of the yen has achieved the "economic miracle". Only after a long "arm twisting" did the U.S. succeed in getting Japan to sign the Plaza Accord in 1985, which resulted in an almost twofold revaluation of the yen exchange rate. A quarter century later, the Japanese are forced to devalue the national currency once again in order to take the country out of prolonged economic stagnation. Let me remind you, by the way,

that on the eve of Belarus, Kazakhstan and the Russian Federation joining the Customs Union, Belarus devalued its national currency in three times; as a result, Belarusian goods, especially foodstuffs, have become more competitive than the similar products of Russian manufacturers in our market.

Sixthly, the macroeconomic policy under our consideration was profitable not only for "oligarchs", raw materials producers and bankers, but also for other groups of the Russian society, the incomes of which, including average wages, were increasing and catching up with inflation in rubles as well as in US dollars (the indicator of the national average monthly wage has still increased significantly – from 150 to 1000 US dollars, with regard to all of its justly criticized shortcomings: in particular, that it hides an excessive income stratification of the citizens). However, a number of essential remarks should be made in this connection. First, it was possible due to the high prices for export goods, which can slump overnight; speaking of which, the good example is the 2008–2009 global crisis. Second, a significant share of population's incomes has been and is going abroad (purchases of imported goods, buying goods and real estate abroad, capital outflow, etc.); the share of incomes of the population is unlikely to exceed 25% in the general revenues structure of our dollarized economy. Third, the increase in the incomes of Russia's citizens in the recent years results from the revaluation of the ruble exchange rate, rather than from the growth of national economy, let alone the enhancement of its efficiency. And this could not but affect the political situation in Russia, because it triggered a contradiction between the interests of national consumers and domestic producers, which led to open social and political excesses at the end of 2011–2012. And if the criticized macroeconomic policy is carried on, the contradiction between consumers and commodity producers will only grow, in my opinion.

Consequently, it is necessary to change this policy in order to solve this contradiction and in a broader sense — to shift our economy from a raw-materials-based growth to a rapid, sustainable and balanced growth.

— **What do you think this change will be, what are the contents and the subordination of the relevant proposed measures?**

— Since there is a problem of facilitating the development of any market economy, it is necessary, first of all, to pay attention to the task of stimulating the impact on the aggregate effective demand and on its structure. I believe that, given the current situation in Russia, it is more expedient to reorient the general demand of the population, business and government toward import-substituting products, i.e. goods and services of domestic origin, than just to expand this demand. Meanwhile, in order to create the proper environment for boosting domestic producers, a large-scale application of administrative methods that conflict with the legal framework of the WTO is almost impossible. Using the set of economic methods that are directly associated with the increase in production efficiency and labour productivity requires substantial financial resources and a lot of time; and the application of institutional methods, related mainly to the improvement of innovation climate, may turn out unsuccessful in the current circumstances. Hence and in the context of the above, the devaluation of the Russian ruble is considered to be the top-priority and the most efficient way to re-orient the demand from the external to domestic market.

However, we can not simply devalue the national currency, as it may cause a surge of inflation and downfall of incomes, which means that the standard of living in Russia will deteriorate, like it happened in the August 1998 and in the first months after the default. However, in my opinion, there is a possibility to curb these negative processes efficiently by supplementing the specified initial measure

with a complex of other ones. I will mention only the main guidelines of action without producing a comprehensive list of related measures.

A reduction in the value of the ruble should, first of all, be accompanied by certain measures to control the prices for goods and services (wholesale and retail), well known from the experience of the developed countries. Here we should admit that Russia has such an inefficient policy concerning prices regulation, which, perhaps, no other country does. This very circumstance — an exceptional weakness of state regulation in the sphere of production costs, profitability, inter-sectoral costs etc., combined with the poor “self-regulating” market competitive environment, instigates manufacturers and intermediaries in their presumptuous desire to jack up prices in pursuit of super profits and special benefits. And no wonder that, for instance, the actual crisis that is observed in the meat sector of agriculture due to a 30–40% reduction in procurement prices after Russia’s accession to the WTO has in no way affected the prices for meat and meat products in trade: the latter continues gaining super profits by using its monopolistic opportunities.

If we could optimize and mutually harmonize the expenses on intermediary services, administration and management, on the provision of business safety, the amount of rent payments for the use of real estate and land, the cost of services of numerous regulatory and licensing organizations, the payments to creditors, the cost of access to infrastructure, etc.; if, in addition, we could restrict the level of profitability for all economic entities in the domestic market by at least 25%, it would be possible, I suppose, to reduce the cost of goods and services in general by 30–40%. In the conditions of inevitable increase in prices for imported goods under the ruble devaluation this would become a major economic and social damper in the consumer market of the country.

Secondly, the refinancing rate of the Bank of Russia should be limited at 0.5–1.0% per year, and granting loans of commercial banks – 3–5% per annum. Up to this level, it would be important to reconsider the rates for all previously issued commercial credits, including mortgage loans; as for the loans granted in foreign currency, they should be translated into rubles at the exchange rate at the time of their provision. It is also considered expedient to abandon the current practice of subsidizing interest rates for individual industries and business entities by the state; the saved hundreds of billions of budget money should be spent on the temporary maintenance of the rates on bank deposits of the population.

It is clear that restoring order in the financial sphere would lead to a powerful revival of economic life in Russia. At that, the possible temporary lack of resources in the banking system would be expedient to cover at the expense of loans of the Bank of Russia, especially since it would develop significant ruble liquidity after the revaluation of gold and foreign currency reserves due to the devaluation of the national currency.

Thirdly, the state should be a powerful driving force in promoting economic growth and domestic demand concerning the allocation of funds for the development of transport infrastructure, primarily, motor roads. In this case it will be necessary to establish control over the pricing in road construction. For instance, the cost of a four-lane road, conforming to all modern standards, should not exceed 3–4 million US dollars per kilometer. Until 2020 it is actually possible to build no less than 50 thousand km of modern highways, which would connect not only the regional centres, but the majority of district centres as well. A source of funding could be found in the target infrastructure loans granted by the Central

Bank to Russia's regions; these loans would pay off within 10–12 years through the annual GDP growth of 4–6% only due to the increase of the quality of roads.

Another promising area of economic growth, stimulated by the government, is individual housing construction and creation of the relevant infrastructure. By establishing a skillfully organized system of collaboration and partnership between the state, regions, builders and banks, it is quite possible to bring the annual volume of individual housing construction in the country up to one million individual houses, or 130–150 million square meters per year. The support to only these two areas would generate a powerful multiplicative effect of economic growth in all sectors over the next 10–15 years, with actual positive consequences in terms of strengthening social stability and consolidation of the Russian society.

Fourthly, proceeding from the fact that any actions for stimulating economic growth are doomed to failure without the availability of a necessary amount of qualified personnel in the labour market, the country should urgently launch the reform of vocational education, aimed at its revival and its maximum adaptation to economic needs. Here it is necessary to establish the balance of interests of the state, employers, educational institutions and students.

– **It is obvious that such changes in the state economic policy require, as it is commonly believed, “a due expression of the supreme political will”...**

– Yes, the economic recovery is impossible without consolidated actions of all the members of society; these actions can be provided only by the supreme official of the country, who enjoys the trust of people. The proposed changes are the transformations that should be the concern of the presidential level.