

# FROM THE CHIEF EDITOR



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## What does the coming day hold for the country?

Delivering his Address to the RF Federal Assembly in December 2012, V.V. Putin, who was elected to a third term as President, noted the following: **“The authorities must not be an isolated caste. This is the only way to build a strong moral foundation for creative work, an affirmation of order and freedom, morality and civic solidarity, justice and truth, and nationally oriented consciousness”**<sup>1</sup>. The President pointed out that the fulfillment of the goals set out in the Decrees as of May 7, 2012 is in its essence the programme for providing the decent standard of living, the significant enhancement of Russia’s competitiveness in the world, reduction of threats to its national security.

However, the outgoing year shows that, unfortunately, there was no such spirit in the activities of the RF Government in the implementation of specific measures aimed at “ensuring the country’s dynamic development in all the spheres”.

In his Address to the Federal Assembly on December 12, 2013 V.V. Putin stated: **“A year and a half has passed since the executive orders were issued. You know what I’m seeing? Either things are being done in a way that elicits a negative reaction among the public, or nothing is done at all. Clearly, we will fail to achieve our stated goals with this kind of work”**<sup>2</sup>.

Throughout the year, the Government four times reduced the main forecast indicators that show the development of Russia’s economy (*tab. 1*).

Back in September 2012 the Ministry of Economic Development forecasted for 2013 that Russia’s gross domestic product would increase as compared with the previous year level by 103.7%, in April 2013 – by 102.4%, and in December – by only 101.4%.

<sup>1</sup> Putin V.V. Presidential Address to the Federal Assembly, December 12, 2012. Available at: <http://news.kremlin.ru/transcripts/17118>

<sup>2</sup> Putin V.V. Presidential Address to the Federal Assembly, December 12, 2013. Available at: <http://news.kremlin.ru/transcripts/19825>

Table 1. Forecast of the main macroeconomic indicators of development of the Russian Federation in 2013, as a percentage of those of the previous year (in comparable prices)

| Indicators   | Dates of provision of the forecast |                   |                |                 |                  |
|--|------------------------------------|-------------------|----------------|-----------------|------------------|
|  | September 12, 2012                 | December 14, 2012 | April 12, 2013 | August 26, 2013 | December 4, 2013 |
| GDP  | 103.7                              | 103.6             | 102.4          | 101.8           | 101.4            |
| Industrial production index                            | 103.7                              | 103.7             | 102.0          | 100.7           | 100.1            |
| Investment in fixed capital                            | 107.2                              | 106.5             | 104.6          | 102.5           | 100.2            |
| Inflow (+), outflow (-) of capital, billion US dollars | -10.0                              | -10.0             | -50.0          | -70.0           | -60.0            |

Source: RF Ministry of Economic Development.

December 2013 witnessed the stagnation of investment instead of the previously forecasted 7 percent growth. The December forecast indicated that the planned sharp reduction in the volume of capital exports from the country would not be achieved. Moreover, the index had an upward trend.

The crisis of regional finance has been aggravating. The parameters for 2013, set out in the three-year forecasts of the regions' budgets, are deviating more and more from the projects, which proves the poor quality of budget planning. According to estimates, the territorial budgets' own revenues in 2013 will be reduced by a trillion rubles, or by 13% compared with the three-year budget for the period of 2013–2015, and their deficit will increase in 3.8 times (*tab. 2*).

At that, the decline in the profit of economic entities is the key factor in the reduction of the regions' own budget revenues (*tab. 3*). This is mainly the result of the fact that oligarchic corporations have lobbied for a new order of assessing the tax base through the formation of consolidated groups of taxpayers, which led to a deepening crisis of regional finances.

The Chairman of the Government D.A. Medvedev and senior government officials throughout most of the year explained the situation by external factors, namely, deterioration of the situation in the world market.

In his Address to the Federal Assembly on December 12, 2013, V.V. Putin made a statement of principle: **“Of course we are feeling**

**the effects of the global economic crisis, but let's be frank: the main reasons for the slowdown in our economy are internal rather than external in nature”**<sup>3</sup>.

During the year the President more than ten times publicly reproofed the Government and Federal Ministers for the low level of organizational activity on the implementation of the set goals, the inefficiency of governmental decisions on the support to necessary economic growth<sup>4</sup>.

It appears that V.V. Putin has every reason to move from a regular criticism of D.A. Medvedev's inefficient government to coercive measures and to transfer “slow-witted” cabinet officers to the expert community.

An objective analysis conducted by the institutes of the Russian Academy of Sciences<sup>5</sup>, including ISED T RAS, proves that as a result of neoliberal market reforms Russia has

<sup>3</sup> Ibidem.

<sup>4</sup> See Appendix on page 10.

<sup>5</sup> See the recent works: Glazyev S.Yu., Lokosov V.V. Assessment of the critical threshold values of the indicators of the state of Russian society and their use in the socio-economic development management. Herald of the Russian Academy of Sciences. 2012. Vol. 82. No.7; Glazyev S.Yu., Fetisov G.N. On the strategy of Russia's sustainable development. Ekonomist. 2013. No.1; Russian transformation: 20 years later. Ed. by J. Sapir. Moscow: Magistr, 2013; Assessment of the factors in growth and forecasting of socio-economic development of Russia's regions. Ed. by RAS Academician A.I. Tatarin, RAS Academician P.A. Minakir; Russian Academy of Sciences, Ural Branch, Institute of Economics; Far-Eastern Branch, Economic Research Institute. Yekaterinburg: IE UB RAS, 2012; Osipov G.V., Kara-Murza S.G. Knowledge society: transition to innovation development of Russia. Moscow: Librokom, 2013; Russia on the way to the modern, dynamic and efficient economy. Ed. by Academicians A.D. Nekipelov, V.V. Ivanter, S.Yu. Glazyev. Moscow: Russian Academy of Sciences, 2013.

Table 2. The main forecast parameters of consolidated budgets of the RF subjects for 2013, billion rubles

| Parameters   | Budget forecast by draft laws for a three-year period |           |           | 2013, assessment of expected parameters | Dynamics of assessment for 2013 in comparison with the projects |        |                |           |
|--------------|---|-----------|-----------|---|---|--------|----------------|-----------|
|              | 2011–2013   | 2012–2014 | 2013–2015 |   | 2011–2013   |        | 2013–2015      |           |
|              |   |           |           |   | billion rubles  | %      | billion rubles | %         |
| Revenues     | 7338  | 8134.3    | 9062      | 8909                                    | 871   | 11.9   | -853           | -9.4      |
| Own revenues | 6374  | 7047      | 7765      | 6767                                    | 393   | 6.2    | -998           | -12.9     |
| Deficit      | -136  | -36.7     | -121      | -460                                    | 324   | 3.4 p. | 339            | 3.8 times |

Sources: RF Ministry of Finance; ISEDТ RAS calculations.

Table 3. Key indicators of the budget process in the regions of the Russian Federation, billion rubles

| Indicators                | 10 months of 2012 | 10 months of 2013 | Dynamics, % |
|---------------------------|-------------------|-------------------|-------------|
| Profit                    | 6965.7            | 6324.9            | 90.8        |
| Profit tax                | 1709.8            | 1457.5            | 85.2        |
| Public and municipal debt | 1364.3            | 1717.5            | 125.9       |
| Debt load, %              | 25.8              | 31.7              | 5.9 p.p.    |

Sources: RF Ministry of Finance; Federal Treasury; ISEDТ RAS calculations.

developed a socio-economic system of a mixed oligarchic type, the main manifestations of which are the following:

- establishment of elitist oligarchic corporatism (as a result of unreasoned policy of privatization), which owns a significant part of state property and distributes its influence on the policies of the legislative and executive authorities;

- predominance of the bureaucratic system that solves pressing issues through continuous introduction of amendments in the current socio-economic system; moreover, these changes, are not connected, as a rule, with qualitative updating of this system;

- slackening of the state's control functions, primarily in the sphere of compliance with tax regulations and obligations, expansion of the scale of lobbying activity not regulated by the legislation and not accountable to the society.

Large-scale private ownership of strategically important economic sectors and natural resources does not allow the controllability of the economy to be ensured and the financial and economic resources to be allocated appropriately.

In the previous issues of our journal we published the main research findings of ISEDТ RAS according to the results of the analysis of activity of Russia's leading ferrous metallurgy corporations<sup>6</sup>. Due to the fact that their products were exported by offshore traders at prices that were by 20–30% lower than the global ones, the approximate lost revenue for 2008–2011 amounted to 367 billion rubles. Profit tax from this sum could have added 11 billion rubles to the federal budget, and 66 billion rubles to the territorial budgets. Two-thirds of taxes paid by metallurgical corporations are returned in the metallurgical sector in the form of compensation of input VAT on export operations. All this is continuously depleting the federal budget and, especially, regional budgets, increasing their debt load<sup>7</sup>.

<sup>6</sup> See: Ilyin V.A. Page unturned. Economic and social changes: facts, trends, forecast. 2013. No.1; Povarova A.I. Regional budget for 2013 – 2015: stability or survival? Ibidem; Ilyin V.A. National and regional security: a view from the region. Ibidem. No.3; Ilyin V.A. New agenda and state management efficiency. Ibidem. No.5.

<sup>7</sup> For details see: Ilyin V.A., Povarova A.I. Issues of state management efficiency. Budget crisis in the regions: monograph. Vologda: ISEDТ RAS, 2013.

Table 4. How would you assess the current performance of the RF President?, as a percentage of the number of respondents

| Assessment       | 2000 | 2003 | 2004 | 2007 | 2011 | 2012 | 2013 | Dynamics (+/-),<br>2013 in comparison with |      |      |      |      |
|------------------|------|------|------|------|------|------|------|--|------|------|------|------|
|                  |      |      |      |      |      |      |      | 2012                                       | 2011 | 2007 | 2004 | 2000 |
| I approve        | 66.0 | 67.6 | 64.9 | 75.3 | 58.7 | 51.7 | 55.3 | +4   | -3   | -20  | -10  | -11  |
| I do not approve | 14.8 | 13.7 | 19.2 | 11.5 | 25.6 | 32.6 | 29.4 | -3   | +4   | +18  | +10  | +15  |

Table 5. Assessment of the performance of the RF President by various social groups of the Vologda Oblast population (answer option "I completely and generally approve"), as a percentage of the number of respondents

| Social groups                              | Year |      |      |      |      |      |      | Increment/decrease in 2013 in comparison with |      |       |       |       |
|--|------|------|------|------|------|------|------|---|------|-------|-------|-------|
|  | 2000 | 2003 | 2004 | 2007 | 2011 | 2012 | 2013 | 2012  | 2011 | 2007  | 2004  | 2000  |
| <i>Sex</i>                                 |      |      |      |      |      |      |      |   |      |       |       |       |
| Men  | 66.0 | 66.1 | 66.2 | 73.6 | 55.6 | 48.9 | 52.4 | 3.5   | -3.2 | -21.2 | -13.8 | -13.6 |
| Women                                      | 66.0 | 68.7 | 63.9 | 76.7 | 61.2 | 53.9 | 57.7 | 3.8   | -3.5 | -19.0 | -6.2  | -8.3  |
| <i>Age</i>                                 |      |      |      |      |      |      |      |   |      |       |       |       |
| Under 30                                   | 66.2 | 71.2 | 69.0 | 76.6 | 58.3 | 49.7 | 52.9 | 3.2   | -5.4 | -23.7 | -16.1 | -13.3 |
| 30–55                                      | 66.4 | 66.5 | 64.4 | 75.1 | 57.6 | 50.9 | 55.4 | 4.5   | -2.2 | -19.7 | -9.0  | -11.0 |
| Over 55                                    | 65.1 | 65.9 | 61.9 | 74.6 | 60.7 | 54.6 | 57.1 | 2.5   | -3.6 | -17.5 | -4.8  | -8.0  |
| <i>Education</i>                           |      |      |      |      |      |      |      |   |      |       |       |       |
| Secondary and incomplete secondary         | 64.0 | 62.7 | 62.7 | 70.3 | 54.9 | 46.0 | 51.4 | 5.4   | -3.5 | -18.9 | -11.3 | -12.6 |
| Secondary vocational                       | 67.7 | 68.5 | 66.5 | 76.4 | 59.8 | 51.8 | 55.8 | 4.0   | -4.0 | -20.6 | -10.7 | -11.9 |
| Higher and incomplete higher               | 67.6 | 71.8 | 65.8 | 80.1 | 61.3 | 56.6 | 59.1 | 2.5   | -2.2 | -21.0 | -6.7  | -8.5  |
| <i>Income groups</i>                       |      |      |      |      |      |      |      |   |      |       |       |       |
| 20% of the poorest people                  | 56.4 | 57.1 | 56.9 | 65.1 | 45.7 | 40.9 | 49.6 | 8.7   | 3.9  | -15.5 | -7.3  | -6.8  |
| 60% of the people with middle-sized income | 68.9 | 70.7 | 67.7 | 78.0 | 60.4 | 53.8 | 56.1 | 2.3   | -4.3 | -21.9 | -11.6 | -12.8 |
| 20% of the most prosperous people          | 69.3 | 74.7 | 73.1 | 82.6 | 68.9 | 59.4 | 63.6 | 4.2   | -5.3 | -19.0 | -9.5  | -5.7  |
| <i>Territories</i>                         |      |      |      |      |      |      |      |   |      |       |       |       |
| Vologda                                    | 66.7 | 74.4 | 62.1 | 74.1 | 58.3 | 51.6 | 53.2 | 1.6   | -5.1 | -20.9 | -8.9  | -13.5 |
| Cherepovets                                | 62.2 | 64.4 | 64.0 | 82.8 | 68.5 | 62.3 | 63.7 | 1.4   | -4.8 | -19.1 | -0.3  | 1.5   |
| Districts                                  | 67.7 | 66.1 | 66.7 | 72.2 | 53.9 | 46.3 | 51.9 | 5.6   | -2.0 | -20.3 | -14.8 | -15.8 |
| Oblast                                     | 66.0 | 67.6 | 64.9 | 75.3 | 58.7 | 51.7 | 55.3 | 3.6   | -3.4 | -20.0 | -9.6  | -10.7 |

In this regard, it is very important that part of the Presidential Address was devoted to counteracting the offshores. Putin proposed three new initiatives. The revenues of companies, registered in an offshore jurisdiction and owned by the Russians, ultimate beneficiaries, should be subject to Russian tax regulations.

Companies registered abroad, should be deprived of state support measures, VEB loans and state guarantees, they should also be denied access to the execution of public contracts and contracts between the structures and the state.

The President focused on the importance of civic participation in the life of the country,

the enhancement of public control. He showed that he felt the increased level of requirements of the society to the state and its leadership.

In many respects the 2013 Presidential Address is the logical continuation of his September speech at the Valdai International Club, when the Head of State clearly declared that moral values should prevail at all levels of executive and legislative power, for all levels of business, officials, public employees.

V.V. Putin's desire to improve the moral situation in the country, to strengthen the control of civil society over the activities of authorities at all levels finds growing support in the country.

The research carried out at ISEDT RAS shows that according to the results of six consecutive surveys conducted in 2013 in the Vologda Oblast, the indicators of approval of the President's performance increased in comparison with the results of 2012 from 3–5 points (*tab. 4*). Moreover, positive assessments are observed virtually in all social groups (*tab. 5*).

However, it is noteworthy that more than half of the respondents (57%) do not consider that the President's activity aimed at boosting the economy and wellbeing is successful (*see table on p. 16*). This assessment is largely formed due to uncoordinated actions of the RF Government. Under the influence of oligarchic corporations, it organizes the work like a circular firing squad. It is this style that has led the dynamics of the national economy development to the recession.

In our opinion, the President should not only remind the political elite of the necessity to execute the formal decisions; he should also force it to do so, and eliminate the “quasi-colonial part of the elite”.

2014 should not become the year of missed opportunities for the RF President V.V. Putin with regard to the implementation of strategically important state tasks on modernization of the country, set out in the pre-election articles and stipulated by the Decrees dated May 7, 2012.

Concise list of essential activities and critical statements of Russia's President V.V. Putin  
with regard to the performance of the RF Government and government structures

| Date, event   | Content  |
|---|--|
| September 19, 2012,<br>Decree of the RF President (following the results of the meeting on the draft budget for 2013–2015)  | Disciplinary measures in the form of a reprimand were taken against Education and Science Minister D. Livanov, Regional Development Minister O. Govorun, and Labour and Social Protection Minister M. Topilin.   |
| January 31, 2013,<br>Extended Session of the RF Government  | V.V. Putin noted the deterioration in economic performance and the absence of a coherent strategy for the development of the country's economy.  |
| February 4, 2013, Sochi,<br>Meeting on improving the quality of housing and utilities services  | V.V. Putin: "What this sector needs are not pinpoint decisions of the moment that only serve to patch up the holes, but long-term systemic decisions aimed at providing people with high-quality housing and utilities services at clear and affordable prices. We keep talking about improving quality but little actually changes".  |
| April 16, 2013,<br>Meeting in Elista (Kalmykia) on the issues of resettling residents of dilapidated housing  | V.V. Putin: "Regional programmes for the resettlement of people from dilapidated housing designed for the next three years should have been approved by the regions by now. The deadline had been set for April 15, 2013. However, only three regions have approved such programmes so far... Why only three regions have approved their programmes? What is the date today? The 16th? Where are your programmes?"<br>(off the air)<br>V.V. Putin: "How do we work? The quality of the work is pathetic, everything is done superficially. If we continue this way, we won't do a thing! But if we work persistently and competently, we will make it. Let's raise the quality of our work. It ought to be done! If we don't do it, it will have to be admitted that it is either me working inefficiently or it is you failing to do your job properly. Take notice that, judging by the current situation, I, personally, lean toward the latter. I think it's clear. No one should have any illusions". |
| June 7, 2013,<br>Meeting with members of the RF Government on the implementation of the Presidential Decrees dated May 7, 2012  | V.V. Putin: "Implementing these orders is a top priority for all of our work, for the Government and all the ministries, and for the authorities at every level. The imperative is to produce real results and work not for the sake of reports and documents, but in the interests of our people". "I can see that the ministries, agencies, and the Government Staff have put in a lot of thorough work, [but]... the content and quality of these documents still does not meet the required standards".  |
| June 10, 2013,<br>Meeting with national security agencies, defence and law enforcement agencies on the plans of their activities to achieve Russia's socio-economic development targets   | V.V. Putin: "What I have seen in your plans... partly... disappoints me". V.V. Putin pointed out the need for more brief ("we don't need big documents") and specific plans.   |
| November 14, 2013,<br>Meeting of the Agency for Strategic Initiatives (ASI)<br>Reply to the question of the President of the Chamber of Commerce and Industry of the Russian Federation S. Katyrin on giving the MVD the right to initiate criminal proceedings for alleged tax crimes. At that, Mr. Katyrin noted that some government officials have already spoken out against this measure. | V.V. Putin: "I have just come back from Korea and Vietnam, so I am only now looking at who said what on this topic; I will talk with my colleagues and we will figure things out, but this issue can be resolved very simply. I will be obligated to remind them that there are certain practices in resolving such matters before going to the media. As we know, if somebody does not agree with something, as Mr. Kudrin did – he crossed over into the expert community..."<br>We have a long-standing practice to discuss all issues together, either within the Government or the Presidential Executive Office, doing this jointly and fairly democratically... When making such decisions, we must make balanced choices that would ensure the interests of all groups in society: the business community and the rest of the public. This is highly important in order for everyone to understand that these decisions are balanced and fair".  |
| December 4, 2013,<br>Novo-Ogaryovo, Moscow Oblast,<br>Meeting of the Economic Council   | V.V. Putin: "Judging by the quality of administrative procedures in the construction sector, we are still at the bottom end of global rankings. Due to the lack of clear decisions we are not receiving millions of square metres of housing".   |
| December 12, 2013,<br>Annual Address of the RF President V.V. Putin to the Federal Assembly   | V.V. Putin: "The May 2012 executive orders contain specific measures designed to ensure the country's dynamic development in all fields. In fact, the orders amounted to a unified action programme, reflecting the will of millions of people, the desire of all Russian people for a better life. Sometimes we hear that there are insufficient funds to realise all stated plans and goals, that we need to lower our standards and simplify our tasks".<br>I think that it is impossible to elaborate policies following a formal approach... economic trends may and do change. But that is no reason to talk about revising our goals. We need to do real work, seek solutions, and clearly lay out budgetary and other priorities. I would ask you to update all state programmes accordingly".   |