

DEVELOPMENT STRATEGY

Minakir P.A.

On the key tasks of Russia's economic development (following the Address of the RF President to the Federal Assembly)*



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The RF President delivered another Address to the Federal Assembly. As always, it concerned the whole range of issues and trends in the social life. The situation in the country and in the world is extremely complex, and therefore the Address should not be an ordinary political action. It would be logical to expect if not revelations, but at least adequateness in diagnosis, if not univocacy but at least clarity in methods of prevention and treatment. How have the expectations been met? Let us focus only on two cases.

The first case – economic growth called by the President himself “the core of our (obviously of the Government and the Presidential Administration?) work» and a basic prerequisite for solving problems of social development.

Good news is the fact that the President pointed to the internal causes of the growth rate reduction or even the beginning of large-scale economic stagnation if we call things by

their proper names. The bad news is the interpretation of “the internal causes”, given in the Address. Actually, two such causes are singled out: 1) low labor productivity, 2) excessively high share of commodity export. Hence, all the other reasons are already not significant, at least for the government and the President.

Well, perhaps, the public and independent experts have not noticed or have not appreciated the fact that in Russia corruption is defeated, administrative barriers are removed, effective competition is provided, control over state corporations is established, state regulation of monopolists' activity (natural or unnatural) is imposed, sound monetary policy is implemented, control over external debt (government and corporate) is introduced, the “fiscal rule” is substituted for the rule of optimization of “unprotected” budget expenditures, external capital flows are optimized, the problem of unspent funds at the regional

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and municipal levels is solved and the threat of subnational defaults is eliminated, the proprietary rights are guaranteed, sound industrial policy is implemented, etc. It is possible, but unlikely. More likely, all the stated above is such a huge undertaking, that it would be better to adhere to general and, therefore, very logical and correct slogans.

However, the increase in labor productivity is a critical issue. Labor productivity should be understood as the ratio of GDP to the number of the employed in the economy. It is just the indicator of work quality, production processes management, the state of a technical structure of the capital, the technology level, etc. The low level of labor productivity shows that the level of management and technology in the entire chain of economic relations and for all economic agents is extremely low.

In fact, the problem of the indicator of the direct labor effectiveness is even more acute than it was reflected in the Address. The President has been provided with data according to which Russia is one of the “five largest economies in the world”. This is true, if you judge by data provided by international institutions for 2012. However, Russia belongs to this group only according to the World Bank, and according to the IMF and CIA it takes sixth place, but it is still very good, although the GDP estimates differ almost by 800 billion US dollars¹. But it should be taken into consideration that this is data, obtained by comparing GDP levels, measured by purchasing power parity. And if we compare estimates of nominal GDP, and also those of per capita, that characterize the level of economic development, we see that Russia takes a modest 50th place between Lithuania and Latvia. Obviously, if we had at least two-fold increase in nominal GDP per an employee, then Russia would reach Spain and Israel in the rating (30th–32rd place)².

¹ *List of countries by GDP (PPP)*. Available at: ru.wikipedia.org/wiki/ (accessed December 15, 2013).

² *List of countries by GDP (nominal) per capita*. Available at: ru.wikipedia.org/wiki/ (accessed December 15, 2013).

How can we achieve this bright future? The President proposed the recipe of four ingredients: enhancement of professional education quality, creation of a flexible labor market, a favorable investment climate, modern technologies. There is nothing strange and new. There are nuances. And they are amazing.

The basis for boosting direct labor productivity is the increase in its technical and technological capabilities. And this cannot be achieved without constant introduction of new technical and technological solutions. No wonder, the President starts with urging the government and (now that is a surprise) the Academy of Sciences to “correct perspective directions of science and technology development” taking into account the fact that the Academy of Sciences has just been, if not destroyed formally, but demonstratively humiliated.

The Academy of Sciences practically lost the right to determine the trends and prospects of scientific and technological search, and in a two-month period after that the Academy had to determine the path of technological upgrade. Maybe, it has been done by habit. Maybe, one tries to find a future convict for a very probable failure of the project “labor productivity breakthrough”. That would be logical, because the government’s responsibility for the economic breakdown as well as the absence of the convict (as in the case of the “GDP breakthrough failure”) are out of the question.

Another nuance is applied research, a key point in practical innovation. But nothing was mentioned about the key link in applied research – corporate development, centers, laboratories, that was previously called as “sectoral science”. Substitution of the problem of R&D management and its relations with fundamental research by the problem of patents/licenses and related revenues does not advance the desired technological upgrade. The country can produce a lot of patents/licenses, but they will be used only if there is demand on the likely results of their use. In fact

it is necessary to “form” domestic demand for high technologies. But why do we need only high technologies? Aren't we just satisfied with technologies, we got used to having, or don't we have problems with them?

But let us assume that in some miraculous way under conditions of the started collapse of fundamental science, lethargy of applied research, domestic business' reluctance to implement the modernization strategy, which requires higher accumulation rates in the absence of available credit sources, Russia increases the number of patents and licenses significantly. What will happen to productivity? Most likely, nothing will. As the increase in the revenues share, got from patents and licenses, in the GDP value only means a change in the GDP structure, and only in case if domestic patents and licenses are required by the market, competitive in internal and external markets. Another reason is that it is impossible to base a national economy only on its own patents; the real problem is management of effective and continuous technological borrowing. But it requires changes in motivation in the economy, in accumulation policy, in a number of institutions, and not only “development institutions”.

The second case is connected with strategic objectives of economic development. The task of “Siberia and the Far East development” is an example of such goals, provided in the Address. It is called a rational project of the 21st century. One cannot but agree that “the tasks to solve are unprecedented in scale ...and our steps should be original”. Hence, there are two issues, not clearly reflected in the Address.

First, there remains great uncertainty for the tasks to solve. What are these task about? There are theories, but there is no clarity. This can be the task of accelerating GDP growth rate in the Far East and Siberia. This can be the task of boosting foreign trade turnover with the Eastern neighbors. This can be the task of creating “open economy”. This can be

the task of forming a new industry, the tasks of changing an economic structure. This can be the task of creating a comfortable living environment. And this list can be continued. Clear and unambiguous definition of the objectives is known to determine the way of its solution, and the likely outcome. However, clarity and certainty are still in deficit.

Secondly, there still remains some uncertainty with “original steps”. As follows from the text of the Address, non-standard solutions mean the creation of a network of “special territories of advanced economic development with special conditions for establishment of non-extracting industries focused on export”. It already looks very much like the concept for new industrialization in its versions “the model of export and production curves”, projects “TOR-2030” and “TOR-2050”³. The difference lies in the fact that the projects envisage specialization in these zones on the use of technological monopolies, including, and even primarily, in the processing of raw materials intended for export and in export-oriented new production. The Address does not make such emphasis; i.e. it is implied that the provision of tax incentives and the promise to create conditions for doing business, competitive with key business centers of the Asia-Pacific, are sufficient arguments for shifting the focus of domestic and foreign investment to Eastern Siberia and the Far East. This implicitly assumes that the state is ready to take on the costs of compensating for not just increased production costs, but also such “invisible” articles like losses from low scale, high capi-

³ See for example: *Sintez nauchno-tekhnicheskikh i ekonomicheskikh prognozov: Tikhookeanskaya Rossiya – 2050* [Synthesis of Scientific-Technological and Economic Forecasts: Pacific Russia – 2050]. Vladivostok: Dal'nauka, 2011. 912 p.; *Tikhookeanskaya Rossiya – 2030: stsennarnee prognozirovaniye regional'nogo razvitiya* [Pacific Russia – 2030: Scenario Planning for Regional Development]. Khabarovsk: DVO RAN, 2010. 560 p.; Minakir P.A. *Ekonomika regionov. Dal'niy Vostok* [Economy of the Regions. The Far East]. Moscow: Ekonomika, 2006. 848 p.

tal intensity, enhancement of competition. If so, one should have a clear understanding of the purpose of all this, for what economic or military-political result it is done.

But even if all of this has been studied and explained, these steps can hardly be called “original”. In fact, they are very standard actions, which should consider the main thing – they will bring success only when the key comparative advantages of these “zones” are specified. Such advantages can be found in technological leadership, the abundant and cheap resources and/or production factors,

the scale of the market, preferential system of institutions. Tax benefits can and should facilitate the decision making that concerns the use of these advantages in a particular place.

It is possible that the limits of the Address did not allow the President to develop the declared intentions on these two subjects, and it will be done later. It can be worse, if these brief and sketchy intentions once again rely on the notorious “invisible hand of the market”, which will put everything in order. Then we would have to deal with these issues at the level of abstract ideas and intentions.