

The future of Russia as seen by the Ministry for Economic Development

A summary of the roundtable discussion of the Concept of Long-Term Socio-Economic Development of the Russian Federation

Russian authorities push long-term economy development plans as the world's financial markets decline and the US economy fundamentals collapse.

The Ministry for Economic Development presented their vision of Russia's future prospects stated in the Concept of Long-Term Socio-Economic Development of the Russian Federation until 2020 at the moment when uncertainty of forecasts, even those near-term, has increased greatly. The Concept raised many disturbing questions in the scientific community; these were the focus of attention of the roundtable discussion organized by the Russian public association Business Russia and Association of Russian Economic Think Tanks (ARETT). O. Fomichev, the head of the strategic management and budgeting department of the Ministry for Economic Development, participated.

The Concept explores three scenarios for Russia's economy development including inertial, energy and raw product-related and innovative ones. It is clear from the scenario names what they are based on. Target parameters set in the energy and raw products-based and innovative scenarios do not differ much. This significantly complicates choice between the two that set similar quantitative goals but are different in terms of required efforts. We will not discuss in detail the document (the full text of the Concept and Appendix thereto is available at the Ministry for Economic Development website), but only give an overview of some moot and doubtful points in it.

The main drawback of the document is that it provides no set of measures aimed at reaching the goals stated in the Concept. Not providing a clear picture of mechanisms for fulfilling the outlined tasks, this concept can turn Utopian. Urging to 'improve', 'heighten' and 'accelerate' things, the document gives little help in solving practical problems Russia is currently facing - such as infrastructure development, growth of labor productivity and introduction of new technology. Mr. Fomichev assured the roundtable discussion participants that a plan of action is being worked out. Yet it is doubtful that a comprehensive program of expedient measures will be created.

Another weak point of the document under discussion is the quality of long-term forecasts. In the past years, Russia has faced a practice of revising annual inflation rates, so making predictions for 10 to 15 years ahead resembles fortune telling rather than accurate forecasting. Also, this document provides an inflexible development plan in which fast-changing external conditions (such as possible shocks) are not taken into account. These shortcomings are due to absence of an economic model to reflect interrelations between the factors. This is also the cause of imbalance in growth outlook in some sectors of the economy.

Yet another weak point of the Concept is improper goal setting. Experts believe that occupying a leading position on the international arena cannot be a strategic goal. The document focuses on the heavy engineering and defense industries, while small and medium sized business is given minor attention. (It all resembles the USSR State Plan that used to set tough output targets and primarily concerned heavy engineering.) But there must be understanding that in the developed countries SME's play a key role in contributing to a nation's well-being.

The regional development section of the Concept has been largely criticized, too. The document gives no answer to the question of natural resources distribution between donor and recipient regions. The state has not made its choice between robust economic growth entailing increasing difference in living standards in the regions and economic decline accompanied by smoothing of unevenly distributed wealth.

Finally, let us point out the problems that the Ministry for Economic Development will likely face after it passes the document. First and foremost, the Ministry representatives do not deny that this draft long-term development Concept does not comply with other key documents, namely the budget strategy developed by the Finance Ministry and the credit policy of the Bank of Russia. At this stage, the Ministry for Economic Development believe that budget policy should be adjusted for goals and tasks set in the Concept, not visa versa. It is not yet clear if the above-mentioned institutions will follow the guidelines suggested by the Ministry for Economic Development. If not, the Ministry will be forced to reconsider their own predictions.

Secondly, despite that the Concept will be soon finalized, issues related to future tax policies and a pensions' reform remain unsettled. This is surprising, all the more so because these issues, vital for Russia, are interconnected and because future dynamics of macroeconomic indices (under the Concept, fund allocation among other sectors depends on which retirement plan will be chosen) depend on what decision the state will take.

The fact that the Ministry for Economic Development managed to make a long-term forecast without considering the pension and tax reforms arouses perplexity rather than excitement. At the same time, the Ministry for Economic Development and the Finance Ministry have failed to arrive at any agreement regarding VAT reduction. It looks like neither party is going to compromise.

In the end, we would like to emphasize that the experts agreed on the point that the state's strategic goal should be stable growth of the nation's well-being and, consequently, an economic boom rather than reaching a leading position internationally in terms of all sorts of indicators. Top positions may be only occupied provided Russia has favorable business environment. Obviously, the roundtable discussion participants' suggestions and notes on the Concept will be not entered in the document. But it is very important that the government and scientific community openly cooperate in the field of planning the country's future; this is one of the main achievements of the Concept for Long-Term Socio-Economic Development of the Russian Federation.

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