

# FROM THE CHIEF EDITOR

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## Alarming trends

The results of public opinion polls carried out in the Vologda Oblast in February 2015 show significant changes in some indicators (parameters) of social well-being of the population, in comparison with December 2014:

- the proportion of individuals with good mood has decreased from 70.9 to 61.8% (by 9 p.p.);
- the proportion of those who believe that “everything is not so bad; it’s difficult to live, but it’s possible to stand it” has decreased from 80 to 74.3% (by 6 p.p.);
- consumer sentiment index has declined from 82.3 to 75.7 p. (by 6 p.).

An explanation for these disturbing facts can be probably found in the uncertainty of actions in 2014 on the part of political structures, the State Duma, and the Federation Council with regard to actual measures undertaken to curb negative trends in socio-economic development according to almost all the indicators<sup>1</sup>.

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The editorial, which opened the first issue of the Journal in 2014, expresses the viewpoint that the meeting of the RF President Vladimir Putin with the authors of the report “Russia on the way to a modern, dynamic and efficient economy”<sup>2</sup> prepared by the Russian Academy of Sciences, which took place February 19, 2014, has significant positive prospects. Speaking at the opening of the meeting, the President said: “That is precisely why we have agreed to meet today, to hear your opinions. I will ask my colleagues from the Cabinet and the Presidential Executive Office to express their ideas as well, to work together on seeking concrete measures to promote economic growth. We believe we can resolve the challenge of faster growth in the economic and social spheres

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<sup>1</sup> Details are given in the section “Public opinion monitoring of the state of the Russian society”, pp. 16-29.

<sup>2</sup> See: Ilyin V.A. Faktor vremeni [Time Factor]. *Ekonomicheskie i sotsial'nye peremeny: fakty, tendentsii, prognoz* [Economic and Social Changes: Facts, Trends, Forecast], 2014, no. 1, pp. 9-12.

only by resolving this most important, capital, fundamental challenge.... **We will need to develop and present a coherent policy on mobilising all available resources for accelerated growth**” (*emphasis added*)<sup>3</sup>.

Last year the Russian Federation had to cope with serious challenges. The reunion of the Crimea and Sevastopol with Russia became a historic event. Russia has proven that it can protect its fellow countrymen, and defend truth and justice. The Eurasian Economic Union launched a full-fledged work. Economic relations with China reached a new level. The large-scale national program for the comprehensive reconstruction of the transport system in the city of Sochi was implemented; a modern sports complex to host the winter Olympics was constructed, and the Winter Olympic Games were successfully held.

An important step in strengthening national security was undertaken in December 2014, when the military doctrine signed by the President on December 26, 2014 was adopted.

According to one of the leading experts, the military doctrine reflects the transitional condition of Russia as it is shifting from a state controlled by the West to an independent state, at least in its political sphere<sup>4</sup>.

However, it should be noted that “for the entire year of 2014 no sound policy has been developed and declared, which would seek to mobilize all available resources for accelerated growth”<sup>5</sup>; as a result, there has been a significant slowdown the country’s economic development.

Academician V.V. Ivanter, an author of the above research report “Russia on the way to a modern, dynamic and efficient economy”, points out: “The unsatisfactory economic performance in 2014 can be explained by the continuing declining trend of 2012–2013 and the mismatch between individual elements of economic policy, the delay in the response of economic authorities to the growing risks and, most importantly, the inadequacy of the tools used by domestic economic policy in general and specific socio-economic conditions in Russia.

The use of inflation targeting and the floating exchange rate of the ruble to stimulate the economy, the desire to achieve a balanced budget by reducing expenditures on economy in order to establish macro-economic stability and reduce investment, primarily in the real sector of the economy in 2012–2013 led to the results that turned out to be quite opposite to what had been expected”<sup>6</sup>.

<sup>3</sup> The meeting with economists of the Russian Academy of Sciences. *Official Website of the President of Russia*. Available at: <http://www.kremlin.ru/news/2029/>

<sup>4</sup> Colonel-General L. Ivashov in his article writes: “So far, Russia has not possessed a single public document, which would adequately reflect the complete range of problems associated with the change of the place and role of the country in the 21st century” (Ivashov L. *Ugrozy nazvani* [Threats Have Been Named]. *Zavtra* [Tomorrow], 2015, no. 2, January). He describes in detail the list of tasks which the doctrine addresses, analyzing the global political and military situation and revealing military dangers that threaten the Russian Federation.

<sup>5</sup> The meeting with economists of the Russian Academy of Sciences. *Official Website of the President of Russia*. Available at: <http://www.kremlin.ru/news/2029/>

<sup>6</sup> Ivanter V.V. *Konstruktivnyi prognoz razvitiya ekonomiki Rossii. Osnovnye stsennarii do kontsa 2015 g.* [Constructive Forecast of Development of Russia’s Economy. Main Scenarios until the End of 2015]. Russian Academy of Sciences. Institute of Economic Forecasting, 2015.

At the end of 2014 the situation became even worse because of the downfall of the ruble; as a result, all the economic entities have lost confidence in the national currency. The negative impact of these internal economic factors was aggravated by adverse foreign economic conditions, first of all, the decline in oil prices and the introduction of sectoral sanctions by Western countries in the second half of 2014.

However, despite the increasing number of critical problems hindering Russia's economic growth, the Government has not undertaken any decisive and timely actions to resolve or mitigate the existing aggravating issues. Until recently, the Government has assessed the ongoing events as a financial crisis, which will last as long as oil prices remain low, and one should just wait till this crisis is over.

The Gaidar Forum, which opened the new 2015, has reflected this viewpoint very clearly in the speeches of the most famous Russian liberals, who participated in the event. But the viewpoint, which is supported by a number of scientists and which runs contrary to that of the Government, was not voiced at the Forum<sup>7</sup>. It is quite remarkable that the entire economic "top management", including Prime Minister D. A. Medvedev, delivered their speeches at the Forum. Chairman of the Government commended the liberal model of Russia's economy. He said: "I think it is right that the 2015 budget was formed on the basis of

the same scheme of distribution of surplus revenues from oil export. In all likelihood, we should adhere to this rule in the future as well".

Minister of Economic Development A. Ulyukaev also expressed his attitude toward the growing public anxiety concerning the state of the Russian economy. He said: "The most important thing in a crisis situation is to maintain peace of mind, to have a caring family and support of your relatives, and, most of all, to think about your own health and the health of those you love"<sup>8</sup>. The Minister's words can be understood in the following way: it is not up to you to worry about the dynamics of economic development in the country, you had better think about yourselves. We think this is a clear manifestation of snobbery.

We agree with a shrewd remark of a well-known economic publicist and expert Aleksandr Privalov, who commented on the speeches delivered at the Forum: "We have been listening to similar universal resolutions on any matters of economic policy for a long time... **The same people have been talking about the bad investment climate in the same words heaven knows how many years. If they had been able to improve anything at all, they would have done that long before** (*emphasis added*). The speeches on combating inflation are especially lovely when they are delivered by those who have just made a significant contribution to its increase"<sup>9</sup>.

<sup>7</sup> See publications by S.Yu. Glazyev, O.G. Dmitrieva, E.M. Primakov, A.A. Dynkin, S.S. Gubanov, A.D. Nekipelov, R.S. Grinberg.

<sup>8</sup> Cit. ex.: Gaidar Forum 2015 "Russia and the World: New Dimensions". Available at: <http://www.gaidarforum.ru/news>

<sup>9</sup> Privalov A. O polykhaevskom forume [About the Polykhaev Forum]. *Ekspert* [Expert], 2015, no. 6, February 3.

It is only at the end of January 2015 that the Government developed and published an anti-crisis program. It is called “the Plan of priority measures to ensure sustainable economic development and social stability in 2015”.

The Plan has 60 items, but so far only 20 of them contain quantitative characteristics, i.e. the amount of state support is specified only for one third of the events. The amounts of support for a significant part of the activities will be established when regular changes are introduced to the federal budget in late February – early March. And then it is still unknown how much time will be required to bring budget funds to recipients.

At the same time, the measures to support the banking sector are being implemented very quickly. According to the Plan, a trillion rubles has already been allocated to the additional capitalization of credit institutions in 2014 (in the framework of budget execution). Additional inflows into banks will reach 550 billion rubles. If we add up the amount of support provided to the banking system, it will be 85% of the entire plan.

According to Doctor of Economics, RF State Duma Deputy O. Dmitrieva and her supporters in the “Just Russia” party, this measure will not produce the desired effect. In their opinion, it has nothing to do with the fact that the large-scale support of banks during the global crisis of 2008–2009 had little effect.

The point is that such “treatment” is logical to implement only in the countries, whose financial institutions are malfunctioning,

and it is totally unsuitable for Russia, since the main reason for its current economic difficulties lies in the sharp decline in oil prices and in devaluation. When the government policy is sound, the “cheapening” of the ruble can be beneficial, because it provides an opportunity to boost economic growth and import substitution. It is this very factor that Prime Minister E. M. Primakov and Head of the Central Bank V.V. Gerashchenko used in 1998 as a powerful lever to overcome the crisis<sup>10</sup>.

And what is D.V. Medvedev’s government doing? It is trying to pursue a tough credit and fiscal policy, under which the reason for economic recession lies not in devaluation anymore, but in tightening financial screws in conditions of devaluation shock. The Bank of Russia is acting in the same spirit: it raises the key interest rate up to 17% and, in fact, impedes lending to the real sector of the economy. Neither the Central Bank nor the Government have named any deadlines for this “surgical” measure so far.

Academician V.V. Ivanter, Director of the Institute of Economic Forecasting of the Russian Academy of Sciences, gives the clear assessment of the government actions: “Such, I would say, unprofessional management has led to what we are having now. We were pursuing an economic policy that was inadequate. This policy was pursued by financial and monetary authorities as well...We have now proved by experiment that **this policy does not do our economy any good**” (*emphasis added*)<sup>11</sup>.

<sup>10</sup> The extended viewpoint of O.G. Dmitrieva is presented on the website of the newspaper “Moskovsky Komsomolets” under the headline “A brief alternative crisis program – against the government program of “reconciliation” with the crisis”. Available at: <http://www.mk.ru/upload/userfiles>.

<sup>11</sup> February 9, 2015 V. Ivanter gave an interview to V. Pozner on Channel One Russia. The interview is available at: <http://pozneronline.ru/viktorviktorovichivanter/>

According to V.V. Ivanter, the main thing is that now “the trust of the population, banks and even the government is lost. And in a monetary economy it is impossible to live without confidence in the national currency.

Consequently, now the prime task is to restore confidence in the national currency... Everything that the government is doing today must be absolutely clear to the business and population. **It must be clear to the business and to the government when and why they are doing it. And most importantly, it must be clear that what the government is doing will improve the situation; it also must be clear when the situation will improve** (*emphasis added*). Academician Ivanter adds that another serious danger lies in the possibility of suspension of production due to the high level of loan interest rates; therefore, it is necessary “to provide the production with financing at affordable rates”. At the same time, loans should not be “wasted”, they should be directed to the areas that have internal demand for them.

We, on our part, note that doing away with a lingering systemic crisis of regional budgets is one of the measures to overcome the current negative trends in Russia’s economy. The Budget Code of 1998 divided the consolidated budget between the center and the federal subjects fifty-fifty. In practice, this ratio is not complied with; an increasing proportion of budget revenues goes to the federal center<sup>12</sup>.

What does the Government Plan propose to resolve this problem? The problem is formulated in the first paragraph of the Plan, which states that “the increase in the budget allocations to the provision of loans of the budget system of the Russian Federation if the subjects of the Russian Federation implement their regional plans for sustainable economic development and social stability in 2015”. It is expected to allocate up to 160 billion rubles for these purposes. This amount does not even slightly reduce the severity of the current budget crisis in the regions, whose current debt reaches two trillion rubles<sup>13</sup>.

<sup>12</sup> According to the research carried out at ISEDT RAS (see: Povarova A.I. Regional’nye byudzhety – 2014: problemy formirovaniya i realizatsii [Regional budgets of 2014: problems of formation and implementation]. *Problemy razvitiya territorii* [Problems of Territory’s Development], 2015, no. 1), the share of federal budget revenues in 2000 amounted to 15.5% of GDP, the share of the budgets of the RF subjects was 14.5% of GDP. In 2014 the share of the federal budget accounted for 19.4% and the share of revenues of the RF subjects was only 12.1% of gross domestic product.

<sup>13</sup> A number of our articles in various journals propose detailed measures concerning the ways to replenish regional budgets. See, for example: Ilyin V.A. Chastnyi kapital i natsional’nye interesy. Na primere sobstvennikov metallurgicheskikh korporatsii [Private Capital and National Interests. A Case Study of Metallurgical Corporations’ Owners]. *Vestnik Rossiiskoi akademii nauk* [Herald of the Russian Academy of Sciences], 2013, no. 7; Ilyin V.A. Effektivnost’ gosudarstvennogo upravleniya i sostoyanie regional’nykh byudzhetrov [Public Administration Efficiency and the State of Regional Budgets]. *Ekonomist* [The Economist], 2013, no. 12; Ilyin V.A. Chastnye interesy ogranichivayut dokhody byudzheta [Private Interests Constrain Budget Revenues]. *Ekonomicheskaya nauka sovremennoi Rossii* [Economics of Contemporary Russia], 2014, no. 2; Ilyin V.A. Byudzhetniy krizis regionov kak otrazhenie neeffektivnosti gosudarstvennogo upravleniya [Budget Crisis in the Regions as a Reflection of Public Administration Inefficiency]. *Problemy teorii i praktiki upravleniya* [Issues of Management Theory and Practice], 2014, no. 11; Ilyin V.A. Byudzhetniy krizis regionov kak otrazhenie neeffektivnosti otzhivshei modeli ekonomiki [Budget Crisis in the Regions as a Reflection of Inefficiency of the Obsolete Economic Model]. *Ekonomist* [The Economist], 2014, no. 12. In particular, we substantiate that one of the most important measures to replenish budgets is to refuse the refund of value added tax on exported goods; this would make it possible to improve the situation in regional budgets within a year.

Russia has over 22 thousand municipalities, from big cities to small rural settlements.

However, so far, a uniform approach to socio-economic functions is still applied to municipalities of different size. As a result, many municipal authorities, especially in rural settlements, turn out to be almost powerless. Nevertheless, the Anti-Crisis Plan does not address these problems, in fact.

But now, when the work to implement the Anti-Crisis Plan has already been launched, the discipline and responsibility for its implementation are becoming crucially important.

Unfortunately, there is no reason to believe that the Russian Government headed by D. A. Medvedev is able to implement the Plan timely and efficiently and, most importantly, to change the negative vector of economic development to the positive one, which will help raise

the standard of living of the main layers of population and prevent its reduction.

Over the last three years the President has repeatedly expressed sharp criticism concerning various aspects of the Government's performance<sup>14</sup>.

The most recent example that shows the quality of work of D. A. Medvedev's Government can be found in the unforeseen consequences of the decisions about the compensation of commuter railroad transportation companies' revenues from the regional budget. It was well known that most of the regions have no money for these purposes. The Vologda Oblast, for example, owes Russian Railways 142 million rubles, and in recent months the commuter railroad transportation has been gradually cancelled there. The rate of 2 rubles 20 kopecks per kilometer that was in effect in the Oblast in 2014 was raised in early February 2015 to 5 rubles 20 kopecks per kilometer, which is too expensive for

<sup>14</sup> September 19, 2012. The 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 Labor and Social Protection Minister M. Topilin for the non-fulfillment of orders on the presidential decrees.

April 16, 2013. V.V. Putin's speech at the meeting in Elista (Kalmykia) on the issues of resettling residents of dilapidated housing. 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"*.

November 14, 2013. The Meeting of the Agency for Strategic Initiatives Supervisory Board. V.V. Putin: *"...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..."*

December 12, 2013. The annual Presidential Address to the Federal Assembly. *"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"*.

*"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"*.

the local residents. Beginning in January 2015 and onward, Russian Railways cancelled 144 commuter trains in 26 regions; in February – March it proposed to cancel another 139 commuter trains. We can very well understand V.V. Putin's indignation, which he expressed at the meeting with members of the Government on February 4 concerning the speech of Deputy Prime Minister A. Dvorkovich about the cancellation of trains: "Don't we have a Transport Ministry? I thought you were responsible for supervising this sector. What is happening? We understand how serious this is. This isn't just some bus route that got cancelled. Commuter trains in the regions stopped operating. **Are you crazy, or what? Listen, this is not a serious approach to the matter.** After all, this affects thousands of people... Commuter rail service should be restored immediately"<sup>15</sup>.

Unfortunately, it often happens that normal life and security of a big country are placed in jeopardy for the sake of someone's personal and corporate interests.

Probably, it is necessary to reconsider the role of railway transport as a system-

forming factor in the spatial unity of the country. This has already been the subject of previous discussions, and now they have started again. Some very convincing reflections on the role of Russian Railways in preserving the integrity of the country were expressed by E. Kholmogorov in the newspaper "Izvestia"<sup>16</sup> and by T. Voevodina in the newspaper "Zavtra"<sup>17</sup>.

In general, I would like to support the President's remarks "are you crazy" and "this is not a serious approach to the matter" addressed to the Government; but I don't think they are crazy, and I believe they treat the subject seriously; they just set targets differently, they see Russia's future differently. Not like the President of the Russian Federation V.V. Putin sees it.

The President set out his vision of Russia's future in the Decrees of May 7, 2012, and his voters still have trust in their President and believe he will fulfill the stated goals of improving the quality of life of all the segments of the population. However, for the first time last year there emerged certain alarming trends on several indicators of social well-being of the voters.

<sup>15</sup> V.V. Putin's Meeting with Government members, February 04, 2015.

<sup>16</sup> Kholmogorov E. Zheleznye reki [Rivers of Iron]. *Izvestiya* [The News], 2015, no. 20.

<sup>17</sup> Voevodina T. Rynochnyi stopkran [Emergency Brake of the Market]. *Zavtra* [Tomorrow], 2015, no. 6.