

Summary of JIIA Forum Presentation

February 7, 2011

Venue: Japan Institute of International Affairs

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“Contradictions of Russian Modernization”

When examining current conditions in Russia, there are far more questions than answers. First, what is modernization? In my view, modernization is not a goal but rather a transition process from one state to another. Let me describe the background necessitating this transition. Russia's GDP grew last year at a not-insignificant 4%, but it will take too long to catch up to the developed countries at this rate. Consequently, Russia needs an economic base that will serve as a driving force for economic development apart from such resources as petroleum and gas. Russia has an aging society and low levels of medical care and education, making reform an urgent matter in order to secure human resources.

However, Russia's poor investment environment, serious corruption, and problems in its judicial and public security systems have become hindrances to achieving reform. In addition, the national government directly or indirectly controls an excessive 60% of the Russian economy. Genuine competition and private-sector initiative are needed to bring about reform, and the state's role both politically and economically must be re-examined. It is problematic that policy decision makers think that modernization is possible by making additional investments without making fundamental reforms. There has also been from the outset a problem in the pace of change; just as Gorbachev's perestroika led to the collapse of the Soviet Union, there is the risk that overly rapid political reform could lead to chaos.

The elites have not been sufficiently supportive of the historic reforms that Russia needs at present. Russia's business interests, in particular the petroleum and gas industries, have generated enormous profits from the export of resources. Resource prices are unstable, though, and worldwide efforts to establish green economies mean that surrealistically high prices are not likely in future.

The general populace faces a paradox. Russia's poor account for about 15% of the population by official statistics and about 40% by European standards, but people are uneasy about reform due to memories of the economic chaos caused by the reforms of the 1990s. Rising petroleum prices boosted incomes and improved living standards between 2000 and the financial crisis, and the Russian government adopted measures to increase pensions even during the financial crisis, so the general public does not desire a change in the status quo. Taking the issue of employment as an example, Russia has retained many of the old inefficient companies of the Soviet era, and it is now necessary to close these and in turn increase new companies in the private sector; however, neither politicians nor average citizens are willing to support corporate restructuring for fear of increased unemployment. With regard to social security, Russia has been unable to maintain the financial soundness of its pension systems despite the country's short average lifespan, and social insurance contributions are to be raised starting this year. The age of eligibility for pension benefits in Russia is 55 for women and 60 for men, but in actuality 30% of pension recipients are younger beneficiaries who have taken early retirement. As a result, 40 million pension beneficiaries are being supported by 70 million workers, with this support being borne entirely by companies. Consequently, public understanding must be sought and social insurance system reforms implemented while economic conditions are still favorable.

Finally, with insufficient political support available at present, the matter of how to begin modernization depends greatly on who becomes the next president. Russia is not a truly democratic country but has rather a "soft" authoritarian system of governance. Practically speaking there will be only two candidates in the next presidential election. Although a comeback is legally possible for Putin, he would likely not seek to change the status quo. Russia's future requires a new direction. There have been no major course changes made in the three years since Medvedev took office as president, and he has only paid lip service to modernization and democracy. Nevertheless, changes might be possible if Medvedev has enough authority to implement his own policies. There is the risk that reform efforts would meet with resistance from the petroleum and gas industries and opposition from the public, but I think reforms could be successfully made if he can gain the support of 10-15% of the active population. The next president's six-year term offers a last chance to make changes, and we support Medvedev.