

Is Russia's Putin Breaking with 'Liberal Reform' Economics?

by Rachel Douglas and Jonathan Tennenbaum

Arriving from the Brunei summit of Asia-Pacific Economic Cooperation Forum (APEC) members, Russian President Valdimir Putin spoke in Novosibirsk on Nov. 17, to a meeting of governors from the regions of the Siberian Federal District. "The 'Siberian factor' is important not only for solving domestic problems, but in the context of international cooperation," he told them, for there are many of Russia's problems, that "can and must be solved in interaction with Asian nations."

On several more occasions after this Novosibirsk visit, Putin has given indications of a shift in his attitude, away from the "liberal reform" economic policies of the past decade, to which his own government, under Prime Minister Mikhail Kasyanov, has adhered until now. Such a shift—lawful enough, when Asian nations *en masse* are seeking to escape from the disintegrating universe of globalist financial markets and institutions—would open pathways to Russia's adoption of a mission, as a keystone nation for the real economic development of Eurasia.

The evidently shifting orientation of the Russian President and his team, is not only reflected in the pattern of proposals and concrete negotiations for "managed trade"—infrastructure and high-technology agreements with Western Europe, as well as Asia (see p. 53)—but is also connected with the increasingly sharp perception in Russia, of the global financial collapse. It also resonates to the social and economic difficulties inside Russia, exemplified by the desperate condition of the military and by the widespread, socially explosive energy shortages as Russia heads into Winter.

In this situation, Putin has lashed out with public expressions of irritation, impatience, and even rage at his government's performance, hinting for the first time at the possibility of firing leading ministers, or even the entire cabinet. Finance Minister A. Kudrin and Minister of Economic Policy and Trade German Gref, author of Russia's current deregulationist economic blueprint, are on the hot seat.

Touring science facilities in Novosibirsk, Putin was told about the pilfering of metal, torn out of advanced equipment at the high-energy physics laboratory at the Academy of Sci-

ences, for sale as scrap. The President reportedly turned on Kudrin, warning that if such things continued, the cabinet could be sacked. In Novosibirsk, Putin repeatedly acknowledged the lack of adequate financing for crucial areas of science and technology, as well as for the military and social services.

Another outburst occurred on Nov. 20, during a televised address by Putin to top military leaders. He declared that the situation in the Russian Armed Forces is "unacceptable." After voicing sharp criticism of bureaucratic incompetence in the General Staff and Defense Ministry, Putin stated that the military is not adequately financed and had not even received the promised level of funds. He turned to Kudrin, who was also present at this event, and told him in front of television cameras: "We are tired of hearing people in your staff talking about 'restructuring the system of military payments.'" If this goes on, Putin continued, looking at Kudrin, "we will restructure *you!*"

The Academy's Advice

In Novosibirsk, Putin complained that "for ten years, Russia has had no serious efforts in economic forecasting." He said that the newly formed State Council would take up this task. Thus, while much of the central Russian press hewed to the line that the State Council was merely a sop to Russia's regional governors (whose ability to wield their clout through the Federation Council, the upper house of Parliament, is being phased out), the possibility also began to be discussed, that this new institution might become a vehicle for taking crucial policy decisions out of the hands of the Kasyanov cabinet.

When Putin personally chaired the first full meeting of the State Council on Nov. 22, the main item on the agenda was a policy memorandum on "The Strategy for Development of the Russian State up to the Year 2010," co-authored by the well-known dirigist economist Sergei Glazyev, chairman of the State Duma's (lower house of Parliament) Committee on Economic Policy and Business. The report was drafted under the auspices of a State Council Member, Gov. Viktor Ishayev of Khabarovsk, a strategically important region located in the Far East, on the Trans-Siberian Railway adjoining the Chinese border. Putin is evidently listening more to voices from the Far East and Siberia, where Glazyev's strategy for state investment and promotion of industrial growth has substantial political support.

Official government spokesmen were quick to emphasize, that the Ishayev document was only meant to "complement," but "not contradict" Gref's "liberal reform" program. Gref himself tried to put the best face on the matter, welcoming the Ishayev document and avowing his opposition to there being "any monopoly on the thought process in our country."

But, in a Nov. 24 commentary on the State Council meeting, Glazyev launched a blistering attack on the budget poli-

cies of the Kasyanov-Kudrin-Gref government, which he said were designed “in the interests of those who control the raw materials sectors today, and of the financial speculators, who funnel half a billion dollars per month out of Russia, while eating up 40% of federal budget spending, to service the state debt.” The Gref ten-year prospectus, released last Summer, “is neither a strategy, nor a long-term development program,” said Glazyev, for it contains “neither ideas, nor priorities, nor tasks for the economic policy of the state, nor any analysis of either the problems hindering economic growth, or the mechanisms for solving them.”

Glazyev said that the presentation of the Ishayev memorandum, with its outline of “real measures to bring about an upswing of investment and innovation activity,” meant that “for the first time at such a high state level . . . scientific conceptions about Russian economic development” were being discussed.

The Promise of Infrastructure

Putin’s talks in Novosibirsk focussed on two key areas for Russian economic growth: Eurasian infrastructure, and an approximation of a “science driver” idea of the role of Russian scientific research and defense capabilities, in the economy. On the eve of Putin’s visit, Gov. Viktor Kress of Tomsk province said that the government’s forthcoming strategy for Siberian development “must consider the capabilities of defense-sector companies,” in producing equipment for civilian industries.

Scientists of the Siberian Division of the Russian Academy of Sciences welcomed Putin to Novosibirsk, with detailed proposals for the rescue and promotion of Russian science, including tax credits for all investment in scientific progress. According to *Nezavisimaya Gazeta*, these were presented as a package titled “A System of Relations Between the State and Science.”

Still at the Siberian science center, Putin spoke out for greater use of the Trans-Siberian Railway, which could extend to the Korean peninsula, and thereby create a new, effective transport corridor from the Far East to Europe. He announced that he had instructed Railways Minister Nikolai Aksyonenko to speed up work on this project and another one, a rail tunnel link between Russia’s Sakhalin Island and Japan.

Looking forward to next year’s presentation of the “concept for Siberian development,” by the government and the Security Council, Putin returned to the Asian theme: “I would not separate what has happened at the forum in Brunei, and what is happening here. Here, a significant part of our discussion has revolved around the problems, which were discussed at the APEC forum in Brunei. APEC represents 60% of the world economy. Much was said today about the fact that one of the important strategic lines of development of the Siberian economy is foreign economic activity and securing investments. This is impossible, without coordination with our

APEC neighbors. During my meetings with [Chinese President] Jiang Zemin, [U.S. President Bill] Clinton, [Japanese Prime Minister Yoshiro] Mori, and others, we discussed problems and concrete projects, most of which involve Siberia. These are projects in energy, transport, and information.”

The Trans-Siberian Railway

On Nov. 28, the Russian government daily, *Rossiyskaya Gazeta*, carried a remarkable article, titled “Is Japan the Terminus of the Trans-Siberian Railway?” While that headline refers to the above-mentioned projects, the text dealt with the history of the construction of the original Trans-Siberian Railway a century ago. Readers could draw some rather obvious conclusions about the lessons for today, including from a swipe at liberal monetarist policies.

Rossiyskaya Gazeta looked at the role of Adolf Duebbenet, who as Russian Railways Minister after 1889 “made all the concrete preparations for the project”—estimates of the required credit, the exact route, and the organization of construction. The author noted that Duebbenet was a German citizen, and an extremely strong advocate of state financing, state planning, and state control over national railroads.

But the soul of the Great Siberian Railroad, wrote *Rossiyskaya Gazeta*, would be Count Sergei Witte, who succeeded Duebbenet as Railroad Minister in 1892 and then went on to become Russia’s Finance Minister for 11 years. Financing the Trans-Siberian was a big challenge, facing enormous resistance, which was centered in the Russian Finance Ministry itself. One official warned that the project would bankrupt the government, demanded that only a small segment be built, and predicted that any announcement of state financing would cause a collapse of the value of Russian state bonds.

Witte had a completely different approach. He stressed that the construction of the Great Siberian Railroad was the responsibility of the state in the largest sense. Furthermore, Witte identified the industrial potential of Siberia, and built up, as part of the construction process, a string of machine shops and other workshops along the railroad. Witte foresaw that these workshops would become great cities, as they did—like Novosibirsk at the Ob River crossing. Witte furthermore emphasized, the Russian government paper recalled, that the Trans-Siberian Railway would open to Europe the passage to Asia.

Lastly, the article looked at the ten-year term of Mikhail Khilkov as Railways Minister, during which the total length of the Russian rail network almost doubled—from 35,000 to 60,000 kilometers. Khilkov established the Moscow Engineering School, which became a center for training of engineers and technicians for Russia’s infrastructure projects. Showing this dynamic picture of Russia’s development a hundred years ago, could not fail to make the article’s readers think of the miserable quality of the ministers in Russia’s governments more recently, and the policies they have represented—which the time may have come to abandon.