

Russia on Auto-Pilot

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We would like to extend New Year's greetings to those of you who read the "Comments and Articles" and other material on our web site.

In that vein, we have posted fewer comments and articles during the past five months than any comparable period since we opened the site in June 2000. It may be worth mentioning why.

The site is not intended to be a column, as are weekly or monthly columns in newspapers or magazines. Nor is it intended to be a place where we post our opinions on current Russian events. Rather, we view the site as scientific in its research orientation. The chapters of our books are conceived as social science and the shorter comments and articles rest upon the analyses that appears in our books.

Between mid-2000 and mid-2002, the Russian government was engaged in active discussion and implementation of a variety of economic policy issues. It was appropriate, in our view, to assess these ideas and policies in the light of our analytical framework (see Chapters 2, 3, and 5 (Section A) in *From Predation to Prosperity*). Between mid-2000 and mid-2002, the Russian government undertook several tax, land, and other reforms, on which we have commented. Since last summer, the Russian economy has been largely on auto-pilot. Economic policy discussion has virtually ground to a halt, which explains why we posted relatively few comments and articles since August 2002.

To put it succinctly, one economic policy and one external condition largely drive the Russian economy: (1) The Central Bank's repatriation rule for foreign currency export earnings, and (2) the world price of energy, mainly oil. The Central Bank imposed a 75% repatriation rule shortly after the August 1998 Great Default and devaluation, which was reduced to 50% in 2002. The "rule," coupled with relatively high oil prices during the past year or so, has permitted the Central Bank to accumulate about \$48 billion in foreign reserves by the end of 2002, compared with \$37 billion the previous year, \$28 billion in December 2000, and \$12.5 billion at the end of 1999 (almost a fourfold increase in the past three calendar years).

As we explained in Chapter 2 of *From Predation to Prosperity*, and in an annual article that we post in March as data become available (see "New Data Confirms the Basic Relationships in the Russian Economy: Ten Years of the New Economic System Revisited"), foreign currency earnings, sold for rubles, have eased the payment jam by speeding up cash flow payments throughout the economy (reducing inter-enterprise and tax arrears), thereby generating positive growth. At the onset of 2003, the Russian economy has enjoyed four years of consecutive growth, although its rate has declined each year since 2000 and current GDP remains approximately 30% below its 1992 level.

In the coming months, we expect to post comments on the continued fiscal effects of recent tax reforms and update the basic relationships in the Russian economy for the past year. As new ideas and policies are considered in Russia or proposed by foreign institutions, we will comment on them as warranted. Stay

tuned.