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Institutional constraints and economic development[☆]

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Abstract

This article is an attempt to find a grounded answer to the question of why many large-scale economic development programs worked out in Russia from 2000 through 2010 have failed to yield the expected results. To this end, the author has diagnosed the Russian economy, including a comparative analysis against 20 countries at similar levels of development and analyzed both the Russian and global experience in developing and implementing economic programs. The author concludes that the development of the Russian economy is currently hindered by a rigid institutional framework and that growth cannot accelerate without removing it as part of the political process. Based on the analysis of various types of institutional reforms, specific measures are proposed that can ensure the country's evolutional development and can mitigate the economic and social risks threatening Russia if the status quo is maintained.

JEL classification: D02, E02, O11, P26, P27.
Keywords: economic reforms, economic programs, institutions, growth diagnostics.

1. Introduction: Formulating the problem

Since mid-2014, the internal and external conditions affecting the development of the Russian economy have changed dramatically, projections of key macroeconomic indicators have deteriorated sharply, and the government's priorities have been substantially revised. Many important decisions (such as "counter-sanctions" or the import substitution policy) are made as situational re-

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sponses to economic shocks or geopolitical developments unrelated to the long-term strategy. Moreover, even the general policy direction to be pursued after the most-pressing tasks have been dealt with is still unclear, hampering investment and economic growth. At the same time, the Russian economy faces grave systemic problems. The adverse shocks the economy has experienced have aggravated the clearly visible trend towards decelerating economic growth that had already manifested itself (starting from mid-2012). There is no doubt at this point that the reasons for this deceleration are structural rather than temporary and are inherent in the internal economic mechanisms.

Under these conditions, the path of inertial development offers no prospects for the Russian economy: its potential has been described quite precisely in recent IMF (2016) forecasts predicting an annual GDP growth over the next five years between 1.0% and 1.5% (1.3% on average). This is barely one-third of the projected growth rates for the world economy (3.7% on average) and is even lower than for developed countries (1.9%), although, all things being equal, the Russian economy should be growing noticeably faster, like one with a lower per capita income. The long-run average growth rate for our economy is estimated at approximately 2% (Gurvich and Prilepskiy, 2013).

Several versions of a new economic program are currently being prepared. However, few of the programs developed in recent years have achieved their goals. This paper discusses the possible development of a program that would truly be in demand and have the actual ability to accelerate economic growth.

The first step in developing an economic program (EP) is to formulate the target performance indicators. Ensuring fast production growth is usually defined as the main objective. In 2003, President Putin established the key objective for economic policy as "doubling the GDP in 10 years."[1] Increasingly more indexes have appeared lately that take the various aspects of well-being into account: health, security, education, income and wealth distribution, subjective estimates of living standards, etc. These include, first of all, the Human Development Index (UNDP, 2015), the OECD Better Life Index (OECD, 2015), and the Happiness Index (Helliwell et al., 2016). It seems expedient to expand the list of target indicators considered for Russia's economic program. These should be aimed not only at production growth but also at maintaining public health, security, favorable environmental conditions, etc. However, the analysis shows that these objectives serve as alternatives only at the tactical level. From a long-term perspective, the level of economic development serves as a foundation for achieving the rest of these goals. Life expectancy must be a key measure of success for any policy pursued by the country. This approach is based on recognizing the lives of citizens to be the main priority. This indicator reflects healthcare quality, labor conditions, living conditions, and security. However, the analysis shows that life expectancy ultimately depends on the level of a country's economic development. Thus, in a sample of the 60 most populous countries, two-thirds of the variation in both life expectancy and healthy life expectancy (as calculated by the World Health Organization) is explained by the variation in the logarithm of per capita income in terms of purchasing power parity (PPP). However, the correlation of both life expectancy indicators with per capita in-

[1] Address of the President of RF to the Federal Assembly, May 16, 2003.