

Russia: To unleash true potential

For over 70 years, the Soviet Union was a non-market economy. Over the 30 years of Russia's new history, the country has made significant progress on many fronts, including the legalization of private property, large-scale privatization, restructuring of the main natural monopolies, liberalization of capital controls, the emergence and strengthening of antitrust policy, and almost complete repayment of public debt. However, since the mid 2000s the role of the state in the economy and the share of government-controlled firms has increased, and is now reaching problematic levels. Issues with the protection of property rights and rule of law persist and manifest themselves in the lack of judicial independence, lack of equality before the law, and unfair competition practices, ultimately leading to the exploitation of non-elites. These themes see the overall score for Russia below the sample mean in rank 23. It is higher than other BRICS countries, except China (rank 12th), and it ranks lower than the only other post-soviet country in the ranking – Kazakhstan (ranked 19th).

Russia exhibits significant variation across different dimensions. On 11 out of 72 Indicators Russia's rank is in the top 10 of countries in the sample, but on 38 of Indicators it is in the bottom half of the list and on 16 Indicators it is in the bottom fifth of the countries. It scores higher on economic dimensions (rank 21st for Economic Power, and 23rd for Economic Value) than on political dimensions (rank 27th for both Political Power and Political Value).

The highest scores come from dimensions that reflect sound macroeconomic policies, such as *Inflation* (DOI, iv.11, rank 1st) and *Government Debt as % of GDP* (DBT, iii.9, rank 2nd), as well as some aspects of tax policies (*Delta capital gains tax vs income tax*, DKI, iii.8, rank 1st) and a competitive banking sector (*Lerner Index banking sector*, LIB, ii.5, rank 1st). Low public debt is especially important, as it reflects restraint of elites in rent seeking by placing an unfair financial burden on future generations. Higher than average scores in the category of *Institutional Quality* (DBI,

i.2, ranked 12th) reflect progress on the measure included in World Bank's Doing Business rating, where Russia has jumped from the 130-140 division to the 30-40 division in 7 years.

The lowest scores come from Indicators reflecting Regulatory Capture (i.2). Persistent problems with the protection of property rights in Russia are reflected in *Protecting minority investors* (PMI, i.2, ranked 29th) and *Expropriation risk* (EXP, i.2, ranked 28th). Low ranking in terms of *Crony-capitalism* (CRO, i.2, ranked 29th) reflects the fact that a large share of Russian billionaires come from industries that are prone to monopolization, or rely on close connections with the government. Relatedly, problems with firm dominance (ii.5) caused by high concentration of wealth are reflected in low ranking for such measures as *Billionaires' wealth as % of GDP* (BIW, ii.5, ranked 29th) and *Top 3 firms revenues as % of GDP* (FRG, ii.5, ranked 29th). The *Dutch disease propensity* (DUT, iii.9, ranked 30th) and political corruption are also widely known problems. Less attention is usually paid to problems with gender inequality reflected in low scores for *Women's Power Index* (WPI, i.1, ranked 29th) that reflects the share of women in top echelons of power.

One of the main problems in Russia, that is both a cause and a consequence of limited Elite Quality, is pervasive lack of trust: the government does not trust citizens and businesses; citizens and businesses do not trust each other and together they do not trust the state. This increases the costs of doing business, pushes private business into the arms of the state as a means of protection and as a means of rent extraction, reduces the effectiveness of institutions, replacing them with personalistic rule, and ultimately squeezes capital and brains out of the country. Unleashing the true potential of Russia will not be possible without addressing this widespread issue.

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Visual 36: Russian Federation performance overview by EQx Pillar vs overall distribution

