

# Strategy Focuses on Middle Class, Asia

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An independent group of advisers, tasked by Prime Minister Vladimir Putin to recommend policies that the government should follow for the next eight years, revealed its findings on Friday, proposing social and economic programs targeting the emerging middle class as a driver for the country's development.

The recommendations are outlined in an 800-page document called Strategy-2020, which highlights major steps to be made in modernizing health care, education, the tax and pension systems, and calls for a new model for Russia's economic growth.

But it remains unclear whether the proposed measures will be taken into account by President-elect Putin and the new Cabinet to be formed after his inauguration in May.

"We based our work on the fact that the country ... has come to the stage when creating a new model of economic growth is needed," said Vladimir Mau, rector of the Russian Academy of National Economy and Public Administration and one of the contributors to the strategy.

Developed economies won't be drivers of economic growth in the future, Mau said. This means that Russia should focus on economic cooperation with Asian countries, as Europe currently accounts for 60 percent of its external trade, he told a news conference.

Among the major challenges facing Russia is ensuring stable economic growth of at least 5 percent a year and reducing the annual inflation rate to 5 percent, according to the document.

But growing oil prices are unlikely to remain the main source of the country's budget revenue for years to come, with social sectors like health care and education expected to drive economic growth, the document said.

"Tomorrow's economy is not based on tanks and pipes, not even on natural resources, but on post-industrial technologies — the service industries focused on human resources development," the experts said in the thesis provided to journalists ahead of the news conference.

Unlike the social policy pursued by the government in the past, which was largely based on supporting the most vulnerable social groups, a new economic model should take into account the interests of the middle class, the strategy said.

According to the document, the middle class — highly educated people earning more than 30,000 rubles (\$1,000) a month — accounts for more than 27 percent of the country's population and could ensure an additional flow of funds to the state budget.

"The middle class not only makes new demands on economic and social policies, but it's ready to provide support," said Lev Yakobson, first deputy rector of the Higher School of Economics and one of the authors of the strategy.

People are ready to pay more taxes, but they expect a "rational approach" from the government, requiring an improvement in governance and efficient use of funds, which could be spent on modernizing the health-care and education systems, he said at the conference.

Among other measures outlined in the strategy are a significant reduction in the government's presence in the economy by speeding up the privatization of state assets and creating a balanced pension system.

Meanwhile, the experts pointed out that the recommendations outlined in the documents can't yet be considered a policy program for Putin and current President Dmitry Medvedev, who is widely expected to chair the new Cabinet.

The strategy provides a number of options, but the two leaders will have to decide how to proceed with the reforms, Mau said.

The government approved the initial version of the document in 2008, but Putin requested to update it after Russia faced new challenges during the global economic crisis of 2008 and 2009.

A total of 21 working groups provided recommendations on reforms to the country's social and economic policy for the updated version.

The recommendations provided in Strategy-2020 are reasonable, but previous experience shows that the final decisions by the government often contradict the experts' guidelines, said Alexei Devyatov, chief economist at UralSib Capital.

The document, for one, suggests increasing budget spending on road construction, the development of health care and education by 4 percent of the country's gross domestic product by 2020 and cutting expenditures on the army, law enforcement and government agencies, which would result in saving 2 percent of GDP.

But the priorities of the current budget policy are different from what is being proposed. This year's budget, as well as the drafts for 2013 and 2014, involve increasing military expenses and cutting social spending, Devyatov said by telephone.

He added, however, that there might be a shift in priorities toward increasing social spending, since many state employees had voted for Putin in the March 4 election.

"Putin is likely to try to preserve this electorate, and for this reason increasing social spending is needed," said Devyatov, who didn't participate in the work on the strategy.

The major discrepancy between the strategy and Putin's views on future economic policy, which were outlined in one of his articles published in the Russian media last month, concerns pension reform, said Yaroslav Kuzminov, rector of the Higher School of Economics and a contributor to Strategy-2020.

The experts propose increasing the length of employment necessary to qualify for a pension and raise the pension age to 63 years for both men and women from 60 years old and 55 years old, respectively, while Putin has promised that the pension age won't be increased.

Kuzminov also said Putin's social policy is largely focused on the problems of the vast majority of the population, not only the middle class.

He also expressed hope that the new government would bring the strategy to life, as both Putin and Medvedev had demonstrated "a clear commitment" to enforce the reforms.

Economic Development Minister Elvira Nabiullina said last week that she supports key elements of the strategy but that the details need to be discussed.

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