

Russia's Dull Heat of the Technological Revolution

By [Ian Pryde](#)

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I noted in my last blog that Russia had imprisoned hundreds of thousands of entrepreneurs and that it finally needed to start trusting its own people.

And lo! President Vladimir Putin's speech at the annual St. Petersburg International Economic Forum on Friday June 21, 2013, included an admission that under current laws, many would not be in jail at all, talk about "humanizing" the legal system, an amnesty for imprisoned entrepreneurs, and a request to the Duma to expedite the necessary legislation as quickly as possible.

A new encouraging start for Russia? Sadly no. In fact, Putin's speech was par for the course. The amnesty announcement came only towards the end of his address. Yet again the president missed another golden opportunity to make people sit up and take notice by announcing major initiatives, for example, "Russia Is Now Open For Business" and visa-free entry for foreign businessmen and tourists.

Instead, Putin concentrated on announcing major energy deals, promises about infrastructure projects and making improvements to the business climate. Almost immediately he got bogged down in policy details — no soaring Obama-style rhetoric here, no campaigning in poetry and governing in prose, but flat bureaucratese.

Putin conceded that the high growth in prices for Russia's energy exports were over, but argued that there was no magic wand. Russia would therefore improve its economy through infrastructure investment, higher productivity and innovation. But implementing all this will prove as hard as it has always been in Russian history. These ideas are all sadly reminiscent of Gorbachev's mantra in the 1980s that the Soviet Union had exhausted the possibilities of "extensive growth", i.e. increasing output by increasing labor inputs. Gorbachev's solution? Switching to "intensive growth" based on — wait for it — higher productivity and technology. We all know how that ended.

There are two fundamental problems with this approach. First, like many in Russia, Putin grossly overestimates the country's scientific and technological potential — and grossly underestimates how hard it is to commercialize ideas.

In his 1967 book *The Russian Empire 1801-1917*, Hugh Seton-Watson stated that in this period, Russia had a small, but brilliant scientific tradition. Russia, of course, constantly emphasises the "brilliant," but needs to concentrate on fixing the "small."

Take Nobel Prizes. Soviet and Russian scholars have received some 28 in total, including 17 in science, but two of the universities I attended, Manchester and Cambridge, have clocked up nearly 100 between them in science and medicine alone. A similar story applies to the number of patents granted, with developed countries effortlessly outstripping Russia.

The second problem is that like most Russian leaders, Putin is long on pronouncements, policy statements, targets and plans, and short on implementation — but has never really considered why this has been the case throughout Russian history and how to change things.

He claimed, for instance, that the main way of restoring trust would be to set up a "mega regulator" under the Central Bank.

On the face of it, this looks very similar to Western approaches, but the crucial difference is that most people in developed economies do in fact operate on the rule of law, despite the constant stream of scandals, whereas corruption in Russia is endemic and indeed systemic, with officials and entrepreneurs looking to enrich themselves and flouting the law much more openly and blatantly than happens in the West. Hence the huge cost overruns in the budget for the Sochi 2014 Olympic Games and the fact that roads in Russia are the most expensive to build in the world.

Economists and analysts often praise Russia's fairly solid macroeconomic policies, but since coming to power, Putin has merely adopted the age-old approach of Russia's rulers instead of trying to change the country's mentality. For hundreds of years Russia has been much poorer than western countries and has a backward and highly inefficient political system based around the leader — with the high risk of instability when the leader goes. The very language of Russian politics — "clans" warring over the spoils — simply doesn't exist in developed countries.

Russia needs to arrive at the insight expressed by future British prime minister Harold Wilson as long ago as 1963 in his famous "white heat of the technological revolution" speech:

"In all our plans for the future, we are re-defining and we are re-stating our Socialism in terms of the scientific revolution. But that revolution cannot become a reality unless we are prepared to make far-reaching changes in economic and social attitudes which permeate our whole system of society. The Britain that is going to be forged in the white heat of this revolution will be no place for restrictive practices or for outdated methods on either side of industry."

Many historians would argue that Wilson failed to achieve these far-reaching changes, but if Russia really wants to escape its reliance on commodities and the very real danger of getting stuck in the middle-income trap, it also needs to rethink its economic and social attitudes fundamentally. Putin gave very little sign of doing so last Friday.

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