

LETTERS TO THE EDITOR: Firm but feasible regime for an obese patient

Financial Times; Jul 15, 1999

From Prof Padma Desai.

Sir, In "Short memories, long odds" (July 9) John Thornhill correctly emphasises the need for structural reforms in Russia for converting the faint pulse of economic revival into a sustained, long-term recovery. While structural reforms are important and necessary, the critical signals of immediate relevance conveyed by the August 1998 financial meltdown to Russia's policymakers and international financial institutions are three.

First, the old model of Russian reform, according to which the international financial institutions negotiated the policy details with successive reformist governments, which in turn sought to implement them via presidential decrees and government resolutions, to the neglect of the legislative watchdogs in the Duma belongs to history. On the other hand, the cohabitation-with-the-Communists-in-the-Duma model of Yevgeny Primakov, the former prime minister, threatened to consign market-oriented policies to deep freeze. Crafting a consensus with the Duma that (unlike in the Primakov version) manages, even so, to keep reforms going requires that the policy proposals be realistic.

Thus, for example, the Russian economy cannot be expected to reach the nirvana of a single-digit inflation rate with a consolidated budget deficit of less than 3 per cent of gross domestic product in the near future: the monumental evidence of the recent past provides a stark lesson in that regard. A credible policy agenda marking low double-digit inflation rates with corresponding targets of monetary growth rates and budget deficits over a period of three to five years will more likely create greater confidence about implementation and hence produce stable outcomes than the unrealistically ambitious targets of the past. With respect to macroeconomic management, the lessons of the recent past are writ large: Russia resembles an obese patient whose weight loss can be guaranteed only with a gradual but firm and feasible diet programme under meticulous monitoring. From that perspective, the 1999 budget numbers worked up by the Russian government and approved by the International Monetary Fund constitute an old ritual with slight chances of their fulfilment.

Second, gradual but decisive inflation control still remains the top reform priority. In pursuit of that goal, the IMF insistence that the Duma pass legislation on streamlining the tax arrangements and restructuring the banking system, before it can release the promised Dollars 4.5bn, is correct. But should reform of the bankruptcy law of 1998 (which superseded the law of 1994) be thrown in the legislative hopper as well, as the IMF has done for releasing its funding?

The law may be reshaped but is unlikely to be implemented in an economy that has already shrunk by half as the required bankruptcies would be intolerably large in number. In their conditionality and monitoring activities, the international financial institutions need to distinguish between items on the policy agenda that are urgent and feasible and those that are long term and politically unmanageable.

Finally, the forthcoming elections raise the frightening prospect of the disappearance from the policy stage of Russia's market reformers and their replacement by pseudo reformers. The former, promoted and protected by Boris Yeltsin, thought clearly but talked arrogantly and acted hastily. The latter, in the entourage of a new president, will probably be equally brazen but muddled in their grasp of the nuances of market-oriented policies. Boris Fyodorov, former finance minister, famous for giddy pronouncements, once declared that six people understood markets in Russia. From that day, the number of businessmen has skyrocketed but clear thinkers on policy

issues are still few and far between. For no other reason than this, the IMF and the World Bank should remain engaged in Russia for keeping market reforms on track.

Padma Desai, Harriman Professor, dept of economics, Columbia University, 420 West 118th Street, New York, NY 10027, US

Copyright: The Financial Times Limited