

Modernization in Russia: Will It Be Successful?

By Anders Åslund

Modernization is the big Russian theme, which is positive in itself. It shows Russia's current ambitions and its energy. The problems however are what modernization actually means, what Russia needs to accomplish, and if it can actually do so.

The standard authors of modernization theory were Seymour Martin Lipset and Samuel Huntington, two outstanding American social scientists. Often, they are irritating by being too material and deterministic, but their advantage is that they provide clear targets against which you need to measure yourself.

The main measures of modernization were offered by Lipset in his article "Some Social Requisites of Democracy: Economic Development and Political Legitimacy" in 1959. A first standard is the extent of higher education. According to UNESCO, no less than 73 percent of young Russians now receive some higher education, which is excellent by any comparison. Russia is among the leaders in quantity though not in quality of higher education.

Another hallmark of modernization is openness in foreign trade and travel. Also by these measures, Russia maintains a good standing.

The third and most important standard is the economic level. With its gross domestic product per capita in 2008, before the crisis, Russia came in the 46th place in the world according to IMF assessments, which is quite a decent level but not close to the top of the world. With an average economic growth of 7 percent a year from 1999 to 2008, Russia looks very promising.

Russia suffers from two peculiar problems, however. The first is that among the countries that are wealthier than Russia in per capita terms only eight are also authoritarian by the assessment of authoritative Freedom House. Those are seven small oil countries and Singapore, which is an exception in every regard.

Another way of putting this is that Russia is still an authoritarian state because of its ample oil rents. Yet by Huntington's standards, Russia has reached the level of economic welfare at which almost all states become democracies, while China has just approached it since it is a much poorer country.

Russia's greatest oddity is its extraordinary corruption. According to Transparency International, the only country that is richer than Russia in per capita terms and more corrupt is Equatorial Guinea, an extreme African oil dictatorship. Obviously, this is not the company in which Russia should find itself.

The point is often being made that Russia is too dominated by big companies owned by the state or oligarchs, leaving too little room for small entrepreneurs. That is true, but Russia has about nine millions of entrepreneurs and enterprises and their number rises fast in spite of adverse conditions. This is Russia's greatest asset and the source of its true modernization. According to the World Bank, Russia's small and medium-sized enterprises contribute at least 45 percent of its GDP, while that ratio is two-thirds in Europe and even higher in the United States.

The short formula for modernization is education, openness and deregulation of enterprise. Russia has done reasonably well on the first criterion, but it has performed poorly on the second two criteria. Intellectual life, which is vital for innovations, thrives where tolerance is the greatest.

Enterprises can only be truly deregulated if government officials are really accountable and that can only be the case if they are subject to transparency, public criticism through free media and democratic accountability.

So what should Russia do to promote its long-desired modernization? Well, it is always good to improve higher education and research, but they are hardly the bottlenecks. The outstanding

problem is obviously the bureaucratic controls that serve no national purpose. Russia needs a thorough deregulation of enterprise and this time it should not stop halfway as in 2001-2 but go all the way to a truly liberal system as in New Zealand, Estonia or Georgia.

The World Bank produces an annual Doing Business index, which measures the business environment on ten measures. Georgia rose from 112th place in 2006 to 18th in 2008, while Russia lingers on the 120th place among 183 countries. Georgia accomplished this mainly by simplifying the starting of a business, the registration of property and the construction permits. Russia could do the same, following Georgia's example. Several other CIS countries, notably Azerbaijan and Kyrgyzstan have done so.

To make such a deregulation convincing, however, it is necessary to make government officials accountable, and how can you do that but through exposing them to the ardors of democratic control?

By contrast, to launch the slogan "conservative modernization" is to undermine the public belief in real modernization, because what Russia needs is substantial not minimal change.

Anders Åslund is a senior fellow at the Peterson Institute for International Economics and the author of "Russia's Capitalist Revolution."