

Interest Groups in Russia's Industrial Policy in the 2000s

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Industrial Policy: Some Possible Definitions

- Industrial policy (IP) is interpreted in different ways
- IP often overlaps policies of structural reorganization, diversification, modernization, industrialization
- There are many individual examples of IP in Russia, but such policy has never been declared officially in 2000s (till 2012) on the highest political level.

The structural policy includes promoting the competitiveness of domestic goods and services in domestic and world markets and ensuring the structural flexibility in the order to increase the share of high value added.

The industrial policy is a purposeful change in the economic structure by creating more favorable conditions for specific (priority) sectors and industries in order to ensure sustainable long-term economic development.

The sectoral policy improves industry regulation and "tunes" support tools, taking into account the specifics of the industry, and removes sectoral barriers to investment and corporate growth.

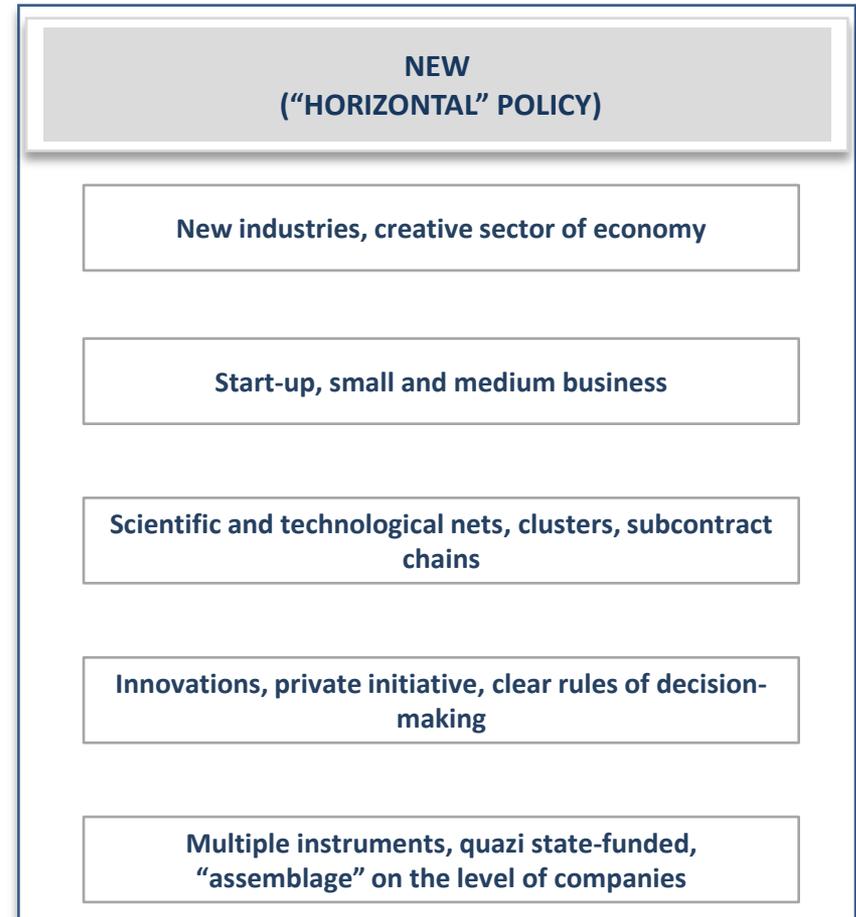
Some "signs" of industrial policy:

- (1) activity and forestalling;*
- (2) priorities (or "antipriorities");*
- (3) redistribution of resources, rights, control between sectors or industries;*
- (4) divide between winners and losers;*
- (5) focus on long-term benefits for the entire economy.*

Some Features of Russian Industrial Policy

- Latency, formal (declared) and real priorities of the IP often differ**
- Occasional and short-term, there is no independent and regular evaluation of the changes; internal contradictions and inconsistencies**
- IP is oriented mainly on the domestic market, to stimulate and support the domestic demand; argues for the specifics of the Russian domestic demand**
- The State is mostly directly involved in redistribution of rent (not only in shaping the rules and conditions); consolidation of state-owned property, deprivatisation**
- PPP as a pretext for further redistribution, attempts to enter new industries, by accountability to controllability**
- Personified interaction, interest groups are non-transparent; biased assessments, traditional lobbying groups have significant advantage in access**
- Interest groups are focused on extracting rents from the implementation of IP, but not from its results**

Basic Approaches to the Industrial Policy. Reasons for the State to Incline to the Vertical Model



Preconditions to the choice of the vertical model of industrial policy

*Stable employment in large enterprises
Developed mechanisms of direct interaction
Easy-to-use tools of coercion
Model estimates of necessary resources and consequences
Fuzzy mutual obligations due to personified nature of relations
Vast opportunities for extracting rent "from the process"*



Stages in Russian Industrial Policy

2000-2003

Soft regulatory industrial policy (taxes, natural monopolies prices, exchange rate)
Business initiative

Highly personified
The practice of meetings with big business
Government acts as the referee in a collision of interests

Direct conflicts between business groups
Law enforcement agencies are involved in the business conflicts as mercenaries

2004-2007

The sectoral policy is vertical
Budgetary funds and public sector are used
Government initiative
Resources for the future are treasured in development institutions

Government demonstrates power
The institutionalization of access
The Council on Competitiveness
A hierarchy of "vertical alignment", the state control

Increased competition among power elites, including the inspection bodies
The increasing role of law enforcement agencies in assessing
Transformation of interest groups

2008-2011

Crisis, hands on management, price regulation, preferences
Seeking for new sources of growth (innovation, modernization, structural privatization)
Adoption of technological industrial policy

Expanding and competitive access (presidential and governmental commissions)
New formats of interaction (Strategic Initiative Agency)
Increasing number of subjects of policy

Increasing pressure from regulatory bodies
Regulators are employed to put pressure on business in socially sensitive areas

2012-

Tighter budget constraints
Re-industrialization, tax maneuver, investment climate
Changing conditions for the IP after WTO accession

Support groups need to be expanded
Establishing new communications - Open Government

New players emerge, the competitive proposals are expanded
Deregulation, the power is delegated to regional authorities

Some Tendencies of Change in Composition and Positions of Interest Groups

- Consolidation of government interest groups (due to the “power vertical” and general strengthening of the state); simultaneously the importance of accountability tools for these groups rises and the position of government regulatory bodies strengthens
- Increased competition between power elites in the allocation of resources; enhanced role of media and regulatory bodies in the fight (reciprocal grounds for claims - corruption, lobbying by individual business groups, misuse of funds)
- Reducing interest interest groups division by their "origin“, union between the "siloviks" and "technocrats" in "thematic" areas
- Emerging and consolidation of interest groups of scientific, educational and technological orientation
- Rapidly arising interest groups originated in the development institutions (common resistance to external pressure, "self-regulation", "an innovative lift")
- Strengthening position of business associations (there is a government demand for development of business associations)

In general, the process of interest groups renewal is sluggish, possible drivers of economic development are underrepresented:

- (1) traditional interest groups are strong, do not allow new (ideologically) players to access channels, are capable to control the "feedback";**
- (2) government interest groups (due to rare rotation) are closely tied to traditional business interest groups;**
- (3) poorly institutionalized channels of access are, therefore, personified.**

Conventional State “Interest Groups” Projected on the Industrial Policy

(1) “Austerity-minded”	(2) “Structural”	(3) “Sectoral”
Ensuring macroeconomic stability	Diversification, development of new sectors	Ensuring social peace and stability, price regulation
Neutral regulation, better investment climate	Expanded incentives for export and manufacture of high-tech products	Kept or newly gained direct influence on some industries and sectors of the economy which are "sensible" to the society and to the development of the entire economy
Limited opportunities to increase current spending budget with additional revenues	Expanded expenses on economic development, new programs	Large investment programs, fostering cutting edge innovation
New initiatives are restricted	Expanded PPP and business-government agreements	Large companies are reformed and integrated, "national champions" are cultivated
ATTITUDE TOWARDS INDUSTRIAL POLICY		
Overall cautious, in case of additional budget commitments extremely negative	Positive to the horizontal one, cautious to the vertical one	Neutral to the horizontal, positive to the vertical

Some Tendencies of Change in Conditions of Access to the Politics

Changing Access in 2008-2012:

- established and simultaneous operating of two Commissions – this presidential upon modernization (2009) and the prime minister's High Tech one (2010); preconditions for competition within establishment;
- increased representation of new interest groups in consultative and advisory bodies – there have appeared representatives of state corporations, development institutions, research universities and high schools (2009-2010);
- more subjects of shaping and implementation of economic policy due to inclusion of development institutions (2009-2010);
- determined order of the public assessment of corruption risks in draft legislation (2009), practice of public discussion on the most important bills;
- creating tools which engage "new players" – research universities, joint projects of business and universities (Decree № 218), technological platforms
- updated "Strategy 2020"; strengthening position of business associations, in particular, "Business Russia" (2010-2011);
- establishment of Strategic Initiative Agency (2011);
- formation of Open Government (2011-2012).

Major trends in change of access:

- (1) improved access;**
- (2) somewhat institutionalized new access channels;**
- (3) created new tools designed to increase the representation of different interest groups.**

Questions:

The access is opening, but is it accompanied by an extended competition between government institutions?

Tools to renew interest groups are created, but aren't all the same groups taking over the control on ?

Aren't these tools getting "reformatted" according to the traditional views?

Access for new groups is widening, but is it combined with the transition from vertical to horizontal industrial policy?

Replacement of the sectoral IP by the technological one in 2009-2011

There are general prerequisites to the technological industrial policy: changing conditions of global competition; rethinking the role of government in the economy all over the world, particularly in relation to innovation; critical evaluation of the results of classical industrial sectoral policy; significantly narrowed "field" for such a policy in modern conditions.

In Russia, there is evidence of a shift from the vertical, sectoral industrial policies to the technological industrial policy:

technological priorities of modernization are determined by President (2009);
number of Vnesheconombank priorities (2009) and of their categories are expanded; the largest institute of technological orientation (RUSNANO) is revitalized;
national laboratories are continually formed (2007 -); programs of innovative development of large state-owned companies, technological platforms (2010 -);
new priorities are claimed, including the technological ones (2012).

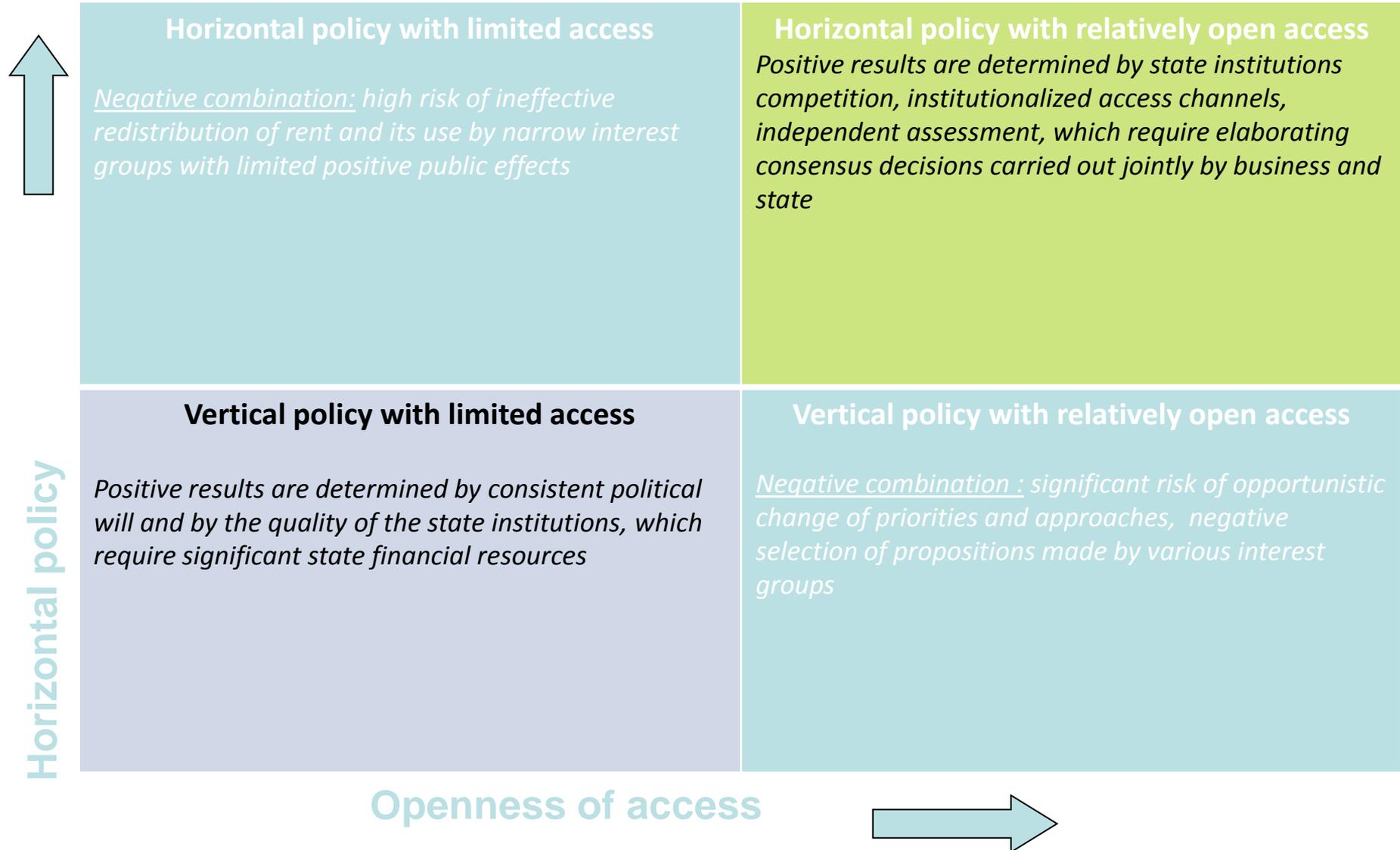
The shift is associated with looking for new factors of growth and expanded influence of interest groups from the scientific, technological and educational communities: research universities; Kurchatov Institute, RUSNANO; Rosatom; ARRI, TsAGI. The nature of the shift (technology priorities) is strongly determined by debates upon whether the development is "catch-up" or "advancing", upon the nature and the direction of innovation waves.

Abroad, various interest groups also seek to ensure redistribution of resources, including those working in the fields of national competitiveness and potential threats, including technological threats ("Year 2000 problem", global warming, Kyoto Convention, limited energy resources, etc.).

In Russia, the shift to technological industrial policy is accompanied by preservation of its features as vertical policy:

- (1) focus on the interests of major players, even if their number is expanded with newcomers from scientific, educational and technological communities;
- (2) little competition between state institutions, in some cases there is evidence of monopolization of views on possible approaches and assessments (policy on small business development; cross-participation in the development institutions);
- (3) Scanty attention to the demonstration effects and transfer of best practices, emphasis on public (quasipublic) resources;
- (4) relative openness to proposals, but closed decision-making and assessment;
- (5) personified nature, non-transparent "exchanges" within the redistribution, informal agreements.

Correlation between “horizontality” of the Industrial Policy and the “Openness” of the Access to Its Shaping: Possible Influence upon the Results



Some Conclusions (1)

1. Russian industrial policy in the years 2000-2011 manifested in many different directions, but until recently has not been declared officially at the highest political level. In general, Russia's industrial policy seemed very fragmented and inconsistent.

2. Difficulties for state institutions in the implementation of industrial policy are determined, in particular, by

- (1) limited feedback channels,
- (2) shift from the technocratic competence of civil servants (industrial, scientific and technological) to economic one (financial, managerial, institutional)
- (3) restricted opportunity space because of the dominance of traditional interest groups and inefficient agreements.

The weakness of state institutions determines the *scanty opportunities for Russia to carry out an efficient vertical industrial policy*.

3. *Large natural resource rents allowed to “cover” costs of controversial industrial policy*, where the choice was made in favor of one or another interest group. As a result, both groups got motivation to obtain *rents (profits) from the process* of industrial policy (and not from the result) and to preserve such contradictions in policy for reasoning why they failed to reach the goals.

Vertical policies are less likely to use the demonstration effect (compared to the horizontal), its implementation by the state requires significantly more resources. *Due to budget constraints and narrow opportunities for public funds redistribution* (overall reduction in mobility of the budget) *demand for efficient industrial policy exploiting demonstration effects* will increase .

4. Russian industrial policy was mainly of import-substitutive nature, which *increases the risk of rising protectionist barriers, replacement of private demand by the state* one to support the selected priorities, consistent multiplication of problems and costs of wrong starting decisions.

Industrial policy focused on fostering exports is less risky, but now there are tight restrictions on direct support so this policy should be very “soft”. Tools and approaches to such a policy need further discussion.

Some Conclusions (2)

5. *In 2004-2009, the process of interest groups renewal was very sluggish.* This was partly due to the formation of the "vertical of power" and the strong influence of traditional interest groups on the channels of feedback. Access channels were poorly institutionalized, and the access was greatly personified.

In recent years, *the access began to widen*, but mainly in terms of openness to various proposals and to a much lesser extent in the decision-making. Although the access to new groups of interests is widening, *there remains little civilized competition between interest groups and between state institutions.*

6. *There is evidence of shift from the sectoral industrial policy to the technological industrial policy in 2009-2011, but Russian policy still retains its vertical nature.* This presupposes the conservation of significant risks in its implementation and its "takeover" by narrow interest groups.

The opening of the access goes ahead the transformation of industrial policy from vertical to horizontal. In underdeveloped system of "horizontal" assessment and comparison of proposals from various interest groups and the distribution of responsibilities among the various actors this *increases the risk of inconsistency and opportunism* in shaping and implementation of industrial policy.

7. With regard to the formation of an efficient industrial policy, the following *questions* seem to be crucial:

(1) how, under nowadays Russian circumstances, to really move from state to national industrial policy, which institutions are needed for this?

(2) how to move from replacing lacking private initiative to the demonstration effects and the spread of best practices?

(3) how to move from the actions "contrary to the market" to compensating for "market failures"?

(4) how to ensure the temporary nature of preferences?

(5) how to ensure competition between state institutions in the implementation of industrial policy and, most importantly, to create the conditions for positive selection?

(6) how to ensure the arrival of "new" players and their self-organization?

(7) how to assess and refine (update) industrial policy?