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Author & Title: Gaddy, Clifford G. & Ickes, Barry, *Bear Traps on Russia's Road to Modernization*. London & New York: Routledge, 2013, 144pp., £23.99/\$59.95 p/b.

How fit is the Russian patient – that is the Russian economy? What are its growth prospects? Two prominent American specialists Gaddy and Ickes have been exposing the signs and symptoms of post-communist Russia's poor health and the underlying causes for more than two decades. In the past they had identified many diagnostic oversights and made attempts to correct scholarly perceptions and expose policy makers' failures. This contribution continues in the same vein: it challenges the conventionality of the assessment of the longer term economic growth prospects in Russia. The results reported in the book clearly demonstrate that the economic reforms proposed without understanding of the fundamental country's ills, some of which reflect Soviet legacies, some ignore the reality, are misguided. The current modernisation programmes and policies are based on country's handicaps, specifically spatial and fiscal and not on the advantages that can be released through the use of more flexible economic mechanisms and minimisation of the negative effects of factors which are immutable.

The authors argue that for an observer it might appear that Russia is addicted to irrational choices but in reality, it is as rational as anybody else in the global economy; the Russian specificity is in that its behavioural preferences are based on particular structural and legacy constraints derived from its past. The book commits to provide a deeper understanding of these legacies and their impacts on country's economy modernisation, as "the best frontier treatments and therapies will still have adverse consequences if they are treating the wrong disease" (p.1). The starting point of the book is that none of the modernisation scenarios currently under consideration accounts for the legacy constraints, and hence, can only reinforce country's backwardness. New growth policies if they intend to lead to goals rather traps, should recognise two central weaknesses of the Russian economy: inefficient spatial allocation of physical and human resources and mismanagement of resource rents when the existing economic structure is fed by the infusion of value from the resource sector and is not responsive to traditional market mechanism such as price and competition.

In the Introduction Gaddy and Ickes explain how in Russia economic assets are systematically misused as a result of mismeasurement of the effective input level of capital and labour services. As the actual input level is overestimated the investment returns appear unsatisfactory; as a result the problem with development is attributed to low efficiency. Contrary to existing approach the authors propose to start with the correction of measurement of the input levels and thus to

remove the bear traps on the path of modernisation. Mismeasurement problem, reflect the authors, is not unique to Russia but due to many national peculiarities its impact and the risk of being overlooked is greater in Russia than in other countries (p.6).

In a historical prelude (Chapter 1) we are reminded that the virtual pillar of the post-communist Russia – the structure of its economy – is a continuation of the Soviet virtual economy that did not rely on value creation but on value distribution. Had it been recognised at the start of transition that the non-productive assets had no value and should have been written down, Soviet legacy would have been lessened and many bear traps avoided (p.10).

Finding a Russian path to successful growth, according to the arguments put forward by the book, will entail changing the investment paradigm, so that it recognises the importance of the location decisions and accounts for the spatial and climate factors affecting performance and socio-economic outcomes (Chapter 2). The investment efficiency can be improved through the discontinuing of reproduction of the low productivity assets (technical efficiency) and the revision of the territorial distribution of the resources (allocative efficiency), thus rearranging the geographical terrain of the Russian economy. Eventually, such measures should lower the relative price of investment because the need for extra investment to compensate for ‘adverse environment’ will be eliminated or greatly reduced (p.28).

Chapter 3 and Chapter 4 offer discussion on the topics highly relevant to the efficient growth in Russia but mainly overlooked by the Russian transitional scholarship. The discussion is built around disquiet about the costs of faulty location decisions and the reasons of why they persist. The resources and assets in Russia are not only mismanaged but also misused, conclude the authors. To illustrate the state of affairs Gaddy and Ickes address two types of cost associated with special misallocation: cold and distance that are a real tax on Russian growth and are ‘potential bear traps if they are not understood correctly’ (p.56). As a vivid illustration to the seriousness of the problem the authors provide convincing examination of implications of mismeasurement and ignoring space distortions. The persistence of the misallocation problem is attributed to the deficiencies in the political economy, specifically the Russian style federalism, which the authors marked as ‘market-impeding’.

Chapter 5 provides strong evidence that pursuing current policies for investment in human capital without realising the discrepancy between its nominal and actual value can be yet another bear trap: the money is spent with the intention of promoting growth but end up having negative effects on growth (p.95).

The ‘bear trap’ metaphor used in the study appears as appropriate as the intention is to show how easy it is to misdiagnose the fundamental cause of Russia’s difficulties and inform the growth policies by the wrong assumptions. Gaddy and Ickes depicted quite a disturbing picture of the Russian economic reality in which the inferior equilibrium became self-reinforcing. Although the book ends with the section called Conclusion, it does not conclude in a sense of offering precise

bear trap avoiding path. However, the book invites suggestions for the development of a new growth paradigm (the authors call it 'resource track') that accounts for identified economic handicaps of Russia and exploits Russian advantage. The sustainability of this growth path is not a question for Gaddy and Ickes: **it is feasible economically**; the authors believe that it is also feasible politically: it does not threaten the status quo in the established rent-sharing management system. The challenge is - the ideology: reforms in Russia can only be advanced if their priorities are established as the political line: only then the government will proceed with policies.