

Komsomolskaya Pravda (KP)

**RAS Vice-President Nekipelov:
What Is the Use of Having This Amount of Money in Reserve?
We Are Not Collectors, After All!**

The last year 2009 was an anti-crisis year. Russia as well as other countries of the world was actively combating the economic downturn.

Yevgeni Belyakov, 04.01.2010

Exactly 12 months ago the forecasts were most gloomy: the avalanche ruble devaluation and even hyperinflation like in the 90s were predicted for our country. Reality, however, turned out much more optimistic. The ruble even appreciated a little, prices rose even less than the year before. And the country still has an amount of reserves that will feed us for several years to come. But what should be done in the future when the reserves are exhausted? And how can our raw dependence be overcome? KP correspondent Yevgeni Belyakov talked to RAS Vice-President, Doctor in Economics Alexander Nekipelov.

‘WE HAVE BEEN LUCKY WITH HIGH PRICES OF OUR RAW’S’

- Alexander Dmitrievich, has the crisis come to an end at last or not? The Head of our Finance Ministry is still saying we are ‘in the epicenter’ ...

- World economy is actively climbing out of the crisis. Countries of South-East Asia, China develop dynamically. Even in crisis times their growth rate made 8%. Japan began to do well. Economic growth in the U.S. amounts to more than 2%. Our situation is worse. I have to state we are overcoming the crisis on the account of external factors. Demand for our raw products abroad began to rise – that’s good for us. But internal growth factors are still insufficient. Recession seems to have stopped but we are still far from pre-crisis level. I think Chinese pragmatism might help us. During the crisis China was in a difficult situation. The country has immense reserves because in the past it supplied all countries of the world with its consumer goods, electronic appliances. And then demand crashed. The most advanced economic segment was export-oriented. And China switched over to domestic demand. Electronic appliances were distributed to the population almost for free, even washing machines in districts still without electricity. But the measure allowed to support production. This is an example of non-dogmatic economic thinking. We, on the contrary, continue to make no headway ...

- Are there probably any new designs as to how to cope with the crisis so that collapses like these do not happen any more?

- Many academics hold the crisis the world economy is facing now is not simply a financial downturn but a situation when a series of crises have overlapped each other. Hence the scale and the difficulty to counter them. One of the profound causes lies in the fact that the world is living the stage of transition to a new technological order. That is why it is impossible to radically solve the problem by just overcoming current financial difficulties: by bringing round the banking system, etc. It is not accidental that at the peak of the crisis the U.S., Western Europe and China declared surmounting it should take place on a principally new technological base. Many countries have steeply increased expenses to develop modern technologies in order not to fall behind but rush forward. We, on our part, hear declarations so far and see no serious actions.

- Then, what should be the starting point for economic modernization?

- There is no unambiguous answer to it. First, the resources we have (both financial and intellectual) should be assessed. Then we should take a decision about the strategy. For example, to catch up with Portugal it's senseless to finance advanced fundamental science engaged in researches in all directions and competing with academics from the U.S. and Europe. The case is different if the country wishes to regain its leading positions and find itself again among countries striving to determine human civilization development. In these conditions solid fundamental science is needed. And the choice of strategic development avenues will be different from that in the first case.

'RESERVES SHOULD BE USED FOR MODERNIZATION'

- In 2010 the government will spend several billion rubles for pensions. All other budget items except defense will be cut down...

- Humanly speaking, it is clear pensions should be risen up to a normal level. To me, this should have been done earlier. Today, because of low pensions, a person after retiring immediately descends to a lower material life level. This, by the way, refers to research personnel as well. Low pensions hinder a normal cadre renovation process in the Academy of Sciences. RAS institute directors are not beasts to drive honored people with a significant contribution to science into poverty. Therefore, the solution of the pension problem is, at the same time, also a solution of the problem of normal cadre potential reproduction in science. I am deeply convinced we have made a very big mistake in pre-crisis period when huge incomes had flown into the country and we have piled them as reserves. We should have actively used the 'exceeding' currency reserves to modernize the economy, update the bases of the health care system and science. Besides, loans could have been granted to private companies to update production. All this wouldn't have affected the inflation rate. If we acted in this way we would have faced the crisis with a stronger economy. Now it is more difficult to do it but, for the time being, we still have reserves at our disposal.

- Yes, even despite the crisis the Central Bank has about \$450 billion in reserves ...

- We are not collectors, are we?! China has much bigger reserves, about \$2 trillion, and it began to very dynamically use them in the crisis period. It was spending them and simultaneously gaining new amounts of currency. We, on the contrary, practice a very conservative approach - the reserves are a kind of sacred cow: they cannot be used for anything except exchange rate regulation, which is erroneous. For this goal much less reserves are needed. And I am sincerely sorry that only in half a year - from August 1, 2008 till February 1, 2009 - more than \$200 billion were spent to simply regulate ruble exchange rate. It would have been better to use this money for economic modernization.

'THE EXCHANGE RATE FORECAST IS SHEER GUESS-WORK'

- What exchange rate of the ruble is most profitable for us?

- The exchange rate policy is always supported by one part of economic participants and criticized by the other. If the exchange rate of national currency is high, the importers are happy, import goods are cheap. Happy are also those who modernize production: equipment and licenses are cheap. The exporters, on the other hand, are in a difficult situation. They earn little money from export. In an opposite case processing industries are winners. It's good for them when the ruble is weak. Then import goods become more expensive and our production more

competitive. All this is a question of balance. At present the exchange rate is altogether acceptable for the economy.

- *Can you make a forecast of exchange rates for the next year?*

- To make the right forecast one has to take into account too many factors, particularly those depending on the policy financial authorities will pursue. Our Central Bank's policy changes from day to day. And at once other things change. In addition, everything depends on national currency policies other countries will pursue. That is why any forecast has to be accompanied by a great number of reservations and explanations. Otherwise it is sheer guess-work.

ON FUNDING SCIENCE

- *Are you satisfied with how Russian science is funded?*

- From 2001 on the situation has been meliorating constantly. This came to be possible only because in the 90s funding was falling at almost the same fantastic rate. In 2006-2008 we increased the wage level in the Academy of Sciences from 6,000 up to 30,000 rubles. We did it even to the detriment of the renovation process of the material base. A well-equipped base without people able to use it is not needed by anybody. Nevertheless, the volume of funding science in our country can be in no way compared to what the U.S., Europe, China and other countries afford. We are lagging behind the Americans by almost two factors (that is, 100 times). In these conditions we are unable to compete on equal terms. Just compare: the funding of RAS, which embarks more than 400 scientific research centers (with almost 50,000 researchers and almost 50,000 servicing staff employees) located all over the country, amounts to about 45 billion rubles (\$1.5 billion). In the U.S. this sum makes the budget of a less than average university. And in 2010 funding will be cut again by 10%. With this difference in working conditions abroad and in Russia there is a danger this will again produce a brain drain from the country and, afterwards, a still bigger technological lagging. Despite all that, in mid-December the leadership of the Academy of Sciences and its young researchers succeeded in discussing these problems with President Dmitry Medvedev - a fact which makes one optimistic to a certain extent.

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