MACROECONOMIC PROBLEMS


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Abstract—This paper discusses the causes and consequences of the high dependence of Russia’s socio-economic development on the world market prices of hydrocarbon resources and their production volumes. The author analyzed the mechanisms underlying this dependency using a model of centrally planned economy without technical progress. The author shows that growth in raw materials production and prices leads to the “Dutch disease,” which is, hence, an economic growth paradox typical of open economies and having a resource-technological and structural character. The author’s conclusion is that welfare growth opportunities are underutilized under Dutch disease conditions in case of government restrictions on primary product exports aimed at conserving the trading sector. The case is made for increasing labor productivity in the Russian economy in order to overcome its dependence on the oil and gas exports.

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Minimizing the negative consequences of the petrodollar inflow into the Russian economy has recently been a topical issue with regard to the objective of achieving a structural and technological equilibrium in the economy. Its successful solution is a determining factor for the opportunities of using the favorable situation in foreign trade to move Russia towards economic growth on the basis of technological progress products.

The Ministry of Finance and the Central Bank (CB) of Russia pursue a policy of curbing the ruble rate strengthening by means of accumulating forex/gold holdings (FGH). They believe that rejecting the sterilization budget-monetary policy would lead to so sharp an inflation growth and/or strengthening of the nominal exchange rate that Russian businesses will become uncompetitive.

Some critics of government policy suggest using the bulk of the accumulated 460 billion FGH to finance investment and social expenditures. Others suppose, on the contrary, that the government and the CB should by no means allow the nominal ruble exchange rate to strengthen, which not only diminishes the price competitiveness of the Russian manufacturers but also attracts speculative capitals from abroad.

The Dutch Disease: Causes and Possible Socioeconomic Consequences

The fact that a country rich in mineral deposits is receiving natural resource rent from primary product exports is, generally speaking, a favorable factor for its economic growth. It should lead not only to an increase in its Gross Domestic Product (GDP) and household incomes but also to the nation’s financial wellbeing. However, there is a number of reasons (the inefficiency of government and market institutions, corruption, the insufficiency of the rate of scientific and technological progress in primary-type economies) for these economies lagging behind those specializing in high-technology production. This paradox has been named the “resources curse” [1]. However, it was discovered in the 1970s that even countries with developed institutions and a highly efficient economy could suffer from serious macroeconomic and structural problems as a result of their high natural resource rent from primary product exports. This complex of problems is generally known as the Dutch disease. The term takes its origin from the Netherlands’ gas exports to Germany from its Groningen deposit site in its sector of the North Sea. The growth of export revenues led to a great strengthening of the guilder and respective increase in the efficiency of tradable products imports and decrease in their exports. Tradable products here refer to products and services that can be imported and exported at low cost. At the same time, the production of other nonprimary products and services, i.e., non-tradable products, grew considerably thanks to increasing public demand. Thus, the growth of production and exports in the mineral resource sector (M) resulted in a transfer of labor and capital resources from the industries producing tradable products, i.e., the tradable sector (T), to the tradable sector (N). This is the essence of the Dutch disease. From an economic standpoint it is relatively easy to explain the Dutch disease phenomenon in an open market economy. For a country possessing excessive natural resources (compared to other production factors) it is profitable to export them in exchange for imported tradable products. At the same time, an increase in the country’s welfare leads to an increase in the consumption of both tradable and non-tradable products [2].
As a result of a multifold increase in the oil and gas prices in the 1970s, the Dutch disease was contracted by other developed countries: Britain and Norway [3]. Although in 1975 the Netherlands was a net exporter of energy products, the share of net exports in its total output was only 4%. For comparison: in 1965 and 1970, the net energy exports amounted to (–208%) and (–102%) of their production output respectively, in 1980 and 1985, to (–4%), and in 1987, as high as (–17.5%). At the same time, the production of energy increased over the period 1965–1987 from 12 to 63 mln tons (converted to the oil equivalent). Hence, the effect of growth in energy output revealed itself mainly in the reduction of their net imports, which improved the trade balance and led to strengthening of the guilder. At the same time, the balance of energy ts trade amounted in 1998 to $ (−81) mln, in 1975, to $ (−714) mln, and in 1980, to $ (−2678) mln.

Britain became a net exporter of energy products only after 1980. However, the ratio between the net export of energy products and their output, which amounted to −103% in 1970, increased to 14% in 1985. The balance of energy trade increased over the same period from $ −1188 to $10 502 mln.

Norway became a net exporter of energy products much earlier, in 1975. The ratio of the net exports and output of energy products in the natural terms amounted to −104% before 1970, and by 1985 it had grown up to 66%. The balance of energy trade increased over the same period from $ −10 to $ −9795 mln. Thus, it would be more correct to name the “Dutch disease” as “Norwegian disease”. It is in this country that special funds (accumulating excessive incomes from oil and gas exports) were set up whose resources were invested into foreign assets. These funds perform two functions. First, they alleviate the dependence of economic development from the fluctuations in the world prices for hydrocarbon products. Second, they ensure the accumulation of profitable assets for future generations so that the standard of living in the country would not fall after the depletion of its oil and gas deposits.

Both functions are relevant to Russia as well. After all, the most critical problem of its socioeconomic development is its dependence on the fluctuation of the world prices for hydrocarbon resources and their production volumes. This dependence originated in the 1970s–1980s when the former Soviet government oriented the country’s foreign economic policy to oil and gas exports in exchange for imported processing industry products. Then, against the background of a multifold increase in the oil prices, this specialization of the Soviet economy appeared to be profitable. For example, the average annual deflated world price for Brent oil increased 4.6 times in 1974 as compared to 1970, and 8 times in 1980. Thus, there was respective growth in the prices for the oil exported by the USSR to Western European countries. However, after reaching their peak in 1980 the deflated prices for Brent oil fell down: in 1984 by 40% and in 1986 by 71%. The Soviet economy got into a deep crisis for the export incomes became insufficient to finance the imports and pay for the loans provided by the Western nations. This raises the question: was this foreign economic policy a mistake?

After the breakup of the USSR, the primary-export focus of the Russian economy increased. Petroleum exports to far-abroad countries increased from 62.1 mln tons in 1992 to 118 mln tons in 1998 and to 211 mln tons in 2006.2 At the same time, petroleum production decreased considerably in the 1990s. It is hard to tell how much this increase in the Russian oil exports affected the world prices; however, in 1998 the deflated price for Brent oil amounted only to 17% of the 1980-year level. This caused the currency and financial crisis in Russia in August 1998. Fortunately, this crisis did not cause any new social and political cataclysms, largely due to the soon happened multifold growth in the deflated oil prices as compared to the 1998 level (from 136% in 1999 to 416 in 2006). This lead to an increase in hydrocarbon resource exports from $28 bln in 1998 to 191 bln in 2006. Its share in the total exports (including services) increase from 32 to 57% respectively, and the share in GDP—from 10 to 19.3%. At the same time, the oil and petroleum product exports grew in natural terms almost twice (from 137 to 248 and from 57 to 104 mln tons respectively), and the gas export re-mained in 2006 at the 1998-year level (203 bln cu.m).

The future development prospects of the Russian economy are still determined mainly by the situation at the world market for primary hydrocarbon products. For example, in the Forecast of the Russian Socioeconomic Development for the Year 2008 and Forecast Parameters for the Period to 2010 (hereafter, Forecast 2010), the increments in the most critical macroeconomic indicators for 2007–2010 will differ considerably by scenario of the price behavior for Urals oil (Table 1). In the second (basic) scenario accepted when drawing up the budget for 2008–2010 the oil prices in 2010 amounted to $50 per barrel, in scenarios 2а and 2с it was much lower ($39 per barrel) or higher ($62 per barrel)3 than in the basic scenario. The ranges of the values of macroindicator growth indices are correspondingly wide by scenario: GDP, 17.1–20.5%; capital investment, 31.5–40.1%; real disposable incomes of the population, 20.7–30.8%.

The Russian Ministry of Economic Development and Trade has developed two basic scenarios of Forecast 2010 with equal oil prices: Scenario 1 (inertial) and

1. Hereinafter the world oil prices have been deflated using the US consumer prices indices relative to 2000 [4]. This source also contains Brent oil prices.

2. Hereinafter we use data from [5].

3. Without doubt there is a high probability of a considerable excess of the actual oil price even over the maximum predicted one, taken at the 2006 level. For example, in option 2b of the forecast for 2007–2009 of August 11, 2006, the oil price at the end of the period was taken to be equal to $80 per barrel.