

Why Reforms of Public Administration Are Not Yielding Results?

As Mikhail Dmitriev puts it, “reforms (of public administration) failed to achieve positive outcomes”. This is a correct, but a very gentle way to describe, what is actually happening. As compared to the period of the late 1980s, when the Soviet Union was still in place, the volume of the provision of public goods shrank by at least half, the quality of government services deterioration dramatically, and the effectiveness of the public administration fell to the lowest level in decades. Pervasive government failure is now apparent in virtually all areas – from collecting custom duties to taking care of homeless children to fighting crime.

Education and health care were free in the Soviet Union, but now these services are provided mostly for a fee and their quality is way below Soviet standards. Life expectancy declined from 70 years in 1987 to 65 years today (against 73 years in China). Criminalization of the country made a mockery out of the idea of the law and order: murder rate surged from 10 in the late 1980s to about 30 per 100,000 of the population in the second half of the 1990s, as compared to 1–2 in Eastern and Western Europe, Japan and China, Israel and Mauritius. Only Columbia and South Africa had a higher murder rate than Russia, while Brazil and Mexico had a murder rate of about half Russia’s level. Even the US rate, the highest among Western nations at 6–7 per 100,000 of the population, pales in comparison.

In 1980–85, the Soviet Union was placed in the middle of a list of 54 countries rated according to their level of corruption, with a bureaucracy cleaner than that of Italy, Greece, Portugal, South Korea and practically all the developing countries. In 1996, after the establishment of a market economy and the victory of democracy, according to Transparency International, Russia came in 48th in the same 54-countries list, between India and Venezuela. In 2005 Russia fell below India. The shadow economy estimated at 10-15% of GDP in the late 1980s expanded to about 40% today.

Why such a deterioration in the volume, quality and effectiveness of the provision of government services? The major reason is the catastrophic reduction of the state spending: whereas in the last years of the USSR expenditure of all levels of government totaled over 50% of GDP and even increased to 65% of GDP in 1992 in Russia, by 1999 it fell to 34% and in 2005 recovered only slightly – to about 40% of GDP (EBRD statistics). Because GDP itself today (after falling in 1989-98 and partly recovering in 1999-2006) has just approached the 1992 level, in real terms (in constant rubles) state expenditure now is only half of what is used to be in the early 1990s. Hence the state has lower capacity to provide health care and education services, lower ability to fight crime and no power to cope with corruption.

This argument is not about the optimal size of the state (a widely discussed issue in economics). It is about the unprecedented in economic history dismantling of the state that occurred in Russia and some other former Soviet republics in such a short period of time in the early 1990s. Simply put, if crime, income inequality, poverty and corruption are on the rise, the state needs more money, not less, to bring these unfavorable developments to a halt.

The paradox of recent years is that Russia gets huge windfall revenues from oil and gas exports at exceptionally high prices. But these revenues bypass the state coffers (because the government decided to cut tax rates in recent years) and precipitate to households and companies (real personal incomes nearly doubled in 1999-2005), even though the weakest link and the bottleneck of current economic and social situation is the lack of the institutional capacity of the state. Why the government is missing such a favorable chance to restore its institutional capacity?

The explanation of the liberal economists and some officials is that the governments of all levels are corrupt and cannot spend the money without embezzling it; instead of increasing government spending, they suggest raising the efficiency of the government spending, in particular through the reform of public administration. Sounds like a good idea, but we hear about it for over a decade already and there is still no improvement, only deterioration. Besides, public administration reform also requires increased spending – higher salaries for bureaucrats and judges to make them “corruption proof”, higher spending on control and accounting bodies, on investigation and prosecution of fraud and abuse activities.

The argument that Russia is not rich enough to fix its education, health care, public administration, law and order misses the point. There are many countries which are no richer than Russia, from Cuba to Belarus, where life expectancy is longer, crime rates are lower, bureaucracy is cleaner. In short, the increase in government spending could lead to both – higher efficiency of the government administration and greater volumes of public goods. Whereas public administration reform without the increase in public spending is likely to produce meager results, if any. Unless there is an increase in government spending, Russians are doomed to live short unhealthy lives in a corrupted and highly criminalized environment.

Vladimir Popov is professor of New Economic School, Moscow (www.nes.ru/~vpopov)

