

Putin's Annual Message Boosts Infrastructure

In the final annual Message to the Federal Assembly of his second term as Russian President, Vladimir Putin on April 26 presented economic and social programs, ranging from a second Volga-Don Canal to a national drive to rebuild Russia's library system, as vital tasks for the Russian state. Even more so than in his 2006 message, when he invoked Franklin Delano Roosevelt on the need for the government to step on the toes of selfish financial operators, in the name of the general welfare, Putin indicated breaks with some the rules of monetarism and globalization that have trapped Russia for 15 years.

The Stabilization Fund, for example, was set up in 2002, according to the monetarist dictum that Russia's oil and gas revenue must be sequestered (invested in foreign government bonds), lest its investment inside the country trigger inflation. "Today, however," Putin told the Federal Assembly, "the nature of our economic objectives requires correction of the function and structure of the Stabilization Fund, while maintaining a conservative financial policy." Now, the Stabilization Fund is to be divided into a Reserve Fund (against the eventuality of a petroleum price crash); a part to go into the Federal Budget, chiefly for social program spending; and a Future Generations Fund, "to raise the quality of life and develop the economy, for the improvement of the welfare of future generations, as well as present ones."

Putin called for physical capital investment through recently created institutions: "Some of these resources should be directed into the capitalization of development institutions, especially the Development Bank, the Investment Fund, the Russian Venture Company, and others. I propose to direct 300 billion rubles [\$11.5 billion] in this

way, already this year, and to anticipate further allocation of funds for these purposes in the future." This financing will go into "elimination of infrastructural constraints on growth," improving the efficiency of natural resources utilization, and modernization and development of high-tech industrial manufacturing.

Putin stressed that the government will not fund all of this activity directly: "Budget resources should not be the main source, but chiefly a catalyst for private investment." The state, he added, "should put its shoulder to the wheel, in cases where the risk for private investors is too great." Meanwhile, "the main role of the government should be to assist business in creating new, truly modern manufacturing."

Nuclear Power, Infrastructure

The time has come for "a second large-scale electrification of the country," said Putin. This striking formulation harks back to the famous GOELRO plan in the 1920s, which is remembered for Lenin's slogan "Soviet Power + Electrification of the Whole Country = Socialism," but was designed by the explicitly pro-American engineer (and collaborator of V.I. Vernadsky) G.M. Krzhizhansky.

Notably *not* stressed was the long-standing campaign by Anatoli Chubais, now CEO of the national utility Unified Energy Systems (UES), to restructure power generation on the British Commonwealth-model schemes that prioritize profit flows for shareholders. Without explicitly rejecting that, Putin chose to emphasize the physical side of power generation.

Putin said that Russia is already confronting "the lack of sufficient generating capacity for further growth." The sector's reform, he said, must increase power output by two-thirds before 2020. Combined government and private investment in new power plants and infrastructure modernization will be 12 trillion rubles (\$460 billion).

Thirty nuclear power units were built during the entire Soviet period, Putin said. "In the next 12 years, we need

to build 26 of them, using the most advanced technologies.” He proposed a new, special corporation, bringing together the nuclear power industry, and working both within Russia and for export.

Putin noted that Russia’s hydroelectric potential is currently only 20% exploited. “Construction of large hydroelectric plants must be launched, above all in Siberia and the Far East,” he urged.

After mention of road, rail and air transport, Putin enumerated elements of his plan to upgrade Russia’s ports and inland waterways. He challenged the government to establish an international consortium to build a second Volga-Don Canal, to “improve ship traffic between the Caspian and Black Seas.” (The Volga empties into the Caspian, while the Don flows into the Black Sea.) Putin said he had already discussed this plan preliminarily with the other Caspian Sea littoral countries, and that “for Russia, this could become yet another major, economically beneficial infrastructure project.”

Other economic tasks, touched on in this speech, included: Russia’s processing more of its own raw materials; promotion of the “innovation economy”; investment in basic scientific research; and nanotechnologies.

Putin reviewed the status of the existing National Projects, which cover agriculture, education, and housing. The latter he presented as a national emergency: to rescue Russian people now living in substandard housing, much of which has hardly been maintained since the end of the Soviet Union in 1991. Putin said that funds from the sale of Yukos Oil Company assets could be one source for financing an urgent, \$10 billion fund to move people out of dilapidated housing.

Foreign Policy

The foreign policy sections of Putin’s Message were relatively brief, but pointed. They continued what he began Feb. 10 in his speech to the Munich “Wehrkunde” Conference on Security. Putin zeroed in on the types of programs that go by the name of Project Democracy (since the found-

ing of the U.S. National Endowment for Democracy, in the 1980s):

“There are those who, making clever use of pseudo-democratic phraseology, would like to bring back the recent past: some, in order to be able to loot our national wealth with impunity, as in the past, to rob the people and the state; others, to strip our country of its economic and political independence. In addition, there is a growing influx of foreign money, used for direct interference in our internal affairs. If we look to more distant times in the past, we see that during the hey-day of colonialism, there was talk about an alleged civilizing role of the colonizing states. Today, ‘democraticizing’ slogans are used. But the goal is the same: to achieve unilateral advantage for one’s own benefit and interests.”

Putin also announced that he “considers it appropriate to declare a moratorium on Russia’s adherence to the Treaty on Conventional Armed Forces in Europe (CFE).” The CFE was concluded in 1990, just before the end of the Soviet Union; many of the countries that were in the Soviet bloc at that time, are now in NATO. Putin stressed once again that some Western parties to the CFE have never ratified it, and continue to link ratification to Russia’s performance on its separate, very complex agreements to withdraw forces from Georgia and Moldova.

“This gives us the basis to assert,” said Putin, “that our partners are behaving improperly, seeking unilateral advantage.” He said that the matter could now be discussed in the Russia-NATO Council, and that Russia reserved the right to withdraw from the CFE altogether, if there is no progress.

Putin again protested the planned placement of U.S. anti-missile facilities in Central Europe, calling them “elements of American strategic weapons systems.”

The Russian President highlighted the importance for Russia, of its economic and other cooperation with its Eurasian neighbors, through the Eurasian Economic Community (EurAsEc) and the Shanghai Cooperation Organization.