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Economic Ideas and Institutional Change: The Case of the Russian Stabilisation Fund

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The story of the stabilisation fund is an example
of how the most progressive form does not
guarantee the most progressive content.
(*Vedomosti*, 21. 12. 2007)

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Abstract

An intense discussion is taking place in International Political Economy on the influence of economic ideas on institutional change. Case studies so far have, however, mainly focused on the Western industrialised countries and research seems to be biased towards cases in which new ideas caused lasting institutional change. The present paper addresses these two shortcomings by analysing the case of the Russian Stabilisation Fund (SF). This case is an example both of the impact of global ideas on a non-Western emerging country and of a 'near miss' in the sense that imported neo-liberal ideas failed to assert themselves enduringly. Paradoxically, it can be shown how the neo-liberally based idea of the SF even contributed to the return to Soviet patterns of industrial policy. The main reason for this, we argue, is that the Fund's implementation was not preceded by economic and political debates. Accordingly, the imported institution of the SF had to be filled with ideational content after its implementation.

JEL-Classification: B52, P28, Q33

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1 Introduction

Since the second half of the 1990s, in International Political Economy there has been a growing interest in the influence of ideas on institutional change (see e.g. Hall 1997; Campbell 1998; Blyth 2002; for an overview of newer approaches in the social sciences Béland and Cox 2011a). Despite the fact that ideas played a crucial role both in the overthrow of socialism and in post-socialist developments, there is little systematic research on the role of ideas in Central Eastern and Eastern European institutional change.[1] The present paper applies the new approaches, dealing with the interplay of ideas and institutional change, to Russian economic policy following the financial crisis of 1998. The Russian Stabilisation Fund (in the following: SF) became the focal point of the tensions emerging from the structural problems of a resource-based economy on the one hand and from the heterogeneous interpretations of these problems by the relevant political actors on the other.

The original intention of the SF, which was embedded in monetarist economic ideas, was to increase macroeconomic stability and protect the Russian economy from fluctuations in the oil price by extracting abundant money and accumulating a monetary reserve. Its introduction was inspired by ideas that circulated around the globe and were actively promoted in Russia (and in other resource abundant countries) by the international financial institutions (in the following: IFIs). At the same time, the domestic debate on the general direction of economic policy that had accompanied the Russian reforms since their early stages gained a new intensity in the early 2000s. It was no coincidence that this debate focused on the SF. The idea of extracting the revenues from oil and gas exports had been an important element of Soviet economic policy since the 1960s, when the Soviet Union first started to export oil and gas. These revenues were partly – although, all in all, not very successfully – used to diversify the structure of industrial production, especially after the substantial hike in resource prices following the oil shock of 1973 (Gustafson 2012: 6). In this sense, the neo-liberal idea of implementing an SF appeared at the same time to be similar to Soviet practice, the intention of

[1] The literature that does exist operates with much too large categories, such as ‘neo-liberalism’, ‘shock therapy’ or ‘gradualism’ and often lacks a sound theoretical and empirical foundation. For this critique see Dawisha and Ganev 2005.

which (to promote industrial policy) was, however, directly opposed to that of the SF as recommended by the IFIs (to contribute to macroeconomic stability).

The first and main thesis of our paper is that the case of the Russian SF is an interesting example of how institutional forms are filled with (domestic) content when ideas become effective in countries other than those in which they were developed. Our second thesis is that the introduction of the SF was, on the one hand, a reaction to the 1998 default and thus a reaction to an economic crisis. On the other, we shall argue, in the context of conflicting patterns of thought, with many key actors believing that it was the state's responsibility to accomplish structural change, it also *caused* a cognitive crisis because it visualised the contrast between the poor state of the real economy and the standard of living of average citizens on the one hand, and the hundreds of billions of roubles accumulated in the SF on the other. To put it succinctly, both by reminding key actors of the Soviet practice of extracting a 'resource rent' and at the same time by making the financial possibilities of the government more transparent, the outspokenly neoliberal institution of the SF seems to have contributed to a policy shift towards a rather neo-Soviet version of industrial policy.

Taking up a methodological suggestion by John Campbell (2002: 29–30), we focus on the key actors at the intersection of academic economics, research institutes and the government, and try to trace how these actors and their conflicting ideas interacted in the struggle over the implementation and later the reform of the SF. This approach proves to be particularly fruitful in the case of the Russian SF, as many of the key actors – persons like Andrei Illarionov,[2] Alexei Kudrin,[3] Andrei Belousov,[4] Arkady Dvorkovich[5] and Mikhail Fradkov[6] – hold the title of a *kandidat nauk* in economics, which is roughly the

[2] Putin's economic advisor 2000–2005.

[3] Minister of finance 1999–2011.

[4] Deputy minister of economic development and trade, 2006–2008, director of the finances and economic department in the Russian Prime Minister's office, 2008–2012, minister of economic development, 2012–2013, currently assistant (*pomoshchnik*) to the President of the Russian Federation. Belousov also holds a *doktor nauk*. He has thus defended a second dissertation roughly equivalent to a German *Habilitationsschrift*.

[5] Deputy Prime Minister (since May 2012), deputy minister of economic development 2000–2004 and Putin's economic advisor 2004–2008, assistant to the President of the Russian Federation, 2008–2012.

[6] Prime Minister, 2004–2007.

equivalent of a Western Ph.D. In what follows we shall look at events and debates from 2001, when the discussion on the implementation of an SF started, to 2007, when the nature of the Russian SF was decisively altered and its revenues were partly used for purposes contradicting its original intention. We do not look into the way SF revenues were spent during the crisis 2008–9, the outbreak of which marks the end of the story with which we are concerned and most likely the starting point of a new one. Our analysis of discourses concentrates on contributions and statements by actors who were directly or indirectly involved in the creation and reform of the SF. Purely academic contributions are dealt with only in passing. Our account of the relevant events is based on an in-depth study of Russian newspapers, mainly *Vedomosti* and *Kommersant*, economic and banking journals, official documents, public speeches, transcripts of parliamentary and expert discussions, on various kinds of internet sources, and on the (not very extensive) secondary literature.

The remainder of the paper is organised as follows. The second section will provide the theoretical foundation and highlight the background of the debate on the SF. The third section is dedicated to the discussions on the implementation of the SF between 2001 and 2004 and is mainly about the reception and 'translation' (Campbell 2004: 79–85) of an internationally circulating idea. The fourth and longest section analyses the debates after the SF was implemented and growing at a speed beyond all expectations. This part is mainly about the clash between the imported institution of the SF and domestic discourses moving increasingly away from the neo-liberal ideas that formed the background to the SF. The fifth section deals briefly with the end of the SF as implemented in 2004. The paper finishes with a summary and conclusion.

2 Theoretical foundations

2.1 Filling form with content: ideas and institutional transfers

The dichotomy between incremental, path-dependent institutional change and short, rapid spurts of radical change (‘critical junctures’) (see e.g. Mahoney 2000; Capoccia and Kelemen 2007)[7] constitutes the fundamental problem behind the renewed interest in the role of ideas in institutional change: if actors are usually strongly constrained by the norms, values and dominant way of thinking of their society, how can we then explain those radical breaks with the past which occur from time to time in virtually all societies? The basic explanation of ideational institutionalist approaches goes as follows (e.g. Blyth 2002: chap. 1; Denzau and North 1994): if institutions for a significant period of time strongly disappoint the expectations linked to them, this can lead to the perception of ‘crisis’ and to the discreditation of the ideas underlying them. Within a short period of ‘unsettled times’ (Swidler 1986: 278), a relatively unbound search for new ideas will take place. Like in a Kuhnian paradigm shift,[8] sooner or later one set of ideas which is clearly distinguishable from the previous one will gain dominance and find expression in a new set of institutions, thus creating a new period of path-dependent and gradual change.

The present paper is a theoretically informed case study, but we believe that our empirical case is also relevant for some methodological and theoretical issues related to it, in particular the recent controversy between historical and constructivist institutionalists (see Hay 2006a; Schmidt 2008; Bell 2011; Schmidt 2012; Bell 2012). According to its constructivist critics, especially in its more ‘sticky’ versions (e.g. Pier-

[7] However, it should be noted that recently attempts have been made to escape the strict dichotomy between path dependence and critical junctures allowing for a more differentiated analysis, see e.g. James Mahoney and Kathleen Thelen (2010). Our own case study speaks in favour of the need to take account of the fact that it is often a prerequisite for radical change that new ideas strike roots in traditional perceptions and ways of doing things. Still, the dichotomy was the starting-point of the recent interest in ideas and institutions and is suited to illustrate what constitutes the basic question of this research.

[8] Though certainly not the last word in the philosophy of science, Kuhn’s *Theory of Scientific Revolutions* still constitutes the main reference point for scholars engaged in the recent discussion on ideas and institutional change. For an attempt to utilise the ideas of Imre Lakatos (admittedly also not the last word in the philosphy of science) see Zweynert 2006.

son 2000)[9] historical institutionalism (in the following HI) systematically underrates agency and hence the relevance of discontinuity and novelty in institutional change. As the constructivists concede (Hay 2006a: 61–62), in its more flexible version (e.g. Mahoney and Thelen 2010), HI is less pre-occupied with structure and stability, gives more weight to agency and regularly deals with ideas. However, they argue, even this version of HI is only able to describe, but not to explain, institutional change (Blyth 2002: 17; Hay 2006a: 62; Schmidt 2012: 709) because it lacks a clearly identifiable endogenous trigger of change. It is hoped that constructivist institutionalism (in the following CI) will solve these problems by shifting attention from structure to agency and introducing a 'first mover', allowing us at least to come closer to causal explanations of change. HI theorists, on their part, criticise the constructivists for overstressing agency and the degree of unboundedness of actors in unsettled times (Jacobsen 1995: 297; Bell 2011: 87). CI theorists sometimes admit the danger of falling into 'ideational essentialism' (Blyth 2002: 270) or 'voluntarist idealism' (Hay 2006b: 93) and stress that they, very much like the representatives of the more flexible version of HI, are aware of the interdependence between structure and agency, so that the difference 'is at most one of emphasis' (Hay 2006a: 63).

Now how does our case study relate to this debate? The point is that the understandable eagerness of constructivist institutionalists to demonstrate the role of ideas as the endogenous trigger of institutional change has led to a certain bias of their empirical work in favour of 'success stories', that is, of cases in which shifts in ideas indeed led to rather radical and lasting institutional change. Even constructivists themselves concede that studies of 'counterfactual cases' or 'near misses' would be highly desirable (see Béland and Cox: 2011b, 13; Capoccia and Ziblat: 2010: 943–4). This is exactly what our paper is aiming to do. Reflecting a firm belief in the power of agency (prevailing at that time especially in economics), post-socialist reform processes in Central Eastern and Eastern Europe were a powerful reminder of the 'limits of design' (Pierson 2000). Indeed, the lesson that not all 'unsettled times' necessarily result in clear breaks with the past and in radically new institutions had a major stake in the rise of the concept of path

[9] On the distinction between a 'sticky' and a more 'flexible' version of historical institutionalism, see Bell 2011.

dependence in the social sciences in the 1990s. Within this context, the Russian SF is a particularly well suited case, because its emergence was clearly inspired by identifiable economic ideas and after its implementation for a couple of years even the most fundamental issues of economic policy, e.g. that of the relationship between the state and the economy, focused on the SF (Yakovlev 2005).

A further, related point where we hope our case study might stimulate theoretical debate, is that it sheds light on the diffusion of economic ideas beyond the core group of Western, developed countries. These countries basically have a monopoly in the production of mainstream economic ideas, especially of those ideas that inform the IFIs' policy recommendations. CI theorists tend to see radical change 'as a response to new perceptions and ways of thinking' (Béland and Cox, 2011b: 11). Indeed, if institutional change is a reflection of, first, a radical (domestic) shift in ideas which is, secondly, widely shared among the relevant actors, changes can be expected to be both radical and lasting. The opposite extreme case is the import of ready-made institutions without a preceding import of ideas. For three reasons, this scenario is much less likely to lead to radical and lasting change. First, as there are no domestic experts who were involved in the development, or at least the academic discussion, of the underlying theoretical ideas, these ideas will be only superficially understood by the domestic political actors. This endangers the successful implementation of the new institution(s) from scratch and bears the risk that they will be quickly and extensively altered if difficulties occur. Secondly, even if some of the relevant actors understand (and share) the ideas underlying the new institution(s), without preceding academic and political debates these ideas will most likely not be supported by a broader consensus among the relevant actors. Thirdly and decisively, in the scenario of an import of institutions without an accompanying import of ideas the thinking of at least a significant number of the members of the group of relevant actors will be structured by ideas not related to the new institution but reflecting the past. Accordingly, a decisive prerequisite for radical, ideationally induced change, namely the 'separation of ideas from their current institutional moorings' (Blyth 2002: 27) does not seem to be fulfilled.

Most real cases of the diffusion of policy ideas lie between the above extreme cases. Especially if ideas travel within the group of Western, developed countries, the relevant scientific communities have usually participated in their development or in the early stages of their reception, and their implementation has, as a rule, been preceded by intense policy debates. Both the academic and the political discourse contribute to (incompletely) detaching ideas from previous shared mental models or habits of thought and, at the same time, to the adaptation of imported ideas to domestic conditions and ideas. This process of bricolage (Douglas 1986: 66–7) does not alter the fact that new paradigms (e.g. Keynesianism or, later, monetarism) constitute clear breaks with the past, but it ensures that new institutions and ideas can strike roots in the traditional ways of thinking and doing things in a process of bounded innovation.

The case of the Russian SF was close to the second extreme case, the import of ready-made institutions without a preceding import of ideas. In such a case, the institutional form has to be filled with ideational content *after* the institution has been established, and a bricolage process cannot influence the design of the institution to be established ex ante, but may lead to ex-post modifications of the already established institution. Quite obviously, the process of ex-post 'filling form with content' (Selznick 1957: 17) is highly contingent. Thus, it is a possible but not a likely outcome that the imported institutional form will be filled with identical or similar content to that in the country or countries of origin. The less the relevant academic community is integrated into the global community[10] and the less intense the preceding policy debates, the more likely it is that imported institutions will, firstly, cause controversies over the 'interpretational sovereignty' over the institution, and secondly, that if a major interpretation asserts itself, it will strongly reflect patterns from the past. This might then lead either to an inconsistency between institutional design and the way the institution works in practice or to an ex-post adaptation of the institution to the shared interpretation.

[10] This is particularly relevant for Russia as Russian economists are still far from being integrated into the global scientific community, see Libman and Zweynert 2014.

2.2 Stabilisation funds and economic ideas

The concept of SFs is firmly embedded in neo-liberal economics with its focus on states of equilibrium and its policy preference for macroeconomic stability and a low rate of inflation in particular. The main idea behind SFs addresses the 'Dutch disease' problem (see Corden 1984; Herbertsson, Skuladottir and Zoega 2000; for an overview of the Russian case see Zaostrovtsev 2010: 125–8): in a small, open economy, the massive export of natural resources can lead to an appreciation of the domestic currency resulting in the declining international competitiveness of all other export goods. If the Central Bank tries to prevent the appreciation, this leads to monetary expansion and, given a causal relationship between the amount of money in circulation and the price level, to inflation. Given that the level of inflation is of major importance for investment decisions by private actors, it distorts investment decisions in favour of short-term investments and thus to the disadvantage of the industrial sector. In short, according to the Dutch disease narrative, the main danger of resource abundance is that it potentially leads to a decline of all sectors except the resource sector. In addition to this, oil prices tend to be highly volatile so that the budgets of oil exporting countries are prone to fluctuation. If the oil price falls significantly below its long-term average, this can lead to acute financial difficulties. This was a relevant experience both for the Soviet Union and for contemporary Russia, as the low oil price had been among the causes of the collapse of the Soviet Union and of the 1998 default (Gaidar 2010: 115–161).

Stabilisation funds are intended to solve both these problems by absorbing a significant part of the profits from resource exports, taking them out of circulation and saving the money for periods with an oil price below the long-term average.[11] At a practical level, this is realised by taxing resource extraction and resource exports, thus creating budget earnings which are transferred to a special account managed either by the Ministry of Fi-

[11] A further rationale for the introduction of SFs is the 'resource curse', the empirically well-documented problem that resource-rich countries are often prone to corruption (and other calamities, such as authoritarianism, civil war etc., that do not concern us here). By establishing an automatic cut-off mechanism, it is hoped to protect the resource income from rent-seeking and corruption. This argument did not play any role in the establishment of the Russian SF. However, for some Russian commentators the very fact of not spending and investing the fund domestically was a hint that it served as a slush fund for Russian authorities (Vladimirova 2005; Veller 2005).

nance, the Central Bank or a specialised agency.[12] In order to tax only those 'windfall profits' resulting from favourable market conditions, usually an expected long-term average price is defined, and only those revenues are taxed that are due to a world market price higher than this cut-off price. In order to achieve the desired anti-inflationary effect, according to the original, neoclassically informed idea, it is essential that the sterilised resource profits are not being returned into domestic monetary circulation. Thus, it is international practice to invest SF revenue in foreign high-security assets.

As stated above, the version of SFs as recommended by the IFIs at the end of the 1990s reflects a monetarist, stability-oriented logic as was dominant in Western economics in the 1990s and early 2000s.[13] Even beyond the monetarist canon, in economics there is at least a basic consensus that macroeconomic stability is a reasonable goal of economic policy for developed countries like Norway, which is often regarded as a role model for SFs (Tranøy 2010). The question, however, is whether or not the same is true for less developed countries. Authors contesting the neo-liberal approach often see a certain trade-off between macroeconomic stability (especially a low rate of inflation) and economic growth. Thus, if growth is the decisive object of economic policy, they recommend putting less emphasis on macroeconomic stability.

In Russia, where neo-liberalism never achieved the position of the dominant current in academic economics, these issues are particularly controversial and since the early 1990s they have divided the Russian economics community into two camps (see Zweynert 2007: 56–8). The debates have focused on the question of how to promote structural change and growth. The opposing *Gestaltvorstellungen* (mental images) of macroeconomic relations among the adherents of the two camps were also at the heart of the debate around the SF. According to the liberals, private and only private investments can be expected to bring technological innovation and lasting structural change (whereas all kinds of government intervention are likely to distort prices and thus halt

[12] In Russia, up to 2006 they were managed by the Ministry of Finance and since then by the Central Bank.

[13] However, the idea of putting monetary wealth aside for future generations has a normative connotation that may be considered compatible with social-democratic rationale. The Norwegian SF indeed seems to reflect this rather than a neo-liberal logic. However, saving money for future generations did not play any role in the debates around the implementation of a Russian SF. At the same time, the departure from the original logic also manifested itself in a stronger emphasis on the welfare aspects of the SF as expressed in the term 'Fund of National Welfare'; see section 'The end of the SF: 2007–2008' .

rather than promote qualitative improvements). Thus, the main task of economic policy is to improve the business climate and to bring inflation, which they see as the main obstacle to long-term investments, under control. The adherents of the other camp, which is sometimes labelled *gosudarstvenniki* (from *gosudarstvo* = state) regularly have a cycle image of macroeconomic processes, which is sometimes informed by Marx, sometimes by Keynes and most often by a mix of the two. Since the early 1990s this camp has fiercely opposed monetarist stabilisation policy as recommended by the IMF. According to these economists, the emphasis on stabilisation, has, by tightening credits for domestic producers, caused the decline of the investment rate and thus also a decline in industrial production. From the very beginning of transition on, they have also challenged the liberals' trust in private investments as the main engine of structural change and have called for a national innovation and industrial policy. This demand grew stronger from 2001 on, when in view of the 10th anniversary of the beginning of market reforms, more and more commentators came to the conclusion that the record of market reforms was rather disappointing, in particular regarding structural change (see Zweynert 2010: 549–50).

It is important to note that despite their opposing *Gestaltvorstellungen* both camps had good reason to welcome the implementation of an SF (see for the following Vatansever 2009: chap. 6). After the 1998 default it was clear to everybody that something had to be done to reduce the macroeconomic vulnerability of the Russian economy. This point did not cause any controversy and the fund's *reserve function* was, accordingly, the point emphasised by Vladimir Putin in his early speeches on the SF. For the adherents of state-led modernisation, it was, apart from the reserve function, an obvious and familiar idea to capture the 'oil rent' in order to gain the revenue needed for a more active industrial policy. As the Russian monetarists assumed a strict nexus between the rate of inflation and the rate of investments, to them it was mainly the sterilisation function that mattered. The idea of using SF capital to ease the tax burden of the non-oil and non-gas sector had supporters in both camps; to the liberals who emphasised the importance of structural change it was clearly to be preferred over industrial policy, whereas in the camp of the *gosudarstvenniki* it was mainly seen as a supplement to industrial policy. It was, however, seen critically by those liberals who gave priority to stabilisation and thus sterilisation. A key problem of the way the SF was implemented in Russia was that there was practically no time and space to discuss its different aims and their relative weight. Furthermore, whereas Putin repeatedly emphasised the reserve function, there is evidence that the key actors behind its implementation gave priority to the sterilisation function without clearly communicating this.

Besides all the controversies as to how to achieve this aim, both camps basically agreed that what Russia's economy needed was qualitative, structural change in order to overcome resource dependence. The need for the diversification of Russia's economic structure was acknowledged by Vladimir Putin as early as 1999 (Balzer 2005: 216–7). Somewhat contrary to this consensus, Putin later on demanded a boost of the (quantitative) growth rate in various speeches, culminating in 2003, when in his address to the Federal Assembly he set the target of doubling Russia's GDP by the end of the decade (see Vatansever 2009: 334–5; Shelin 2013). As we shall see, this demand proved to be of significant influence in particular for the evolution of the position of the Ministry for Economic Development.

3 The period of implementation: 2001–2004

Around 2000, the implementation of stabilisation funds for countries exporting natural resources was an idea that was travelling around the world. SFs were both widely discussed in the academic literature and increasingly often introduced in political practice. Between 1998 and 2000, no less than nine oil and gas exporting countries introduced SFs, among them the former Soviet Republics of Azerbaijan (1999) and Kazakhstan (2000). It is well known that the IMF was actively involved in the establishment of some of the African SFs (Gary and Karl 2003) as well as that in Venezuela (see www.swfinstitute.org/swfs/fem/, last access 17 February 2014). Tellingly, the first mentioning of the idea of introducing an SF in Russia bears a direct reference to the IMF: on 11 October 2000, the daily newspaper *Kommersant* reported on an international meeting in Boston on foreign direct investments in Russia, at which the then vice-director of the IMF, Stanley Fisher, had urgently recommended the implementation of an SF in Russia (Vardul 2000). Another important foreign proponent of a Russian SF was the former IMF’s resident representative (he held this post during 1992–5) Augusto Lopez-Claros. At that time with Lehman brothers, London, he campaigned for a Russian SF, arguing that it would ‘send a powerful signal to investors that the country is being managed cautiously, that provisions are being made to reduce the country’s dependence on … commodity exports’ (Lopez-Claros 2001a).

It is certainly no coincidence that one of Lopez-Claros’ interventions is still to be found on the website of the Gaidar Institute for Economic Policy (formerly Institute for the Economy in Transition; in the following: IET) (Lopez-Claros 2001b). This liberal research institute and think-tank played the all-decisive role in the import of this idea into Russian politics. Indeed, in one of his last interviews, Egor Gaidar (2009) said that he regarded the introduction of the SF as one of the most important achievements of his career. On 16 February 2001, the *IET* came forward with a detailed policy paper on ‘The Prospects for Creating a Stabilisation Fund in the Russian Federation’ (Zolotareva 2001, English translation 2002). The paper is mainly based on IMF, World Bank and United Nations materials, is firmly rooted in a monetarist framework and deals exclusively with the problem of macroeconomic stability. Typically for the writings of Russian neo-liberal economists from the Gaidar environment,[14] there are basically no references to Russian socio-economic reality and its institutional framework. The possible contribution of an SF to structural change and overcoming resource dependence is mentioned only in passing when dealing with the possible distortion of investment decisions in favour of the resource sector (ibid.: 21). Given the strict emphasis on macroeconomic stability it is hardly surprising that the possibility of investing SF capital domestically is not mentioned at all, whereas the authors recommend using them exclusively for debt repayment (ibid.: 42). The paper contained a "Draft Federal Law of the RF 'On the Stabilisation Fund' " which made its way directly into the policy process. The draft foresaw an absorption mechanism based on a mathematical formula (and thus a maximally 'objective' procedure that would not be prone to political pressures) and recommended that the resources be managed by the Central Bank (and not by the Ministry of Finance as this was part of the government structure). Also, the draft did not define a maximum size for the SF.

The decisive transmitter between the Gaidar group and the political process was Andrei Illarionov, who was appointed Putin's economic advisor from 2000[15] and initiated a number of key reform projects under the early, rather liberal economic policy of Putin's first presidency. The project of the SF entered the political arena in April 2001, when Vladimir Putin outlined the idea in his general message (Putin 2001a) and in his budgetary messages (Putin 2001b) to the Federal Assembly of the Russian Federation. 'The federal budget', Putin argued in the budgetary message,

> 'should be protected to the highest possible degree from external influences such as a change in world prices for Russian exports. To achieve this it should consist of two parts. The first part should be based on a conservative macroeconomic prognosis proceeding from a pessimistic appraisal of prices for Russian exports. These revenues secure the financing of state expenditure independently of the influence of developments in foreign trade. A second part of the federal budget consists of additional revenues which arise under the condition of higher export prices' (Putin 2001b).

In view of the discussions that were to come two things are noteworthy here. First of all, the sterilisation function of the SF is not mentioned at all, though for the Russian monetarists around Alexei Kudrin it was of no less importance than the reserve function

[14] It should be stressed that this is not true of the later works of Egor Gaidar himself.

[15] In December 2005 he stepped back from this position, protesting against the government's increasing departure from democratic principles.

(see Vatansever 2009: 397). Secondly, in his general message besides the reserve function Putin explicitly noted that the revenue could also be used ‘for the solution of strategic tasks’. When confronted in an interview with the obvious interpretation that this referred to structural reforms, Illarionov said that, ‘if the prices for traditional products of export fall below the so-called cut-off price … the amount accumulated in the SF can be used within the country. Also for investments’ (Khodorovsky 2001). This statement in particular shows that in this early period of the discussion the positions were not yet clearly defined.

Just how positions were to change can be seen from the fact that Alexei Kudrin, who was soon to become the strictest adherent of the SF and of the idea that its assets should not be invested within the country, at this time opposed the idea and, together with Prime Minister Kasyanov, prevented its implementation. In a memo reacting to the *IET*’s draft law and issued on 16 May 2001, the Ministry of Finance (in the following: *MinFin*) argued that under the condition of large foreign debts the nexus between oil price and budgetary situation was much less straightforward than the draft suggested (MinFin 2001). Thus, the *MinFin* argued, its implementation might all too easily lead to situations in which the SF law came into conflict with the obligation to fulfil budgetary obligations. However, it should not go without notice that 2003 marked the peak of Russia’s debt repayment obligations, and this definitely had an important impact on the *MinFin’s* position.

To keep this part of the story short: this first attempt at implementation of an SF failed, and the way in which Vladimir Putin’s demand to split up the budget into two parts was realised reflected the *MinFin’s* position. Instead of a clearly defined cut-off mechanism, it was decided that all budget revenues exceeding a conservative prognosis would be accumulated at the *MinFin* in a ‘Financial Reserve’ (= *finrezerv*) to be used entirely for debt retirement. However, over the following one and a half years, the *Min-Fin* radically changed its position. Two things seem to have played a role here. First, the budget surpluses led to increasing spending demands by Kudrin’s cabinet colleagues. In particular, the second half of 2002 saw a lasting controversy between the Minister of

Economic Development and Trade (in the following: MERT[16]), German Gref, who demanded a quite radical tax cut, and Kudrin, who pleaded for maintaining budgetary discipline. In fact, in particular due to problems with tax collection, by the end of 2002 the *finrezerv* had not reached the scheduled RUB 197.4 billion by far. Worse than that, in the first three quarters of 2002 it had even shrunk from 89 to RUB 76.1 billon, which spoke in favour of a more clearly defined cut-off mechanism (Bekker 2002).

The Russian SF was finally born out of the clash between the *MinFin* and the *MERT*. As a compromise, in December 2002 it was agreed that the Unified Social Tax would be lowered from 1 January 2004 but that at the same time an 'untouchable' SF would be introduced. In order to understand what happened to the SF later, it is crucial to be aware that the camp of its supporters had quite different ideas about its main function. Kasyanov, Gref and Alexander Zhukov, chair of the budget commission of the *Duma*, primarily hoped that the transparent accumulation of reserves would make it easier to accomplish tax cuts. Kudrin, in contrast, saw the SF as the decisive means to maintain macroeconomic stability and in particular a low rate of inflation.

These discussions flared up again in February 2003, after Kudrin had presented his draft law at a government meeting. Both Zhukov and the Vice-Minister of Economic Development and Trade, Arkady Dvorkovich, demanded immediate tax cuts and (especially the latter) a stronger emphasis on structural reforms (Bekker 2003). The *MinFin* immediately reacted with a press release that urgently warned against 'selling the fur before shooting the bear' (quoted from ibid.) However, when Kudrin's deputy Alexei Ulyukaev officially presented the project draft, he announced that besides debt repayment the SF could also be used for the 'realisation of structural reforms allowing for saving of future budget spending' (Netreba 2003). According to newspaper reports, upon request Ulyukaev had difficulty specifying possible structural reforms to be financed by the SF. Obviously, in the *MinFin* not much thinking had yet been done on this problem (Korop 2003). Indeed, the law which was finally passed on 23 December 2003 simply stated that if the SF exceeded RUB 500 billion, it could be spend on 'other

[16] Ministerstvo Ekonomicheskogo Razvitiya i Torgovli. In May 2008 the name of the ministry was changed to Ministerstvo Ekonomicheskogo Razvitiya, as the Ministry of Industry and Trade (Ministerstvo Promyshlennosti i Torgovli) was created that took over a part of former MERT responsibilities.

goals' ('On Amendments to the Budget Code of the Russian Federation regarding the establishment of the Stabilisation Fund of the Russian Federation', chapter 13.1 in the Russian Budget Code, Drobyshevsky 2011: 133). The implemented version also bore clear traces of compromise in other regards. The planned final size was reduced from RUB 1.1 trillion to RUB 688 billion, the cut-off price was raised from 18 to 20$ and the tax base was narrowed, so that, according to calculations by the *MinFin*, only approximately 77% of the oil revenue would be sterilised in the SF.[17] However, the fact that Andrei Illarionov, in an informal New Year speech, praised its introduction as the 'decision of the year' (Shapovalov 2003) proves that even the diluted version that was finally realised found the approval of its political 'father'.

[17] In fact, according to the calculations by Gurvich, Vakulenko, and Krivenko (2009: 38) between 2004 and 2007 about 75% of the additional oil revenue was absorbed by the SF.

4 To spend or not to spend? The debate 2004–2006

As we have seen, when the SF came in force on 1 January 2004 it reflected a consensus neither within the government nor within the group of key actors at the intersection of academic economics and economic policy. Rather, the formulation that SF assets above RUB 500 billion could be spent for ‘other’ purposes left the issue entirely open as to what could and should be done once this benchmark had been exceeded. Evgeny Yasin, the ‘grand old man’ of Russian economic liberalism with excellent government ties admitted that this underspecification resulted from the fact that the authorities were not sure which kind of solution to choose and expected that this threshold would certainly not be met within the following three years (Vatansever 2009: 396). Thus, the implemented institution still contained an empty space not yet filled with clearly defined content. This was the more important as the time of the implementation of the SF coincided with the beginning of a paradigm shift in Russian economic policy away from liberal ideas and towards the idea of state-led modernisation. The beginning of this shift, which found its most visible manifestation in the Yukos/Khodorkovsky case, can clearly be traced in the debates around the SF.

4.1 Development versus stabilisation?

In December 2003, the Centre for Macroeconomic Analysis and Short-Term Forecasting (in the following: *TsMAKP*[18]) published a report: ‘The Stabilisation Fund: Sources of Formation and Possibilities of Using the Resources’ (TsMAKP 2003). The former Russian Minister of Development (2012–2013) and current Assistant (*pomoshchnik*) to the President of Russia, Andrei Belousov (b. 1959), then head of the *TsMAKP*, is one of Russia’s most politically influential economists: having graduated from Moscow State University in 1981, he first made a career at the Central Economic Mathematics Institute (TsEMI) of the Russian Academy of Sciences, then at the Institute for Economic Forecasting (IEPNTP, from 1991 on INP) and in 2000 became director of the TsMAKP, a post he held until 2006, when he joined the Ministry of Economic Development (see below).[19]

[18] Tsentr makroekonomiki i kratkosrochnogo prognozirovaniya.

[19] For these biographical data see www.economy.gov.ru/wps/wcm/connect/economylib4/en/home/press/news/doc20120521_002; http://ria.ru/spravka/20120521/654335328.html, last access 17 February 2014.

More clearly than any other influential Russian economist, Belousov stands in the tradition of reformist Soviet economic thought, in particular that of the structural approach tomacroeconomic forecasting developed by Alexandr Anchishkin and Yuri Yaremenko (see their main work: Anchishkin and Yaremenko 1967; see also Sutela 1991: 47–8). In the introductory chapter to his second (‘doktorskaya’) dissertation (roughly the equivalent of a German or Austrian *Habilitationsschrift*) “The Evolution of the System of Reproduction of the Russian Economy, From Crisis to Development” Belousov (2006) gives a very clear account of his fundamental methodological convictions: rejecting basically all the elements on which modern economics (including the vast majority of its heterodox currents) rests, Belousov explicitly commits himself to methodological holism,[20] and to a teleological understanding of development, according to which ‘development always realises certain aims of society’ (ibid.: 11). The third decisive element of his reasoning is that he consistently models macroeconomic relations as cycles (ibid.: 14–15). Though regarding this *Gestaltvorstellung* as certainly in line with Keynesianism, he emphasises the key idea of his academic teachers that it was structural change rather than growth rates that counted for the long-term prospects of a society (ibid.: 16).[21]

Belousov and his colleagues shared the consensus regarding the necessity of an institution protecting the budget from fluctuations in the oil price (TsMAKP 2003: 8). However, they criticised the *MinFin*’s strict focus on sterilisation and macroeconomic stability, which in their view ignored the fact that only massive investments could help Russia to overcome its dependence on natural resources. In their view,

> ‘The establishment of a stabilisation fund in the form proposed would hinder economic development. Basically, it would mean that major financial resources would be withdrawn from circulation, which would result in a loss of GDP and of investments’ (ibid.: 14).

[20] He clearly admits that ‘according to this approach the micro-objects (forms, domestic economies [domokhozyaistva] and so on) are to a significant degree ‘unfree’ in their behaviour: they are either subordinate to the forms of development of the whole or cease to exist’ (Belousov 2006: 10).

[21] This emphasis on structural change rather than on material growth had been quite heretical in the Soviet Union and also bluntly contradicted Putin’s 2003 announcement that GDP would be doubled by 2010. One may speculate that it could be due to the growing influence of Belousov that Putin has not made similar statements since.

What was therefore needed, the authors argued, was an investment fund rather than a stabilisation fund. The developmental agenda expressed here was anything but new. Similar anti-monetarist arguments had been put forth regularly since the mid-1990s. However, with monetarist ideas now having found an institutional expression, the counter-arguments could be addressed directly against the SF. A critical comment in the liberal *Vedomosti* argued that the main reason for the low investment rate was an unfavourable investment climate and thus the investors' distrust in macroeconomic stability, the very problem the SF was addressing (Ot redaktsii 2003). Reacting to this, Belousov clarified his position, arguing that other countries with a comparable savings rate (25–30% of GDP) had significantly higher rates of state investment (6–7% as compared to 2.0–2.5% in Russia) (Belousov 2003). He conceded, however, that a possible positive impact of state investments 'would be strictly determined by the possibilities offered by the organisational and legal framework responsible for the efficiency of the state investments'.

This dispute contained the basic arguments that over the following years were to be exchanged over and over between the adherents and the opponents of the SF in its realised form. Was the low investment rate primarily caused by a lack of accessible capital, and thus also by too tight a monetary policy that had been even further tightened by the introduction of the SF? Or was it due to a lack of trust in macroeconomic stability with fear of inflation being the main concern of potential investors? And whose investments – those by the state or those by private actors – were more likely to contribute to the urgently needed structural change? Just how controversially these issues were discussed in the first half of 2004 even within the government is evident from the fact that the president (Putin 2004) delayed his budget message significantly, until the middle of July (it usually takes place in April or May). An unnamed government official revealed that, 'We have argued for a long time over how the SF can be used and how this will affect the macroeconomic indicators' (Bekker and Nikolaeva 2004).

The text of the message still clearly supported the liberal camp by arguing that 'excessive' revenue should only be spent on debt repayment. At the same time the president already announced that the SF could also be used to cover a deficit in the Pension Fund caused by the reduction of the unified social tax – this decision was taken in

August 2004. Accordingly, RUB 30 billion were transferred to the Pension Fund in 2005, the SF having reached a volume of RUB 500 billion by the end of 2004 (Drobyshevsky 2011: 131).

From the second half of 2004 on, Mikhail Fradkov, who had been appointed Prime Minister on 1 March 2004, positioned himself against the strict course of Kudrin and the *MinFin*. Fradkov, born in 1950, has sometimes been labelled as an 'old apparatchik' (Butrin 2005). He indeed started his career in the Soviet embassy in India, where his task was to promote the Soviet economic model (Bekker, Ivanova and Ivanov 2004). At the same time, he made the decisive steps of his career as an economic politician, culminating in his appointment as Minister of Trade in 1999, in the Yeltsin era. This mixed background possibly made him a consensus figure with whom the different camps in the Kremlin could live.

Fradkov struck his first blow against Kudrin in August 2004. In view of the fact that the SF would soon reach the important benchmark of RUB 500 billion, he instructed all ministries to develop projects for the spending of the 'excessive' SF revenue by 1 November (Drobyshevsky 2011: 131). Kudrin reacted with a compromise proposal that was agreed with the Ministries of Development and of Health and Social Affairs, with the Central Bank, and with the prime minister and his deputy. On the one hand, it proposed raising the cut-off price by RUB 1.5–2 which would lead to additional budget earnings of approximately $2 billion, which could be spent on investment projects. On the other hand, returning to the original idea it suggested defining the desired minimum size of the SF as a percentage of GDP rather than in absolute terms and thus allowing the SF to grow with GDP.

Fradkov's advance had given rise to the hopes of the advocates of domestic investments of SF capital. Correspondingly, they were disappointed with the compromise. Belousov, for example, reacted with sharp critique to the compromise arguing that not only would the money be withdrawn from circulation, but even worse, it would 'be placed in the competitor's circulation' (quoted from Ivanova 2004), which obviously referred to the USA. This nationalist undertone[22] found a much more blunt expression in an article by Moscow's then mayor, Yuri Luzhkov, appearing under the heading 'The Stabilisation Fund – Medicine Against Development' in the left-wing newspaper *Trud*. Obviously, Luzhkov (2004) argued, the main purpose of the SF was 'saving for saving's sake', as a result of which the money went into foreign countries instead of supporting domestic production. The freezing of liquidity caused a 'hunger for money' and a 'delay of structural reforms' which might deprive Russia of its perspective of qualitative growth. Thus, echoing Belousov's position, he stated that what was needed instead of an SF was a 'Development Fund' or a 'Fund for Russia's Future'. The *MinFin's* answer was sharp and immediate: on 9 December it published an official response in which it accused Luzhkov of a 'lack of understanding of the macroeconomic processes' and stressed that the establishment of the SF had primarily been a reaction to the 1998 default, which had been a result 'of this kind of economic ignorance' and had hit Moscow particularly hard (quoted from Netreba 2004).

4.2 The emergence of the investment fund

The idea of creating an investment fund (in the following: IF) for financing infrastructure and innovative business projects was formulated by German Gref as early as 2004 (Bekker 2005). As a liberal economist sceptical about the efficiency of state investment yet at the same time politically in charge of Russia's economic development, Gref faced an uneasy task. Accordingly, the project of an IF which he presented in February 2005 envisaged public-private partnership and rigorous benchmarks for investment projects in terms of profitability and expected contribution to GDP. The latter aspect responded to Putin's ambition to double GDP in 10 years. Gref's project clearly aimed at large-scale investments: projects to be financed were required to contribute 0.4–0.5% of GDP per annum (Samotorova 2006) and the minimum investment was RUB 5 billion.

Although Gref's project, with its focus on big business and on growth effects, could hardly be expected to come up to this task, the idea of the IF was soon to be the focus of attention of those who demanded that the SF be used for an active industrial and infra-

[22] We do not use 'nationalist' as a political label here but only state that these authors ascribe priority to national economic development very much in the sense of the 'father' of economic nationalism, Friedrich List.

structure policy. Accordingly, Gref found many supporters among the deputies of the ruling party *Edinaya Rossiya,* who insisted on including the IF project in the 2006 budget (Edinaya Rossiya 2005a, Edinaya Rossiya 2005b). It was they who, on 26 August 2005, pushed through the amendment to the budget plan for the year 2006 stipulating the establishment of the IF. However, as it contradicted both the Budget Code and the government's common financial practice, it went into force only with a delay of one year (Ot redaktsii 2005). For the deputies of *Edinaya Rossiya* the IF became a symbol of the idea of using oil incomes for the diversification of the economy via the fostering of infrastructure and innovation. This interpretation indeed corresponded to the way the IF was subsequently framed rhetorically, including by Gref himself (Shapovalov 2007a). However, the amount of capital that was at the disposal of the IF made its contribution to this ambitious goal appear doubtful (Edinaya Rossiya 2005a; Stroyanova, Rzheshevsky and Goverdovsky 2006).[23] Later on it turned out that besides the insufficient endowment bureaucratic turf battles also undermined the IF's ability to contribute to economic diversification. As deputy minister of economic development, Andrei Klepach, told us in an interview (Klepach interview 2013), in 2007, against the resistance of the MERT, the IF was transferred to the Ministry of Regional Development (MRD) and was primarily to be directed to regional small-scale projects. Nevertheless, previously selected projects of 'state importance' still obtained their funds from the IF (Proekty Investitsionnogo Fonda Rossiiskoi Federatsii).[24]

As outlined above, from August 2004 on it was clear that Fradkov was in favour of the idea of investing SF revenue within the country. The increasingly prominent role played by Andrei Belousov as his special economic advisor finally made it clear that his sympathies were with the 'development camp' rather than with the liberals. When on 31 October 2005 Belousov presented an outline of some pressing imbalances in the Rus-

[23] According to the amendment which was passed on 23 November 2005, the IF was to be equipped with RUB 69.7 billion, while 72 billion were initially earmarked for 2007. In 2006, following a three-year financial plan, the latter figure was changed to RUB 110.6 billion. In 2008 an additional RUB 104.3 billion and in 2009 RUB 93.3 billion were to be transferred to the IF. The amount was rather negligible in comparison with the volume the SF reached at the end of 2006 and 2007 – RUB 2346.9 billion and 3849.1 billion respectively (Drobyshevsky 2011: 131).

[24] In 2009–2010, during the years of crisis management, most resources were spent. Since then, the MRD has hardly generated any new funds for the IF (authors' interview with A. Klepach).

sian economy and a long-term strategy to solve these problems by direct state intervention, it became obvious that a shift in Russian economic policy was imminent (Lavelle 2005). However, despite the facts that by the second half of 2005 the government was finally split and that the idea of the IF seemed to stand for the very paradigm Kudrin and the *MinFin* opposed, there was a surprisingly broad consensus in favour of the IF. For example, in September 2005 Kudrin and his deputy Storchak proposed adding to it the revenue saved by the early repayment of the foreign debt (opec.ru 2005).

The federal budget in 2006 marked the paradigm shift in Russian economic policy not only because of the IF. Budget expenditure rose by 25.7% and the budget was now officially labelled 'budget for development', a terminology even used by Kudrin (Prikhod'ko 2005; Edinaya Rossiya 2005c). Four 'national projects' in the area of social welfare were launched at the cost of RUB 115 billion. These expenditures could be financed only by a significant increase of the cut-off price from 20$ to 27$ per barrel (Tikhomirova 2005). The revenue thereby released was to stay in the budget and be available for current spending and investment. Moreover, the *MinFin* continued the practice of estimating the future oil price in conservative terms, which released substantial additional funds as the price continued to rise.

4.3 The debate over the causes of inflation

In February 2006 the shift in Russian economic policy found a further manifestation in Andrei Belousov's appointment as Deputy Minister of Economic Development, which went hand in hand with the establishment of a new department for industrial policy within the Ministry. At the same time, the position of the MERT was demonstratively upgraded by Fradkov, who announced that from now on it would co-ordinate the entire economic policy. At the latest after the 2006 budget had been passed, it was obvious that budget discipline was declining. This, especially in the context of an increasing inflation rate (2004: 10.9%; 2005: 12.7%), looked worrisome to those who saw a low rate of inflation as the key to structural change. Furthermore, as in 2004 and 2005 the growth rates of the volume of the SF and of budgetary expenditures had been strongly positively correlated, the SF had obviously not fully achieved one of its central purposes, namely that of decoupling budgetary spending from the oil price.[25] In another attempt to defend the SF against spending demands, in early 2006 Kudrin came forth with the proposal to radically divide the budget into a part based on revenues stemming from oil and gas and another one based on all other revenues. The decisive point then was, following the examples of Norway and Kazakhstan, to define an upper limit for transfers from the oil-gas budget to the 'normal' part of the budget. It is interesting to see that Kudrin, who, as mentioned at the beginning of this paper, holds a *kandidat nauk* in economics, launched this idea in the February 2006 issue of *Voprosy ekonomiki*, the leading Russian academic economics journal. Without being able to prove it, to us this strategy of giving scientific weight to a policy proposal has to be seen in the context of Kudrin's struggle with Belousov, who could regularly refer to the works of the *TsMAKP* to argue his case, whereas the Minister of Finance lacked such a scientific source of authority.[26] In a situation in which the 'developmental' paradigm had already clearly made the race, in this paper Kudrin (2007: 10–11), though in brief terms, finally outlined his monetarist counter-narrative regarding the connections between the SF, government spending and structural change. In his view, the 'economically unjustified growth in budget spending' in times of high oil prices

> 'reduces the quality of state administration and holds back structural reforms. The temptation to take advantage of the possibility of increasing expenditure leads to a serious deterioration in the quality of budget planning and implementation, which manifests itself in the groundless inflation of state contracts, the use of nonmarket methods for supporting the real sector, the inadequate design of financing mechanisms, and in the loosening of reporting and checking procedures. The result is expansion of the state sector, the crowding out of private investment, and deterioration in the quality of economic growth.'

In March, Kudrin's proposal of a non-oil-gas budget entered the policy process, and already in early April the government announced that it had in principle agreed to Kudrin's proposal. However, the central idea of capping transfers from the oil-gas budget to the other part of the budget was not yet part of the agreement. The main rea-

[25] Empirical studies come to heterogeneous results as to how strong the correlation was, however. Whereas Gurvich, Vakulenko and Krivenko (2009: 47) find that despite the SF 'the amount of government spending depends significantly on oil prices', Merlevede, Schoors and Aarle (2009) argue that between 2003 and 2007 the elasticity of the budget to the oil price had decreased so that the SF could partly be seen as a success. This view is shared by Shinichiro Tabata (2007).

[26] Despite its scientific reputation, for ideological reasons the Gaidar institute was no longer an acceptable source for a minister searching for politically credible scientific support.

son for this smooth implementation seems to have been a side debate about the right investment strategy of the SF (see also Fortescue 2010: 188–189). The call for a more aggressive investment strategy for the capital accumulated above the reserve part had gathered pace during 2005. Obviously, Fradkov and others hoped that with increasing visibility of the oil and gas revenue and an even more quickly growing SF, the pressure on the *MinFin* for a more risky investment strategy would increase. Very much in this sense Fradkov and representatives of the *MERT*, quite obviously in co-ordinated statements, announced that they welcomed this measure in view of budget transparency, indirectly implying that they rejected the underlying idea that government spending should be restricted to the amount of non-oil and non-gas revenues (Petrachkova, Bekker and Grozovsky 2006).

Kudrin, however, made it clear that he was sticking to his convictions. In an interview with the newspaper *Rossiiskaya gazeta* he said that macroeconomic stability would ‘achieve more with regard to the investment decisions of businessmen than all the state investments together’ (quoted from Konisheva 2005). And at a presentation at a *Higher School of Economics* round table on the SF which took place on 18 April 2006 (HSE 2006), he was the first member of government to explicitly say that Russian inflation was entirely of monetary origin and due to a too expansive fiscal and monetary policy. Only a few days later Kudrin’s position was countered by the *MERT*, when Andrei Belousov presented a study according to which only 4.3% of the 10.9% inflation of 2004 was of a monetary nature, whereas 6.6% was due to ‘local monopolies’, which was a hint at the significant increase in prices for public housing services. A number of authors backed the thesis that Russian inflation was caused by supply-side problems rather than by a too expansive budgetary policy (Panova 2008). According to this rationale, an increasing monetary supply would not cause inflation, as it would immediately be followed by an increasing supply of goods (see e.g. Fetisov 2007; Glaz’ev et al. 2011).

Belousov made it plainly clear what the discussion on the nature of inflation was really about by reminding his audience of the experience with the introduction of the SF, which ‘limited the supply of money to a considerable degree and triggered a liquidity crisis’ (quoted from Shapovalov 2006). On the same day as Belousov challenged Kudrin’s view on inflation, a meeting of the council of the *MinFin* discussed the issue of state expenditures. As the *Kommersant* reports, Mikhail Fradkov opened the debate with the statement that 'the ideology of the sterilisation of money requires additional measures for the activation of economic policy' and explicitly agreed with the position of Belousov and others that the state extracted more money from the economy than it actually spent (Netreba 2006a). According to newspaper reports, the discussion then continued at the weekly government meeting at the Kremlin, where Deputy Premier Minister Alexandr Zhukov demanded support for Russian nanotechnology to the tune of at least RUB 12 billion (ibid.)

It was also Zhukov who, on 22 May 2006, announced that the government was planning to divide the SF into a Reserve Fund and a Future Generations Fund. Despite Kudrin's immediate response that the *MinFin* was not considering such a division (Bekker and Ragozina 2006), in his budget message of 30 May Putin (2006) announced the creation of a Future Generations Fund. On the one hand, he argued, 'the policy of accumulating windfall budget receipts in an SF must be continued', and they should be spent entirely to 'replace external resources of funding the budget deficit and/or the early repayment of external sovereign debt'. However, he argued,

> '[a]t the same time a firm distinction must be made between the assets set aside in the SF for the sake of minimising the negative consequences of falling oil prices (the reserve component), and the resources accumulated above this level (the fund for future generations)'.

Though the name suggested something different, in the concrete political context it was quite obvious that this concept aimed at increasing the possibility of spending SF revenues on current domestic purposes. Indeed, shortly after the budget message, Dvorkovich specified that the Reserve Fund should be less than 10% of GDP and that parts of the Future Generations Fund could be invested in Russia (Fortescue 2010: 119).

The conflict between Fradkov and Kudrin escalated on 16 June 2006 at a government meeting dedicated to competitiveness and entrepreneurship, when Kudrin commented on Fradkov's remarks on industrial policy with the comment that 'as long as inflation is higher than 3% all talk of innovation policy is nonsense (*boltovni*)', and shortly after left the meeting indicating 'urgent business' (quoted from Netreba 2006b). Only a few days later Fradkov announced that the competences of the ministries would be more explicitly specified, and there was not the slightest doubt that he was in fact speaking about cutting the power of the *MinFin* (Netreba 2006c).

5 The end of the stabilisation fund: 2007–2008

The final break with the original concept of the SF was officially declared in March 2007 in Putin's budget message for the years 2008–2010 (Putin 2007a). Putin announced the plan to split the SF into a Reserve Fund and a Future Generations Fund, still mentioned the importance of sterilisation, but also made it clear that the government was determined to engage in industrial policy: 'The budget increasingly takes the form of an instrument for the implementation of structural reforms and for the support of positive processes in the different spheres of economic activity.' The contradiction between this creed for a more expansive budgetary policy and the plan to accumulate money for future generations was dissolved at the end of April, when Putin (2007b) in his annual general message to the Federal Assembly renamed the Future Generations Fund, which had already made its way under this name into the Russian legislation, the 'Fund for National Welfare'. He substantiated this semantic shift with the argument that the money should 'contribute to increasing the welfare of both future and present generations'.

On 21 May 2007 at a government meeting Putin raised the question as to why SF revenue was not invested in Russian blue chips, expressed his discontent with Kudrin's inference of inflationary pressures and called for developing 'non-standard approaches' to the matter (Panov, Grozovsky and Overchenko 2007). In September, Sergei Chemezov, the head of the newly established state corporation 'Russian Technology' suggested using SF capital for lending to Russian companies, and in the middle of November the budget commission of the Federation Council demanded that the capital of the Welfare Fund be invested in international long-term bonds of state-owned corporations and in shares of large Russian companies.

On the basis of a government decision taken on 11 October 2007, it was decided to use SF revenue for the capitalisation of the *Vneshekonombank* (RUB 300 billion) which was turned into the main state development bank, for the replenishment of the Investment Fund of the Russian Federation (90 billion) and for the Russian Corporation for Nanotechnology, Rusnano (30 billion), the first of the large state corporations designed to foster technological progress (Shapovalov 2007a). In accordance with this political decision the *MinFin* hastily prepared a budget amendment (Shapovalov 2007b). Finally, following a decree signed by the new premier Viktor Zubkov (who replaced Fradkov on 14 September 2007) on 27 November 2007 the monies were transferred to the development institutes three days later (Shapovalov 2007c). At the same time, only a few months before the presidential elections pensions and social benefits were raised (Shkel' 2008), to be financed with oil revenues. In this sense, the money was intended to work not only for the country, but also for the government.

According to Yuri Simachev (Interdepartmental Analytical Center of the Russian Government) the decision to transfer round about 10% of the SF to development institutions ('*instituty razvitiya'*) reflected a political compromise between those who demanded the continuation of the policy of accumulation and those who demanded the investment of the SF assets in the national economy. As Simachev reports, in 2007 the battle between these camps had reached an intensity that made a decision inevitable (Simachev interview 2013; Simachev et al. 2012). Having received the lion's share of the SF from the start, during the financial and economic crisis the VEB turned into the central institution of anti-crisis management and received additional revenue (RUB 625 billion) from the Fund of National Welfare (FNW) (Doronkin, Kir'yanova and Volkov 2011). Though strengthening the role of the *Vneshekonombank* as the central development institution, the outbreak of the crisis also delayed the introduction of a coherent development programme. The latest evidence indicates that the liberals have finally lost their case, as in November 2013 it was finally decided to invest the resources of the FNW almost completely within the country (Netreba, Skorobogat'ko and Butrin 2013).

6 Conclusion

The story of the Russian SF is the story of a ‘near miss’ in the sense that the implementation of an idea aiming at introducing a new practice did not result in a clear break with the past. The great paradox of the Russian SF is that this epitome of the neo-liberal, monetarist paradigm arguably even contributed to the return of Russian economic policy to Soviet patterns. The rationale of the SF – to skim off resource income – accidentally corresponded to the Soviet idea and practice of transferring resource revenues to other sectors of the economy. The Soviet government invested those revenues notably in agriculture and in the manufacturing industries (Rodionov 2005). On top of that, according to the Soviet interpretation, the ‘resource rent’ was seen as the collective property of the population, an idea that in view of the rapid accumulation of SF funds was revived especially by some old-school Marxist economists and popular writers we have not dealt with here (e.g. Veller 2005; L’vov 2004). The ‘developmental camp’ within the government, most prominently Fradkov and Belousov, stood in this tradition, or more exactly, in the tradition of reformist Soviet economic thought.

The return to Soviet paths can be illustrated at the level of both ideas and practice. In our opinion it is one of the most fascinating details of this story that the first two projects that were financed by the SF were direct continuations of projects that had been started in Soviet times, namely the Baguchany dam, a large hydroelectric dam on the Angara River in Kodinsk that was started in the 1970s, and the petro-chemical plant in Nizhnekamsk (Tatarstan), Russia’s largest producer of synthetic rubber (Expert 2006). In these two cases, after an ‘in-vestment break’ of 15 years projects that had been suspended after the breakdown of the USSR were now taken up again. Little surprisingly, these highly symbolic investment decisions were harshly criticised by those fearing a complete return to the practices of Soviet industrial policy (Milov 2005). There is indeed evidence that the current developmental practice with its focus on large, visible projects is a continuation of Soviet patterns. However, it is too early to judge the efficiency of the new Russian industrial policy, and in any case such an evaluation would be beyond the scope of the present paper.

Relating our case study to the theoretical discussion outlined in section two, the question is whether our story of a 'near miss' is basically one of historical stickiness, of the triumph of structure over agency. Without a doubt, our case illustrates the importance of structure. And it would probably even be possible without too much strain to press our story into a path dependence narrative. However, as outlined in section two, the structure/agency debate between HI and CI is mainly a matter of emphasis. In this context, our empirical analysis of a 'near miss' provides a certain counterweight to the constructivists' bias in favour of stories of successful agency. At the same time, one should not forget that our empirical analysis is specific in the sense that it deals with the global diffusion of ideas. Indeed, what we see as our decisive result is that the story of the Russian SF is a prime example of an institutional transfer that was not preceded by an ideational transfer. As such, in our view it enriches ideational/constructivist accounts of institutional change.

One of the central insights of CI is the contingency of institutional change. Especially in Mark Blyth's account (e.g. 2002: 8), the direction of institutional change is unpredictable because times of crises are 'unsettled', so that actors are structurally largely unbound in their search for new ideas. We argue that our scenario of institutional transfer's not having been preceded by an ideational transfer is highly contingent as well. However, here contingency stems from the fact that the implemented institution is, though theoretically informed, basically an empty shell that still has to be filled with ideational content. To illustrate this, the following table gives a summary of the two interpretations of the SF that were dominant in the Russian debates.

	Neo-Soviet / Keynesian Interpretation	**Neo-liberal Interpretation**
Overall macroeconomic *Gestalt-vorstellung*	Cycle	Supply / demand
Main macroeconomic priorities	Development	Stability
Relationship state / economy	Priority of the state, economy politically embedded	Clear functional differentiation between state and economy, depoliticisation of the economy desirable
Main engine of structural change	Industrial policy	Private investments
Main function of the SF	Reserve function	Stabilisation function
Nature of resource income	The 'oil rent' belongs to the people	Economically undeserved windfall profits

The story of the SF after its implementation, then, is basically the story of clashes between the two camps over interpretational sovereignty regarding the institution of the SF. In our case study we have traced how the institutional shell in the beginning was related to, rather than filled with, neo-liberal ideas which were neither well understood nor deeply rooted among the actors who supported it. We could then observe how, in the context of the overall shift of policy paradigm away from neo-liberalism, the shell was increasingly filled with content stemming from the Soviet past and standing in blunt contradiction to the neo-liberal ideas that had formed the background of the implementation of the SF. This finally resulted in a strange hybrid institution that reflected the unsolved cognitive tension between two fundamentally different interpretations of economic reality. Whereas this is probably a pattern that is not atypical for institutional transfer not preceded by ideational transfer, it is most likely a peculiar aspect of our case that the introduction of the Russian SF even contributed to the return to paths that had their roots in Soviet thought and practice. Let there be no misunderstanding, however: we do not argue that this return has already happened. At the present time, the Russian SF (and the same seems to be true of Russian economic policy in general) is still a hybrid institution in which the traditional elements have gained strength over recent years. Just as it is still too early to judge whether 'neo-Soviet' patterns will finally gain the upper hand, it is also too early to decide what exactly its lesson is (and whether there will be an unequivocal lesson at all) for the eternal structure/agency debate.

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