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FOR EMERGING MARKET
STUDIES (IEMS)



Russian Regions as a Laboratory for Innovation

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11 April 2014



Outline of Presentation

- Definitions and the Benefits of Sub-national Experimentation

- International Experience
 - The US and Welfare Reform
 - Environmental regulation from the bottom-up

- Russia's Laboratories Right Now

- Conclusions



What Do We Mean by Laboratory?

“To stay experimentation in things social and economic is a grave responsibility. Denial of the right to experiment may be fraught with serious consequences to the nation. It is one of the happy incidents of the federal system that a single courageous state may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country.”

- Justice Louis Brandeis



Benefits of Sub-national Experimentation

■ Subsidiarity (Federalism)

- Decisions should be made at the lowest possible level
- Local politicians and businesspeople know about the local conditions better than those time zones away
- National policies can make it difficult to address the concerns of those communities that suffer from policy errors/omissions
- Hayek's problem of calculation – planners can't have all the information available

■ Small-scale means smaller impacts

- Not every experiment works the first (second, third) time around
- Flexibility at the local level means easier to change course as well

■ Solutions might not be universal

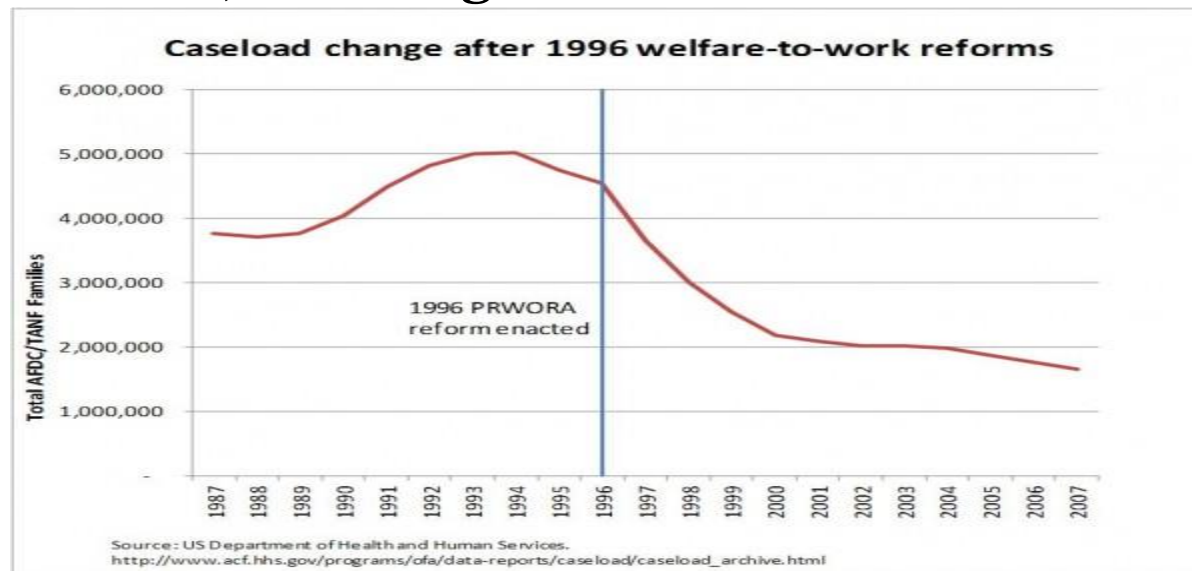
- Perhaps there isn't a need for a country-wide regulation or law
 - Concerns, preferences, and problems vary from place to place
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International Experience: Welfare Reform in the US

- State of Wisconsin had severe problems in early 1990s
 - High taxation to pay for extensive welfare system
 - Served as a deterrent to entrepreneurship
 - Worst of all, didn't prevent poverty!
- Governor Tommy Thompson elected in 1986, re-elected in 1990 and 1994
- Changed focus of welfare law from cash subsidies to tangible improvement
 - “Learn Fare:” children on welfare must stay in school
 - “Work First:” package of job training and planning assistance
 - “Work, Not Welfare:” find a job within 24 months or lose welfare benefits

Welfare Reform: Outcomes

- Personal Responsibility and Work Opportunity Reconciliation Act signed into federal law in 1996
 - Based directly on Wisconsin programs
 - Reformed a federal program (AFDC) that existed since 1935
 - Results! Child poverty dropped substantially, welfare rolls shrank, and single mothers entered the workforce



Environmental Progress

- For years, environmental regulation was seen as a top-down, one-size-fits-all solution
- Diminishing marginal returns
 - By 1990s, costs escalated to where Americans spent over \$150 billion complying with environmental regulations
 - “Low-hanging fruit” already picked
- In 1994, ECOS formed by state administrators
 - Economic Council of the States, lobbying for flexibility
 - In many instances, states go ahead without federal approval or permission

Environmental Results

- Processes are easier at the state level
 - Michigan undertook a “guillotine” process, examined 287 Department of Environmental Quality regulations and got rid of 100 rules
 - This sped up the rate at which new regulations could be issued which matter, from an average of two years to only seven months.
- Environmental results are better
 - Cal/EPA program asking hazardous waste operators to evaluate their usage found 82% of generators reported that they had found waste-minimization opportunities over the last three years; 71% reduced their generation by up to 25 tons, and 89% had saved money because of the program

Implementing the Laboratory System in Russia

The process of regions as laboratories is already underway in Russia!

- First wave of decentralization/devolution in 1990s as response to perceived failures of central government (hyper-inflation, little capacity at centre)
- Re-centralization in early 2000s, as “democratic processes in Russian regions failed to ensure accountability of regional governments to voters”¹
- Increased devolution and policy innovation today similar to 1990s – perceived need for local solutions as the country as a whole slows down
- Moving away from “mega-projects” directed by Moscow and towards local needs – and already showing some success

¹ Leonid Polishchuk (2001). “Legal Initiatives in Russian Regions: Determinants and Effects.”



Experimental Successes: Public Sector

■ Ulyanovsk

- Number 1 region in Russia on the overall ease of doing business, 3rd best in starting a business
- Has its own initiatives to combat corruption, personal involvement of Governor as well as broad-based stakeholder engagement, couched as part of broader business environment reforms
- Comports with econometric evidence on what drives success, mainly, reform-minded leadership

■ Tatarstan

- Highest FDI growth of any region over past 5 years
- Transparency for investors: process maps to show the procedures necessary
- Effective cooperation with entrepreneur associations in the policy-making process – perhaps better at smaller levels than larger, centrally-based organizations

Experimental Successes: Private Sector

■ “Silicon Taiga”

- Outgrowth of official institution (Novosibirsk State University)
- Withdrawal of government funding in 1990s doesn’t lead to collapse, instead creates strong, offshore based computing centres
- Private-led growth showing the way, building on existing infrastructure

■ Management in the Far East (Primorsky, Khabarovsk, Sakhalin, Amur, and Jewish Autonomous Region)

- Management practices across Russia are poor, in general
- Improved above Russian average in Far East due to market incentives (tougher competition on domestic market)
- Thus, firms respond by incentivizing managers better

■ Business Incubators at Penza State University

- As we saw yesterday, providing students and the young with academic support for business



Conclusions and Recommendations

- Russian regions are already laboratories of policy experimentation...
- ...and this should be supported further!
 - Not necessarily through government programs – public AND private innovations come at the regional level
- Moscow should be willing to adopt successful regional initiatives across the country
 - Especially in areas that are more difficult to reform from the centre
- But experimentation means not every solution is “one size fits all”
 - Not every reform can/should be replicated across the country
 - Need to keep the regions as their own laboratories

БОЛЬШОЕ СПАСИБО!