

Structural Change in Russia: How Gas Burns Productivity

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Soviet economy before 1990 is the textbook example of an input-driven (extensive) growth. Once multiple plan-market distortions were eliminated, growth in Russia, as well as in many developed and former Socialist countries, were expected to be productivity driven (intensive). However, windfall revenue from high oil prices provides a potential source of extensive growth, because profits from oil and gas export could be transformed into investments leading to an extensive growth path. Such a combination of arguments makes the question of what drove the post-Soviet Russian economic growth an intriguing empirical puzzle. This paper develops a new detailed dataset of output, labor and capital for 35 industries in 1995-2009 for the Russian economy and presents growth accounting decomposition of labor productivity growth rates in industries by contributions of capital deepening and multifactor productivity. We found that growth in the post-Soviet Russian economy is extensive. The contribution of capital deepening is more than half of labor productivity growth rates while multifactor productivity is responsible only for one fifth, leaving the rest to labor reallocation between industries. The extended oil and gas sector, which generates up to one quarter of the total economy value added, does not contribute to labor productivity growth. Surprisingly, main obstacle for economic growth is not a lack of capital, but its inefficient allocation between industries.

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