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This book is a continuation of INSOR's report *Russia in the 21st Century: Vision for the Future*. This work addresses the key problems on Russia's path to modernization and proposes concrete measures for solving them.

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INTRODUCTION

At the beginning of the 21st century, Russia once again finds itself at a crossroads. But now this crossroads is not a choice between directions in which the country can move, but rather **between the country's future and the absence of such a future**, between moving forward and sliding back toward the tail end of global development. We find ourselves in a “different history” and the lag is becoming irreversible. Right now the world is rapidly diverging into two groups: those who are successful in adapting to rapid change and those who will never adapt. The authorities, the elite, and our generation all hold a special responsibility in responding to this challenge.

The current inertial trajectory has no future – neither “a bright future” nor one that is at least somewhat acceptable. In stating this fact, politicians find themselves ahead of even the alarmism of experts. Changing the direction of development is necessary to get out of this “impasse”. It is a question of “survival” (Dmitry Medvedev), and of “the very existence of the country” (Vladimir Putin). **This says it all.** All that remains is to take these words seriously and responsibly.



For the past few years, society has literally shaken with the word “modernization.” At first, it was with some difficulty: recognition that the country lagged behind and needed change was at odds with the self-satisfying ideology of “stabilization on the brink of prosperity” – a trademark and propagandist disgrace of the 2000s. And yet a change in the tone of self-evaluation has nevertheless taken place.

However, this has not been enough to overcome the inertia. Authorities criticize the status quo, but not themselves. Practical policy remains very much the same, as if a few cosmetic changes could be sufficient to break the deadlock. The slogan of modernization has already worn out, having become invisible from indiscriminate use in situations relevant and not.

This hubbub is filling society with apathy. If this apathy becomes total and irreversible, the country will lose the remnants of spiritual and intellectual energy needed to exit the rut of stagnation, to change course and pick up speed. If we lose faith in ourselves, no hope for the future will be left at all.

There really are very few opportunities, and with each day, there are fewer and fewer. **But we must make use of any positive chance**, doing everything so that it can be realized. There is no time left to wonder whether Russia can be a leader or whether it will have to choose between minor positions, if not simply the role of a raw materials supplier to other countries. We must **work to maximize the country's self-realization** – only then will our policy be honest about the future and correct with respect to the present. The measures necessary for the modernization breakthrough, to rid ourselves of the most odious features of the current situation and to prevent a breakdown are all one in the same. If Russia has not yet won the freedom to live, now it must take it in order to survive. And then, for the first time in history, we will have the chance to find out what the country is capable of.



Renewal begins only when its necessity is not an axiom for society and the government. It is impossible to underestimate the meaning of words. Their utterance does not signify the work at hand, **but if the right words are not even spoken, the work will not be precisely formulated**. A complete modernization strategy is

required that covers everything from concept to the “road maps.” This means that a wide-ranging discussion is necessary, one which could provide the necessary consensus for modernization.

In early 2010, the Institute of Contemporary Development (INSOR) published its report *Russia in the 21st Century: Vision for the Future*. The report provoked an extensive discussion, something that we have almost forgotten how to do in recent times. The report contained elements of provocation; philosophy and pragmatism combined with sharp journalism and ideas that knowingly brought fire upon itself. It was important to **revive the ideological process**, resume a conversation about the country’s future in a fundamental way – in a large-scale format and without false political correctness.

The engagement worked: the report was heard in the country and the world, in both society and government. The discussion took place, and much was clarified. Still, **the problem of self-determination remained**. Some people continue to believe that modernization can wait, while others scare themselves and everyone else with the idea that it is no longer possible ... and in the next breath insist that we need to do things like the Koreans or the Chinese. The topic is highly mythologized, and the dispersion of opinions seems indecent for a community of self-respecting experts.

The problem of self-determination is particularly acute on the eve of the presidential election in 2012. This event could prove to be momentous for the country. INSOR’s new document, in developing the ideas of the previous report, sharpens them in relation to the maturing of the political situation. This is **strategic planning in the run-up to the election** or, in other words, a campaign platform.

At the same time, the proposed document is not addressed to any of the candidates personally. We are certain that its basic position must be shared by any politician who claims to be a leader who understands

the challenges of our times, takes a responsible approach with respect to the future of the country, is ready to work for the people and for history, as opposed to one who seeks arrangement of personal positions in the system of power and privilege.



INSOR's previous report was not tied to any specific time. Its setting was the 21st Century – a time that is rather conventional and figurative. **The new project is deliberately tied to 2012: the start of a new cycle of the presidency.** It is also conventional, but not arbitrary. The concentration and personalization of influence in Russian politics inevitably subjects the contents of the process to formal cycles of redrawing power. There is nothing good in this dependence on the political “calendar,” but it cannot be ignored.

Much can be done over the remainder of the year, but it is difficult to wait for the changes that would be consistent with the call of time in the current configuration of power. But there is still a **chance that the next presidential cycle could launch a genuine modernization of Russia**, one that is deep and systemic. **Preparation for this and the formation of a full program of action that could find support among the active part of society is something that the current president is quite capable of, despite the enormous obstacles and constraints.** And vice versa: the period of the forthcoming presidency may be a time of isolation, worsening stagnation, the restoration of the worst features of our archaic socio-political system. During such a time as this Russia's lag may become irreversible.

In one year, we will choose not just between programs and personalities, but between the beginning of change and the end of hope, between the future and a new stagnation.

**OUR SITUATION.
CONCEPT AND RECOGNITION**

MODERNIZATION AS A NATIONAL RESCUE MISSION

The country has fallen into **an historic trap**. Crisis or the collapse of the commodity economy is only a matter of time. In the event of modernization's failure, the alternative is simple: **sluggish degradation or a new catastrophic failure**. The trouble may be delayed in time, but **we are now passing through the decision-making horizon and with it the point of no return**.

But the country's development has stalled and we are obviously being left behind by history.

This has already happened. Delays in bringing about renewal destroyed the Russian Empire, and then the Soviet Union.

The call of history can be broken down into three formulas: **"Time wasted!" "Time does not wait!" "Time obligates!"**



After the arduous 1990s we got a break. Market conditions for raw materials allowed for social tensions to be eased. The mood of the masses was improved by uplifting rhetoric and a silencing of critics, demonstration of influence in international affairs, the start of symbolic projects and unrestrained PR. But in politics and economics, this led to regression. In getting up from its knees, the country staggered backwards.

Dependence on raw materials exports is growing. We manufacture very few of our own products. In the high-tech sectors, we produce virtually nothing. When measured by the level of technology, Russia looks like a modernized country, but this is an **imported modernity**. According to some of our spending habits we are modernized, but according to our sources of income we are archaic.

Our **stability is also imported**: it is paid for with petrodollars and is insured by a “safety cushion” that is inflated from the same sources. The crisis showed us how unreliable this reserve of calm is and how very little depends on us.

Institutional reforms (administrative, technical regulation, self-regulation, etc.) have virtually collapsed and degenerated into either imitation or counter reforms. Administrative pressure is on the rise, and the feeble attempts to reduce it only prove that the **problem cannot be solved by manual manipulation in principle**.

Clear **regression in politics** has been noted. The path toward “centralization” and “stability” has practically destroyed political pluralism and competition in politics. In the current system, elections are not capable of providing a change of government, much less opposition and alternative views that could affect anything. This system is not able to reconcile interests and resolve conflicts; it can only suppress dissent and criticism, even when opponents state that the authorities themselves are cutting the branch on which they sit. No room is left for discussion, not only in the Duma, but in the entire system of political institutions, which only imitates democracy and the separation of powers. The key electronic media broadcast only one point of view, the one that is acceptable to the authorities. Civil society remains extremely weak, and where it is trying to reach out to the authorities, it receives either dull silence in response or some imitation of a dialogue. Appealing to civic awareness, this system does everything to discourage citizens’ confidence in their ability to affect anything in political and social life, so it is no surprise that appeals “from above” to modernization are perceived even by the active part of society with skepticism rather than enthusiasm.

The worst-case scenarios, quite seriously discussed in the expert community, allow for:

- Economic collapse and consumer crisis;
- Irreversible preservation of the technological gap;
- Default on social obligations and the aggravation of social tensions;
- A deep political crisis with unpredictable consequences all the way to the outbreak of open conflict and the unleashing of illegitimate violence;
- The growth of centrifugal tendencies with the threat of a new phase of disintegration;
- Loss of position in the world and a number of key dominions; failures to ensure national security;
- Catastrophic depopulation, primarily qualitative – a new leak of “human capital,” an exodus by the country’s most competent and enterprising parts of the population.

Such predictions cannot be assessed in the usual logic of probability (akin to commercial risk). They are calculated in the logic of **unacceptable damage** and should **be guaranteed to be blocked given any probability, even the smallest**. Nuclear plants are not built on the principle of “if it blows, it’ll get everyone, but that’s unlikely.”



Overdue modernization requires strategic agreement in society. A common point of reference is visible: the task of **changing the vector of development** – overcoming excessive dependence on exports of raw materials with a transition to a knowledge economy, knowledge-intensive industries, high technology and intensive innovation. The formula is acceptable as the initial motive, but it needs to be corrected:

– In our conditions, the innovative maneuver requires simultaneous **reindustrialization in the post-industrial age**, and the creation of conditions for the restoration of production per se.

– In the modern world, global competition results in a **competition of institutions**, so the problem cannot be solved by arbitrarily starting ambitious projects; modernization does not start with technology and economy, but with the institutional environment, politics, ideology, values and principles.

– Such modernization implies a **crucial pivot** – changing society from a resources-based to an innovation-based, which is essentially a paradigm shift.

Therefore, modernization should be **deep, systemic and forced**. It will have to be conducted at a time when the status quo is facing in precisely the opposite direction – toward inertia and self-destruction under general anesthesia.

The situation can only be saved by three things: political will, the responsibility of the elites and the liberation of society's energy.

MODERNIZATION'S HUMANITARIAN COMPONENT: REASSESSMENT OF VALUES

The idea of modernization originated under the slogan of overcoming the technological gap. Further, the project has consistently included economics, institutions, politics and the system of government. It is already clear that the call of time requires a reconsideration of ideology, a system of principles and values – **the formation of a new consciousness**. Modernization of consciousness must be **forward-looking**: the old way of thinking cannot build a new country.

The resource-based, raw materials model makes most of the country's activity not manufacturing and creativity, but redistribution, transfer and dispersion. Hence, the dominant values of the state: power and paternalism. People here are just another resource, a consumable material of achievements and ordinary wretched existence, unresponsive masses to be processed by propaganda and spin doctors. As a result, the country itself becomes a resource – a blank template for the correct existence in the future. With such a mentality, there is nothing to do in the new world.

History has already made its choice in the system of values: **the model of “citizens in the service of the state” knowingly and hopelessly loses to the model of “the state in the service of citizens.”** A new humanism puts man with his potential interests above all the values of power and statist conservatism. What is new here is that now it is not just a question of humanity, but of basic efficiency and competitiveness. **If someone does not accept the values of freedom and dignity by conscience and intelligence, then they must be accepted as the only recipe to save Russia, to ensure its prospects for development.**



True modernization, oddly enough, begins with honesty, conscience and trust. The country will not move forward as long as fear, mutual contempt, larceny and bribery, fraud and racketeering and commercial cynicism prevail. Attaining the future requires fortitude on the part of citizens and the nation rather than PR and the “spiritual” herd instinct.

The modernization movement can only come from the opposite direction. For its part, society has already begun this movement. People who only yesterday would fall for cool zingy phrases are more often saying “I don’t believe it!” This is a sign of **recovery from infantilism, a sign of normal maturation.**

The authorities can answer this respectably: by decisively reducing their self-promotion and vulgar luxuries, by rejecting the aesthetics and ethics of Byzantinism, by backing away from the sleek prettyisms in the spirit of custom portraits, by setting an example of sobriety and taste when presenting themselves.



Modernization requires a courageous and free mind, a liberated spirit. A society in which dissent is suppressed, by definition, cannot be innovative. Up to a certain point, every innovation is dissent (e.g., Steve Jobs’ motto: “Think different!”). In order to generate innovation on a wide scale (and this is an innovative society), we need people who are ambitious and daring, who look highly upon themselves and their country, who are proud and independent, capable of not looking over their shoulders at authority. **Conformity is not creative.**

Innovation is freedom; modernization is the liberation of man. Investment in it is not the money that is invested in education. The best investment in people comes from **Freedom, Rights and Dignity.**

All that remains is to make this rhetoric operational, to embody it “in a firm timetable” and then “in reality.”

The president in 2012 should speak these words without hesitation, and with all his heart, and in such a way that people will believe him – not because of his theatrical abilities, but according to actions and conscience.

The new political course should adopt this ideology and not dilute it with shamefaced authoritarian reservations. And it should transfer it into reality, starting with etheric policy and ending with the behavior of regulators, controllers and supervisors, those who establish instructions and those who distribute benefits.

In the first decade of the century, while the state got up from its knees owing to pressure from the fountain of oil, it tried yet again to bring the people inhabiting the country to their knees. And the country has stopped.

It can get up again only when human dignity is recognized at all levels of the social hierarchy, if freedom “pierces” society and the economy all along the vertical.

**INSTITUTIONS AND PRACTICES.
120 STEPS TOWARD THE FUTURE**

POLITICAL INSTITUTIONS. RESTART OF DEMOCRACY: ONWARD TO THE CONSTITUTION

A key task in reconstructing political institutions involves bringing the political system in line with the spirit and letter of the Constitution. This means the rejection of unconstitutional practices of “managed” democracy, a total return of elections to all levels of the political system, separation of the representative and judicial branches of power from the executive, a regime of political and communicative freedom aided by intense development of the institutions of direct democracy and civil society.

The way to the future does not lie through the turning of screws and strengthening the regulatory role of the state; rather, it lies in expanding the degrees of freedom and opportunities for each person. In this sense, the social support, transmitters, and beneficiaries of change are not only the educated class and the intelligentsia, the enlightened bureaucracy and sophisticated businessmen, but rather the majority of the population. Change is necessary and beneficial to everyone. Therefore, the political system should be open to every Russian citizen and should represent their interests.

As it is, the institutions and procedures of representing citizens that have been established by the Constitution are nothing but imitation and profanation. Parliament mechanically puts its stamp on bills that are handed down from above, in fact not performing

any legislative or representative function at all. Feedback channels are clogged by administrative fiat. The executive branch for the most part runs on its own or in coalescence with big business – the governmentalization of business and the privatization of government officials. The national political system lacks the most important things – choice and elections, rotation and turnover, debate and conflict management, and, hence, the possibility for a common citizen to influence at least something in his country. In the meantime, it is precisely this ability that turns a “population” into citizens who are interested, active and patriotic.

Both maintaining the current system of political institutions and reforming them are risky for the development of the country. But these are fundamentally different risks.

Inertial development will only lead to further erosion of the government’s effectiveness. In leaning on the notorious vertical without building channels of political communication with society, government at all levels is held hostage by the bureaucracy, which is able to “extinguish” and “digest” any reformist message. The risks grow exponentially:

– Incorrect policy decisions. The course of modernization is a structural reform, the distribution of decreasing resources and the choice of the “lesser of two evils.” If such decisions are made without proper deliberation and criticism by the opposition or community of experts, if the deputies and officials have clearly learned the principle: “if you're the boss – I’m the idiot,” then the risk of errors and waste of scarce resources is unacceptably high. The economic policies of undemocratic states have failed at least as often as they have been successful. Our bureaucracy has in no way proven that its solutions, which have lacked any discussion, can bring about success.

– Catastrophic inability to harmonize interests and resolve conflicts. Already today the overbearing system is succumbing to conflicts within itself despite repressed social activism. Modernizing development will generate many new lines of tension in relations between society, government and business. The vertical of

power has neither the institutions, nor the practices nor the know-how to manage them. Any slip is fraught with the threat of uncontrolled growth in conflict and social tension, to which the state cannot respond.

– The death of any innovation under the burden of highly corrupt rents, administrative barriers, bureaucratic approvals and red tape. The relationship between entrepreneurs and the government is best described by the sad Russian proverb, where “one man is busy ploughing the land, and seven others wait with their spoons in hand.”

Many other risks follow from this: the degradation of the elite, the radicalization of protests and their acquisition of a nationalist component, and the irreversible alienation of society from politics.

The opening of the political system and democratization also carry risks – slow decision-making, complexity in coordination and bursts of populism. However, these risks are fundamentally different from those of the “inertial” scenario. If the latter are inevitable and increasingly weaken and paralyze the state and society, then the opening of the political system comes with risks and the tools to manage them. These risks stimulate the state and healthy political forces toward greater activity, responsibility and efficiency.

The current political system—closed, insensitive to the processes taking place in society, and impervious not only to signals from below but also to expert opinions—is extremely unstable. The erosion of the old social contract – “conformism in exchange for crumbs from the oil pie and the appearance of stability” – makes the system even more unstable and unable to formulate and propose a new social contract.

These risks and challenges may not simply slow down modernization, but they can also make it impossible. On the other hand, modernization is the only way to adequately cope with these risks and find a convincing answer to our challenges.

The future president will have to demonstrate political will to overcome the contradiction between the goals of moderniza-

tion and conservative means to achieve them. It is impossible to enter a postindustrial tomorrow having accumulated all the resources into the hands of the state, professing the principles of economic redistribution, increasing military and social spending, blocking the channels of feedback, meddling with elections at all levels and “extinguishing” the bud of civil protest. Initiative and competition, including those of a political nature, are the only possible basis for normal development and modern economic growth that would enable Russia to avoid the role of forever playing catch-up.

It is necessary to expand the infrastructure of participation, which is understood not only as using the tools of representative and direct democracy for participation in politics and in the process of influencing policy decisions. It is also understood in a general civil sense – as a volunteer activism, as a manifestation of an attitude that is not indifferent to what is happening in the country, as a sense of what is happening as a res publica, “the common cause.” Voluntary assistance to victims of the terrorist attacks and forest fires, the fight against the St. Petersburg “gas-scraper” and the protection of Khimki forest – all of these may serve as examples of civic engagement. The tools of such participation are the creation of favorable conditions for the realization of citizens’ constitutional rights to assembly and the use of internet media for civil mobilization, including the ability to appeal to the Russian president directly above the state bureaucracy.

The goal of modernization cannot be the “interests of the state.” The ultimate goal of modernization is the satisfaction of the interests of private individuals. Everything that is good for individual citizens is good for society and the country. To the extent possible, the democratic political system in the post-industrial era must adhere to models of the service state, which combines traditional institutions and democratic procedures with a new type of direct democracy that is increasingly connected to the decision-making process in civil society.

What should be done?

1. The most important task in the development of the political system is restarting the mechanisms of political competition and the establishment of institutional mechanisms for dialogue in decision-making and conflict resolution. Its basic parameters:

– Politically active citizens have the opportunity to choose the path to realize their ambitions within the framework of a party democracy (right now this scenario is practically closed and clogged with “bureaucratic red tape”). Discrimination against political activism, including “street” protests that are carried out within the boundaries of maximally liberalizing legislation on party building is not to be allowed. This will allow healthy forces in society for the modernization project.

– Executive power discovers political thinking. This implies a regime whereby real discussion of solutions with the legislature takes place. It also implies an ability to engage in dialogue with the opposition and respond to criticism, work with channels of feedback from civil society, gaining not only the country’s top leaders, but the entire “top level” of public policy skills – the ability to “sell” their solutions to public opinion. This means removing executive control over the legislative and judicial branches, releasing them from their roles as branches of the Presidential Administration and the Government at both the federal and regional levels.

– Mechanisms of direct democracy will work–through the head of the bureaucracy–using such methods of political mobilization as the internet, the establishment of civic organizations, NGOs, public rallies and meetings.

– The censorship that exists on national television networks is abolished and the state denies financial and other support to social forces that promote authoritarian, isolation and nationalist ideas.

Statement of these tasks clearly indicates the need for political commitment of the country's top leadership: only it can send the bureaucracy signals that are strong enough to achieve realization. If the political class responds with action, expanding channels of competition, then a **counter movement will form from below, which will actually be one of the results of the political system's reform.** Otherwise, this movement from below will be late, yet sharp.

2. The end of the informal yet virtually unfailingly observable bans on the arrival of “mainstream” figures in opposition parties that are independent from the Kremlin or governors and “local bosses,” financial support for parties, real access for oppositionists to national television channels and other significant media (as opposed to imitation “media monitoring”), etc.

3. Introduction of responsibility for registration agencies for attempts to hold excessive control over parties' internal affairs and unjustified rejection of registration. Establishment of a more flexible framework for the formation of new parties or the reformatting of existing parties.

4. The revival of national elections and the preservation of a mixed electoral system in regional elections in connection with the fact that the “book” advantages of the proportional system in Russia end up having the opposite effect: the “strengthening of parties” in practice means a monopoly of party institution in society with very little authority on the formation of a body of deputies. A mixed system will allow channels for vertical mobility to be opened in politics and reduce risks of criminals coming to power.

Ban on the introduction of a fully proportional system in municipal elections.

5. Simplification of parties' and candidates' access to election registration. This can be accomplished by a range of measures used simultaneously:

- Abolishing the collection of signatures for party lists and single-mandate candidates from parties that obtained no less than 2% of the votes at previous national or regional (for the same region) elections;

- Restoring registration by pledge for independent candidates and “small” parties, reducing the number of signatures required and increasing the number of rejects allowed;

- Adoption of a firm and restricted list of reasons for rejecting registration or cancellation of party or candidate registration.

6. Reducing the cut-off barrier at all elections where there are party-based elections to 5%, which will allow parliament to be turned into an authentically representative body.

Restoring the rights of political parties to pre-election blocks under the condition that for blocks the cut-off barrier is set a higher level (7-8%) – this is well-known world practice.

7. Setting uniform rules for distributing seats among party lists in the form of the Hare quota (or simple quota, defined by the division of the total number of valid votes by the number of seats). This would be done through amendments to the Law on Guarantees of Electoral Rights and the Law on the General Principles of Organization of Executive and Legislative Bodies in Subjects of the Russian Federation. In the same way, regions will have to abandon the use of different variations of the system of Imperiali quotas that has been actively brought into regional legislation in recent years. This allows for opposition factions to acquire at least the minimum “critical mass” and remove obvious deviations from the principle of proportionality.

8. The creation of negative incentives for the practice of “locomotives,” i.e., the inclusion of celebrities (governors, mayors, athletes and cultural figures) who have no intention of working in representative government at the top of regional ballots. This is achieved by a norm governing the transfer of seats to other parties (option: two seats) in the event a candidate withdraws from the ballot for anything other than serious medical reasons. This does not infringe on the passive electoral right of such figures, but it does force them to occupy less prominent places on the ballot. It is also necessary to cancel the rule allowing candidates who renounce their seats to later claim a place in the Duma in the event of a vacancy (i.e., “a retirement job” for dismissed governors).

9. Modernization of the way the Federation Council of Russia’s Federal Assembly is formed. The issue of direct participation by a region’s population in the process of determining representatives to the Federation Council should be resolved. Reform of the Federation Council should be a subject of public discussion so that the optimal decision will be made.

10. Restore the influence of citizens in regions on the formation of executive power – first through increasing the role of factions in regional legislative bodies and competitive elections of regional heads by deputies. In the end, there should be a return to direct elections of governors.

11. Retaining variability in structures of municipal government (in particular, having both direct elections for municipal heads and appointments on the basis of a contest), it is necessary to stop the creeping move to the actual appointment of mayors by regional

leaders through the use of the model of a city manager. To do this, the practice of representatives of the federation subject participating in the process of forming a competition committee must be ended (and, at the same time, representatives of civil society, political parties and experts should be included). It is necessary to strengthen through legislation the completion procedures and guarantees (including judicial guarantees) to protect the rights of their participants.

12. Restoration of proper parliamentary procedure for consideration and adoption of laws. The exclusion of “fast track” practices for the adoption of bills – especially the adherence to timeframes for the second reading of bills so that all subjects have the chance to respond to the legislative initiative.

13. Restoration of the right of the Federal Assembly to nominate candidates for its quota of auditors to the Audit Chamber so that the institution acquires a real tool of control over the executive branch.

14. Simplifying the procedures for the initiation and conduct of parliamentary investigations, perhaps the establishment of the right of each chamber to conduct investigations independently of the other.

15. Broadcast of all open plenary sessions of the Duma on the internet.

16. Ensuring the independence of the judiciary and as initial steps:

– Legislation to establish clear criteria for dismissal of judges, excluding the possibility of arbitrary removal of judges and their dependence on court presidents;

- Elimination of the administrative judicial "vertical," including by going to the election of court presidents, including the chief level, by the judges themselves;
- Substantial narrowing of the administrative authority of court presidents with respect to judges;
- Movement to a district system of territorial dislocation of courts of general jurisdiction in order to limit the opportunities for regional authorities to influence them;
- Movement to the election of magistrates by the people;
- Final transfer of court decisions into electronic format and placing them in the public domain, as well as the conversion of court sessions to audio and/or video format, which will contribute not only to compliance with procedural rules, but also create additional guarantees of participants' rights;
- Suppression of the tendency in recent years to reduce the jurisdiction of the jury. In contrast, a list of articles that can be tried by jury could be expanded to cases of serious economic crimes.

17. Modernization of criminal law in the economic sphere. Entrepreneurs must be given a clear signal about what is permitted and what is criminal. They have the right to work in the private sphere and be punished by the state only for actual harm to society. It is necessary, in particular, to:

- Define clearly the scope and principles of criminal responsibility. Legal entities, legally registered and functioning in the Russian Federation, should not be recognized as organized criminal groups (as is the case under the current Criminal Code).
- Not consider a transaction and/or other action that is the basis of the origin, modification or termination of civil, land, tax and

other legal relations, the legitimacy of which is confirmed by a valid court order, as a socially dangerous act before such a court decision has been overturned as provided by the legal process.

- Refuse to recognize as criminal acts that are only non-compliant with any statutory procedure, if they are not associated with causing actual harm (i.e., from formal bodies). Neither receipt of income from economic activities nor its considerable size should be regarded as a sign of criminal activity; this is the goal of entrepreneurship.

- Expand the list of crimes for which criminal proceedings are initiated solely at the request of the victim (private charges): given the costs of criminal repression, the state should issue punishments for violations in business if the victim does not wish this.

- Exclude from the list of criminal actions a number of actions that do not carry a public hazard. These include, for example: “Illegal Enterprise” (Article 171), “Violation of the Rules on Hand-over of Precious Metals and Precious Stones to the State” (Article 192), and “Non-return from Abroad of Funds in Foreign Currency” (Article 193). An administrative fine is sufficient punishment for violators in many such cases.

- Formulate a new version of Article 174, “Legalization of Money or Other Property Acquired by Other Persons by Criminal Means” so as to exclude designation of the transaction as participation in the commission of this crime, since the use of the term “transaction” leads to confusion between legal actions (transactions) and crime (legalization).

- Reduce the scope of prison as a punishment, which will significantly reduce the size of the country’s “prison population.” The application of this penalty shall be confined to those cases where more lenient of the prescribed punishments cannot be applied due to

the severity of the crime. When convicting a person for the first time for committing crimes of small and medium gravity, it is suggested that imprisonment not be used if the crime does not involve the use of violence, if the offenders themselves make amends for the damage or if the crime was provoked by the wrongful conduct of a victim or a government representative.

– Reduce the maximum sentence on conviction for multiple offenses from 25 to 20 years, which will bring it closer to the standards of European countries. In those cases where crimes are not related to the deliberate taking of human life, it makes sense to limit the sentence of sanctions for the most serious of crimes committed, as it was in Russia before the adoption of the current Criminal Code.

18. Russia needs a complete system of legal monitoring, which tracks law enforcement practices by all agencies of state power, using the power and knowledge of civil society and social science. It also needs high-quality and accessible judicial and police statistics. An annual presidential report on the state of law enforcement should be the basis of all work to improve the state's activities in the legal field, to set incentives to promote the rule of law.

19. Increasing tax deductions for municipal budgets to at least a level at which administrative centers of federation subjects—the strongest municipalities that play a key role in the transfer of development incentives to the periphery—can work without the support of a higher level in the budgetary system. In the future, such measures will allow for the expansion of the tax base not only for local but also for the federal and regional budgets.

20. Cities should receive not only financial freedom but also the opportunity to use the land resources located within their boundaries. To this end, the right of disposal of “unallocated land plots” should be returned from the regional level to the municipal level.

21. Federal policy in the sphere of local government needs a radical change in its principle: from the maximum uniformity of law across the country, which leaves little room to take into account local peculiarities, to greater differentiation of territorial zones, types of areas and types of municipalities. First of all, there must be a fundamental division in approaches to urban and “suburban” municipalities (including those that find themselves de facto incorporated into urban agglomerations) on the one hand and rural municipalities on the other.

TOWARD A NEW ECONOMIC MODEL. PRIVATE BUSINESS AND PROPERTY – THE PROTAGONISTS

The main driver of growth should be the investment and innovation of competitive, private business whose private property is protected by the law and the state. The state, in its regulatory practices, focuses primarily on universal procedures and tools that are equal and equally available to all market participants and that serve to create a comfortable business environment.

Russia has met the second decade of the 21st century at yet another fork: entering once again the old economic order with annual growth of nominal incomes by 20-30% is impossible. Despite the fact that the restoration of the basic economic parameters from the first half of 2008 is expected in 2012, the pace of development is slowing down. In contrast to 2000-2008, when GDP grew by an annual average of 6.9%, over the next three years the pace is unlikely to exceed 4%. In the run up to 2020—even according to official estimates—the average rate will not exceed 4.6%. Incidentally, this means that a doubling of GDP is pushed back by another 4.5-6 years. Such structural inhibition of economic dynamics is a direct consequence of the crisis in the model of development that prevailed during the 2000s.

Projections of the dominant trends over the next 2-3 years are reaching the line where the remaining competitive and economic advantages and convenience factors of the “welfare state” and political system begin to move in the opposite direction. The coordi-

nates of such a “forked” crossroads have already developed a system of challenges whose answers should provide a new Russian economic model.

First, the post-crisis perspective of both developed countries and countries with emerging markets will be marked by a transition to new patterns of consumption. The consequences for Russia will mean that by 2013-2014, the contribution of exports to GDP growth will probably decrease by about one third (from 30% to 20%), and by 2015, it cannot be ruled out that the current account surplus will be negative. The response to this should be a structural maneuver on the basis of exporting goods with a high level of value added, which will open up new markets.

Second, the inertial rates of growth are inadequate for the modernization agenda. For this agenda to be achieved, results of at least 5.5-6% on average for annual GDP growth are required. This means a transition of the function of driving growth to investment demand, increasing the rate of accumulation by at least one third (to 30-32%) and doubling annual increases in fixed capital investments (from the 5-6% currently projected over the next five years). At the same time, investment demand should be refocused on private business. Currently, up to half of capital investments come from state budgets and public companies and corporations. A direct consequence of this is obviously unrealistic gigantomania of investment plans that are offered in support of the modernization agenda (no less than hundreds of trillions of rubles).

Third, increasing dependence on energy resources with an unhealed “Dutch disease” is already blooming into the “curse of the regulatory environment” (an excessively proliferating “economic state,” the degradation of competition, ineffective courts and selective law enforcement, so-called “micromanagement,” corruption and excessive administration, and the lack of political competition, public scrutiny and independent examination of upon adoption and execution of state decisions.

Fiscal, monetary, and structural policies, as well as actions designed to improve institutions and improve their quality are mismatched, mutually contradictory and at times look as if they exist in

different realities and eras. In conditions of limited resources (human, financial, etc.), such a situation frequently means that the individual components of regulation are beginning to serve mutually exclusive groups, both public and private interests. Added to this, again, are the contradictions that objectively exist between the goals and objectives of economic and social policies, which are only strengthened in the absence of structural reforms in most sectors.

As a result, Russia's position in the international competition of institutions has markedly deteriorated when measured by the state of the investment climate. A restart of the Russian regulatory environment should be the beginning to overcoming this near impasse. It should include the following basic blocks.

What should be done?

22. Fiscal reform should be carried out. The start of this would be a government program to improve the efficiency of budget expenditures for the period until 2012. In essence, we are talking about a radical change in the organization of government, which means transitioning the activity of executive agencies and local governments to target program guidelines.

Government programs (and they account for more than 90% of government spending) would require the integration of all regulatory resources and opportunities available to the authorities responsible for their execution (property, title, enforcement and control functions; technical regulation; financial, i.e., guarantee, tax, customs, property, credit, debt and monetary instruments) with the appropriate **legislative consolidation of the rights and duties of the main managers of budgetary funds**. At the same time, of course, it is necessary to develop meaningful financial control. The list of budget violations and targeted administrative and criminal sanctions should be enshrined in law.

23. Some emphasis should be made in **financial planning**. Final determination of the number and composition of government programs should be based on a new version of Strategy 2020, which is aimed at creating a post-crisis economic model. At the same time, 15-year budget projections should form the basis of a full range of strategic planning documents. Rigidly conservative forecasting of financial and other resources required for execution of programs should take priority. An organic part of such an approach should be legally prescribed limits on the use of additional oil and gas revenues to finance the federal budget. By 2013, it would be desirable to reduce oil and gas transfers from 13.9% (in 2010) to 4.5% (the pre-crisis “norm”).

A logical extension of this line is the **formation of a “new generation” sovereign fund** of no less than 60% of GDP, with deposits into it, apart from oil and gas revenue, receipts from the privatization and management of state property. It would be advisable to transfer the functions of the management company to a structure specially designed for this purpose.

24. Legislative strengthening of medium-term parameters of fiscal consolidation is necessary. First and foremost, we would go about establishing the value of so-called structural budget deficit at 1-1.5% of GDP (the national debt by 2020 will be close to 30% of GDP) and the transition to targeting the budget issue, in other words to the definition by the Ministry of Finance of medium-term (up to 6 years) indicative limits (parameters) in the line of state policy (state programs).

Global practice states that growth is slowed greatest due to declining public investment. A much less depressing effect on general economic dynamics is due to reduced consumption by organi-

zations supported by state budgets. Improving the efficiency of social spending through structural reforms in the medium term contributes to growth. In the targeted projections for the reduction of government spending these circumstances, certainly, should be borne in mind, as well as the fact that structural reforms require an appropriate socio-political atmosphere of communication among all parties concerned.

The optimization of expenditure policy also includes the following: tightening restrictions on the use of short-term profits; reforming the network of public institutions, and improving public procurement (this will require a new version of the Federal Law on State Procurement).

25. Improvement of intergovernmental relations will provide a substantial reserve for increasing the efficiency of government spending. The following are fundamental:

- Optimization of the budgetary resources of the subjects of the Federation on the basis of programs to improve the effectiveness of their spending, including saving “short-term revenues,” further delineation of powers between the levels of budget system of Russia, 'sharing' respective obligations, and improving the financial independence and fiscal autonomy of regions and municipalities directly dependent on the quality of services provided to taxpayers;

- Unification of targeted transfers (there are a total of 95) to “thematic” blocks and making them available not only on the basis of the fiscal capacity of regions, but also depending on the performance, on progress in structural reforms and implementation of commitments to improve the quality of regional (municipal) financial management;

- Increase the proportion of planned transfers (including grants under programs of joint competence), the distribution of which is approved by law on the federal budget.

26. The hallmark of a new economic model should be refraining from an increase of the tax burden. For this it is necessary to:

- Comprehensively analyze the impact of increasing insurance premiums for economic dynamics and adjust by 2013 the possible negative effects due to other sources of profitable revenue;
- Exclude the increase in the overall tax burden along with the introduction into the oil and gas sector of a tax on added revenue, move to a gradual reduction of export duties (i.e., reduction of subsidies to domestic consumers of raw materials and energy).

27. Among other measures are the modernization of control over transfer pricing and the introduction of the institution of consolidated tax; setting a single VAT rate (with compensation through direct budget expenditures). Optimization and streamlining of benefits without delay. Above all, it is necessary to introduce strict public accountability for their use.

28. The next step is the universalization (where possible) of preferential regimes and their provision, including through addressing the tax identification of innovative and high-tech companies. Considerable potential in this respect comes from the provision of tax credits (i.e., reducing the amount of taxes or the tax base after the fact, provided that the results for which preferences were made are achieved).

Because benefits can be interpreted as a budget expense that is carried out through the tax system (in global practice this is

known as the concept of tax expenditures), then requirements for efficiency should find application in this field as well. In some cases, direct fiscal spending could bring a greater effect. Naturally, this can only be established after a comparative analysis of each benefit.

29. Among the solutions aimed at **optimizing the debt policy**, the following are promising:

- Creation of a special state institution (agency) to manage domestic and foreign debt;

- Diversification of the supply of government securities according to terms of loans, types of investors and their preferences, tools and trading platforms;

- Renewed issuance of short-term, zero-coupon state bonds;

- Flotation of foreign loans in euros, as well as in Russia's national currency (which will foster in the ruble signs of a regional reserve currency);

- Reduction of the amount of state guarantees in conjunction with a transition to payment of such support according to individual risks and by expanding the practice of their division with private sector capital.

30. Transition to a new model of economic development requires a **substantial expansion of capacity in the financial sector**. No less important is the fact that raising the level of its “structural maturity,” i.e., functional diversity and plurality of financial institutions, reduces the risk of price shocks, as it lengthens the inflation lags.

In order to modernize the financial system it is necessary to establish a system of criteria (indicative benchmarks) that reflects the qualitative aspects of its development. Among them:

- Accelerated development of the financial sector in comparison with general economic dynamics;
- Increasing Russia’s share in the global capital market according to the indicators of its most important segments (based on the formation of an international financial center);
- Increasing the availability of capital (i.e., a sustainable, long-term reduction of minimally positive real interest rates);
- Sustained growth in the share of resources (primarily of “long-term money”) drawn from the banking system and financial markets in total fixed asset investments;
- Stability (with an upward trend) in the ratio of market valuation of assets and financial results;
- Stability of the national currency (the smoothing of its fluctuations).

31. By 2015, the share of bank loans for investment in fixed assets should be doubled (currently just over 9%). The most important condition is the development of quality risk management in credit institutions in a phased increase in the minimum capital requirement to 1 billion rubles, and the development of competition, including by reducing the government's share in Sberbank, VTB and Rosselkhozbank to 50% plus one share.

32. Improvement in the supervisory and control activities of the Bank of Russia should help with risk reduction. At issue here is strengthening the surveillance of “connectedness of the parties” (i.e., preferences with regard to companies belonging to the owners and beneficiaries of banks), raising the risk factors for certain types of assets according to their opacity, tightening up liability all the way up to the criminal level (which would require legislative solutions) for inaccuracy and distortion of reporting, etc.

A transition to the so-called orderly procedure of liquidation upon the occurrence of insured events (i.e., bankruptcy) is advisable (the isolation of healthy assets and their transfer by the bankruptcy trustee to other banks, together with obligations on deposits).

33. It would also be good to legally strengthen the duty of the regulator to **conduct macroprudential oversight** (i.e., focus on the systemic stability of the financial sector rather than simply preventing the insolvency of individual banks), the right to use as counter-cyclical measures the so-called dynamic redundancy, use of insurance credits and banks' own capital, tighten as necessary criteria for capital adequacy and limits of leverage and setting standards of Basel III.

34. Among the measures to modernize the financial system, a move to a **tiered banking system** is often suggested (the Bank of Russia's, national banks with general licenses, organizations working at the level of federal districts, subjects and cities). The issue is far from being unambiguous. More important is a **careful study of the scenario with close dialogue between the controller and the banking community**, which takes into account the various options for increasing Russian citizens' access to financial services (currently, they cover less than half the economically active population). **Uniformity and fairness of the financial space** should be pursued through the development of "electronic money," a national payment system that supports a universal digital card for Russian citizens, micro financing, building and loan association; agent model for sale of financial services, etc.

35. With globalization, the effective development of capital markets takes the form of **global financial centers** (GFC). In the context of establishing a GFC in Russia it is necessary to implement a set of measures aimed at **improving the regulatory environment of financial market**. First of all, the flow of the public's funds to capital markets needs to increase. No less important is the increase in funds placed on the capital market by institutions of collective investment and pension funds. Russian stock exchanges should be available for operations of all categories of investors acting on the world market. For the financial sector to effectively respond to investor demand, it is crucial to stimulate public offerings on the domestic market by local corporations (according to experts, by 2020, the upper limit may be close to 2.6 trillion rubles).

36. In the next three to five years it is necessary to overcome the lag of the Russian market for corporate debts, including the securitization and the creation of structured products. To this end, in addition to simplifying the procedure of issue, it is advisable to remove restrictions on issuance of bonds specified by the Civil Code, as well as improve the range of tax legislation. Upon the fulfillment of these conditions, it is estimated that the average annual net issuance of corporate bonds could reach 1.9-2.4 trillion rubles from 2011-2020.

37. Global experience of financial market development over the last 15-20 years indicates the presence of a uniform trend in the modernization of institutions of government regulation and oversight in the financial market – the **move toward vast regulation**. The announced creation of the Federal Financial Services (based on the FFMS and the Russian Insurance Supervision Ser-

vice) is a sensible and measured step in this direction. It appears that the **task of the new body should be the formation and implementation of common principles of regulation and supervision in specific regulations in various financial market segments, as well as the introduction of unified norms (standards) of regulation to the same operations of financial institutions of various types.**

38. It is crucially important to **move toward the practical implementation of a national program to improve financial literacy among the people.** It should be aimed not so much at promoting modern financial instruments (business is able to cope with this task) as creating information security to reduce the risk of insolvency by preventing mass errors and streamlining the savings and investment behavior of citizens.

39. Improvement of the Bank of Russia's monetary policy is required. On the agenda should be a transition to a modified inflation targeting (through the establishment of an "operating target" interest rate for interbank loans to start with) and the free formation of the ruble's exchange rate (based on capital flows rather than petro-dollars), increasing the role among money sources of the money supply to refinance the banking system; declining volumes of net issuances due to the possible transfer of resources of sovereign funds to accounts at commercial banks, as well as increasing the corridors of budget planning, which will allow for the consideration of using these funds as a temporary removal and subsequent sterilization of money supply growth.

However, the experience of 2009-2010 convincingly showed that changes in the exchange rate and interest rates without ade-

quate institutional changes do not give the desired effect. The actions of monetary authorities are objectively limited by the fact that the roots of Russia's inflation with its considerable non-monetary component (regulated tariffs, etc.) are in the economic structure and “peculiarities” of state regulation. Therefore, the most important condition for success in the agony of anti-inflation is **support for monetary regulation by the development of competition and de-monopolization in the course of structural reforms.**

40. From the game of “guessing” with the determination of privileged sectors and their subsequent “micromanagement,” it is necessary to move to the tasks of creating and improving market institutions (the system of which, in the strict sense of the word, is an economic structure) that provide flexibility and timeliness of resource reallocation in response to current and new challenges (e.g., a new technological wave) and global competition. Industries and sectors, of course, maintain their value as the basic elements for national priorities, but are by no means self-sufficient.

First and foremost, the issue is **about real economic diversification** by a measured increase of the share of industries that provide a greater output of value-added products in GDP by raising the return of production factors through investment and innovation oriented toward the results of technological foresight.

The subject of structural policy should be the optimization of conditions to overcome the enclave nature of production modernization and turning it into a large-scale frontal process. An integral part of this problem is the **formation of a coherent national innovation system.**

41. The most reliable “motivators” of innovation are **real competition and an institutional environment that provides for it**. Laws designed to encourage a variety of technology parks, innovation zones, incubators, venture capital development with its seed funds, business angels, etc., can, for example, stand indefinitely in office bookcases without the “cum grano salis” – “pinches of salt” – of dynamic small and medium businesses for whom competition is a “way of life.”

On the flip side of the coin – reducing the scope of “micromanagement,” setting legislation and regulatory procedures to remove loser companies and ineffective owners from the “market field,” a consistent decline in the share of the public sector in GDP (at least to 35-40% in 2020) through the privatization of surplus assets. A considerable role in strengthening the competition (especially in terms of equality of conditions) belongs to the completion of technical regulatory reform (in terms of widespread transfer to international standards) and transformation on the electricity market.

42. A huge and untapped resource of competitiveness is the **transnationalization of Russian business**, its incorporation into the global trend to create global corporate chains and alliances of transnational corporations with local venture capital companies. The obvious corollary of this is the “cultivation” of exports due to growth in the share of the cooperation component, which is linked both with the flow of direct investment and multilateral technology transfer and the exchange of assets.

Exports of intermediate and final products also receive a qualitative increment in this case –new product lines arise on the basis of a higher level of technological association and the integration of production that is balanced in the structure of the domestic industry. The catalyst for such a “structural transnationalization” may be Russia's accession to the WTO and the OECD.

The inevitable, in terms of international competitiveness, re-formatting of structural policy allows a new perspective to look at Russia's role in the innovative development of traditional industrial units that occupy strong positions in the global economy. A typical example of this is the **formation of an energy chemical complex on the basis of the oil and gas industry. The innovative potential of this process remains essentially undiscovered.**

43. A **policy of ownership**—an essential element of the institutional arsenal of advanced economies—simply does not exist in the domestic regulatory space. For private property, as a value of a free open economy, legal registration remains to be fundamentally completed, and many “rules” either to be created from scratch or substantially corrected, revealing their original motivational sense, including for the development of labor and entrepreneurial activity. It is precisely this that should be the content of **policies to strengthen property rights.**

The competence of this independent “branch” of regulatory action in the near future should include the following tasks:

- Ensure equality of competitive conditions, the exclusion of using antitrust practices in order to “protect” certain groups of market participants, rejecting administrative intervention in pricing;
- Reducing the administrative burden for businesses and citizens, including through the development of the institute regulatory impact assessment;
- Protection of intellectual property;
- Preparing for the introduction of a single tax on real estate (primarily in terms of assistance to citizens in the registration of title to property);
- Conversion of funds from the funded part of the pension system to citizens' private property;

– Establishment of a system to insure investments in public securities;

– Combating corruption attacks against small and medium-sized businesses, entrepreneurs and individuals. Corrupt rents should be equivalent to crimes against property.

44. The peculiarity of Russian modernization is that **the state itself is not so much its subject as an object**. This is expressed most clearly in the very limited ability of the state to create, maintain and develop a “new environment,” which largely holds the economic foundation of a free society. For the resuscitation of this still “sleeping” function in the modernization agenda, state efforts and community initiatives aimed at improving the quality of the institutional environment must find their place. Their subject matter is the **alignment of intense and regular communication between government, business and civil society in order to overcome mutual distrust and transition from simulation to a meaningful dialogue on all sides, including by means of public control over the regulatory actions of the state and independent examination of relevant decisions. In essence, the issue concerns the growing state control of economic policy by promoting economic growth, civic engagement and adjustment of regulatory practices (in the system of relationships between government, business and civil society with respect to state decisions concerning the economy) on the “value scale” of an open and free society.**

ENDING BUREAUCRATIC LOSSES FOR THE ECONOMY BY ENDING ECONOMIC GAINS FOR THE BUREAUCRACY

The state in its current form is preoccupied with hindering development, bottlenecks modernization. Renewal of the economy and the technologies it employs requires a powerful impulse, but before stepping on the gas, we need to release the break of hands-on economic management. Modernization of the economy begins with modernization of the system of power and public administration.

The general course of action is a strategy of deregulation. The economy and everyday life of citizens should be freed of horrendous and often unnecessary state administration. The functions of the state should be minimal but implemented effectively and impeccably.

Debureaucratization of the economy should be achieved by putting an end to the economic interests of the bureaucracy. It is necessary to nip in the bud all opportunities for turning the activities of government authorities into methods for obtaining income. In management theory, conflicts of interest are avoided through the "Great Wall of China" principle: the process must be arranged in such a manner as to avoid an intersection of the interests of government officials and business. Profitable business should be left to citizens and private entities, while state should be engaged exclusively in unprofitable affairs. If public administration ceases to be a business, then the bureaucracy will shed itself of unnecessary functions in no time.

A strict legal framework should be established for the activities of government officials at every level. The principle that “everything is allowed that is not prohibited by law” is not universal: officials have the right to do only that which the law prescribes, anything else amounts to abuse of power, i.e., a crime.

Public administration should be systemic and procedural (automatic). Hands-on management is an archaic method of administration and a sign of incapability to organize the work of public institutions in a normal manner. And this is the best way to fall under the control mid- and low-level bureaucracy just as “the tail wags the dog”.

Ending the epidemic of regulation and control, interference and collection of duty is only possible through a decisive and irreversible termination of the capacity for creation of regulatory measures at the departmental level. The regulatory and legislative code should be compact, transparent, exhaustive and unchanging.

*Transformation conducted in the manner of the former *modus operandi* is doomed to fail. Institutional reforms follow the same eternal loop – failure upon failure only to start again and again from scratch. Metamorphosis is needed – reformation of the system of reform itself. The aim is to create a system for the administration of institutional reforms and also to disable influence on these reforms by the departments and officials who due to conflicts of interest would prefer to see the transformations fail. The establishment of order in public administration can only be achieved by securing it firmly in the vice grips of political leadership and business, the independent expert community and an active society.*

What should be done?

45. Once again **review and substantially decrease the authority and functions of public administrative bodies**. Only the bare minimum should remain. The assimilation of unjustified functions should be punished as an abuse of power. Apparatus reduction

procedures should be carried out on a regular basis. Expenditures on public administration systems should be open and truly accessible for public oversight (with the exception of state secrets).

46. Completely **subordinate authorities to administrative procedures**. Deviations from procedure should be penalized according to established rules. Develop a system of effective measures to address violators of any level: from procedural and administrative measures to criminal prosecution.

47. Introduce the practice of **appointing high-level government officials on a project-by-project basis and/or to serve for a specified time** rather than appointing them to “occupy a position”. Provide public evaluation of results of work. Get rid of strategic goals set earlier that have already proved to be failures (institutional reforms in particular).

48. Carry out a complete and public **review of the economic activities of all state bodies and affiliated nongovernmental structures**. Open their budgets, revenue sources and expenditures to the public domain. Investigate personal commercial ties between officials and such structures and completely eradicate them (both the ties and the implicated officials) from the system of government.

49. Using the strengths of the central apparatus and independent expert community, **analyze the reasons behind past failures** of institutional transformations (administrative reform, reform of technical regulations, etc.). Dismiss those responsible for these failures. Cease all interaction of authorities with the public and commercial structures which in collusion with the bureaucracy facilitated sabotage and curtailment of the reforms.

50. Identify and eliminate all instances of state regulation where new methods can be adopted: self-regulation, liability insurance, etc. The introduction of new methods should **dramatically reduce administrative burdens and not build upon them.**

51. Develop and implement a program for **halting the creation of regulatory norms at the departmental level** with the transfer of the adoption of the vast majority of such decisions to legislative bodies or decisions by the Cabinet of the Russian Federation.

52. Introduce and implement in practice a system of **objective criteria and calculable indicators of effectiveness for institutional reforms and administrative innovations** (reduction of paperwork, number of approvals required, market access timeframe, financial expenditures, etc.).

53. The fight against corruption begins with the **liquidation of legalized state racketeering** – commercial activities in the course of executing public functions of the state and, in particular, the creation of artificial administrative barriers.

54. Precedents of hands-on state management should be considered **instances** that are not an adequate tool for achieving public aims and objectives. In particular this concerns attempts to manually control institutional reforms (one-time cancellations of certification of certain types of products and other items, which may have some utility at local level but in essence the reforms themselves). Develop and implement **a program for transforming public administration to a systemic regime.**

SOCIAL POLICY: FROM FIGHTING POVERTY TO GROWTH OF THE MIDDLE CLASS

The best instrument for raising the competitiveness and mobility of citizens is quality education. The best way to fight poverty is to increase the number of prosperous citizens. The best method for combatting illness is to create the conditions necessary for a healthy lifestyle. The best way to prevent shortages in the pension system is to develop its accumulative savings components. The best solution to unemployment and underemployment is quantitative and qualitative economic growth.

Contemporary society is facing the critical issues of human development, investment in human capital and increasing labor productivity. It is common knowledge in the world today that the main competitive advantage of highly developed countries is tied to the quality of human capital and factors that directly provide vital life functions. And Russia is no exception.

Thus the social condition of society will in the near future be a key criterion for the country's successful economic and political development.

In contemporary Russia, social problems stand out as being particularly urgent. The reason for this is the erratic development of different layers of society and an imbalance in the system of social, political and cultural development factors. As a result, we have a country with a market economy progressing toward the postindustrial paradigm yet existing in conditions of incomplete demographic modernization and following a social policy model which was formed in a socialist industrial society.

The general strategic vector of Russia's social modernization is a transition from fighting poverty to growing the middle class, or from tactical survival to strategic development.

The realization of such a policy first and foremost requires not money but rather the development of the institutional environment. Opportunities for regeneration and expansion of the middle class are determined not by the institutions of social support needed by the lower class and substantial portion of the lower-middle class but rather by the institutions of development. The middle class and those social layers which are within reach of this level ("recruits of the middle class") are the ones that these institutions should be directed toward: the creation of a positive business climate, stimulation of consumer demand, bank and mortgage lending, pension insurance, quality higher education, continuing education, corporate and voluntary medical insurance, a social services market, etc.

Effective support institutions need to be created for those living beneath the level of the middle class, the functions of which include dealing with such issues as minimum wage, state pensions, targeted social support, quality vocational education, state health-care provision and accessible housing.

Such a scenario will facilitate the development of a social foundation for the localization of poverty and thus avoidance of degradation of social structures. At the same time, and this is much more important for the political leadership of the country, it will create stimulus and conditions for a productive and effective labor among the social groups with high educational, social and labor potential. And this development scenario is the only path to social and, in the final analysis, economic modernization.

Of no less importance is a frequently overlooked component of social policy – the socializing role of education. There is a need to change the vector of the development of education from an organizational-economic model to a social-cultural model of modernization. That is, transforming education into a leading social actor in society, one that gives rise to civil identity, forms peoples mentality and facilitates successful personal and professional socialization.

What should be done?

55. Social-cultural modernization requires the following:

– The development of projects that reveal the essence of education as a social actor in society, and the realization of these projects through state programs of various levels. The focus of these programs should be the educational environment, such as social networks, grouping education with other institutions of socialization (family, media, religion, social-economic institutions, etc.) and determining the social effect of the interaction of education with these institutions in the life of individuals, society and the state. The public understanding of the strategy for social-cultural modernization and the methods for its implementation could become one of the key factors that motivate change in the population's attitude toward education.

– Targeted formation of civic identity as a starting point for strengthening society as “unity of the diverse” and solidarity in social and interpersonal relations of Russian citizens. Without resolving this issue, the identity crisis currently observed in various regions and national republics will only grow worse, evolving into political and social risks to the country's development.

– Creation of social programs, primarily programs for pre-school and kindergarten education, that provide a basis for formation of social norms for tolerance and trust as prerequisites for the dialogue of cultures in Russia's multinational society.

– Mitigation of the potential socialization risks for the upcoming generations in other socializing institutions. This implies a search for social partnerships with such institutions as the mass media, religious confessions and families with the aim of successful socialization of children, adolescents and youth and the use of so-

cial networks between these institutions for reducing risk of social conflict and tension in society.

– Raising the mobility, quality and accessibility of education as a resource for growth in the social status of individuals in modern society, achievement of professional and personal success that instills faith in the future of one’s country. Resolving this issue, which is directly related to the stratus formulation function of education, will also reduce risks of social segregation, which to a large degree is a consequence of the low level of social mobility and access to quality education.

– Development of “the competency to renew competency” as a value for benchmarking in the planning of educational program at various levels. The objective is to allow upcoming generations to successfully deal with various professional problems and vital life issues in conditions of accelerating information flows and social change.

56. Labor market principles require changes: (1) shift from a policy of low joblessness to a policy of effective employment and (2) from cheap unqualified labor to jobs with respectable wages and high qualification requirements.

57. It is also necessary to move from strict labor legislation and weak discipline among economic players to more flexible labor legislation and a higher level of discipline among market participants.

Changes in the Labor Code should include an expansion of the list of reasons for the signing of temporary labor agreements and expand the spheres of their application, introduction of flexible working hours, new nontraditional types of employment (such as distance work), reduction of regulations concerning work time and

break time as well as the provision of benefits and compensation to workers in accordance with analogous legislative norms of OECD countries.

58. The low level of internal mobility of the population represents a serious social-economic problem. In order to resolve it, measures need to be taken in the following areas:

- Registration of citizens according to permanent and temporary residence should be simplified to a notification procedure.

- Development of a housing rental market, primarily in the economy segment, through an increase in the housing supply of various consumer characteristics. Stimulation of the forced construction of dormitories, low-cost hotels and other types of inexpensive housing. In certain instances the situation can be addressed through the creation of mobile settlements equipped with all vital infrastructure.

- Development of a chain of recruiting and personnel agencies involved in the search and selection of personnel throughout the country, improvement of cooperation between private employment agencies and state-run employment centers.

- Improvement of the rotational work-shift schedule format.

- Development of contract labor as a method for the quick and inexpensive exchange of workers between economic entities.

- Restoration of certain practices of organization recruitment for the realization of major investment projects in regions suffering from critical labor shortages.

- Cooperation in the provision of temporary housing and compensation of moving expenses; possible co-financing of losses borne by private business due to the attraction of residents from other regions to implement projects.

- Creation and improvement of informational support for intra-regional labor mobility on a nationwide scale, including the creation of an accessible online jobs database.

- Development of transport and highway infrastructure for intra- and interregional passenger travel as well as passenger transport within municipal agglomerations and neighboring peripheral areas.

- Improvement of urban agglomeration planning structures, the removal of industrial facilities to areas outside municipal centers with the aim of relieving pressure on city transport infrastructure

- Changing employment conditions, where possible shifting from a daily routine schedule to shift work (i.e., 24 on/72 off), etc.

59. In healthcare:

- Development not of a concept or development strategy for healthcare (in our narrow understanding of the term) but rather a program for strengthening and developing the health of the nation. This is different in principle and an absolutely correct approach to improving health – not seeing medical procedures as the solution to all health problems.

- The emphasis in the organization and allocation of resources should be made on prevention and earlier detection of illness at a stage when it can be treated without becoming a chronic or full-blown pathology. A major portion of healthcare funds should be allocated according to this principle, and 50% of doctors should be focused on this initial level of prevention, as the success of work done at this level will play a major role in determining what is necessary at the other levels of medical assistance.

- The institution of nurses should be fully developed, as nurses should carry out the entire volume of routine work (prophylactic exams, preliminary patient exams, house calls, execution of a

range of medical procedures, rehabilitation and therapeutic care, administrative functions, etc.).

- Introduction of a system for selection of future doctors, substantial changes to the nature of doctor training, principal changes to the system of licensing and accreditation.

- Particular attention should be paid to the quality of medical services, the application of only proven and grounded medical technologies and ISO 9000 standards, development of a system for ensuring quality and quality management, and also quality evaluation through result-based indicators corresponding to these standards.

- Development of a system of medical economic standards for providing medical assistance and the calculation of the real needs of Russian society for healthcare services (state expenditures of no less than 7% of GDP).

- Formation of a long-term target program for strengthening the infrastructure of the healthcare system and raising the level of implementation of the medical economic standards in the process of the realization of the program.

- Transformation of regional branches of the Federal Fund of Compulsory Medical Insurance into information centers responsible for tracking both individual medical histories and personalized expenditures incurred through use of free-of-charge medical services.

- Adoption of a comprehensive set of stimulus measures supporting the development of supplemental (voluntary) health insurance (primarily through tax discounts for both the insurers and users of such services).

- Stimulation of the creation of self-regulating medical organizations uniting both doctors and patients with the subsequent transfer of a substantial portion of government authority over the licensing of medical personnel and control over quality of services.

60. In addition to the use of “maternity capital,” there is a need to move toward a system of support for families with children at all phases of the demographic cycle and introduce a substantial monthly federal subsidy for each child. A standard of the economic sustainability of a family with children should be developed and implemented in practice. It should include, alongside material well-being, the services of the systems of education, healthcare, housing provision and other factors influencing the economic and social condition of families that are raising children.

61. Birthrate stimulus measures, which as a rule provide a quick but short-lived effect followed by a deep and protracted decline, cannot be viewed as the single or even the main instrument for raising the country’s birthrate. Of much greater significance is the development of a broad and diversified market of social services to care for and raise children, liberalization of the labor legislation in regard to the employment of mothers and those caring for children, introduction of new formats of employment, such as distance work, into labor legislation.

62. Introduction of the following principle: **from social benefits to social contracts**. This principle implies the possibility of providing social support under the condition that a social contract is agreed upon whereby unemployed (but employable) family members undergo social adaption (with mandatory phases including acquisition of professional skills, retraining, active search of work through employment agencies, etc.).

63. It is necessary to **shift from support of certain categories of the population to equal support of households at various**

stages of the life cycle. The most critical is the imperative to assist families with children, which face the greatest risk of falling into poverty. In particular, overcoming the present disproportion could be possible through a federal subsidy for the poor, based on control of per capita family subsidies analogous to the allocation and payment of housing subsidies and aid to children from poor families. The size of the benefits should guarantee a consensus-established level of minimal consumption for Russia.

64. The pension system should be transformed from an instrument for fighting poverty into a bona fide insurance and savings system. In order to accomplish this, measures need to be taken in two areas:

– A further increase, beginning in 2014, of the size of compulsory insurance payments into the cumulative state pension system from the current 6% to 8%, 10% and possibly even 12% for the youngest workers. At the same time, the amount of payments to the insurance portion of future pensions should correspondingly be reduced. Thus, those who will be retiring starting from 2022 will receive no less than 10-15% of their future pensions from the savings component of their pension while those retiring in 2030-2035 will see this portion rise to 30-40% of their pensions.

– Another source for raising pensions from personal savings is the further development of voluntary co-financing of future pensions. In the next 2-3 years it will be necessary to increase the volume of state co-financing from the current 12,000 rubles to 40,000-50,000 rubles annually. Together with employer contributions, this could make it possible to raise the average pension not by 2000 rubles monthly, as the current situation implies, but by 10,000-15,000 rubles (which practically amounts to a second pension).

65. In order to support the sustainability of the pension system, it is possible to use, firstly, funds from the National Wealth Fund (NWF) and, secondly, funds from the massive privatization of state property and shares belonging to the state. The proposed use of the NWF includes the following:

- Adoption of a decision to use NWF funds to support the pension system;
- Allocation of investment revenues from NWF toward the financing of pension payments.

66. A number of measures should be adopted with regard to nongovernmental pension funds (NPF) with the aim of creating the most attractive conditions for private depositors to work with such funds and to increase their reliability. This includes:

- Exempting employers who make payments to NPF from making pension insurance payments;
- Exempting pension payments to NPF from profit tax;
- Exempting pension payments from NPF to citizens from personal income tax;
- Unification of the tax regime for NPF and other nongovernmental pension providers;
- Establishment of stricter requirements for NPF and the investment management companies they work with, including raising the equity capital requirements and more stringent standards of operation.

THE RUSSIAN PEOPLE: DISCOVERING ITSELF

Migration policy is a solution to the demographic challenges that is capable of compensating for the deficit of labor resources needed to support sustainable economic growth. Russia cannot remain indifferent to its appeal as a destination for migrants, which would allow the country to reinforce not only its economic and demographic situation but also its international reputation.

In the near future the depopulation and aging of Russia's population will markedly increase. First and foremost these processes will negatively impact the size of the workforce, which could seriously destabilize the national labor market. In particular, given current trends in the development of the professional education system, it may result in a deficit of qualified specialists. Concurrently with the aging of the population, demand is growing for new goods and demand is expanding for a wide range of services related to healthcare and social support. At the same time, due to the declining population, in the certain regions the abandonment of communities is becoming a critical problem.

Without attracting both qualified and unqualified migrants (both permanent and temporary workers), the labor market in Russia cannot effectively function. It follows that economic growth will slow and programs aimed at raising the level of prosperity of Russia's population will be threatened. Under such conditions international migration could become an important instrument for replacing the declining labor potential of Russia and its regions.

The country's appeal for migrants is directly linked with its investment appeal and society's attitude toward migrants. But as events in late 2010 demonstrated, the situation in this regard is close to critical.

Investment decisions are directly related to both the labor resources of the domestic market and the extent to which it is possible to bring in without hindrance personnel from abroad who are necessary for the realization of an investment project.

It follows that in a globalizing world, the "openness" of a country's immigration policy is an important factor in determining its competitiveness.

What should be done?

67. A program for attracting citizens of other countries to permanently live in Russia should be developed.

The essence of such a program would be to provide fast-track unlimited residency (rather than the temporary residential permit and five-year residency) to foreigners with a high level of education and qualifications, the intent to organize business and invest funds in Russia, with close relatives in Russia, desiring to become full citizens and meeting the prerequisite conditions.

The program should include three components: (1) economic immigration (migration of qualified specialists, investors and businessmen); (2) reunification of families; and (3) ongoing humanitarian migration.

68. Given a growing deficit of labor resources, Russia's economic development over the upcoming decades is impossible without the attraction of foreign workers. In order to raise Russia's migration appeal it is necessary to do the following:

- Provide amnesty to illegal migrant workers in the country;

– Develop integration programs, first and foremost with member states of the CIS with regard to immigration, that are clearly aimed at creating a common labor market for these countries and a unified migration environment.

69. Cancel the quota system for attracting foreign labor resources while maintaining a clear advantage for Russian citizens in the hiring process.

70. Regulatory acts need to be adopted to determine the function and role of private employment agencies (PEA) with regard to the attraction of foreign workers. Their range of activities in such issues should be significantly expanded – from the selection of foreign workers according to the requirements of the employer to the provision of a comprehensive set of immigration services. It is also necessary to consider providing PEA the opportunity to provide laborers on a contract basis. In this case the PEA could act as the employer. In order to avoid infringement upon the rights of foreign workers hired via civil contracts for temporary provision of personnel, there will need to be controls of the activities of PEA. In the case of infringements, PEAs should be stripped of their licenses.

71. Policies for integration of migrants into Russian society should be differentiated for different groups – repatriating compatriots, immigrants, labor migrants – and be based on defined and clear procedures of language, cultural, social and economic adaptation and integration. Particular attention should be paid to the policy for integration of children of migrant workers, the parents of whom are often poorly adapted to the social realities of the adoptive society.

72. The number of quotas for temporary residency permits should be sharply increased, without forcing law-abiding labor migrants to stand in long lines for hours, and permanent residency should be provided with less apprehension on the part of the state. Such a radical step could be taken as to exempt those with temporary residency permits from applying for work permits.

73. It would be prudent for Russia to borrow the experience of countries that have developed targeted federal programs for adaptation and integration. In Canada there is the Immigrant Settlement and Adaptation Plan (ISAP). In addition to this there are specialized host programs, language programs and relocation programs. They are all aimed at providing a wide spectrum of services and assistance primarily to immigrants (business immigrants, reunifying immigrant families, refugees, etc.). In the framework of this program Canada mainly attracts trained and sought-after labor migrants, both qualified and semi-qualified, with idea that they will remain in the country to live, receive permanent residence and eventually citizenship.

These programs cost the government over \$150 million annually, and they do not cover seasonal migrant workers. However, there are also separate regional programs (largely at the provincial level) aimed particularly at season laborers. These are financed by both the provincial and federal authorities, and they work with over 100,000 people each year. These programs are aimed at those with a lower level of qualifications, who receive services from rather effectively functioning state agencies.

REGIONAL POLICY: BALANCING DIVERGENT LEVELS OF DEVELOPMENT AMONG REGIONS AND CITIES THROUGH COMPETITION AND DIFFUSION OF INNOVATIONS

The aim of state policy for spreading out development is to accelerate transmission of the growth impulse from already formed centers to a wider group of regions, stimulating the use of competitive advantages, modernization of institutions and competition for investment and human resources.

Improvement of the institutional environment in the regions is a broad area for spatial development. However, numerous examples demonstrate that the role of institutions as a stimulus for development remains secondary. The most substantial advantages are mineral resources, geographic position and agglomeration effects. This means that only in a combination with other factors of spatial development will the modernization of institutions produce a more apparent and swift effect. The regions will seek to improve institutions only if an important condition is in place – real competition for investment and human capital.

Real competition among the regions can only arise with the decentralization of resources and authority. We have grown accustomed to the idea that modernization comes from above, as this has always been the case in Russia. However, in order for these impulses to continue further, the conditions must be created for initiatives from below – from the regions with competitive advantages and improved institutions. If this dual-purpose task is not carried out, it is unlikely that Russia's modernization will be successful and sustainable.

What should be done?

74. Reliance on centers of modernization and reduction of barriers to their development. Research and global experience make it possible to select and even rank the spatial priorities of Russia, based on competitive advantages and facilitating lower barriers to development:

- Major cities and agglomerations (agglomeration effects/economy of scale);
- Infrastructure and transport corridors (reduction of economic distances);
- Port, border and other zones of technology borrowing with development of import substitution.
- More compact settlement of southern regions and suburban areas with advantageous climate conditions for agriculture, and development of infrastructure and less expensive labor;
- A limited number of geopolitically important resource projects with state supported infrastructure.

75. Another important vector is the **neutralization of traditional defects in Russia's regional policy**, which include:

- The risk of ending up in the inherited rut of a “shift of production powers to the east,” which arises with the growth of state revenues and is much greater in a highly centralized system of governance;
- The risk of administrative planning and support for regional industrial priorities for development, although this is senseless – there is a high probability of mistakes given quickly changing technologies and business investment priorities;

– A policy centered on “mega-projects” with an ineffective and corrupt state, a risk that is augmented by a highly centralized system of governance.

76. Systemic support of cities as transmitters of innovations. In contrast to China, Russia has not yet set itself the goal of gaining the greatest return on the concentration of human capital and infrastructure, i.e., the development of cities as centers. Major cities are suppressed by a centralized taxation and budget system, which strips financial resources and undermines the authority of local self-government in favor of higher-standing government agencies. By putting greater pressure on cities, authorities are restraining modernization.

By the end of the 2000s, the diffusion of social innovations, including modernization of the way of life of the population, reached the major regional centers of Russia, and this “frontier” of modernization requires particular attention. Major cities need support in order for the country to develop a framework of centers of modernization in place of the unappealing coordination system of “Moscow and the rest of Russia.”

77. Mechanisms for horizontal integration instead of consolidation. Regions are open economic systems that freely exchange their products. Russian authorities do not take into consideration the fact that the consolidation (merging) of regions destroys one of the few important identities for Russians – the regional identity, which serves as a foundation for the formation of the regional society.

Modernization impulses should be transmitted from the larger centers to smaller municipalities, along the hierarchy of cities. And

the smaller the number of regional centers, the longer it will take for modernization to progress spatially.

78. Another path for modernization – “neighboring” diffusion of a major center to its suburbs – is made easier with the formation of urban agglomerations. So what is needed in order to hasten the processes of formation of agglomerations, which could become very important zones of social modernization and concentration of human capital in Russia?

- Lowering of administrative and institutional barriers within formed agglomerations (for example Moscow and the Moscow region) as well as those in the process of forming (such as Samara-Togliatti);

- Stimulation of horizontal ties for the adoption of joint solutions for territorial development; mechanisms for reaching agreements function productively in the Greater Paris area and London but for some reason are not realized in Russia’s agglomerations;

- Major investments by the state into transport and municipal infrastructure without which the adjoining areas cannot be “sewn” together;

- Investment in quality education for the modernization of the municipal society and social environment;

- Regulation of the process of agglomeration development through city planning, zoning (settlement zones, production zones, recreation zones, etc.) and designating reserve territories for future development;

- Elaboration of appropriate PR policy, which in developed countries serves to increase competitive advantages of agglomerations.

79. Equalization and modernization with the help of instruments of social policy and the development of human capital.

The problem of regions lagging behind can only be resolved through a regional stimulus policy, and this first and foremost entails a redistributive social policy with a focus on growth in human capital. The most important principle is that assistance should be provided to people and not to regions.

80. The first step on this path is to determine the most important vectors of modernization capable of reducing Russia's spatial barriers.

Analysis of global experience and the spatial development of Russia, including during the crisis period, allows us to highlight three critically important vectors for spatial modernization:

– **Accelerated diffusion of innovations** (technological, consumer, informational and others). The process of diffusion of innovations in Russia, just as elsewhere in the world, takes place along three paths: along the hierarchical system of cities (from large to small municipalities); within agglomerations – from the central city to suburbs; and at border regions with intensive global contacts deep in the country, although this path is less developed in Russia. In order to accelerate modernization, the state's top priority infrastructure investments should be in those territories where large cities and populations are concentrated. This will have the effect of decreasing economic distances for business and the majority of the country's residents.

– **Stimulation of competition in the regions and cities for investment and human capital.** Modernization is bound to amplify regional differences, but the most successful “winner-regions” are, firstly, capable of transmitting best practices and, secondly, they

receive the opportunity to develop even quicker thanks to support from their growing tax revenue base. The lag of “losing-regions” will partially be compensated by transfers for social purposes as well as targeted social policy aimed at helping people and not regions. A most important mechanism – control from below and change of regional leaders with the help of elections – will need to be restored. In order to achieve competition, which stimulates spatial modernization, it is necessary to decentralize the government, change the proportions of allocation of tax revenues in favor of the regions and, within the regions themselves, in favor of the cities.

– **Growth in mobility of the population.** The conditions are not yet in place for households to migrate within Russia. What are needed are higher income levels, liquidation of the institution of registration, developed housing markets with low entry barriers, and a broad and flexible system of housing credit, including mortgages. Quick changes in this situation are not likely, so it is best to focus on the types of labor migration that have proven most viable (educational migration by students, labor migration of family members, etc.), while simultaneously lowering institutional barriers for all forms of migration and relocation of households from depressed areas.

SUSTAINABLE DEVELOPMENT – A WIN-WIN STRATEGY: FROM INNOVATIONS TO ECOLOGY, FROM ECOLOGY TO INNOVATIONS

The establishment of environmentally sound policies is imperative for postindustrial development. The aims of achieving an innovation-driven economy and environmentally sustainable development coincide.

Resolving the recurring and worsening environmental problems, embedded decades ago in the structure of the economy and industrial sector, requires new approaches to technology, the organization of industry and government administration. Over the next 10-20 years the “win-win strategy” will be an important principle of social-economic policy and a basis for environmental policy.

The main aim of the modernization scenario of sustainable development is a change in attitude toward the country’s natural resources; a shift from a strategy of “most effective depletion” to a technologically and economically grounded reduction of the level of pollution, limited of degradation and, finally, sustainable development.

A key condition of such a shift to sustainable development is the development and implementation of new institutional mechanisms oriented toward the so-called “win-win” policy and aimed at achieving both economic and ecological effectiveness.

What should be done?

81. In terms of immediate steps toward improving the situation in areas of environmental degradation and repairing past ecological damage, the following is needed:

- Rebuilding of the state environmental monitoring system based on modern technologies. In current conditions of a near complete absence of environmental monitoring by the state, it is difficult to assess the real situation with pollution and the characteristics of environmental hot spots.

- Creation in environmental protection legislation of a section on industrial ecology according to the EU model of legislation, which provides for the comprehensive control and prevention of pollution. This must be enacted with provisions for a transition to a modern system of norms, considering the technological, economic and geographic specifics of each given enterprise. All established requirements must be passed through open professional discussion and established through a transparent procedure that is outlined in a single document (a comprehensive set of permits).

- A radical increase in effectiveness of the application of modern instrumental methods for uninterrupted control of pollution volumes, with a particular focus on problematic sites and enterprises posing the greatest risk to the environment.

- A rejection of the fiscal nature of penalties for adverse environmental impacts, as this mechanism can be used to stimulate active mitigation of impacts by natural resource users (such as counting expenses on environmental protection measures in place of penalties), and the creation of local and regional target funds for liquidating accumulated environmental damage.

- A law on environmentally problematic areas should be adopted.

- A law on the introduction of deposits on containers should be adopted.

- Also needed is modernization of procedures for environmental impact assessments and state environmental reviews in correspondence with international standards and the requirements of environmental protection conventions and accompanying requirements of international financial institutions (particularly with regard to the realization of high-environmental impact projects such as energy, chemical production, etc.).

- The state should support the introduction of environmental labeling to raise the demand for environmentally friendly products.

82. During the restructuring to the portfolio of state-financed projects, the major resource-intensive energy and infrastructure projects with high environmental risks should be the first to be mothballed. The enormous reserves represented by energy-saving potential allows companies not to have to force the development of new deposits in the Far North and on the ocean shelf – such projects require billions in investment and given present energy prices are not profitable. There are substantial environmental risks of such production in conditions of global climate change (the need to invest in infrastructure as the permafrost melts), and risks of accidents, as seen with the BP platform disaster in the Gulf of Mexico. At the same time, geological exploration of promising areas should be continued.

83. Environmental issues should be institutionally reinforced as a top priority for the state, which entails:

- Provision of public and analytical support of reforms with broad participation of representatives business, the expert community and the public at large;

– Activation of the country’s participation in international co-operation;

– Development of official strategic documents with regard to the environment and action plans for their implementation (a sustainable development strategy, national environmental policy and plan for reform and modernization of the environmental management system);

– Use not only of GDP or GRP as indicators of development but also indicators which take into consideration the “toll” of economic growth on nature and humans (sustainable development indicators, corrected net savings indicators, etc.).

DEFENSE AND SECURITY: THE ARMY, POLICE AND SPECIAL SERVICES – JOINING THE SIDE OF THE PEOPLE

An army, formed on a voluntary basis, represents the end of the state's war against demographics and the economy's need for labor resources; a strong, reformed police is the state fulfilling its obligation to provide just enforcement and provision of law and order, and not only in the interest of the state but in the interest of citizens; modernized special services cease their secret war on the country's citizens and fulfill the function of truly protecting them from actual threats, including threats of terrorism.

No later than 2012, the formation of Russia's Armed Forces will hit a bifurcation point. The most important factors that will determine the condition of the Armed Forces will be related to the demographic situation: in 2011 the country will have 648,000 18-year-olds, in 2012 – 662,000, in 2013 641,000, in 2014 – 613,000, in 2015 – 590,000, and further decreasing with each passing year (and no less than one-third of will declared unfit for service). Given such a situation the army cannot be large in numbers, and the conscription system will undermine the economy, which will be experiencing a growing shortage of labor resources – of young people who could be working, gaining the needed skills and education.

Thus military reform (and for its success it is necessary to demilitarize all other so-called power structures) must amount not only to a decisive break from the traditions of the Soviet past but

also to giving up the idea of compulsory military service, which has a three-century history in Russia's military culture.

Another objective factor amplifying the need for military reform is the present revolution taking place in military practice. The essence of this revolution is that apart from ground, sea, air and space theaters of military operations, there is a new dimension – the information dimension. And it highlights the need to make the military service professional.

Furthermore, it should be taken into consideration that the political will power to carry out reforms can be realized only through civilian control, the foundation of which is parliamentary control (which of course requires the presence of real and not imitated political competition).

The concept of national security includes guaranteeing security not only from external threats but also internal threats. Thus reform of this domain should be applicable to both the special services and all state departments (bodies) responsible for providing security in the broad sense of this concept. A most topical although not the only such reform is the “police reform,” from which general reform of the security sphere should begin.

What should be done?

84. The main goal is a transition to a completely voluntary Armed Forces by 2018, the end of the next presidential term.

An important element of this is the creation of a corps of professional sergeants. On the grounds of current military colleges several dozen training centers are being created to train non-commissioned officers. Emphasis should be placed not so much on technical disciplines but rather on the basics of management, psychology and teaching. At the same time future sergeants receive uniform elementary vocational education. As a result the Armed Forces are receiving several thousand professional young commanders each year.

85. Military expenditures are set at no less than 3.5% of GDP with a legislated requirement to earmark a designated share of the amount for the purposes of military reforms. The total number of men and women serving in the military does not exceed 400,000 – 500,000. In order to avoid a loss of contract servicemen during the transition period, instead of negative stimuli (based on force and punishment) a system of positive stimuli is created. Contract servicemen are guaranteed privileged access to higher education and or credits for starting a business. Furthermore, during their term of service, they receive monetary compensation of no less than the average salary in the country.

86. The suspension in the acceptance of cadets at military colleges in 2010-2011 should be used to develop fundamentally new study programs. At military study centers future officers should receive basic humanities, natural science and technical education. The first, humanities, will help commanders to understand their place in a rapidly changing world and recognize their responsibility for their subordinates. Natural science and technical education will help them assimilate any modern type of weapons system.

87. The procedure for promotion to higher levels of command should take place on a competitive basis and be transparent. A system of continuing education for the officer corps will be formed once promotions become based not only on number of years served but also on the raising of one's qualifications.

88. The functions of the Ministry of Defense and the General Staff are being split. The Ministry of Defense is gradually being turned into a department staffed by competent civilian officials.

Their job is to “translate” the tasks for the Armed Forces as set by the political leadership of the country into the “language” of military orders. These civilian officials formulate the technical policy of the Ministry of Defense and organize the procurement of arms and military equipment. They carry out financial audits and collect and analyze statistical data.

89. The leadership of the Armed Forces carries out orders from the President – the Commander in Chief – received through the Minister of Defense directly to the four strategic operational branches of the Armed Forces. Under such an organizational structure, the General Staff does not have the function of directly supervising operations of the strategic operational branches. Its task is limited to strategic planning and presentation of recommendations to the Minister of Defense and political leadership of the country. The General Staff assesses threats and, most importantly, develops proposals for counteracting these threats and preventing war.

90. During the period of reformation of the Armed Forces, security is guaranteed by the country’s nuclear weapons, which will retain this significant role throughout the upcoming decade. However, nuclear policy is also undergoing serious changes. In the case of further improvement of relations with the West, Russia will not pursue the highly expensive aim of maintaining numeric nuclear parity with the United States, but it will nonetheless maintain strategic stability. Moscow will play a major role in the creation of a global anti-missile defense system, including in the system its missile early warning systems and C-400 and potentially C-500 anti-missile defense systems. Cooperation with the West will include

military conflict prevention in Central Asia (where situation will likely worsen following the withdrawal of US and NATO troops in 2014 from Afghanistan) and in the Caucasus.

91. Reforms should begin within the military-industrial complex. In this process the government should abandon the idea of state corporations (which today amounts to a sort of “collective farm,” in which one relatively effective enterprise supports half a dozen that are on the verge of bankruptcy). Striving to make investment in the military-industrial complex as effective as possible, an end should be put to attempts to launch new weapons programs which call for the production of the entire spectrum of weapons – from pistols to ballistic rockets. Industrial cooperation is formed on the basis of cooperation on a limited number of priority projects, the realization of which is truly necessary for supporting the combat readiness of the Armed Forces. And the state will finance not the corporations themselves, but rather these specific projects, which will be discussed in the State Duma.

92. The Law on Civilian Control should be passed in short order. This law should establish control over the defense and security sphere – the parliament critically assesses proposals of the Ministry of Defense, law-enforcement agencies and special services and only provides financing to those programs which correspond, in the eyes of these elected representatives, to the interests of the country and its capabilities. Parliamentary discussions are regularly covered by the media. Protocols from meetings and hearings of the State Duma and its profile committees on issues related to defense are openly published.

93. Expenditures on defense should be detailed to the fullest and as transparent as possible, for which a number of laws need to be fundamentally revised, including the Budget Code, Law on State Secrets and a number of sublegislative acts. The military budget should not only meet UN standards on military expenditures by states but also be much more expansive and detailed, so that parliamentarians and the experts they consult can have the opportunity to understand and evaluate the main trends in the development of the Armed Forces, their weapons equipment sufficiency and the provision of military personnel with necessary supplies.

94. Civilian control should not be limited to the parliament. It is necessary to create the position of an ombudsman for military service personnel's rights, whose responsibilities would include oversight of the social and political rights of service men and women.

95. Of principle importance is the creation of institutions of independent defense and security expertise. These academic centers should provide objective analysis of the processes taking place in this sphere, and develop recommendations not dictated by the interests of government ministries. In parallel, the academic centers should also create educational institutions, which would prepare not only future researchers but also civilian experts competent in defense and security issues. It is this kind of civilian professionals who ought to serve on the Ministry of Defense staff.

96. A Commission on Law-Enforcement Reform, which would include authoritative lawyers and public figures, should be created. The commission could within a short period of time pro-

pose reforms. Following the confirmation of such a plan, the commission would be transformed into the Supervisory Council on Law-Enforcement Reform (or at least this council should include many of the members of the commission).

97. The Ministry of Internal Affairs is dismantled via the spinoff of several institutions: a federal department, regional police and municipal militia.

98. It is of highest importance to create within the timeframe of this presidential term **municipal law-enforcement bodies**. But prior to this it will be necessary to introduce legislation aimed at redirecting taxes and other revenue sources to local governments. On the local level (but only in populated settlements) a municipal militia should be created. Legislation will stipulate the conditions necessary for the creation of a municipal militia department for a specific territory (size of population, number settlements, etc.). It is at this level that the term “militia” is appropriate, as this institution was initially intended as a form of self-defense for citizens. This solution will correspond to the desires of the population. The municipal militia will not have any higher standing body, and it will be accountable only to the local community (residents and elected municipal offices). It will be funded exclusively out of local budgets. The principle of the election of the head of the local militia and his obligation to report to the local population will be introduced. The main task of the municipal militia will be to preserve public order – patrol and sentry service with the authority to carry out investigations, the institution of neighborhood patrol officers, children’s rooms at militia posts, etc. In municipalities this militia will be responsible for providing for road safety.

99. In parallel, each constituent region of the Russian Federation will have its own **regional police service**, answering only to the regional government. The aim of the regional police should be to prevent, expose, intercept and investigate violent crimes and economic crimes of the second degree (one of the most important tasks of the Presidential Commission on Law-Enforcement Reform will be to differentiate crimes and determine which fall under federal and which fall under regional jurisdiction). This task it seems should be allocated organizationally as well, for example, through the creation of a police department focused on criminal investigations. The regional police should also carry out the function of transport police (although the issues concerning the patrolling highways and roads outside cities need to be resolved at the federal level). Regional police will be responsible for maintaining order at major public events, fulfilling the role of environmental law enforcement, provision of physical protection for government organs (primarily those involved in criminal law and oversight), execution of licensing functions (i.e., issuing permits to bear arms, establishment of security firms, and so on), etc.

100. The main legal successor of the Ministry of Internal Affairs at the federal level will be the Federal Criminal Police Service (FCPS). Its main task is to counteract (prevent, expose, intercept and investigate) serious violent crimes and economic crimes as well as certain crimes against public order, i.e., aggravated crimes (this is similar to the present criminal investigative service). The FCPS will also be responsible for fighting organized crime.

101. A system of indicators by which the effectiveness of police work can be assessed will play an important role. Here one

of the main indicators should be the public's assessment of police services. In terms of technology of this evaluation, it could include such indicators as the number of complaints of rudeness, refusal to provide assistance, inaction, illegal actions, etc. (If a complaint is taken to court and the law-enforcement officer is judged guilty by the court, then this should be followed by a demotion or dismissal.)

102. Such special power subdivisions as OMON and SOBR should be transformed and become the basis for the power subdivisions of FCPS and regional police services.

103. Internal troops of the Ministry of Internal Affairs should be transformed into the **National Guard**, subordinate to the President of the Russian Federation. The competency of the National Guard should be emergency situation response, combatting (interception) major acts of terrorism, suppression (interception) of large unlawful armed groups, and protection of strategic sites (if not under the responsibility of the Armed Forces).

104. In place of the subdivision for combatting economic crimes in the Ministry of Internal Affairs and also analogous divisions of the Federal Security Service, there should be one centralized **Federal Financial Police Service** (FFPS) with branches (subdivisions) throughout the country based on the federal district map.

105. The Federal Security Service should be dismantled. In its place the **Federal Counterintelligence Service** (FCS) should be created with the competencies implied by its name. FCS should

provide for information security (protection of state secrets). The regional subdivisions of the FSB would also be eliminated. In their place the FCS will provide counterintelligence cover for specific sites: industrial enterprises and scientific research institutes. The Armed Forces have their own **military counterintelligence service** which is subordinate to the Ministry of Defense. The FCS will not be a policing body but rather a special service, as its dominant function will not be procedural but rather operational investigation, including undercover work. The FCS should not have its own special forces nor should it have military ranks. In place of this, hierarchical civilian ranks should be used.

106. In place of the chief directorates of the Federal Security Services and Ministry of Internal Affairs, the **Federal Service for Protection of the Constitution** (FSPC) should be created. Its task should include prevention and interception of terrorist acts, prevention and response to separatist threats, discovery and combatting unlawful armed groups, prevention and interception of distribution of extremist materials (here, however, there needs to be changes in legislation on combatting extremism in order to draw a clearer line between government opposition and the actions forbidden in Article 13 of the Russian Constitution).

107. The **Federal Border Service** (FBS) should be created anew. In addition to its traditional task of protecting the state border, it will also be responsible for providing law-enforcement support to the Federal Customs Service at border passageways. The procedural competencies of the FBS should be limited to carrying out investigations. Agents of the Federal Counterintelligence Service should be attached to FBS branches.

108. The **Presidential Security Service** should be separated from the Federal Protection Service with its functions and authority remaining intact.

The **Federal Protection Service** (in a demilitarized form) should take on the function of protecting witnesses, victims as well as judges and the heads of state oversight bodies. Correspondingly, the Federal Protection Service will expand its workforce. Instructions on the protection of specific individuals (timeframe, conditions of protection, etc.) will come from the relevant prosecutor's office.

109. The **Federal Penitentiary** should be provided its own armed subdivisions to ensure prison security.

110. The prosecutor's office should be transformed into a normal civilian legal department. Its centralized structure does not imply a necessity to preserve a militarized style of management. In order to guarantee unconditional execution of duties there is a strict subordination system and also a strict description of the competencies of each position. The militarized system of special ranks, to the contrary, undermines the legal basis of relations within the prosecutor's office and is not necessary to carry out the functions of the office. It should be eliminated, but of course this should not negatively affect the monetary compensation of employees of the prosecutor's office and their future career growth.

FOREIGN POLICY: RUSSIA SURROUNDED BY FRIENDS

Acquiring external anchors – WTO, OECD, NATO, EU; creation of “modernization alliances”; one of the most important vectors – the European Union; formation of the Eurasian Economic Union in the CIS – Russia’s “soft power” in action; “public diplomacy” – active engagement of NGOs

Russia should be one of the world leaders and not be left on the curb of globalization and the new world order. In the principle debate of the 21st century – civilization vs. barbarism – Russia chooses the side of civilization.

For this reason the fundamental vector of our foreign policy is the transformation of Russia into a full and responsible member of international economic and political alliances of democratic countries which share the same values of economic and political freedom. The key to Russia’s modern foreign policy doctrine is an orientation toward national interests, which should not be confused with “state interests.” The cornerstone is the interest of individual Russian citizens for whom the most important conditions are a comfortable and friendly work environment, recreation, education and freedom of movement and not idle geopolitical musings.

What should be done?

111. One of the top priorities is the creation of “modernization alliances” with various countries and regions. In this regard particular attention should be paid to the relations with the European Un-

ion (EU). Here a substantial role will be played by the already launched Partnership for Modernization. It should be strengthened by the new fundamental Russia-EU agreement as the basis for preparing a major, systemic agreement or set of agreements regulating the conditions of the free movement of goods, capital, services and labor. An important challenge is a sequential and rapid transition to a visa-free travel regime. Russia's experience in creating an alliance with the EU could assist to develop modernization cooperation and formation of alliances with other regions and countries.

112. The recent successful steps toward economic reintegration of the CIS zone, creation of a full-fledged Customs Union and Common Economic Space, should be aimed at the creation of a Eurasian Economic Union. The end goal should be the formation of a Greater Eurasian community with participation of the CIS and EU and with a window toward the Asia-Pacific region. Among the key vectors are: steps toward integration on the micro-level (primarily small and mid-sized business); correction of imbalances between bilateral relations and development of cooperation within the CIS through stimulating this multilateral framework. Russia must be focused on strengthening the role of “soft power” in the CIS. This requires a well-considered and systemic policy, including the strengthening of business contacts, cooperation with the elites and public of CIS states, and intensification of humanitarian and informational ties.

113. In addition to global policy and security issues, relations with the United States should be focused on economic, technological and investment cooperation and the formation of influential groups of economic interest in both countries.

114. On security issues, it is critical to make use of the opened “window of opportunity” for real improvement in cooperation between Russia and NATO. It would be prudent to develop a strategic concept for the development of Russia-NATO relations.

115. One of the serious tasks is the strengthening of the Collective Security Treaty Organization (CSTO) as the main security structure in the post-Soviet space and also to establish cooperation between this organization and NATO.

116. In the very near-term perspective it is necessary to complete the process of creating a new architecture for Euro-Atlantic security taking into account Russia’s proposed European Security Treaty.

117. Due to the high conflict potential in the Asia-Pacific region, it is necessary to proactively develop partnership networks of regional international structures and activate the development of mechanisms and measures for collective security in Northeast Asia. Of particular importance is to continually increase efforts toward international economic cooperation in this region.

118. There is a need to seriously and preemptively deal with potential conflict areas, which include the Arctic region, water resources, global food security and other such areas that concern the security of Russia.

119. Trans-border cooperation on a regional and local level should above all else be seen as an important instrument for social-economic development, improvement of living conditions, boosting

of investment appeal, environmental conservation, development of tourism, and expansion of cultural and youth exchanges. There is a need to develop a truly effective Federal program to support trans-border cooperation.

120. The potential of nongovernmental organizations should be put to better use in the realm of foreign policy. Interaction between the state and NGOs should not be strictly vertical in nature; close attention should be paid to the opportunities for horizontal coordination between NGOs as “conduits of Russia’s image.” It is imperative to expand and develop forums and dialogues with other countries through the medium of civil society.

CONCLUSION

The future president should propose **a new social contract** for society. Its key condition is **the minimum interference of authorities in the people's affairs and free interference of people in the affairs of the state**. This starts with big politics and ends with the everyday interaction between citizens and institutions and representatives of the state.

The key question is: **who needs this and who will do all this?**

Modernization is vitally important even to those who do not seem to have a vested interest in it. The persistence of inertia is very dangerous for those representatives of the ruling elite who are presently at the epicenter of power and privilege. Holding back renewal is fraught with the risk of a crisis with unforeseeable consequences, which could lead to a most unpleasant turn of events: from the freezing of long exposed assets to political and legal prosecution. A more or less successful modernization eases the situation, reducing risks.

Modernization is necessary for the entire middle class, entrepreneurs and state employees, who tomorrow could end up without a source of income, without any consumers for their products and services.

Modernization is necessary for the weak and needy: tomorrow they could be the first wind up without the already meager subsistence on which they now get by.

And finally, **modernization is vitally important for the brave and enterprising**. They too only have one life to live, and it should be lived without tormenting shame.

All of this needs to be understood, recognized and honestly explained. And if successful, the country could see a constructive dialogue among all layers of society, with the exception of those aiming to flee or not prepared to return.

And if this is the case, such words as Patriotism and Common Cause will again take on real meaning and become the language of an authentic Renaissance.

In our situation, this would be a miracle. But miracles happen in history – it just requires a lot of work to **attain the future**.

For Notes

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