



Foreword

1. NEW PHASE IN THE DEVELOPMENT OF POST-COMMUNIST RUSSIA: FOCUS ON LONG-TERM GOALS

The most important feature of Russia's economic and political progress in the last few years has been the return of focus on long-term challenges. During the first post-communist decade this theme disappeared completely from the economic and political agenda, as priority was given to overcoming the crisis and creating basic state institutions, which Russia had almost completely lost during the period following disintegration of the Soviet Union. However, the return of political and economic stability has made the issue of strategy relevant once more.

In 1999 Vladimir Putin reinstated solution of long-term socio-economic problems as a national priority for the first time in post-communist Russia when, as Chairman of the Government, he highlighted the need to devise a Socio-Economic Development Strategy for a 10-year period. Prepared by the Summer of 2000, the Strategy laid the basis of the Russian Government's Programme in following years and remains a reference point of government policy planning.

Later, in his annual addresses to the Federal Assembly, the Russian President formulated some key long-term goals and targets, which became the basis for plans and actions by the executive branch of power. The targets included: doubling of GDP in a decade, eradication of poverty, and modernization of the

armed forces. The nature of the tasks is complex, and they cannot be reduced to mere economic, social or military issues. They require large-scale efforts to modernize all aspects and sectors of contemporary Russian society.

The expansion of time horizons features increasingly in Russia's contemporary economic and political life. The Government assembles medium-term programmes for development of the country and for its own work with three- or four-year time horizons. A recent new issue on the national policy agenda has been preparation of a three-year budget correlated with relevant forecasts and with the current medium-term programme of socio-economic development. Intensive work is underway to increase efficiency of budget expenditures, using guideline targets for work by ministries and agencies to improve living standards and enhance competitiveness of the Russian economy.

These guideline targets are based on a system of goals developed by the Government of the Russian Federation, consisting of four critical groups:

- improving living standards and quality of life;
- improving the level of national security;
- ensuring a high and sustainable rate of economic growth;
- creating future growth potential.

Concurrently, a number of leading Russian research centers and public associations have become actively

involved in long-term development issues. These include such institutions as the Institute of World Economy and International Relations of the Russian Academy of Sciences (RAS), the Transition Economy Institute, the RAS Institute of Economics, Club 2015 (an association of managers and entrepreneurs) and others. At the same time at the international level the UN has come up with an extremely relevant and unique material devoted to the Millennium Goals (Box 1).

All the above factors made it univocally clear that now is the time to address long-term national development problems, and we should give credit to the UNDP Russia team, which suggested devoting the “National Human Development Report 2005” to goals and priorities of Russia’s development up to 2015. This time horizon is becoming increasingly relevant to both researchers and businessmen. It is at once sufficiently distant for relevant designs to be built into the foundations of a business strategy and sufficiently close to prevent us slipping into a realm of fruitless fantasies in discussion of Russia’s development trends.

Another feature of this Report is a fairly substantial modification of MDG targets and indicators to suit Russia, since they were originally designed for developing countries. This corresponds to the MDG+ approach, which, while preserving the general MDG concept, makes adaptations to suit peculiarities of the country in question. A similar approach was used in Poland and Thailand.

As will be shown below, modernization policies vary a great deal as applied

Box 1. UN Millennium Development Goals

The Millennium Development Goals (MDGs) is a system of indicators that was put forward by the UN as a yardstick of human development performance in different countries. All 189 UN states committed themselves to reach the goals by 2015. The MDG system has a three-level configuration highlighting the 8 most critical development objectives, each broken down into more specific targets, including quantifiable targets. Each of the 18 specific targets has a set of statistical indicators – 48 in number. A distinctive feature of the MDG system, setting it apart from numerous other international and national indicator systems, is introduction of a time period (1990-2015) and specific numerical measures of indicator changes – their increase or decrease during the period.

The MDG priorities are based on the concept of human development, but their choice and the articulation of specific objectives reflect understanding of the importance and seriousness of specific social problems. The structure of goals and targets is as follows:

Goal 1. Eradicate extreme poverty and hunger

Target 1. Halve, between 1990 and 2015, the proportion of people whose income is less than USD 1 a day

Target 2. Halve, between 1990 and 2015, the proportion of people who suffer from hunger

Goal 2. Achieve universal primary education

Target 3. Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling

Goal 3. Promote gender equality and empower women

Target 4. Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015

Goal 4. Reduce child mortality

Target 5. Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate

Goal 5. Improve maternal health

Target 6. Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio

Goal 6. Combat HIV/AIDS, malaria and other diseases

Target 7. Have halted by 2015 and begun to reverse the spread of HIV/AIDS

Target 8. Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases

Goal 7. Ensure environmental sustainability

Target 9. Integrate the principles of sustainable development into country policies and programs and reverse loss of environmental resources

Target 10. Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation

Target 11. Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers

Goal 8. Development of global partnership for development

Target 12. Develop further an open, rule-based, predictable, non-discriminatory trading and financial system (includes a commitment to good governance, development, and poverty reduction, both nationally and internationally)

Target 13. Address the special needs of the Least Developed Countries (includes tariff- and quota-free access for Least Developed Countries’ exports, enhanced program of debt relief for heavily indebted poor countries [HIPC] and cancellation of official bilateral debt, and more generous official development assistance for countries committed to poverty reduction)

Target 14. Address the special needs of landlocked developing countries and small island developing states (through the Program of Action for the Sustainable Development of Small Island Developing States and 22nd General Assembly provisions)

Target 15. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term

Target 16. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth

Target 17. In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries

Target 18. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications technologies.

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to countries with different socio-economic development levels. Agrarian and urbanistic societies, post-communist and post-authoritarian countries, the states of

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Asia, Africa, Latin America or the former USSR cannot be approached in an identical manner in any attempt to overcome their backwardness. And the very notion of “backwardness” does not apply to them all in a similar way. However, this thesis should not diminish the basic idea of formulating the Millennium Development Goals (MDG) and designing ways to achieve them. MDG is a good methodological practice, which makes it possible to pool the intellectual and political efforts of different countries and international organizations to address the acute problems, which face the world at the beginning of the new millennium.

The start point in addressing the Millennium Goals is to accept the principle on which they were created, namely the desirability and appropriateness of working out a set of criteria or reference points to assess a country’s development level, and the direction and efficiency of socio-economic policies being pursued in that country.

Therefore, we are interested both in the absolute values and the dynamics of the proposed indicators. The absolute values are the basis of an inter-country analysis to determine the comparative development level of a particular country.

Dynamics of separate indicators are no less important, since they make it possible to measure efficiency of actions by government. The objective of achieving the Goals can help in designing measures to improve efficiency of budgetary disbursements and in developing a budget system based on results (the latter task is currently being addressed in Russia).

Introduction of explicit goals and targets for the system of state regulation not only increases efficiency of state expenditures but also creates a serious incentive for restructuring the mechanisms and institutions of a responsible state. This motivates renewed dialogue between society and the state regarding selection of development priorities and trajectories, which, in turn, is bound to foster future civil society development and democratization. Emergence of such a chain of stimuli is not rapid, but the general trend is undoubtedly positive.

2. THE CURRENT PHASE OF MODERNIZATION IN RUSSIA

Developing long-term forecasts and scenarios for a country’s socio-economic development is an important task, but we need to take account of several important circumstances, which influence the character and realism of such forecasts and scenarios. These are, first, the level of social-economical development of the country in question and, second, the nature of the problems facing that country. Let us expand on what that means as applied to contemporary Russia.

There is no doubt that modernization is the long-term goal of any contemporary country. However, the concept of

modernization is too broad and of little help in explaining the problems of any specific country. There are at least two major groups of tasks, which are currently referred to by the term “modernization”, each presupposing qualitatively different patterns of behavior by national governments. The first group is relevant to countries with a low level of socio-economic development, in which the agrarian sector is often dominant. Dominance of agriculture is not only an economic factor, but also marks political, social and cultural institutions. The second group is relevant to countries with a high level of economic development, universal literacy and generally advanced economic and political institutions.

It is clear that the strategy of modernization is substantially different in the former and in the latter cases. In the former case it is a matter of industrialization and step-by-step urbanization, i.e. formation of basic institutions characteristic of contemporary economic growth. In the latter case we have to face the challenges of the post-industrial world, i.e. the transformation of industrial economic (and political) structure into a post-industrial structure.

Mixing of these two approaches may confuse researchers and politicians alike. It is very important to take this into account when articulating the Millennium Goals – a document, which denotes certain essential issues of socio-economic development in varying country-specific contexts. While recognizing the need for the Millennium Goals, we should not forget that the difference between developing countries (in Africa, and some regions of Asia and Latin America) and post-communist countries are not merely quantitative but (more importantly) qualitative in

nature. Discussion of crises in education or healthcare and of poverty are relevant to both groups of countries. But we should remember that we are talking about quite different extents of these problems and quite different types of poverty. These problems have to be approached from quite different angles with respect to the two groups of countries.

This does not have to imply that governments cannot design general concepts or action plans to accelerate development of a country in the process of modernization. The Millennium Development Goals offer just such a general methodological policy framework.

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But discussions of modern Russia need to remember the specific nature of the challenges, which the country faces, and its specific ways of confronting them. When we say “specific” we do not mean any allegedly national, cultural or religious traits that may set Russia apart from other nations. What we have in mind are some peculiarities regarding the level of national socio-economic development and Russia’s experience in recent decades of solving problems of a strategic and structural character.

At the turn of the 21st century Russia is facing the problems of structural transformation from an industrial to a post-industrial society. The crisis of industrial society was at the root of negative trends in development of the Soviet

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Union during the last 10 to 15 years of its existence. That crisis was akin to the difficult transformation crises undergone by modern Western countries in the 1970s,

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when they laid the foundations for the post-industrial breakthrough, which was to come. The Soviet Union could not or would not start any serious structural reforms, preferring to rely on oil-dollar abundance. This resulted in collapse of the entire communist system. Moreover, the structural problems are still present, and they will dominate discussion, design and implementation of economic policies in Russia for at least a decade to come.

So the structural problems encountered by Russia by the last quarter of the 20th century, and which continue to play a defining role in Russia, are comparable to problems encountered by the most advanced Western countries in the recent past. However, there is another aspect which complicates and confuses the situation. And that is that, although the Soviet Union was a country with a medium level of development, it had a number of unresolved problems characteristic of countries with a much lower level of development. These problems were most manifest in the status of political institutions and people's welfare.

In the USSR a fairly advanced industrial economy was based on an archaic hierarchy of political and economic institu-

tions. At the time of its disintegration the Soviet Union lacked democratic political institutions, such as an independent court system, a civil society, legal and (most importantly) legitimate private property, a free press and many other attributes of contemporary post-industrial society. In other words, Russia faced the challenges of post-industrial society, but was prepared for them in a technological rather than an institutional sense.

The contemporary post-industrial system requires not only advanced technologies and educated personnel, but also adequate political and social institutions. As distinct from the industrial system, there are no precedents of a post-industrial society existing without political democracy in the full sense (notably, as regards the status of political and judicial systems).

Having said that, it would be wrong to reduce all the problems to either policy or technology. For example, Russia's spatial diversity is another key aspect: the country as a whole has a medium level of socio-economic development, but for a number of its regions those sections of the Millennium Goals apply, which were developed for poorer countries and regions of the world. Combating extreme poverty, reducing levels of mortality (especially infant mortality), improving access to school education, overcoming stagnant social inequality, youth unemployment, women's exclusion from economic and political life, spread of AIDS, tuberculosis and other diseases – all those problems are acute not only in "third world" countries but also in some regions of the Russian Federation. There are also issues of sustainable ecological development, and development of telecommuni-

cations and transport infrastructure. All these issues are dealt with in the Report, and until they are resolved there is no point in setting ambitious goals, whether for doubling GDP or creating a contemporary post-industrial economy.

Russia's fundamental challenge is therefore a combination of three challenges – technical and economical, humanitarian (development of human capital) and political. And the different speed, at which these three challenges are being met, makes their inter-relation highly complex. Technological and economic tasks, while difficult, can be accomplished comparatively promptly – it is possible to develop and adopt necessary economic legislation, and attract foreign investors to high-technology sectors. But these solutions will, at best, be islands in a sea of social and economic instability.

It is much harder to resolve humanitarian and political problems. Sustainable business development requires political stability, including strict observance of the law, guarantees of personal security and security of private property, and an efficient and just system of law enforcement (law and order). But these tasks cannot be resolved by adopting legislation – they require gradual accumulation of experience and traditions. And no one can predict how long it will take to turn a corrupt system into a fair and efficient one.

The problem of human development is equally complex. Strictly speaking, it consists of two sorts of problems. On the one hand, there are problems described in the MDGs as characteristic of poor countries, related to spread of contagious diseases and regions with stagnant poverty or low life expectancy. On the other

hand, there is a crisis of the health care and education systems, which are also difficult issues in the world's most developed countries.

The importance of modernizing education and health care is generally rec-

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ognized, as is the existence of long traditions of development of these systems in Russia. However, it is not always understood that their crisis is more of a structural than a financial nature. The problem is not that the state fails to invest enough in education or health care (add to that also science and other human-capital-related spheres). The problem is transforming the principles of those sectors' organization to meet the challenges of a modern society – a society, which is ageing, and is applying ever higher demands

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on quality of human capital. In such circumstances mere financing increases for the respective sectors will not produce desired outcomes. There is a need for deep institutional restructuring to enhance efficiency and create institutions adequate to the present phase of development in Russia and the world.

Another specific aspect in modernization of Russia's humanitarian sectors is lack of positive international experience. Russia's development problems in the social sphere are not unique: they were merely highlighted by the systemic crisis in the Soviet system. Essentially analo-

gous problems are faced by most developed countries of the world, since the basic principles of their social sector were laid down when their industrial societies were established. Russia seems fated to be a pioneer in overcoming these difficulties, and only time will tell how we will cope.

3. LONG-TERM STRATEGY AND POST-INDUSTRIAL CHALLENGES

Design of a strategy for sustainable (and, as applied to Russia, also accelerated) development in the post-industrial world needs to take account of some specifics of the post-industrial reference system.

Discussions centered on the problems of contemporary Russian modernization not infrequently propose the model of accelerated industrialization in the 1930s, where sectoral priorities are identified and the efforts of state and society are mobilized to address the challenge.

As science comes to the fore and offers practical applications in economic and social life, the potential for economies of scale is diminishing, reducing the potential for centralization of the creative process.

Such an approach is quite understandable: it is deeply rooted in Russian economic and political history. However, any attempt to implement it today would be fraught with heavy losses and eventually result in defeat.

The mechanism of catch-up development in the post-industrial world is substantially different from the respective mechanism in the era of industrialization.

The specifics of a post-industrial system create additional problems for analysis, mainly related to greater uncertainty concerning all parameters of action in such a society. This is a result of the features, which radically distinguish a post-industrial society from its industrial predecessor. First, technology moves much more quickly, narrowing the time horizons of economic and technological forecasts. Second, there is practically unlimited growth of demand and, consequently, a major expansion of capacities for satisfying this demand (in terms of both resources and technology). This process increases the scale of the economy by many times and simultaneously “individualizes” or “customizes” the economy: both demands and technological solutions become increasingly customized,¹ causing a higher level of uncertainty.

This entails a sharp narrowing of time horizons in responsible forecasting of peculiarities and priority technological development trajectories of countries and separate sectors. In the industrial era it was possible to set growth priorities 20 or 30 years ahead, and by meeting them automatically enter the group of advanced countries (this was done in the 19th century by Germany, and later by Japan and the Soviet Union). Nowadays there are no such guarantees: a country might aim to outdo the whole world by production of computers per capita, or develop programmes for manufacturing the world’s best aircraft or telephones, only to find, when it implements these goals, that the world has moved on technologically in a direction, which could not have been anticipated when the programme was devised. The new era is not dominated by hardware (even high-tech hardware), but by information flows. In

such conditions strategic planning at the state level is “a dangerous arrogance” (as Friedrich Hayek put it), which may lead only to preservation of backwardness.

In fact, just as generals always plan the battles of the past war, so are structural forecasts always oriented to past experience, the experience of those who are believed to be “the frontrunners”. This approach made some sense in the industrialization phase, when notions of advancement in an economic structure and of sectoral priorities remained stable for at least several decades.

For these reasons, post-industrial success is much more dependent on identifying a country’s comparative advantages. As happened at the early stages of economic growth in the modern world, preconceptions about breakthrough sectors have to be renounced and attention has to be focused on the factors most relevant to a particular country in particular circumstances.

Individualization also entails decentralization. While industrial society was primarily characterized by economies of scale, their role is constantly diminishing in the post-industrial world. Certainly, as long as there is mass production, economies of scale remain relevant as does the role of major centralized firms. But as science comes to the fore and offers practical applications in economic and social life, the potential for economies of scale is diminishing, reducing the potential for centralization of the creative process.

The most important function of the state is no longer concentration of resources on priority tasks, but creation of

conditions for economic agents (firms) to perceive trends in productive forces as accurately as possible and to react accordingly. The adaptability of an eco-

Economic openness is also important as an instrument for curbing pressure from major producers (financial and industrial groups) to monopolize the country’s economic and political life. Negotiations on WTO accession should be aimed specifically at a post-industrial breakthrough rather than at primitive protection of “domestic producers”, and discussions on creation of a common European economic space with the European Union should have the same priorities.

conomic system is becoming a much more important factor for success than ability to mobilize huge material and human resources, which was a subject of special pride in the Soviet Union.

Adaptability of society presupposes creative potential of all its agents, which is not achievable if their initiatives – both economic and political – are suppressed. Freedom to create, freedom of information flows, and freedom to include individuals in those flows are crucial prerequisites for a breakthrough. In other words, it is necessary to create political and economic conditions that favor intellectual development. Paraphrasing a well-known slogan of Soviet times, one might say that freedom is becoming the direct productive force of society.

Peculiarities of the post-industrial epoch also explain the flourishing of liberalism, which has been in progress for about a quarter of a century; the flourishing which Francis Fukuyama romantically calls “the end of history”.² Of course, what

we are in fact seeing is not the absolute and final triumph of liberalism, but the present development level of productive forces and the corresponding models of successful modernization rely either on mainly liberal economic strategies (as in advanced Western countries) or have a trend towards liberalization (as in the fast-developing countries of South-East Asia). A similar situation is observed in contemporary Russia: all slogans and declarations put forward by the Russian Governments since 1992 have been based on principles of economic liberalism. This was particularly obvious in the government of Evgeny Primakov, which, despite a harsh anti-liberal rhetoric, actually implemented the recommendations of liberal economists in its economic policy, and in some cases (e.g. in budget and monetary policies) did so even more intensively and consistently than the right-wing liberals who had been in power previously. (Similarly, during the triumph of developed industrialism in the first half of the 20th century not only the Bolsheviks but practically all governments of pre-revolutionary Russia and also all Western governments actively applied ideas of centralization and dirigism).

Hence, we can isolate the following essential aspects of economic policies that are suitable for the post-industrial modernization phase. They have direct relevance in contemporary Russia.

First: renunciation of industrial policies in a traditional sense of the word, i.e. of attempts to define long-term sectoral priorities and focus government efforts on their achievement. All attempts of this kind have been a failure to date, since there is no objective criterion of sectoral priorities. Policy should not be oriented to “setting

priorities” or “choosing winners”. Even if it could be successful in contemporary conditions (which it cannot) such policy would lead to selection as “priority sectors” of the sectors, which have maximum lobbying strength. It is much more important to enable timely adjustment of the sectoral structure, and government should focus on protecting national businesses, which achieve global success, by political (including, foreign policy) means.

Second: ensuring flexibility and adaptability of the economic system, and ability of economic agents to rise promptly and adequately to new challenges. Adaptability replaces the concentration of resources as the key reference point for state policy. Adaptability is much more important than formal indicators of economic development, measured as average per-capita GDP.

Third: the limited potential of long-term forecasts and the importance of ensuring maximum adaptability of the system warrant the hypothesis that a catch-up country in the contemporary world should have a lower budget burden on the economy than is the case in the most advanced countries. That is a fundamental difference between the contemporary world and the industrial epoch, when catch-up countries had to concentrate much bigger resources in their budgets than those countries, which had already achieved industrialization.

Fourth: investments in human capital have paramount importance for both the state and businessmen. This primarily concerns such spheres as education and health care. The latter, apart from the humanitarian constituent, may have a considerable multiplicative effect.

Although the example may seem far-fetched, health care may play a similar role in contemporary conditions to the role played by railway construction in 19th century industrialization.

Fifth: the state should attach priority importance to enhancing efficiency of institutions of political democracy and law enforcement. Economic policies will produce no result, and even the best economic legislation will remain void in the absence of strong and respected courts taking fair decisions, of law-enforcement bodies that are trusted by society to implement laws and court rulings, and of mass media that provide social control over the activities of government. The state's economic activities and its participation in financing economic projects will be an inefficient waste of resources unless the judicial and law-enforcement systems are at an adequate level. Indeed, state economic activities are immoral if social sphere sectors are underfinanced.

Sixth: reduction of administrative barriers to business. That is partially covered by the previous paragraph (enhancing the efficiency of law-enforcement system), but there is also a need for special deregulatory activities. Barriers to business are not radically new in Russia. Practically all the problems, which businesses complain of today (abuse of administrative power, corrupt practices, problems with setting up a business, etc.) were widespread in Russia a hundred years ago. It is interesting to peruse a memo from the Tsarist Finance Minister, Sergei Witte, to Tsar Nicholas II and find all the same entrance barriers to business,

which exist today (perhaps, with one exception: Witte sees a serious obstacle to business development in preservation of the pale of settlement (exclusion of Jews from Russia's chief cities) and suggests its abolition, which later occurred).³

Seventh: a sufficient level of economic openness. Moreover, foreign economic policies should be oriented to creating and stimulating development of new high-tech sectors and deeper processing of traditional export products. Economic openness is also important as an instrument for curbing pressure from major producers (financial and industrial groups) to monopolize the country's economic and political life. Negotiations on WTO accession should be aimed specifically at a post-industrial breakthrough rather than at primitive protection of "domestic producers", and discussions on creation of a common European economic space with the European Union should have the same priorities.

These issues add up to a general framework for developing successful modernization policies: they are essential but by no means sufficient conditions for a breakthrough. Any successful modernization project is unique, and is founded on ability of political leaders and the intellectual elite to find key solutions in a particular country and at a given time.⁴ All such measures are hard to theoretically analyze and forecast. That is why the art of economic policy has always been the key factor in preparing a breakthrough strategy, whether industrial or post-industrial. Why one country's modernization project proves successful and another's a failure is only visible to economic historians of the future.

Box 2. Targets of goal-oriented planning

In spring 2004 the Russian Government started a reform of its budget management system aimed at increasing responsibility of budget-beneficiaries and introducing new programme-oriented methods into government finance.

The cornerstones of this reform are:

- transition to a sliding three-year budgeting period, and competition between programmes within this medium-term period;
- more freedom for budget-beneficiaries in terms of expenditures, but only in exchange for their assumption of greater responsibility for fulfilling declared programmes and targets;
- more transparent execution of budget programmes through greater social involvement in proper choice of goals and priorities, and growth of financial discipline in the country.

Such a system should bind Government goals to goals and targets set by ministries and agencies, which will, in turn, be bound to budget programmes and the latter, in turn, to budget resources. However simple such a logic may seem, each of the stages involves many problems concerning content and technical issues:

1) Choice of development goals and their indicators

All subjects of budgetary planning (hereinafter - SBPs) will take the system of Government goals as their starting point when setting their own targets. The government system of goals describes ideal long- and medium-term outcomes of the country's development. This system is constructed as a multilevel "tree of objectives" (below), and is a compilation of goals specified in various documents, e.g. Addresses of the President and international documents describing Russia's external obligations linked to its role in global development. One of the more important such international documents is the UN Millennium Development Goals.

1. Improve standard and quality of living:

- 1.1. Improve material well-being of the population
- 1.2. Improve people's health and safety of living conditions
- 1.3. Improve and develop people's social, intellectual and spiritual needs
- 1.4. Ensure efficient employment and decent working conditions
- 1.5. Improve access to education
- 1.6. Ensure human rights and freedoms

2. Increase the level of national security:

- 2.1. Deterrence of military and political-military threats to Russia's security and interests
- 2.2. Ensure political and economic interests of Russia in peace-time
- 2.3. Ensure readiness for military action during peace-time
- 2.4. Reduce risks and possible damage caused by terrorism

3. Ensure high rates of sustainable economic growth:

- 3.1. Develop free and competitive markets
- 3.2. Ensure macroeconomic stability
- 3.3. Ensure guarantee of ownership and protection of contracts (observance of contractual obligations)
- 3.4. Establish conditions for dynamic economic growth in regions with backward or depressed economies
- 3.5. Improve competitiveness of Russian economy
- 3.6. Improve competitiveness of Russian businesses

4. Establish potential for future development:

- 4.1. Develop scientific potential
- 4.2. Develop infrastructure potential
- 4.3. Replace and develop work force potential
- 4.4. Develop resource potential
- 4.5. Develop public administration potential
- 4.6. Develop cultural and intellectual potential (as a basis for integrity, stability, and dynamic development)
- 4.7. Speed up social and cultural modernization (of values, motivation, stereotypes, etc.)
- 4.8. Build international relations capacity

Evidently, the main obstacle to achieving any goal is financial and resource limitations, and this remains a major problem in Russia today. Therefore priorities need to be identified within the selected system of goals. It is important to note that the goals themselves are dependent on one another – progress in one sphere can contribute to progress in another or, on the contrary, suppress it. For instance, development of agriculture in the less developed areas of the North Caucasus diminishes the social base for terrorism; similarly, poverty reduction significantly changes motivations for childbirth. Therefore, goals and targets of SBPs must be bound to the identified priorities in order to be successfully achieved.

2) Targets of ministries and agencies

The targets set for SBPs should not be general ones of a "desirable future", but should specify expected results. One of the main problems here is the complex, multifaceted character of most targets, which require plurality of interacting and overlapping jurisdictions. Achievement of most targets depends not only and not so much on a particular SBP, but on coordinated efforts between government bodies. An extremely important task emerges: to redistribute functions among all the concerned agencies and organize their close cooperation. The mechanics of this cooperation remain to be worked out and properly arranged, but it is highly important to concert this process with the administrative reform, which is currently underway in Russia.

3) Audit of programmes and competition.

Introduction of the system of result-based budgeting would mean that government funds will be allocated on the basis of expected results of federal or SBP programmes rather than on the basis of the previous year's allocations. The choice between particular (social, ecological, technological, or other) results will require a certain political will but will be much more reasoned and transparent. This means that the agenda must not only include financial validity of programmes but also their operational audit and comparison with alternative means to achieve similar results.

4) Investing in reforms

Transition to three-year budgeting implies a new range of tasks in budget construction. At present, the revenues-expenditures relationship in the annual budget system is very weak. However, this dependence could not be ignored in a three-year timeframe. If there are investments in medical services in the first year of a three-year budgeting period, a lower number of people with the rele-

vant illnesses should result at the end of the three years. Similarly, expenditures on social and economic reforms should result in improved social services, job creation, and increase in tax revenues. Three-year budgeting can and must use an "investment-project" ideology, and be ready for different ways of operating with budget money during the period.

5) Social dialogue and external audit of government bodies

Responsible government can only emerge if society makes demands. For this reason, the success of budget reform depends completely on how deep and constructive the dialogue between the institutions of civil society, business and government will be. We need monitoring to enhance transparency of activities by ministries and other government agencies, and we also need external audit of goals, targets, indicators, and programmes of SBPs. The goals of the executive branch of government should be formulated by society through democratic procedures. That is a precondition for actual achievement of the goals.

¹ "According to some estimates, contemporary mass production in developed countries already accounts for no more than a third of all production, the rest being small-batch manufacturing (from 10 to 2000 units) oriented to the tastes of a certain buyer group, while the manufacturing cycle is considerably reduced" (Globalnoye Soobshchestvo: Novaya Sistema Koordinat, SPb: Alteya, 2000, p. 170).

² Francis Fukuyama: *Konets Istorii i posledniy chelovek*. M.: Yermak, 2004.

³ Sergei Witte. O polozhenii nashei promyshlennosti. Vernopoddaneishiy doklad ministra finansov // *Istoriik-Marxist*. 1932. No. 2/3. pp. 131-139.

⁴ Identification of precise recipes for accelerated economic development was a difficult task even in the industrial epoch. An eloquent example of that is the history of industrialization in Russia and Spain in the 19th century. Both countries regarded railway construction