

What We Expect from the New Government¹

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Moscow
2012

¹ The original version of this article was published in Russian in Journal Ekonomicheskaya Politika. 2012, № 2.

The government that will be formed after the newly elected President of the Russian Federation assumes office will face a number of complex, inter-related problems. Over the last 12 years, economic performance, measured by key indicators, has improved: here has been a dynamic increase in output and in population incomes, the level of government debt has fallen, and currency and budget reserves have been built up, creating a “stability reserve”. The financial system has been consolidated to a significant degree. The country has achieved “financial sovereignty”.

But we owe these achievements, so a considerable extent, to favourable external economic conditions and the positive results are mainly quantitative. In qualitative terms, progress has not been so impressive.

We have not been able to reduce our dependence on raw materials. Proof of this is our dependence upon the external economic conjuncture. The capacity for innovation of Russian companies is still unsatisfactory and in this respect, as before, we significantly lag behind not only the developed countries but also behind many countries with emerging markets. We cannot be satisfied with the low calibre of our social institutions and the investment climate leaves much to be desired. One obvious manifestation of the seriousness of these problems is the outflow of capital that has been continuing for nearly two years. This is especially alarming in conditions of high oil prices.

A change in the conditions that affect the development of the Russian economy is imminent and will have to be taken into account. In all probability, in the near future (and, possibly, for an extended period of time) the world economy will grow at a significantly lower rate than since 2010. We shall not be able to count upon the kind of increase in raw materials

prices and flow of capital into the developing countries that we witnessed during the pre-crisis period. If we are to achieve the kind of growth rates that will enable us to accomplish our key socio-economic objectives, we shall have to take decisive action. We cannot afford complacency: in the modern world competition for profitable markets, for capital, for intellectual resources, is fierce; and countries that relax their efforts run the risk of rapidly falling behind.

What kind of economic policy do we need if we are to achieve these broad objectives and solve a great many more specific problems?

The Government has announced action plans for a number of sectors: we have the Strategy for Development in Innovation, the Programme for Enhancing the Efficiency of State Expenditure and a number of similar plans. Comprehensive proposals for the achievement of our economic objectives, drafted by a group of experts, have been outlined in the “Strategy-2020” document. However, as we know full well, programmes of this kind, however sensible, either never get beyond the planning stage or, if they are implemented, often do not achieve the desired results. For this reason, I consider that all proposals for economic policy in the period that lies ahead should be the subject of a broadly-based public debate. Here are my views as to what the most priorities of the new government should be.

The basic goal of the economic policy of the new government should be: *to raise the institutional structure of the economy to the level of the best existing models and to realize our economic potential in the interests of every Russian citizen.*

We must construct a new economic model: we should replace a demand-based economy by an economy of supply that is driven by

modernization and innovation. Our companies must learn to operate in a more competitive environment in the domestic market and abroad.

One feature of the historical period we find ourselves in is that particular aspects of economic activity are closely bound up with the quality of people's lives and with their prospects for self-realization. The creative, entrepreneurial talents of the Russian people can provide a new impulse to the country's development. This can only be achieved through a comprehensive programme of modernization that will be profoundly humanistic in its objectives; and by a reduction to a minimum of the role of the state in the economy.

This new phase in our development may be described as the transition from a "paternalistic" to a "partnership" model of cooperation between the state and the citizen and between the state and business.

Here are what I consider to be the ten key tasks for the government over the next six years:

The first task is to continue with and bring to completion policies that will guarantee macroeconomic stability and the long term predictability of conditions in which business can operate.

To this end, within the framework of budget planning, we must reinstate the budgetary rules that limited both the use of oil and gas revenues and establish the limits of net borrowing. High current oil prices bring a risk that a government, if it is motivated by populism, will indulge in increases in expenditures. However, we should remember that the historical average for oil prices is significantly lower than at present and there is no guarantee that prices will not return to their previous levels. A budgetary policy motivated by populism will result in economic and social destabilization. A

prudent policy would be to plan expenditure on the basis of oil prices that are not too remote from their historic average level.

Another, more dangerous risk, is that an increase in the supply of hard currency on the internal market will make for a strengthening of the rouble. Imports will then become cheaper and exporting will become unprofitable. Under the pressure of oil and gas revenues the average effective value of the rouble in 2011 increased by over 75% when compared with 2000 and the value of imports increased from 164.2 billion dollars in 2005 to 413.8 billion dollars in 2011. This trend can be countered only by limiting the supply of hard currency by saving oil and gas revenues above a certain cut-off price and by strict observance of budgetary rules.

Government expenditures must become stable and predictable but so must rates of taxation. It would make sense for the government to refrain for a significant period from increasing the rates of basic taxes and for it to make this intention widely known. Set alongside a sensible long-term budget strategy, this would significantly increase the investment attractiveness of the Russian economy.

2011 was notable for a significant fall in inflation. It is essential that the government, together with the Bank of Russia, should consolidate this trend. This will mean increasing the efficiency of the natural monopolies (the increasing costs of production and services of these monopolies make a significant contribution to inflation) and fostering competition in other markets. As a target, we should aim to keep inflation stable at a rate no higher than 3-5%.

Low inflation will provide an incentive to save and will create a resource base for investment, which, in turn, will facilitate the appearance in the economy of “long money”.

Whilst these objectives are of a macroeconomic nature, they also have an important institutional component. Budgetary rules limiting the volume of state expenditures will not operate in the desired fashion if citizens fail to understand that supplementary expenditures translate into supplementary tax deductions from their incomes. This is why an essential precondition of the long-term stability of our economy is the transition from a paternalistic relationship between citizens and the state to one of partnership based on a sober understanding of the true sources of social spending.

The second task is to reform the system of public administration. Probably the most acute problem facing the current development of Russia is the desperately poor quality of the work of government institutions. This is a reality that our citizens come up against in every sphere of their lives – in the system of health care, in the formulation of rules for the regulation of business and the implementation of these rules, in housing and communal services, in schools and kindergartens, in the administration of social benefits. The shortcomings of the “civil service class”, of the bureaucracy, are a common place. If we do not create an efficient system of public administration we shall never achieve a breakthrough in modernization. In fact, we shall be unable to get off the starting line.

At one time these essential reforms were prepared and set in motion but they were not fully implemented. One reason was that, to be successful, reform of public administration depends upon other conditions, such as the existence of an independent judicial system, of institutions and mechanisms for the participation of citizens and of the business class in the design, adoption and supervision of the implementation of laws and state regulations.

Many countries have successfully introduced what is known as a contractual system, which imposes a much stricter accountability upon the state for the quality of the services that it provides. Under this system, the citizen is treated as an equal counterpart and a client. In the event of services being delivered below an obligatory quality standard, the citizen is able, through a number of agencies, including judicial institutions, to seek compensation, including financial compensation, from the state as sub-contractor.

Of course, before such an arrangement could be introduced in Russia we would have to reform, whatever the difficulties, our current practices. In particular we would have to carry out a thoroughgoing inventorization of powers and spheres of responsibility. At the same time, the state should not be held responsible for everything. (for example, if a particular company charged with delivering communal services in the home does not fulfil its obligations, then this company must be held responsible and not some abstract local authority).

In Russian conditions, it is essential that mechanisms for holding the state to account should be strengthened. Government authorities and responsible officials must be more strictly held responsible for their actions and their inactions. There must be more opportunities for class actions and the defence of interests, including the defence of interests by non-government organizations.

A key element in the whole course of reform should be a system of strategic planning. This would involve a long-term economic strategy of 10-15 years, a budget strategy, state programmes and three-year budgeting. The practice of impromptu decision-making and revision of plans and budgets every six months should be reduced to a minimum.

All state programmes should have clear targets, quantitatively expressed. The government bodies responsible for the achievement of these targets should be identified and the steps to be taken in the event of non-attainment of the targets should be worked out. At present we have no institution responsible for regulating the quality of work of the state apparatus.

We must create conditions in which everyone working in government service has as few incentives and opportunities as possible for pursuing personal and narrow group interests, and for attending to these instead of to the interests of society. In my view we should introduce, in particular, an requirement for civil servants in responsible positions to declare a possible “conflict of interest” when taking decisions involving economic matters in which they have some involvement. If a failure to declare a possible “conflict of interest” is discovered, the civil servant should be dismissed, even if there has been no financial loss or abuse of office.

This is a simple and essential anti-corruption procedure. We should understand that corruption is a kind of “fungus” that cannot permanently be got rid of. We can only create the conditions that will prevent it from spreading: dry out the cellar, insulate and constantly ventilate our “house”.

The question is often asked: “Can the state reform itself?” Certainly, every reform needs an external “fulcrum”. However, even this problem has its solution. It consists in broadening the social base of government, so that it becomes a government of all the people. The creation of a broad coalition of support for the reforms will guarantee their successful implementation.

The correct approach to this problem will observe two principles

Firstly, there must be trust in the reformers. Society must be confident that the reforms are being implemented not in order that those in authority can live more comfortably, not in order that it should be easier to appropriate public funds, but in the future interests of the country, of all of its citizens. Secondly, the reforms must not be implemented as “shock therapy”, but gradually, step by step. However, once set in motion, they should be implemented unswervingly.

Restoration of confidence in the government is particularly important in the aftermath of the demonstrations in favour of “honest elections”. This is one of the basic preconditions of a new social contract. Any election that is held must be above reproach in the eyes of all contestants. Further steps must be taken to ensure the transparency of elections. Perhaps there should be an agreement between the leading political parties regarding the rules for counting votes and the strict observance of these rules.

Only if there is a social consensus concerning the value and outcome of the reforms will we be able to count on broad public support for the measures proposed.

The third task is to decentralize economic policy. The reform process must involve a significant change in relations between the Federal centre, regional government and local authorities. In recent years, the independence of subjects of the Federation in the selection of their developmental goals and of the means for achieving these goals has been significantly reduced. The activity of these bodies has been subjected to detailed regulation at Federal level. The allocation of responsibility for the actions of regional and municipal authorities to regional governors, together with the allocation to these governors of powers to interfere in the formation and activities of local authorities has significantly diminished the independence of municipal self-government. The intention behind these

changes was to achieve some degree of coordination between the various levels of government in the pursuit of modernization, but the time has come to reduce the role of regulation in this sphere.

The autonomy of every level of government must be restored, so that decisions on development and the means for achieving development can be taken at the appropriate level. This means reducing Federal involvement in the activities of sub-national authorities and increasing financial autonomy at every level. This will restore the capacity for local self-government. This new arrangement should provide for the oversight of regional and local authorities in the first instance by the local populations and not by some higher government authority. Equally, there must be accountability to the local populations. One means of achieving this would be to reintroduce elections of regional governors. This will make them publicly accountable and will provide them with a mandate to introduce the necessary reforms. Thereafter, Federal supervision should be confined to the monitoring of actual outcomes, rather than, as at present, the oversight of ongoing activities.

Some of the government's sources of revenues should be devolved to the regions, including excise duties on petrol and alcohol and a proportion of profits tax. Tax breaks on regional taxes, in particular the tax on property, should be abolished. Expenditures from the Federal budget should be reduced by the value of this transfer of tax revenues. The government has already adopted this policy but has not yet got round to implementing it, partly because of periodic increases in expenditure at the Federal level.

The fourth task is to achieve an increase in the volume of investment required for modernization.

The present level of capital accumulation is insufficient if we are to achieve a technological breakthrough and develop our social infrastructure. Capital accumulation needs to be at a level of at least 27-28% of GDP. At present, the percentage has levelled out at 22%.

Our starting point has to be that in the years that lie ahead, as in recent years, about 80% of investments in our country in basic projects will be funded from non-budgetary sources. This means that any increase in investment will only be achieved if the private investor thinks there are worthwhile opportunities.

The necessary investment climate will be created if the basic indicators of economic development are predictable, if the incentive to save is sufficiently strong, and if banks are prepared to grant long-term credits in the expectation that their loans will not be devalued by surges in inflation. The rules for borrowing and lending must become stable; if they are constantly changing, profit forecasts will have to be constantly revised, and this will create uncertainty amongst entrepreneurs. The government must see to it that these conditions are created, in the interests of the business community.

At the end of the last century, many countries committed themselves to a new global economic policy, the main features of which were competition for financial resources, the free movement of labour, competition over the quality and cost of production, a redirection of efforts from the domestic to the global market and competition in creating a congenial business environment. The experience of a number of growing economies has shown that there is no need to spend decades fostering the development of new branches of the economy; the creation of new branches can be accelerated by importing technology, expertise and investments.

We must create attractive conditions for all investors, both domestic and foreign.

We must work out measures for improving the investment climate in the regions. Federal financial support for the regions should be linked to local economic achievements, in the first instance to success in attracting investments.

The fifth task is to reduce the excessive involvement of the state in the economy and to defend private property.

An important trend during the last period was an increase in the relative importance of the public sector in the economy. A great many state development institutions were created. These included such traditional institutions as The Bank for External Economic Relations, the Investment Fund, the Russian Venture Company, special economic zones, technology parks and a new form of state corporation. A reduction in the role of the state in particular sectors of the economy (for example in electrical energy) did little to offset this general trend. The programme that has been adopted for the development of the military-industrial complex presupposes a volume of capital investment in industrial enterprises equal to the value of the entire privatization programme announced for the years immediately ahead.

We have to bear in mind the limits to what can be achieved by an increase in the role of the state in the economy. The state can mobilize resources for priority projects, implement large-scale programmes and tackle important social projects. But when it comes to optimizing production, discovering or creating new markets, generating innovation, implementing new techniques and selecting worthwhile investment projects, then, as all of economic history has shown, the private sector does better.

There is no doubt that at present state involvement in key sectors of the economy is excessive.

We must press on with the privatization of the largest companies that have state shareholdings, taking into account both the interests of the budget and the need to extend the scope of market mechanisms. State corporations must be transformed into different forms of property. From now on we must refrain from any increase in state ownership in the economy.

This is not simply a question of mechanically reducing the share of the state in the system of property ownership. It is no less important that the state should desist from unnecessary regulation of economic activity. International comparisons clearly show that the burden of state regulation in Russia is unjustifiably high. This stifles the activity of entrepreneurs and encourages them to move some of their operations into the shadows. It also increases the transaction costs of economic activity.

Our economic policy must adopt a new course, lighten the burden of state regulation and rely to a greater degree on market mechanisms. The leading role in economic development must gradually pass to private investors.

The government should adopt a strategic policy aimed at radically reducing state regulation and control. To ensure that things do not “return to normal”, there should be a requirement that in future the need for and effectiveness of any proposed measure of state regulation must be clearly demonstrated. Any proposed new measure must be thoroughly justified and, if it is adopted, there must be a detailed evaluation of the impact of the regulation upon all interested parties. There should be similar requirements whenever the government deems it necessary to involve the state in any kind of economic activity (whether in production activity or in the management

of economic activity by any regional or local authority). In these cases the government should outline and defend in public its case for believing that state organizations can operate more effectively in a particular sphere.

Experience all over the world has shown that a clear definition and effective defence of the rights of property is a precondition of successful economic development. Unless the entrepreneur has confidence that he can retain control over his company, he will not re-invest his profits in the expansion of production and will be more inclined to export his capital abroad.

Unfortunately, at present, the state does not always adequately fulfil one of its most important functions, which is to protect property rights. It is not uncommon for state officials to abuse their “administrative powers” and illegally confiscate the property of others. We must endeavour to spread an understanding of the fact that an attack on private property undermines the foundations of society. We must wage a decisive struggle against hostile take-overs of property. A whole range of measures will have to be adopted to this end – from a more precise definition of criminal liability in hostile takeovers to the creation of legal procedures for the restitution of control over companies.

One important precondition of the inviolability of private property is the social acceptance, or legitimization, of the institution of private property. This cannot be achieved by such simple measures as insistence on special compensation payments in instances where property has been acquired from the state at a reduced price. Firstly, it is impossible to say what the “just” price at the moment of primary privatization would have been; secondly, many assets have changed hands several times over and it is impossible to determine who should now pay compensation to whom. Finally, we should remember that it was the state that in the first instance fixed the prices of the

assets for privatization and so the legal basis for any claim against a purchaser is dubious.

The issue of legitimization can be solved if the capital of enterprises that have been privatized and the capital of their owners are invested in the Russian economy. These owners have already obtained the reward for their efforts. Legitimization, furthermore, is a task not only for the state and for the business community, but for society as a whole. There must be a general effort to convince people of the inviolability of private property and of the key importance of entrepreneurs in the development of the country.

The sixth task is to consolidate and expand the infrastructure of production and the housing and communal services sector. We are here speaking of roads, energy supply, water supply, ports and airports and communal services.

The World Economic Forum has given the Russian Federation a ranking of 130 for the quality of roads, 105 for quality of airport transport infrastructure, and 97 for quality of port infrastructure. Our ranking for the overall quality of infrastructure is 100. We need to obtain to significantly ease the access of enterprises and citizens to our infrastructural facilities. In every region we need to create new industrial zones with developed infrastructures that will attract new enterprises.

In the Federal budget for 2012, 392 billion roubles were allocated to the road industry, of which 213 billion were for construction and reconstruction. In the budgets of subjects of the Federation 551 billion roubles were allocated, of which 227 were for construction and reconstruction. This means that this year 440 billion roubles should be spent on new roads. In the programme for road development adopted before the crisis up to 2 trillion roubles were allocated to road construction and this

was judged to be a minimum requirement. So far, this plan has not been fulfilled. Decisions on defence expenditure and new social expenditure meant that these objectives have been postponed indefinitely.

The targets for road construction in the coming years need to be, at the very least, quadrupled and this will not be possible without a reallocation of budgetary resources at both Federal and regional levels. Without structural reforms in key budgetary sectors it will not be possible to free up the necessary resources. If this objective is to be met, the changes in pricing policy proposed by the government will have to be implemented.

The seventh task is to remove administrative barriers to the movement of goods and capital.

One of the “vexatious” issues in discussion of the Russian economy is the existence of serious impediments to the placing of domestic or foreign investments in our own or in external markets. The World Bank has ranked Russia 160th out of 183 countries for the ease of processing import and export transactions. There is unnecessary regulation at every stage of a transaction when non-residents seek to invest in “strategic branches” of the economy, when an investor seeks a building licence or when authorization is required for some activity or other.

Removing barriers of this kind could have a positive impact upon the development of the economy, in a number of ways:

- an increase in exports would contribute to an increase in the rate of growth of output
- increased investments would provide a boost to output
- the flow of direct foreign investments and of innovative imported goods would facilitate the borrowing of advanced technologies and accelerate economic modernization;

- additional competition would provide and additional impetus to the process of innovation.

Any increase in business freedoms should be accompanied by an increase in the accountability of the business community. The principle “more freedom means more responsibility” should become our watchword and this principle should be applied in every walk of life.

However, criminal liability for violations of laws governing entrepreneurship should be replaced by liability for damages under civil law. Compliance with established norms, instead of being enforced by institutions of the executive, should be enforced by self-regulatory organizations and associations of entrepreneurs.

The eighth task is the development of human capital.

We are accustomed to consider the high quality of human capital to be amongst the competitive advantages of our country. However, an objective analysis shows that this is true only when measured by quantitative indicators applied to education. We have a level of literacy that is close to 100%. The number of students in higher education in Russia is high even by comparison with the most advanced economies. But in terms of the quality of learning and the ability to apply knowledge acquired we seriously lag behind the world leaders. International comparisons of educational achievement show that we occupy the 38th place amongst 55 countries for knowledge of mathematics, 39th place for knowledge of the natural sciences and share the 42nd and 43rd places for comprehension of texts. In the rankings of the World Economic Forum, Russia comes 82nd out of 142 countries for the quality of its educational system and also for the extent of staff training. It has been shown that new technologies and innovations become widespread only in countries where the workforce has

the appropriate level of training. Could this be why the World Economic Forum rates Russian companies 130th for “Capacity for innovation?”

Things are no better when it comes to healthcare. Suffice it to say that amongst members of the World Health Organization our country shares the rankings from 121 to 127 for life expectancy. It should be the objective of the government to join the 20-30 leading countries for the quality of our systems of health care and education.

If the quality of education and health care is to be improved there will have to be far-reaching reform in these sectors. One part of the reform (this applies in the first instance to health-care) should consist in additional funding. The government must improve the structure of budget expenditures, focussing on the objective of economic modernization. Priority must be given to those lines of expenditure that contribute to the accumulation of human capital. Before the crisis, such expenditure was increasing steadily and we must return to that policy.

Some of the problems in this area are of a more general nature. If the quality of professional education is to improve, students themselves must have real incentives to obtain such education. A student must obtain a return on his or her “investment” in education in a reasonable period of time after commencing work. By the same token, there will only be a demand for well qualified specialists if companies renew their technology, introduce new products, create challenging jobs. The development of human capital, therefore, can contribute to a dynamic development of the economy but this, in turn, requires an appropriate level of economic activity.

One instrument available to the government is a restructuring of budget- funded institutions. The network of budget-funded institutions in Russia has become outdated and no longer meets the needs of the economy

or of society. For example, the number of hospital beds significantly exceeds international per capita indicators, whereas out-patient hospital provision is sub-standard. In health care, as in education, institutions should be increased in size and placed on a new legal-organizational footing. Changes of this kind will make for an increase in the efficiency of budgetary expenditures and for a more rational distribution of resources.

The ninth task is to modernize the labour market.

Estimates based on demographic forecasts indicate that Russia has entered a lengthy period during which the size of the active population will decline. Even in the medium term, the problem of unemployment will be replaced by a problem of shortage of qualified workers. It has been calculated that a shortage of workers will slow down the growth of the Russian economy by 0.5% to 0.6%. We shall have to act on a number of fronts simultaneously.

Firstly, we must promote the development of the capital-intensive and knowledge-based branches of the economy. Secondly, we must seek out ways of improving productivity, in both the public and the private sectors. The existence of substantial opportunities for labour saving in the public sector has already been mentioned. In the private sector, productivity improvements can be obtained, in the first instance, from a gradual reduction in the relative size of the “grey” economy which, as a rule is inefficient and survives only thanks to its “reduced” tax burden. Thirdly, there needs to be an improvement in the efficiency of the labour market. One problem is the low level of mobility of labour which means we have a shortage of labour in some regions and a surplus in others. There is a need for more mobility both territorially and between branches of the economy. We need to provide opportunities for the rapid re-training of workers for sectors of the labour market where there is demand.

The tenth task is to improve the system of social benefits

Another important aspect of economic policy has to do with the scale of the system of social benefits and forms of benefits. Different countries have adopted different policies in this area. In some countries improvements in the standard of living have given rise to the argument that citizens are able themselves to meet part of the cost of some public services, for example in education or health care. Another approach (adopted, in particular in Northern Europe) consists in allowing the gap between the value of social expenditures and the value of GDP to increase, rather than decrease.

It would be incorrect, in my view, for us to abolish any social benefits. For one thing, we cannot ignore the increasing stratification of society according to wealth. But at the same time, our present system of providing undifferentiated support to particular population groups according to purely formal criteria is extremely inefficient. This system is expensive in terms of resources and can only be sustained by high taxation. However, any increase in taxation would put a brake on economic growth and thereby limit possibilities for any increase in social expenditures and for raising overall living standards.

The only way to increase the level of social support without damaging the economy is to go over to a more targeted, focussed, welfare policy whereby supported would be made available only to those who are in genuine need. At present, welfare programmes that involve any assessment of need account for only 5% of total expenditure on benefits and social assistance.

The above list of desirable government objectives is not exhaustive, but draws attention to the priorities. There are also a number of mistakes that the government should avoid making.

State support for the relatively high-tech, potentially profitable branches of the economy is not a panacea. In theory, the development of these branches should have a positive influence on the entire economy and demonstrate the advantages of innovation. However, as experience has shown, governments rarely succeed in “picking winners”. Success usually comes from private initiatives (though governments often contribute assistance in the later stages). Government projects more often than not fail to meet expectations or to cover their costs. We must resist the habit of thinking that each and every economic, social, or geopolitical problem can be solved by additional government funding. It has long ago been demonstrated that the most fruitful approach is to implement reforms that provide needed incentives and change the ways in which particular branches of the economy function. These reforms can be accompanied by additional funding whenever necessary. There are times when reforms can deliver the desired effect even in the absence of additional resources; but funding without reform will never achieve the desired results.

Another mistake would be to prop up enterprises or companies that, owing to their own ill-conceived strategy, erroneous investment decisions or simply because they are no longer competitive, have become unviable. In a market economy such companies are obliged to undergo a bankruptcy procedure and then be transferred to more competent owners – this is the fundamental principle of the market economy – that of “creative destruction”. Only 5% of the companies in our economy, annually, are new companies and approximately the same number exit the market. We lag far behind other countries by both indicators and there needs to be improvement. A refusal to support uncompetitive companies is as important

for the normal functioning of market forces as removal of the barriers facing would-be new entrants to the market. The signal that we should send to enterprises and financial institutions is that they should abide by the principle “more freedom and more responsibility”. It goes without saying that there should be support for the employees of enterprises that have to be restructured.

We have touched upon only a few of the problems facing the new Russian government. Real progress along the lines we have indicated, accompanied by some success in areas that fall outside of the competence of government as such (action against corruption, improvements in the judicial system) would take us a considerable way towards the formation of a stable, developing, competitive economy.