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RUSSIA AT THE TURN OF THE MILLENNIUM

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[Three Lessons Russian Needs to Learn](#)

The humankind lives under the sign of two signal events: the new millennium and the 2000th anniversary of Christianity. I think the general interest for and attention to these two events mean something more than just the tradition to celebrate red-letter dates.

New Possibilities, New Problems

It may be a coincidence - but then, it may be not - that the beginning of the new millennium coincided with a dramatic turn in world developments in the past 20-30 years. I mean the deep and quick changes in the life of humankind connected with the development of what we call the **post-industrial society**. Here are its main features.

- * Changes in the economic structure of society, with the diminishing weight of material production and the growing share of secondary and tertiary sectors.
- * The consistent renewal and quick introduction of novel technologies and the growing output of science-intensive commodities.
- * The landslide development of the information science and telecommunications.
- * Priority attention to management and the improvement of the system of organization and guidance of all spheres of human endeavor.
- * And lastly, human leadership. It is man and high standards of his education, professional training, business and social activity that are becoming the guiding force of progress today.

The development of a new type of society is a sufficiently lengthy process for the careful politicians, statesmen, scientists and all those who can use their brains to notice **two elements of concern** in this process.

The first is that changes bring not only new possibilities to improve life, but also new problems and dangers. They were initially and most clearly revealed in the ecological sphere. But other, and acute, problems were soon detected in all other spheres of social life. Even the most economically advanced states are not free from organized crime, growing cruelty and violence, alcoholism and drug addiction, the weakening durability and educational role of the family, and the like.

And the other alarming element is that far from all countries can use the boons of modern economy and the new standards of prosperity offered by it. The quick progress of science, technologies and advanced economy is underway in only **a small number of states, populated by the so-called golden billion**. Quite a few other countries reached new economic and social development standards in this outgoing century. But it cannot be said that they joined the process of creating a post-industrial society. Most of them are still far away from the mere approaches to it. And there are grounds to believe that this gap will persist for quite some time yet.

This is probably why the humankind is peering into the future with both hope and fear at the turn of the new millennium.

Modern Situation in Russia

It would not be exaggeration to say that this feeling of hope and fear is expressed especially graphically in Russia. For there are few states in the world which faced so many trials as Russia in the 20th century.

First, Russia is not a state symbolizing top standards of economic and social development now. And second, it is facing difficult economic and social problems.

Its GDP nearly halved in the 1990s, and its GNP is ten times smaller than in the USA and five times smaller than in China. After the 1998 crisis, the per capita GDP dropped to roughly 3,500 dollars, which is roughly five times smaller than the average indicator for the G7 states.

The structure of the Russian economy changed, with the key positions held by the fuel industry, power engineering, and the ferrous and non-ferrous metallurgy. They account for some 15% of the GDP, 50% of the overall industrial output, and over 70% of exports.

Productivity in the real economy sector is extremely low. It rose to well nigh the world average in the production of raw materials and electricity, but is 20-24% of the US average in the other industries.

The technical and technological standards of finished commodities largely depend on the share of equipment that is less than five years old. It dwindled from 29% in 1990 to 4.5% in 1998. Over 70% of our machinery and equipment are over ten years old, which is more than two times the figure in the economically developed countries.

This is the result of the consistently dwindling national investments, above all to the real economy sector. And foreign investors are not in a hurry to contribute to the development of Russian industries. The overall volume of direct foreign investments in Russia amounts to barely 11.5 billion dollars. China received as much as 43 billion dollars in foreign investments. Russia has been reducing allocations on R&D, while the 300 largest transnational companies provided 216 billion dollars on R&D in 1997, and some 240 billion dollars in 1998. Only 5% of Russian enterprises are engaged in innovative production, whose scale is extremely low.

The lack of capital investments and insufficient attitude to innovations resulted in a dramatic fall in the production of commodities that are world competitive in terms of price-quality ratio. Foreign rivals have pushed Russia especially far back on the market of science-intensive civilian commodities. Russia accounts for less than 1% of such commodities on the world market, while the USA provides 36% and Japan, 30% of them.

The real incomes of the population have been falling since the beginning of the reforms. The deepest fall was registered after the August 1998 crisis, and it will be impossible to restore the pre-crisis living standards this year. The overall monetary incomes of the population, calculated by the UN methods, add up to less than 10% of the US figure. Health and the average life span, the indicators that determine the quality of life, deteriorated, too.

The current dramatic economic and social situation in the country is the price, which we have to pay for the economy we inherited from the Soviet Union. But then, what else could we inherit? We had to install market elements into a system based on completely different standards, with a bulky and distorted structure. And this was bound to affect the progress of the reforms. We had to pay for the excessive focus of the Soviet economy on the development of the raw materials sector and defense industries, which negatively affected the development of consumer production and services. We are paying for the Soviet neglect of such key sectors as information science, electronics and communications. For the absence of competition between producers and industries, which hindered scientific and technological progress and made Russian economy non-competitive on the world markets. This is our payment for the brakes, and even a ban, put on the initiative and enterprise of enterprises and their personnel. And today we are reaping the bitter fruit, both material and mental, of the past decades.

On the other hand, we could have avoided certain problems in this renewal process. They are the result of our own mistakes, miscalculation and lack of experience. And yet, we could not have avoided the main problems facing Russian society. **The way to the market and democracy was difficult for all states that entered it in the 1990s.** They all had roughly the same problems, although in varying degrees.

Russia is completing the first, transition stage of economic and political reforms. Despite problems and mistakes, it has entered **the highway by which the whole of humanity is traveling.** Only this way offers the possibility of dynamic economic growth and higher

living standards, as the world experience convincingly shows. There is no alternative to it.

The question for Russia now is what to do next. How can we make the new, market mechanisms work to full capacity? How can we overcome the still deep ideological and political split in society? What strategic goals can consolidate Russian society? What place can Russia occupy in the international community in the 21st century? What economic, social and cultural frontiers do we want to attain in 10-15 years? What are our strong and weak points? And what material and spiritual resources do we have now?

These are the questions put forward by life itself. Unless we find clear answers to them which would be understandable to all the people, we will be unable to move forward at the pace and to the goals which are worthy of our great country.

The Lessons Russia [needs] to Learn

The answers to these questions and our very future depend on what lessons we will learn from our past and present. This is a work for society as a whole and for more than one year, but some of these lessons are already clear.

1. For almost three-fourths of the outgoing century Russia lived under the sign of the implementation of the communist doctrine. It would be a mistake not to see and, even more so, to deny the unquestionable achievements of those times. But it would be an even bigger mistake not to realize the outrageous price our country and its people had to pay for that Bolshevik experiment. What is more, [it would be a mistake] not to understand its historic futility. Communism and the power of Soviets did not make Russia a prosperous country with a dynamically developing society and free people. **Communism vividly demonstrated its inaptitude for sound self-development, dooming our country to a steady lag behind economically advanced countries.** It was a road to a blind alley, which is far away from the mainstream of civilization.

2. Russia has used up its limit for political and socio-economic upheavals, cataclysms and radical reforms. Only fanatics or political forces which are absolutely apathetic and indifferent to Russia and its people can make calls to a new revolution. **Be it under communist, national-patriotic or radical-liberal slogans, our country, our people will not withstand a new radical break-up.** The nation's tolerance and ability both to survive and to continue creative endeavor has reached the limit: society will simply collapse economically, politically, psychologically and morally.

Responsible socio-political forces ought to offer the nation a strategy of Russia's revival and prosperity based on all the positive that has been accumulated over the period of market and democratic reforms and implemented only by evolutionary, gradual and prudent methods. This strategy should be carried out in a situation of political stability and should not lead to a deterioration of the life of the Russian people, of any of its sections and groups. This indisputable condition stems from the present situation of our country.

3. The experience of the 90s vividly shows that **our country's genuine renewal without any excessive costs cannot be assured by a mere experimentation in Russian conditions with abstract models and schemes taken from foreign text-books.** The mechanical copying of other nations' experience will not guarantee success, either.

Every country, Russia included, has to search for its own way of renewal. We have not been very successful in this respect thus far. Only in the past year or the past two years we have started groping for our road and our model of transformation. We can pin hopes for a worthy future only if we prove capable of combining the universal principles of a market economy and democracy with Russian realities.

It is precisely with this aim in view that our scientists, analysts, experts, public servants at all levels and political and public organizations should work.

A Chance for a Worthy Future

Such are the main lessons of the outgoing century. They make it possible to outline the contours of a long-term strategy which is to enable us, within a comparatively short time, by historic standards, to overcome the present protracted crisis and create conditions for our country's fast and stable economic and social headway. The paramount word is "fast", as we have no time for a slow start.

I want to quote the calculations made by experts. It will take us approximately fifteen years and an annual growth of our Gross Domestic Product by 8 percent a year to reach the per capita GDP level of present-day Portugal or Spain, which are not among the world's industrialized leaders. If during the same fifteen years we manage to ensure the annual growth of our GDP by 10 percent, we will then catch up with Britain or France.

Even if we suppose that these tallies are not quite accurate, our current economic lagging behind is not that serious and we can overcome it faster, it will still require many years of work. That is why we should formulate our long-term strategy and start fulfilling it as soon as possible.

We have already made the first step in this direction. **The Strategic Research Centre created on the initiative and with the most active participation of the Government began its work in the end of December [\[W\]](#).** This Centre is to put together the best minds of our country to draft recommendations for the government and proposals and theoretical and applied projects which are to help elaborate the strategy itself and the more effective ways of tackling the tasks which will come up in the process of its implementation.

I am convinced that ensuring the necessary growth dynamics is not only an economic problem. It is also a political and, in a certain sense, - I am not afraid to use this word - ideological problem. To be more precise, it is an ideological, spiritual and moral problem. It seems to me that the latter is of particular importance at the current stage from the standpoint of ensuring the unity of Russian society.

(A) *Russian Idea*

Fruitful and creative work which our country needs so badly today is impossible in a **split and internally disintegrated society**, a society where the main social sections and political forces have **different basic values and fundamental ideological orientations**.

Twice in the outgoing century has Russia found itself in such a state: After October 1917 [ID] and in the 90s [ID].

In the first case, civil accord and unity of society were achieved not so much by what was then called "ideological- educational work" as by power methods. Those who disagreed with the ideology and policy of the regime were subjected to different forms of persecution up to repression.

As a matter of fact, this is why I think that the term "**state ideology**" **advocated by some politicians, publicists and scholars is not quite appropriate**. It creates certain associations with our recent past. Where there is a state ideology blessed and supported by the state, there is, strictly speaking, practically no room for intellectual and spiritual freedom, ideological pluralism and freedom of the press, that is, for political freedom.

I am against the restoration of an official state ideology in Russia in any form.

There should be no forced civil accord in a democratic Russia. Social accord can only be voluntary.

That is why it is so **important to achieve social accord** on such basic issues as the aims, values and orientations of development, which would be desirable for and attractive to the overwhelming majority of Russians. The absence of civil accord and unity is one of the reasons why our reforms are so slow and painful. Most of the strength is spent on political squabbling, instead of the handling of the concrete tasks of Russia's renewal.

Nonetheless, there have appeared some positive changes in this sphere in the past year or a year and a half. The bulk of Russians show more wisdom and responsibility than many politicians. Russians want stability, confidence in the future and possibility to plan it for themselves and for their children not for a month but for years and even decades to come. They want to work in a situation of peace, security and a sound law-based order. They wish to use the opportunities and prospects opened by the diversity of the forms of ownership, free enterprise and market relations.

It is on this basis that **our people have begun to perceive and accept supra-national universal values which are above social, group or ethnic interests**. Our people have accepted such values as freedom of expression, freedom to travel abroad and other fundamental political rights and human liberties. People value that they can have property, be engaged in free enterprise, and build up their own wealth, and so on, and so forth.

Another foothold for the unity of Russian society is what can be called the **traditional**

values of Russians. These values are clearly seen today. **Patriotism.** This term is sometimes used ironically and even derogatively. But for the majority of Russians it has its own and only original and positive meaning. It is a feeling of pride in one's country, its history and accomplishments. It is the striving to make one's country better, richer, stronger and happier. When these sentiments are **free from the tints of nationalist conceit and imperial ambitions, there is nothing reprehensible or bigotedly about them.** Patriotism is a source of the courage, staunchness and strength of our people. If we lose patriotism and national pride and dignity, which are connected with it, we will lose ourselves as a nation capable of great achievements.

Belief in the greatness of Russia. Russia was and will remain a great power. It is preconditioned by the inseparable characteristics of its geopolitical, economic and cultural existence. They determined the mentality of Russians and the policy of the government throughout the history of Russia and they cannot but do so at present.

But Russian mentality should be expanded by new ideas. In the present world the might of a country as a great power is manifested more in its ability to be the leader in creating and using advanced technologies, ensuring a high level of people's wellbeing, reliably protecting its security and upholding its national interests in the international arena, than in its military strength.

Statism. It will not happen soon, if it ever happens at all, that Russia will become the second edition of, say, the US or Britain in which liberal values have deep historic traditions. **Our state and its institutes and structures have always played an exceptionally important role in the life of the country and its people.** For Russians a strong state is not an anomaly which should be got rid of. Quite the contrary, they see it as a source and guarantor of order and the initiator and main driving force of any change.

Modern Russian society does not identify a strong and effective state with a totalitarian state [\[ID\]](#). We have come to value the benefits of democracy, a law-based state, and personal and political freedom. At the same time, people are alarmed by the obvious weakening of state power. The public looks forward to the restoration of the guiding and regulating role of the state to a degree which is necessary, proceeding from the traditions and present state of the country.

Social Solidarity. It is a fact that a **striving for corporative forms of activity has always prevailed over individualism.** Paternalistic sentiments have struck deep roots in Russian society. The majority of Russians are used to connect improvements in their own condition more with the aid and support of the state and society than with their own efforts, initiative and flair for business. And **it will take a long time for this habit to die.**

Do not let us try to answer the question whether it is good or bad. The important thing is that such sentiments exist. What is more, they still prevail. That is why they cannot be ignored. This should be taken into consideration in the social policy, first and foremost.

I suppose that the new Russian idea will come about as an alloy or an organic unification of universal general humanitarian values with traditional Russian values which have stood the test of the times, including the test of the turbulent 20th century.

This vitally important process must not be accelerated, discontinued and destroyed. It is important to prevent that the first shoots of civil accord be crushed underfoot in the heat of political campaigns, of some or other elections.

The results of the recent elections to the State Duma inspire great optimism in this respect. They reflected the turn towards stability and civil accord, which is being completed in our society. The overwhelming majority of Russians said No to radicalism, extremism and the opposition with a revolutionary tint. It is probably **the first time since the reforms have begun that such favorable conditions have been created for constructive cooperation between the executive and legislative branches of power.**

Serious politicians whose parties and movements are represented in the new State Duma, are advised to draw conclusions from this fact. I am positive that the feeling of responsibility for the destinies of the nation will have the upper hand, and Russian parties, organizations and movements and their leaders will not sacrifice the common interests of and prospects in store for Russia, which call for a unified effort of all healthy forces, to the narrow partisan and time-serving considerations.

(B) Strong State

We are at a stage where **even the most correct economic and social policy starts misfiring while being realized due to the weakness of the state power, of the managerial bodies.** A key to Russia's recovery and growth is in the state-policy sphere today.

Russia needs a strong state power and must have it. I am not calling for totalitarianism. History proves all dictatorships, all authoritarian forms of government are transient. Only democratic systems are intransient. Whatever the shortcomings, mankind has not devised anything superior. **A strong state power in Russia is a democratic, law-based, workable federative state.**

I see the following directions of its formation:

- a **streamlined** structure of the bodies of **state authority and management**, higher professionalism, more discipline and responsibility of civil servants, keener struggle against corruption;
- a restructuring of the state personnel policy on the basis of a **selection of the best staffs**;
- creating conditions beneficial for the rise in the country of a **full-blooded civil society** to balance out and monitor the authorities;
- a larger role and **higher authority of the judiciary**;
- improved **federative relations**, including in the sphere of budgets and finances; and
- an active **offensive on crime.**

Amending the Constitution does not seem to be an urgent, priority task. What we have is a good Constitution. Its provisions dealing with the individual rights and freedoms are seen as the best Constitutional instrument of its kind in the world. It is a serious task, indeed, to make the current Constitution and the laws made on the basis thereof, the norm of life of the state, society and every individual, rather than draft a new Basic Law for the country.

The Constitutional nature of laws in the making is a major problem in this respect. **Russia currently operates over a thousand federal laws and several thousand laws of the republics, territories, regions and autonomous areas.** Not all of them correspond to the above criterion. If the justice ministry, the prosecutor's office and the judiciary continue to be as slow in dealing with this matter as they are today, the mass of questionable or simply un-Constitutional laws may become critical legally and politically. The Constitutional safety of the state, the federal Center's capabilities, the country's manageability and Russia's integrity would then be in jeopardy.

Another serious problem is inherent in that tier of authority which the government belongs to. The global experience prompts the conclusion that **the main threat to human rights and freedoms, to democracy as such emanates from the executive authority.** Of course, a legislature which makes bad laws also does its bit. But the main threat emanates from the executive authority. It organizes the country's life, applies laws and can objectively distort, substantively and not always maliciously, these laws by making executive orders.

The global trend is that of a stronger executive authority. Not surprisingly, society endeavors to better control it in order to preclude arbitrariness and misuses of office. This is why **I, personally, am paying priority attention to building partner relations between the executive authority and civil society,** to developing the institutes and structures of the latter, and to waging an active and tough onslaught on corruption.

(C) Efficient Economy

I have already said that the reform years have generated a heap of problems that have accumulated in the national economy and social sphere. The situation is complex, indeed. But, to put it mildly, it is too early to bury Russia as a great power. All troubles notwithstanding, we have preserved our intellectual potentiality and human resources. A number of R&D advances, advanced technologies have not been wasted. We still have our natural resources. So the country has a worthy future in store for it.

At the same time, we must learn the lessons of the 1990s and ponder the experience of market transformations.

1. I see one of the main lessons in that throughout these years we have been groping in the dark without having a clear understanding of national objectives and advances which

would ensure Russia's standing as a developed, prosperous and great country of the world. The **lack of a long-range development strategy** for the next 15-20 and more years, is badly felt in the economy.

The government firmly intends to build its activity on the basis of the principle of unity of the strategy and tactics. Without it, we are doomed to close holes and operate in the mode of fire-fighting. Serious politics and big business are done differently. The country needs a long-term national strategy of development. I have already said that the government has started devising it.

2. Another important lesson of the 1990s is the conclusion that **Russia needs to form a wholesome system of state regulation of the economy and social sphere.**

I do not mean to return to a system of planning and managing the economy by fiat, where the all-pervasive state was regulating all aspects of any factory's work from top to bottom. I mean to make the Russian state an efficient coordinator of the country's economic and social forces that balances out their interests, optimizes the aims and parameters of social development and creates conditions and mechanisms of their attainment.

The above naturally exceeds the commonplace formula which limits the state's role in the economy to devising rules of the game and controlling their observance. With time, we are likely to evolve to this formula. But today's situation necessitates deeper state involvement in the social and economic processes. **While setting the scale and planning mechanisms for the system of state regulation, we must be guided by the principle: The state must be where it is needed and as it is needed; freedom must be where it is needed and as it is required.**

3. The third lesson is the transition to a reform strategy that would be best suited for our conditions. It should proceed in the following directions.

3.1. To encourage a dynamic economic growth. The first to come here should be the **encouragement of investments**. We have not yet resolved this problem. Investments into the real economy sector fell by 5 times in the 1990s, including by 3.5 times into fixed assets. The material foundations of the Russian economy are being undermined.

We call for pursuing an investment policy that would **combine purely market mechanisms with measures of state guidance.**

At the same time, we will continue working to **create an investment climate attractive to foreign investors. Frankly speaking, the rise would be long and painful without foreign capital. But we have no time for this. Consequently, we must do our best to attract foreign capital to the country.**

3.2. To pursue an energetic industrial policy. The future of the country, the quality of the Russian economy in the 21st century will depend above all on progress in the spheres

that are based on **high technologies and produce science-intensive commodities**. For 90% of economic growth is ensured today by the introduction of new achievements and technologies. The government is prepared to pursue an economic policy of priority development of industries that lead in the sphere of research and technological progress. The requisite measures include:

- assist the development of extra-budgetary internal demand for advanced technologies and science-intensive products, and support export-oriented high-tech productions;
- support non-raw materials industries working mostly to satisfy internal demand;
- buttress the export possibilities of the fuel and energy and raw-materials complexes.

We should use the mechanisms, which have long been used in the world, to mobilize the funds necessary for pursuing this policy. The most important of them are the **target-oriented loan and tax instruments and the provision of privileges against state guarantees**.

3.3. To carry out a rational structural policy. The government thinks that, like in other industrialized countries, there is a place in the Russian economy for the **financial-industrial groups, corporations, small and medium businesses**. Any attempts to slow down the development of some, and artificially encourage the development of other economic forms would only hinder the rise of the national economy. The policy of the Government will be spearheaded at creating a structure that would **ensure an optimal balance of all economic forms of management**.

Another major sphere is the rational regulation of the operation of **natural monopolies**. This is a key question, as they largely determine the structure of production and consumer prices. And hence they influence both the economic and financial processes, and the dynamics of the people's incomes.

3.4. To create an effective **financial system**. This is a challenging task, which includes the following directions:

- to raise the effectiveness of the budget as a major instrument of the economic policy of the state;
- to carry out a tax reform;
- to get rid of non-payments, barter and other pseudo-monetary forms of settlement;
- to maintain a low inflation rate and stability of the ruble;
- to create civilized financial and stock markets, and turn them into an instrument of accumulating investment resources;
- to restructure the bank system.

3.5. To **combat the shadow economy and organized crime** in the economic and financial-credit sphere. All countries have shadow economies. But their share in the GDP does not exceed 15-20% in industrialized countries, while the figure for Russia is 40%. To resolve this painful problem, we should not just raise the effectiveness of the law-enforcement agencies, but also strengthen the license, tax, hard currency and export control.

3.6. To consistently **integrate the Russian economy into world economic structures**.

Otherwise we would not rise to the high level of economic and social progress that has been attained in the industrialized countries. The main directions of this work are:

-- to ensure an active support of the state to the integrat economic operation of Russian enterprises, companies and corporations. In particular, the time is ripe for creating a federal agency to support exports, which would provide guarantees to the export contracts of Russian producers;

-- to resolutely combat the discrimination of Russia on the world markets of commodities, services and investments, and to approve and apply a national anti-dumping legislation;

-- to incorporate Russia into the international system of regulating foreign economic operation, **above all the WTO** [\[ID\]](#).

3.7. To pursue a **modern agrarian policy**. The revival of Russia will be impossible without the revival of the countryside and agriculture. We need an agrarian policy that would organically combine measures of state assistance and state regulation with the market reforms in the countryside and in land ownership relations.

4. We must admit that virtually all changes and **measures entailing a fall in the living conditions of the people are inadmissible** in Russia. We have come to a line beyond which we must not go.

Poverty has reached a mind-boggling scale in Russia. In early 1998, the average-weighted world per capita income amounted to some 5,000 dollars a year, but it was only 2,200 dollars in Russia. And it dropped still lower after the August 1998 crisis. The share of wages in the GDP dropped from 50% to 30% since the beginning of reforms.

This is the most acute social problem. The Government is elaborating a new income policy designed to ensure a stable growth of prosperity on the basis of the growth of real disposable incomes of the people.

Despite these difficulties, the Government is resolved to take new measures to support science, education, culture and health care. For a country where the people are not healthy physically and psychologically, are poorly educated and illiterate, will never rise to the summits of world civilization.

Russia is in the midst of one of the most difficult periods in its history. **For the first time in the past 200-300 years, it is facing a real threat of sliding to the second, and possibly even third, echelon of world states.** We are running out of time for removing this threat. We must strain all intellectual, physical and moral forces of the nation. We need coordinated creative work. Nobody will do it for us.

Everything depends on us, and us alone. On our ability to see the size of the threat, to pool forces and set our minds to hard and lengthy work.