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REFERENCE POINTS
FOR «STATE ECONOMIC REGULATION: FREEDOM AND
INTERNATIONAL ORDER» SECTION
OF INTERNATIONAL CONFERENCE «INVESTMENT OPPORTUNITIES
AND ECONOMIC GROWTH PROSPECTS IN RUSSIA»
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I

The success of efforts to form a new economic system and create favorable investment opportunities in Russia is determined by a number of factors. One of the most important of these is the legal regulation of the economy by the state. Regrettably, its efficiency has been rather low because the performance of the Russian state during the past few years has been indicative of the full range of transitional-period difficulties and problems. Unclear strategies generated mistakes and government course fluctuations in the economic and social sectors that were further aggravated by serious blunders in the structure and performance of the state itself. Therefore, sustainable development has become a top priority for Russia.

II

One of the most pressing needs is to determine the nature and size of the state functions. The universalization of these functions, characteristic of the early 1990s, gave way during the past few years to a weakening of the state's role in society's life, and to an absolutization of the mechanisms of market self-regulation. The shrinking government involvement in the economic sector is a particularly convincing proof of the futility of such a course. Meanwhile, any advanced society recognizes the functions of the state as socially useful. But if the state is to perform with due efficiency, it should never again try to take every area of economic activity under government control. Obviously, what is needed today is a review of the content and size of the functions delegated to the state, with focus on the protection of the public

interests absorbing the typical private and corporate interests. Flexible management, regulation and control should constitute the bulk of the state's activities. In other words, establishing an economic order ruled by law and maintaining flexible legal regimes in the economic sector should be complemented by compliance control and efforts to hold down law violations.

Since that has not been achieved so far, the following problems need to be dealt with:

i) Efficient state property ownership has to be promoted at the level of the Russian Federation and its Subjects, and other forms of property ownership need to be developed in a sustainable manner. Within the economy, there should be no artificially imposed rivalry between the public sector, on the one hand, and the private and corporate sectors, on the other, because their harmonious cooperation is far more important.

ii) We need well-substantiated and feasible programs of support for small- and medium-sized businesses based on a flexible system of low-interest loans, prices and tariffs, tax benefits, state orders, and organizational and information support. The federal and local governments should regard the development of enterprise as their top priority, rather than a matter of secondary importance.

iii) A more articulate system of measures is needed to safeguard Russia's national interests, including foreign economic ones.

iv) There should be a more flexible combination of state regulation and state support in the various areas of economic and social life. Some economic agents need to be encouraged, others compelled, still others allowed to rely on self-regulation first and foremost.

v) Law observance is as important as ever in each area of society's life. Once it has been recognized as the most powerful regulator of public relations, a set of new laws will have to be passed in a preplanned manner (for further details see Summary Points

to Dr. Yuri A. Tikhomirov's report «On a System of Legal Support for the
) , to be complied with consistently. Resolute work against law violations
and corruption in the economic sector should help to oust the so-called «informal
practices» from the sphere of business management. A stable and transparent
legislation would create favorable investment opportunities for our foreign partners
and make it easier for them to integrate in Russia's legal environment.

III

Those and other measures to improve the system of government performance
will never be feasible unless the «traditional» approaches to evaluating the structure of
the Russian state are radically reviewed. Until recently, Russia used to be a totalitarian
state equipped with a set of tough bureaucratic instruments of regulation. The
liberalization trends observed during the past few years have been accompanied by
more vigorous struggle among the various social groups for access to power. Some of
the most important elements of the state system, including the citizens and their
political involvement, taxes, budget and finance, the system of public government, the
protection of territorial integrity, and the nation's official representation in the
international arena, have all been left to lie intact and forgotten. But any state is an
intricate social system in which all the elements are interconnected. Therefore, the
proposed Federation reform and the relevant administrative and judicial reforms
should be seen through in a consistent and concerted way.

The state itself would then cease being regarded as strong only through the
prism of its reinforced institutions, although this, too, is very important. We will be
able to call our state «strong» when it finds itself in a position to efficiently manage its
government affairs, when it is governed by law, and when it is committed to true
democracy.

To attain these goals in the foreseeable future, the following problems will have to be
dealt with:

a) The federal basis of the state will have to be further strengthened by drawing a more distinct line between the jurisdictions of the Federation and its Subjects, with each party assuming greater responsibility for the matters under their respective control; by holding down the separatist trends, introducing a system of coordinated work on common problems, promoting cooperation among the regions, and improving the mechanism of comprehensive territorial management at all levels.

b) The system of state administration should be streamlined by making a number of amendments to the Russian Federation Constitution and by promoting cooperation among the government branches.

c) The executive branch needs to be improved structurally. This would require building an efficient system of government bodies for the Federation and its Subjects based on the powers delegated to them under the Constitution; providing a clearer definition of the status of each government body and the matters within its jurisdiction; and establishing a system of functional ties between the federal and regional authorities. It would also make sense to reduce the number of both the state bodies and the numerous commissions and councils attached thereto, and strengthen the remaining ones. The division of powers among the Economy, Finance, Taxes and Duties, and other ministries needs to be clarified as well.

d) The system of law-enforcement agencies should be modernized from top to bottom in order to become more efficient. The work of strengthening the judicial branch should continue.

e) Efficient cooperation needs to be promoted among the bodies of state administration and local self-government.

f) The system of government decision-making should more accurately reflect the full range of public interests. Particular attention should be paid to promoting legal cooperation between the government agencies and various business groups.

IV

Improving the system of government performance to boost national economic development would require the following set of theoretical and practical tasks to be fulfilled:

- à) Analyze the performance of federal and regional bodies of executive government.

- b) Study the factors giving positive or negative incentives to the economic activity of enterprises and other economic agents; analyze the performance of foreign companies.

- c) The Higher School of Economics should provide more substantial training in matters related to macro- and microeconomic regulation of the economy.

- d) Prepare a set of textbooks and practical recommendations on the subject.

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