

Foreword of N. Petrakov, academician of RAS

The material collected and summarized in the monograph appears to be a specific scope of scientific representations which contain the interpretation of main points of modernization processes in the Russian society. Modernization spreads not only on the economic issues. Undoubtedly, there are many important elements of renewal evolution such as an adaptation of innovative technologies, drastic growth of productivity, deep recycling of natural resources. But the renewal of industrial sector is impossible without the modernization of education and science systems, healthcare, social protection system, ecological safety standards, legal and law enforcement structures protecting basic rights and freedom of citizens. Certainly, social, humanitarian and economic aspects of modernization should be fully analyzed. Thus, for instance, the income inequality (comparable with the African situation) resulted from current economic policy dramatically influences the labor motivation, negatively affects the level of education, the quality of healthcare; it also stimulates the criminalization of the society, involves the degradation of cultural and spiritual conditions of population, intensifies the interethnic conflicts.

That's why it's necessary to focus on some principles of society and state interactions aimed at the finding the political consensus.

In the last decades the thesis of the highest possible weakening of the state economic regulation has been advocated. The apologists of that position believe that the market can provide an optimal path of development. But this idea can only be treated as correct from the standpoint of a student. It's obvious that an optimum can only be achieved in the short run and on the assumption of perfect competition and absolute freedom of action for infinite number of producers and consumers. The assumption is unreal not only for Russia but for the whole global economy.

And what can we do in order to stimulate innovations and long-term investments, to fight monopolization and hostile criminal takeovers? There is no answer. In the real world of economic transactions strategic management serving as a mechanism of economic modernization is a function of the federal government. Moreover, the government should protect honest competition, formulate and regulate antimonopoly policy in order to develop market institutes. Federal government must establish an effective mechanism to control the quality of goods and services, especially in the area of consumer market and pharmaceutical industry. It's very important to mention that open pricing is an effective instrument in the situation of classical perfect competition. The main indicator of monopolism is superprofit. Therefore it's necessary to change antimonopoly policy in order to prevent inflation. We should fix the term of normal profitability on the legal level. This concept shall include capitalism genesis, speculating about its basic features — liberal, oligarchic, people's and related to the government's interests.

All political bustles of that sort are not connected with the professional discussion of the topic. A researcher should figure out the internal structure of financial flows in the country in order to understand Russia's economic setup. The logic of capitalistic reproduction is that an entrepreneur usually reinvests a share of profits. The larger the revenues the bigger an amount of reinvestment flows influencing product quality, the rate of costs and price levels. Normal competition only works this way (for example in IT and communication industry). Banking system should also work like that in the case of innovations' financing. But it doesn't work in Russia.

In mining industry a subjective styles of paying taxes and fixing the rate of dividends makes it impossible not only to modernize equipment, but even to finance geological prospecting activities. In processing industry working capital had lost its value during the period of galloping inflation in early years of post-soviet reforms. So, processing companies have to recoup one's losses using credit mechanisms which undermine their competitiveness even on domestic market.

Thus, there are no internal sources for innovation and normal investment activities for industrial companies. That's why recently declared modernization policy requires considerable pouring

of money from the budget. So, our Russian capitalism transforms to a weird form of budgetary capitalism.

The philosophy of budgetary capitalism had come into existence in early 1990s then an ideology of loans for shares scheme were devised. The inventors of the scheme wanted to combine incompatible, namely to couple the wealth of the state and poverty of people, government budget deficit and self-profit. The idea was to exchange state's natural resources for a loan, which should be compensated using the funds from the future budget surplus. What a wonderful idea!

But two questions arose soon. First of all the government needed money not for earning of superprofits but for financing of pension system, army, healthcare and education systems. So, the government didn't have enough resources to pay back.

The second question is even more concrete. How could newly established private banks accumulate money to cover the budget deficit? Capital stocks of private banks were several dozens of thousands of rubles on average. They operated as banks of trade, service industry and other activities that promised fast cover of expenditures. Suddenly one of the supporters of liberal economic policy suggested an idea to persuade to government to place the budget money in commercial banks. Government agreed. As a result so called authorized representative banks could use the money for speculations and accumulate considerable capital. It was a first step toward the formation of corruption economy because there were bureaucrats who made the list of authorized representative banks and who implemented the loans for shares scheme.

Thus the government had consciously formed the institutes of corruption and now the development of that criminal institution became almost irreversible.

Recently President D. A. Medvedev said that a trillion of rubles was stolen through the system of government orders. The chief military prosecutor Fridinsky admitted that a fifth part of defense budget was plundered.

There is a group of oligarchs who hover about the projects financing from the federal budget such as Skolkovo, programs of nanotechnology research and so on. There are many ways of appropriating budgetary money, for instance paying extremely high prices for equipment, considerable growth of material consumption, extra-bonuses for managers and experts.

Is it possible to block the destructive processes not only with the help of private reporters' investigations, but by means of establishing the mechanism of constant financial control in budget sphere?

Certainly, it's possible. The system of long-term financing of intentional projects must be founded. The sense is that banks give credits on innovation projects at low interest (2—4 %) and the scheme solves the problem of long-lasting money supply. But it's important that the credits are not transferred on accounts, but they are only used to settle bills from contractors. A borrower doesn't receive money in cash. So, he is just unable to misuse it. The system works in many advanced economies. Particularly, in Japan the system exists for more than forty years. The banks for long-term financing should have large analytic centers staffing high-class credit analysts. They ought to evaluate the effectiveness of credited projects including suitability of expenditures of conductors in the process of economic activities. Credit resources of a bank of long-term financing should mainly be replenished from the federal budget resources meant for national programs financing.

The opponents of introduced model of financial flows organization usually argue that it's not protected from the corruption abuse. But the control system of banks for long-term financing is much more transparent. Moreover, the responsibility for quality of their work should include administrative and legal responsibility of managers and analysts. All the more they give credits at low percents and thereby oppose to commercial banks on credit markets. Lines of credit of long-lasting money supply fill the specific segment of investment market.

The solution of above mentioned problems can be the driver of economic modernization of the country and can also give necessary resources for the realization of social and humanitarian potential of Russian society. The disclosure of modernization potential is the subject of this monograph.

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