ECONOMICS AND PUBLIC ADMINISTRATION IN MODERN RUSSIA: PROBLEMS AND SOLUTIONS

Bruz Vladimir Vilenovich a*

a Moscow State Regional University, Moscow, RUSSIA

ABSTRACT

The article deals with some problems of the Russia modern economy, as well as issues of public administration. The urgency of economic problems is caused both by foreign policy (unfair competition connected with application of sanctions), and with internal, conditioned structural features of the Russian economy, low productivity, deficit of investment resources, weak development of small and medium entrepreneurship, insufficient development of non-raw export, deficit of modern technologies and some others. The problems of public administration are related to the growing number of functions of Federal Executive bodies, the increase in the number of inspections and their extreme inefficiency. This article analyzes the state and the main problems of the modern Russian economy and public administration; to find out the main reasons for them, to consider the goals and objectives facing the state in this regard and ways to solve them. The study methods includes dialectical method, method of analysis, synthesis, comparative-historical, statistical, problem-chronological, methods of actualization, concrete and logical analysis. The study finds that the problems of the modern Russian economy are due to a number of objective and subjective factors. Some of them are associated with external factors, unfair competition of Western partners, especially the United States, using economic sanctions to achieve geopolitical superiority and ensure their national interests. However, most of the problems of the Russian economy are due to internal reasons. First of all, we are talking about the need to increase labor productivity, provide favorable conditions for the development of small and medium-sized businesses, reorientation of the economy from the export of hydrocarbons to the export of non-raw materials, high-tech products, solving problems associated with investment, active development and introduction of modern technologies. It seems that without a highly effective, scientifically sound professional public administration, the solution of the problems facing the economy of Russia will be impossible.

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1. INTRODUCTION

In the second decade of the new century, Russia had faced very serious economic difficulties. Russians were hit by the global financial crisis, the collapse of raw material markets, sanctions and the closure of financial and technological markets. These powerful blows were a serious test for Russia economy, especially taking into account its structural problems [10].

However, Russia survived. Moreover, today Russia is one of the leading world powers with a powerful foreign economic and defense potential. However, there are many challenges ahead of us. It should be noted here that along with the unfavorable situation on the world markets and sanctions, the main economic problems are caused by internal reasons. Among them there are such as:

- low labour productivity,
- lack of investment resources,
- poor development of small business,
- insufficient development of non-primary exports,
- lack of modern technologies,
- lack of management efficiency.

In this regard, as rightly A.A. Antropov believes, state programming (SP) of the economy is necessary as a complex use of various levers of economic regulation to achieve medium- and long-term goals. Plans are the basic guidelines for the owners of production and national development in general. The positive experience of Japan, South Korea and Singapore for the period 1946-2010 should be used in the development of the SP mechanism [12].

2. PURPOSE AND OBJECTIVES

On this basis, it is important to find out what are the causes of the problems faced by Russia in the field of economy and public administration at the beginning of the new Millennium. What their character is. For this purpose, it is expected to analyze the materials characterizing the state of the modern Russian economy, the estimated judgments of Russian and foreign experts in the areas under consideration; to consider possible directions and ways of solving the identified problems.

3. METHODS

To solve the problems, such methods as dialectical method, method of analysis, synthesis, comparative-historical, statistical, problem-chronological, methods of actualization, concrete and logical analysis and some others were used.

4. RESULTS AND DISCUSSION

To change the structure of the national economy and increase its competitiveness, it is important to solve a number of tasks at a fundamentally new level.

Firstly, it is necessary to increase labour productivity on a new technological, digital, managerial and human resources basis. The situation in the social and economic spheres will largely depend on the successful solution of this problem. The President, in his address to the Federal Assembly, noted that “it is necessary to ensure that labor productivity at medium
and large enterprises of basic industries (industry, construction, transport, agriculture and trade) grows at a rate of not less than 5% per year, which will allow reaching the level of the world’s leading economies by the end of the next decade” [11].

Secondly, an important task is to increase investment. There are also some difficulties. The task set by the President, to bring investments to 25% of GDP, and then to 27%, has not been solved yet [11]. In order for Russia economy to make a powerful breakthrough, it is necessary that technological changes occur annually in half of industrial enterprises, and without appropriate investment this is impossible.

The third important task is related to the development of small business. Currently, the share of small and medium-sized businesses in Russia is slightly more than 20%, while in China and Japan – 60%, and in the US – 40%. By 2025, the contribution of small and medium-sized enterprises of Russia to the country’s GDP should almost double and approach 40 percent and the number of employed here grow from 19 to 25 million people [11]. One of the problems is the difficulties associated with obtaining loans. One of the possible solutions could be the preservation of the actual credit rate of the existing 6.5% and ensuring the affordability of such a loan.

Another important task is related to the development of non-primary exports. The solution of this task is also essential for the national security of the state. After the collapse of the Soviet Union, Russia gradually turned into a raw material appendage of the West. The lion’s share of exports was hydrocarbons and other raw materials. Full dependence of the state budget on the world price of hydrocarbons, in the conditions of cooling relations with the West has become a real threat to the sovereignty of Russia.

Today, the solution to the problem of non-primary exports is associated with a number of difficulties. Along with the unfair competition demonstrated by Russia recent partners, there are also internal problems. First of all, it is necessary to remove all administrative barriers, to provide the most favorable conditions for companies that sell their products in foreign markets. In this direction, the situation should be seriously changed in the near future. As Vladimir Putin noted in the Message to the Federation Council: “within six years, we should almost double the volume of non-primary, non-energy exports to 250 billion dollars, including the supply of engineering products to 50 billion. Annual exports of services, including education, medicine, tourism and transport should grow to $100 billion” [11].

In this regard, it should be noted that according to the Ministry of Economic Development at the beginning of 2018, there was a high demand for engineering products for investment purposes. Thus, the growth in the production of national engineering products for investment purposes in early 2018 accelerated to 17.1% y/y in January and 14.6% in February from 8.8% y/y in the fourth quarter of 2017 [6].

In general, there is a certain macroeconomic stability, and it is very important that the gold and foreign exchange reserves of the Central Bank did not decrease, but even increased. Thus, at the beginning of 2015, the gold and foreign exchange reserves of the Central Bank of Russia amounted to about 11-12 trillion rubles [8,267]. Russia’s gold and foreign
exchange reserves include (as of 2017) the following reserves (that is, reserved or available for use funds):

- foreign currency reserves;
- money on correspondent accounts;
- total deposits made in gold with a deposit time of up to 12 months;
- gold (namely gold bars stocks);
- non-resident securities for debt obligations. The rating of such securities should not be lower than "AA-" [2].

As of January 1, 2016, Russia had $ 368.39 billion, and as of June 2, 2017 – $ 406.9 billion [3]. As of January 1, 2017, the total value of Russia’s gold and foreign exchange reserves was equal to 377.74 billion dollars. As of October 1, 2017, they already amounted to 424.77 billion dollars [7].

However, the United States continues to take Russia in the figurative expression of Senator John McCain as a “gas station country”, whose economy is completely dependent on oil and gas, so the West will be able to influence effectively it with sanctions [32]. It is clear that with such a country, according to the US, it is impossible to build equal relations, only from a position of strength.

According to Michael Carpenter, senior director of the Penn Center for Diplomacy and Global Engagement, a senior research officer at the Atlantic Council, in order for sanctions against Russia to work, the US and its allies need to put an end to symbolic gestures and impose tougher sanctions, such as against Iran, which will immediately affect the Russian economy – namely, to ban the financing of Russian sovereign debt, to freeze the assets of Russian banks [21].

Iran kept its funds in the US, and did not withdraw them in advance and now they are frozen. Iran has tens of billions of dollars there, and we have hundreds of billions. What will prevent Americans from imposing restrictions on Russian financial assets, explaining this as a special case? This situation must be taken into account. Russia is taking certain steps in this regard. According to the British magazine “The Economist”, in the spring of 2018, the Central Bank of Russia “dropped” dollar reserves in the amount of 101 billion dollars, moving assets to euro and yuan. [22]

The main part of Russia’s foreign exchange reserves in 2018 fell on the currency in euro (32%), dollars (22%), on gold itself (17%) and the fourth largest component of Russia’s international reserves was yuan (15%). [23]

As the Chinese publication “Sohu” noted, Russia is actively selling American bonds. From March to May 2018, Russia sold 84% of US securities, which is incomparably more than in other countries. In May, Russia withdrew from the list of 33 largest US bondholders. [24]

The former employee of the Obama administration, Michael Carpenter, calls for more active use of the financial sector in the US sanctions policy. “Thanks to the incomparable reach of US financial markets, the freezing of assets by Americans – the so-called blocking sanctions that prevent any transactions through the US financial system – can be a very serious blow”. [21]

Taking into account the reality of this threat, according to Hong Kong newspaper “Sauth
China Morning Post”, Russia, China and several other countries seek to reduce their dependence on the U.S. dollar, because Washington uses the access to the dollar payment system as a weapon to punish countries and individuals for violation of the laws of the United States, even outside of the United States [23].

In the context of the current geopolitical situation in the world, the role of gold in ensuring the financial and economic security of the country is increasing. Foreign researchers also pay attention to this. Thus, according to the German expert Ingo Narat, in our era of unstable financial markets, gold again takes on the classic role of a safe haven in times of crisis. Central banks of the leading countries are actively involved in the purchase of gold. Last year they purchased 480 tons. This is the highest performance since 2015. Russia plays a key role here, emphasizes Ingo Narat [25].

In accordance with the instructions of Russian President Vladimir Putin, the Central Bank of Russia increases the purchase of gold, increases its component in reserves. According to the rate of increase in gold reserves, the Central Bank became a world leader. In 2016, the Central Bank purchased 201 tons of gold, in September 2017, the gold reserve increased by 34.6 tons and reached 1778.9 tons. In total, in 2017, the Central Bank purchased about 200 tons of gold. In his Message to the Federal Assembly in February 2019, the President of Russia announced that for the first time in history, Russia’s foreign exchange reserves fully cover the external debt of both the state and the commercial sector. [12]

Our country is also taking other measures to counter anti-Russian sanctions. German journalist Reinhard Lauterbach draws attention made this most western region of Russia technically completely independent of gas transit through Belarus and NATO-member Lithuania. [26]

One of the important indicators of the state of the economy is inflation. Until recently, in our country the lowest inflation was recorded in 2011, it was 6.1%. In 2015, inflation was 12.9%. At the end of 2016, the inflation rate was 5.38%.

In 2017, it was planned to achieve the inflation target of 4%. This indicator provided good conditions for the recovery of the economy and its significant growth. For the month (August to July 2017), deflation was 0.5%, which was a historic record. The most close to it deflation was in August 2003, when the decline in prices amounted to 0.4% compared with the previous month. [18] According to Rosstat (Russia's state statistics), in December 2017 inflation was 0.4%, after 0.2% in November and October. Thus, for the whole year inflation was 2.5%, which was the minimum in the recent history of Russia [15].

In April 2018, the inflation rate in Russia was 0.38%, which is 0.09 more than in March 2018 and 0.05 more than in April 2017. At the same time, inflation since the beginning of 2018 amounted to 1.20%, and at an annual rate -2.41%. In May 2018, Russia ranked 12th place in the world in terms of inflation [17].

German analyst Eduard Steiner also notes that inflation in Russia reached a historically low level of 4%, but the growth of the gross domestic product (GDP) is likely to reach a maximum of only 1.8% for the entire year. [27]

As the President stressed in his Message to the Federal Assembly, “...sustainability is..."
the basis, but not a guarantee of further development. We have no right to let the stability that has been achieved lead to complacency. Moreover, many problems are still far from being solved” [11].

A clear statement of goals and gradual, systematic achievement are assumed. This approach allows solving the tasks in a short time. So, until recently it seemed that the problems in agriculture will exist forever. However, the right decisions and the state program created a flexible system of support for agricultural producers, and now agriculture is a successful industry that not only feeds the country, but also exports products to international markets.

A positive role was played by a response adopted by our country to imposed sanctions against us. This, of course, helps the national producers in the national market. Moreover, agricultural exports surpassed arms sales.

In 2015, Russia exported arms worth US$14.5 billion and agricultural products worth US$16.2 billion. In 2016, the export of agricultural products from Russia amounted to US$17.1 billion dollars [13], and weapons US$14.5 billion dollars.

At the end of 2017, according to the Minister of Agriculture A. Tkachev, the export of agricultural products increased to 20 billion dollars [9]. And arms exports in 2017 amounted to 15 billion dollars [14]. In 2018, the export of agricultural products amounted to 25.8 billion dollars. [12]

The geography of exports of Russian agricultural products is expanding. Thus, according to the Arab news portal Al-Ain, UAE, in October 2018, Algeria announced its intention to import wheat from Russia. The head of the Algerian Bureau of grain crops said that Algeria was extremely interested in importing Russian wheat. [28]

As the development of agriculture depends largely on the regions, it is necessary to give them more autonomy in the use of federal subsidies given to support agriculture. It is advisable to link the volume of investment with qualitative indicators of production efficiency (increase in arable land, increase yields, etc.), thus stimulating the introduction of idle agricultural land and the implementation of advanced agricultural technologies.

At the same time, increasing the independence of the regions in these matters should strengthen their responsibility for the results of their activities, for strengthening their own economic base, as well as for solving problems in the social sphere and in housing and communal services.

French expert Jean-Michel Gradt draws attention to the fact that Russia’s trade surplus in 2018 increased by 65.2% compared to the same period last year and reached 191.4 billion dollars. [29]

However, as the correspondent of the Austrian newspaper “Der Standard” Andre Ballin notes, although in 2018 the growth of Russian GDP was 1.6%, in 2019, according to the World Bank, it will be lower and will be 1.5%. [30]

According to the Russian Center for Strategic Development, a serious threat to Russia is the technological backwardness of the country compared to developed countries. To date, the share of organizations engaged in technical innovations in our country does not exceed 8.3%, while in Germany it is 55%, in Italy – 41.5%, in Estonia – 38.4% [5].
According to the International Federation of Robotics (IFR), the average density of robotics in the world is 66 robots per 10 thousand employees. South Korea exceeds these figures seven times. There are 478 robots per 10,000 workers in this country, 314 in Japan, 292 in Germany, 164 in the US, and only two multifunctional robots in Russia. [4].

Unfortunately, sanctions also create additional problems for our economy in this area. Any companies, individuals and legal entities around the world that cooperate with Russian companies that have fallen under these sanctions can become the object of sanctions. (We are talking about the most technologically advanced Russian companies). These are so-called second-order sanctions, and they can have a much more serious long-term effect.

Confirmation of the validity of this statement is the list of companies, businessmen and top managers against whom a new block of sanctions was introduced published by the US Treasury on April 6, 2018. In total, the new list of SDN (Specially Designed Nationals) includes 26 people and 15 companies, including 24 citizens of Russia and 14 Russian companies. New measures are introduced in accordance with the law “On countering America’s enemies with sanctions” N H. R 3364. It is assumed that restrictive measures can be imposed not only against persons and companies from the list, but also against their counterparties who conduct “significant transactions” with them. The sanctions include restrictions on the export of goods from the United States, a ban on obtaining financial services in the United States and attracting financing with the participation of American banks and investors, restrictions on the ownership of property in the United States and a ban on the management of companies and their controlling shareholders to obtain the US visas and to enter the United States. [16]. In fact, it is an economic iron curtain. And we need to take that into account.

This applies not only to finance, but also to intellectual property. Maybe we should use the experience of the United States of America? The United States in the nineteenth century was far behind in technological and industrial terms. They passed a law under which any invention could be patented in the United States, even if the invention was implemented in another country, if they are implemented in the United States. In other words, the American patent office began to work, violating copyright, as a large pirate organization. This spurred industrial and economic growth. By the way, this is how China operates today, without advertising its activities.

Russia, fearing to provoke the strengthening of sanctions, agreed that the use of any intellectual property owned by global rights holders in the Crimea is not legal. But this minus can be turned into a plus, for example, to create an experimental intellectual offshore in the Crimea. Immediately there will be a lot of proposals for trade cooperation with the Crimea and its partial economic recognition.

There will be motives for exiting economic sanctions. Now we do not give such motives. In the Crimea, now there are not even branches of Sberbank, so as not to question Russian assets abroad. But if Russian banks do not work in the Crimea, what can we expect from foreign banks? Undoubtedly, this problem is also waiting to be solved.

According to the authors of the report Strategy of economic development of the Russian
Federation for 2018-2024, prepared by the Center for Strategic Development, there is a decrease in the quality of public administration. Thus, since 2003, the number of functions of Federal Executive bodies has doubled. Every year, 2 million inspections are carried out, in which only 8% of cases violations that pose a real threat are detected. Only 1% of inspections recorded actual damage [5].

In this regard, the President set a task to improve the control and supervisory bodies, reduce the number of inspections and improve their effectiveness. These bodies should deal not only with the detection of violations, but also with their prevention, provide advice to entrepreneurs, especially those who are just starting their business.

In general, the effective work of public administration requires a comprehensive approach to the analysis of the relationship between the political system, government, civil society institutions, socio-economic standards and socio-cultural norms [19,81].

Corresponding member of the analytical center Chatham House, former British Ambassador to Belgrade and Moscow Andrew Wood believes that the “vertical of power”, built during the Putin’s reign, can allow implementing decisive and innovative measures to eliminate the shortcomings of the economic and social condition of the country. However, Russia today has no structural ability comparable to the CPSU to discipline its executive apparatus or to reach a reasoned and balanced political consensus on the direction of future development [31].

The tax system, it is designed to stimulate business activity, economic growth and investment, create competitive conditions for the development of our enterprises. Many economists pay attention to the fact that Russia uses a flat scale of taxation. Regardless of the amount of personal income tax is 13%. Of the so-called G20 countries, this scale is used only in Russia. For example, in France, a high tax is paid only on income of more than 1 million euros per family member. With the average salary received by Russians 28 thousand rubles per month – in France, only 5.5% is charged, and with an income of up to 20 thousand rubles – the tax is not charged at all. Thus, the introduction of a progressive scale of taxation is not only the receipt of additional funds from persons receiving large incomes, but also the improvement of the social situation of persons receiving low incomes [1,9].

5. CONCLUSION

Thus, the problems of the modern Russian economy are caused by a number of external and internal factors. External factors are associated with the sanctions of Western States and, first of all, the United States, seeking to solve its economic and political problems using methods of unfair competition.

As for internal factors, for their successful solution, it is necessary, first of all, to change the structure of our economy, to reorient it to the production and export of high-tech products. Priority attention should be given to our own advanced developments, the development of promising areas that can ensure the creation of a strong technological basis for the breakthrough development of our country, increase significantly productivity, and provide favorable conditions for the development of small and medium-sized businesses; to give the regions more independence in the use of federal subsidies given to support the
agricultural and industrial complex, to link the volume of investment with quality indicators of production efficiency.

It is impossible to make a powerful breakthrough not only without a strong scientific and economic foundation, but also without a highly effective, science-based public administration. It is necessary to improve its quality, to strengthen the responsibility of managers for the implementation of decisions, to reduce the pressure of the control and supervisory bodies on business; to consider changes in the tax sphere; to move from flat tax to a progressive tax.

6. REFERENCES


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