

# Rent Regulation of Russia's Economy as a Condition for Achieving Global Leadership

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**Abstract** The paper discusses the basic problems of the Russian economy, including: a high level and further growth of monopolization in response to external challenges, maintenance of a considerable level of differentiation between regions, the rent-primary model of the national economy, speculative nature of economic relations, determining the "catching up" development of the economy. The paper substantiates the conditions necessary for achieving stability of production relations in the economic system on the basis of the analysis and synthesis of the systems theory, stability theory, and neo-classical and institutional approaches to the essence of rent as additional super-profit above normal profit from any production factor. Conceptual approaches are suggested for gaging the stability of economic relations based on calculating the comparative attractiveness of investments in various sectors of the economy using a modified Sharpe ratio. Methodological grounds are substantiated for building a paradigm of rent-based state regulation of the RF economy as a key condition for achieving leadership in the world economy.

## 1 Introduction

New external economic challenges form conditions for monopolization to grow in the RF economy. The papers (FAS Report on the state of competition in the Russian Federation 2017; FAS in mass media 2018; Kolesnikov et al. 2017), point out the following negative factors, which prevent economic growth in the RF in the time of digitalization and form the catching-up type of economic development. They include a big share and further increase of the state sector in the economy, insufficient effectiveness of the measures taken to develop small and medium business, cartelization of competitive spheres of the economy, and regional protectionism. At the same time, the work by Korotkevich and Al-Hamzavi (2017) describes many positive aspects of economic monopolization on the example of the Republic of Belarus. They include bigger opportunities that large enterprises have in competitive struggle with foreign companies and transnational corporations in the time of rising protectionist trends all over the world, and, of course, considerable resources of monopolists to create and develop innovations.

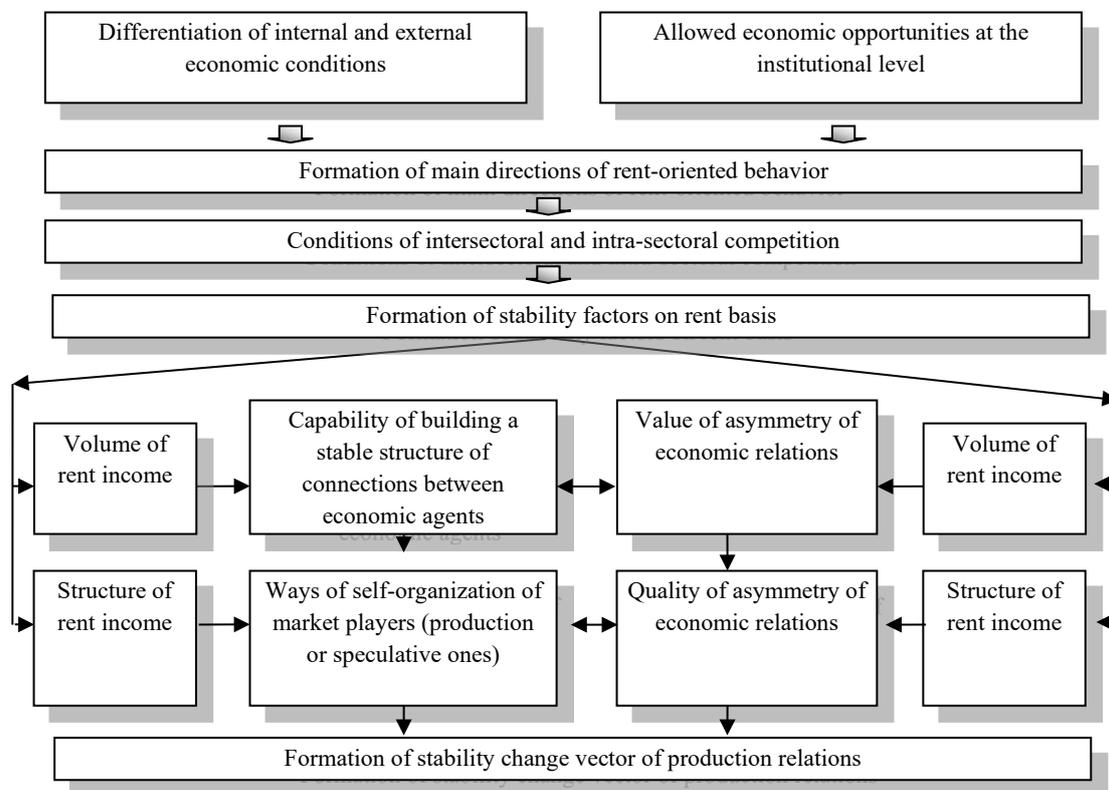
Due to the necessary growth of public and private monopolies, it is important to increase their social effectiveness and to create conditions for striking a new balance of interests of all market players. However, in order to achieve this, the paradigm of state regulation of the Russian economy must be corrected to a considerable extent.

High differentiation of resources and launch opportunities, rather than end products in the economy of the RF determines the need to apply rent approaches to state regulation, within which it is necessary to stimulate substitution of many speculative bonds in the RF between economic agents for production ones.

## 2 Theoretical grounds of rental regulation of the economy

The research is based on: 1. theoretical analysis and synthesis of the neo-classical approach to the essence of rent as additional super profit above normal profit from any production factor (Marshall 2012; Vorchester 2000) and institutional approach (Tullock 1967; Galbraith 1984; Toffler 2001; Zaostrovsev 2008), which implies qualitative consideration of the causes of getting super profit and analyzing its structure; 2. studying modern approaches to the essence of rent categories and methods of their calculation (Gaisin 2017; Svetlov 2013; Latkov 2006); 3. the authors' studies in the field of rent regulation of the agro-industrial sector (Zaytsev 2017, 2016, 2015; Zaytsev et al. 2018).

In the course of the research study, a concept of rent mechanism, preconditioning the level of stability in the relations of production nature in the economic system, was developed (presented in Figure 1). Here, in the context of the systems theory and stability system, the essence and the mechanism of economic relations are presented in a form of connections which appear between the elements of the system and create a certain type of a stable or unstable structure. In turn, the stability of the system is determined by the stability of structural connections as noted by Bogdanov (1989) and Bir (1963).



**Fig.1.** Rent mechanism forming stability of production relations in the economy  
Source: Own results

In the most common case, stability of economic relations is reflected by a long-term interest of production factors' owners to present them for this sector. In turn, rent categories are reflected on systemic level through asymmetry in the development of economic relations, which is expressed in inconsistency of individual elements and bonds in the system (see e.g. Rudskaya et al 2017; Rodionov and Rudskaya 2017; Selentyeva et al. 2018; Goncharova and Degtereva 2018; Rudskaya 2017). These inconsistencies emerge due to the implementation of two most important functions of commodity production: distribution and differentiating ones. The distribution function acts as a basis for distributing and redistributing the created value using a price mechanism, while the differentiating function manifests itself in dividing economic agents that produce commodities by profitability level, related to various individual and socially necessary labor costs, which eventually determines the amount of the formed rent income and the level of asymmetry of economic relations.

Forming any kind of rent income increases the level of asymmetry in the development of economic systems. However, the lack of rental income results in increased homogeneousness of elements, which will reduce their integrity and emergence, i.e. the relations will be summative and it can cause decomposition to the components and further building of economic relations with a different quality (for example, those of speculative nature).

It is preconditioned by the fact that interaction of elements in economic systems must be beneficial to one or several agents, otherwise such interaction will lose its economic content. It is the motive of long-term benefit that generates a stimulus to build stable connections and relations. However, the most important thing is the qualitative content of such relations. They must be built on production principles, rather than speculative or monopolistic ones. The authors (Schwab and Werker 2018; Abdulahi et al. 2019; Iqbal and Daly 2014) point out that a high share of the rent component in earnings can be both a stimulus for development of production relations and innovations and a catalyst of monopolization in economy. On the example of analyzed statistical data it is proven that one or another way is chosen depending on the institutional level of a country's development. Thus, inconsistency of the "rigid institutional structure" (Gurvich 2016) to the needs of society and market, high differentiation of economic agents' earnings (Dobrea and Podgoreanu 2014) limits a lot the competitive abilities of Russia and prevents it from achieving leadership in the world economy in the nearest future.

When rent income is formed in the economy, it also triggers the processes of self-organization among market players and makes the number of stable bonds which depend on the volume of rent income grow in the system. It structure defines the way economic relations get self-organized either through an increased level of monopolization or through innovative development of production forces. Eventually it will determine the quality of the asymmetry of economic relations: differentiation of economic agents predominantly by the amount of monopoly income through forming "value absorption centers" in a form of artificial monopolies, or by the amount of differential rent II, technological, innovation rent through developing "value creation centers" possessing "know-how". Consequently, transformation of the categories of rent, rent income and rent-oriented behavior in the category of systemic analysis (self-organization, asymmetry, emergence) will finally form the stability level of economic relations.

In the most common case, the stability of economic relations can characterize the presence of a long-term motive of the production factors owners to keep their application in a particular economic sphere. Table 1 contains an illustrative example of the estimated comparative attractiveness of investing into two production factors (labor and capital) in some of the most important sectors in the RF: mining, process manufacturing industry and agriculture. The estimation has been made based on a modified Sharpe ratio. This ratio, suggested by William Sharpe in 1996, has several variations, but is reduced to a general formula:  $(\text{return} - \text{risk-free return}) / (\text{standard deviation of return})$ .

**Table 1.** Stability of economic relations by key sectors of the Russian Federation

Production factors by sectors	Modified Sharpe ratio				Growth rate within 2008-2017
	2008-2010	2011-2013	2014-2017	2008-2017	
<b>Labor</b>					
-agriculture	0.16	0.23	0.35	0.24	2.2
-process manufacturing	0.57	0.78	1.08	0.81	1.9
-mining	1.62	2.23	2.92	2.25	1.8
<b>Capital</b>					
-agriculture	0.73	0.72	1.36	0.90	1.9
-process manufacturing	0.98	1.28	1.26	1.01	1.3
-mining	1.51	1.76	1.88	1.72	1.2

Source: Rosstat (2019)

In order to calculate the attractiveness of investing the "labor" factor in production process, the difference between the average salary by sector per year and the minimum salary was used, while average manpower turnover by sector per year was used as a standard deviation. Asset return, its quarterly volatility and risk-free interest rate were calculated by such factor as capital. As shown in the Table, the stability of economic relations throughout the RF is defined by high stability of economic relations in the mining sector. It is caused by both high return on the application of every production factor and low volatility of this return. The lack of stability in other sectors

does not stimulate bigger diversification of the RF economy, restrains innovative development and does not make it possible to achieve faster growth rates in relation to the world economy.

### 3 Conceptual approaches to rent regulation of the economy at the state level

Studying modern approaches to the essence of rent categories and methods of their calculation (Gaisin 2017; Svetlov 2013; Latkov 2006), the authors developed a conceptual structure of rent income in the economy (Figure 2).

Grouping is made in a form of "traffic lights", i.e. taking into consideration the impact level of the formation mechanism of every rent on the stability of economic relations of production nature. Only the green (innovative) level includes rents that increase the stability of production relations. At all other levels there is downward pressure on the stability of economic relations of production nature, contributing to making capital flow into the speculative sector and speculative and corruption relations grow. The closer you go to the red level, the stronger is the downward negative impact.

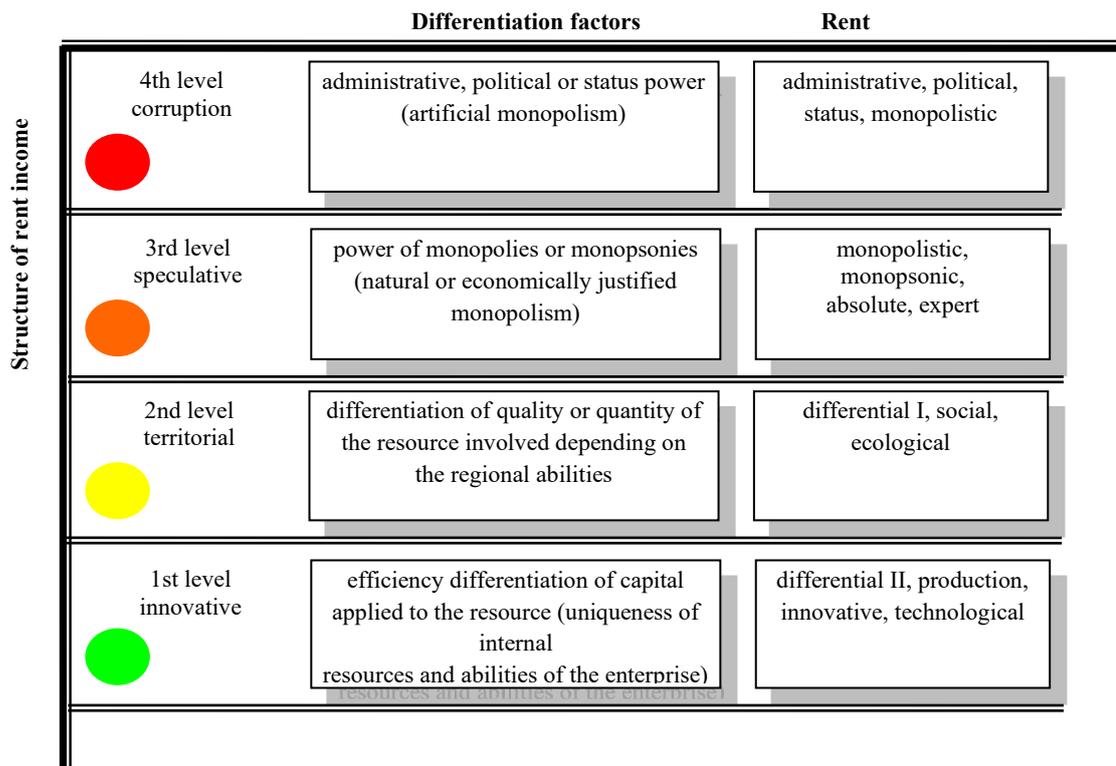


Fig.2. The enlarged structure of rent income in the economy

Source: Own results

Thus, prerequisites must be created at the state level that would prevent rents of green level leaving the production field for monopolistic structures. Rent-saving conditions are needed, when growing rents of productive types will automatically diminish their absorption by the negative forms of rent income. Such conditions can only be formed in dynamics. It can be expressed in a form of dynamic standard - rent profile, representing a mathematical notation of dynamic harmonization of rent factors. A rent profile is a target function of state regulation, which implies a faster growth of productive types of rent and a faster reduction of the most negative form of rent income:

$$T(R4) < T(R3) < T(R2) < T(R1),$$

where T(R1) is the growth rate of the green level rent income; T(R2), T(R3), T(R4), respectively, are growth rates of rent income of the yellow, orange and green levels.

If the standard parameters of the rent profile are implemented on a scale of the economy of the RF, long-term conditions can be created for a rational structure of rent income to form and the green level rents to prevail. It will give a cumulative effect launching the entire production chain of economic relations, which will be the basis for increasing their stability. The leading enterprises will form new technological and organizational paradigms, which will increase the return rate for organizations obtaining innovation rents. Hence, there will be a secondary

effect, related to the emergence of free capital, expansion and development of the market, which, eventually, will help Russia to achieve leadership positions in the world economy in the long run.

## 4 Conclusions

The conducted research allows for creating a theoretical and practical basis for developing more effective state policy of rent-based economic regulation in the Russia Federation. Its basis must be the formation of a competitive environment through creating and dynamically maintaining productive rent proportions in the economy, which meet the requirements of the rent profile.

Our results and outcomes show that it might be possible to strike the necessary balance of interest between all market players in the time of external challenges and given the set goals to achieve global leadership. From the applied point of view, a possibility opens up to assess the effectiveness of the rent regional systems in terms of resources used for production, and to measure their influence on innovative processes.

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