

Problems in the Management of the Russian Economy

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Abstract. The purpose of this study is a comprehensive analysis of the strategy of economic development of Russia. The author sought to show what shortcomings in public administration should be addressed and what priorities the president and his team needs to solve in order to implement ambitious plans by 2024. The research questions were: 1. The disadvantages of public administration in the implementation of an effective economic policy. 2. To determine what are the main reasons for the slow development of the economy in 2000-2019.3. Compare the methods of economic management in Russia and some other countries.

1. Introduction

In May 2018, V. Putin issued a decree "On the national goals and strategic goals of the development of the Russian Federation for the period up to 2024". This important document sets out the main tasks for the implementation of the breakthrough scientific, technical and socio-economic development of the Russian Federation for another six-year term.

According to the decree, by the end of the next Putin's term, Russia should be among the five largest economies in the world [1].

In pursuance of the presidential decree, the government has developed 12 national projects, the implementation of which will make it possible to solve the complex tasks of Russia's economic development. For their implementation until 2024 allocated more than 25 trillion rubles [2]. However, an analysis of the first steps to implement them has shown that there are many shortcomings in the management of the country's economy, which reduce growth rates and cast doubt on the implementation of ambitious plans.

The economic downturn in 2017-2018 suggests that Russia has not yet been able to cope with prolonged stagnation and stagnation in the economy. This conclusion is supported by the following specific facts, including one hundred statistical data. "Neither strategy nor understanding of realities" - so the experts of the Moscow Economic Forum described the work of the executive branch. According to them, the government still cannot realize that the years of high oil prices are behind and the domestic economy needs fundamental changes [3]. Now in Russia there is a stagnation in the economy, in the technological, scientific, industrial and social development of the country. Russia remains a poor country, with a low quality of life and the state. To realize V. Putin's May aspirations for an unprecedented economic growth, Russia will need to increase its economy by at least 82% in 6 years. Provided that the states that are today in the top 5, will stop their economic development. But even with such fiction, annual growth should not be below 11%, and starting from 2018. In 2017, Russia's GDP

grew by only 1.5%, and in 2018, everyone expects growth of about 1.6%, while in the coming years, experts do not see the prerequisites for an economic breakthrough [4].

2. Problem statement

According to the Governance Quality Index (World Governance Indicators, WGI), prepared by World Bank specialists in 2018, Russia has deteriorated its rating. 1. In the rating includes indicators that measure various aspects of political processes: the degree of press independence, assessment of the level of freedom of speech, freedom of association, and other civil liberties. 2. Political Stability: a change in political course, destabilization and the overthrow of the government by unconstitutional methods or using violence. 3. Government Efficiency: the quality of public administration and public servants. 4. Quality Legislation: legal acts that allow for the development of the private sector and contribute to its development. 5. The Rule of Law: - the index includes indicators that measure the degree of confidence of various subjects in the established legislation, as well as their compliance with these standards, in particular, the effectiveness and predictability of the legislative system, crime rate and citizens' attitude to crime, attitude to the execution of contractual commitments, police, court performance, and so on. 6. Control of Corruption: the perception of corruption in a society.

The quality level of the regulatory environment in Russia has always been below average (since the beginning of measurements in 1996), according to data from the World Bank. The best value (-0.12) it reached in 2004. In 2011–2014, this index ranged from -0.34 to -0.39, and in 2015 fell sharply to -0.52. A temporary improvement in dynamics occurred in 2016 (-0.42), but now the regulatory environment has deteriorated again. An idea of Russia's position in comparison with other countries is given its rank, also calculated by the World Bank. In Russia, it is 32.7%, that is, in 32.7% of the countries of the world, the level of regulatory policy is worse than that of Russia, which means that Russia is in the closing third of the countries on this indicator [5].

The low level of government leadership in the Russian economy was noted by prominent Russian economists and businessmen at their next Moscow Economic Forum (MEF) in 2019. This is not surprising: every year the IEF gathers economists and entrepreneurs who do not share the course pursued by the financial and economic bloc of the government and the Central Bank.

“Our government focuses on the interests of the individual, the interests of corporations. At the same time, the interests of the state are relegated to the second and third plan, stated co-chairman of the Moscow Economic Forum Konstantin Babkin set the tone for the discussion. Other speakers supported his position.

With criticism at the Central Bank, presidential adviser Sergei Glazyev spoke at the forum. According to him, the Russian economy remains a donor to the global financial system. It is trapped due to carry trade, and the non-state sector is almost completely offshore due to archaic monetary policy, ”says Glazyev. And, as the economist notes, there’s no place to wait for help. “In such a situation, the expectation that the West will help us or the East will pull us out is absolutely ungrounded,” the presidential adviser believes. With the right economic course, according to Glazyev, the Russian economy may well show 5% growth per year. “Now only 60% of industrial capacity is loaded. At the same time, there are no limitations in scientific and technical potential and in the raw materials industry, notes S. Glazyev.

However, according to Oksana Dmitrieva, a member of the budget and financial committee of the Legislative Assembly of St. Petersburg, the Central Bank prefers to put money into banks. According to her, in 2016–2017 credit institutions received 2.5 trillion rubles through the Deposit Insurance Agency, and another 1.5 trillion rubles through the Fund for the Consolidation of the Banking Sector.

In addition to expensive loans, the business is faced with other obstacles. “In the same way as before, law enforcement agencies are hanging on us, and in any way they are ready to initiate a criminal case if he is stuck out. In the same way, the dominance of administrative procedures that cannot be understood: they all write some standards, and then they cannot be applied. One says “close all doors,” and the second says “open all doors,” and both are punished, ”said the chairman of the Lenin State Farm, a recent presidential candidate Pavel Grudinin [6].

In the meantime, he said, people want "a fair redistribution of income from mineral resources" and the introduction of a progressive personal income tax scale, as well as free education and medicine.

However, instead of developing the economy, officials only rely on oil quotes. "It is necessary to convince the authorities of the country that development based only on this is impossible. That the policy of guaranteed income from raw materials no longer works and the country needs to rely on other growth factors," said business ombudsman Boris Titov.

The lack of timely structural reforms with a weak political will of the leadership to solve the accumulated economic problems led to stagnation of the Russian economy, as well as society as a whole.

And the fact that the president spoke of an economic breakthrough, a breakthrough from stagnation, proves once again the validity of such a characteristic.

Our country needs to build an economic strategy. Moreover, there is even a so-called law on strategic planning, adopted in 2014. However, like many other documents, it acts only on paper.

The result of this inefficient government was the lag of the Russian economy from other countries. A country rich in natural resources (more than 30% of the world's natural resources), Russia is only 11th in the world in nominal GDP. This is well seen on the following table.

Table 1. TOP-5 the world's largest economies 2018 (in trillion dollars) [7].

| № | Country | GDP nominal | place |
|----------|----------------|--------------------|--------------|
| 1 | USA | 19,39, | 1 |
| 2 | China | 12,24 | 2 |
| 3 | Japan | 4,87 | 3 |
| 4 | Germany | 3,68 | 4 |
| 5 | Great Britain | 2,62 | 5 |
| | Russia | 1,57 | 11 |

From the table compiled on the World Bank database World Development Indicators, it follows that Russia's economy is in the second ten countries and is very far from the leaders.

Table 2. The growth rate of the Russian economy in comparison with other countries of the world (in %) [8].

| A country | 2014 | 2015 | 2016 | 2017 | 2018 | For 5 years |
|------------------|-------------|-------------|-------------|-------------|-------------|--------------------|
| World average | 3,4 | 3,4 | 3,6 | 3,6 | 3,6 | 17,6 |
| China | 7,3 | 6,9 | 6,7 | 6,9 | 6,6 | 27,5 |
| India | 7,4 | 8,2 | 7,1 | 6,7 | 7,2 | 36,6 |
| Vietnam | 9,0 | 3,0 | 5,2 | 9,4 | 7,0 | 33,6 |
| Russia | 0,6 | -3,7 | -0,2 | 1,5 | 1,8 | 0 |

It follows from the table that the growth rates of the Russian economy in the last 5 years were several dozen times lower than in China, India, Vietnam. It turns out that all these years the country was in stagnation, did not develop.

Due to the lack of significant changes in the country, already in 2013 a stagnation began, which after the introduction of sanctions and the fall in oil prices in 2015–2016 turned into a recession. The decline of the economy in 2017-2018 started being gradually overcome, but on the whole Russia did not manage to handle the prolonged stagnation in the economy. Over the last decade (2009-2018), Russia's GDP growth on average did not exceed 1% per year.

To break into the top five, Russia needs at least to press the UK. Due to the increased risks for investors and the impact of the devaluation of the ruble, experts reduced the forecast for Russia's GDP growth in 2019 to 1–1.5% [9]. The situation is complicated by the fact that more than 70% of Russia's GDP is accounted for by the public sector, subject to anti-Russian sanctions. And even if such a rapid jump in oil prices from \$ 27 to \$ 77 per barrel did not allow our resource-based economy to move towards sustainable growth, what price for oil and gas will we need to implement the new May decrees? Meanwhile, the proceeds from the rising oil prices are expected to be substantial: the treasury will be replenished by an additional 2.2 trillion rubles. According to the new forecast, the country's revenues will increase from 15.26 trillion to 17 trillion rubles. However, there is no reason to rejoice at the unexpected increase: instead of spending an increase on the development and diversification of the economy, raising the standard of living of its citizens, the government suggests the opposite - cutting social spending and replenishing reserve funds. In addition, the government intends to allocate for the support of law enforcement agencies and the financing of the system for the execution of sentences: by 20.3 billion and 4.6 billion rubles, respectively [10].

Thus, practice shows that rising raw materials increase the incomes of the Russian state budget, improving budgetary performance, but does not have a significant impact directly on economic growth. It is obvious that without a full-fledged scientifically based strategy for socio-economic development, without concrete and coordinated with each other government programs aimed at the complex implementation of the new May decrees of the head of state, no other implementation of ambitious plans for a breakthrough in the economic and social spheres is impossible.

As the statistics shows, in the context of increasing anti-Russian sanctions, foreign investment is significantly reduced. Thus, in 2017 the volume of foreign direct investment in the Russian economy amounted to almost \$ 28 billion but in 2018 it decreased 11 times, having dropped down to \$ 2.4 billion. And without investment there is no economic development, no long-awaited growth of GDP, and no emergence of new jobs will follow.

As a result, more than 2 million entrepreneurs [11, p. 818], representatives of small and medium-sized businesses were withdrawn from the Russian economy. President of Russia V.V. Putin is aware of this problem: "During 2014 the investigating authorities instituted almost 200 thousand criminal cases on the so-called economic compositions..., about 80-83 percent of entrepreneurs, in whose situation criminal cases were initiated, completely or partially lost their business. That is, they were set under pressure, robbed and released" [12]. At the beginning of August 2017, V. Putin publicly reiterated the excessive pressure on the business by the control and law enforcement agencies.

Russian businessmen and entrepreneurs do not trust the Russian state. The proof of this thesis is the fact that in 2008-2018 alone they brought more than 743 billion dollars out of the country [13].

The top management of our country began to vigorously implement the idea of de-offshorization since 2014. Its main parameters were announced by V. Putin in the Kremlin in December 2015 [14, p. 396-397]. The main emphasis was placed on the amnesty of capital returned to Russia. However, despite the calls of the authorities, the return of hundreds of billions of dollars that flew to other countries has not yet taken place.

Russian entrepreneurs named the main factors constraining the current development of the domestic economy and entrepreneurship. These are the uncertainty of the economic situation, the high level of taxation and the decreasing demand in the domestic market. Such data leads VTsIOM according to the results of a study conducted among the management of large enterprises. About two thirds of respondents (63 percent) believe that the situation of their companies has deteriorated due to the current economic situation. Last year, the percentage of dissatisfied was equal to 59.

The main factors negatively affecting business in recent years have intensified. These are, in particular, energy prices (gas and electricity), the level of production costs, and the uncertainty of the economic situation. The measures for the resumption of economic growth, which the government is undertaking, are estimated by entrepreneurs more negatively than in 2017. 69 percent speak of their poor efficiency - five more than in 2017. About 41 percent of respondents say that the government

doesn't have any strategic plan for the renewal of economic growth, 16 percent say it is there. Another 33 think that there is a plan, but it cannot be called effective [15].

The new government, formed by President V. Putin in 2018, cannot cope with ambitious tasks because it includes ministers and deputy chairmen who do not have the necessary basic training: they are not professionals in their education. So, the vice-premier of the Russian government, Vitaly Mutko, who oversees the construction and the regions, is a water transport engineer by first education, a lawyer by second education. Alexey Gordeyev, Deputy Prime Minister in charge of agriculture, is a railway engineer. Dmitry Patrushev, Minister of Agriculture, manager and diplomat, who has no education in his job profile. (Elena Skrynnik, who previously managed agriculture and the agro-industrial complex of Russia, was a doctor by training, had a diploma of a cardiologist). Deputy Prime Minister Maxim Akimov graduated from the history department of the pedagogical institute, but oversees the government's communications, transportation, and "digitalization of the economy." Dmitry Rogozin, a journalist by training, was first deputy prime minister and then directs the Roscosmos space corporation. Denis Manturov, Minister of Industry and Trade, is a sociologist by training. Minister of Energy - Alexander Novak, metallurgical engineer. Transport Minister Eugene Dietrich - a specialist in applied mathematics. The Minister of Culture, Vladimir Medinsky, who has kept his post, is an international journalist and historian. Olga Vasileva, Minister of Education, who was in her post, was the conductor-choirmaster by her first education. The Minister of Science and Higher Education, Mikhail Kotyukov, is a financier. Such an approach to the selection and appointment of management personnel has already shown its inconsistency [16]. Therefore, the personnel policy of President V. Putin should change for the better. The government should include professionals with organizational experience and higher education appropriate to their position. To lead, you need to be well versed in your industry, be head and shoulders above your subordinates.

According to the first education, eight economists, six lawyers, a sociologist, a geophysicist, a railway engineer, a fencer, a journalist, a ship mechanic, a builder, and even a singing teacher, who later became a historian, were included in the new government in 2018 by presidential decree [17].

And while non-professionals will be appointed to the highest executive body of the government, there will not be much success in leading the country's socio-economic development. The prolonged stagnation in the economy and the fall in the sixth consecutive year of real incomes of the population, down to the impoverishment of 20 million people, are convincing confirmation of this conclusion.

Russia has someone to take an example. Modern China, thanks to the efficiency of state administration, has turned from a backward country into a powerful state with a developed economy. Everything is relative. For a number of important positions, China shows a multiple (tenfold) superiority over Russia. For example, China produces 2.5 billion tons of cement a year, and Russia only 65 million tons. The steel gap is somewhat smaller, but still impressive: China produces 815 million tons of steel compared to 73 million tons in Russia. This country builds 1 billion square meters of living space per year compared to 80 million in Russia [18].

China's GDP at purchasing power parity is 5 times greater than that of Russia [19].

The example of China shows how strongly a country's economic development depends on successful and effective government.

Conclusion: Russia needs to change the principles and methods of economic management in order to realize the ambitious plans of President V. Putin by 2024.

3. Purpose of study

The purpose of this study is a comprehensive analysis of the strategy of economic development of Russia. The author sought to show what shortcomings in public administration should be addressed and what priorities the president and his team needs to solve in order to implement ambitious plans by 2024.

4. Research questions

The research questions were:

1. The disadvantages of public administration in the implementation of an effective economic policy.
2. To determine what are the main reasons for the slow development of the economy in 2000-2019.
3. Compare the methods of economic management in Russia and some other countries..
4. To formulate some recommendations on changing the state management in the economic sphere.

5. Research methods

In this study, the following methods are used: comparative, institutional, systemic and structural-functional.

6. Conclusion

As a conclusion, the following should be noted.

1. The practice of state regulation of the Russian economy in 2000-2019. clearly demonstrated the inability to carry out structural reforms in order to transfer its industries to an innovative development path.
2. Top state management failed to understand in time the advantages of the knowledge economy over the strategy of exporting raw materials. All these years, the country lived mainly through the sale of its minerals, mainly hydrocarbons.
3. Due to the wrong economic strategy, our country has experienced several severe economic and financial crises (1998-1999, 2008-2009), the economy of the Russian Federation for many years has been in various kinds of stagnations and recessions instead of a planned and progressive movement forward.
4. Owing to these and other shortcomings in public administration, including corruption in the highest echelons of power, the state top-management failed to realize either a doubling of GDP in 10 years or entering the TOP-5 world economies, although such goals were set by the president in 2003 and 2011 years.

Despite the shortcomings noted, the author hopes that the president and the government will achieve the goals set for 2024.

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