

# The Role of the State in Providing Social-Economic Development: World Experience and Russian Practice

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**Abstract.** Liberal and neoliberal approaches implemented in the Russian economy have been proven untenable. Reforms led to economic losses comparable to losses of wars, revolution and the civil war of 1914-1922. World practice has proved that only a state-controlled economy is capable of providing economic growth and sustainable development. Nowadays active national economic policy is a core to ensuring competitiveness of the national economy. The economic modernization should be mainly focused on increasing the level of monetization of the Russian economy, growth of budget expenditures, and an increase in share of state assets. Income inequality has grown throughout the years of reform. Lack of resources is not the main problem of inequality and poverty of the population, the problem is in mechanisms of resource distribution and redistribution. Progressive income taxation is an attribute of civilized distributional relations, a condition for overcoming poverty and solving a demographic problem.

## 1. Introduction

The neoliberal position resides in the fact that modern state has shifted from the process of economic regulation. But this thesis is easily refuted by statistical indicators of state budget expenditures. The budget expenditures respectively would have to be reduced with the self-removal of the state. However, the opposite situation is observed. The state expenditures only increase from year to year. None of the countries in the world publishing statistical data has recorded any long-term decline in state spending. This trend is illustrated by the example of the most economically and technologically developed countries. Due to complication of system management tasks, the state's role is only increasing; especially it applies to the countries that have already reached the postindustrial phase of development. Western high-tech countries are currently world leaders in terms of government intervention in the economy. According to the share of government spending in GDP, state participation in developed western countries increased more than twice over the last third of the twentieth century [14]. The recent economic breakthrough of Southeast Asian countries also correlates with the increasing role of state participation in economy. The strengthening of the statist component in national economies, as a whole, can be defined as a trend of modern world development.

Please note that the first paragraph of a section or subsection is not indented. The first paragraphs that follows a table, figure, equation etc. does not have an indent, either.

### 1.2. Relevance

The model of 'laissez-faire' capitalism described by A. Smith is purely theoretical, not confirmed by the real functioning of any national economies. Nowhere in the world is socio-economic development carried out without a decisive managerial role of the state, which has a clearly fixed upward trend. Only in Russia, contrary to the indicated world trend, is development in the opposite direction. The syndrome of unjustified detatization has not yet been overcome. With a general increase in production, the share of the public sector continues to decline. If in 1990 the share of state ownership (by fixed assets) was 91%, in 2015 it was only 18% [23]. China's state assets is 66%, in Sweden - 62%, Finland and France - 52%, Italy - 51%, Germany - 48%, Canada - 43%, England - 40%, Japan - 35%, USA - 32 % [24].

This is despite the fact that the state has the biggest opportunities and efficient methods to stimulate economic growth and development.

The problem of state participation in the regulation of socio-economic development was covered in scientific papers since the XVII century. There were two opposite theories formed: free-trade and protectionism. A. Smith, A. Marshall, M. Friedman, F.A. Hayek and Ludwig von Mises should be mentioned as proponents of the first theory. The most prominent representatives of the second practice were John M. Keynes, J.R. Hicks, T. Veblen, W. Mitchell and J.H. Galbraith. The problems of state participation in market processes were also analyzed by the following Russian economists: L.I. Abalkin, G.B. Kleiner, V.I. Kushlin, D.S. Lvov, V.V. Radaev, S.Y. Glaziev, S.S. Sulakshin and others.

The issues of the evolution of economic functions of government, specific methods, functions and instruments of state economic regulation have received the greatest coverage.

### 1.3. Problem statement

The purpose of the work is to summarize the theoretical approaches to state participation in the regulation of modern socio-economic development and to justify the directions of their practical implementation as a condition for ensuring the competitiveness of national economy.

The study is based on the system-structural approach. To achieve this goal, the authors have used general scientific methods of comparative, multifactorial, functional analysis, synthesis, deduction and induction.

## 2. Theoretical part

State, economy and society are closely related to each other: the state regulates and stimulates the economy, sets rules of interaction between agents of society. Economy is the most important indicator of development of the state at the same time it forms economic interests. Society establishes informal institutions which define business constraints and preferable directions for business development.

The state can be considered as a supporting structure of the country. Its important mission is to ensure the continuous effective functioning of society and the economy.

Scientists took up the problem of state participation in the regulation of economic processes from the origin of economic theory as a science. In the XV-XVI centuries within the framework of economic theory of mercantilism, the foundations of 'protectionism' were formed. This policy necessitates the implementation of state's active policy to support and stimulate the development of national producers and protect them from foreign business struggle. Colbertism is an example of practical implementation of protectionism created by Jean-Baptiste Colbert, the French minister of finance under Louis XIV. This doctrine promotes high import duties, encourages public works projects and development of new industries, and bans the export of raw materials. In Russia, this policy was successfully implemented by Peter I, confirming the universality of ideas of mercantilism. Mercantilism can be considered as the first theoretical concept of a strong state power. History has shown that starting from the VII century and up to the present, there has not been a single state that did not use protectionism to ensure the effective development of its economy. Moreover, a free market without state participation did not exist in any country. The market development has always been carried out with the participation of state institutions. F. Braudel pointed out the correlation between the strong political regime and the dynam-

ics of economic development of the country. First of all, countries using various instruments of state regulation of the economy demonstrated the economic growth. F. Braudel suggesting, 'one always finds an exceptional state, strong, aggressive and privileged, dynamic, simultaneously feared and admired. That was Venice during the fifteenth century, Holland during the seventeenth century, England during the eighteenth century and still in the nineteenth century, and the US nowadays' [4]. Proponent of the neo-institutional theory J. Galbraith had a strict stance towards the self-regulating market. According to the analysis carried out by the aforementioned, a modern economy can develop successfully if half of the produced GDP is under state control. As for the United States, which declares the advantages of a liberal approach to state regulation of the economy, the share of government spending in their GDP reaches 30-50%. A decrease in this indicator increases the risks and causes chaos in the economy [7]. In 1944, K. Polanyi wrote about the possible negative consequences of spreading of liberal ideas. '... To allow the market mechanism to be sole director of the fate of human beings and their natural environment, indeed, even of the amount and use of purchasing power, would result in the demolition of society' [17].

An active state economic policy is a key to ensuring the competitiveness of the national economy. At the same time, the reforms implemented in Russia since the beginning of the 90s go in a completely opposite direction in full accordance with the liberal ideology.

Reforms led to economic losses comparable to losses of wars, revolution and civil war

The economic losses from the reforms were similar to losses of revolution and civil war. Level of GDP in 1998 relative to 1991 was 57%, and level of GDP in 1998 was 60% of the level in 1991 [19].

Even during World War II, despite the destruction and loss of territory, the economy of the Russian SFSR grew at an average rate of 4.7%. It was achieved by the relocation of industry to the Urals and the construction of new enterprises. From 1950 to 1990, the average growth rate of the economy of the Russian SFSR as part of the USSR was 6.6% [15].

The USSR (and the Russian SFSR) had one of the highest rates of economic growth in the world. Only illiberal China has achieved comparable successes. While the West was experiencing the Great Depression, the growth rate of the USSR was 13% - 14%. In 1956, the British historian Isaac Deutscher wrote 'The core of Stalin's genuine historic achievement lies in the fact that he found Russia working with the wooden plough and left her equipped with atomic piles' [13]. Stalin raised Russia to the level of the second industrially developed country in the world. It was not the result of purely material progress and organizational work. Such achievements were not possible without a comprehensive cultural revolution when the entire population attended schools and studied hard.

During the period of the USSR from 1922 to 1984, about 43320 enterprises were established, and then during Yeltsin's time about 30000 factories were closed. In the post-war period the USSR built 3342 enterprises in 74 developing countries. It was one of the few countries that had developed industry and technology.

In Russia, the losses during the liberal period were 30 million human lives [11]. This is the cumulative number of the unborns, premature deaths and reduced average life expectancy. If during this period the birth rate of the late 1980s was preserved, then the current population of Russia would be 173.5 million people. With this number, Russia would be in 6th place, and not 9th in today's ranking of human resources among countries.

According to official data of the Central Bank of Russia for 20 years, net capital outflows amounted to 680 billion dollars. According to preliminary data of the Central Bank, in the first quarter of 2019 net capital outflows from Russia amounted to 25.2 billion dollars [5]. This means that this huge amount does not work for the country, does not create profit and the basis of economic growth. This money could become working capital of enterprises, investments in fixed assets, effective and multiplying investments in human capital through science and innovations, education and qualifications.

Some effects of liberal reforms are demonstrated in the table 1 [8, 16, 18, 25, 21, 3].

**Table 1.** Comparative analysis of the results of the socio-economic development of the USSR and liberal reforms in Russia.

Marker	USSR from 1988 to 1990	Russia from 2017 to 2018
GDP per capita PPP (Int. \$)	9130	9264,27
Population (million people)	288	146,5
The Gini coefficient	6	14,5
Homicide rate per 100,000 population	7	9
Number of researchers per million inhabitants	992,6	359,8
Patent applications	84485	35985
Average life expectancy	69,2	66,3

The conclusion is rather obvious; the liberal model was not acceptable for the Russian economy. It should be replaced by a post-liberal model.

The concept of post-liberal model of the country is an important question and a research subject of many authors: from fundamentally theoretical works (Dugin's the fourth political theory) [6] to large-scale projects (Russia's National Idea) [30], (draft of the new Constitution of Russian Federation) [22].

### 3. Practical part

Summarizing all these approaches, we highlight the most important measures necessary for the dynamic and competitive development of the Russian economy.

#### 3.1. Financial and economic sphere

The demonetization of the domestic economy is one of the most alarming modern trends, bringing obvious problems and threats to the country's sovereignty. As a result, Russian business is forced to resort to foreign lending, which depresses its development. In addition, the effect of demonetization is the growth of the shadow economy, an artificial shortage of funds in turnover, increasing inflation, low wages, etc. The monetization rate in Russia and other countries shows that in Russia this figure several times lower than the average global standards (Russia, 2018 – 48%, USA – 88%, China – 194.5%, Germany – 163.1%, Japan – 248, 7%, Great Britain – 160.2%) [12]. with the actual value from 0 to 50%, there is a shortage of cash in the country, and possibility of quasi money is high. The world average monetization rate is 125%. The developed countries' rate is 150% and above.

The monetization rate of the Russian economy in the second half of the 90s and 2000s was the following: 1995 – 10.7%; 1996 – 13%; 1997 – 14.5%; 1998 – 14.6%; 1999 – 11.9%; 2000 – 12.5%; 2001 – 14.7%; 2002 – 16.8%; 2003 – 19.3%; 2004 – 21.4%; 2005 – 22.8%; 2006 – 26.3%; 2007 – 32.1%; 2008 – 32.1%; 2009 – 32.7%; 2010 – 36.6% [26]. The excessive refinancing rate of the Central Bank of the Russian Federation at 7.75% stimulates demonetization of the economy. At the same time, its optimal value should not exceed 4%. For comparison: in the United States refinancing rate is <2.50%, in China – 4.35%, in the UK – 0.75%, in India – 6%, in Australia – 1.5% [26].

Demonetization will reduce inflation, increase investment and accelerate economic growth. Moreover, it is advisable to follow the example of developed countries where the monetization ratio is a minimum of 150%. The share of government spending in GDP should be at least 65%. Government spending (% of GDP) in Russia in 2017 amounted to 17.9% [10]. In the Eurozone countries this indicator is 46.8%, in the UK – 38.5%, in the USA – 38%, and in Japan – 39.5% [9].

The post-liberal model of the country suggests a transition to a different investment model where the share of government infusion into the economy should be at least 40%. This will significantly reduce the vulnerability of the national economy, which is especially important in a crisis.

The privatization process implemented by the liberals massively reduced the share of state ownership, which in 2015 amounted to only 18%. The post-liberal model offers a fundamentally different balance of private and public property in shares of 40% to 60% [20]. For example, in China, the share of state ownership is 66%, in Germany – 48%, in Sweden – 62%, in Finland – 52%, in Italy – 51%.

Moreover, the most vital natural resources should remain in state ownership and used exclusively for socially significant purposes. The problem of efficiency of producing enterprises can be solved by changing the order of interaction between the state and producing companies: the right to extract oil, gas, etc. should be given to companies on a competitive basis with a fixed fee per unit of extracted raw materials. At the same time, raw materials should remain in state ownership, which should sell them at world prices without the use of offshore companies and intermediaries.

### *3.2. Social sphere*

With the absence of the state targeted concept, social policy priorities are reduced to minimizing the state participation in this field and ensuring the minimum necessary social assistance to the population. The modernized approach assumes existence of social concept and social development program.

Budgetary financing should be intensified, and the budget share for the maintenance and development of the humanitarian sphere should be increased by several times.

In Russia, about 12 million people live below the poverty line, despite the fact that they continue to work [2]. In total, the number of poor (those whose income is below the minimum wage) reached 18.9 million people in 2018 (12.9% of the total population) [28]. The low-income working population is one of the main reasons for the low quality of life and it makes difficulties to solve the majority of social problems.

The amount of income received has a significant impact on the consumption structure. The consumption structure of Russian households includes an extremely high share of expenditures on food and non-alcoholic beverages. In Russia, this indicator significantly exceeds a similar share of spending in countries with similar income levels and in developed countries. In 2018 in Russia, the share of spending on food and non-alcoholic beverages was 27%–30%, for example, in Poland, the Czech Republic and Latvia (in 2015) this number was 16%–19% [2]. Another characteristic feature of Russian consumption is the low share of spending on entertainment, recreation, and health care. One of the negative effects of this consumption structure is the difficulty in reproduction of human capital: a significant part of working population cannot afford to spend money on modern health care services, culture, and high quality recreation.

Income distribution between the rich and the poor remains extremely unbalanced. In Russia, the Gini coefficient, which measures the level of income inequality of the population (the higher the number, the greater the degree of income inequality, it means income concentrated in hands of the wealthiest population) is 41 (2017), which is significantly higher than in most developed countries [29].

In the EU, the average Gini coefficient for all countries is 30.9 [29]. Income inequality is not only a reason of social tension, but also a serious obstacle to economic development. High inequality reduces the demand for domestic products in domestic market.

Inequality is reinforced by the current system of income taxation. All countries that have achieved economic success, as well as the BRICS countries (except Russia) use a progressive scale. As a result, the tax burden on the wages fund in Russia is significantly higher than in developed countries. For example, in 2016 in Germany, a non-taxable income was 46000 RUB/Month, in the USA – 45000 RUB/Month, in France – 32000 RUB/Month, in China – 38000 RUB/Month. According to VTsIOM (Russian Public Opinion Research Center), in 2016 the median wage in Russia was 26.500 RUB/Month, i.e. half of the population had income above this amount, and half – below this amount [2]. If today's salaries in Russia had the French or Chinese scale, then 60% of the population would be tax exempt; and if it were in Germany or in the United States, then 70-80% of the population would not pay income tax.

We regard the introduction of progressive income taxation in Russia as necessary.

**Table 2.** Income tax scale.

Annual returns, RUB	Tax rate
below 240 K (20 K RUB/Month)	0%
above 240 K below 3 M (250 K RUB/Month)	13%
above 3 M below 12 M (1 M RUB/Month)	30%
above 12 M RUB	50%

The proposed scale will not affect the middle class. Moreover, almost half of the population will be tax exempt. Less than 2-3% of the population will feel the effect of the increase, and budget revenues will grow by 2.5-3.0 bn. RUB.

#### 4. Conclusions

Thus, the analyzed materials have showed that history does not know examples of successful socio-economic development of systems without government regulation. A. Smith's liberal theory is outdated; it is absolutely unacceptable in the modern conditions of globalization and internationalization of production. The most powerful economies were created with the active participation of the state. In the new globalized world, the state must play a fundamental role in establishing transparent, clear and equal 'rules of the game', improving the information support of market agents, and creating effective regulatory bodies.

Nowadays even the World Bank, an active supporter of liberalism, has to admit that "... development needs an effective state, playing the role of a catalyst and an assistant, stimulating and complementing the activities of private business and individuals ... The history with perseverance repeats that good government is not a luxury but a necessity. Sustainable economic and social development is impossible without an effective state ... An efficient state is vital for the provision of goods and services, as well as for creating rules and institutions that allow markets to thrive and people to lead a healthier and happier life" [14].

Russia must develop in this direction. The most important areas of modernization should be an increase in the monetization of the Russian economy, in state ownership, and in government spending.

Income inequality has grown throughout the years of reform and continues to grow. In Russia, only 20% of the population benefited from the reforms. The main problem of inequality and poverty of the population does not relate to the lack of resources, but to the mechanisms of their distribution and redistribution. In the situation when the crisis limits the further growth of state spending on social welfare, this conclusion is very important. Thus, a radical change in socio-economic policy and its reorientation to the needs of majority of the population is necessary, which is impossible without a radical restructuring of tax system. Progressive income taxation is an attribute of civilized distributional relations, a condition for overcoming poverty, and solving a demographic problem.

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