

# General Economic Incentives and Industrial Policy: Balance of Socio-Economic Interests

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**Abstract—Reindustrialization is the result of both the business environment and specialized support measures. The article considers the role of non-material factors, including institutions, in the formation of incentives for industrial growth, in comparison with specialized incentive packages. The strategy for sustainable long-term development involves relying on growth factors that ensure competitiveness and efficiency in the context of global competition and competition. A developed, diversified, innovative and active industry is an essential element of growth, which means that the conditions for the development of the thus formed sector are an important element of the strategy of industrial development in General and reindustrialization in particular. The main purpose of the work is to examine the role of the state in stable economic growth through the prism of industrial policy, as well as to consider institutions as a key element of economic balance.**

**Keywords: economy, socio-economic interests, general economic incentives, industrial policy, government regulation, institutions, economic development**

## I. INTRODUCTION

The main task of the state is to choose the optimal strategy that would take into account the unique features and characteristics of the country at a certain historical stage.

Given the variety of specific circumstances under which the program of forced growth was successfully implemented, all of them had some common features and, of course, a variety of elements of economic liberalism and state dirigism, as well as the consistent implementation of such a program in the presence of perseverance and political will .

A key prerequisite for catching up (or forced) economic growth is to increase the volume of effective investments in production and the infrastructure that serves it. This can only be achieved through an active, consistent and targeted public policy.

## II. THE ROLE OF THE STATE IN ACCELERATED ECONOMIC GROWTH

In order to achieve the maximum possible acceleration of the economy, it is necessary to make full use of all available sources of investment: private, domestic and foreign, as well as public. Comparing the potentials of these two sources, we

come to the conclusion that private investment should play a key role, most of it should be of Russian origin. It should be noted that public investment plays a supporting role, but an important one, namely, financing programs that are unattractive for private investors, but useful for further improving the investment climate in Russia, and the state should also participate in providing financial assistance to key investment projects that cannot be fully transferred to private investors.

To achieve a significant increase in private investment, there is a need to improve the ratio between the investment yield and the amount of business risk in the country and also make investment climate in Russia is competitive in line with global standards .

It should be noted that this is an important point not only for attracting foreign investment. Russian investors, unfortunately, have the opportunity to place their funds in alternative ways. They often export capital abroad, invest it in the "shadow" sector or in speculative operations, or simply acquire highly liquid goods abroad. In order to direct financial flows to real sectors of the economy, the qualitative jump in which fully meets the long-term interests of the Russian Federation, it is necessary to create more attractive conditions for investment compared to other possible options, as well as countries.

The accelerated economic growth program provides for the activation of the state investment policy. The main issue is the effective use of huge financial resources, as well as attracting qualitatively different investments in the domestic economy.

At present, there are exceptional conditions for the Russian economy. Gradual de-dollarization of assets and restriction of capital outflows. This trend leads to the emergence of significant additional financial resources in the country's economy. To improve the competitiveness and efficiency it is necessary to move to a qualitatively different investment models that will enable, not only dramatically, several times, to increase investment, but to produce "double space" between sectors to ensure end-sectors and between the sources of investment in the direction of borrowed funds. In addition, it is also necessary to sharply increase the innovative content of investments, namely, to increase the

rate of disposal of obsolete equipment several times, so that in the future domestic manufacturers will invest only in the latest equipment and R & d.

All this is due to the need to implement state measures of active economic and industrial policy, which will be aimed at the implementation of national programs, where a significant role will be given to competitive advantages, as well as potential non-raw material development of the economy.

Based on the above, industrial policy is the core of the General economic policy of the state, which, in my opinion, is a key link with the implementation of innovative, investment and structural reset of industrial production. Industrial policy should help to expand and create new markets that can bring the economy to a competitive level of production, and it should also help to ensure their leading role in the market of industrial goods and services and increase the profitability of production.

The key directions of modern industrial policy, as shown by the experience of developed countries, are the following provisions:

- It is necessary to make a transition from a sectoral industrial policy to a policy of competitive industry;
- The new industrial policy should be combined with the transition to a knowledge-based economy, where the production, distribution and use of knowledge and information are the main conditions for sustainable and accelerated economic growth;
- Industrial policy should no longer focus on individual industries and subsidies, since the effect of selective support for "winning industries" and selective assistance has become an unacceptable pleasure in conditions of limited budgets;
- Globalization processes show us that macroeconomic policy has an increasing impact on the effectiveness of industrial policy.

It seems necessary to note that for the Russian Federation, which lags far behind post-industrial countries, industrial policy should address two issues at once . On the one hand, the task of significantly modernizing the economy by solving the most acute existing problems and stimulating economic growth. On the other hand, the task of choosing a long-term strategy for the country's economic development and growth that would ensure faster development compared to developed countries.

Therefore, in industrial policy it is necessary to have a systematic and integrated approach. It should include a multilateral package of interrelated and complementary documents, namely, an agreed and approved concept of industrial policy, a program for its implementation, which includes a set of specific, applied measures for the implementation of industrial policy, as well as a set of legal acts that would ensure the implementation of state macroeconomic decisions.

The concept of industrial policy should take into account the inadequacy of economic mechanisms of enterprises. Therefore, it seems necessary to carry out a full-scale reform, ensuring that:

- Elimination of tax incentives to conceal economic activities;
- A radical change in the system of state support for enterprises, a radical reduction in its volume and a shift in the focus in areas where it will remain, from social criteria (preservation of employment, survival of enterprises) to criteria of economic efficiency;
- Purposeful joint work of state and regional management bodies with priority industries and enterprises selected as objects for limited protectionism, to carry out structural adjustment, financial recovery, and modernization of production on them.

The correct definition of the selection criteria for supported projects is crucial for the effectiveness of the proposed approach. It is obvious that the orientation in this case should be towards non-raw materials, processing, high-tech sectors of industry.

### III. INSTITUTIONS AS A KEY ELEMENT OF MODERN ECONOMIC DEVELOPMENT

In order to achieve results in industrial policy, it is necessary not only state reforms and support for industry. Thus, institutions are a key element in the development of a balanced economy. The latter can be analyzed as a set of rules for building social interaction (laws or collective meanings), which are supported by the force of custom, explicit or latent agreement .

Institutions are understood as formal and informal rules that regulate the relations of economic entities; organizational structures of information transfer, control and training; market culture, mentality, and habits of economic behavior (in the latter case, we can talk about the culture of the population as such).

Today, these factors play an equally important role in shaping the economic status of countries and regions, ahead of the "classical" factors of production . Factors of the "second nature" (agglomeration effect, human capital, institutions) are increasingly becoming decisive for decisions on the location of production, as well as migration of population and business, leveling the role of factors of the "first nature" (natural resources, geographical location) .

The current role of institutions as a key endogenous growth factor is confirmed by the decomposition of GDP into physical capital, human capital, and productivity, and the direct correlation between employee income and productivity levels between these indicators . At the same time, "social infrastructure", including the set of institutions that determine incentives for productive activity, is an important part of the reasons for the difference in productivity. The correlation between institutions of a

particular type and growth parameters is indicated and where the conclusion is made that there are significant reliable relationships between indicators of institutions (we are talking about institutions for the protection of property rights) and economic growth .

The causes of poverty and wealth of Nations are identified as political and economic institutions created by people, which can both stimulate economic achievements and lead to stagnation . Institutions that encourage the masses of the population to participate in economic activities are a guarantee of private property, enforceable laws, and a social environment that gives people the opportunity to make exchanges, sign contracts, create new business units, and choose a career. Institutions are also important for growth elements such as technological progress and education.

Institutions are thus a significant explanatory variable in the analysis of the reasons for the differentiation of levels of development of countries and regions. The analysis of this problem led to the formation of the growth theory, which considered education and technological innovations that increase the level of development through productivity growth as the key reasons for differences. However, the question of the incentives that drove innovation was later resolved by Neo-institutional theory, which States that most of the economic success in society is responsible for the incentives for productive activity and the "rules of the game" (institutions) that determine them. It was pointed out that the fundamental basis of development is economic institutions (first of all, the reliable protection of property rights and guarantees of contract performance mentioned above), in the absence of which economic agents do not have incentives to invest, the desire to introduce new technologies and the ability to enter new markets .

Thus, industrial development can be linked to the formation of an institutional environment that would contribute to the creation of an atmosphere of entrepreneurship and where it will be protected, which encourages both the involvement of large masses of population and resources in economic activity, as well as investment and innovation. In Russian conditions, we believe that we can say that this problem has not been solved in General. Over the past 10-15 years of favorable economic conditions, hundreds of thousands of the most active citizens who could form the basis of growth migrated from Russia, significant amounts of capital were withdrawn, and scientists migrated, which directly affects the situation with the innovative activity of the economy and technological independence or dependence.

Growth promotion in these conditions takes the form of specialized measures focused on industry incentives. The policy in the field of agriculture is reproduced most steadily in the economy, and the most significant and discussed in the industrial sector is the stimulation of car manufacturers.

It should be noted that the activation of measures to support the industrial sector is based on the task of anti-crisis balancing (which was also relevant in the crisis of 2008-2009). At the same time, support is needed on an ongoing

basis, but it should be a different kind of support. Its understanding should be based on the idea of the formed business environment as a strong, sustainable and comprehensive growth stimulus, and the understanding of industry policy as by definition having a time limit, limited resources (such accumulates the state and its capabilities may differ dramatically from year to year) and fragmented (limited by industry). The key thesis in this regard is the limited opportunities for industry incentives in comparison with the unlimited potential for creating incentives for entrepreneurship, which should appropriately Orient the profile of public policy.

Based on the noted role and importance of institutions, they can and should be considered as a key element in the implementation of the most profitable growth strategy. The formation of the necessary institutions is possible in various ways, but in General in Russia this strategy fits into the approach described as institutional modernization. This may be partly based on a borrowing strategy. The latter, however, is not a process of mechanical implementation of institutions, but takes place in a specific geo-cultural environment and affects groups (including industry) of interests. In addition, according To D. North, it is easy to change formal rules, legal acts, more difficult-social norms and customs, even more difficult-people's habits, cultural traditions and values . At the same time, as noted by A. N. Oleynik, the strategy of importing institutions is a win-win in the sense that it is not necessary to spend efforts on the development of informal norms, and there is a possibility to choose the most effective institutions for solving specific tasks. It is strategically important in the process of adapting borrowed institutions that these models are accepted by the population and enterprises of this country. The population, by expressing cultural stereotypes, can "neutralize" the advantages of better institutions. Thus, analyzing the options for balancing the level of culture of the population and institutions, E. Balatsky comes to the conclusion that there is both an inefficient coupling of the Institute and the cultural potential of economic entities, and the effect of cultural inertia . If the latter is the refusal of people from an effective new institution in favor of less efficient old, inefficient pairing of the Institute of culture is an inept use of the new Institute because of the low cultural level or due to inconsistencies in the mentality of the population and mentality, that is implemented by the Institute.

The key goal of borrowing institutions is to achieve a higher level of development by leveling the internal economic costs caused by imperfect institutions. This is, most often, the cost of excessive regulation, the result of which is a high price of entry into the economy, the cost of registration, regulation, licensing, and control. The reasons for the formation of such costs are that the redistribution of resources for the implementation of the bureaucracy's regulatory function has a negative amount, not zero, depriving the economy of resources, the use of which in production could give a non-linear increase in social wealth.

The introduction of the Institute has a price (social costs). Cultural growth reduces the cost of relevant institutions;

reducing the cost of implementing and maintaining them reduces transaction costs and public spending, and thus economic systems with a more cultured population generate more intensive economic growth than systems with a lower culture.

One of the forms of importing institutions can be more active involvement of multinational companies in national production systems. Transnational companies and transnational businesses in General provide a powerful incentive for institutional change, including in relation to the culture of the population. As noted in this regard, the transformation of institutions is a rather long and, in fact, evolutionary process of selecting new institutions, but the fastest and most effective way to transform them, especially outside the formal part, is to initiate new patterns of relations and behavior in the process of interaction with foreign investors.

At the same time, the influence of transnational business on culture (including economic practices) and on institutions as unwritten rules of business behavior can be assessed as very versatile. The key factor here is the role of multinational companies as a resource for maximizing the benefits of economic activity when using the channels of these companies.

In addition, foreign entrepreneurs bring new ideas, new business traditions, advanced management methods and production organization to the country. Training in new management methods, as well as technical assistance programs, play an important role. The demonstration effect, which is manifested in the indirect impact of enterprises with foreign capital on domestic producers, is also of great importance.

#### IV. CONCLUSION

Thus, there are opportunities for direct interaction with elements of the most advanced institutions, as well as the actual transformation of national institutions in a certain direction (promotion and protection of entrepreneurship).

Such a strategy should form the basis of industrial policy, which, however, in this form loses the form of narrowly focused industry incentives. On the contrary, when implementing industry-specific support measures (we are not talking about crisis periods, when such measures pursue short-term tactical objectives that overcome short-term market fluctuations), their potentially suboptimal profile should be taken into account. The reason for this is two factors. The first is that resources allocated as part of long-term industry support measures are not additional resources for the economy, although they are additional resources for this particular industry. However, their accumulation is possible only by withdrawing the relevant resources from other areas of their use (other industries). This redirection, however, does not produce a zero effect in the form of a long-term strategy: it is a negative amount, since the decision to allocate resources within such a mechanism is made not by economic entities, but by the administrative apparatus, which does not dispose of its own funds and therefore is not

inclined to assess risks in the same way as entrepreneurs. The second factor, closely related to the first, is that the long-term use of industry incentives is not optimal. This is a problem known as "state privatization". In a market with millions or thousands (if we are talking about enterprises) of consumers, we are talking about a buyer's market, where opportunities for manipulation are limited and the most innovative and rational investments pay off. On the contrary, in a distribution situation, it is the distribution flow that becomes the focus of producers' attention, and success in redirecting it is the result of working not with a wide range of consumers, but with a narrow circle of decision-makers.

Thus, in conclusion, it should be emphasized once again that the balance of a strategy focused on creating General economic incentives through an emphasis on institutions and narrowly sectoral support measures should be formed as the dominance of measures for the development of the institutional environment, which will not only make growth incentives comprehensive, sustainable and equal, but also protect against negative manifestations of the distributional approach that characterize the negative overall economic effect.

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