

## THERUSSANECONOMYGROWTHRESOURCES

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**Key words:** economic growth, intensification, domestic (home) demand, economy structure, cash flow, national projects.

The author of the article shows and proves that in order to stimulate the Growth of Economy in Russia by means of intensifying its domestic demand it is essential to perfect the Economic Structure by force of the some slight self-energizing changes in the cash flow.

Nowadays the Russian Economy faces transition to the new system of management which is going to provide increase of production effectiveness and lead to social progress. Three different sources of economic growth were formed in Russia:

- 1) export-oriented sector;
- 2) sector oriented towards internal demand;
- 3) high-technology sector.

The contribution of the first two sectors in the economic growth is comparable. The third sector is rather small but it is very important for the future of the country. Taking the above mentioned into consideration we can formulate the task of doubling GDP in medium term perspective set up in the year 2003 like this: it is necessary to increase the contribution of the sector oriented towards internal demand and in perspective the contribution of high technology sector in the economic growth aggregate pace, at the same time preserving the contribution of export-oriented sector<sup>1</sup>.

To examine the problem of economic growth stimulation by way of internal demand increase we will use Keynesian (Demand) type model which takes into account peculiarities of the Russian economic structure. It can be the famous multiplying macro-model of M. Kaletskiy<sup>2</sup> in which the level of aggregate profit depends on its distribution. Equations of this model are solved like<sup>3</sup>:

$$\Delta Y = \Delta I / (1 - C_r) \pi, \text{ where } 0 < C_r < 1 \text{ and } 0 < \pi < 1,$$

where  $\Delta Y$  - increase of aggregate profit;  $\Delta I$  - increase of investment volume;  $C_r$  - capital owners' maximum inclination for consumption;  $\pi$  - capital owner's share in aggregate profit.

$C_r$  and  $\pi$  are constant in the same economic conditions but can be different in other conditions.

Let's examine the situation when  $C_r$  changes but  $\pi$  does not change.

Kaletskiy model denies the possibility that employees can hold substantial number of shares. So it can't be used in case of developed eco-

nomic system but it can be used to study developing economic systems, in particular, Russian economic system.

In accordance with the equation, the more the share of capital owners in the aggregate profit  $\pi$ , the less the increase of the aggregate profit. Solving the problem of poverty and increasing the pace of economic growth are thus two sides of one coin. From the first sight it justifies the position of the economists who suggest using the greater part of the profit from selling natural resources to "fight with poverty". The internal demand  $C_r$  will increase,  $\pi$  will decrease and  $\Delta Y$  will increase too. But it is a hasty conclusion. There are important circumstances limiting the effectiveness of the influence of redistributing activities of the government (distribution of money to the poor through the budget) on  $\pi$ .

The most important limitation is that  $\pi$  is a structural characteristic of the economy. The decrease of  $\pi$  leading to the increase of the economic growth pace stipulates long evolution of economy, not just taking legal and administrative measures aimed at redistribution of the capital through the budget. In developed economic systems  $\pi \approx 0,33$ ; in Russia  $\pi \approx 0,47$ ; in developing economic systems  $\pi \approx 0,66$ . Forced halving of  $\pi$  (through the budget) will not make weak economic system a developed one<sup>4</sup>.

The thing is weak economic systems are not competitive enough. It is caused by small maximum effectiveness of labour and capital which in its turn cause low salaries and profit (in conditions of competitive market). All this leads to the attempts of capital owners to increase their profits by preserving low level of salaries, decreasing competition on the domestic market, lobbying the decrease of national currency rate and establishing special non-market relations with the state. The money equivalent of the above mentioned is low productivity of money that does not stimulate investments but stimulates "excess money" drain abroad.

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High  $\pi$  is the consequence of all the above mentioned peculiarities of non-competitive economy. It is impossible to decrease  $\pi$  to the value characteristic to developed economic systems without eliminating these peculiarities. In Russian conditions it means the following: counteractions to salary payment delays, increase of minimum salaries, pensions, social allowances and other budget payments decreasing the share of  $\pi$  in aggregate profit have great but not decisive importance with the state fighting with poverty. It is not possible to decrease significantly the level of poverty by such measures. In case of constant salary increase the situation can slightly improve but then you will face the so-called "Maltus effect". The more money are given to the poor, the more money is distracted from productive use, the lower is the economic growth pace, correspondingly there are more poor people and more money will be spent on social support in future. Poverty becomes self-supporting factor of social and economic development of the country.

So, to solve the problem of poverty successfully it is very important to improve the economic structure that will allow increasing maximum productivity of labour and capital defined by the level of the economic infrastructure regularly. In its turn it will make it possible to

increase the real salaries, to create new **2006** **National projects** and will gradually lead to the increase of middle class and decrease of  $\pi$  in the aggregate profit thus speeding up economic growth. At the same time the mechanism of export-oriented economic growth will be preserved but simultaneously the other mechanism of economic growth oriented towards increase of internal demand will be strengthened. Instead of redistribution of each sector contribution in economic growth there will be their arithmetic addition or even multiplication that is the synergetic effect of the Russian economic infrastructure transformation will start working.<sup>5</sup>

The question is what should be done for this in the context of the economic policy of the government aimed at tax decrease, state bodies reformation and solving the problem of poverty.

The analysis shows that to increase economic growth pace on the basis of internal demand it is necessary to have small but self-energizing change of the cash flow aimed at the improvement of the economic infrastructure. That is, for example, investments in construction of houses and roads, modernization of housing and public services, as well as small business development. These investments have a huge multiplying effect (new services, new jobs). Affordable housing and properly working public services will improve the quality of life of people with different income. Expanding route network will increase mobility of capital and services and will give additional impulse to the development of entrepreneurship, will make uninhabited areas which need subsidies in the potential of the economic growth increase.

It is also important that initial investments in these spheres can be rather low, quick transition to self-repayment and profitability is a key to success. Then the investments in the development of business can be made from companies' owned assets. All these suggestions were discussed by the State Duma and the Government of the RF in 2006 and the budget for the year 2007 was adopted with consideration of some of these suggestions. And in the same year the Russian people felt the results of the

<b>2006</b>	<b>2007</b>	<b>2008 (plan)</b>
Comfortable housing for reasonable price	33,8	30,9
Education	29,0	48,9
Health	18,8	15,1
Development of agriculture	16,7	10,0
Total growth	167	177

implementation of many innovation programmes and national projects.

Today main investments in Russia are made in spheres such as health care, education, affordable and comfortable housing, the development of the agricultural complex. These spheres define the quality of life, influence demographic situation and create start-up conditions for the development of the so-called human capital. Concentration of the budget and administrative resources on the improvement of the quality of life of the Russian people is necessary and logical development of the economic course the Russian government conducted from the year 2003 and is going to conduct in future. The dynamics of the priority national projects given in the table is a positive dynamics. But in 2008 it is planned to spend 7,2% and 17,0% less than in 2007 on the projects "Health care" and

#### **Dynamics of expenditures from the RF budget on the financing of the national projects, billions of rubles**

"Education" and 1,6 and 3,5 times more than in 2007 on the projects "Affordable and comfortable housing" and "The development of the agricultural complex". So, we can see that even among priority projects there are the ones which need financing more than the other projects. Let's use the synergetic model<sup>6</sup> which was developed by us to study the influence of the priority national projects on the main macroeconomic characteristics of the Russian economy given in the table 2.

Let's take the data of the year 2006 as initial conditions. The forecasted period will be three years, where:

$x_0$  - GDP, 2 6621.0 billion rubles/a year;  
 $x_1$  - cost (price) of labour resources,  $x_1 = x_0/x_2$  thousand rubles/a man;

$x_2$  - number of labour resources,  $x_2 = x_5 \cdot 0.24$  million men/a year;

$x_3$  - speed of replenishment of labour resources, 11million men/a year<sup>2</sup>;

$x_4$  - gross expenditures on the reproduction of labour resources, 16 771.0 billion rubles/a year;

$x_5$  - population of the country, 142.2 million men/a year;

$x_6$  - speed of reproduction of the population, 0.675 million men/a year;

$x_7$  - system (country) activeness, 90 thousand rubles/a man;

$x_8$  - prime cost of labour resources reproduction,  $x_8 = x_4/x_5$  thousand rubles/a man;

$x_9$  - gross profit,  $x_9 = x_0 - x_4$  billion rubles/a year;

$x_{10}$  - gross profit per capita,  $x_{10} = x_9/x_5$  thousand rubles/a man a year;

$x_{11}$  - average month salary, 10 736.0 rubles

$x_{12}$  - sum of investments in national projects, billion rubles /a year.

Using this method<sup>7</sup> we will get the data which characterize the dynamics of the main macroeconomic characteristics of the Russian economy during the researched period (Fig. 1 - 6).

Fig. 1 shows the dynamics of population size in Russia ( $x_5$ ), the value of labour resources ( $x_2$ ) and their cost ( $x_1$ ) for the researched period. It is obvious that the population size practically does not change. The value of labour resources increases from year to year but their cost decreases. It means that the number of migrant workers in Russia increases from year to year and the cost of their labour decreases.

Fig. 2 shows the influence of investments which were made in the economy of Russia for national projects on population size, labour resources and their cost. The changes in the curves show that labour resources increase speeds up and the decrease of their cost slows down. It is a positive tendency for the Russian economy.

Fig. 3 shows the dynamics of GDP ( $x_0$ ), gross expenditures on labour resources reproduction ( $x_4$ ) and gross profit ( $x_9$ ). The pace of GDP and gross profit increase goes up and the pace of cost curve increase slows down. It means that national projects have positive influence on the economy of Russia.

Fig. 5 shows the dynamics of the activeness of the system ( $x_7$ ), prime cost of labour resources ( $x_8$ ) and gross profit per capita ( $x_{10}$ ). All the values have positive incline and the curve of gross profit per capita increases sharply in 2007. It justifies the improvement of the quality of life of people in Russia.

Fig. 6 shows the dependence of the main macroeconomic characteristics from the activeness of the system ( $x_7$ ). When this activeness increases all macroeconomic characteristics increase except average month salary which has negative dynamics. It corresponds to the curve from Fig.1 where the cost of labour resources decreases at the account of the increase of the number of migrants in Russia.

The government of Russia should concentrate on 4 "I": institutions, infrastructure, innovations and investments. In these spheres it is necessary to solve the following problems:

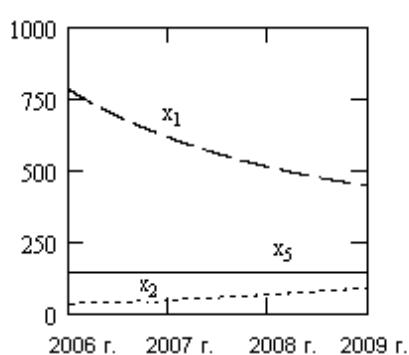


Fig. 1. Dynamics of population size in Russia

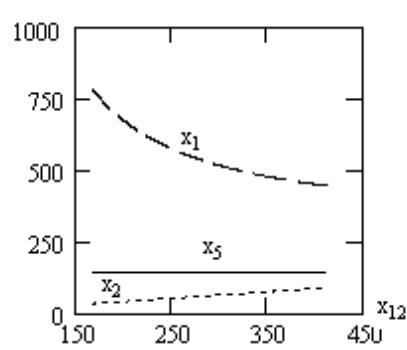


Fig. 2. Influence of national projects on population size

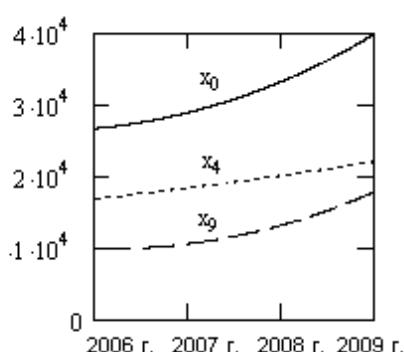


Fig. 3. Dynamics of macroeconomic characteristics of Russia

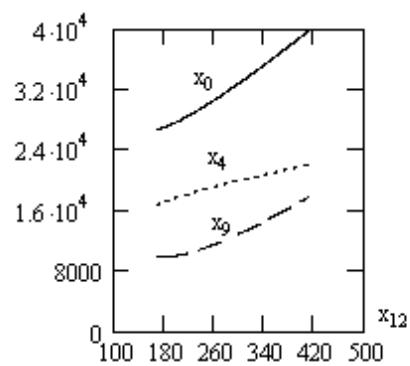


Fig. 4. Influence of national projects on the dynamics of macroeconomic characteristics of Russia

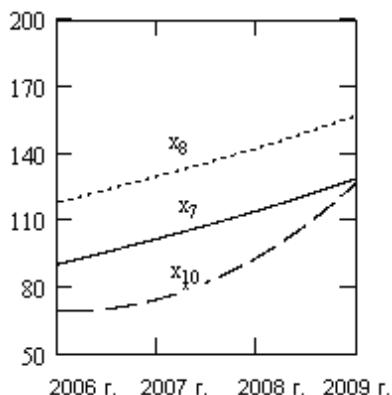


Fig. 5. Changing of macroeconomic characteristics of the Russian economy

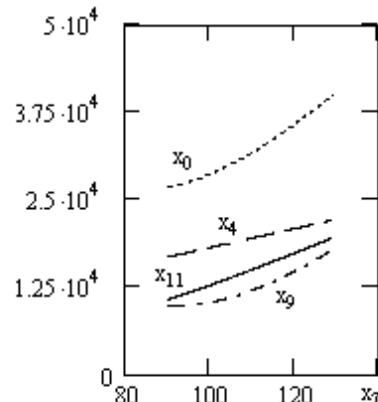


Fig. 6. Dependence of macroeconomic characteristics from the effectiveness of the system

- ◆ to overcome legal nihilism ;
- ◆ to lower administrative barriers radically;
- ◆ to relieve tax burden in order to stimulate innovation and private investments in "human capital";
- ◆ to build powerful financial system and make ruble one of the regional reserve currency; to modernize route net and energy infrastructure, to create telecommunication infrastructure of the future; to form the basis of the national innovation system;
- ◆ to implement new programme of social development policy.

This programme was presented by D.A. Medvedev, the President of Russia in his report at the Krasnoyarsk Economic Forum on the 15<sup>th</sup> of February, 2008. This programme was made the basis of the Russian development strategy.

So, the main guidelines of the new economy of Russia development are defined and the country has investments necessary for the realization of the new politics. We just have to do the most important thing — to put this into practice. The future life of each Russian citizen

depends on how it will be done and how much time it will take.

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