

Socio-economic growth, or overcoming cost contradictions impeding the development of Russia

V.N. Shcherbakov¹, E.M. Kryukova², E.E. Nakhratova², I.Y. Ilina², E.V. Potekhina², A.I. Zotova²

¹Moscow Polytechnic University, 22 P. Korchagina St., Moscow, 129626, Russia

²Russian State Social University, 4/1 V. Pika St., Moscow, 129226, Russia

Abstrac

The article explores the topic of harmonious development taking into account the factors affecting the moral and psychological aspects of a personality including its endogenous level. In this connection overcoming cost contradictions by means of changing value orientations is considered from the perspective of internal characteristics of motivational interests of a person as their ultimate goal. A new outlook on overcoming contradictions pertaining to the modern economic model suggests an idea of considering not only structurally connected technological relationships but also socio-economic relations reflecting the aspects of the psychology behind moral feelings and changes in value orientations in the society. Therefore, the design of control mechanisms in the economic system will be closely connected with the logic of the formation of conceptual foundations for social development.

Keywords: economic growth, development, effectiveness, business activity, cost.

Crecimiento socioeconómico o superación de contradicciones de costos que impiden el desarrollo de Rusia

Resumen

El artículo explora el tema del desarrollo armonioso teniendo en cuenta los factores que afectan los aspectos morales y psicológicos de una personalidad, incluido su nivel endógeno. En este sentido, la superación de las contradicciones de costos mediante el cambio de las orientaciones de valor se considera desde la perspectiva de las características internas de los intereses motivacionales de una persona como su objetivo final. Una nueva perspectiva para superar las contradicciones relacionadas con el modelo económico moderno sugiere una idea de considerar no solo las relaciones tecnológicas estructuralmente conectadas sino también las relaciones socioeconómicas que reflejan los aspectos de la psicología detrás de los sentimientos morales y los cambios en las orientaciones de valor en la sociedad. Por lo tanto, el diseño de mecanismos de control en el sistema económico estará estrechamente relacionado con la lógica de la formación de fundamentos conceptuales para el desarrollo social.

Palabras clave: crecimiento económico, desarrollo, efectividad, actividad empresarial, costo.

1 Introduction

Over the last decades, the humankind has been going through a systemic civilization crisis. The world public opinion represented by recognized authorities (leaders of world religions and secular elite, philosophers, scientists, and public figures) are coming to the conclusion that this crisis is caused by neglecting universal human values, i.e. the spiritual and, primarily, moral components of existence (this concern was raised already in 2008 in Seoul at 22nd World Congress of Philosophy). In the economic life of society, the crisis manifests itself by changes in the target function, cost priorities coming to the fore, while value and utility as main regulators of socio-economic processes are ignored.

The modern model of economic development remains predominantly cost-oriented, whereas social, spiritual, ethical, environmental and religious components are cast aside. The systemic crisis is the result of imbalance existing in material and financial spheres, within which cost plays the key role serving as a tool regulating relations at the micro- and macroeconomic levels. The changes that have aggravated social and political problems, in fact, come down to neglecting universally recognized values and lead to conditions that give rise to crisis processes in the economy (Kryukova & Makeeva, 2013;

Zaernjuk et al., 2014; Shadskaja et al., 2015; Kataeva et al., 2015).

2 Methods

Choice of the topic, aim and objective of this research were determined by the theoretical and practical significance of the problem connected with the transition to economic growth corresponding with the innovation-driven economy in the context of modern market conditions.

The subject of the research is socio-economic growth within the framework of the modern economy.

The scope of the research includes socio-economic relations connected with securing economic growth based on cost contradictions impeding further development.

The objective of this research is to identify the theoretical justification of the essence and specific features of economic growth taking into account the factors affecting moral and psychological aspects of a personality including its endogenous level. Overcoming cost contradictions by means of changing value orientations is considered from the perspective of internal characteristics of motivational interests of a person as their ultimate goal.

Methodological basis of the research includes methods of scientific abstraction, analysis and synthesis, induction and deduction, analogy and comparison, historical and logical approaches, and structured systems analysis.

The theoretical foundation of this research involves fundamental statements of economic theory, monographs, articles by Russian and foreign economists from collections of scientific papers, materials of research and practice conferences and periodical press.

The informational basis of the research that has made it possible to achieve its objectives and accomplish the set tasks is represented by laws and regulations adopted by federal, regional and local authorities applying to development of innovative industries and companies, research conducted by experts in the field of economics, and materials from periodical press and the Internet.

3 Results

The idea of overcoming contradictions consists in the premise that value should be the main factor integrating all complex aspects of relationships into a single whole. In this connection economic relations encouraging the harmonious type of development from the perspective of organic integrity and distinctness of the social structure are especially noteworthy, since core values behind the development of economic system should primarily include the social and moral aspect of self-regulation at the level of society and moral and psychological aspects at

the level of an individual (Khetagurova, 2015). The novelty of this approach lies in the unveiling of the self-regulation mechanism inherent in the society, within which the quantitative and qualitative evaluation of performance results is measured up

against the cost of resource potential accumulating economic interests of production participants determined by the economic value of the consumed and used labor and material resources.

A new outlook on overcoming contradictions pertaining to the modern economic model suggests an idea of considering not only structurally connected technological relationships but also socio-economic relations reflecting the aspects of the psychology behind moral feelings and changes in value orientations in the society. Therefore, the design of control mechanisms in the economic system will be closely connected with the logic of the formation of conceptual foundations for social development.

The paradox lies in the fact that the philosophy of the modern economy does not reveal the basis for harmonious functioning of society. Talking about the problems of the modern economic system, it should be admitted that the financial model that is currently being introduced distorts normal relationships, incorporating into them a fictitious conglomerate of regulation algorithms mainly of cost nature. The modern financial model is a system with microcapitals, certain freedom of action for microsubjects and even with a market, but this system is dominated by global financial control going much further than simple redistribution of operating results (Latham, 1976; Le Heron & Harrington, 2005; Porter, 1998).

The problem is not that modern science cannot notice the substitution of economic notions (cost, utility, value), but rather that many of its postulatory premises have transformed and require fundamental analysis. In our opinion, cost theory does explain a lot, but cost phenomenon should be interpreted with due regard to the influence of value factors. It will help one to change the idea about the pattern of formation of economic relations and its motivational basis and take into account the categories of utility and value. Another reason behind it is that the modern economic system distorts normal relationships, incorporating into them a fictitious conglomerate of values of cost nature (Shcherbakov et al., 2017a).

The reality of the existing financial model should be accepted and understood. Now cost is connected neither with good nor labor or a person. The financial component has been separated from material reproduction, so labor potential does not create cost any more, which means it does not create utility or value either, contradicting the harmony principle.

Meanwhile, orientation towards cost priorities leads to catastrophic contradictions. The “intermediary type” conducting business is now fully replacing the “producer type” and thriving on the following activities: firstly, adding high trade

margins on goods produced in third countries, secondly, getting investment from evidently non-refundable foreign loans, and, thirdly, due to the uncontrolled emission of financial instruments. Average profitability of non-financial business has ranged from 5% to 12% in the last two decades, while in the financial sphere it exceeds 36% per year, which justifies the indicated state of things.

Finances are becoming a form of control. Similarly, in the post-Keynesian period the “mentality of financism” was formed, which implied imbalance of results redistribution in favor of financial capital.

The financial model is based on credit control mechanisms, which allows pursuing “a tough monetary policy”, “open markets” and “provide conditions for foreign investments” by offering financial assistance. It has caused a number of consequences: firstly, a dramatic rise in the degree of influence exercised by foreign capital on structural changes in the national economy; secondly, loss of competitiveness by the national production industries, in particular strategic ones; thirdly, expansion of transnational capital; fourthly, hidden withdrawal of rent income through securities, interests, currency rate and the hidden disparity between import and export prices.

The key point is that international financial support involves virtual price processes of management forms disregarding the material and cost subject matter of commodity relations, let alone the aspects of utility and value. In this connection it is appropriate to recall a quote by K. Marx, “Price is a converted form of a commodity”, the essence of which is that the C-M-C formula first transformed into a trade formula M-C-M', and then turned into a purely financial formula M-M'. A commodity in its traditional sense has been left out and replaced by a financial instrument. The financial sphere has become self-sufficient: it finds the resources for its own growth in itself.

It is one of the manifestations of the modern economic paradigm. Such system has the right of first access to emission flows and primary wealth; besides, it actively redistributes the existing world wealth in its own favor by means of interest rates, trading, and other financial and speculative instruments. Production of commodities, which used to be the main source of wealth, is now replaced by conducting financial operations and creating debts, which have themselves become a subject of circulation of financial assets and a source of new profits. This suggests that a new financial mode of existence is now being formed, which develops according to specific laws and is characterized by a certain paradigm of evaluations and comparisons, its own technology, resources and form of objective reality (Shcherbakov et al., 2017b).

It should be said that the prerequisite for the formation of the basis for the new financial model was the Bretton Woods Agreement. However, the attempts to

reach an agreement “with the whole planet” result in the issuers of world currencies (the USA, the EEC, the UK and Japan) striving to impose preservation of status quo on other countries. Firstly, it is disadvantageous for all states apart from the above-mentioned issuers and means becoming their colonies. Secondly, it is clear that such a situation can be maintained only up to a certain point due to the disproportions growing inside this system.

Implementation of this policy in some countries is of particular interest. For example, externally funded financial programs in Yugoslavia led to the destruction of the industrial sector (the decline in industrial manufacture amounted to 10% compared with 1990 and caused predictable social consequences) and gradually dismantled the Yugoslavian welfare state. Debt restructuring agreements resulted in the rise of external debt and devaluation of the Yugoslavian currency. Economic equalization across regions was stopped, leading to the growth of separatism and civil war, which claimed 600,000 lives.

In 1989, financial assistance was provided to Rwanda on condition that it ceased offering support to farmers and devaluated its local currency. It provoked a downfall of the population’s income and, consequently, a civil war, which took over 1.5 mln lives.

Mexico also received financial assistance in the 1980s subject to large-scale privatization and reduction in public expenditure (notably, up to 57% of public expenditure was spent to pay off the external debt). It caused an outflow of about \$45 bln, while the level of unemployment exceeded 40%. The country was forced to sign the North American Free Trade Agreement (NAFTA) and provide huge benefits to American corporations, which led to a reduction in the income of Mexican workers. Thus, the system supporting Mexican farmers was totally destroyed, and protectionist measures were eliminated.

Various regions of the world (African countries, the Philippines, etc.) faced a similar situation. Incurring debts caused economies to cater to the needs of export only and neglect any food security measures.

The results of the implementation of financial and economic programs in Russia also led to a number of disastrous consequences, which was proved by a dramatic slowdown in production rate in virtually all sectors of the economy. It caused not only a decline in production volume but also dismantling of many branches of industrial development, leading to a rapid import invasion in respect of those manufactured goods which were traditionally a Russian specialty outperforming all industrially developed countries (Dyachenko et al., 2015).

Since during the transition period the state withdrew from its regulating and

coordinating function, the main management function moved to business; as a result, mediation in the strategic sectors of the economy was disorganized and lacked coordination. Besides, it should be noted that the rates of extraction of mineral resources in actual effective prices were growing steadily; however, it did not lead to overall growth of industrial production (Gladkaya et al., 2017). The structure of commodities exported to far-abroad countries indicates a sharp decline in export of machines, equipment, and transport vehicles, as well as metals and precious stones, while export of minerals has been rising steadily over the last 10–15 years, except for a certain decrease during the world economic crisis.

As for the structure of commodities imported into the Russian Federation, for the last 10–15 years it has preserved a leading position regarding purchasing of engineering products and especially food and industrial commodities.

It demonstrates that Russian industry has been undergoing destructive changes in the following spheres: transport, food and especially the development of chemical industry (Terentyeva et al., 2016, Gumerov et al., 2015).

The paradox lies in the fact that the accumulation of capital through the raw materials sector of the economy does not at all guarantee its accumulation in the source country. In fact, capital accumulates outside of the country and, while it technically belongs to the state, like the Russian gold and foreign-exchange reserves, it becomes an external financial regulator (Centonze, 2010; Crouch, 2001; Groen, 2012; Hong et al., 2016).

Due to different reasons, Russia has missed the critical moment for “economic modernization” in the chase after “the leaders of financism” and trying on the laurels of a “financial harbor”. However, the uniqueness of the Russian situation consists in the shift to a resource economy of parasitism supported by a course of liberal transformations (Strielkowski, & Höschle, 2015).

Many countries are interested in the foundation of the world or at least regional financial centers on their territory, since such centers encourage the significant inflow of capital into the country, improve the investment climate, increase tax returns and provide growth in employment. For this end, it is necessary to draw large financial institutions, attract issuers and investors from different countries. Currently, different world and regional financial centers are starting to compete seriously against each other. While there are 37 mln companies registered on the planet, the world economy is governed by a megacorporation comprised of 147 closely connected transnational groups, which jointly own 40% of the global assets. This conclusion was made by experts from the Swiss Federal Institute of Technology (Zurich). They conducted a research, the results of which were published in the *New Scientist* magazine. As J. Glattfelder, the author of the research, explains, the concentration of power in the

economy is neither a positive nor a negative phenomenon. Still, there is a potential threat that consists in the too strong interrelation of these corporations. In any case, as the global financial crisis of 2008 has shown, such structures are vulnerable to force majeure circumstances since they produce a chain reaction within themselves. According to Glattfelder, "If one of the companies gets caught up in a disastrous state, this process spreads further".

It can be said that: a) in the context of financial globalization results of the Russian national monetary policy are getting less predictable; b) the degree of predictability of the environment within which monetary policy is implemented is also declining; c) the national monetary policy faces restrictions in terms of both goals and instruments; d) the degree of risk arising from an ill-conceived monetary policy is increasing and can lead to a capital outflow, financial and economic crisis (Chernikova et al., 2018).

The existing financial model gives rise to new challenges to regulation of monetary policy by restricting the area controlled by national economies, which happens due to the increasing influence of the external environment and growing uncertainty. As a result, national central banks have to take into consideration a higher number of external factors affecting the national economy: dynamics of the global economy and economies of neighboring countries; the situation in the main world commodity and financial markets; decisions made by other central banks, especially those who are the key players in the world market (the Federal Reserve System (USA), European Central Bank, and the Bank of Japan).

It prompts the government to look for options of introducing an independent monetary policy on the national level by creating monetary unions within integrated groups. It can be illustrated by the Economic and Monetary Union (EMU, or the euro area) created in Europe, the Customs Union of Russia, Belarus and Kazakhstan, the East African Community, the South Asian Association for Regional Cooperation, and the Cooperation Council for the Arab States of the Gulf. In spite of the partial loss of national sovereignty, participating countries get an opportunity to take part in the management of integrated economic national entities. Apart from that, they can get easier access to a larger market and find common solutions to current problems, including those arising from the increase in the global financial processes.

The inconsistency of the modern financial model is quite obvious. Whatever actions are taken nowadays, the regulatory role played by capital is evident, and the share of economically developed countries in it is incredibly high. For example, the USA alone account for over 45% of the world GDP in terms of consumption and control about 75% of the world resources. Naturally, under

these circumstances development of a truly competitive system will inevitably involve fierce opposition from the existing system. History of the first half of the 20th century and beginning of the 21st century shows what it may lead to. In the foreseeable future, conscious destruction of economies of whole regions is inevitable when interests of capital require that. Surely, it will never be voluntarily admitted: in the economy based on such principles it will look as “capital abandoning ‘developing markets’ under the influence of ‘adverse market conditions’”, whereas market conditions are themselves a constructible parameter used for managing financial flows (Bogoviz et al., 2016).

The problem is also that financial globalism tends to create monoeconomies, which are less stable in a crisis. Therefore, the creation of monoeconomies in a globalized world with open borders is an objective process. In Russia, this trend is naturally reflected in the active extraction of raw materials.

Thus, the existing world order contains a threat to itself. Financial regulators are becoming obsolete, but it happens not because someone likes or dislikes them. The thing is that such a world order has just run its course (Bolnokin et al., 2016).

The imbalance in the economy of the financial system is a bright illustration of its irreducibility. It is important to bear in mind that the balance of payment deficit is caused by the ill-considered policy of liberal transformations. By lowering the consumption fund within the country and exporting its natural resources, in fact, Russia finances the welfare of other states.

In this connection a new framework of economic regulation is emerging, since the existing model has become outdated, and the financial regulators do not live up to moral principles of development. It is possible to avoid losses, unreasonable failures and social disruptions caused by financial globalization processes if a fundamentally new model of economic system is developed taking into account “structural potencies” of all known socio-economic types of relations, finding efficient methods of regulation characterized by goal- and cost-oriented approaches to the development of socio-economic relations.

We put special emphasis on goal-oriented approach since the goal is the main structural element in any complex system, which integrates separate elements into a single whole and provides stability in the process of its progressive development. The goal determines the general purpose of production as such regardless of its particular forms and consisting primarily in the creation of various consumer values, on the one hand, and unlocking its potential, on the other hand.

The goal function should integrate causally-functional relations in the economic system in general and identify main functional dependence of individual

systems (such as regions, economic entities, behavior patterns of customers or interests of separate companies), each of which having their own goal orientation, for example profit maximization or utility function maximized within commodity economy by customers, who are guided by their interests in the given price and distribution systems. Particular goal functions are what determines the harmonious development of relations based on the value principle. The crucial component of overcoming contradictions is establishing a close relationship between economic value and the purpose of production. This relation can be described in the following way: as the purpose of production, so is the substance of all economic relations. If the purpose of production is expressed in the form of cost, the substance of value is also determined by cost. If the goal pursued by the public economy is the achievement of the maximum social utility, the substance of economic value is expressed as a differential utility.

4 Conclusion

The suggested model represents a complex set of dynamically connected elements characterized by the following features: 1) a large number of structural elements; 2) structural hierarchy and a strong connection between components on different hierarchical levels; 3) a variety of such components and their functions; 4) presence of a single common goal, which determines the direction of development and provides relative stability of structural elements; 5) presence of a number of feedback loops preventing arbitrary breakdown into independent or weakly dependent components; 6) the possibility of introducing an evaluating function reflecting the type of interaction with the external environment; 7) the ability to resist external influence and enhance the level of organization in the course of fighting external disturbances or resistance. Only as a whole can these characteristics build up into a model of development that can prevent the destructive influence of financism.

The core principle of this system is the rate of value rather than the rate of profit. In economic terms, it means that a rate of profit is not always an indicator of utility and efficiency in the course of consumption at the same time. In this case, economic

interconnections are expressed in the creation of a harmonious basis for development. This factor is the crucial principle of overcoming contradictions in economic development.

From this point of view, the current model does not meet the main principle of harmonious economic development, which consists in consideration of both

the material and spiritual needs of the social system. This is the very reason why we place so much emphasis on the new forms of management and regulation, where the constituent foundation is represented by value.

References

- Bogoviz, A. V., Ragulina, Y. V., & Kutukova, E. S. (2016). Economic zones as a factor of increased economic competitiveness of the region. *International Journal of Economics and Financial Issues*, 6(8 Special Issue), 1–6.
- Bolnokin, V., Storozhev, V., Vasilenko, S., Kobersy, I., Shkurkin, D., & Evtushenko, V. (2016). Model for optimization elements system. *International Journal of Applied Engineering Research*, 11(4), 2879–2884.
- Centonze, A. (2010). Transitional Cluster Development: A Case Study from the New York Wine Industry. *Economic Development Quarterly*, 24 (3), 251–260. <http://dx.doi.org/10.1177/0891242410362897>.
- Chernikova, L.I., Egorova, E.N., Evstefeeva, S.A., & Shcherbakov, S.S. (2018). Influence of macro-economic conditions on sustainability of banking system. *Espacios*, 39(1), 23.
- Crouch, C. (2001). *Local production systems in Europe* (pp. 161–211). Oxford: Oxford University Press.
- Dyachenko, I.L., Khetagurova, V.Sh., Bryukhanova, G.A., Sosnov, M.N., & Bryantseva, M.V. (2015). The estimation of possibilities of product and imported raw substitution. *Biosciences Biotechnology Research Asia*, 12(2), 1603–1613.
- Gladkaya E.A., Egorova E.N., & Torsunova E.R. (2017). Using economic and mathematical methods during formation of construction cluster. *Contributions to Economics*, 9783319454610, 243–250.
- Groen, A. (2012). *New technology-based firms in the new millennium*. Bingley: Emerald.
- Gumerov, A.V., Mukhomorova, I.V., Sadykova, R.R., Fatikhova, L.E., Chikisheva, N.M., Simonova, L.M., & Alenina, E.E. (2015). The program "client voice" as a tool of business structure innovations. *Journal of Sustainable Development*, 8(3), 263–270.
- Hong, S., Oxley, L., McCann, P., & Le, T. (2016). Why firm size matters: investigating the drivers of innovation and economic performance in New Zealand using the Business Operations Survey. *Applied Economics*, 48 (55), 5379–5395. <http://dx.doi.org/10.1080/00036846.2016.1178843>.
- Kataeva, V.I., Kaurova, O.V., Koludarova, S.V., Sulyagina, J.O., Fomicheva, T.V., & Kryukova, E.M. (2015). Barriers of inequality in social institutions of Russia. *Biosciences Biotechnology Research Asia*, 12(3), 2813–2820.

- Khetagurova, V.S. (2015). Ecological education as a basis for an ecological culture of the Russian society. *Journal of Environmental Management and Tourism*, 11, 78.
- Kryukova, E.M., & Makeeva, D.R. (2013). Analysis of world and Russian best practices of strategic development of mono-towns. *World Applied Sciences Journal*, 27(13a), 167–171.
- Latham, W. (1976). *Locational behavior in manufacturing industries*. Boston: Springer US.
- Le Heron, R., & Harrington, J. (2005). *New economic spaces: new economic geographies*. Aldershot: Ashgate.
- Porter, M. (1998). *On competition*. Boston: Harvard Business School Pub.
- Shadskaja, I., Kryukova, E., Kaurova, O., Maloletko, A., & Druchevskaya, L. (2015). Current state and prospects of development of sheep and goat breeding in the Russian Federation. *Biosciences Biotechnology Research Asia*, 12(1), 507–519.
- Shcherbakov, V.N., Kireev, S.V., Litvinenko, I.L., Zelinskaya, M.V., & Fateva, S.V. (2017a). Economic clusters: Concepts and characteristic features. *International Journal of Applied Business and Economic Research*, 123–132.
- Shcherbakov, V.N., Korsakov, M.N., Shichiyakh, R.A., Kireev, V.S., & Bondarchuk, N.V. (2017b). Research project management as the main tool of innovative management. *International Journal of Applied Business and Economic Research*, 1–11.
- Strielkowski, W., & Höschle, F. (2015). Evidence for economic convergence in the EU: The analysis of past EU enlargements. *Technological and Economic Development of Economy*, 22(4), 617–630. <http://dx.doi.org/10.3846/20294913.2014.890138>.
- Terentyeva, I.V., Akhmetzyanova, G.N., Mukhomorova, I.V., Perezhogina, O.N., Pugacheva, N.B., Gainullina, R.R., Lunev, A.N., & Lezhnin, V.V. (2016). Development strategy of service sector in condition of federal states entities autonomy increasing. *International Review of Management and Marketing*, 6(2), 1–5.
- Zaernjuk, V.M., Bokareva, E.V., Chernikova, L.I., Kryukova, E.M. (2014). A study of the theoretical approaches to the banking financial intermediation and its development trends. *World Applied Sciences Journal*, 30(12), 1723–1725.

