

Economic security and economic growth in modern Russia: five key problems

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Abstract. Author examines the most important issues (challenges) that have an impact upon Russia's development prospects in the 21st century, and suggests possible ways to support population and the real economy in the presence of a deepening crisis. The author believes that it is necessary to develop a comprehensive government program and create incentives for the industry to develop. The program, on the one hand, will facilitate the transition to a more balanced structure of production, and, on the other hand, encourage companies produce innovative and competitive products. At the same time, within the framework of the fostering program, it is necessary to compose a list of criteria to be met by the companies that expects to obtain support from the government. In order to improve the labor market situation, first of all, tax incentives for the companies that create new jobs for the highly-qualified people should be created. It is necessary to reimburse the companies' cost of tuition or advanced training of employees and to take steps to support labor mobility.

Keywords: crisis, oil process, GDP growth, inflation targeting, import substitution.

Пять проблем экономической безопасности и экономического роста в современной России

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Аннотация. В статье исследуются наиболее значимые проблемы (угрозы), предопределяющие перспективы развития России в XXI веке, и предлагаются возможные направления поддержки населения и реального сектора экономики в условиях углубляющегося кризиса. Автор считает, что необходимо разработать комплексную Программу государственного стимулирования развития промышленности, которая, с одной стороны, будет содействовать переходу к более сбалансированной структуре производства, а с другой стороны, подталкивать предприятия к выпуску инновационной и конкурентоспособной продукции. Одновременно в рамках Программы стимулирования следует утвердить перечень критериев, которым должны соответствовать предприятия, рассчитывающие на получение государственной поддержки. Чтобы улучшить ситуацию на рынке труда, в первую очередь нужны налоговые стимулы для компаний, которые создают новые высокопроизводительные рабочие места; необходимы компенсация расходов на обучение или повышение квалификации работников, а также меры по поддержке мобильности рабочей силы.

Ключевые слова: кризис, цены на нефть, рост ВВП, таргетирование инфляции, импортозамещение.

Argentina was one of the largest economies of the world in the early 20th century, but it has been gradually losing its influence and now it is seen as one of the regional leaders only. Unfortunately, today there are perfect conditions in Russia for repeating the fate of Argentina during the next decade. The key issues that our country faces predetermine those conditions. The paradox lies in the fact that everyone is aware of the issues but they remain unresolved and cause, in turn, new challenges.

I would like to denote the most important issues (challenges) that affect Russia's development prospects in the 21st century and suggest possible ways to support population and the real economy in the presence of a deepening crisis.

ISSUE No. 1. The government does not resolve issues in order to ensure the economic security and economic growth.

If one examines the causes of the Russian crisis, one can see that the crisis is *manmade* one largely. The crisis did not emerge momentarily and incidentally. It has been developing for a long time, and the process was going on under the watchful eye of the pseudo-liberals wing in the Russian government.

The crisis has demonstrated clearly that, in fact, our country has turned into a "gas station" kind of a country where the prices of oil just not affect the economy; prices of oil fully shape the economy. The price of oil and the ruble to dollar exchange rate are all that matters. There is no room for real economic development, and for industrial production as well.

The period of 2014–15 has become extremely significant for the Russian economic history. Without exaggerating, one can call this period the time of bitter disappointment, the period of collapse of all hopes for a quick escape from the deepest economic crisis. Today, Russia is no longer the growing and developing country. It is struggling to keep things the way they used to be and not to fall into an abyss. Deepening recession was the pretext used to 'discard' Russia from the BRICS association. According to the Federal State Statistics Service, Russia's GDP fell by 3.7% in 2015 year, the fall in investment was 8.4% and the retail sales fell by 10%. Foreign trade surplus decreased by 23.2% to \$145.6 billion (it was \$189.7 billion in 2014). According to

the official data, inflation growth rate was 13%. However, for certain foodstuffs, the inflation growth rate was at least 30% or higher.

The year 2015 was marketed by the consumer sentiment deterioration. The living standards fell dramatically. During the year, the population has lost almost 10% of the real incomes, and the process will go on. Mortality rate increased due to fall of real spending on health care in Russia. Out of all the sectors, only agro-industrial sector was growing steadily as concerns revenues, and profitability as well. Therefore, the investments are attracted to the sector. Yet, all the other sectors, including the oil production industry, metallurgy, machine building and others see the investment reduction. The real estate market is (stagnant). The demand on the motor vehicle production market fell by 30%. The volatility of foreign currency market is huge.

The continuing drop in oil prices may postpone the recovery of the Russian economy for a year at the very least. The reserves are decreasing, and no one comes up with an idea as to how to replenish them in the future.

Analysts continue making increasingly somber forecasts for the year 2016 with respect to the Russian economy. According to the Bank of Russia, the drop of annual GDP rate in the first quarter of 2016 could reach 1.7 to 2.5%, which is higher than the rate estimated in the earlier forecast (1 to 2%).

None of these issues becomes a reason for the government to doubt the correctness of the policy implemented. What does the government do in order to pull the country out of the crisis abyss? It publishes the new unrealistic GDP growth forecasts. Is it all it is doing? Where are the signs, or at least the shadows of the signs of recovery and the civilized market formation? Where is the mechanism to be used to revive the economy in the name of what everybody should tighten the belts? Only eccentric person would invest in the production development in the presence of furious ruble devaluation?

It is unlikely that there is at least one worthy law that would create incentives for the production growth in the private sector. In fact, in forming the "what-to-do" list to deal with the economic issues in the near future sounds like a refrain of the old motif: maximally take advantage of price and tax factor in order to reduce the

budget deficit. If, generally speaking, one wants to formulate the issue in this way, it is not clear where the realm of the government responsibility lies. If the living standards, rate of economic growth, and the real estate prices as the asset as a market condition indicators are not significant for the government, it seems that it oversees the state budget funds distribution only. At the same time, while never doubting the correctness of the policy implemented, the government cuts all the costs except for the bureaucratic machine maintenance costs.

Therefore, without any doubt we can say that the clear unwillingness of the Government to solve the economic growth issues is something new in a modern economic policy, to say the least. At the same time, the government policymakers suffer from the self-sufficiency complex. At best, they agree to listen politely to their opponents' suggestions and, without going into the debate, go their own way.

Perhaps, it is time to take a break and ponder, isn't it? According to a poll conducted by the Public Opinion Foundation, for the first time during the crisis period more than a half of the respondents described the economic situation as 'bad'. Until now, the 'satisfactory' mark has prevailed. In January 2016, almost 60% of the respondents said the situation had deteriorated. For comparison: only 40% of Russians expressed such an opinion a month ago. People not only put an 'F' grade to the economic performance, but also point out on a further deterioration of the situation. It seems that an increasing number of people see themselves as victims of the crisis and the crisis countering measures taken by the government.

I wish to be wrong, but I am afraid that if the situation does not change, then after a while, we might need not yet alternative program to overcome the crisis but a national survival program following a complete degradation of the national economy.

ISSUE No. 2: Bankrupt, ridiculously deadlocking pattern of economic development leading to gradually transition of Russia into technological boondocks

Despite the presence of various development institutions and mechanisms in Russia, one key

thing is absent: the new technologies are introducing in the domestic production sector at an extremely slow rate, or are not introducing at all. All this happens in the background of decommissioning of obsolete equipment from service and even entire companies are closing down.

As the failed liberal reforms have shown, it is unwise and pointless to rely on the omnipotence of the invisible hand of the market. Let us recall the Great Depression of 1929–1934 and the experience gained by the USA, a country that revived its economy while maintaining the democratic tradition and the Roosevelt program of solid market stabilization based on administrative methods use. Let us recall also post-war Germany and Japan that used no monetarist schemes either when overcoming the crisis. On the contrary, the government-backed market construction policy was implemented.

The government must play a leading part in the process of modernization of manufacturing, especially during such a complex period when the government is demanded for "compulsion to innovations".

In order to get off the oil needle and redirect the national economy towards innovative development model, it is necessary for the government to develop a *comprehensive incentives program aimed at encouraging industrial development*. It should, on the one hand, facilitate the transition to a more balanced structure of production, and, on the other hand, induce companies to produce innovative and competitive products. At the same time, at the framework of programme it should be formed a list of criteries to be met by the companies expecting to obtain support from the government.

It is not enough to have an idea alone if we want to expand production and foster import substitution. It needs the "long" and cheap money for a period of 5 years at the rates that are below the inflation rate, but there is no such money. Why? Because the Russian Ministry of Finance and the Bank of Russia have implemented a policy for quite a long time that was not aimed at getting the necessary amount of money for the normal economic development, but, on the contrary, was aimed at cutting the monetary supply.

It seems that the people occupying high government positions do not understand the causal

relationship of the inflation process. It is kind of the theater of the absurd. Since 1992, January the governmental struggle against inflation to date has been implemented according to short thought of “*Burattino*”: “The less money, the lower the prices”. So, the struggle against inflation — it is the struggle against the money supply for the economy using all possible methods. The government does not endorse any other inflation countering measures.

As a result, loans offered to the large and medium-sized businesses have long been an extremely heavy burden for them (even before the Ukrainian crisis and the imposition of sanctions against the Russian companies). The events that have made the situation significantly more aggravated are the collapse of the ruble in December 2014 and a panic reaction to the collapse demonstrated by the Bank of Russia that raised its key interest rate to 17%. As a result, thousands of businesses across the country at once lost an opportunity to get the loan funds as the rates on loans had become prohibitive.

While the majority of the European banks finance businesses and set the rate at less than 0.5% per annum, and Japanese companies receive money at the rate of 0.01% for the period of 10 years!, Russian enterprises have to borrow at the rate of 30–40% per annum. Yet, it is impossible!

At the same time, large companies that no longer have access to loans on the international market started squeezing the medium-sized businesses and individual proprietors from the market. As a result, many of the ideas connected with the SMEs are not implemented, there is no job creation and that would be very helpful given the complex economic conditions with so high *hidden* unemployment rates. The central state bank of any “golden billion” country has the obligation to promote an economic growth as one of its objectives. For example, the European Central Bank is obliged by law “to maintain price stability” and “to maintain the common economic policy” within the EU. The US Federal Reserve System, in the framework of a third round of quantitative easing (QE3) program, has implemented the redemption of government and mortgage bonds to the amount of \$85 billion per month from the financial market participants, with a main aim to reduce the unemployment

rate. In Japan, the monetary policy is the basis of so-called “*Abenomics*” (the economic policy implemented by Prime Minister Shinzo Abe) what ensures pumping the economy with long and cheap money.

The examples above prove that the contemporary national credit-financial system should correspond to the economic development goals and, what is the most important, to be tuned for developing and expanding loan opportunities offered to the real sector.

However, the Russian Central Bank has an opportunity to ignore carelessly all calls for change of its policy in the interests of economic development. Its main activity is targeted on inflation at any cost, even at the cost of the collapse of the entire industrial sector. Neither the Constitution of the Russian Federation nor the Federal Law “On the Central Bank of the Russian Federation” set the goal of promoting economic growth for the regulator to achieve.

To remedy the situation, it is necessary ***to include into the law “On the Central Bank of the Russian Federation” the foundation of the environment for economic growth, growth of investment and employment as objectives of credit and fiscal policy and overall activity of the Central Bank.***

It should also be noted that the Central Bank of Russia does not obey the executive bodies (the President and the government), but is accountable to the State Duma where it is obliged to present a report every year. But, in fact, the State Duma is deprived of the opportunity to influence the policy of the regulator. The law concerning the Central Bank of Russia prescribes that “the State Duma should view the annual report” and “make a resolution” only. It is virtually not possible to punish or call the Bank of Russia senior executives to account. ***In the framework of execution by Central Bank of Russia of the requirements set by head of state in the annual addresses and presidential decrees,*** it is necessary to make another amendment to the law, allowing the State Duma ***directly control and influence the Bank’s policy, in order to create an environment that would foster economic growth, contribute to better investment climate and employment growth.***

If the proposed amendments will be introduced into law, then the solution of other issues

aimed at improving the credit and fiscal system in the name of further economic development will be purely technical matter. The technical solutions aimed at supporting the real sector include the **reduction of the key interest rate to a level comparable with the level of interest rates found in the EU, US and China.**

However, it is a long-term issue. It is now necessary to quickly **develop and implement a national credit and financial policy that would be in line with the Russian economy modernization and development goals based on combination of easily accessible loans and the low interest rates.**

The basis of this system creates **the multi-channel real sector company financing based on the bank loan backed by the government's guarantees with the mandatory subsidizing provided of a certain part of the interest rate.** At the same time, the company financed in this way should guarantee freezing of the output price at a certain level.

In general, given the current situation, it is necessary to support the business sector in every way. This can be done via **a fiscal stimulus policy based on the combined tax and investment incentive methods**, that is, via abandoning the haphazard "hole-patching" and implementing a policy of a strategic underpinning of budget expenditures. As far as the *investments* are concerned, it is necessary to invest in the infrastructure development projects with a large multiplier effect that make incentives for the regional SMEs development.

For example, it would be an extremely efficient solution for Russia to invest the project under the name of "Far East-Europe" that building high-speed roads and rail routes as a kind of high-tech "Silk Road" of the 21st century". It will be a project based on the public-private partnership cooperation and it can be an international project as well. It is possible to attract investment from China, Japan, Kazakhstan, and South Korea.

At the same time, the integration of the national transport system into the global flow of goods will create the prerequisites for the regional infrastructure development and will contribute to comprehensive solving of such social issues as new job creation, livelihood infrastructure development, and so on.

If we do not start implementing this project soon as possible, that flow of goods transported from Asia to Europe will bypass Russia. Belarus (our EAEC partner) has joined already the Trans-Caspian transport route that bypasses Russia (delivery of goods to Asia via the Ukrainian port of Odessa). While it is premature to speak about the full-scale operation, the foundation has been laid.

Long-term development banks should allocate investment loans within the infrastructure projects using the targeted lending principle. Targeted loans should be offered, and, that is extremely important, paid for specific projects only. The borrowers do not have ready cash. They orders complete of specific works and send the sub-contractors' invoices to long-term development banks. If the bank considers the work completed relevant to the investment project, it will pay for.

It is necessary to take special care **to attract the foreign investor.** It is evident that the foreign investments alone will not save us. However, we cannot do without them, since the foreign investment is related directly to the purchase of advanced technologies and we do not have the time to reinvent the wheel. Here rises the following paradox: any respectable investor will not invest unless we achieve political and economic stability. But, it is impossible to achieve economic stability without the capital inflow.

We can suggest the output from that predicament: **we invest the money, say, from the Russian funds in an international insurance company that insures foreign investors who invest into the Russian projects from all sorts of political risks.**

As concerns *tax policy* it will be reasonably **to offer a tax holiday to the newly opened businesses for the period of 5 years; to introduce a regressive profit tax; to consider lowering the VAT rate and to avoid increasing social taxes for the period of 5 to 7 years.**

But all this stuff. It is necessary to raise the question of tax policy changes. Not only taxes should be reduced—the entire tax system should be revised as it has turned into a serious obstacle on the way to a "fair" market.

The tax regulators' treatment of the manufacturers is particularly cruel and outrageous as it is much easier to conceal the revenue in the trade sector or the trade intermediation sector

than in the manufacturing sector. It is necessary to implement a selective tax policy within the framework of the import substitution policy while encouraging the production of the goods that are particularly necessary.

The key point is that the principle of taxation should be changed. The tax should be pegged to the property, to the items that one has obtained on a lease or one has acquired, and not to the profit. If the owner is able to pay the tax for what he/she uses, it means that the owner uses the available resources efficiently. This is the only thing that should be seen as crucial by the government. In addition, if we use such an approach, there would be less opportunity to cheat as one can conceal the revenue or profit but no one can hide the property owned.

A special plan should be created to take steps to support the Russian exporters. Today they are the only providers of currency on the domestic market. Exporting companies are also the major employers and a decrease in exports could lead to a large increase in unemployment. The most rapid decline in exports of products is observed not only in the fuel and energy sector, but also in the metallurgical, chemical industry and machine building; and, volume of export might continue to decline.

In our opinion, the following ought to be done to support the national exporters.

1. *Interest rates on loans should be lowered.*

In order to do this, we should develop a methodology of forming and determine a list of strategic enterprises that will obtain refinanced loans on favorable terms. Those measures should be addressed to individual companies—the best companies in any sectors constitute about 2–3% of the total number of companies. Therefore, we need to redirect the support activity from industry-level approach in order to help the best, most successful and significant companies.

2. *We should freeze the growth of natural monopolies' tariffs for a certain period.*

For the export' companies to operate smoothly, the growth of natural monopolies' tariffs should not exceed 1% a year during the next few years.

ISSUE No. 3. Strong center–weak periphery.

A country can only achieve sustainability if it is supported by the growth of periphery, and

not wasting all the resources to develop the periphery.

The Russian government has chosen the second option. The current Russian wealth redistribution system based on the regional transfers has proven to be inefficient. Russia occupies the third place in the world on the list of countries with the largest regional development gap. The regional development gap is huge. Some of the regions already perform at a level that is comparable to the one observed in the European countries while others, on the contrary, now perform at a level that is comparable to the one observed in the poorest African countries. In fact, being the citizens of one state, different region' residents might just as well feel as if they live in different countries.

As the experience gained by the developed countries has shown, the regional development policy is only efficient if it is not prescriptive, but **is based on incentives**. The vector of regional development should be changed; we should stop encouraging the weak regions to preserve their status quo and **build an environment that would encourage their development**. Let us recall that Siberia and the Far East were seen as the new points of economic growth in the late 19th and the early 20th century. This was primarily due to a much greater degree of economic freedom that the local farmers, traders, and manufacturers enjoyed.

The government should make certain reforms concerning the regional policy.

Firstly, we need to make solid investment in the infrastructure. This would be an asset for both the ordinary people and for the business climate as well.

Secondly, it is high time to change the tax legislation. It is necessary to change the proportion of taxes taken from the federal center, regions and municipalities. It is also important to prescribe that the operating enterprises ought to be register at the location where they really operate.

Thirdly, it is very important to facilitate the labor resources reallocation and promote labor force mobility. Today, in Russia we observe a paradoxical situation when in some regions more than a 50% of the population is unemployed, while some other regions struggle to attract labor force from abroad.

ISSUE No. 4. The social injustice has reached a critical degree and has become an obstacle to the economic development.

In a developed democratic society, the government assumes the responsibility for ensuring employment, for distributing the gains of economic growth in a fair way, for facilitating access to social protection programs, for expanding access to high-quality educational services and training programs for all categories of people who have various incomes.

Unfortunately, socio-economic policy of Russian government do not take into account for a long time, and even now, the things really important for most people, the things that make them happy. It is the availability of a decent job, equal access to education and health care, true support in the old age peoples, a transparent government, and the right to vote as concerns state governance.

Instead, the policy-makers' attention has been focused on a small list of market indicators that includes such indicators as the public property privatization rate, doubling of GDP, trade openness, accession to the WTO, the external debt reduction and inflation rate.

The economic policy was often inconsistent and absurd, was disengaged from reality, and it was implemented without any proper rationale based on scientific researches. As a result, it is logical that we can observe the situation we have found ourselves in, we can see a country where the people are poor and socially unprotected, a country that is lagging behind other countries economically and is living on the proceeds gained from the sales of energy resources.

According to the living standards ranking, Russia occupied the 61st place among 142 countries of the world in 2015 that is between Sri Lanka and Vietnam. As for the economic indicators ranking, it occupied the 75th place; it ranked 99th in the rating of corruption and public administration efficiency; it was 92nd in the rating of the countries with the best security protection; and it occupied the 89th place, as far as the civil freedoms were concerned. With a reputation like that, Russia is sure to keep pushing away, and not attracting even the allies.

According to some representatives of the Russian government, the Western rankings are

“rigged” and “wrong”. They say that aim of those rankings is to discredit the success of the “new” Russia. We are ready to agree with this point of view but the question arises — what they mean by the success and achievement that those ranking want to discredit. It is not clear at all.

We should honestly admit that no one is interested in borrowing our model of living or our model of social and economic development. For example, the European Union increased the number of its members from 12 to 28 within the period starting from 1994 and ending in 2013 while Russia that has been promoting the idea of its unique historical path has not managed to “integrate” even Belarus into the so-called Union State during all these 20 years.

It is due to the social injustice that has reached a critical degree and has become an obstacle to the economic development. In Russia, an average rich man is 22 times richer than an average poor person — for Moscow is equal to 55. Meanwhile, the income gap is growing steadily!

According to the experts, 70% of the national wealth belongs to merely 1% of the Russian population. Even according to official statistical data, more than 13% of the population lives below the poverty line.

The low quality of life in Russia manifests itself in the fact that the workers' wages are extremely low. Today, for example, the minimal monthly wage amount is 6,204 rubles in Russia. If we take it as a level wage indicator, the level of the Russian indicator is 17 times lower than in Luxembourg, 14 times lower than in France, 10 times lower than in UK, and 4 times lower than in Estonia. Particularly high poverty indicators are observed in the rural areas—around 45% of total population in rural areas. According to the sociologists, 7% of the rural population is malnourished.

The results of opinion polls indirectly confirm the reliability of the information about the disastrous state the population; 61% of the respondents say they have no savings. Therefore, 45% of the respondents say that they are not interested in knowing the currency exchange rates. According to the Federal State Statistics Service, almost 20 million people in the country are now below the poverty line. However, sociologists claim that the official statistical data do not reflect the reality, as we should multiply the figure by three.

Adam Smith spoke about the consequences of poverty in the 18th century. In particular, he has noted that the meager existence of the working poor is a natural symbol of the country that is stagnant and their fasting – that it goes quickly to the decline.

We should not underestimate the consequences of the social injustice for the country's development prospects. The impoverished population makes a negative impact upon the demand because lack of demand shrinks supply, i. e. production of goods and services. Absence of interest in producing goods leads to investors' apathy. There is a lack of money. The production sector development is shrinking too, and this affects the country's GDP. The fired employees leave the companies and the unemployed enter the labor market. Another consequence of this is the tax revenues reduction.

The social injustice means not only an uneven distribution of wealth, but also an uneven distribution of needs related to accommodation, health, education, etc. According to the data gathered by the All-Russia Center for Living Standards Studies, 40% of the people in our country consider themselves poor. In their opinion, it is not possible for them to live a long life, to maintain health, to be educated themselves and to educate their children; they do not have access to the funds that would ensure a decent standard of living.

Quality of life deterioration leads to the collapse of the social and community sector, depopulation, and this, in turn, leads to a demographic disaster, the growth of the number of unpopulated territories that might get out of control. When the latest census was organized, records fixed numerous abandoned villages and ghost-towns, and the growth in their number was recorded too. This happens because of continuing decline in the number of ethnic Russians.

Social injustice is related directly to constrained labor force migration ("brain drain"). According to official data, more than 1.2 million people left Russia and went to work abroad during the three years' period, 40% of them are the people who have a tertiary degree (researchers and university graduates). Those are the ones who could "file a request" for the political and economic system modernization.

Low wages and poverty of the vast majority of the population is an insurmountable obstacle on the way to forming the middle class, the main "consumer" of the civil rights. As a result, we can observe an unaccountable to society government, a bureaucracy class that has "privatized" their powers, a systemic corruption and civic apathy.

As the population impoverishment process continues, the above issues will become increasingly pressing until they reach a critical level, and this would be a great danger. Most people willingly put up with the difference in incomes, which is determined by the market, skills, knowledge, abilities, and personal preferences. Yet, there is always a limit. If the degree of inequality goes beyond all possible boundaries, a feeling of injustice emerges, thus increasing social tensions, and the disagreement begins to grow.

We would like to add the following for those who are interested in the relationship between politics and the economy. The Gini index that represents the income distribution of a nation's residents increased from 0.35 in 1905 to 0.39 by 1916. The Gini index was 0.26 in 1991 – today it is 0.42.

In order to stop the social and economic degradation, it is necessary, firstly, to develop a **government program aimed at countering poverty** and define the timeframes, identify the measures, and the persons in charge of the project implementation. This is a complex comprehensive program. Here we should take into account the impact on solvent demand such indicators as the tax burden growth, inflation rate, price increase, rising unemployment rate, fall in real wages, etc.

One of the ways to resolve the issue should be the progressive taxation scheme that is in place in developed countries. The tax on the windfall is 40% in the USA and 60% in Sweden and France. Unfortunately, the redistribution process does not exist in Russia as the flat tax scale (of 13%) is in place for the rich and the poor, and the government does not intend to abolish it.

There is one more point we would like to make. There should be **employment support** programs in place. The unemployment is one of the main characteristics of the economic condition. We should not underestimate the impact it makes upon the national development prospects.

In order to improve the labor market situation, first, **it is necessary to create tax incentives**

for the companies that create jobs for the high-qualified personnel, and to reimburse the companies' cost of tuition or advanced training of employees while taking steps to support labor mobility.

Another step that should be taken to support the people is creation of affordable housing market. Affordable housing construction will not only mend the social injustice, but will also create incentives for the economy to develop, create jobs, improve the tax base and contribute to developing the adjacent industries. Therefore, the apartment buildings should be constructed rapidly in large quantities and on a vast territory in order to achieve economic recovery in the period of a crisis. Construction of buildings to be used by the people who leave the old and substandard housing relieves the social tension and makes the houses where the living conditions are unsuitable disappear. In the end, comfortable housing is needed for a normal family to be built.

ISSUE No. 5: Corruption

Key issues that contemporary Russia faces are either caused by corruption or greatly aggravated by it. Although this social evil has been actively discussed over the past 10 years, not all the people are aware of the fact that corruption is one of the main reasons why our country is degrading. What are the ways to counter corruption? There are many methods available. There should be a will to do it, and, by the way, there is no such will.

For example, Lee Kuan Yew, ex-Prime Minister of Singapore (1965–90), made everyone recognize corruption as the major threat to society in an attempt to eradicate this evil. He consistently dismissed his closest associates involved in corruption from the civil service and brought them to justice. As a result, the country has managed to get out of the third world country category, join the club of the first world countries and acquire influence in global politics over a relatively short period of time. During the period of 1965–90, the country saw a 32-fold increase in the GDP per capita; it was \$36,897 in 2014. You can compare it with the Russian figures. The indicator was \$6,923 in 2014 and \$3,784 in 1990. This means the difference is only 1.8 times. As they say — eel the difference.

CONCLUSIONS

1. We should admit that the national economic development program chosen by the liberal financial and economic wing of the Government has gone bankrupt. This is a fact and not the subject of a researchers' dispute. Today's Russia is no longer a growing and developing superpower. It is merely trying to maintain the status quo and not to collapse. We drove our economy into a severe crisis. As a result, we are among the developing countries as far as the level of consumption is concerned.

2. The goal we should achieve just now is to break the trend of decline in production. We need to take all economic measures to encourage the investment into the production sector through preferential taxation of profits, preferential lending and by taking other steps, including the government funding. We need to create an environment where the people who are able to produce the products that the country needs have an opportunity to do so. After the WWII, all the major capitalist countries' governments implemented the policy of investment process regulation at the macro level, and it was never a barrier to market orientation.

3. We will revive the country and occupy a place we deserve in the world economy and politics. Yet, to do so, we should not use a scheme aimed at destructing the entire economic sectors, occupations and regions developed by the IMF experts for the so-called third world countries. If we do not make corrections in the economic development program, we might just not talk about moving towards the market, but start developing a mere survival program of the nation. We will have to take non-market measures in this case.

4. The biggest liberals' political failure is the discreditation of concepts of a market and democracy. Everyone has the right to be wrong. No one is immune from making a mistake. However, the pseudo-liberal economic and finance wing of the government should bear the responsibility before the country, and it should reintroduce the concept of a market as well. The reformers acting in 1992–93 years have discredited the market concept. The reason for this was not the reformers' mistakes (as anyone can make a mistake) but their stubbornness in defending the wrong decisions. As a result, we have discarded the totali-

tarian economy and built not a market economy but an economy backed by the mafia people and other criminals.

We have been engaged in reforms for 25 years. Nevertheless, there is to date consistent social protection program and national industrial development program in place. We used to focus on the primary industry sector development and we still focus on this. There has been no high-tech exports industry, and the sector is still non-existent. We have no class of property owners who can stabilize the society. People start perceiving the concept of a market in a negative way as they focus on the negative aspects of life (profiteering, unfair enrichment, unjustified social differentiation, etc.)

5. Today, once again the government demonstrates contempt for the people when they are doing an economic experiment where people are involved. They revive such Bolshevism charac-

teristic features as scolding of the people who are allegedly immature and who do not allow the government to carry out reforms, the old term "a bright future" is used again. The best example of such attitude is a speech pronounced at the Gaidar Forum in 2016, where without any hesitation the Russian people were named the *downshifters* ("to downshift" means "to change to a lower gear when driving"). The downshifters are the people who prefer leave well-paid jobs and top post to spend quiet evenings at home, be engaged in their hobbies, to spend their Saturdays at cottage houses or their holidays in Goa—to each his own.

I sincerely wish the government success. However, I am afraid that the stubbornness demonstrated by it when it comes to the economic policy can compromise the market concept and lead to a social upheaval. Yet, that would be a tragedy.