



Turbulence in the Russian Economy Management System

**Pulat F. Askerov¹, Andrey V. Novichkov², Victor I. Novichkov³, Svetlana S. Nosova^{4*},
Ammakadi R. Rabadanov⁵**

¹Department of Business Accounting, Finance and Audit of the FSBEI HPO, Russian State Agrarian Correspondence University RSACU, Moscow Region, Balashikha, Russian Federation, ²Department of Political Economics and International Economic Contacts, Russian State Social University, Moscow, Russian Federation, ³Department of Management, Moscow State University of Mechanical Engineering (MAMI), Moscow, Russian Federation, ⁴National Research Nuclear University MEPhI, Moscow, Russian Federation, ⁵Department of Finance and Credit, FSBEI HPO Dagestan State Technical University (DSTU), the Republic of Dagestan, Makhachkala, Russian Federation. *Email: nss_10@mail.ru

ABSTRACT

Topical events on economic and public arenas are eloquent of the beginning of a stage in manifestation of global market failures (Fiasco) which cause increasing turbulence in the system of the economic development of advanced countries. The solution of this problem becomes particularly topical at that time when the globalization process, which is accompanied by world crises, rapidly grows and there is the need to make intelligent and educated decisions in a timely manner in the face of internal and external economy management change. Russia faces internal and geopolitical challenges and threats. External and internal factors, which cause the turbulent, namely, uncertain and chaotic development of the economy, have focused. As a fragment of the systemic way out of global turbulence can be considered the following: (1) On the basis of the fundamental classical economic theory it is necessary to reconstitute the reproduction chain, where production - distribution - exchange - consumption interact; (2) it is necessary to develop and implement a strategy of resource competitive advantages; (3) we offer to consider the import substitution as a new breakthrough to the growth in different industries where new chains of the rise in the cost of national welfare are developed.

Keywords: Network Economy, Uncertainty, Network Effects, Risk Management, Financial Globalization, Risks

JEL Classifications: E26, O10

1. REVISITING THE CORE OF TURBULENCE

Turbulence (uncertainty) becomes the main parameter in the management system of any scale. It occurs as a manifestation of the relative speed of the certain processes reaction rate. In this case, the economic system can lose its stability. In this sense turbulence is a property of constituent elements of any process to acquire the relative speed.

An analysis of modern economic processes enables to come to conclusion that the cause of turbulence is in a manifestation of the relative speed of single elements of the system at the maximal speed of interaction propagation in it. Such phenomena as a gap of

the interrelated processes reaction rate such as supply and demand, production and consumption and saving and investment cause the turbulent (unstable) condition of the economic system.

The modern global economic system demonstrates global turbulence, namely, crisis phenomena. The contradictions gathered over the entire period of its existence have been revealed. The features of the contemporary global crisis are not new. They were also typical for the financial crisis of 2008, that famous Russian scientist Osipov has accurately highlighted in the following thesis: "... The current ... global crisis, that is not just one of the economic crises, and namely, the crises of the economy itself, and moreover, that is one of the crises going to the general crisis of economism, namely, the crisis is the era of the economic civilization general

crisis, the very crisis that, on one hand, is generated by the economic civilization general crisis, but on the other hand, with the help of which the economic civilization tries to overcome its general crisis” (Osipov, 2008).

Topical events on economic and public arenas are eloquent of the beginning of a stage in manifestation of global market failures (Fiasco) which cause increasing turbulence in the system of the economic development of advanced countries. Market failures are the situations when the market is unable to provide effective employment of resources (Nosova, 2014).

Often there are 4 types of ineffective situations which are indicative of market failures:

1. Insufficient competition;
2. Poor (asymmetric) information;
3. Neighborhood effects;
4. Creation of public goods.

The study of market failures in the system of socio-economic processes is a complex problem. It covers the entire sphere of the reproduction process: Production, distribution, exchange and consumption. The reproduction process model is a complicated web of taking interrelated economic actions. If there is a gap between the phases of reproduction, which Figure 1 presents in the form of blocks, then uncertainty in the development occurs from the nature of things that is the basis of turbulence.

If we want to understand turbulence, it is necessary to understand the core and importance of market failures as an essential element in market relations. For this purpose we will analyze their nascency.

The results of market failures are economic cycles, inflation, unemployment, insufficient infrastructure and other phenomena reflecting the unfavorable economic environment for the coordination of buyers’ and sellers’ actions, for example such as soaring corruption and economic crime. All these issues are the subject of research of the modern economy. The solution of this problem becomes particularly topical at that time when the

globalization process, which is accompanied by world crises, rapidly grows and there is the need to make intelligent and educated decisions in a timely manner in the face of internal and external economy management change.

2. TURBULENCE IN THE RUSSIAN ECONOMY SYSTEM

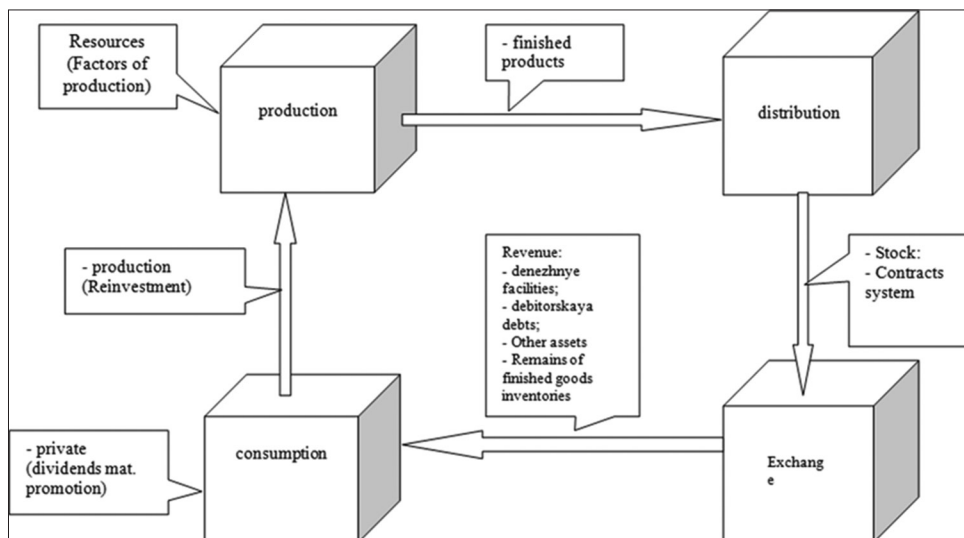
As to the Russian economy, today Russia faces internal and geopolitical challenges and threats. External and internal factors, which cause the turbulent, namely, uncertain and chaotic development of the economy, have focused. According to Medvedev, now the country is subjected to a pressure of sanctions the West. Moreover, fall in oil prices and depreciation of the ruble have become additional negative factors (Shelepov, 2014). At the same time, modern Russia conducts a campaign in Syria against the Islamic state. There is the question: Who has determined economic, political and social consequences of this event? Maybe they were determined, but were unknown to the general public.

Despite the fact that the classical political economics has clearly mentioned the role of material production in the economic development, in particular of manufacturing industries, the market sphere in Russia does its bit properly. Highly remunerative industries of the oil and gas sector, which develop 50% of the State budget. According to the estimates prepared by the Ministry of finance, there will be no major changes until through 2017. Thus, the deformed and vulnerable economic structure at the industry level, as the industries which design rival products (machine tool stations, machines, equipment) have failed. In modern Russia there is the one-sided, monocultural economy.

And there a total shock is. Russia has faced sanctions and the oil price has sharply decreased.

Sanctions are mainly political. Moreover, they contradict such value principles of the market economy as freedom of choice and enterprise, providing personal interest, restriction upon the state

Figure 1: Reproduction cycle model in the economy



participation in economic process, and so on. Sanctions cynically, unceremoniously and rudely trample on the very values on which liberal ideology draw. The reason for their occurrence is out of the principles of liberal ideology. The ideology is secondary. The main thing is to weaken the economic potential of Russia, to incite the people to rebellion by the difficult economic situation, to direct its forces to overthrow a constitutional form of government, in other words, to form destructive forces within the country, to make it uncompetitive. This is the most significant moment in the sanction policy.

Sanctions were an integral part of the World Trade Organization (WTO) global policy with Russia as its member from August 2012. Some Russian economists bearded this matter emphasizing that countries with higher competitiveness are ahead while the foreign trade liberalization. According to the estimates of the World Bank, accession to WTO membership will provide the economic advance both in the immediate and long term. This kind of attractive information in various forms has been widely disseminated before accession of Russia to WTO membership. But those who untimely spurred Russia to the WTO, either were not knowledgeable about the consequences in concrete historical conditions, or intentionally anticipated displacement of weaker Russian producers from the internal market that actually happens. Some obvious Russian market failures, particularly insufficient competitiveness, soon began to show themselves and find their confirmation. Thus, over the period from January to August of 2015 the gross domestic product (GDP) of Russia has decreased by 3.8%. In the next year experts predicted continued recession instead of the recovery growth (Medvedev has urged to give up a Business Survival Strategy).

It is supposed that in 2016 the economy will return to its growth. However, the growth rate is small that is up to 0.7%. The growth of commercial reserves remains its only source. Since 2017 the main source of the economic growth should be consumer demand. However, its growth rate will be small and the tough fiscal policy in point of social expenditures will remain.

The reason for this fact will be high inflation and restrain upon the rate of social expenditures - the public sector pay indexation pass and increased pensions only by 4% (International Monetary Fund has Damped the Outlook for the Russian Economy for 2015).

These macroeconomic indicators show the value of accession of Russia to WTO membership coupled with sanctions and fall in oil prices. It testifies to structural changes in our economy towards (a) the growth of exchange, namely, of market place and (b) decrease in production under the influence of domestic and foreign investments.

The scientists in political economics know that in reproduction of the social capital provides only the movement of trade goods and services produced by a producer to a consumer. What is going on today? Before imposing sanctions, and now Russian shopping centers, especially of the mega-level, belonging to foreign investors, sell foreign products by using foreign technology, equipment, and often foreign personnel. But we must not forget

that foreign trade organizations, particularly, network ones and of the mega-level "accumulate" Russian consumer income and with great verve use them for accumulation of own capital. In other words, by exchange of own income on foreign goods and services (especially tour ones) we put up money for the foreign economy, contributing to the growth of employment and well-being of the population. Complementary to pressure on Russian wholesaler traders and retailer distributors, foreign mega-trade networks displace domestic production. This situation does not give a chance to increase competitiveness of the Russian economy.

Thus, the internal market dependence on the overpowering import of goods and services both for food and industrial purposes has added to the raw materials deformation of domestic production. Today the Russian economy experiences systemic deformation. Hence the search for ways out of this situation must also be systemic.

3. WAYS OF THE RUSSIAN ECONOMY OUT OF TURBULENCE

As a fragment of the systemic way out of global turbulence can be considered the following.

The first, on the basis of the fundamental classical economic theory it is necessary to reconstitute the reproduction chain, where production - distribution - exchange - consumption interact. The focus should be production of producers' goods. This does not mean the decreasing role of other phases of reproduction, but production or so-called real economy plays the primary role. The dominance of monetarist methods in the economic policy has shown its ineffectiveness that is shown in smothering the Russian economy, namely, the introduction of monetarism into the economic policy that has led to a sharp fall of material production, terrifying loss of personal income, and consequently, contraction of domestic consumer demand.

In Russia there is the period of crash of the equilibrium economy, destruction of the scientific and technological potential that made the country the great power. The monetarist policy has led to devaluation of the ruble that has dealt a crushing blow to the development of all spheres of activity. Both small and large businesses in engineering, construction, transport and agriculture have almost gravitated to the bottom of the economy.

The whole monetarist policy was imposed by the West. The West has approved displacement of the Russian economy from the planned stable development in order to push it to the periphery of the global financial system. Russia has lost its contours of the development of material production. Today the Russian economy is in the catastrophe condition. Therefore, it is necessary to destroy monetarist methods of economic management from the economic development model of Russia. There is the need to get off a monetary approach to the economic development. The rate of inflation or the foreign exchange rate cannot be a strategy of the economic development. They are derived from the state of a real sector, fixed capital investment, new technology and enterprises' competitiveness.

The second concerns the matter if our country has great environmental assets, it is necessary to develop and implement a strategy of resource competitive advantages. That means the immediate transition to deep processing of oil, gas and other resources. It is necessary to evade the definition imposed on us that "Russia is a fuel station." This fact already requires invigorating all popular forces to do the situation opposite. Moreover, manufacturing operations will promote domestic producer's fall in inside prices and cost saving. As is well known, processing will create the factors promoting the growth of domestic production competitiveness.

The third is the fact that e sanctions provide a basis for the import substitution growth. We offer to consider import substitution as a new breakthrough in the growth in different industries where there are new chains of the rise in the cost of national welfare. The export diversification on the basis of the proper implementation of the WTO policy and import substitution will again revive economic strength of Russia.

The fourth is the fact that the most important thing is to reconstitute and develop "a strategic style" in the economic policy of production enterprises and firms through the forming-up of technological chains and diversified contacts. This requires taking into account processes and changes connected with them that means the gradual or phased process of transferring an organization to the new level with the use of existing ideas and concepts. New developments, namely, the process of new ideas and concepts and their application in the conditions of the organization play the important role in this process. If earlier strategic change traditionally seemed to be by the single large-scale systemic change and continuous evolutionary process, in which one strategic change causes the need for other changes. But in circumstances of turbulence in the economic development and the search of ways to overcome its consequences, instability and survival it is preferable to form in a good time a new portfolio of strategic programs, to carry out step changes in organizations' activity, to have the integrated information technology of the strategic choice providing the organization leadership in the future. The development of the integrated information technology that meets the requirements of "a strategic style" in the economic policy of production enterprises and firms requires taking into account rapid changes in the external environment, timely and accurate adjustment of goals, objectives and directions of the strategic development. Under these conditions it is especially important to have a method and a tool for the formation of "a portfolio of objectives" included into "a tree of objectives" of strategic management. Requirements to the integrated information technology concern all phases and stages of its development, namely, the formation of goals and objectives necessary for achievement of objectives, requirements to the innovation growth.

4. FORMATION OF INNOVATION GROWTH POINTS

Through the prism of innovations there is the consistent coincidence of wants of business, science, institutions and authorities. The implementation of innovations ensuring the

introduction of new technologies forms a powerful foundation for increasing effectiveness of the economy in general. Unfortunately, the domestic economy began active using of innovations much later than many developed countries did. The current situation in the economy has a negative trend. At present, Russia has not yet overcome the revolutionary catastrophe that began in the early 1990s, because of which we have rejected a planned system of economy management and immediately began to build a quasi-market system which has led to destruction of the current effective system of the research and advanced development (R and D). Large domestic corporations due to circumstances of global competition have been forced to buy their foreign competitors' outdated technologies. The result of reforms carried out in Russia was decreasing innovation capacity of the domestic economy. As previously noted, the innovation market in Russia is in the embryonic state and just now starts to develop. Based on the results of many domestic scholars' studies it is possible to point out the following reasons for the weak implementation of innovations.

The first group of reasons connected with insufficient innovation financing in enterprises. However, in recent times this situation changes. If earlier, in the structural crisis in the country almost all large and small businesses financed only their current activity and were in the survival, the current situation completely changes. In fact, insufficient financial resources at the current stage of development are the main reasons for insufficient innovation activity.

The second group of reasons connected with the fact that domestic economic entities have not enough got wise to the fact that in the globalized world in competition it is necessary constantly to make innovations.

The third group of reasons, in our opinion, is the most important, is in almost the general lack of venture capital and venture activity. According to the official data the scale of venture activity in Russia is incomparably small than the scale of many industrialized countries. However, the domestic venture market is actively formed, and now in Russia there are <100 venture funds and about 200 innovative enterprises of various focuses. According to the various data the share of innovation-active economic entities in Russia is <8% while in the USA this figure reaches 35% and in some European countries is more than 50%. Unfortunately, the share of Russia in the total world trade volume in science-intensive products (excluding a military component) is <0.3%.

Now in order to build the innovative economy of modern Russia there is the need for education, science and production complex management that is clearly indicated in constructing of innovative territorial clusters. In order to keep the leading position in technology, during the last 10 years Japan has increased science appropriations. Russia strives for innovations and research studies as well. Now many companies and institutions of Japan are interested in Russian technology, but, unfortunately, only in missile one. Just as the automobile industry has supported the post-war development of the United States and Western Europe so today new information and missile technology will help Russia to upgrade its industry. With this aim in mind it is necessary to pose

a question of the integration of authority, production, science and education, to develop a long-term strategy of innovative updates, which would be seriously funded, and to limit the continuous education system and science reforming.

The modern socio-economic, legal and political situation in Russia as one of its goals sets the development of the innovation system by solution of various issues connected with reasons stated above, the solution of which should lead to the effective development of the innovation market.

The implementation of the innovation mechanism into business practices, on one hand, provides more rational and more effective use of produced and environmental assets involved in the turnover. On the other hand, innovations provide more effective methods of the social capital reproduction.

Based on the above it can be argued that to date in the field of innovation the foundation for radical repurposing of state administration bodies, private sector and civil society to intensify eco-innovative activity by the increasing role of science and education of which the following prerequisites bear evidence has been already formed.

Firstly, the presence of a large number of imported goods (services) in the domestic market greatly changes the existing standards both of consumer and producers demand bringing them to the level of industrialized countries. Many companies are in relentless competition, where a price factor of demand or price competitiveness of domestic goods and services is not a sufficient and important prerequisite not only for the development, but also for keeping existing positions in the world market.

Secondly, observed in recent times processes of globalization and internationalization and also the forming tough foreign policy of Russia including its accession to WTO membership force the business community to intensify its efforts on the search for innovative technologies and innovative solutions which set the provision of unique competitive advantages within global competition as their goal.

Thirdly, many representatives of major domestic business (production and processing of hydrocarbon and mineral natural resources, power economy, ferrous and non-ferrous metallurgy, chemical industry, machine-building industry and so on), actively developing in relentless competition, begin to form demand for the implementation and introduction of innovative products in many scientific and experimental design organizations. It should be noted that an important factor for the effective implementation of a national innovation strategy should be the step-phased steady state innovative policy directed to the market innovation development.

In our opinion, the objective existence of these prerequisites gives ground to claim that an efficiently designed innovation state strategy aimed at active promotion of innovation will identify new competitive advantages and improve existing ones connected with the scientific and technological potential both of the state and business.

However, the revitalization and development of effective national innovative activity that meets global trends and requirements within existing complex systems of economic management demand to carry out a complex of measures aimed at the improvement of tools on the mainstreams as soon as possible:

- Formation of the economically justified and appropriate mechanism for assessment of the innovation base of the area that means the definition of the economic value of territorial resources in the process of social reproduction, what is more reproduction of an innovative type;
- Active stimulation of Russian companies to comprehensive use of innovation including stimulation of Russian corporations and large enterprises to develop their own innovation and research departments (intracompany science);
- Formation of specialized structures for the commercialization of innovative technologies including their transfer;
- Development of a system to stimulate innovation promoting the repeated increase of its effectiveness;
- Formation of innovative growth points through the creation of objects of the innovative infrastructure: Industrial parks, business incubators and so on. The objects of the innovative infrastructure should minimize the existing imbalance in the system of the interaction of such elements of innovative activity as science, business, development institutions and authorities which essentially are a cluster complex.

In the 21st century, changes in technology are the most important factor in the growth of the economy competitiveness in general. The basis for such changes was the innovation.

In the modern economy, innovations cause changes in demand and supply for resources resulting into movement of the extremely difficult economic chain reaction between all markets that create the market system. The result is increasing competitiveness of economic entities, increasing demand for goods and services, expansion of international economic relations and the foreign capital attraction both at the macro and micro levels.

As a consequence there is change in the role of an employee in the economic development. In addition to the high level of professional competence and intellectual development he must have knowledge and skill to use innovative resources effectively. A special group of experts should actively develop and use new resources corresponding to a variety of demands of economic entities and the economy in general.

It should be recognized that innovation has a direct impact on the economic development in interaction with other growth factors in the long term, for example, with such as the development of a cluster approach in the development of territories, their infrastructure provision.

The structure of the modern reproduction process is “broken” by scientific and technological innovations (STI). In the first place there is the formation of high-technology production that promotes the growth of innovativeness both of industrial organizations and the economy in general. Economists have proved

that the one-time increase of expenditures for innovation activity at the end of a time lag leads to the multiple industrial growth.

STI cause a chain reaction between industries that leads to changes in the reproduction process. In our opinion, in addition to chemical and nuclear chain reactions there are also economic chain reactions particularly between innovations and the economic growth. It should be recognized that if to consider the dynamics rather than absolute values of the figures of the innovation and economic growth, here there will be clearly noted a repetitive connection between the increased volume of expenditures for innovation and the GDP growth rate both in general and per employee.

In order to make the Russian market economy more effective it is necessary at a rapid pace to provide the growth of innovativeness of all its spheres. That is why it is useful to distinguish economically and socially advantageous innovations, often economically disadvantageous. Innovations can be very different: Industrial, consumer, technical, organizational, administrative, bureaucratic, humanitarian, political, ideological, social and so on. In this regard, it is especially important actively to develop and constantly improve the Russian market of innovations or innovative resources.

5. CONCLUSIONS

Nowadays in Russia, along with the traditional markets of resources such as the land, labor and capital the innovation

market starts to take priority in the system of economic relations. In general, this will promote the innovative upgrade of industrial production due to more active development of high technologies and their implementation into economic activity and increasing quality of the innovation infrastructure. Thus, to date, for the Russian economy innovations should take a mission of “a core” in the way out of the current system of global turbulence.

REFERENCES

- International Monetary Fund has damped the Outlook for the Russian Economy for 2015. Available from: <https://www.news.mail.ru/politics/>.
- Medvedev has urged to give up a Business Survival Strategy. Available from: <https://www.news.mail.ru/politics/23502357/>. [Last accessed on 2015 Nov 11].
- Ministry for Economic Development has forecasted the Wages of Russians in 2018 Lower the Rate in 2015. Available from: <http://www.rbc.ru/economics>. [Last accessed on 2015 Oct 08].
- Nosova, S.S. (2014), Modern Economy of Russia: Market Failures (Failure) and a Strategy of Innovations. Monograph. Moscow: KnoRus. p302.
- Osipov, Y.M. (2008), Global crisis within sight of business philosophy. Business Philosophy, 6, 11-19.
- Shelepov, V.G. (2014), Financial Credit and Tax Policy in the System of Providing the Economic Growth: Monograph. Rostov-on-Don: Publishing House Promotion-XXI Century. p368.