

Make ends meet

Our national economy has a few substantial peculiarities that make it quite different from others. We often described them in our journal with the help of authors representing various scientific schools and approaches.

The socio-economic life is an extremely complex multi-dimensional process consisting of interdependent chains of events and cause-and-effect relations. Discerning a picture close to reality out of this mix and more importantly forming on its basis practical recommendations takes groups of researchers united by common approach, traditions and skills of joint creative work.

This is exactly the reason why in several issues starting with this one, we shall give the floor of this journal to our esteemed colleagues from the Institute of National Economic Forecasts of RAS (Moscow) who will present their vision of various problems of the Russian economy and ways of resolving them. Traditions of this unique research collective were laid down by works and efforts of outstanding Soviet and Russian economists – academicians A.I. Anchishkin, Yu.V. Yaremenko, V.V. Ivanter. The current head of the institute is academician of RAS Boris Nikolayevich Porfiriev. In terms of approach, methods of analysis and practical proposals this institute is similar to one of the co-founders of ‘ECO’ – the Institute of Economics and Industrial Engineering (IEIE of SB RAS). And yet, the two have marked differences and peculiarities. Whereas the INEF puts emphasis on the national economy (macroeconomic) level of analysis and forecast, the focus of the IEIE is on a spatial view with account for industrial markets, social phenomena and processes.

Today’s topical selection (shared also with our colleagues from other research and education institutions of the country) opens with a paper of A.A. Shirov and V.V. Potapenko (INEF of RAS).

The problem of demand for goods and services produced in our country is one of the key ones in search for solutions that might put the national economy on the path of sustainable incremental growth. This is valid both for industrial goods (during discussions of investment projects the author of these words often hears that the main problem is not production but sustainable paying demand), various products and a wide range of services meeting consumer

needs (papers by A.A. Shirov and V.V. Potapenko as well as G.V. Belekhova).

Regretfully, the authors of today's selection have to admit that in the time of economic crisis and stagnation very little attention was paid to supporting or increasing the demand of households for consumer goods and services. The reaction of population was inevitable – over the recent years, a new consumer strategy formed, which is 'rational, frugal, sparing', one that gives no chance of households to participate in new sources or drivers for developing the national economy (papers by G.V. Belekhova).

One of the reasons for this choice is that an economic policy implemented over a long period destined the national households to remain passive participants of processes set and determined on the top. This precludes people from seeing perspectives of own lives and correspondingly 'formats' preferences in savings (accumulation and further investing) and consumption.

The inexorable economic result of passive participation of population in economic processes was stagnation of consumer demand and deteriorated quality of consumption. The most significant feature of the established structure of consumer demand over a long period of time is 'a very high share of food expenditures', which does not go down even if incomes grow (the paper of A.A. Shirov and V.V. Potapenko). As our colleagues from the INEF of RAS demonstrated, this paradox stems from a deformed structure of relative prices and a high degree of income differentiation of citizens.

The archaic consumption structure along with already existing nonproductive assets (the quality of which leaves much to be desired) still allows people to receive economic rent. At the same time, high taxes on turnover and specific internal pricing of energy resources (affecting prices of all consumer goods and services including utilities) lead to a sharp decline in disposable incomes of households.

The net effect is that the 'guaranteed stabilizing level' of return for global players and companies participating in capital outflows (such as record dividends paid out even in these difficult times) feeds off the internal market and the population as the principal paying customer of the resource-extraction companies. At the same time, in leading countries a highly efficient energy sector is one of the most important sources that supplies and maintains the financial and economic potential of households. There is no need to remind that

in the US or Canada a gallon of gas of a kilowatt hour of electricity is several times cheaper than in Russia.

Unfortunately, right from the start, the system of energy prices was formed on the basis of external prices. The surplus that crops up with favorable external economic conditions goes (via transfers and measures of targeted support) to stimulate consumer demand and sustain the low-income bracket. However, such a system is exclusively paternalistic and does not let people increase their consumer spending or accumulate resources for subsequent investing in economy. That approach targets total conservation of the established “deformed structure of relative prices”. As net effect, we go around in circles, both the country’s economy and its households over almost twenty years of our latest history.

Only if we break out of the ‘circle’ we can (and should) talk about progress and effects of particular measures and proposals. Namely, (the paper of B.V. Korneichuck) ‘about gradual transition towards statistical method of building a consumer basket based on monitoring household spending...’ and, thus, reforming it with consideration of post-industrial trends of development. In conditions of paternalistic system of occasional corrections of deformed relative prices and related ‘paradoxes’ of the consumption system this is hardly possible (in the author’s opinion).

The same considerations refer to proposed measures of improving mutual reliability of food security systems of Eurasian Economic Union countries (the paper by D.A. Polzikov). The barrier here again is relative prices – “tax maneuver” in the Russian oil industry not only inside the country but also within the EEU. In light of this, not only prices of domestic oil and oil products started surpassing prices of external market. This set off a chain reaction that led to food price growth in mutual trade of participant countries. Thus, in the ‘hottest’ days of April, 2020 Russia refused to bring in cheaper oil products due to staying true to the ‘fiscal rule’ and related mechanism of reverse excise. The country’s leaders confirmed its predilection for simpler and deceptively transparent (along with doubtful efficiency) procedures of regulating the domestic economy. No one bothers that such decisions strengthened the deformed structure of relative prices and its predetermined outcome of low growth of consumer expenses.

Apart from solving the two described problems – misbalanced price structure and low income of most people – starting the ‘motor’

of internal consumer demand seems extremely difficult. We are facing an extremely complex task of not only helping the households to make ends meet but building a system that could match fiscal policy priorities with targets of sustainable socio-economic development of our country.

Editor in chief of ECO

A handwritten signature in black ink, appearing to read 'Kryukov', with a long horizontal stroke extending to the right.

KRYUKOV V.A.