

# ECONOMIC THEORY

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## **THE ECONOMY OF RUSSIA AND THE INDIVIDUAL IN THE CONDITIONS OF MARKET REFORMS**

*ABSTRACT. Man and the economy are inseparable concepts. Ultimately, there is real life production and reproduction in a first sense (producing the means of subsistence and the instruments of labour) and in a second : man himself. Production of the first and second kinds is interrelated and influence the development of each other. These conceptual principles have been developing markedly in modern Russia. Socio-economic transformation of society has affected the country's economy and population. The economy has passed through massive deindustrialization, quality loss and total simplification of the production structure. The real economy has become strictly oriented towards raw materials, and highly dependent on global economy factors.*

*As for population reproduction, the demographic situation has worsened, there is the process of depopulation when the amount of deaths exceeds the amount of births. The age and sex structure of the population has also been changing. The process of aging takes place and the gap between the number of men and women is increasing.*

*The current system of employment is imbalanced according to its professional structure, workplaces and labour supply. There is a lack of demand for highly-qualified competencies and a low material and moral assessment of skilled labour (with the only exception of the extractive industries and the financial sphere).*

*Thus, there is an urgent need to improve the system of ownership and distribution relations in compliance with building a socially-oriented market economy.*

*KEY WORDS. People, economy, reproduction, education, employment, wages.*

Man and the economy are inseparable concepts. The economy is a derivative of human society. There is no economy without man and society. Its development is the result of the community's evolution. What is the economy? Originally, according to Xenophon and Aristotle, economy was defined as the art of housekeeping (from the Greek «oikos» — house, household, «nomos» — the rule of law). In accordance with current economic and sociological thought, economy is:

The society's economic basis in the form of the historically determined combination of production relations, corresponding to the particular stage of development of a society's productive forces; the national economy of a country, or a group of countries in the world (for example, the Russian economy, the world economy); economics is a scientific discipline, including a system of economic sciences, namely, fundamental and applied [1; 663-664], [2; 35], [3; 438-439], [4; 417].

At the same time, there is a different view on interpreting the concept of «Economy». In particular, the authors of the Modern Economic Dictionary B.A. Raysberg, L.S. Lozovsky and E.B. Starodubtseva define the term «economy» as «housekeeping; the collection of means, facilities and processes used by people to provide a living, satisfy needs by creating the necessary human benefits, conditions and means of existence through the application of labour» [5; 393]. This is a more limited interpretation of the economy, as it doesn't imply the economic basis, economic relations between people in the process of production, distribution, exchange and consumption.

In our research, we tend to understand the economy as a multi-level practice of management with an appropriate network of industrial relations, since there is no economic system without any economic relations. As a scientific discipline, «Economics» is recognized by all authors.

The economy exists only within a society, and develops together with it. At the base of the economy there is the production of material and non-material goods and services. In the production process man, firstly, interacts with nature and acts as a factor (the object) of production and, secondly, cooperates with other participants of production, and operates as the subject of production. It follows that, on the one hand, man is interconnected with the economy as an element of productive forces, on the other hand, as a subject of economic relations. Hence, there is a mutual influence of man on the economy and the economy on the individual.

Ultimately, it is the production and reproduction of immediate life which can be of two kinds: firstly, the means of subsistence and the instruments of labour, secondly, man himself [6; 25-26]. In the process of the first kind of production, man is used and consumed to create material and spiritual values. In the second kind of production process, material and spiritual goods are consumed by people to restore and develop their abilities and continue their family, i.e., the reproduction of man himself. The existence of man, of living human individuals, is the first prerequisite for all human history, and production of the first kind begins with population growth. [7;726].

Hence population is the basis and the subject of the whole social production process. Population size and composition, undoubtedly, affect production development. On the contrary, social, socio-economic, natural-geographical conditions make an impact on changing population abundance and distribution.

These conceptual principles have been at work in modern Russia. During the years of liberal market reforms there have been significant changes in its economy and population.

In production of the first kind, according to V.V. Putin, the country «has experienced large-scale de-industrialization, loss of quality and total simplification of the production

structure» [8]. There has been a degradation of the national economy's technical level and a loss in its integrity. The real economy has received a more rigid raw-material orientation, with serious structural discrepancies. The domestic economy has become seriously dependent on world economic factors: Russia was one of the most vulnerable countries to the global crisis, with extremely high exposure to imported technologies, sophisticated production and consumer goods.

In this regard it has become necessary to raise the issue of accelerating the economy's modernization and transferring it to an innovative way of development. And here it is important to keep up with the rapidly developing technological processes, considering that the downward wave of the fifth large Kondratieff cycle will be followed by an upward wave of market conditions in the sixth Grand cycle, which implies the introduction of new nanotechnologies [9; 47-54]. These are the key to changes in the production of the first kind as a result of radical market reforms.

As for production of the second kind, within the process of market reforms, changing the social-economic and political conditions of the country's development, decreasing the population's standard of living have modified the relations and the processes taking place among people and, ultimately, on their reproduction, namely, on deterioration of the demographic situation. The reproductive behavior of the population is becoming more sensitive to external effects.

As a result, since 1992, mortality in Russia has exceeded the birth rate, there has been a process of depopulation, i.e. a natural loss of population. Fertility rates do not provide the common level of population reproduction of 35-40%, i.e. the replacement of retiring people by a new generation. Thus, a limited type of population reproduction is being formed [10; 140-144]. As a consequence, Russia takes one of the last places in the world in terms of its fertility rate (174), and one of the first according to its level of mortality (16th place). In addition, it is noted that there is a high level of mortality among the working-age population and, first of all, among men.

Analyzing the causes of death among the child and adult population in Russia shows that there is a vast potential for reducing mortality through the application of modern medicine technologies on the basis of the priority national program in the field of healthcare. As a result of government measures to stimulate the birth rate and decrease the mortality of the population from the middle of the first decade of the twenty-first century, there is a tendency towards increasing the birth rate and declining mortality [11]. However, there is still a decrease in population as a result of natural loss.

Due to the current demographic situation, there are changes in the age-sex structure of the population. A high mortality rate among the working-age population with a low birth rate leads to ageing of the population, reducing the share of the younger generation, increasing the demographic load of older people in the working-age population group and decreasing forecasted life expectancy. The average life expectancy is defined as the number of years which on average newborns might live, considering current mortality rates by age. In pre-revolutionary Russia, it was 32 years. In Soviet times, the highest life expectancy level was reached in 1986-1987: 70.1 years for both sexes, including 64.9 for men and 74.6 years for women. It was

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almost at the level of developed countries. During the market reforms with a sharp fall in living standards and increased mortality, average life expectancy in Russia has been far behind the developed countries, though in the last three years there has been some growth. According to the national statistics in 2012, it exceeded 70 for both sexes. (Compared to Germany, where life expectancy in 2009 was 79 years, 77 years for men and 82 years for women). [12]

The high premature death rate among men led to an increasing gap in the ratio of men to women in the period after 1989, and between the censuses of 2002 and 2010. As a result, nowadays in Russia there are more women than men by 10.5 million people.

The above factors affect the growth of the population average age and its aging. Compared to 1989, the average age of the Russian population in 2010 increased by 4.2 years, namely from 34.7 to 38.8 years, including men from 31.9 to 36.1 years, and for women from 37.2 to 41.1 years (the world average age of men is 27.7 years, women 29) [13]. This situation in Russia is also connected with the change in the population age structure. Decline in the birth rate and growth of death rate resulted in decreasing the proportion of the population below the working age, and changing the age indicator of the demographic load.

The market economy, to a certain extent, provides more opportunities for people by setting conditions of life where people themselves have to reveal their creative abilities for the sake of self-improvement and well-being. But at the same time, according to its nature, the market system doesn't need knowledge: its main goal is profit.

However, the development of scientific/technical progress, including changes in the means of labour and exploring new technologies, requires new knowledge/skills from workers as the main element of productive force. It leads to increasing the role of human potential and its quality. But the present system of labour force reproduction in Russia does not contribute to advancing the economy, but rather, hinders its growth.

The Russian population employment sphere, which formed over the years of reforms, is characterized by the imbalance of professional structure and labour supply. There is a high demand for manual workers, whereas there is a supply of white collar workers. Regular labour force shortage is caused by the liquidation of its training system in the past years. There is a similar situation concerning the demand and supply of engineering-technical personnel.

The economic transition to a new technological base requires changing the professional structure of personnel training and increases the significance of both vocational and general education [14; 4-5]. According to the Russian population census of 2010, there were more people, with higher, incomplete higher and secondary education, and less people with only primary education, compared to 2002. At the same time, 36.5% of the population do not have any professional training. This group includes people of different ages. In addition, young people up to 25 years old account for more than 27% of the country's unemployed.

Deregulation of the labour market is aggravated by the imperfect payment system, which does not take into account the quality of the labour force.

Generally, there is an absence of demand for highly qualified competencies and low material and moral estimation of the society's innovative potential and highly qualified labour, with the exception of the mineral-raw-material, fuel and energy industries, as well as the financial sector.

These changes were followed by a double growth of inequality in the distribution of employees according to their wages [15; 31]: in 1990, the ratio of funds was 7,8 [16; 111] and in 2010 14,4 [17; 128]. The Gini coefficient (the concentration index of total wages) has grown considerably from 0,317 [16; 111] to 0,413 [17; 128]. It should be considered that salaried employees amount to 94% of the Russian employment structure, i.e. the main part of the employed.

The economic reform should have been started with the reform of wages, as it was in Germany in the mid-twentieth century and after the war in Japan. In Russia this has not been done, and within all years of reform there has been a violation of the economic proportions between the price for goods-labour force and the price for other resources which has been unfavourable to labour payment. That is, during all years of reform, the average wage has been below the original pre-reform level, although the prices for services, food products and durable goods in the country have been set at the global level.

The general framework for labour remuneration, social benefits and allowances in Russia is the minimum statutory monthly pay. The minimum wage is the limit below which work must not be remunerated. The minimum wage should provide for the cost of physically necessary means for the labour force's reproduction (the worker and his family). Its basis is the subsistence minimum, which is recognized both by the International Labour Organization and Russian Federation legislative acts.

However, the amount of the subsistence minimum in Russia is still far from achieving this goal. It does not provide normal life of a human nor, moreover, the minimum wage. In all years of liberal reforms, the minimum wage lags behind the subsistence minimum. In particular, in 1992 by 2.7:1, in 2003 3.6:1, in 2004 4.3:1, in 2005 3.9:1, and in 2012 1.4:1. It is necessary to talk about the minimum wage proportion in the subsistence minimum: in 2012, it amounted to 73,1%, exceeding all previous figures, however, still lagging behind the level of the subsistence minimum.

According to Rosstat (Russian Federal State Statistics Service), the number of people with incomes below the subsistence minimum in Russia in the first quarter of 2012 was 19.1 million, or 13.5% of the total population. As for salaried employees, according to the All-Russian Research Center for Living Standards, groups of employees whose real wages are below the socially acceptable consumer budget for the working population, account for 58,9% of their total number [18; 18]. In addition, 31.2% of employees receive wages and salaries below the average level (above three, but lower than seven minimum subsistence budgets). Thus, the share of employees with low wages is currently 90.1% of the total number [18; 18].

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In other words, the existing socio-economic conditions do not provide the majority of employees with the possibility to ensure normal conditions of life through their own labour: the main condition of the effective development of social reproduction, including labour force reproduction.

In this connection it is appropriate to recall the statement of Leo Tolstoy, who in his message to «the King and his Assistants» wrote: «In a society of people interconnected with each other, it is not possible that some of them do well and others have a hard time. In particular, this can't be so if the majority feel poorly.

All men might be happy only if the strongest, most hard-working majority of people, who are the core of society, feel good» [19; 540]. There is nothing to add to this, it should be considered as a guideline.

The human development index (HDI) is the integrated indicator which shows the relationship between man and the economy. It has been used by the United Nations since 1990. It is determined on the basis of life expectancy, educational level and real gross domestic product per capita. The first HDI was calculated by the United Nations in 1990. According to the data for 1988, the USSR was in 26<sup>th</sup> place, considering its level, the USA in 19<sup>th</sup>. According to the HDI in 2011, calculated from the results of 2009, Russia was in 66<sup>th</sup> place, and the USA in 4<sup>th</sup>. In the first case, there was a gap of 7 countries, and now 62 countries [20].

Such a drastic change of place in the level of HDI is caused by the low life expectancy indicator and the average income per capita in modern Russia, as a consequence of the liberal reforms.

Thus, analysis has revealed the relationship between production of the first and second kinds and their deterioration in Russia in the course of liberal market reforms. There is a pressing need for socio-economic changes in the society.

It is necessary to improve the system of property relations, the system of distribution relations, relevant for building a socially-oriented market economy. Currently we have an economy placed upside down for the twenty-first century: at most 10% of the population benefit from it and 90% have their interests infringed on. As a result, behind the favourable figures of average income growth, there is a real process of further stratification: the rich get richer, and the poor poorer (a phenomenon characteristic of Europe of the 19<sup>th</sup> and early 20<sup>th</sup> centuries).

In these conditions, the quantitative and qualitative reproduction of the labour force is reduced. The solution is to increase people's standards of living on the basis of labour remuneration. This is associated with the expansion of domestic demand and the development of social production, its accelerated modernization and transfer to the latest technological basis to join the number of the advanced countries according to their production of the first and second kinds.

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