

## FORMATION OF THE SOCIALLY-ORIENTED MODEL OF ECONOMIC GROWTH

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**Abstract.** The article presents the essential characterization of economic growth, considering modern socioeconomic tendencies.

The opportunity for economic growth was justified on the basis of its three elements: quantitative, qualitative and reproductive. Strategic initiatives were formulated within the socially-oriented model of economic growth. Major “failures” in the social environment, which were the result of the current socioeconomic system, were determined. As means for providing a social order in the country, the authors defined the social partnership of power and business. This article formulates strategic initiatives within the framework of socially oriented model of the economic growth.

**JEL classification:** I30

**Keywords:** economic growth, social partnership of the power and business, the social order, socially oriented model of economic growth.

**Reikšminiai žodžiai:** ekonomikos augimas, socialinės jėgos ir verslo partnerystė, socialinė tvarka, socialiai orientuotas ekonomikos augimo modelis.

### 1. Introduction

“The state confers greater benefit upon its citizens when as a whole it is successful than when it prospers as regards the individual but fails as a community.”

These words of the ancient Greek historian Thucydides (400 BC) demonstrate clearly the relevance of today's problems of the economic growth of Russia. On the one hand, in today's global economic crisis, economic models are checked for their "strength" and the validity, on the other hand there is a need to develop new approaches, which reflect contemporary economic trends.

## **2. Intrinsic characteristic of economic growth**

In our opinion, the solution of a problem of economic growth in terms of achieving strategic goals is probably based on the mandatory accounting of its three components. There is a quantitative component, a qualitative component and a reproductive component.

Traditionally, in the scientific and practical fields are allocated quantitative and qualitative aspects of the economic growth by linking it with the dynamics of various factors and using a variety of indicators to assess the changes taking place. Most often, the economic growth reflects a complex indicator of the dynamics of change in the GDP and/or NA in the time interval.

With the growth of GDP (Gross Domestic Product) and in achieving high production, growth rates are relatively low. The naturalness of the slowdown has its foundation in the qualitative changes that occur as a result of the quantitative dynamics. Economic growth is reflected in the qualitative improvement of the GDP and the evaluation is performed for items such as GDP/capita in the NP, the structure of the economy, the level and quality of life.

The research showed the need for the third component of the essence of the economic growth—reproduction. Such a conclusion is justified by the authors with the following arguments: the reproductive component reflects the conditions of the sustainability of economic growth. The concept of sustainable economic growth, in practice, appears to regulate the rate of growth, meaning not only the meeting of the needs of the present time, but long-term nature of the problem. As a result, the question of economic growth is put forward in the main line in solving the problems of intensification of the reproduction process and predetermines the solution of social problems of the society

The problem of economic growth is important not only for the country as a whole. It has territorial and sectorial aspects. But in any case, by consideration of any aspect of it, if the level of economic growth does not change in a big way, society remains within restoration and even narrowed reproduction.

The reproductive component of economic growth is ensured by balancing all the factors and conditions which are most effectively and consistently manifested in their manufacturing capabilities. As the study of this issue shows, a balance of economic growth is expressed by correspondences: volume and structure of production, its resource ensuring to the structure and the volume of final consumption, proportion of technology-related industries, the structure and scope of economic systems, economic

and natural possibilities of their territories, composition, shapes and dimensions of the production level of the productive forces of society, the political component of government to the problems of the economy focused on the generation sources of economic growth.

The undoubted fact is that economic growth is possible with a dynamic line of structural elements of production. The balance of their structure, as experience shows, requires a certain managerial influence as well, which, depending on the level and scope of manifestations of the problem can be indirect—through market mechanisms or through direct government control and regulation. The need for state intervention in the process of economic growth stems from its reproductive component. By the conditions of a multi-structure economy, the state should provide dynamic growth based on growth of the organic composition of capital. In addition, the effect of the objective law of uneven development leads to the uneven growth and development of industries that may be of a traditional, opportunistic, innovative character. The complexity, dynamism and multi-dimensionality of factors determine the need for management of state intervention through the planning and monitoring of various levels of government. The provision of the sustainable economic growth should be a priority direction of state policy, realized on the basis of overcoming economic disparities, ensuring efficient production in the complex and dynamic market environment and the prevention of the possibility of social conflict.

The reproductive component of economic growth reflects a special type of economic dynamics, which satisfies the needs of the present time, creates the conditions for the future development and this is provided by a system of state regulation.

The allocation in the on-going investigation by the authors of the three components of the essential characteristics of economic growth allows revealing this concept as a process of the socio-economic development of the social production, which manifests itself in the unity of quantitative and qualitative changes in the reproduction of the social product. The criteria of sustainable economic growth may make the immutability of the political and socio-economic development trends, growth and living standards, and the balanced socio-economic system, in particular, the proportions between the economic and social environment.

### **3. Main “failures” in the social sphere of Russia**

The state, represented by government, society and business, form the socio-economic system of the country. The role of each participant of the system must be clearly focused on the improvement of living standards, creating conditions for self-realization of every citizen, the reduction of social inequality, the preservation of independence and cultural values, the statement of the economic role of Russia in the global community. Achievement of these goals is possible on the basis of the positive socio-economic dynamics by the equilibrium with a level of economic development and social sphere. Russia, with the human development index (HDI) of

0.719, has the 66th position in the 2011 rating and is located in the middle of the list of developed countries. The negative impact on the Russian Federation was social inequality, environmental problems, a low lifetime. In comparison with the previous period the economic situation was deteriorated, which led to lower indicators in the rating of economic development—72nd place against 43rd in 2010. In the medium term, the ensuring of the positive dynamics of indicators is problematic, confirmed the forecast data of the Ministry of Economic Development, which are characteristic for the reduced trajectory of the economic growth and social development (Table 1). Attempts to solve the economic problems, using a donor of the social circuit in the socio-economic system, is doomed to fail in the national scale. The economic and social circuit are closely related and possible economic benefits of separate groups from the implementation of deliberate self-serving actions lead to significant “failures” in the social environment.

To these “failures” should be attributed, first of all, the catastrophic growth of the shadow economy, which covered from 20 to 40% of the reproduction process of the country. Further, the deprivation of enterprises and companies working capital as a result of the reform intensified the effect of such factors as delay transactions, the lack of credit and their high cost, the use of various fraudulent schemes, social tension out of the non-payment of wages, etc. Tax evasion predetermined the service system of the care from taxes. The output of this circuit is extremely difficult, because once taxes are paid, it is difficult to avoid this in the future. Thus, tax evasion was more effective behaviour than the trust of the government.

**Table 1.** Forecast of major socio-economic indicators in 2010-2014.  
(increase/decrease in % of corresponding period of previous year)<sup>1</sup>

Data	2010	2011	Forecast		
			2012	2013	2014
The consumer price index, December to December, %	8.8	6.1	5–6	4.5–5.5	4–5
GDP	4.3	4.3	3.7	4.0	4.6
Industrial production	8.2	4.7	3.4	3.9	4.2
Production of agricultural products	-11.3	22.1	1.4	2.2	2.4
Investment in fixed assets	6.0	6.2	7.8	7.1	7.2
Real disposable personal income	5.1	0.8	5.0	4.8	5.3
The real wage	5.2	3.6	5.1	5.8	6.3
Turnover of retail trade	6.3	5.3	5.5	5.3	5.5
Exports of goods, U.S. \$ billion	400.4	527.5	533.1	535.9	565.3
Imports of goods, U.S. \$ billion	248.7	340.0	397.4	444.6	486.1

<sup>1</sup> <<http://www.garant.ru/products/ipo/prime/doc/12090489/>>.

Lack of competitiveness of domestic goods and services, and folding and decline in production, trade liberalization, “kills” the domestic producers. Closing of enterprises leads to mass unemployment, the budget does not receive funding in the form of tax revenues, domestic demand shrinks, and “consumption” of the capital is intensified. It should be noted, and as a social cause, “failures,” a lack of the legitimacy of the corporate ownership after the privatization, which led to ineffective corporate structuring, intensified the struggle for redistribution of property and a low level of the social responsibility of corporate entities. And, most painful for the social sphere, is the tool in the hands of businessmen—corruption—which had acquired an extraordinary scale on the interaction between business and government, causing a significant imbalance in the socio-economic system.<sup>2</sup>

In our view, by combining social and economic activities between business and government we can achieve, on the basis of social partnerships, significant progress in the national development and maintenance of the social order in the country.

In the social contract of business and government, the fundamental principle of cooperation should be the principle of “welfare for the majority.” Recently, the power is focusing increasingly on the issue of the standard of living. But the index decile ratio varies from 15–16, and “critical” for social stability is recognized as a level of two times lower. With an overall positive trend, the high level of unemployment (6.3% in 2011) persists, there is a 50 times significant difference in this indicator between the most “advanced” and “backward” regions of Russia. Among the negative results of the Russian economy in 2011, the very slow growth of real incomes should be noted as well. Domestic consumer demand was not mostly supported by revenue growth, but by reducing the propensity to savings, and the growth of consumer credit

The state is not trying only to solve these problems itself, but also focuses on their business, the behaviour of which in this plan quite passive.

The slogans of “the fight against poverty,” “economic growth,” “doubling the GDP,” “the rise of the real economy” are certainly important, but they are only ways to solve a major problem for society—to live better.

Obviously, by itself an attempt at economic acceleration as an end in itself is doomed to failure. From the standpoint of public interest, any economic mechanisms are just a tool to achieve real results. Every economic system can be effective only in that it can, in particular circumstances, achieve the basic goals of society: a decent life and free development of man, harmonious social relations, the dynamics of sustainable development, the ensuring of national security. The main issue, as seems to us, is the realization of the principle of “welfare for the majority of the population,” because only in such a setting is a real shift in this area in our country possible.

Today, Russia’s corporate business has weak social orientation. The theme of social responsibility of Russian business is quite relevant, it is widely discussed in academic and business circles, it is promoted in the business environment. But, nevertheless, employers are sceptical of calls to invest in socially significant programs. At best, they

<sup>2</sup> Transparency International from 1996 counts for Russia Corruption Perceptions Index, which was declined from 2.58 (46-47 place) to 2.4 (143 place) for the period from 1996-2011 years.

agree to spend them on sponsorship; as such, they draw attention to their brand, improving the promotion of their products to the consumer.

Discussion of this problem revealed the two most common points of view. Proponents of the first view are convinced that the responsibility of business to society is limited by the honest payment of taxes and payment of decent wages. Proponents of the second view, dominant among scientists and politicians, believe that responsible business is obliged to participate in the development and implementation of state social and economic policies to ensure sustainable development, to invest in large charitable and environmental programs in the region's transport infrastructure.

It should be noted that to implement it is not as easy as may seem at first sight, so it is necessary to stimulate by the state, through a well thought out system of tax benefits and, in particular, through joint projects with counterpart funding for the attraction of entrepreneurs to the above-mentioned problems.

The State must demonstrate business-oriented social behaviour, which is primarily manifested in the positive dynamics of the cost of health care, education and culture. But in 2011 the budgetary policy of the Russian state occurred a sharp turn in the direction of the sharp decline in funding for social programs (Table 2). In the budgets for 2012-2014 costs are reduced on culture, sport, intergovernmental transfers, housing and utilities. An increase in funding for health and education in 2011 will have changed according to government plans by a significant reduction in budget expenditures by 2014.

**Table 2.** Dynamics of federal spending on education, health, culture and housing up to 2014% of total expenditure

Articles of expenditure	2009	2011	2014
National defence	12.3	13.9	18.8
National Security and Law Enforcement	10.4	11.3	14.2
National economy	17.1	16.2	11.3
Housing and communal services	1.6	2.1	0.5
Education	4.3	5.1	3.4
Culture, Film	1.2	0.8	0.6
Health care	3.6	4.6	3.2
Intergovernmental transfers the RF subjects and municipalities	37.2	5.7	3.4

If the state does not spend money on health care, education, culture, business, it is unlikely to invest money there. It is obvious that the social responsibility of business is "the road with not one track." Without a doubt, social responsibility of the state is required, because only then we can expect the enhancement of the business in social terms.

The main obstacle to good qualitative renewal of the country and its economy is the polarization of Russian society and its alienation from the government. Major segments of society branch off on value orientations, wealth, lifestyle, style and standards of conduct. Well-off social groups are opposed to the bulk of the population with low incomes, paternalistic value orientations, but not (yet) with high standards of education and culture. Under these conditions, the formation of effective labour and entrepreneurial motivation is hardly possible, but instead the prerequisites of social conflict are reproduced. As a result, the formation of the institutions of the state, business and civil society is blocked, so far as the basis of democracy—the social consensus on basic values and principles of life—disappears.

#### **4. The main directions of the formation of socially-oriented model of economic growth of Russia**

A fundamental condition and with it the criterion of success of the strategy for socio-economic development, is the social consolidation, expansion of support for the objectives of society and the authorities' actions in the conjunction with the energization of the activity of society, its emancipation, the intensification of business and entrepreneurship. Developing countries, which can provide a decent life for their citizens, and thus can take their rightful place in the world community, must become a strategic priority in the actions of the triumvirate partnership of government, business and society. For this, you must implement the following major initiatives:

1. Provision of the social contract, consolidating the state, business and society on the basis of the principle of “welfare for the majority”:

- In relation to society, the state assumes the actual responsibility for creating conditions for the improvement of living standards, providing the necessary social protection, rights, freedom and security of citizens, in return for legitimacy and public support;
- In relation to business, the government ensures the rights of ownership, a favourable business climate, in return for supporting the policy of the state of the nation's capital and strict compliance with established state law and regulations;
- The balance between society and the capital is built on the principle of “socially responsible business in exchange for the public support of his interests, goals and actions.”

2. The creating of a social order, which was based on the division of authority and responsibility of the main actors of the economy for the achievement of the coordinated parameters of the standard of living. The formation of an appropriate mechanism will allow, on the one hand, strictly to differentiate obligations and responsibilities of the federal government, the subjects of the Russian Federation, local authorities, businesses and citizens for the increase of the prosperity and the decision of social problems; on the other hand—to establish an on-going dialogue of the main participants in economic processes, in various forms.

3. Bringing the social obligations of the state into line with its physical facilities, a gradual transition from a paternalistic model to the subsidiary model of the realization of the social functions of the state. The only constructive way to build a social order is a gradual transition to the principles of subsidiarity, including accessibility for all citizens of basic social services, the redistribution of social spending of the state in favour of the most vulnerable groups, the reduction of social inequality, and providing citizens with opportunities for a higher level of social consumption from own income. This transition, in particular, involves ensuring universal access to basic social goods, especially high-quality health care and education, strengthening of the targeting of social support.

4. Welfare for the majority and the formation of a mass middle class. Success of the development strategy of the state on the principle of the “well-being of the majority” will be determined by the dynamics of the middle class. It should cover at least 50–55% of the population, simultaneously with the reduction of the proportion of people with incomes below the subsistence minimum to 10–15%. The formation of the middle class will give the entire social structure the necessary stability and will be the basis for sustainable social development of the country in the long run. Welfare for the majority assumes that the level of consumption should be increased in comparison with the existing factor of 1.5–2. It follows a series of specific tasks that Russian society has to decide by 2015:

- the gradual increase of real incomes of citizens in the country for at least 50–80%;
- a sharp decline of scales of the poverty, reduction in the proportion of people with incomes below the subsistence minimum of two to three times the level of the beginning of the decade;
- the providing support and development of social institutions that determine the quality of “human capital” (education, health, culture).

The need to address these social problems, parallel to ensuring an adequate level of national security, sets extremely stringent requirements for economic growth in the coming decade: no less than 5–6% on average per year.

The direct relationship between social policy and implementation by increasing the efficiency of the economy is obvious. But, unfortunately, the “social reserve” of the economy (according to some expert estimates that it reaches 30–35% of the potential growth of the economy) is not used enough. And this applies to both the state and to business. In many ways, the category of “social conscientiousness” remains popular only in theory, but practice shows that the principle of “good faith” in relations with government and business with the employees is realized as being quite fragmented and inefficient.

The analysis shows that over the two decades of the reformation in Russia, a number of basic models was developed, schemes of social relations of workers with the companies.

1. As model-oriented as possible in these conditions is satisfaction of the needs of the team (this model can be determined as paternalistic.) This scheme is implemented



in the remaining companies that are trying to support the salary level, does not dismiss older people, and maintains social protection.

2. The model is associated with a sharp decline of social support (cutting of wages, loss of social benefits, etc.) This is implemented in many manufacturing enterprises.

3. The scheme of electoral social support of the part of the team (the normal salary for the best specialists, the limited reduction of the staff, etc.).

4. Mixed model with elements of the “shadow welfare.” Significant “gaps” in the payment, the use of the scheme “envelopes” and the big differentiation in pay.

Availability of material and financial cost imbalances caused a situation in which market adjustments (prices, interest rates, taxes, etc.) do not reflect the real needs of the economy in the accumulations, consolidate the trend to the de-industrialization and the reduction of industry, especially with complex technological processes.

The mechanism of the development and implementation of system-wide goals and priorities virtually does not work. In addition, there are no controls, with sufficient organizational and economic resources for the counter-crisis process. The principle of “everyone survives on their own” became dominant, which leads to a lack of coordination of systems that improve the efficiency of the production.

At the heart of the new system of government, involvement in regulating the economy should be based on a system of social partnership, bearing in mind not only an agreement between employees and employers. It is necessary, especially in long-term agreements between large corporations about prices and deliveries, concluded on the basis of medium-term program of socio-economic development of Russia, which should be framed, to provide acceptable price parities and economic stabilization. It concerns machine builders, and landowners, and people producing raw materials, and bankers, as they have a common goal—improvement of national economic complex. If this problem will not be solved, Russia will lose the strategic opportunities and it will be problematic to provide a “worthy” economic dynamic.

## 5. Conclusion

In modern economic conditions, criteria of positive economic dynamics is necessary to consider first of all equation of social and economic system, which should be unequivocally focused on increase of a standard of living of the population, decrease in social inequality, strengthening of positive national positions in the world community.

In the economy of Russia, the search of decisions in creation of the civilized social and economic model, capable to provide effective and stable functioning of the Russian economy, achievement of success and prosperity of society, the state and business proceeds. In many respects it is connected with the formation of new relations and communications in social and economic relations, improvement of interaction of operating institutes of public administration and business. Practically it is a question of processes of organizational and administrative transformation of economy, interaction of society, the state and business, definition of the directions of civilized institutional transforma-

tions of forms and methods of control over the country among which one of the major is search of effective forms of social partnership.

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## SOCIALIAI ORIENTUOTO EKONOMINIO AUGIMO MODELIO FORMAVIMAS

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**Santrauka.** Straipsnyje analizuojamas ekonomikos augimas, atsižvelgiant į šiuolaikines socialines ekonomines tendencijas.

Ekominio augimo galimybes pateisina trys pagrindiniai elementai: kiekybiniai, kokybiniai ir reprodukciniai. Strateginės iniciatyvos buvo suformuluotos, siekiant užtikrinti socialiai orientuotą ekonominį augimą. Buvo nustatytos pagrindinės dabartinės socialinės ekonominės sistemos raidos socialinės aplinkos nesėkmės. Autoriai jėgos ir verslo partnerystę nurodo kaip pagrindinę priemonę, siekiant sustiprinti socialinę tvarką šalyje. Straipsnyje suformuluotos konkrečios strateginės iniciatyvos siekiant socialiai orientuoto ekonomikos augimo.

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