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## ECONOMIC DEVELOPMENT BASED ON IMPROVING THE QUALITY OF GROWTH<sup>1</sup>

**Abstract:** The article analyzes the main problems faced by countries moving along the post-industrial development model. The key contradictions between economic growth and development are considered. It is stated that in some cases economic growth is not accompanied by development, but it is extremely difficult to ensure development in the absence of economic growth. The qualitative and quantitative components of economic growth in the Russian economy of the last decade are analyzed. It is shown that economic growth in 2011-2020. In Russia, it will be determined mainly by the involvement of primary resources in production, and not by increasing the efficiency of their use. It is noted that one of the key directions of the development of the Russian economy should be the complication of its structure based on the expansion of demand for goods and services of high-tech sectors and the development of industrial cooperation. The requirements are formulated for a new model of economic development that ensures balanced development of the real sector and the service sector, as well as employment of the population, contributing to a more even distribution of income of the population.

**Keywords:** economic growth, development model, post-industrial society, economic structure.

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### 把提高增长质量作为经济发展的基础

**摘要:** 文章分析了进入后工业化发展模式的国家所遇到过的主要问题。探讨了经济增长与发展之间的主要矛盾。文章指出, 在许多情况下, 经济增长并不意味着发展, 但在没有经济增长的情况下确保发展却非常困难。文章分析了过去十年俄罗斯经济增长的质量和数量方面的情况。分析结果表明, 2011-2020 年间决定俄罗斯经济增长的主要因素是初级资源在生产中的使用数量, 而不是初级资源使用效率的提高。作者指出, 俄罗斯经济发展的主要方向之一, 应是在扩大对高科技产品和服务需求以及发展生产合作的基础上进一步细化经济结构。作者提出了对新的经济发展模式的要求: 这

<sup>1</sup> The article is based on the report of the 35th session of the International Theoretical Seminar of the S. Y. Witte Institute for New Industrial Development (INID) “Global transformations of the 21st century: the future of humanity, market and capital”.

种模式应能够保证生产部门、服务部门以及居民就业的均衡发展,并能够进一步促进居民收入的均衡分配。

**关键词:**经济增长、发展模式、后工业社会、经济结构。

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The world economy is now at a crossroads: further sustainable development based on the globalization model seems impossible, and the contours of a new global model have not yet been fully formed. Globalization has enabled the world economy to grow steadily over the past 30 years, generating significant income growth for both developed and developing countries through increased trade, cooperation and the exchange of research and development results. However, the liberalization of global trade and economic relations has reached its natural limits.

A number of imbalances have accumulated in the global economy, and perhaps the most important of them is that the model of post-industrial society, the effectiveness of which has been so much discussed in recent decades [Bell, 1973; Tsvetkov, Morgunov, Illarionov, 2008; Ivanov, Makhosheva, 2011], has turned out to be vulnerable to the slowdown in global economic growth and trade. What are the main problems associated with the development of post-industrial society? First, it is the restriction on the possibility of moving production from developed to developing countries, which is most clearly manifested in the decrease in the number of jobs with wages at or above the average level of the economy. Second, it is the growth of the importance of secondary income redistribution. And the insufficiency of state revenues under the current system of corporate taxation to solve this problem, primarily in developed countries. Thirdly, the declining return on research and development (R&D) expenditures. Despite the fact that the level of R&D expenditure in OECD countries has increased from 2.3 % of GDP in 2000 to 3.0 % in 2020, there has been a steady downward trend in per capita GDP growth throughout this period.

However, one may wonder that in the conditions of satisfaction of the basic needs of society, which is observed in most developed countries, economic growth itself is no longer a goal that ensures the sustainability of development [Van den Berg, 2016; Bobylev, 2023]. Here it is necessary to answer the question about the very possibility of development, which, first of all, is understood as an increase in the quality of life in the absence of economic growth. Many researchers answer it positively. But it is possible, and no less important to note, that the opposite situation is often encountered, when economic growth is not accompanied by development.

The most striking example is the United States, where substantial GDP growth in the last two decades has been based on the growth of revenues of large TNCs. At the same time, the income of the middle class has stagnated. Despite the fact that the overall efficiency of the American economy is growing, the quality of life of a significant part of the population is not growing, and the transformation of the structure of jobs does not contribute to the uniform growth of incomes [Wolff, 2017].

In Russia, one of the most difficult macroeconomic problems remains the conservation of the structure of household incomes [Shirov, 2022]. Despite the significant economic growth in the period from 2000–2008, there has been no qualitative change in the consumption structure of the population. The share of expenditures on food and other primary goods and services (housing and utilities, public transport) still remains at a very high level, and practically has not decreased for the

last 20 years, which retards the development of new businesses focused on consumer demand [Shirov, Potapenko, 2020]. The example with the preservation of the primitive consumption structure of the population shows that in the absence of effective redistribution of income between economic agents in both developed and developing countries, a situation limiting the development of society is quite possible even in the conditions of formal preservation of economic growth.

However, if we return to the original question about the possibility of development in the absence of economic growth, we will face quite serious difficulties to answer it positively. Let us try to illustrate it with a simple diagram (Fig. 1).

If development and economic growth are at the extreme poles of this scheme, then a prerequisite for development is the expansion of human capital and improvement of production efficiency. This, in turn, requires that the incomes of the population, business and the state are somehow directed to solving these tasks and increasing the sustainability of the economy.

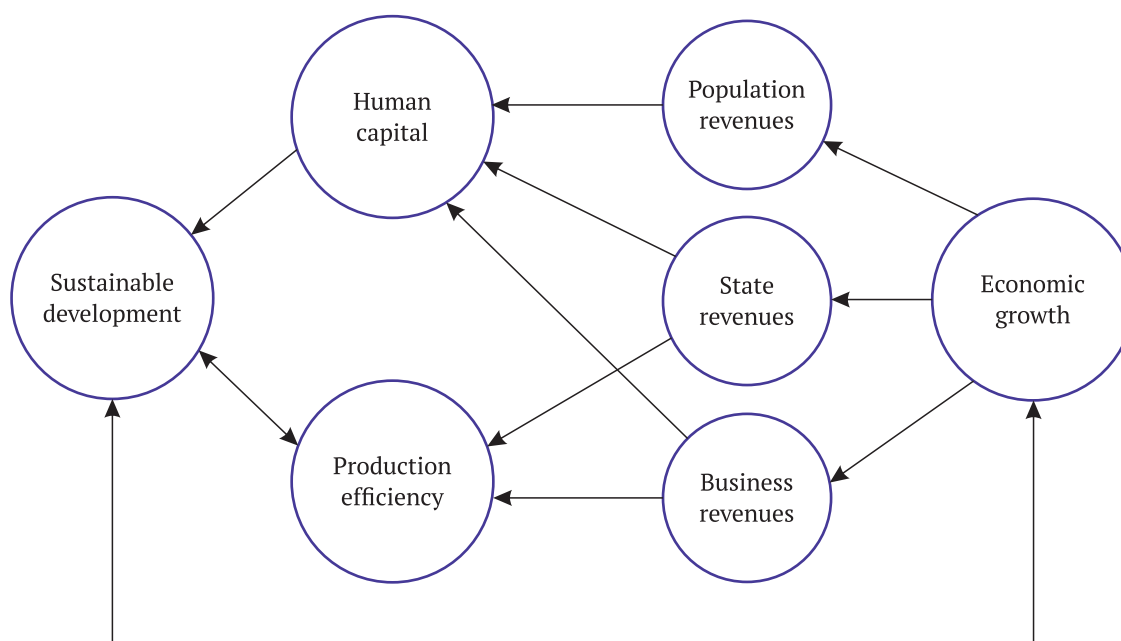


Figure 1. Interaction between growth and economic development

The revenues of business, population and the state are formed no other way than through economic growth. We have closed the construction. It turns out that it is extremely difficult to ensure sustainable development in the absence of income from economic growth. In some cases it is theoretically possible, but on the scale of the entire economic system it is extremely unlikely. It turns out that economic and income growth is still necessary. Otherwise, budget constraints will be the main obstacle to economic development. At the same time, it is clear that such growth is necessary, which ensures the appropriate redistribution of revenues and forms a positive impetus in terms of the quality of life and the overall development of the economy.

In recent years, the world has formed significant development constraints that hinder the effective development of the established model of world trade and economic relations, based on the outpacing growth of trade compared to economic growth [Voytolovsky, 2019]. After the global crisis of 2008-2009, the share of exports in the world GDP stopped growing. The lack of outpacing growth on the part of world exports means that the globalization model has ceased to function as effective-

ly as it did in the last three decades. At the same time, there has been a gradual decline in the return on investment in research and development, especially in developed countries. The volume of such expenditures has been growing substantially in recent years, but at the same time the growth rates of labor productivity and other efficiency parameters have been steadily declining.

The gradual reduction of the medium-term economic growth potential in developed countries against the background of increasing expenditures on research and development makes us think about the causes of what is happening and possible transformations necessary for the formation of a new sustainable model for the development of the world economy.

One of the possible hypotheses is that developed countries have reached the limits of reducing the role of the real sector in the structure of GDP formation and employment. Apparently, the “easing” of developed countries’ economies, which we have observed over the last 20 years, has certain limits. It is impossible to make the real sector in the American or French economy equal to zero. Under such conditions, the economy will not be able to function properly. First of all, because the lack of primary income generated by the real sector forms the conditions for social instability. On the one hand, the transfer of production to developing countries and control over value chains provide a steady flow of income. However, on the other hand, the structure of jobs is deteriorating, which requires more and more state intervention in the secondary redistribution of income [Gimpelson, Kapelyushnikov, 2023]. The lack of a sufficiently powerful real sector that provides demand for medium- and highly qualified specialists becomes one of the key limitations of the post-industrial development model.

Of course, we are not talking about a return to the industrial model characteristic of the post-World War II period. Apparently, it will be a real sector built on new principles, providing greater knowledge-intensive products and respect for the environment [Bodrunov, 2018]. However, the requirement for a balanced economic structure in terms of income and creation of jobs becomes one of the key requirements for an effective development model in modern conditions. It applies equally to the economies of both developed and developing countries. It should be taken into account that due to automation and robotization, the advanced industry will have a lower labor intensity, which will potentially reduce the number of jobs, but due to a more complex system of cooperation than other sectors of the economy, manufacturing industries can act as an important element of balancing the economic system, primarily in terms of the formation of balanced revenues of working citizens.

Under the new conditions, the qualitative component of economic growth should be seriously increased [Uzyakov, 2011]. The quality of growth can be considered as a quite specific indicator that can be measured. In this case, it becomes possible to decompose the economic growth rate of any country into qualitative and quantitative components. One of the characteristics of growth quality is the efficiency of primary resources utilization.

The qualitative component of growth occurs when more income, more value added, is extracted from the same amount of resources. And conversely, if growth is not accompanied by an increase in the share of value added in output, we can say that it is dominated by the quantitative, not the qualitative component. The problem of growth at the expense of the quantitative component is associated with an increase in demand for primary resources, which reduces the efficiency and competitiveness of the economy. Unfortunately, over the last 10 years there has been no significant increase in the Russian economy in terms of production efficiency. If the expenditures of primary resources in gross output in 2011 amounted to 39 %, in 2020 they were 38.7 % (Fig. 2).

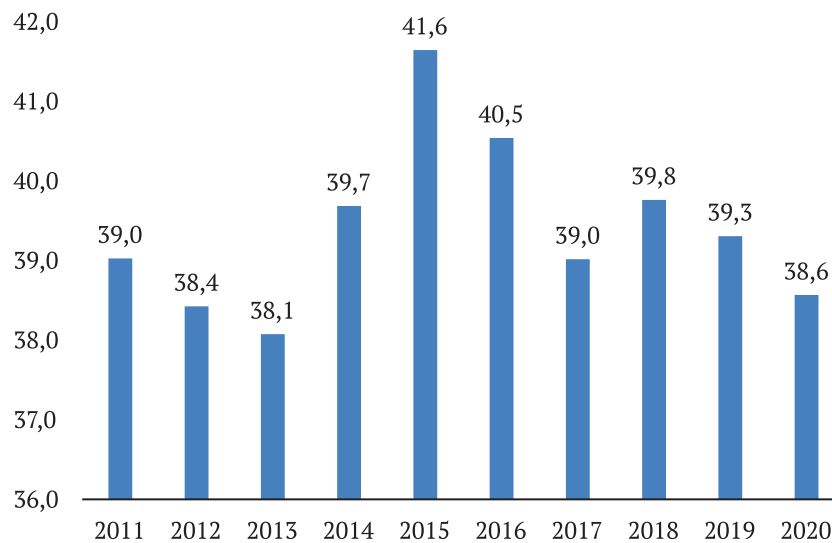


Figure 2: Share of primary resources expenditure<sup>1</sup> in gross output (in %)

Source: OECD, INP RAS calculations

The cumulative increase in GDP in 2011-2020 amounted to only 8.6 %. This growth in the Russian economy was only 5.8 % due to the qualitative component and, accordingly, 94.2 % due to the quantitative component. In the Russian economy, unfortunately, we still have more quantitative rather than qualitative growth. And this is certainly one of the key problems hindering economic development and increasing the competitiveness of the national economy.

In general, the primary resource efficiency retardation is one of the most visible watersheds between developed and developing countries. Despite the major leap that China's economy has made in the last two decades, it is still far behind almost all developed countries in terms of efficiency, including primary resources. In particular, in terms of material intensity of production, China lags behind developed countries by a factor of about 2 (Fig. 3). This efficiency gap is associated not only with technological lag, but also with the policy of moving the most material- and labor-intensive industries from developed to developing countries, which has been actively pursued over the past three decades. Nevertheless, it is high productivity of primary resources utilization that determines the leading positions of developed countries in the world economy. However, the technological lag forms a certain growth potential associated with the possibility of modernization of the basic sectors of the economy and industry.

The current situation in the global economy will contribute to the acceleration of efficiency growth of large developing economies [Fituni, Abramova, 2022]. In the context of increasing global competition, developing countries will be forced to increase expenditures on research and development, which will have a positive impact on the growth of production efficiency<sup>2</sup>. According to our estimates, in order to compete with developed countries, BRICS countries should increase their total R&D expenditures by about \$200 billion per annum. Through the use of industrial digitalization processes and the use of new construction materials, the rate of growth in produc-

<sup>1</sup> Primary resources in this case are understood as the products of agriculture and forestry, mining, oil refining, metallurgy, chemical production, production and distribution of electricity, gas and water.

<sup>2</sup> On the long-term scientific and technological development of Russia / ed. by Belousov D.R. and Frolov I.E. Moscow: Dynamik Print, 2022. 168 c.

tion efficiency can be seriously accelerated. The new situation of increased competition between developed and major developing countries may reverse the trend of steadily declining returns on R&D investments.

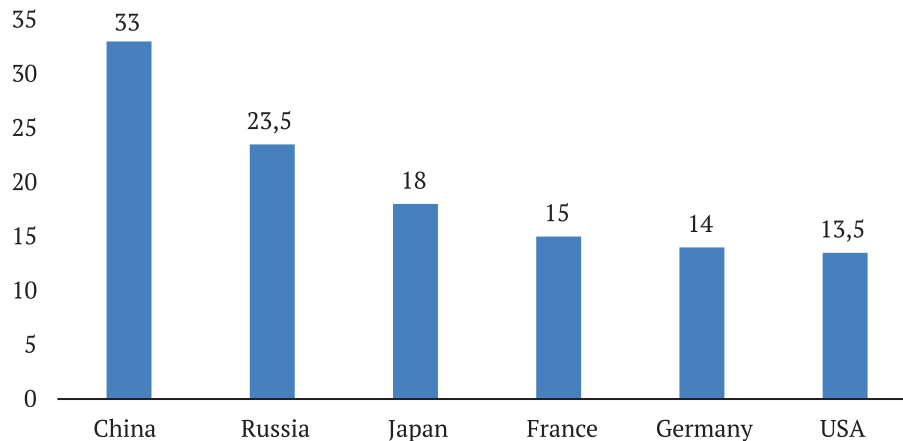


Figure 3: Material intensity of gross output (in %)

Source: OECD, INP RAS calculations

For Russia in this case, the key issue is the issue of the promising structure of the economy, especially in comparison with other countries [Gusev, 2023; Nekipelov, 2021]. The competitiveness of the economy is made up of many factors. At the same time, the way in which a country uses the most important types of resources is of great importance. If we consider the Russian economy from this point of view, we can state that in terms of the use of trade services, transportation, electricity and oil refining products Russia is not inferior to developed countries.

However, the Russian economy has a significantly lower aggregate demand for financial services, engineering products, scientific research and even IT-services than in developed countries. While our IT sector is rightly regarded as one of the most competitive sectors of the economy [Belousov et al., 2021]. However, the demand for its services from the rest of the economy is still insufficient, especially in the manufacturing sector. As a result, the possible multiplier effect from the development of IT-industry is reduced due to a rather modest level of inter-sectoral interactions.

The level of inter-sectoral interactions required for the transition to a new qualitative level of economic development implies a significant complication of the Russian economy due to higher parameters of domestic demand for knowledge-intensive products. Only in this way it is possible to obtain additional revenues and ensure an acceptable growth in the level of efficiency. On this basis, a new reproduction model can be formed, which implies diversification of income sources and a significant increase in the share of sectors responsible for the development of human potential.

Thus, further increase in the role of the service sector at the current stage of development of the Russian economy may be associated with significant limitations, which does not cancel the shifts in its structure itself. Increasing the share of the real sector on the basis of increasing economic complexity is necessary to ensure the flow of primary income, which is necessary to solve problems in the social sphere, infrastructure, technological development, etc. Thus,

increasing the complexity of the economy is an important step of structural and technological transformation.

Particular attention should be paid to the story with the increase in the number of highly skilled jobs in sectors of the economy with a high level of application of technology [Edinak, 2022]. There is a certain contradiction here. It would seem that high technology leads the economy to a new quality of growth and generate new income. However, the most high-tech activities, including IT industry, indirectly generate more low-skilled jobs in the economy than, for example, traditional machine building. For example, according to our estimates, one job in the IT sector now in Russia serves about 3.5 low-skilled jobs. These jobs are formed in such activities as hotels and restaurants, transportation, and the service sector. Similar estimates for the US economy are even higher – up to 4 low-skilled jobs per new job in the IT industry.

Thus, the task of increasing the level of technological development of the economy cannot be solved by instantly replacing obsolete industries with new ones or by radically reducing the share of the real sector in the economy. It is necessary to evolve the part of the economy that generates primary income, in which the system of interaction would be transformed in such a way that the balance between the demand for high-, medium- and low-tech jobs would be maintained. Unfortunately, this is now overlooked by many people, and in our opinion, this is a serious problem, including in the formation of a new concept of economic development.

What are the requirements of all this for a new model of economic development? The first is a balanced ratio of the real sector and the service sector. It should be noted that this is a fundamentally new requirement in relation to the ideology of the post-industrial development model. The second is the growth of R&D expenditures while increasing their efficiency, because this situation with deteriorating returns on R&D investments needs to be resolved. The third is that the growth of corporate taxation as the economy becomes more efficient, because the hollowing out of jobs with acceptable wages requires compensation through secondary income distribution, and this is a problem of the tax system. The fourth requirement is accounting for indirect effects on employment development.

In this case, we can talk about a new industrial model of development, reproduction mechanisms in which reproduction mechanisms ensure the sustainability of economic development, and the structure of employment does not create excessive pressure on the budget system. It is also important to note that the formation of this model can be equally effective for both developed and developing countries.

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