

# On overcoming of the low competitiveness factor of developing economies

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**Abstract.** The liberal concept of neoclassicism cannot be a fundamental construct for the new economic thought being revived in our country. It does not take into account the interests of those economic entities and people who find themselves unable to compete, also for objective reasons, with their more powerful rivals. According to the liberal conception, the fate of the uncompetitive people is death from poverty, hunger, disease, disasters, etc. In order to improve this issues in the world economy, the author proposes measures to improve global economic policy in favour of enhancing the competitiveness of developing countries. The future of Russian society largely depends on an objective reflection of reality in scientific generalizations, concepts and theories, including those of domestic economic science, so the demand for the latter is beyond any doubt. It will happen the sooner the top leadership of our country understands that the theories of economic regulation created in the USA and Western European countries are not suitable for Russia. It is because the position of Russia among the countries of the world economy ranked by production costs is worse, «lagging» than that of the USA and Western European countries.

**Keywords:** competitiveness, liberalism, neoclassicism, extinction psychology, non-equilibrium approach, non-equilibrium model, pricing, law of large numbers, inter-country differential rent, trailing country, World Rent Redistribution Fund.

**JEL codes:** B12, F12, D41

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## Introduction

The liberal concept of neoclassicism cannot be a fundamental construct for the new economic thought being revived in our country. It does not take into account the interests of those economic entities and people who find themselves unable to compete, also for objective reasons, with their more powerful rivals. The ideological founders of liberalism do not answer the question of how to deal effectively with immigration issues related to the deterioration of some peoples' living conditions compared to others due to the liberalization of economic relations between countries. "Obviously," writes L. Mises, "the hostility of most people towards members of other nationalities, especially those of other races, is too great to suggest that a peaceful settlement of these antagonisms is possible" (Mises, 2001). And further, he prompts in an Aesopian style: "When considered from this perspective, the conflict seems to allow for no other solution than war. In that case we should expect the smaller nation to be defeated and, for example, the people of Asia, numbering in the hundreds of millions, to achieve the expulsion of the descendants of the white race from Australia. But we do not want to engage in such speculation. For there is no doubt that such wars – and we have to assume that a world problem of such a vast scale cannot be solved once and for all by a single war – would have catastrophic consequences for civilization" (Mises, 2001).

According to the liberal conception, the fate of the uncompetitive people is death from poverty, hunger, disease, disasters, etc. "In terms of public policy measures to regulate the labour market, the neoclassical position is quite close to Neo-Malthusianism. Representatives of this direction see the benefit in the onset of wars, epidemics, mass disasters, increasing the mortality rate and thus eliminating the surplus population in comparison to its limited means of subsistence. Thus, as some theorists believe, the surplus supply in the labor market is also eliminated..." (Nizhegorodtsev, 2004). According to the ultra-radical concepts of "liberals", the non-competitive people are five-sixths of the world's population.

However, the weakness of the liberal conception of economic development is evident not only in relation to the people of economically inefficient countries, but also in relation to the populations of developed ones. The concept of unsatisfied consumerism, imposed by "neoclassic" on Western society, has degenerated into a deliberate social psychosis in the form of the spread of a general psychology of extinction. The latter is the result of placing the population of civilized countries, through the massive brainwashing of public consciousness, into the artificial situation of having to choose one of only two alternatives. To live for pleasure in anticipation of the inevitable and imminent exhaustion of non-renewable resources (because nothing can be done) and the end of human civilization or stagnate in attempts at intellectual and physical development in the same conditions of an inevitable, but slightly more distant death of humanity.

Obviously, the development of human civilization cannot be limited by these alternatives. The possibilities of human intelligence to solve the problems of providing the world community with resources are enormous, may be infinite.

### **Main Part**

A.P. Parshev (2001) in his book clearly shows the place of each country in ranking in terms of production costs changes and consequently the formation of economic profit. This place is stable and has a close connection with the economic and geographical position of each country. This suggests that the world economy is essentially rent-based, where the efficiency of a country's economy is determined by the rent factors of its location, and the quality of its productive forces. In addition, by the centuries-long use of natural, climatic, financial, and economic advantages, developed countries also have high levels of technological and intellectual rents, which are now also persistent and increasingly widen the gap of income per capita between countries.

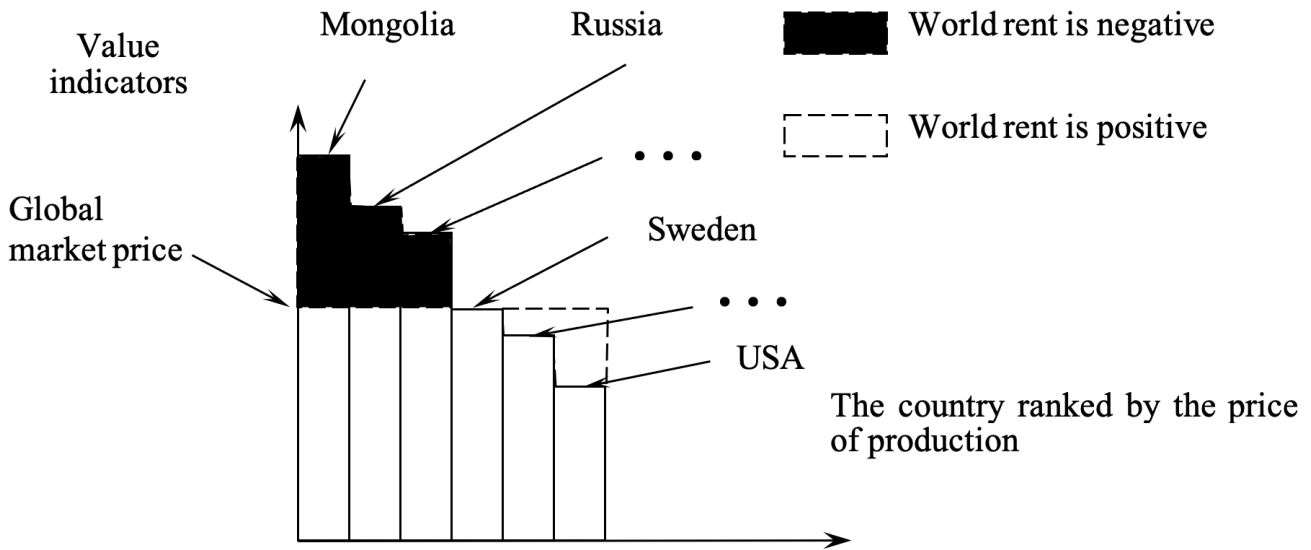
Therefore, the use both of the non-equilibrium approach and model to analyze the world economy on a country-by-country basis seems very promising (Nusratullin & Nusratullin, 2020). Such a long-run analysis would help us to identify the ranking of each country in terms of the relative average country production cost and the level of economic profit per unit cost. It would be particularly necessary and important to inform future-oriented economic policy within individual states and the global community as a whole.

In this regard, the founders of non-equilibrium economic theory, Nusratullin V.K. and Nusratullin I.V. can answer the question of A.P. Parshev: "Why don't we compare national economies of Russia and other countries by the same criterion of costs, the same way individual firms are compared?" (Nusratullin & Nusratullin, 2020).

The unequal financial and economic position of individual countries are very different, both in terms of individual industries and inter-industry complexes, and across economies as a whole. This is primarily a consequence of the world market price in terms of individual products, which is formed mainly in accordance with the law of large numbers. It causes it to tend towards the price of production of the greatest volume of output produced by a country or group of countries with the lowest-cost conditions of production. If so, it is obvious that the market price cannot be determined in any way, as theorists of classical political economy wrongly wrote about it. Tending to the production price of the "lagging" country, to which group Russia belongs in many types of goods due to natural, climatic, and economic-geographical conditions of production. This can be shown as in Figure 1. With the liberalization of the world economy, and as a result of this market pricing, countries that produce goods at a price above the market price have an unavoidable sustainable loss – a global negative rent. In a free market of perfect competition, the chronic losses of the enterprises of the "lagging" country, does not allow them to reach a normal level of production price. Of course, in the absence of any financial and economic assistance from the state or the international community, the enterprises of the "lagging" country must perish in the abyss of competition, i.e. go bankrupt.

This statement is not new. The theoretical and practical interest are the rented branches of the economy, when it is necessary to provide goods for the population needs. By the objective reasons, it is the inefficient, because "lagging" producers are subsidized and supported by the state. If the goods produced by the "lagging" producers are not needed by the state, these enterprises go bankrupt, the staff is retrained, and leaved for

other sectors (if there is a place to go). This is the law of the unregulated market. According to it, only efficient producers thrive on the market and this can be seen in the non-equilibrium model of the economy.



**Figure 1.** Approximate location of individual countries in a rented world economy

Source: composed by author

What happens in the case of a whole country is "lagging" in terms of the planet? If world prices do not cover the costs of that country? Who is trying to maintain production there, the standard of living of the population of that country? Nobody does. If we consider the UN, NATO, IMF, WTO, etc. organizations, we can see that their purpose is exactly the opposite – to give priority to efficient countries. This is the whole point of the liberalization policy of the world economy which underpins the international structures today. "Rather than the original focus on supporting state action to compensate the market 'failures' and market stimulation due to the lessons of the Great Depression, in line with the so-called new Washington consensus (between the IMF, IBRD and the US Treasury) on the 'right' policy towards developing countries, the IMF has focused on shaping privatization, liberalization, and stabilization processes there" (Elyanov, 2004).

In accordance with this purpose, the IMF imposes bonded loans on inefficient countries, which ultimately leads to the ruin of the country and the extinction of its population. At the moment, the WTO creates the conditions of global conduits providing for the cheapest goods produced by efficient countries. "It is well known that Russian reforms are led by the International Monetary Fund (IMF). Their effectiveness is quite critically assessed by the global community. As M. Pebro states, for example, "in recent years, the terms of the fund (meaning the IMF) have been the subject of increasingly fierce criticism. Firstly, governments and public opinion are more and more reluctant to accept the interference of a "technocratic" and even "Western" organization in their internal affairs"; secondly, the IMF "is often seen as responsible for the increase in poverty, unemployment, inequality"; thirdly, the fund "is seen as a vehicle of purely liberal ideology, not adapted to developing countries" (Dubyanskaya, 2004).

In other words, the system of the world economy regulation is not aimed at supporting inefficient countries, which are inefficient due to the objective conditions of the country's location and the quality of productive forces, but rather at ruining them. The world has not yet created structures taking into account the rent conditions of the individual countries economic activity and the living conditions of the population in these countries. Moreover, on the contrary, such economic policy schemes are imposed, which degrade the "lagging" countries in terms of production efficiency. This policy is certainly anti-human, because humanity in relations between people and their communities has always prevailed and involved supporting the weak and aggrieved, helping the disadvantaged and the backward.

Therefore, it is clear that "the IMF's ultra-liberal experiment in Russia led only to negative macroeconomic results... The collapsing price liberalization did not contribute to the growth of production, the development

of competitive market relations and the domestic market. Instead, production degraded, the domestic market shrank, monopolistic diktat – state and corporate – constantly strengthened, which led to high inflation, price imbalances, a sharp decline in both domestic demand and production" (Dubynskaya, 2004).

Thus, under the worst rent conditions of the Russian national economy, the "ultra-liberal experiment" conducted in Russia was wrong in the very beginning, from the penetration of the very idea of liberalizing the economy into its government structures.

The miserable socio-economic results of reform in Russia were the result of the "negative benevolence" of the IMF (that "typhoid Mary", to quote Jeffrey Sachs) and other world institutions which support the existing world economic order and have no regard for the rent-based nature of the world economy. Academician D.S. Lvov says: "... A rather serious reason for the weak impact of economic science on the progress of reforms in Russia was the active imposition of standard approaches to economic reforms by influential scientific and governmental circles in the West on the country's leadership (among which there were many representatives of the economic elite). The Washington Consensus doctrine, developed among international financial institutions and the US economic establishment, is a case in point. Its political formulation is the ideology of radical liberalism. This system of views "proceeds from the presence of free competition, absolute rationality and full awareness of economic actors. These elements form a mechanism for establishing a market equilibrium ensuring the achievement of maximum production efficiency" (Lvov, 1999).

Actually, the result of the policy of radical liberalism pursued by Russian reformers under the supervision of the mentioned world structures was "permanently high inflation, a drop in all macroeconomic indicators, marginalization of the national reproduction system, degradation of microeconomic structures, destruction of the mass domestic market" (Dubynskaya, 2004).

How can the countries of the world community be satisfied with the principles of free competition imposed by the IMF and other similar structures of the world order in international economic relations, when the efficient countries are automatically on the most favourable conditions on the world market according to their ranking scale of rents? These favourable conditions are not achieved by the labour force of these countries, but by the conditions of an absolute monopoly on their resources as property and, often, as an object of economic management.

If, as a result of increased scientific and technological progress and higher factor productivity, production increases more rapidly in countries primarily located in better natural and climatic conditions than in the "lagging countries", it is clear that the world average market price, which the world regulatory agencies are striving to liberalize, will increasingly tend towards the price of production in the efficient countries. The lagging countries are automatically relegated to a low-income trap because of objective climatic conditions, despite their best efforts to improve production efficiency. This is one of the most important reasons for the stratification of countries in terms of per capita income.

The status quo in the pace of economic development of the world's different countries is increasingly leading to the exacerbation of contradictions between them. Maurice Strong, Secretary-General of the Rio Conference, stated: "Economic growth processes that generate unprecedented levels of wealth and power for a rich minority lead simultaneously to risks and imbalances that threaten rich and poor alike. This pattern of development, production and consumption is unsustainable for the rich and cannot be replicated by the poor. Following this way may lead to the destruction of our civilization".

### **Conclusions**

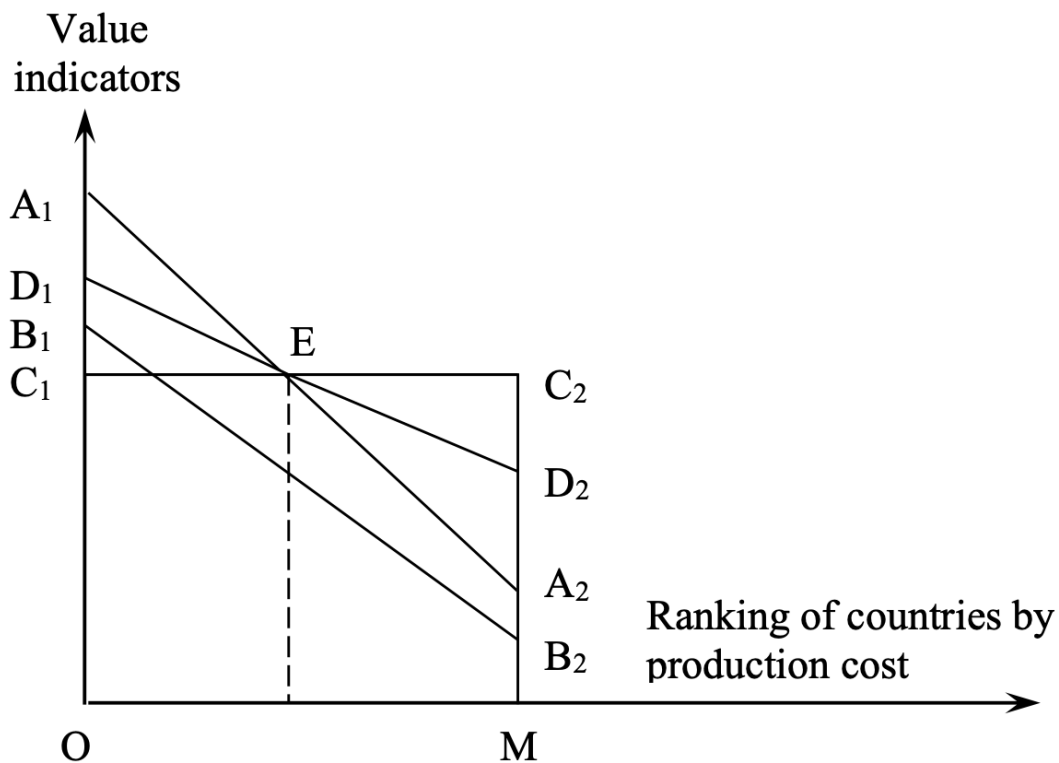
Considering the rent nature of the world economy, we would propose the following as the basis for world economic policy, the mechanism of world socio-economic regulation:

1) the financial, economic, social policy of the world community, led by the world regulatory structures, should take into account the cross-country specificity of the states. This specificity should be based on the recognition of the rent nature of the world economy and social conditions of the individual countries population, as a consequence of cross-country heterogeneity of natural, climatic, and spatial aspects of the world states location;

2) developing countries' debts must be cancelled unconditionally within the global community. The financial mechanism we have described above for enslaving them to developed countries must be eliminated. In addition, the distribution of "Special Drawing Rights" to all countries must be regulated in direct proportion to GNP growth;

3) a reasonable system of differentiated global support for different types of countries according to the objective conditions of their location and possession of production factors from the "World Rent Redistribution Fund" (Lvov, 1999) should be adopted. This system should be created with the functions of supporting underdeveloped states of the world community at the expense of accumulated monetary allocations mainly from countries with a high rate of rent incomes. These payments could be completely optimal for rent-accumulating countries if their level were determined by a percentage of the multi-year average annual rent, for example, as shown by the EC2D2 triangle on Figure 2;

4) the lagging countries should develop their own integrated development system based on targeted global support programmes, subsidized by the "World Rent Redistribution Fund" (shown schematically as triangle D1EC1 on the figure), with priority given to local economic and living conditions. The redistribution of world rents in favour of the trailing countries will have no tangible effect on the development of production in the efficient countries, since the majority of the rents shifts from productive use to the private investors. But even if production does stall, it will be a deterrent to the accelerated depletion of non-renewable natural resources, and hence to increased longevity of human life on Earth;



**Figure 2.** Variant of payments to the "World Rent Redistribution Fund" and subsidies from it to developing countries

(A1A2 – line of multi-year production prices in the world economy; B1B2 – the same at multi-year production costs; D1D2 – line of multi-year sales prices in the world economy; C1C2 – multi-year equilibrium market price line of sales of products on the world market; triangle EC2D2 – the value of total payments from rent incomes of countries to the "World Rent Redistribution Fund"; triangle D1EC1 – the value of total subsidies to developing countries from the "World Rent Redistribution Fund")

Source: composed by author

5) the political problems of the global community should be solved in terms of eliminating inter-country socio-economic disparities and contradictions, focusing on the national interests of each country. In

particular, the global practice of establishing comprador regimes in developing countries must be eliminated. The world structures should institutionalize the nationally oriented governments in such countries so that the majority of the world community's responsibility for the socio-economic situation in these countries can be transferred to them.

From our point of view, there is no other alternative for restoring relatively just socio-economic relations in the world than those we have mentioned, for the other alternatives are: 1) wars for the possession of better resources and lands while the lands with severe natural and climatic living conditions, ecologically contaminated lands depopulated; 2) immigration and expansion providing by the peoples of other countries into the territories of states with efficient economies, with aggravation of socio-economic, demographic, political and other problems within and between them. "It is easy to understand," wrote academician D.S. Lvov, "that unless the process of globalization continues without at least a partial redistribution of world income from the 'golden billion' countries in favour of backward and developing countries, social contradictions on a global scale will sharply worsen, and the world will move rapidly to the brink of disaster" (Lvov, 1999).

On the basis of the conditions for world socio-economic regulation we have listed, the planetary community of countries would be able to get on the path of socially oriented world development in the interests of all peoples and nations of the world. The theoretical economy would develop on the basis of an objective overview of the position of countries in the world economic coordinate system, which is largely determined by the rent nature of the international economy.

This kind of scientific development is not yet demanded by the Russian government. It relies mostly on instructions from the IMF and similar organizations from abroad, which are designed to promote the competitive advantage of the US and other highly rented, and therefore highly competitive, economies, i.e. to provide a theoretical framework that serves the interests of only Western countries.

Therefore, it must be said that the frequent accusations against the Russian government about its comprador nature are not unfounded at all. Its socio-economic policies have sometimes been more oriented towards the satisfaction of foreign interests than national ones. For Russians, on the other hand, the Russian government is often idly working, while at the same time being a dependant of the Russian people. However, we believe that the time for the comprador policy in the domestic economy is over. At the highest level of the Russian leadership there comes an understanding that national guidelines should prevail in public policy, based on the specifics of the national economy as one of the "lagging" in the world "rank" by the height of rent income per unit of cost in the production of goods.

The liberal policy will accordingly be replaced by a regulated strategy of a strong state, a strong government concerned about national interests. Although today a regulated strategy in Russia's economic policy is not enough. The crisis of the Russian economy can only be overcome by a mobilization strategy. Of course, in this case the people will again have to overcome these problems. However, this would be better than the demoralized state in which Russians are currently to some extent in. Of course, domestic developments to overcome the crisis of the Russian economy, will be demanded by the government. Therefore, it is too early to bury domestic science, as S.V. Svetlov does in his pessimistic prognosis: "... In general, the developed system of domestic science is coming to an end. This system, having proved unnecessary to domestic leaders and unable to organize itself in the new economic conditions, is doomed to self-shrink and self-destruct. The development vector of modern Russia, at least in this projection, has been quite clearly defined" (Svetlov, 2004).

The future of Russian society largely depends on an objective reflection of reality in scientific generalizations, concepts and theories, including those of domestic economic science, so the demand for the latter is beyond any doubt. It will happen the sooner the top leadership of our country understands that the theories of economic regulation created in the USA and Western European countries are not suitable for Russia. It is because the position of Russia among the countries of the world economy ranked by production costs is worse, "lagging" than that of the USA and Western European countries. Our government will understand this sooner or later, as it did, for example, maybe not quite consciously. According to former World Bank chief economist J. Stiglitz, "Markets do not necessarily have advantages. The Washington consensus silently

assumes that governments are worse off than markets ... I don't think so" (Lvov, 1999).

We believe that J. Stiglitz was not entirely conscious, because he does not explain that the "Washington Consensus" is based on the interests of efficient countries, especially the US. Therefore, the market mechanism for regulating the international economy is the best regulator of relations in an open world market for these countries. Every kind of regulation by nationally oriented governments is always cause the detriment of developed countries in the global market self-regulatory processes, as it stifles their competitive advantage. The best regulator of relations with the global market, as mentioned above, is a nationally oriented state, or government, that protects the interests of domestic producers.

Therefore, the market is better for the economic growth of some countries and their illuminators from their point of view. For the others, already from opposing positions, the government is better. The market policy adherents develop their theories of economic regulation, including international regulation. Different regulatory theories are accordingly often contradictory, as they are developed without sufficient theoretical and methodological justification, taking into account the rent status of countries. It leads to instability of the public administration of different countries' economies as well. This is often the result of unquestioning adherence to theoretical recipes from abroad which are contrary to the interests of the national economy. Of course, the experience and rational calculation of nationally oriented officials could find the best way out and ways to ensure higher competitiveness of the economy even in the absence of the economic growth theory in their own country. But there is an issue of the nationally oriented leaders, who are not always in the leadership of states.

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