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## The Goals of Industrial Policy of the Russian Federation: State Intervention into the Economy as a Factor of Industrialization

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Pavel V. Butakov<sup>1</sup>

**Abstract:**

*The article studies the problems of formation and implementation of the state industrial policy of the Russian Federation. The main methods, values and goals underlying the formation of the modern industrial policy of the Russian Federation are emphasized. Under the conditions of deepening risks of economic isolation the issues of achieving economic independence and economic sovereignty are the main factors of the national security. Therefore, a sufficiently high level of autarchy should act as a safety cushion in the face of unfavorable global economic conditions.*

*Based on the current challenges facing the Russian system of state administration it is concluded that in order to carry out re-industrialization it is necessary to conduct a further transition to an active model of industrial policy based on the essential role of state intervention in economic activity. The world experience shows that if a forced development is needed, then a free market system unregulated by the state is not used. The transition from protectionism to the free market is possible only after the development of the national productive forces.*

*The modern economy is a system of management, the effective functioning and innovative development of which is ensured by the state of its infrastructure. Therefore, the implementation of big infrastructural projects is one of the most important elements of the state industrial policy formed in the Russian Federation.*

**Keywords:** *Industrial Policy, Economic Development, Industrialization, Import Substitution, National Security, Major Infrastructural Projects.*

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<sup>1</sup>Department of Political Science of Lomonosov Moscow State University, Russian Federation, [Butakov-pavel@mail.ru](mailto:Butakov-pavel@mail.ru)

## **1. Introduction**

One of the key tasks facing the Russian Federation these days is the creation of a modern high-tech industrial complex that ensures the state of economic independence. The absence of the country's own industry leaves it practically defenseless against external and internal threats. The consequences of the introduction of foreign economic sanctions against the Russian Federation that followed the historical reunification of the Crimean peninsula with Russia show the necessity of a sovereign production base. Under the conditions of deepening risks of economic isolation the issues of achieving economic independence and economic sovereignty are the main factors of the national security.

Proceeding from this, the Russian scientific and expert community encountered a particularly acute problem of defining a new model of state industrial policy combining the realities of the modern market economy and the need to restore the national economic system at the modern technological level.

## **2. Literature review**

The industrial policy is not a phenomenon related to modernity. The manifestations of the purposeful activity of political power in the field of production can be found on all stages of development of human society (Leont'ev, 2001). The notion of the need for an active economic and industrial policy was formed from the very beginning of institutionalization of political and economic thought. At the same time, throughout the entire period of development of economic science up to the present day, the question of the necessity of state intervention in economic activity remained controversial. The conceptions about the necessity of an active industrial policy were replaced by the domination of an ideology of non-interference of the state into economic activity (Dzhukha *et al.*, 2017; Shatkovskaya *et al.*, 2017).

Representatives of the school of Mercantilism were the first to declare the need for state intervention in economic activity. Mercantilism (from the Latin "*mercari*" – to trade) is a system of doctrines advanced by the authors of the treatises of the 15th and 18th centuries, which substantiated the need for active state intervention in economic activity, mainly in the form of protectionism – setting of high import duties and subsidizing national producers. The representatives of mercantilism created a theory of active trade balance, which is ensured by exporting finished products from their country, for which it is necessary to develop the country's own productive forces using, among other things, prohibitive customs duties. The support of industry should be achieved through the import of cheap raw materials, protectionist tariffs on imported manufactured goods; encouraging exports, especially of finished products. The main subject of mercantilists' interest was the creation of effective factors of production: the school of mercantilism promoted the development of trade, shipbuilding, industry, the international division of labor.

The criticism of mercantilists was developed by the representatives of the school of physiocrats, which is based on the idea of a natural order, i.e. market economic relations. The criticism of state intervention was central to the methodology of A. Smith, who formulated the concept of the "*invisible hand of the market*". The idea of an "*invisible hand*" was based on the principle of non-intervention called Laissez-faire (from French *let do*). "*Laissez faire, laissez passer*" is a classical formula that requires the state not to interfere in the economic activities of individuals; literally translated as "*Leave it to us*" or "*Let us do it*". The principle of Laissez-faire was substantiated by representatives of the Manchester School of Political Economy, which arose in the last third of the 18th century. The prominent representatives of this school were Cobden and Bright, who by criticizing protectionism, introduced the term "*free trade*" (Bastia, 2003).

A comprehensive criticism of the classical school was developed by the prominent German economist, the author of the concept of "*educational protectionism*" (Liszt *et al.*, 2005), who was the first to show that the need in the development of national productive forces dictates the importance of high customs tariffs until the domestic goods can compete on the world market. Describing the system of Smith as a "*political economy of exchange values*," (Liszt *et al.*, 2005) contrasted it with the political economy of "*national productive forces*" giving a very broad interpretation to the notion of "*productive forces*" introduced by the French statistician Dupin (1831) in his work "*The productive and commercial forces of France*".

According to Liszt, productive forces are a set of social conditions, without which national wealth cannot be created. In this case, productive forces, i.e. the ability to create wealth, are more important than wealth itself. It is this ability that determines the welfare of the nation. The nation is an essential intermediate stage between an individual and the world as a whole; it unites its members with patriotic ties (Liszt *et al.*, 2005). Liszt showed that all industrialized countries during the formation of their own industrial complex pursued a protectionist policy, and only after the saturation of the domestic market they began to propagate the ideology of free trading for the successful sale of their goods to countries with less developed industries. Therefore, a vicious circle is formed when the gap in the level of development between the rich and poor countries increases.

The follower of Liszt in Russia in that period was an outstanding Russian natural scientist and economist Mendeleev. The customs tariff of 1891 developed with his active participation, is clearly patronizing (Mendeleev, 2005). Mendeleev achieved a high customs barrier for the import of American kerosene, which in that period dominated on the market of hydrocarbons. The result was the development of the Baku oil field and the creation of a domestic oil refining industry. Over time, the Russian kerosene fell in price on the domestic market and drove out the American competitor from Europe. In the 1970s the slogan "*back to Smith*" became popular among some economists, which meant the abandonment of methods of active intervention and regulation, and a hasty development of a new doctrine –

neoliberalism, which involves minimization of the state's participation in the economy (except for control over the money supply). The representatives of neoliberalism are Friedman (2005) and Hayek (2012). The criticism of various aspects of monetarism is presented in the works of Galbraith (1969; 1993) and Stiglitz (1997). When promoting the concept of a "*new industrial society*", where an active role belongs to the state, Galbraith describes the phenomenon of a "mature corporation" as a subject of industrial policy. In modern Russia the study of industrial policy is conducted in the works of Babkin (2008), Bodrunov (2013), Glazyev (2010a; 2010b), Grinberg *et al.* (2014), Gubanov (2012), Martynenko (2010), Osipov *et al.* (2013), Primakov (2014), Sukharev (2015) and others.

### **3. Materials and methods**

The theoretical and methodological basis of this research includes system-administrative, normative-legal, value-oriented, comparative, problematic and other approaches as well as a wide range of methods of the modern political science, economic theory and several other related sciences. Along with some general scientific methods: historical, logical and classification, – systematic, comparative, contrastive-comparative, synchronous and some other methods were also applied. These methods have made it possible to adapt multiple theoretical concepts and applied models to the research objectives. Since the approach to solving the problems of industrial policy from the standpoint of disciplinary differentiated and narrowly specialized expert knowledge in the field of law, economics, engineering and logistics considering today's requirements, cannot be effective, this paper uses the approach of a comprehensive study of modern problems of industrial development in its relation to the political process, the problems of domestic and foreign policy through the prism of political analysis. The achievement of the goal and objectives of the research is impossible without studying the entire accessible array of information of an official, scientific, journalistic and historical profile related to the problems of the state industrial policy. According to the level of generalization of information, the nature and forms of reflection of reality, the studied sources can be divided into several groups:

- Scientific literature of domestic and foreign researchers of the past and the present of both economic and political orientation;
- Legislative and regulatory legal acts as well as concepts and doctrines reflecting the position of power structures;
- State programs, including federal target programs and subprograms with departmental target programs and the main activities of state authorities;
- Official statistical data.

### **4. Results**

A number of conclusions can be made on the basis of a comprehensive analysis of the historical pattern and the current geopolitical trends affecting Russia's policies.

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The industrial policy is a complex impact of the state on economic activity with the aim of creating (recreating) and successful functioning of the industrial sector of the national economy that can fully meet the needs of the population and the state and is characterized by a high technological level, diversification and competitiveness (Butakov, 2010).

The fundamental value in the formation and implementation of the state industrial policy is ensuring the national security and technological development of a sovereign state. This value is based on the following principles:

- Priority of the real sector of the economy;
- Rejection of the raw material model of the economy;
- Independence from import, including in the field of high technologies;
- Production of high-quality competitive goods;
- Domination of domestically produced goods on the domestic market;
- Ensuring economic growth;
- Development of scientific, technological and production potential;
- Competent use of the country's natural resources.

In the modern conditions of development of the Russian state, taking into account the overcoming of the consequences of the global financial crisis, the problem of improving the regulation of social relations related to the national, economic and financial security of Russia is becoming increasingly relevant. The preservation of the export and raw materials model of development of the Russian economy is the main strategic threat to the national security in the economic sphere. One of the most complete definitions of the concept of "*economic security*" was given by Glazyev (1997). Economic security is a state of the economy and the productive forces of society from the standpoint of the ability to independently ensure the country's sustainable social and economic development, to maintain the necessary level of the state's national security and the appropriate level of competitiveness of the national economy in the conditions of global competition (Glazyev, 1997).

For full-scale implementation of the tasks set in the Decrees of the President of the Russian Federation of May 7, 2012 No. 596-606 it is necessary to carry out reindustrialization based on active state intervention in the economic activities. Therefore, at the present stage the key goal of the industrial policy of the Russian Federation should be reindustrialization of the Russian economy involving the development and deployment of technological production chains on the modern technological basis that ensure Russia's economic independence. The restoration of Russia's industrial power on a new technological and industrial basis with the transition to the sixth technological order is necessary for Russia to implement its autonomous development (Glazyev, 2010a). A sufficiently high level of autarchy should act as a safety cushion in the unfavorable global economic environment.

The Decree of the Government of the Russian Federation of August 4, 2015 No. 785 formed a Governmental Commission on import substitution. The creation of the Commission is aimed at coordinating the activities of federal executive bodies, executive authorities of the subjects of the Federation, local governments and organizations on the implementation of state policies in the field of import substitution. There are two sub-commissions in the structure of the commission: on the issues of civilian branches of the economy and the military-industrial complex.

The state should be the key subject of this type of modernization. To solve the large-scale tasks it is necessary to mobilize internal resources, including financial, scientific, labor, etc. For the development of national productions, it is appropriate to use a reasonable protectionism, because in the conditions of free trade it is impossible to force modernization. The state has a large arsenal of tools that can be used to formulate and implement a state industrial policy. They include (Butakov, 2011):

- Credit and financial methods;
- Customs methods;
- Tax methods;
- Administrative and institutional methods.

The credit and financial methods of the state industrial policy have an influence on the credit and financial system. They include the determination of the money supply, regulation of the key rate, state investment, budget financing, the use of extra-budgetary funds. Customs regulation is the very important in the system of industrial policy methods. From the point of view of development of the productive forces the main function of customs regulation is not to replenish the budget through customs payments, but to patronize the national production. The protecting function is the protection of domestic producers and the creation (reconstruction) of entire industries.

An effective tax policy ensures not only the filling of the budget, but also is one of the key methods of industrial policy by contributing to the development of national production. Tax policy as a totality of scientifically sound and economically expedient tactical and strategic legal acts of government authorities is capable of meeting the needs of reproduction and the growth of social wealth.

A breakthrough from a backward state to a progressive state is guaranteed only by a new industrialization of the productive forces of the entire national economy –the neo-industrial one (Gubanov, 2012). Academician Primakov (2014) concluded that, as a rule, state-owned companies, having more investment opportunities, are called upon to play a major role in the growth of the economy. This primarily concerns the implementation of megaprojects, which can and should stimulate economic growth. Of course, due attention should be given to private enterprises, but is it clear that without state-owned large companies megaprojects are not feasible.

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An important element of the state policy of the Russian Federation was the creation of large state corporations and the subsequent active expansion of the scope of their activities. During 2007, federal laws on the creation of six state corporations were reviewed and adopted. The emerging state corporations received a wide range of functions and significant volumes of state property (federal budget funds, various production and financial assets) that ensure their long-term perspectives. A state corporation is a form of manifestation of the will and ability of the state regarding the concentrated use of tangible assets and monetary funds with a view to ensuring economic growth based on innovative technologies (Zeldner, 2008). A state corporation is a special organizational and legal form of a non-profit organization created to provide an innovative and infrastructural breakthrough that combines the attributes of both the business entity and the governing body (Butakov, 2015).

An example of a national state corporation that is a subject of state policy is State Corporation for Assistance to Development, Production and Export of Advanced Technology Industrial Products “Rostek”. Rostek is a state corporation created to promote the development, production and export of high-tech civilian and military industrial products. The purpose of the corporation is to promote the development, production and export of high-tech industrial products by attracting investments in the organization of various industries, including the military industrial complex, as well as participation in social and other socially significant projects in the interest of the state and society.

Vertical integration is typical for joint-stock companies with state participation, which have the characteristics of a subject of industrial policy. The reduction in the number of independent state economic entities made it possible to concentrate the management on determining the strategy of activities of a limited number of large entities providing the latter with opportunities to determine not only their own tactics, but also the strategy of their subordinated enterprises releasing significant managerial human resources in the relevant state departments (Kudryashov, 2017). Two characteristic subjects of the industrial policy organized in the form of a joint-stock company are JSC United Shipbuilding Corporation and PJSC United Aircraft Corporation.

During the existence of the shipbuilding corporation Russia took the first place in the exports of naval equipment (16% among the world suppliers of warships in displacement tonnage) and rose to the seventh position in terms of the export of ships and vessels calculated in units (United Shipbuilding Corporation, 2015).

Despite the deficit of infrastructure investments in modern Russia, a number of large-scale infrastructure projects have been implemented, which makes it possible to make a conclusion about their influence on the industrial development of the state. An infrastructure was created to hold the APEC summit in 2013 in Vladivostok; XXII Olympic and XI Paralympic Winter Games in 2014 in Sochi; the Obskaya-Bovanenkovo railroad was built, etc. The major infrastructural projects of modern

Russia include: the development of the port of Ust-Luga; the construction of an offshore ice-resistant fixed platform “Prirazlomnaya” and the development of the Prirazlomnoye oilfield; the laying of oil pipeline Eastern Siberia — Pacific Ocean (ESPO); underwater power lines KL 220 kV through the Kerch Strait; the construction of the Boguchanskaya HPP, etc. The construction of the first Russian high-speed railway Moscow-Kazan has begun with the widening of the bottlenecks of the Baikal-Amur and Trans-Siberian railroads, etc.

## **5. Discussion of the results**

The notion of the need for an active economic and industrial policy was formed from the very beginning of institutionalization of political and economic thought. At the same time, throughout the entire period of development of economic science up to the present day, the question of the necessity of state intervention in economic activity remained controversial: the conceptions about the necessity of an active industrial policy were replaced by the domination of an ideology of non-interference of the state into economic activity. The world experience shows that if a forced development is needed, then a free market system unregulated by the state is not used. The transition from protectionism to the free market is possible only after the development of the national productive forces.

## **6. Conclusions**

In the modern conditions of development of the Russian state the problem of improving the regulation of social relations related to the national, economic and financial security of Russia is becoming increasingly relevant. At the present stage the key goal of the industrial policy of the Russian Federation should be reindustrialization of the Russian economy involving the development and deployment of technological production chains on the modern technological basis that ensure Russia's economic independence.

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