

Factors and Prerequisites of Economic Sustainability

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Abstract: The formation of the prerequisites for sustainable economic development was a feature of the strategic development of national and global economy. It was based on three components, harmoniously combined and complementing each other: economic development; social development; development of environmental programs. The article is devoted to describing the factors of economic sustainability and their systematization. The methods used in the article are of general scientific character – the main of them is systematization and induction. The main finding is the proof of the hypothesis that the economic sustainability is the key to the economic development of the country in long-run period.

1. Introduction

Progressive socio-economic development of society involves the emergence of new theories of strategic development of the national global economy.

The beginning of the XXI century marked the socio-economic development of society in the context of a large-scale globalization, concentration of capital, integration and cooperation of production, the formation of international competition, innovation and digitalization of production, financial crises of global scale.

It is no coincidence that such prerequisites have formed the objective conditions for the creation of a new theoretical model of sustainable economic development in the XXI century. The new model of sustainable economic development created in the 1990s presupposes dynamic integration management of three components: economic development, social development and environmental protection.

Due to the pursuit of super-profits in the XX century, the automation of production, being the most important factor in reducing production costs, led to a reduction in jobs, lower incomes of many segments of the world's population, and as a consequence, the deterioration of the quality of life and the ecological environment of people.

In this regard, the concept of social and ethical marketing has come to the forefront of the strategic development of the national economies of developed countries.

The concept of social and ethical marketing involves the interdependence and integration of the state (the institute of public administration), society (civil society, endowed and co-operated with the philosophy of reasonable consumption, environmental care and responsibility to the future generations) and business (which has an intrinsic ideology “income first”, with the only limit – the rules and regulations of the country, business placement).

The theory of sustainable development of the economy has undergone several changes over the past two decades in accordance with the dynamics of socio-economic processes and peculiarities of national and climate conditions of economic development.

Currently, the aspects of sustainable economic development are also relevant, but they form a new stage of socio-economic development.

2. Methodology

When collecting and processing data for the article, we used general scientific research methods

(generalization, aggregation, classification and comparison), as well as methods of forecasting of economic processes.

The scientific hypothesis of the study suggests an evolutionary approach based on the fundamental theory of sustainable economic development proposed by Hicks and Lindahl. However, the transformation of the components of sustainable development assumes a modern priority of environmental indicators of the economy in comparison with economic and social ones.

The research process is based on the analysis of current approaches to the economic sustainability, which allow us to establish a connection between the ethical and economic aspects of sustainable development. The further analysis bears the character of systematization and development of the authors' attitude towards principles of competitiveness of the national economy.

The described process allows us to give an idea of the interaction of the basic sectors of the economy and provide first-stage analysis of the theoretical development of the concept of sustainable development.

3. Results and Discussion

The concept of sustainable development was formed in the 1970s. The problems of environmental pollution, the reduction of natural resources caused by extensive production, have led to the creation of a global paradigm for the transition from socio-economic development to environmental issues, environmental protection and the formation of mechanisms for adapting the economy to new development factors.

The first conference on environmental protection was held in Stockholm in 1972, where the recommendations and special programs were formulated to solving environmental problems at the state level.

The concept of sustainable development implies the integration of three spheres of social development: social, economic and environmental (Figure 1).

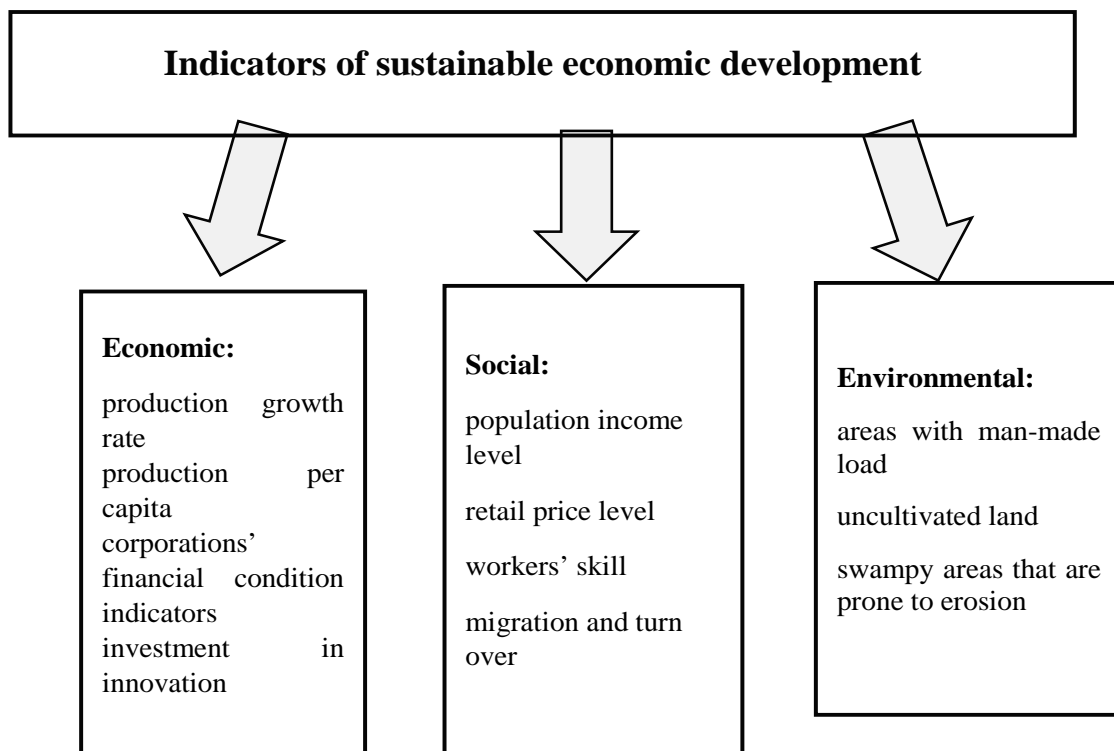


Figure 1 Indicators of Sustainable Economic Development

Hicks and Lindahl, the authors of the theory of sustainable economic development, founded the theory of the maximum flow of total income. Their theory covered several issues: the optimal and

efficient use of resources; the introduction of environment-, material- and energy-saving innovative technologies; the production of environmentally friendly goods; waste-free production; the formation of the economy sector for the processing of industrial and private sector waste.

Hicks considered the model of sustainable economic development through the prism of a system of growth in capital expenditures while maintaining indicators of capital efficiency, as well as employment rates from the scale of production and the volume of non-current assets. Thus, with an increase in the physical volume and cost of production factors, a labor-saving system, with no reduction in the number of personnel starts operating, and workers have to improve their skills to tailor them to automated equipment.

However, some critics of the Hicks theory (K. Menger, E. Böhm-Barbec) note the absence of the correlation between the increase in the cost of production and the cost of productive capital.

In 1992, the United Nations International Commission on Environment and Development (IADC) prepared a report, Agenda 21, which included the global program for the economic and social development for the next century. The program contained the strategy of environmental protection as one of the methods of ensuring sustainable development of national and world economy.

In accordance with the UN materials, sustainable development should be the basis for the formation of a new type of environmental and economic growth.

The term sustainable development of national and world economies has the following interpretation in the UN documents:

“Sustainable development is the one that meets the present needs without compromising the ability of future generations to meet their own needs.

It includes two key concepts:

- The concept of needs, in particular the needs necessary for the existence of the poorest segments of the population, which should be the subject of paramount priority;
- The concept of constraints due to the state of technology and the organization of society, imposed on the ability of the environment to meet current and future needs” [5].

The main aspects of sustainable economic development are:

- Development that does not impose responsibility and costs on the next generation;
- Development that minimizes negative contradictions between generations;
- Development that ensures the constant reproduction of fixed assets and production capacity;
- Development involving the principles of social and ethical marketing, combining the interests of consumers, business, government and the environmental environment of the world community.

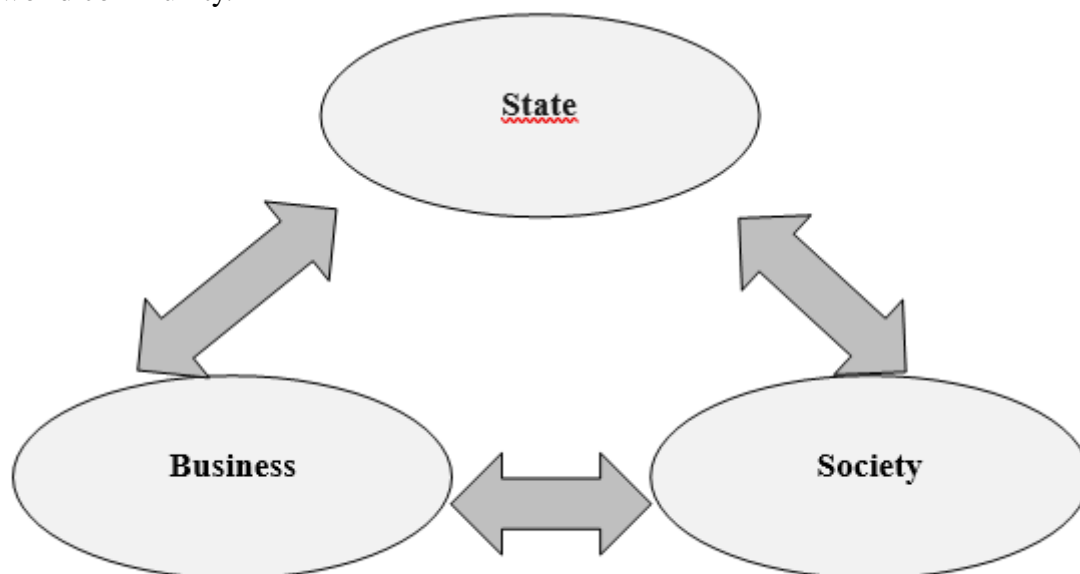


Figure 2 Elements of Social and Ethical Marketing

The principles of social and ethical marketing are designed to form the ideology and philosophy of sustainable development programs for the national and world economy. The interests of consumers should be the basis for the formation of any business model, both in terms of meeting the existing needs of society, and in terms of the formation and strategic development of a consumption culture, the development of social and ethical needs.

Achievement of the sustainable economic development goals through the development and implementation of the principles of social and ethical marketing implies the unity of the state economic development strategy with both the administrative regulation tools and the financial and legal levers of a centralized management system. The creation of indicators that determine the implementation of the principles of social and ethical marketing by the business sector at the national level will determine the unity of approaches to the formation of business projects in the business environment. The examples of this are the government programs, for instance, in Germany – “Der Grune Punkt” (1991), which provide for the formation of a socially responsible public attitude to consumption, production, business and the environment in the country.

Since 1997, the program has become international and assumes that socio-economic responsibility lies not only with entrepreneurs who develop packaging recycling projects and innovations in this area (in terms of self-utilization), and pay a special tax, but also with consumers who pay more for goods with the “Green point” sign, sort household waste and stick to separate garbage collection.

A high degree of socio-economic and environmental responsibility to future generations on the part of the three components of the process of sustainable development of the country's economy should become a strategic concept for the development of national economies worldwide and the entire world economic system.

The state shall create a legal environment, which provides that the entrepreneur cannot carry on business, if there are no mandatory rules for waste-free production, recycling of packaging and other related materials and components, and, first, for the products themselves, which should be harmless to the health of consumers and contribute to the health of the nation. The reason is that the greatest wealth of any state is the health of the nation.

The state, being an economic management system, plays in this case an extremely important role in shaping the conditions and regulating the factors of development of a sustainable economy.

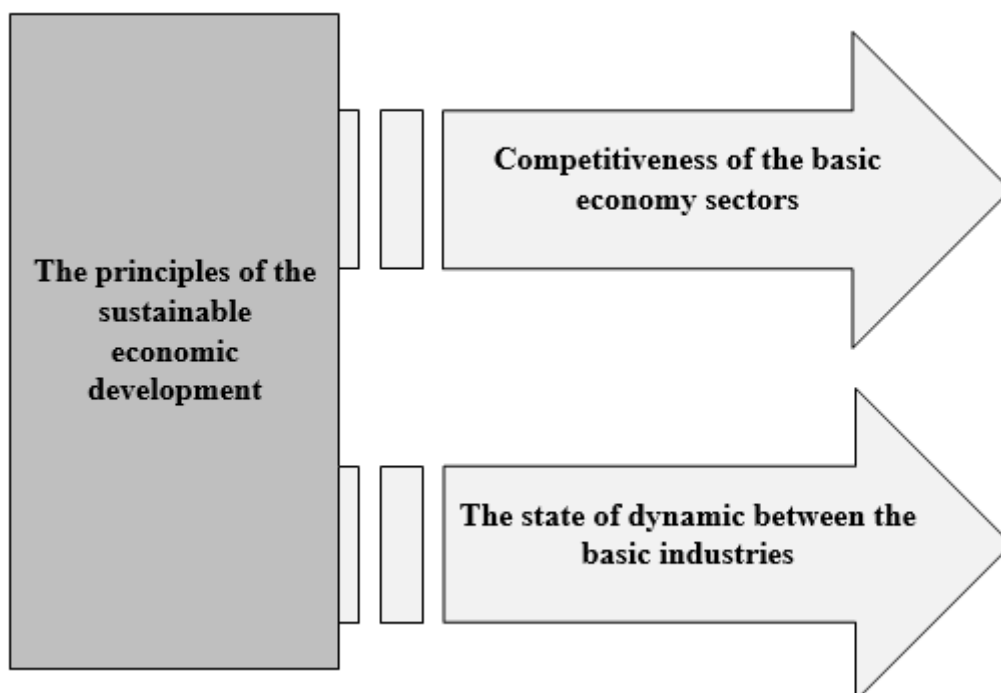


Figure 3 Principles of Sustainable Economic Development

The main principles of the sustainable economic development are (Figure 3):

- Competitiveness of the state, development trends and products of the basic sectors of the economy,
- The state of dynamic balance between the basic industries.

The implementation of the principle of competitiveness in the dynamic process of globalization implies openness of national economies. Thus, for the formation of indicators of competitiveness, the most important factor is the compliance of the national economy sectoral structure with the needs of the global market. At the same time, the competition on the global market stimulates the development of production, product innovation, as well as an increase in the efficiency of production and sales. These processes result in a sectoral restructuring of the basic sectors of the economy, which is a factor that plays significant role in the redistribution of all resources of the national economy – production, labor and finance. Ensuring the competitiveness of national economy products on the international market stimulates the openness of the economies of countries and the development of precisely those sectors that are export-oriented.

Imbalances in the system of sustainable development of the economy can lead to imbalances in the redistribution of resources between sectors (in favor of low-efficient industries), to the formation of a multi-layered economy, the hallmark of which is the instability of development.

Sectoral equilibrium implies conditions under which economic entities are not interested in entering or exiting the industry in which they operate, the development or reduction of means of production, changes in production and sales volumes, prices, credit, investment, depreciation of commodity and sales policy.

However, this state is not sustainable, especially in an open national economy. Not only foreign investors, assessing the characteristics and efficiency of the industry, but also the newly created national businesses will strive to the sectors of the economy, which currently show the highest financial results in terms of profit, profitability and the efficiency of use of assets.

However, with such a dynamic state of stable equilibrium of basic sectors of the economy, there is a rapid redistribution of the ranks of basic industries along with changes in the composition of the industries themselves.

In this case, due to the influx of national and foreign investors into the industry there is a change in production volumes and prices of manufactured goods.

The greater the number of integrated companies in the industry, the greater the volume of goods they produce. Overproduction of goods causes a downward price change. Part of the goods of the national market, subject to compliance with international standards and demand in the international market, can be supplied to other national markets. However, at the same time, despite the growth of sales of goods in the industry on the international market, the income of companies can be reduced for two primary reasons. The decline in income and profits is mainly influenced by the selling price of goods. And, as practice shows, in other regional and national markets the price of goods of the basic export-oriented industry may be significantly lower than the price in the domestic national market. But this also triggers another factor. With a low price for exported goods in the importing countries, costs increase significantly due to several reasons: the growth of tax and customs payments, additional costs for marketing and advertising, investments in the production and innovation of goods, growth in selling expenses, etc.

Therefore, the formation of the export-oriented potential of the basic industry does not always mean a guarantee of its strategic development and economic sustainability.

4. Conclusion

The concept of sustainable economic development was formed in the 1980s as a scientific theory. Later, in the late 90s, it was adopted as The Program of Economic Strategy at the UN conference.

The international Commission on Environment and Development defines sustainable economic development, as “Sustainable development is the one that meets the present needs without compromising the ability of future generations to meet their own needs”.

Over the fifty years of existence and practical application of the theory of sustainable

development of the economy, it has transformed its concept, mechanisms, systems and tools. However, the ideology and philosophy of sustainable economic development at the national and international level is preserved.

The key feature of the conceptual sustainable development strategy of the economy is a three-fold system, which includes not only the main vectors of economic development, but also the society, as well as the environmental aspect.

Implementation of the sustainable economic development concept at the national level determines the improvement of the status of the state, the role of which is to form a civilized framework that ensures strict observance of the principles and norms that govern the strategic development of society and the environment as a factor of business responsibility to future generations.

Therefore, the basic principles of sustainable economic development are the formation of competitive conditions for the main sectors of the economy and the maintenance of a balance between them.

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