Dr Vasily Vysokov
Professor of Economics
Chairman of the Board of Directors of Center-invest Bank

Distance Economy Design Concept

The lockdown and measures to support the economy amid the Covid 19 pandemic have turned the concept of a distance economy into a reality. Dr Vasily Vysokov, Professor of Economics, Chairman of the Board of Directors of Center-invest Bank, presents his vision for the principles of the economy that we see being formed right before our eyes.

Economic mechanism

Bullets fly along a ballistic curve, not on a parabola. The development of a real economy is based not on theories, but on rules that form the basis of an economic mechanism. Although there are no ideal economic mechanisms, from the various options, it is important to select those that are internally consistent. For this purpose, the economic rules are assigned to separate functional sub-systems, from which compatible options are selected as the jigsaw pieces forming the design concept for a new model of economic mechanism. During Russia's transition to a market economy in the early 1990s, it sufficed to identity the following sub-systems: Institutions, Planning, Finances, Credit, Social Protection, Marketing and Logistics, and Prices. Current thinking about economic mechanisms includes: Institutions, Markets, Rules ensuring the reproduction of Financial, Investment, Production, Intellectual, Human, Social, Information and Natural Capital, and Pricing Mechanisms.

Institutional structure and markets

The distance economy is one in which citizens are physically distancing. In such an economy, the rather vague concept of civil responsibility is replaced by a stricter financial liability, whereby each self-employed individual (SEI) is liable for their actions or lack thereof to the full extent of their assets. So that a distance economy characterized by interactions between SEIs functions normally and is not reduced to a subsistence economy, it will be necessary to reconfigure markets with various degrees of localization into marketplaces where every SEI can offer their goods and services and select orders for their work. The openness and transparency of marketplaces should simultaneously protect market participants from unscrupulous buyers and unscrupulous sellers.

Human capital

If every citizen is to have the status of a self-employed individual, then the traditional "employee - employer" relationship should be replaced by partnership arrangements regulated by civil law rather than employment law. The world is already moving in this direction; contracts are increasingly being used for military service. In the distance economy, such contracts can be made public and open to a wide range of people. Professional competitive selection can replace cronyism. And most importantly, relationships in manufacturing and production can be put on a more equal footing.

Production capital

The goods and services sector has already started to transition into a distance economy. Education and even healthcare services can be provided without direct contact. However, there are some sectors in which the production processes require collaborative working. These sectors have a lot of work to do on transforming conveyor systems through the use of robotics and artificial intelligence, but the need for this work is understood. SEIs could be contracted to perform specific tasks for large transnational companies, both in production facilities and in engineering centres. It will be the job of big business to introduce new technologies and establish value chains among independent SEIs. This will require more precise specifications, timescales, quality standards and competence requirements. But the most important thing is that big business be psychologically prepared to work with SEIs as equal partners, who will bear liability to the full extent of their assets. In the event of disputes, impulsive social protests will be replaced by large-scale resort to arbitration through the courts.

Financial capital

In a distance economy, public expenditure should be fully automated. Budgets at all levels should work not as a holding tank which drains off financial flows as it fills to the top, but as a pool with two permanently open pipes, as used in recirculating water supply systems. Taxes can be collected on any grounds - in a distance economy SEIs must pay for services (mandatory and voluntary), and to end tax avoidance, it would be better to tax a SEI's assets rather than their income. As for tax administration, tax should be collected directly from every transaction, rather than allowing tax liabilities to accumulate or to be paid in advance. In addition to the large pool of the consolidated budget, in a distance economy we will need to preserve the budgets of individual funds for the guaranteed financing of specific programmes. We should already be ensuring that when money is disbursed by the federal government and corporations for the implementation of national projects, any revenue obtained from investing temporarily surplus funds should be returned to the higher-level budget.

Investment capital

Investment capital is essential to finance risky and long-term projects. It should be regulated separately from the financial capital used for payments and settlements. In the distance economy, payments and settlements are instantaneous and risk-free. The public funding and faster payments systems should be separate from investment activities. The reliability of current payments and their independence from the state of the investment market will allow SEIs to make better informed decisions about the co-funding of investment projects, which will become a more attractive option. SEIs will be able to draw up their own investment plans, use stock marketplaces and crowdfunding platforms, and invest in more complex entities (limited liability or public joint-stock companies), public-private partnership infrastructure projects (central and local government), and environmental and social projects.

Social capital

The distance economy will not replace the joy of human contact. But human contact will lose the herd effect, when people shout and clap just because everyone else is. More individual ways will be found to show recognition and respect. Instead of holding meetings, networks and ecosystems will be developed further. Some SEIs will turn the construction of such communities into a business. Lawmakers will have to introduce stricter controls on the social responsibility of SEIs for their activities in networks and stimulate sector-specific, socially oriented, and creative communities. Ultimately, a social environment will be created in the distance economy for the reproduction of social capital.

Information capital

Regulating access to information will remain the most complex task in the distance economy. The right to open information must guarantee the protection of personal and special category data. As the distance economy develops, “everything secret will come to light”, and legislation must keep up with this change. Refusals to provide information must be substantiated and there should be strict penalties for manufacturing and spreading disinformation, rumours, hype, fake news, and “it is highly likely” stories. As well as mandatory regulatory and financial reporting, market participants will increasingly disclose non-financial information about their impact on the reproduction of human, social and natural capital and regulatory mechanisms in the distance economy. SEI-analysts will emerge to monitor and analyse information. It is important to understand that big data analysis is not just about science and algorithms; it is also an art form akin to ikebana, the Japanese tradition of arranging flowers and leaves in meaningful patterns.

Intellectual capital

In the distance economy, intellectual capital will play a more substantial role thanks to the work of SEIs in this area. Entrepreneurs themselves must be ready for a new sphere of regulation and to participate in developing items of intellectual property, establishing markets for intellectual property rights, creating start-ups and accelerating innovation.

Price setting

All kinds of prices will be used in the distance economy: negotiated, quotations, contract, auction, behavioural and promotional. The scope of price regulation will narrow: there will always be a SEI offering a better price, and the transparency and openness of price setting will mean that the market can accommodate a whole range of prices.

Natural capital

The financial liability of SEIs in the distance economy will create new incentives for the reproduction of the environment. They will independently assess their environmental impact, determine operating and capital expenses for environmental protection, select environmental projects, disclose information about the condition of their assets and resources and actively use alternative technologies for the reproduction of natural capital.

30 years of monitoring reforms

These conclusions are underpinned by work that began 30 years ago. When the Rostov region was in transition to a market economy, Center-invest Bank produced a table showing the interactions between the various economic transformations. This framework has been used at all stages to monitor and address the latest aspects of the region’s economic and social development. This work has guided decisions about business development and programmes to address social issues and make the Rostov region more competitive globally. A number of publications expand on this work, including: Privatization in Russia: The Path to Riches or to Bankruptcy? (1994), Non-Payments (1996), The Five-Year Plan for Reform in the Rostov Region (1997), Small Business: made in Russia (1999), One Billion Dollars of Rostov Region Investment (2003), The Investment Appeal of Southern Russia (2006), Southern Russia Versus the Global Crisis (2009), Information and Communication Technologies in Southern Russia (2014), Southern Russia’s Positive Economy (2015), and Banks Love Small Business (2018).

БАНК ЦЕНТР-ИНВЕСТ

The brainstorming continues

To mark Center-invest Bank's 30th anniversary, we planned to hold a hackathon for undergraduate and postgraduate students from Rostov State Economics University. Their task would be to produce a design concept for the economy of the Rostov region in 2050. We created a website (don2050.ru) with an online table designer and methodological guidance. As the external environment changed, we set the ten teams of participants a more specific task: to create a design project for the distance economy of the Rostov region in 2050. The new generation of economists rose to the challenge: the jury were very impressed with the work submitted. But as well as creative proposals, the formation of a distance economy will require changes to the legislative framework. Therefore, although the competition is over, the hackathon participants will continue their endeavours.

Table of interactions in the distance economy

	Institutions	Markets	Human capital	Production capital	Financial capital	Investment capital	Social capital	Information capital	Intellectual capital	Prices	Natural capital
Institutions	SEI-economy	Registration in marketplaces	Everyone - partners	Process business chains	Taxation of SEI assets	SEI investment plan	Legally regulated online space	Degree of openness	Intellectual property rights (IPR) of SEIs	Negotiated	Environmental expenditure
Markets	SEIs are both buyers and sellers.	Marketplaces	Marketplaces for labour market	Specifications for orders	Funds	Stock marketplaces	Local networks of market participants	Bots in marketplaces	Markets for IPR of SEI	Quotations	Impact assessment
Human capital	SEI – equal business partner	Offer of services	Civil law instead of employment law	Lease and contractor agreements	Income tax replaced by tax on SEI assets	Crowdfunding	Participation in networks	Artificial intelligence	Participation in development of items of IPR of SEI		Environmental education
Production capital	Kanban	Offer of goods	Competency requirements	Robotized production and AI	Taxation of transactions	Capital investments	Sector-specifc communities	Regulatory reporting	Creation of items of IPR of SEI	Contract	Environmental protection
Financial capital	Payment for services	Financial	Benefits	Payment for orders	Automated budget	Self-funding	Philanthropy	Financial reporting	Co-funding of start-ups	Regulatory	Recording environmental expenditure
Investment capital	Stakes in the capital of SEIs	Investment in local marketplaces	Standards for working conditions	Infrastructure	Public Private Partnerships	Co-funding	Investment in social communities	Investment in IT	Investment in innovation	Auction	Selection of environmental projects
Social capital	Ratings for SEIs	Ratings for marketplaces	Ratings	Selection of ecosystems	Co-funding	Stakeholders	SEI and ecosystem networks	Non-financial reporting	Amortization of IPR of SEI	Behavioural	Living environment
Information capital	Information filters	Market analysis	Distance learning	Information security	Information monitoring	Monitoring of investments	Information monitoring	Regulated access to information	Rights to information	Promotion	Disclosure of environmental information
Intellectual capital	Use of patents	Protection markets of IPR of SEI	Continual training of workers	Automation of patent work	Co-Financing the creation IPR of SEI	Taxing IPR of SEI	Creative communities	Databases of IPR of SEI	Compliance with IPR of SEI	Flexible prices	Alternative technologies
Prices	Valuation of SEIs	Market quotations	Social protection and guarantees	Requests for quotations	Tariffs and rates	Auctions	Social marketplaces	Open information about prices	Prices for items of IPR of SEI	Price diversity	Fines and incentives
Natural capital	Environmental standards	Emissions trading	Environmental requirements	Efficient technologies	Financing environmental protection	Investment in environmental protection	Social environment	Open information about the environment	IP rights in ecology	Prices of reproduction	Reproduction of the environment