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CONTENTS

ELECTRONICS AND RADIO ENGINEERING 8

Dreyzin V.E., Al Kadhim Ali Noori Mohammed ELECTRON-
 ION TRAP FOR COMBINED DENSITY AND COMPOSITION
 SENSOR OF THE UPPER ATMOSPHERE..... 8

Dreyzin V.E., Al Kadhim Ali Noori Mohammed A
 COMBINED SENSOR DENSITY AND COMPOSITION UPPER
 ATMOSPHERE 18

NEUROTECHNOLOGY.....33

Fedulina A.A., Bardina P.S., Lepekhina L.S., Ikonnikov A.V.,
 Matveeva M.V., Duzenko A.D., Lebedeva A.V. PRINCIPLES OF
 FUNCTIONING CELLULAR NEURAL NETWORKS 33

BIG DATA39

Menshikov A.N. ANTHROPOLOGICAL AND ETHICAL
 PROBLEMS OF BIG DATA..... 39

GEOGRAPHY AND TOURISM.....44

Naumkin D.V. PROMYSLA - A LOCATION OF MARINE
 INVERTEBRATES DURING MIDDLE-UPPER ORDOVICIAN
 PERIOD (PERM REGION)..... 44

HISTORIOGRAPHY.....52

Serebrennikov S.V. RUSSIAN HISTORIOGRAPHY OF THE
 REPATRIATION OF JAPANESE PRISONERS OF WAR FROM THE
 USSR: FACTORS INFLUENCING THE REPATRIATION POLICY OF
 THE SOVIET STATE..... 52

PERSONNEL MANAGEMENT60

Vasilenko E.V., Vasilenko P.G., Smirnova M.A., Kotyshov A.V.
 THE ROLE OF A LEADER AND ORGANIZER IN THE MODERN
 SOCIETY 60

BANKING SECTOR 69

Demidenko T.I., Sokolova V.V. INTERAGENCY COOPERATION DEVELOPMENT OF SUPERVISORY AUTHORITIES AS A MECHANISM FOR ENSURING STABILITY OF THE BANKING SECTOR.....69

Sokolova V.V. THE PLACE AND ROLE OF THE BANKING SUPERVISION IN THE NATIONAL COMBATING THE LEGALIZATION SYSTEM (LAUNDERING) OF INCOME74

Nikolaev A.V., Demidenko T.I., Arzumanyan A.A. BANK INTERNAL CONTROL ORGANIZATION AS A MEANS OF COUNTERACTION THE LEGALIZATION.....80

ECONOMICS 85

Assel Abdykhadyrova, Ilhan Ege, Gulnar Mukanova LIBERALISATION OF PUBLIC FINANCE THROUGH NEW PUBLIC MANAGEMENT REFORMS IN TURKEY AND RUSSIAN FEDERATION85

Pilipenko V.A., Antonov M.P., Shnyakin K.V. THE STUDY INDICATOR OF THE LEVEL OF LIFE IN RUSSIA 107

Fedotova V.A. INFLUENCE OF SOCIO-CULTURAL FACTORS UPON THE ATTITUDE TOWARDS HEALTH AMONG RUSSIANS 115

MANAGEMENT..... 128

Petrosov D.A. USE OF THE MATHEMATICAL APPARATUS OF PETRI NETS IN THE PROBLEMS OF MODELING "ROAD CARDS" 128

JURISPRUDENCE 135

Chebonyan T.G., Velichko A.A. TO A QUESTION TO PROTECT THE RIGHTS OF SERVICEMEN TO HOUSING135

| | |
|---|-----|
| Agafonov E.A., Svinin E.V. LAW AND NECESSITY AS ATTRACTORS OF SOCIETY DEVELOPMENT AND THE ORDER | 141 |
|---|-----|

POLITICAL SCIENCES..... 147

| | |
|---|-----|
| Krylova M.A., Nechaev A.V. INFLUENCE OF POLITICAL TECHNOLOGIES ON THE FORMATION OF ELECTORAL PREFERENCES IN THE ELECTORAL PROCESS OF POLITICAL PARTIES IN MODERN RUSSIA | 147 |
|---|-----|

PHILOSOPHY 153

| | |
|---|-----|
| Tyapin I.N. THE ESSENCE OF POSTPHILOSOPHY IN THE CONTEXT OF THE PROBLEM OF PSEUDO-RATIONALITY | 153 |
|---|-----|

| | |
|--|-----|
| Yastrebn N.A. STORYTELLING AS A PRACTICE FOR THE PRODUCTION AND TRANSLATION OF SCIENTIFIC KNOWLEDGE..... | 167 |
|--|-----|

| | |
|--|-----|
| Volkov I.A. THE ROLE OF UNIVERSITIES IN THE PROCESS OF CAPITALIZATION OF KNOWLEDGE.... | 173 |
|--|-----|

| | |
|--|-----|
| Pahonina E.V., Sinitsyna T.I. ON THE PROBLEM OF HUMAN UNDERSTANDING IN THE ERA OF DIGITALIZATION | 180 |
|--|-----|

EDUCATION..... 184

| | |
|--|-----|
| Emelyanovich A.A., Koval S.V., Dyachenko D.G. TRANSFORMATION OF THE UNIVERSITY CONCEPT UNDER THE INFLUENCE OF CHANGING SOCIO-ECONOMIC STRUCTURE: HISTORICAL ASPECT | 184 |
|--|-----|

| | |
|---|-----|
| Guzakova O.L., Dryanin N.V. APPLICATION OF STANDARDIZED SYSTEMS OF FINAL CERTIFICATION IN THE FORM OF THE UNIFIED STATE EXAMINATION IN RUSSIA | 198 |
|---|-----|

| | |
|--|-----|
| Sharypova I.V. SCIENTIFIC AND EDUCATIONAL SPHERE AS A FACTOR OF SOCIO-ECONOMIC DEVELOPMENT OF THE REGION | 204 |
|--|-----|

| | |
|--|-----|
| Kassimbekova M., Kaliyeva A., Ikramova A., Aksoy A. FORMATION OF PROFESSIONAL COMPETENCE IN STUDY THE DICSIPLINE “MIDICINAL PLANTS AND THEIR RESOURCES” | 210 |
|--|-----|

PEDAGOGICAL SCIENCE.....217

| | |
|---|-----|
| Nifontava T.A. DEVELOPMENT OF EMPATHY AMONG STUDENTS OF PEDAGOGICAL SPECIALTIES BY THE EDUCATION OF HUMANITARIAN PRINCIPLES AND VALUES | 217 |
|---|-----|

SOCIOLOGY222

| | |
|---|-----|
| Cherepanova M., Maximova S., Sirotina T. TRANSIT MIGRATION AT THE BORDEN REGIONS OF RUSSIA: DIASPORA AND SOCIAL STABILITY | 222 |
|---|-----|

CULTURAL STUDIES233

| | |
|--|-----|
| Oblasov A.A. DELITS AND DEVIATIONS IN THE SYSTEM OF FACTORS FORMING A MULTICULTURE OF A MODERN SOCIETY | 233 |
|--|-----|

ECONOMICS

Assel Abdykhadyrova, Ilhan Ege, Gulnar Mukanova

LIBERALISATION OF PUBLIC FINANCE THROUGH NEW PUBLIC MANAGEMENT REFORMS IN TURKEY AND RUSSIAN FEDERATION

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Abstract

International Financial Organizations (IFOs) offer financial aid to the countries and require implementation of liberal reforms in public administration, especially in public financial management. While Turkey entered the liberalization process in the 1980s, Russian Federation started it in the 1990s after the Soviet Union collapse. Therefore, the period of analysis for this article starts from the 1980s for Turkey up to the last 2017 year, while for the Russian Federation (RF) the period is from the 1990s also till 2017. The article's purpose is to analyze outcomes of liberal reforms in public finance through New Public Management (NPM) policies implemented under the influence of the IFOs. The comparison of controversial socioeconomic outcomes is compared and generated from public finance literature, online data of World Bank based on the official reports of the state agencies of Turkey and Russian Federation.

Keywords: reforms in public sector, economic liberalization, neo-liberalization.

1. What is New Public Management and how it worked worldwide?

Beginning in the late 1970s and flourishing during the 1980s and 1990s, the liberal and later neo-liberal reforms in the public administration well

known worldwide as ‘re-inventing government’¹ and ‘re-engineering and modernisation’² represented a set of principles which aimed to replace old hierarchic model of public administration of ‘Weberian’ state with the New Public Management (NPM) which have been featured with such notions as democracy, transparency, accountability and decentralisation. If previously the academic research was focused on the nature of a state, forms of public administration, and search for the ideal governing mechanism, later the political modernity was attempting to find out how to actually enforce legislation and provide considerable efficiency to the public administration. This new issue or challenge of the day began to be actively studied. However the process of public administration reforming commenced in the 1980s was caused not only because of this, but also due to a number of other factors conditioned by the deep developments in the social relations and technological innovations worldwide.

After the infrastructure for the information-oriented society was formed, the transition towards the new model of relations between state and society became possible. The functions of state and increasing its efficiency had been seen as a remedy for the ‘ills’ of public sector and several concepts of a state such as a “welfare state” that provides services directly to the society, a “low-cost state” which transfers public problem solving to the private sector, and a “negotiating partner state” which acts as an intermediate between business and society³ were established. The attempt to synthesize all above approaches resulted in the advanced paradigm of public administration currently perceived as New Public Management.

This model suggests there is an active cooperation between state and society, while each of them has clearly distinguished responsibilities, where state is supposed to initiate the processes of public problem solving and to create a framework of citizenry liability. The main functions of a state were therefore defined as initiation, activation and stimulation of innovative development⁴. NPM reforms had also aimed to the delegation of a number of functions previously maintained by the state to the market structures, and also application of the managerial style similar to the private sector approaches, including the increasing cost effectiveness of public services, steering in provision of services, custom orientation, ‘entrepreneurial management

¹ Massey A. and Pyper R. (eds), *Public Management and Modernisation in Britain*, New York: Palgrave Macmillan (2005), p.88.

² Massey A., *Moja Kwa Moja: the context of policy transfer, privatising Kenya Airways*, Paper to Public Administration Committee of the JUC annual conference (2008).

³ Anyang’Nyong’O, *Governance and Poverty reduction in Africa*, Economic Research Papers, No.68, The African Development Bank, Abidjan (2001).

⁴ Bovaird T. and Löffler E. (eds), *Public Management and Governance*, London and New York: Routledge, Taylor & Francis Group (2003), p.109.

culture⁵. The main element of NPM is the liberalisation, other tools include privatization, adaptation to market economy (marketisation), competition, structural decentralisation, performance audits and measurement etc. In a theory, such a model *inter alia* presumes a state being a guarantor of service delivery which supervises social and economic activities with high cost efficiency.

NPM reforms in Europe and US had demonstrated positive outcomes with the public sector reduced in size, the decreased public expenditures, improved transparency and efficiency of administrative system and enhanced HR system. Countries like Australia, New Zealand, Scandinavian states, “Tiger” economies of Far East where institutional factors have been in place and created a favourable context, the transition to the entrepreneurial model of state had also revealed many promising outcomes.

Although NPM had brought a comprehensive change to the public administration, some countries have faced a variety of differentiating effects. For instance, in the US and UK there were contradictions in the process of public services transition to a market basis, while public sector in Germany faced an increased level of bureaucratization, staff and services reduction, legitimacy decrease and ‘brain drain’⁶. In other words, such contingencies can entail the destruction of public service institutions and ethics, loss of social parity and traditional principles of orientation to the interests of society.

Another side effects of NMP were revealed through the experience of IFOs such as World Bank (WB), International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD), European Bank for Reconstruction and Development (EBRD), Asian Development Bank (ADB), Islamic Development Bank (IDB), which had also followed the wave of NPM and started its implementation in emerging economies using a “one-size-fits-all” approach⁷. Such a simple transfer of liberalisation policies, which considered no specific context of the economic, socio-political and ethic factors in a certain state, including former Soviet countries and also Turkey, was known as ‘shocking therapy’ due to lacking adaptation of policies to the status quo of these countries. In some cases such approach had resulted in the regress and worsening of already tense situations. NPM tools such as privatisation were widely used and actively promoted by IMF and WB as a part of loan programs and contracts financing large-scale projects.

⁵ Anyang’Nyong’O, Governance and Poverty reduction in Africa, Economic Research Papers, No.68, The African Development Bank, Abidjan (2001).

⁶ Haque M. S., Public Service Under Challenge in the Age of Privatization, Governance Journal, Issue 9, pp.186-205 (1996).

⁷ Anyang’Nyong’O, Governance and Poverty reduction in Africa, Economic Research Papers, No.68, The African Development Bank, Abidjan (2001).

There is a correlation of economic growth and increase of per capita income (including income of the poor) declared by the liberal model of development and actively promoted by the IFOs, 'the evidence on the model's economic superiority is itself in doubt'⁸. Nonetheless, IFOs insistently prescribe liberal economic policies as the only worthy option for economic growth, although the success of these policies in a certain country is never guaranteed. While liberalization paradigm of NPM had originated in the developed countries such as UK and US and prevailed in thinking about the state in the 1990s, the socioeconomic environment required for their success is often missing in the many emerging countries.

Moreover, although the IFOs acknowledge that their policies should be tailored to the specific context of the borrowing countries in a more responsive fashion⁹, in practice the process of policy transfer is weakly adjusted to the specific factors presented within a borrowing country. For instance, liberal policies implemented in Turkey and Russian Federation had shown a significant level of policy failures, lacking feedback about the results of implemented policies and the rising operational costs of programs. Such results were also witnessed in another emerging countries worldwide and had actually led to the reduced role of the IFOs for the borrowing countries in the global economic development.¹⁰

In spite of the NPM policies impact and the efficiency being still strongly argued amongst researchers and academicians, it has now become a part of the day-to-day activities in the public sector of many countries. This movement has brought considerable changes and developments to policy-making and policy implementing procedures at a global level. The results of developed and developing countries differ depending on many specific factors, but the findings taken place in Turkey and Russian Federation have some similarities and differences, positive and negative ones.

2. Financial liberalization in Turkey

In terms of economic situation at the end of the 1970s Turkey had faced severe balance-of-payments and debt crises caused by the large public sector and trade deficits, and also by the rising foreign debt resulted from the political instability. Negative impact on the Turkish economy was also caused by the oil crisis. In the 1980s these circumstances presented in Turkey had led to the adoption of New Public Management reforms with high liberalisation¹¹.

⁸ Dani Rodrik (1999), *The New Global Economy and Developing Countries: Making Openness Work*. Baltimore: The John Hopkins University Press, p.150

⁹ The IBRD/The World Bank (2005), *Improving the World Bank's Development effectiveness*. Washington, D.C.: The World Bank, p. 41

¹⁰ The IBRD/The World Bank (2005), *Improving the World Bank's Development effectiveness*. Washington, D.C.: The World Bank, p. 41

¹¹ Merih Celâsun, Dani Rodrik (1989), Turkish Experience with Debt: Macroeconomic

The aim of these reforms was to increase the efficiency of the administrative units and public organisations which provide public services to the citizens and also contribute to the increased legitimization of the public-administrative system and enhance institutional capacity¹². NPM policies were largely supported by the IFOs, especially by the IMF and the World Bank, and aimed to promote the economic growth by improving financial efficiency, increasing domestic savings and attracting foreign investments. The considerable debt relief and new lending by the IFOs have been crucial factors that led to the significant downward flexibility of real wages and prices for agricultural products.

These reforms had essentially triggered the trade liberalization (export increase and gradual import liberalization) and financial liberalization (interest rate controls and capital liberalization). Despite the subsequent positive increase of both the private and the public investments and also exports, such imprudent policies as generous pensions for public servants and excessive subsidies for agricultural sector had gradually resulted in the imbalance in public spending and high inflation rates in Turkey. Moreover, trade policy had changed from an inward orientation to outward orientation¹³. Nonetheless, the Turkish economy has experienced high inflation levels during the past decades: the average inflation rate was 35-65% per annum within the 1980s, 60-80% per annum within the 1990s¹⁴ and reached up to 73% in 2002 but decreased to 5% in 2009, since the beginning of 2010s the highest year to year inflation rate was approximately 13% in 2017 and the minimum one was 3.99% in 2011, though hyperinflation has never been the case. More detailed analysis of inflation rates and another economic indices is provided in the following section of the article.

The economic growth was volatile and is still dependant on the political situation. Minimisation of negative effects caused by the financial crises in 1994, 1999, 2001 and 2007 were achieved by introduction of additional taxes and expenditure cuts equal to 5% of GNP¹⁵ leading in general to the greater economic stability in Turkey. However, the share of Turkish foreign debts, majority of which were provided by the IFOs, are rising annually.

3. *Financial liberalization in the Russian Federation*

Policy and Performance, , NBER book Developing Country Debt and the World Economy (1989), Jeffrey D. Sachs, editor (p. 193 - 211), National Bureau of Economic Research, University of Chicago Press, available online: <http://www.nber.org/chapters/c7526.pdf>

¹² Yüksel Demirkaya, *New Public Management in Turkey: Local Government Reform* (2016), p. 30-35, Routledge (2016)

¹³ <http://www.imf.org/external/pubs/ntf/2000/turkey/>

¹⁴ Ertuğrul, Ahmet, and Faruk Selçuk. "A Brief Account of the Turkish Economy, 1980-2000." *Russian & East European Finance and Trade*, vol. 37, no. 6, 2001, pp. 6-30. *JSTOR*, www.jstor.org/stable/27749598.

¹⁵ <https://www.oecd.org/derec/worldbankgroup/36494121.pdf>

While the Russian Federation had very similar status quo when implementation of liberal policies had started in the 1990s, the transition problems of these two countries have differed from those presented in Turkey at the beginning of the 1980s. Simplified transfer of liberal policies caused the gradual ‘Thirdworldisation’¹⁶ of the Russian Federation and was largely influenced by the IFOs. Such tools of NPM as monetary stabilization, liberalization and privatization have been largely applied, however the package of the NPM policies excluded such crucial elements as the development of market institutions, establishment of the environment for fair competition, and government reforming¹⁷. Therefore, the policy program of the Russian Federation for transition to the market economy had numerous negative effects and was eventually named as “shocking therapy”. This program was aimed at the fiscal limitations and inflation decrease, balancing of internal and international accounts. During implementation of these policies the institutions of the central planning economy had been removed, however their replacement to the market institutions was lacking which haven’t contributed to the establishment of due context required for the successful implementation of NPM policies.

Due to the growing national debts, government of the Russian Federation had developed debt policies, in addition to the fiscal policy structures, new legal frameworks and new budget revenue policies, including tax and nontax revenues. The change in the role of the state triggered the necessity to a large downsizing and reorientation of public spending, as well as thorough reconsideration of tax policy and public administration.¹⁸ During the 1990s and 2000s the budgetary and tax policies have become one of the driving forces of changes in the public administration of the Russian Federation due to the free market effects which had eventually resulted in an increased depth of poverty and unequal income distribution. Similar to Turkey, the Russian Federation had faced high levels of inflation in the early 1990s as a result of extremely short terms in implementing the price liberalisation policy also contributed to the cutbacks in public spending, including social needs, industrial and investment programs, while the amount of public revenues, including revenues from intensive production of raw-materials, could allow more spending¹⁹. Within a year of price liberalisation, consumer prices increased up

¹⁶ Michel Chossudovsky (2003), *Globalisation of Poverty*, Montreal: Press of the Centre for Research on Globalisation, p.23

¹⁷ Kazbekov B.K. (2016), *State regulation of the economy*, Almaty, Kazakh University, 2nd edition (amended).

¹⁸ The IBRD/The World Bank (2007), *Fiscal Policies and Economic Growth: Lessons for Eastern Europe and Central Asia*. Washington, D.C.: The World Bank, p. 1

¹⁹ Ivan Bolshakov (2003), ‘Radical Economic Reforms and Their Outcomes’, *Russian and International Political Science Journal*, available at <http://www.politnauka.org/library/russia/bolshakov.php> [accessed August 2019]

to 26 times, thus seriously undermining the living standards of population²⁰.

Monetary stabilisation and reforms of public finances influenced by the IFOs had showed a positive effect only after 2001 when in addition to declining fiscal deficits the inflation rates dropped to the two-digit numbers (however still high rates) and comprised 16.49% in the Russian Federation. Nonetheless, the consequences of hyperinflation have been devastating for the population, as money savings kept in the GosBank (State Bank) became valueless and even though the savings were not issued to the depositors. In addition to the implementation of price liberalisation, such restrictive fiscal and monetary policies have resulted in the significant change of sales markets, diminution in demand and decline in production in the Russian Federation. Further to other policy reversals, the anti-inflation measures recommended by the IFOs and implemented by the government of the Russian Federation had contributed to social impoverishment and inequality. And this is despite the underlying policy presumption of all IFOs that the measures implemented are intended to be robust and lasting over the longer term and should have the least costly impact on the growth in the rest of the economy.²¹

By the end of period of high inflation in the 2000s the level of public revenues in GDP has reduced by 2-7 times in comparison with pre-reform level and varied between 5-25 percent of GDP²² in the Russian Federation. At the same time, the tax revenues remained at the low level even after completion of the first stage of macroeconomic stabilisation with the average value between 11 and 14 percent of GDP. In addition, funds allocated for social expenditures had been ineffectively spent indicating that a necessity to rationalise public spending policies by deep reforms would create conditions for the cutbacks without damaging the living standards of population²³.

Another measure was privatisation, which could become superior to the lasting state ownership if implemented properly. However, the enforcement of investment funds in mass privatisation in the Russian Federation was weak and resulted in the weak governance of such funds. This contributed to the situation when assets were accumulated in hands of the small group of population, while the majority of population benefited less from privatization. This led to the situation when small group of population had eventually used their wealth to obstruct deep sectoral reforms²⁴ that could confine their activities

²⁰ Ibid

²¹ Khan, M., Nsouli, S. and Wong Ch. (eds) (2002) *Macroeconomic Management: Programs and Policies*. Washington, D.C.: IMF, p.223

²² Akram Esanov (2008), *Efficiency of Public Spending in Resource-Rich Post-Soviet States*, Revenue Watch Institute, pp. 31-34

²³ Ivan Bolshakov (2003), 'Radical Economic Reforms and Their Outcomes', *Russian and International Political Science Journal*, available at <http://www.politnauka.org/library/russia/bolshakov.php> [accessed March 2019]

²⁴ Ivan Bolshakov (2003), 'Radical Economic Reforms and Their Outcomes', *Russian and International Political Science Journal*, available at

by bribing the Russian government and thus contributing to the corruption. Although the culture of private ownership was introduced, the actual implementation of privatisation and application of its sales proceeds for reducing budget burden were ineffective and significantly undermined the core benefits of privatisation, in the Russian Federation.

4. Cross-country analysis of negative and positive socioeconomic outcomes

Turkey and Russian Federation carried out a number of NPM reforms which resulted in a number of changes in public administration, especially in public financial management. These changes can be characterised as positive and/or negative, nonetheless it is beyond doubt that Turkey and Russian Federation have significantly transformed their fiscal policy structures, legal frameworks, new budget revenue policies, including tax and nontax revenues in order to optimise public expenditures. In addition, due to the growing national debts, governments of these two countries had also developed debt policies. In regard to the fiscal institutional framework of Turkey and Russian Federation it was over-dimensioned and required serious restructuring aimed at an increase of its efficiency.

There has been an obvious influence of the IFOs, in particular World Bank and IMF, on the public administration, including public financial management, in Turkey and Russian Federation. Most importantly, the financial institutions and budget management in two countries examined have been considerably modified during several decades. It is however necessary to note that the changes initiated by the World Bank and IMF were also negative as it is provided below.

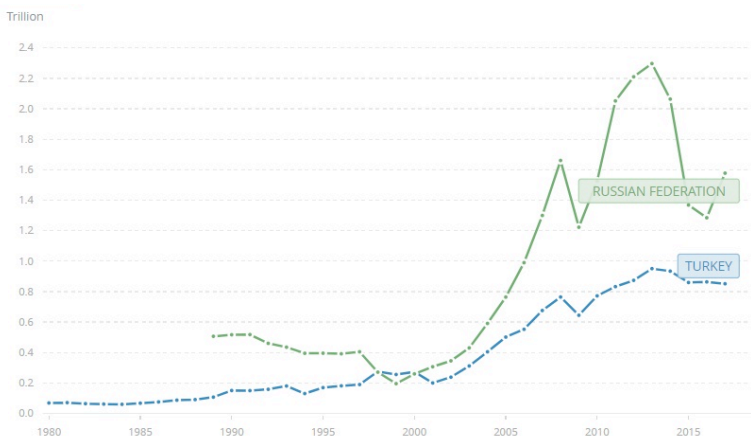
Positive impacts:

In the Russian Federation, the IFOs' influence on the public financial management resulted in massive modifications of budget and tax administration systems which can be considered as good consequence of the NPM reforms. For instance, in Turkey the improvements of budget and tax administration systems were smaller and with lesser positive effect. In the Russian Federation, the positive impact of the World Bank can be seen in the improvement of tax administration systems. It is in fact true that considering the difference in territorial area between Turkey and Russian Federation, the task of the IFOs to reform the Russian tax system was the most challenging goal. In spite of the large territory of the Russian Federation with many federative states, the changes in the tax system have been moderately consolidated.

In this regard, such an important economic indicator as GDP at purchaser's prices in USD in two countries starting (from the 1980s for Turkey

and from the 1990s for the Russian Federation) can be reviewed in the Chart 1.1. below. As you can see, the Turkey's GDP comprised USD 68.7 bln in 1980 and USD 150.6 bln in 1990, while the same indicator in the Russian Federation comprised USD 516.8 in 1990. In the following decades there is a gradual increase in values until 2008, where the most significant decrease in the Russian and Turkish GDP can be observed due to the financial crisis effect with the total decrease of USD 119.6 bln for Turkey, USD 438.2 bln for the Russian Federation. After that there had been stable growth till 2013, when US sanctions against the Russian Federation were introduced. Till present time the 2013 GDP rates remain the highest ones in the decades for all two countries: USD 950.5 bln for Turkey, USD 2.29 trn for the Russian Federation. Starting 2016 the Russian GDP started showing the signs of recovery and amounted to USD 1.57 trn in 2017, while Turkey showed USD 815.1 bln accordingly. In total, Turkish GDP in 2017 increased by USD 782.3 bln vs 1980 indicator, while Russian GDP had grown by USD 1.06 trn if compared with the GDP of 1990.

Chart 1.1. GDP



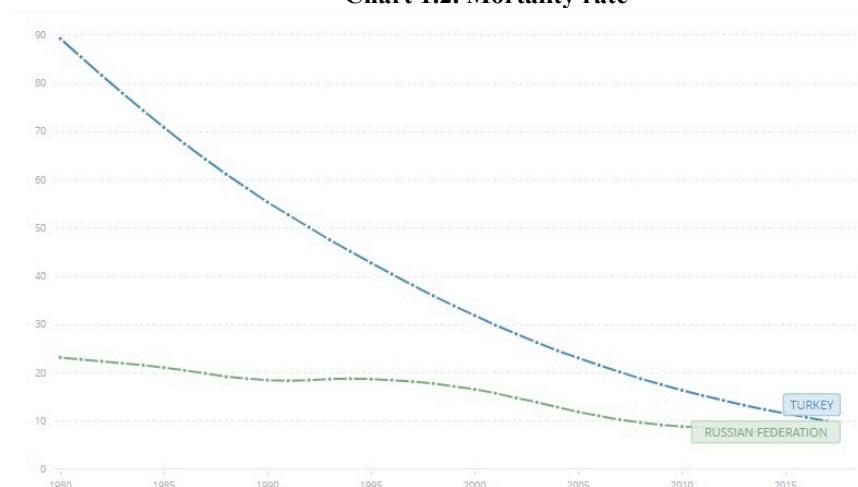
Source: World Bank

Link: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2017&locations=TR-RU&start=1980>

Another general positive trend is that the Russian Federation could transform its totalitarian state into market economy with provision of common rights and freedoms to the citizenry, while Turkey had become more developed as a diversified market economy and such rights and freedoms have longer history of development. In general, the financial institutions in both public and private sectors have become more liberalised institutions. This trend has taken place also due to the influence of the IFOs on policy making in Turkey and

Russian Federation which intend to integrate with the world economy. In this regard, such socioeconomic indicators as mortality rate of infants and life expectancy can also indicate the progress of the social welfare and healthcare systems in these countries. As it is shown in the Chart 1.2. below the mortality rate per had gradually decreased from 1980 to 2017: almost 9-fold for Turkey (from 89 to 10) and 3-fold for the Russian Federation (23 to 6.6).

Chart 1.2. Mortality rate

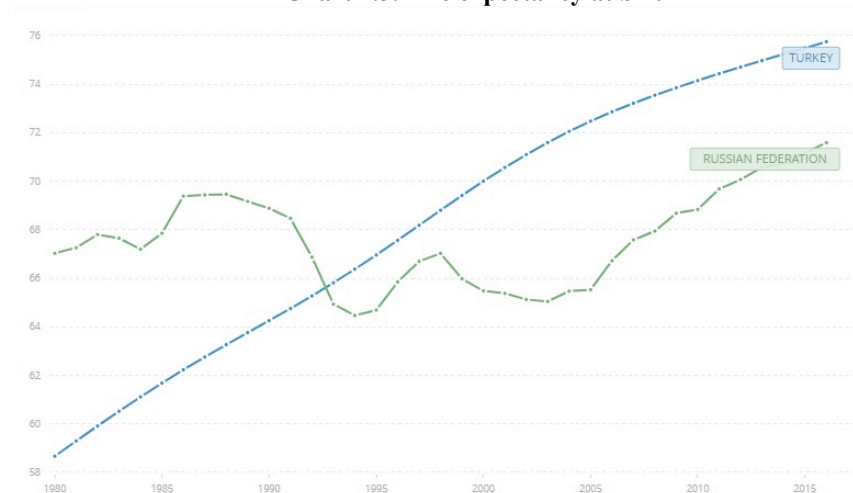


Source: World Bank

Link: <https://data.worldbank.org/indicator/SP.DYN.IMRT.IN?end=2017&locations=TR-RU&start=1980>

Chart 1.3. illustrates the life expectancy at birth in Turkey and Russian Federation. As you can see this socioeconomic index in Turkey had significantly and gradually improved during a few decades, while Russian index had a similar trend, there were two period of decrease during the 1990s. In the Russian Federation the increase then started after 2000. The threshold of 70 years was made by the Russian Federation in 2012, while Turkey passed it back in 2000. The latest available values for 2016 demonstrate that the Turkish life expectancy is higher than the Russian one and comprises 75.8 years against 71.6 years.

Chart 1.3. Life expectancy at birth

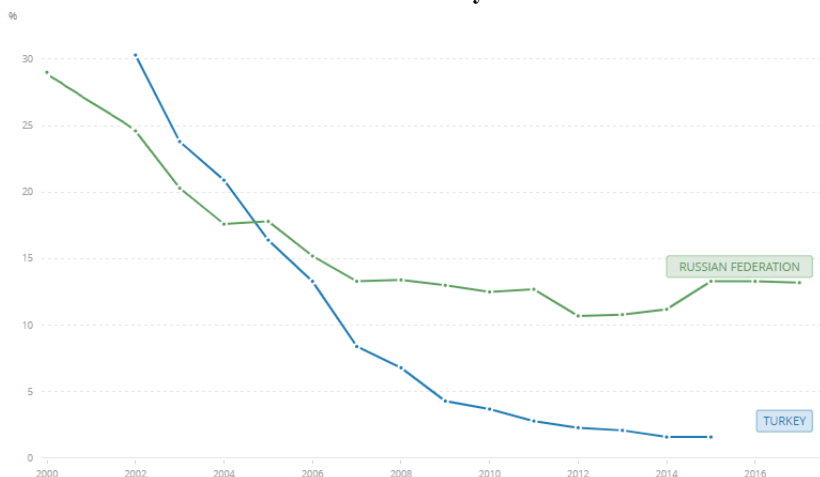


Source: World Bank

Link: <https://data.worldbank.org/indicator/SP.DYN.LE00.IN?end=2016&locations=TR-RU&start=1980>

Furthermore, such indicator as the poverty headcount ratio at the national poverty lines as illustrated in the Chart 1.4. also characterises the general trend in the decreasing of poverty levels among the whole population in two countries examined. This indicator also shows the percentage of the population living below the national poverty lines and is a critical benchmark for defining the country's poverty level which is essentially related with the specific economic and social context presented in this country. The World Bank has the data on poverty headcount ratio since 2002 till 2015 for Turkey and since 2000 till 2017 for the Russian Federation. As it is shown in the Chart below more progress is made by Turkey with the value of 30.3% in 2002 vs 1.6% in 2015 which comprises 94.7% decrease, while Russian poverty headcount ratio decreased by only 54.4% (29% in 2000 vs 13.2% in 2017). Nonetheless, the most recent values in poverty headcount ratio illustrates that the Russian government needs to focus more on the social welfare for reaching Turkish values of 1.6%.

Chart 1.4. Poverty headcount ratio



Source: World Bank

Link: <https://data.worldbank.org/indicator/SI.POV.NAHC?locations=TR-RU>

Other positive indicators are shown below in the Table 2.1., which includes the values of reserves, imports and exports in two countries examined. In terms of the country's reserves and import/export volumes, there is a positive tendency for their stable increase both in Turkey and the Russian Federation. Since 1990 to 2017 the Turkish reserves increased by 13 times, and Russian ones – by 59-fold. For the same period the import indices for Turkey increased over 9 times, and for Russian Federation – over 7-fold. While Turkish exports of goods had grown for 13 times, Russian volume increased over 8-fold. This illustrates the gradual growth of economy for each country examined and its subsequent integration with the world economy.

Table 2.1.

| Reserves (mln USD) | | | | | | | | | | | | | | |
|--------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Years | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| Turkey | 6,050 | 5,144 | 6,159 | 6,272 | 7,169 | 12,442 | 16,436 | 18,658 | 19,489 | 23,346 | 22,488 | 18,879 | 27,069 | 33,991 |
| Russian Federation | n/a | n/a | n/a | 5,829 | 3,976 | 14,265 | 11,271 | 12,771 | 7,800 | 8,455 | 24,263 | 32,538 | 44,051 | 73,172 |
| Years | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Turkey | 35,669 | 50,579 | 60,892 | 73,384 | 70,428 | 70,874 | 79,046 | 76,659 | 98,280 | 109,249 | 105,343 | 91,426 | 90,604 | 82,579 |
| Russian Federation | 120,805 | 175,690 | 295,277 | 466,376 | 410,695 | 405,825 | 432,949 | 441,162 | 473,110 | 456,447 | 327,727 | 309,387 | 308,031 | 346,507 |

| Imports (mln USD) | | | | | | | | | | | | | | |
|--------------------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Years | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| Turkey | 22,303 | 21,047 | 22,871 | 29,428 | 23,270 | 35,710 | 43,628 | 48,560 | 45,921 | 40,226 | 54,503 | 41,399 | 51,554 | 69,340 |
| Russian Federation | n/a | n/a | 40,737 | 36,135 | 50,519 | 62,687 | 68,163 | 71,983 | 58,015 | 39,536 | 44,862 | 53,764 | 60,966 | 76,070 |
| Years | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Turkey | 97,540 | 116,774 | 139,576 | 170,063 | 201,964 | 140,928 | 185,544 | 240,842 | 236,545 | 251,661 | 242,182 | 200,100 | 190,852 | 219,054 |
| Russian Federation | 97,382 | 125,434 | 164,692 | 223,488 | 291,973 | 191,804 | 248,740 | 318,555 | 335,770 | 342,980 | 308,027 | 192,952 | 191,514 | 249,309 |

| Exports (mln USD) | | | | | | | | | | | | | | |
|--------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Years | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| Turkey | 12,959 | 13,595 | 14,716 | 15,343 | 18,106 | 21,599 | 23,245 | 26,260 | 26,881 | 26,587 | 27,775 | 31,334 | 36,059 | 47,253 |
| Russian Federation | n/a | n/a | 42,039 | 44,297 | 67,826 | 82,913 | 90,563 | 86,895 | 74,443 | 75,551 | 105,036 | 101,884 | 107,301 | 135,929 |
| Years | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Turkey | 63,167 | 73,476 | 85,535 | 107,272 | 132,027 | 102,143 | 113,883 | 135,533 | 152,876 | 152,198 | 157,773 | 143,919 | 142,909 | 164,113 |
| Russian Federation | 183,207 | 243,799 | 303,926 | 354,403 | 471,765 | 303,388 | 400,420 | 515,408 | 527,433 | 523,293 | 497,764 | 341,465 | 282,189 | 346,821 |

Source: World Bank Data
Downloaded files from World Bank Data web-site:

One of the most important socioeconomic indices related with public finance are the population number and GDP per capita, which are illustrated in the Table 2.2 below. After the Soviet Union collapse the population of the Russian Federation had decreased by 3% which comprises over 4 mln people. This reflects the substantial migration level presented in the Russian Federation

until 2009 (148.43 mln vs 143.09 mln people), however since then there has been a gradual growth of population up to 143.99 mln people, while for the same period of time the population of Turkey had increased by 49.5% and 10% accordingly. As it is shown there is the stabilisation (as in the Russian Federation) and also improvement (as in Turkey) of the demographic situation. At the same time GDP per capita represents a measure of a country's economic activity especially trade and is linked with the living standards of population. Even though the values of this indicator in Turkey and Russian Federation for 2017 are quite similar (both above USD 10 thd.), the Russian GDP per capita in dynamics show a great progress from USD 229.00 in 1993 to USD 10,791 in 2017, which comprises over 47-fold increase. This indicator in Turkey has a general trend of stable growth and had increased over 3.5-fold during the examined period. Therefore, the Turkish and Russian indices of population number and GDP per capita are considered as positive consequences of implemented NPM reforms in these countries.

Table 2.2.

| Population (mln people) | | | | | | | | | | | | | | |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Years | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| Turkey | 53.99 | 54.91 | 55.82 | 56.71 | 57.61 | 58.52 | 59.44 | 60.37 | 61.31 | 62.24 | 63.17 | 64.10 | 65.02 | 65.94 |
| Russian Federation | 147.56 | 148.04 | 148.32 | 148.43 | 148.41 | 148.29 | 148.07 | 147.77 | 147.38 | 146.92 | 146.40 | 145.81 | 145.19 | 144.58 |
| Years | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Turkey | 66.85 | 67.74 | 68.63 | 69.50 | 70.34 | 71.26 | 72.33 | 73.41 | 74.57 | 75.79 | 77.03 | 78.27 | 79.51 | 80.75 |
| Russian Federation | 144.04 | 143.62 | 143.32 | 143.15 | 143.08 | 143.09 | 143.15 | 143.26 | 143.42 | 143.60 | 143.76 | 143.89 | 143.96 | 143.99 |

| GDP per capita (USD) | | | | | | | | | | | | | | |
|----------------------|-------|-------|-------|-------|--------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| Years | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| Turkey | 2,791 | 2,751 | 2,850 | 3,181 | 2,268 | 2,893 | 3,053 | 3,145 | 4,392 | 4,013 | 4,219 | 3,058 | 3,576 | 4,595 |
| Russian Federation | n/a | n/a | 229 | 1,251 | 2,018 | 2,270 | 2,845 | 2,945 | 1,975 | 1,433 | 1,906 | 2,259 | 2,557 | 3,198 |
| Years | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Turkey | 5,867 | 7,130 | 7,736 | 9,312 | 10,382 | 8,624 | 10,672 | 11,341 | 11,720 | 12,543 | 12,127 | 10,985 | 10,863 | 10,429 |
| Russian Federation | 4,408 | 5,716 | 7,421 | 9,755 | 12,472 | 9,181 | 11,445 | 14,321 | 15,411 | 15,997 | 14,355 | 9,493 | 8,913 | 10,791 |

Source: World Bank Data

Nonetheless, the influence of the IFOs on the liberalization of public administration in two countries can be equally applauded and criticized. Even

though the IFOs assisted in the improvement of public finance and eventually in social and economic growth indices in Turkey and Russian Federation, some outcomes of NPM reforms have not shown expected results and can be defined as mixed and even negative.

Negative impacts:

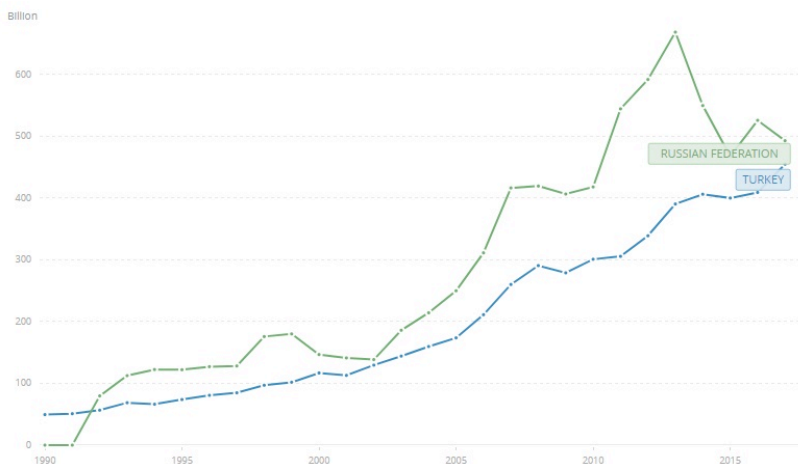
One of the most noticeable negative impacts of the NPM reforms in two countries examined is the rising external debts. As per below Chart 3.1. the highest level of the external debt in the Russian Federation amounted to USD 668.4 bln in 2013, while Turkish highest external debts comprised USD 454.7 bln in 2017. Since 1990s the external debt indicators for two countries demonstrate a stable increase and have substantially grown during 27 years: 8-fold for Turkey (from USD 49.4 bln in 1990 to the value of debt in 2017) and over 7-fold for the Russian Federation (from Soviet debt in 1990 of USD 66 bln²⁵ to the value of debt in 2017). Having large external debts for an economy creates higher financial vulnerability, as foreign investors at once may demand their paid investments or credits back due to the country's high political risk or even due to the loss in confidence. Such dependency contributed to the financial crises in Turkey – in 1994, 2001, 2008, 2018 and in the Russian Federation - in 1998, 2008, 2014. The latest crisis in Turkey was caused by the private sector borrowings, resulted in high inflation and substantial fall of domestic currency in value, even though there were flexible exchange rates and low government debts²⁶.

As it was mentioned above, NPM reforms in tax system have been lacking in terms of regional cooperation two countries examined. This problem is still a serious concern for the governments of these countries. However, it is especially crucial for the Russian Federation with its numerous federative units. New tax administration reforms influenced by the IFOs in the Russian Federation were lacking participation of the regions in the process of budgeting, which is also applicable to Turkey but to a lesser extent. This fact can contribute to the increased tax burden and worsening of social conditions for the population. Shortcoming of NPM reforms suggests that they were apparently designed for the countries with a moderate scale of administrative subdivisions and another set of ethnical and cultural values. This again illustrates that the IFOs had not duly considered all specific circumstances and features present in these two countries before the implementation of liberal reforms and were sometimes lacking timely adjustment during the implementation process.

²⁵ Boughton, James M. (2012). *Tearing Down Walls: The International Monetary Fund, 1990–1999*. Washington, D.C.: International Monetary Fund. ISBN 978-1-616-35084-0.

²⁶ <https://econofact.org/the-financial-and-economic-crisis-in-turkey>

Chart 3.1. External debt stocks, total (DOD, current US\$)



Source: World Bank

Link: <https://data.worldbank.org/indicator/DT.DOD.DECT.CD?end=2017&locations=TR-RU&start=1990>

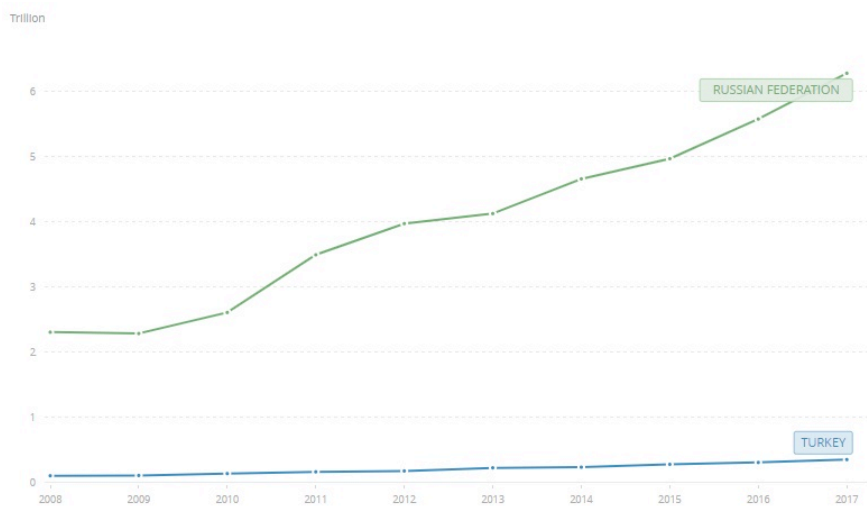
In this regard, the tax on goods and services²⁷ had increased since 2008 till 2017 as illustrated below in the Chart 3.2. as per data available at World Bank and can be considered as one of the negative effects of NPM reforms. The highest level of taxes on goods and services had taken place in the Russian Federation due to the resource-based economy with large goods imports, much lesser value of tax is presented in the Turkey. The Russian tax level had grown up from USD 2.3 trillion in 2008 to USD 6.28 trillion in 2017, as well as Turkish value of the tax on goods and services - from USD 109.4 bln in 2008 to USD 356.7 bln in 2017, for both countries this illustrates a 3-fold increase in the last decade.

Another negative socioeconomic outcome of the liberal reforms is well illustrated in the Chart unemployment rate data, which is more applicable to Turkey. The highest level of unemployment was in Turkey in 2009 (13.04%), while the Russian Federation had undertaken its maximum level in 1999 (13.03%), at the same time the unemployment rate in the Russian Federation had increased

²⁷ Taxes on goods and services include general sales and turnover or value added taxes, selective excises on goods, selective taxes on services, taxes on the use of goods or property, taxes on extraction and production of minerals, and profits of fiscal monopolies.

during 1990s and decreased since then up to 5.49% in 2017, while Turkish unemployment value had decreased during 1990s and since then showed a gradual increase up to 10.94% in 2017

Chart 3.2. Taxes on goods and services (current LCU)



Source: World Bank

Link: <https://data.worldbank.org/indicator/GC.TAX.GSRV.CN?end=2017&locations=TR-RU&start=2008>

Table 2.3.

| Unemployment rate (% , national estimate) | | | | | | | | | | | | | | |
|---|-------|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Years | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| Turkey | 7.50 | 8.40 | 8.00 | 8.00 | 7.60 | 6.60 | 5.80 | 6.90 | 6.20 | 7.30 | 6.60 | 8.35 | 10.35 | 10.50 |
| Russian Federation | n/a | 0.10 | 0.80 | 5.70 | 7.02 | 8.30 | 9.26 | 10.82 | 11.88 | 13.03 | 10.73 | 9.08 | 7.98 | 8.33 |
| Years | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Turkey | 10.30 | 9.51 | 9.07 | 9.16 | 10.03 | 13.04 | 11.15 | 9.14 | 8.43 | 9.05 | 9.96 | 10.30 | 10.91 | 10.94 |
| Russian Federation | 8.13 | 7.58 | 7.20 | 6.13 | 6.20 | 8.37 | 7.48 | 6.63 | 5.45 | 5.50 | 5.16 | 5.58 | 5.53 | 5.49 |

Source: World Bank Data

Furthermore, in terms of the poverty reduction, it can be noted that the reforms/policies influenced by the IFOs in public financial management have not achieved this goal in fully possible extend in two countries examined. Even though the activities of the IFOs underline the importance of poverty reduction and aim to increase the quality of living standards, the actual policy outcomes in the Turkey and Russian Federation have illustrated that those reforms/policies were insufficiently adjusted, ineffectively tooled and improperly implemented, especially in the first two decades (for Turkey: the 1980s and the 1990s, and for Russian Federation: the 1990s and the 2000s). In addition, the reforms of the IFOs were based on the approaches which did not comply with the social, economic and political situation present in Turkey and Russian Federation. Therefore, outcomes of the policies had been of a limited success and actually had brought real benefits for less people while majority of the population had been affected with initial negative outcomes as low wages, decreasing living standards including worsening of the quality of education and medical services, however this is more applicable to the Russian Federation than to Turkey. In this regard, the main negative outcome of the policies influenced by the IFOs was a high unemployment rate which inevitably contributed to the decrease of real wages, impoverishment of population and subsequent 'Thirdworldisation',²⁸ of the Russian Federation and successive financial crises in Turkey²⁹ with an increase in public debt, high inflation rates and balance of payments.

In this regard, the World Bank had rightly considered the shock therapy which took place in Turkey and Russian Federation as a partial consequence of the reforms/policies implemented and also of incorrect policy making choices. The opinion of one of the World Bank regional directors regarding the situation in the Russian Federation even illustrated non-acceptance of responsibility: 'Russians left impoverished by the economy's collapse could only hope that there existed a shock therapy that could quickly generate the economic revival that they sought',³⁰. This opinion is also present in IMF and is similar to the situation in Turkey. Unfortunately, the management of IFOs treat the economic indicators as numbers, without taking into consideration how these indicators impact the lives of millions of people in these two countries. While the extent to which Turkey and Russian Federation had been affected by these neo-liberal policies is not similar due to socio-demographic differences, the general conclusion is that the trends observed have gradually improved within the last several decades. Moreover, the imbalances which existed before the adoption of reforms/policies influenced by

²⁸ Michel Chossudovsky (2003), *Globalisation of Poverty*, Montreal: Press of the Centre for Research on Globalisation, p.23

²⁹ Esra LaGro (2007), *Turkey and the European Union: Prospects for a Difficult Encounter*, p. 93

³⁰ The IBRD/ The World Bank (2005), *At the Frontlines of Development: Reflections from the World Bank*, Washington, D.C.: The World Bank, p. 157

the IFOs are yet to be eliminated. It is not therefore surprising that the depth of poverty, especially in the Russian Federation, became so severe that Russian social scientists defined a new social phenomenon which was named 'sustainable poverty' and relates to the irreversible status of essential number of population who are practically unable to escape from the poverty³¹.

Although it is obvious that in the 1980s and 1990s Turkey and in the 1990s the Russian Federation have both had a limited field to manoeuvre for reduction of poverty and unemployment levels due to the macroeconomic stabilization policies implemented, high budget deficits and limited financial, organisational and technical resources, in the last decade these two countries have recognized that the poverty is a main social problem and have started taking measures to evaluate and reduce poverty scale and depth. Therefore, after the beginning of 2000 the poverty level illustrates a stable downward trend (see Chart 1.4 above). This became possible due to increased economic activity and enlargement of production capacity with subsequent creation of new jobs based on the three main factors such as increase of the world prices for the raw materials and intensive exploitation of natural resources (applicable to Russian Federation to a larger extent), and growth of the services sector (applicable to Turkey to a larger extent). In this regard, these factors inter alia result from the liberal policies influenced by the IFOs on the economy and NPM policy making in Turkey and Russian Federation.

To conclude findings of this section, it can be stated that the influence of IFOs on policy making in Turkey and Russian Federation have been characterised by both positive and negative policy outcomes, although negative outcomes have been of more extent than expected. Nonetheless, the IFOs had stimulated these two countries examined in transformation of their economies and public finance, especially taxation and budgeting. Moreover, the World Bank and IMF has been one of the important advisors for Turkey and Russian Federation in reforming the entire public administration system. However, the reforms influenced by the IFOs had showed controversial and unforeseen effects on poverty level reduction in short- and medium terms, in a longer term it is likely that poverty levels in these countries examined will not increase and even will continue a stable downward trend.

Therefore, it becomes clear that the goals set by the NPM reforms have been partially achieved. As concluded above, the influence of the IFOs on policy making in public financial management has resulted in greater changes in the Russian Federation which involved political system as a whole if compared with Turkey; however these developments in two economies along with policy outcomes in other public policy areas have unfortunately resulted in a degradation of some socioeconomic conditions.

³¹ S. Kara-Murza, S. Batchikov, S. Glazyev (2008), *The White Book of Reforms*, Moscow: Algorithm Press, p. 104

5. *Conclusion:*

According to the law of philosophy ‘a negation of the negation’, human society evolves through the denial of the current stage of development and formation of a necessity to reach a new stage. This is also evidenced in the public sector facing new changes and challenges which solution requires development of novel models of administration in order to comply with development and changes in the civil society. In this regard, New Public Management represents a level of public administration development that is now being followed by another innovated phenomenon namely governance which has taken some essential elements of NMP. As Peters stated ‘the future of public administration will embrace these changes and challenges, but the route it takes in each country will reflect the choices made by the citizens and the political elite on their behalf’³².

As a result of the policies oriented to develop the private sector as a main driving force of economic growth, the liberalization paradigm essentially impacted the resource-extractive sectors in the Russian Federation and shifted their policy focus from welfare and poverty reducing goals towards increasing tax proceeds. This shift was achieved via the restricted role of the state in regulation of economy sectors and new differentiation of labour, whereas the private sector was left with ownership, management and operation of enterprises.³³

Application of liberal policies and rich mineral resources provide good prerequisites for further progress of Turkey and Russian Federation, though democratisation and institutional background need to be further strengthened in these countries. While strong public financial accountability institutions would increase the effective use of public resources and reduce the level of corruption in the public sectors of the Russian Federation. Due to this, the World Bank considered the results in institutional development in Turkey as controversial³⁴ and Russian Federation as moderate³⁵.

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³² Peters B.G., *Debate: The Two Futures of Public Administration, Public Money and Management*, Vol.28, No.4, pp. 195-196 (2008).

³³ The IBRD/The World Bank (2002), *Transition - The first ten years : analysis and lessons for Eastern Europe and the former Soviet Union*, Washington, D.C.: The World Bank, p. 30

³⁴ World Bank Report (2014), “Turkish Transition” available at: <http://documents.worldbank.org/curated/en/507871468306558336/pdf/90509-v2-REVISED-P133570-PUBLIC-Box393190B.pdf>

³⁵ The IBRD/The World Bank (2002) *Assisting Russia's transition: An Unprecedented Challenge*. Washington, D.C.: The World Bank, p. 26

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