

Regions of Russia Economic Alignment: Trends and Tasks for the Policy of Regional Development

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Abstract

The article provides an analysis of the various programs and concepts, anyway focused at the economic alignment of the regions of Russia. The paper discusses the reasons for the stability of interregional economic disparities, its prospects in connection with the priority focus on the innovative modernization of Russian economy. The authors provide suggestions concerning the tasks of positive regions economic alignment in Russia within the emerging system of strategic planning and its documents, concentrating basic orienteer of spatial development of the Russian economy and the federal regional policy.

Keywords Strategic planning; Subjects of Federation; Economic differentiation; Policy of regional development

1 Introduction

During recent years, was clearly delineated the need for qualitatively new approaches to the system of goals and instruments of the federal policy of regional development in the Russian Federation, including the “classic” or traditional for this policy task of equalizing the levels of socio-economic development of regions of the country. Necessary legal and institutional framework for the realization of task by the moment has been formed by the recently adopted Federal law on strategic planning in the Russian Federation No.172[1].

As one of the main priorities of such strategizing we see the need to maintain a high of integrity or integration of the economic space of the country. However, the most significant obstacle to providing such integrated economic space in the country at the present is concerned primarily with continuing deep rupture in the level of social-economic development of regions in Russia. These gaps are due both to the structural deformations of the national economy and as well to unsuccessful options of economic reforms in 1990-s and later - to low effectiveness of regional policy of the Federal center. Long-term maintenance in the country regions with qualitatively different levels of socio-economic development has a powerful disintegration effect over the national economy. Recognizing the importance of this problem, Russian government repeatedly attempted to ensure positive, (i.e. oriented at pulling up lagging regions, and not at the deterrence of the leading regions) economic alignment of subjects of Federation as a priority in

the regional policy of the federal state. However, serious practical results in this direction haven't been achieved.

So, in the early 2000-s this range of problems in the sphere of regional development was addressed to the Federal target program[2], which initially was planned to be completed by 2015. But since 2006 this program has been terminated. However, this program worth to be briefly considered since now we are just at the "time point", when this program was designed to end its action. The program quite objectively estimated the situation with the spatial parameters of the Russian economy development. The government document noted: "At the present time the differences in expanding regions of the Russian Federation in the basic socio-economic indicators has reached a critical level. Sharp interregional differentiation is the inevitable consequence of the increase in the number of lagging regions, the weakening of mechanisms of interregional economic interaction and augmentation of interregional discrepancies, which greatly complicate the conduction of national policy of socio-economic transformation".

In this context, the program set very ambitious objectives, namely to reduce the differences in socio-economic development of regions of the Russian Federation due to the reduction of the gap in main indicators between the developed and lagging regions by 2010 to 1,5 times and by 2015 - to 2 times. The reason, why this program was stopped and, accordingly, failed to meet its goals was not only in the insufficient volumes of its financing, but in the apparent isolation of the program from other key directions and priorities of the state economic policy. Another reason - institutional and instrumental "poverty" of the program, which in fact operated with only one target institution of the "economic alignment policy", namely with so called Regional development Fund (doesn't exist now). Today we are fully entrenched in the understanding that the economic alignment of the regions of Russia can not be a result of one or more funds or other specialized financial institutions, although their role can be very substantial. This alignment in significant parameters is reachable only as a result of the deep changes in the driving factors of the Russian economy development, via reducing its dependence on natural resources exploitation in favor of the more rapid growth of high-tech industries.

However, as concerned the functions of the above Regional development Fund, the program actually contained some interesting ideas, which can be used today. According to the program, the Fund was intended to act not as an independent financial institution with its "own" budget, but as a "regulating and control center" for various (by purpose and by government affiliation) financial flows, anyway affecting economic and social development of Russian regions. In this program it was noted that the Fund should be a supervisor for the combined set of relevant parts of federal and regional programs as well as programs and

projects of industry funding. Of course, such multilateral functionality doesn't fully fit with the traditional concept of "Fund", however, the idea of the state institution, aimed to provide unified management, coordination and control of all resources of the regional policy of the federal center seems to us relevant and still in demand at modern time.

Later adopted conceptual documents of the RF Government (for example, the famous "Concept-2020", Strategy of innovative development of the Russian Federation for the period till 2020, etc.) contained certain goals regarding the spatial aspects of the socio-economic development of the country. However, these documents didn't record either clear-cut priorities of positive economic alignment of the regions or, respectively, special institutions and interventions for achieving this goal. Finally we have to admit: for more than 20 years of sovereign Russia, several attempts have been made in order to prepare a long-term concept (strategy) of regional (spatial) development of the national economy; to define its priorities, the objectives of this policy and the tools, needed to achieve them. Attempts to prepare such a document were numerous undertaken by the former Ministry of regional development of Russia, by profile committees of the State Duma and Council of Federation of the Federal Assembly (Parliament) of the Russian Federation, by various expert institutions, etc. However, none of such documents has been brought to the stage of legal approval and contained cost-based objectives, aimed to overcome the extreme parameters of interregional economic disparities in the country.

Noteworthy that all these papers on regional development policy issues were very similar. All of them operated with approximately same set of instruments, namely: intergovernmental fiscal relations (including inter-budgetary distribution of tax revenues); state programs of territorial development, localization of Federal investment projects, etc. Besides, the developers of these documents in determining the strategic direction of the federal regional development policy invariably "rotated" around one important contradiction. One position in this dispute insisted on the need to continue to maintain economic alignment as the leading priority for the federal regional development policy. The other position seemed it possible to overcome the absolutization the idea of economic alignment of the regions towards optimally balancing it with the primary focus of the policy of spatial development on the group of regions-leaders, which can play the role of locomotives for the Russian economy as a whole. None of these positions revealed obvious evidence of its benefits and up to now has taken the place of a clearly expressed priority in the economic policy of the federal center.

2 Can Economic Alignment Remain a Priority of the Federal Regional Development Policy?

As regards above mentioned dispute, today economic science in Russia meets several important issues. First, what is the current degree of economic differentiation of regions of Russia; secondly, what is the actual trend of this differentiation at present and what we can expect in the future; thirdly, what is the extent to which economic alignment of the regions of Russia its necessary or simply possible to keep among the priorities of economic policy of the federal state. If positive socio-economic alignment of territories still remains among the most important goals of the federal regional development policy, this task should be considered as unsolved. According to our estimates, based on the latest published data on Gross Regional product - GRP (2013), the gap between economically extreme regions of Russia (Tyumen region and The Republic of Ingushetia) in per capita GRP amounted to 15.7 times in comparison with 17.7 times in 1995. However, its hardly an irrefutable argument in favor of an apparent reduction of interregional economic disparities in the country; at best, we can resume only about the stabilization of the situation.

This is due to the fact that these year-by-year calculations, based on the two “extreme” subjects of the Federation have a high degree of conditionality, particularly in the context of the ranking of the economically less developed regions. The implementation in one of these regions a large, co-financed by the federal government investment project for some time can remove the region from the last positions in the ranking. Then the situation changes in favor of some other region, etc. In this regard, more reliable estimates of economic differentiation of regions should be based not on individual points of two regions, but as the relation of upper and lower decile groups of Russian regions (see Table 1).

Table 1. The decile coefficients of interregional economic differentiation for the whole set of regions of the Russian Federation .

1995 r.	1996 r.	1997 r.	1998 r.	1999 r.	2000 r.	2001 r.
3.46	3.13	3.36	3.41	4.07	4.15	3.68
2002 r.	2003 r.	2004 r.	2005 r.	2006 r.	2007 r.	2008 r.
3.18	3.21	3.86	.91	3.78	3.55	3.27
2009 r.	2010 r.	2011 r.	2012 r.	2013 r.		
3.33	3.61	3.52	3.86	3.73		

Source: Russian Statistical Agency data.

According to the data, presented in table 1 and based on the so-called ”decile

ratio of differentiation” (in this case calculated as the ratio for the relevant years between the lowest value of GRP per capita among the 10% of regions with highest per capita GRP to the maximum rate for the 10% of regions with the smallest per capita GRP) within the period 1995-2013 there was no substantial increase in inter-regional economic differentiation in Russia. This figure showed rather a wavy trend. The highest ratio took place in 1999-2000 (4.1 - 4.2) and at present (2012-2013) these figures are located at the level of 3.7 - 3.8. In economically developed countries similar differentiation coefficients are somewhat lower: they are within 1.5 times (France, USA) or about 2.0 times (Germany, Italy), reflecting more integrated spatial economic development of these countries and, consequently, a higher level of integration of the regional segments of their economies. This level of differentiation is typical as well for developed countries with a high share of extractive industries in the economy, such as Canada, where the decile ratio also does not exceed twice level. At the same time, more pronounced inter-territorial differences can be found in developing countries, for example in China, where the degree of differentiation of regions by the decile ratio varies from 2.8 to 3.5 times[3].

Similar is the situation in the investment sphere. In recent years up to half or more of all fixed capital investment in the Russian economy was accumulated in 10 leading regions (in 2014 - 51.8%). Another evidence of a high degree of economic differentiation of subjects of the Russian Federation is also a limited number of regions-donors, the number of which in the current system of inter-governmental fiscal relations still amounts to 14 (2015), although the substantial increase in the number of such regions (up to half of the total number of subjects of Federation) numerously has been declared in policy documents on regional and budgetary policy in the Russian Federation.

Most likely, the current trend towards relative stabilization of the economic differentiation of Russian regions will continue. First of all, it is connected with absence at the moment and in the near perspective evident regions-locomotives of the rapid growth of the economy as a whole. To day the potency of maintaining rapid growth for the former leading regions (regions rich in raw materials and regions, performing the role of leading transactional centers in the Russian economy), has largely exhausted. As concerns regions - potential “dots” of innovative development, they are still too weak to take on entirely the role of “locomotives of economic growth”.

Thus, at present its too early to remove economic alignment of the regions from the position of one of the main priorities of the state economic policy. Sometimes, the hypothesize is proved that its not necessary to focus this policy specifically on the task of “alignment”; and its only necessary to create for all regions of Russia equal favorable conditions for socio-economic development and the prob-

lem of regional and municipal disparities will be resolved “automatically”. But both our and foreign experience of regional development doesn’t confirm such an opportunity. This is true as well as the fact that any isolated measures aimed to align regions will obviously be unproductive, if these measures are carried out in isolation from other positive changes in the Russian economy. For positive alignment of the regions the country needs, first of all, to change key drivers of economic growth. It largely co-operates the priorities of regional development policy, including the positive alignment of the regions, with the implementation of structural reforms in the national economy. In this sense, the policy of innovative modernization represents an opportunity not only to achieve structural changes in the economy and, accordingly, radical increase of its competitiveness, but also to create the basis for a “breakthrough” in solving the problems of regional development, including the task of positive alignment of subjects of the Russian Federation. However, it is difficult to hope for the automaticity of market regulators of comparative regional development, especially in view of the fact that according to their innovative potential, regions of Russia differ even in greater degree than in such indicators as GRP per capita[4, pp. 35-52].

3 Differentiation of Regions and the Rates of Economic Growth in Russia

Is it possible to prove that changes in the degree of economic differentiation of Russia’s regions are subject to certain regularities? Basing on the analysis of the available data its principally possible to state a hypothesis concerning the fact that in periods of faster economic growth (for example, at the beginning of the 2000s) the rate of differentiation of regions of Russia slightly increased, and during the periods of slow growth and stagnation of the economy differentiation is reducing. This hypothesis can be illustrated with the data given in table 2.

The data of table 2 illustrate the regularity, proving that a higher economic growth in Russia rate usually corresponds to a higher economic differentiation of regions and, conversely, during the period of slowdown of the growth rates, ratio of differentiation is comparatively lower. Of course, this is only a preliminary statement, which can not be a reason to think that increasing trend of this differentiation is a obligatory condition or prerequisite of high economic growth rates. Accordingly, any slowdown in growth rates is not the very trend of the alignment regions, which could satisfy the country from the point of view of achieving greater integration of its economic space. Here we meet one of the most difficult questions for economic theory and practice of regional development policy: is it possible to combine high rates of economic development of the country with a consistent reduction of the gaps which still exist between the regions and, if so, via what means of economic policy this result can be achieved?

To our mind, there is a real chance to combine economic alignment of regions

Table 2. Decile inter-regional differentiation ratio and general growth rates of the Russian Federation economy

The period of unstable development and crisis

Decile differentiation ratio for RF regions			
1995	1996	1997	1998
3.46	3.13	3.36	3.41
Mean rate for 1995-1998 - 3.34			
GDP growth rates (%)			
+3.3	-3.6	+1.4	- 5.3
Mean rate for 1995-1998 - 1.05			

The period of relative economic growth

Decile differentiation ratio for RF regions								
1999	2000	2001	2002	2003	2004	2005	2006	2007
4.07	4.15	3.68	3.18	3.12	3.86	3.91	3.78	3.55
Mean rate for 1999-2007 - 3.71								
GDP growth rates (%)								
6.4	10.0	5.1	4.7	7.3	7.2	6.4	8.2	8.5
Mean rate for 1999-2007 - 7.09								

The period of declining of growth rates and entering stagnation

Decile differentiation ratio for RF regions					
2008	2009	2010	2011	2012	2013
3.27	3.33	3.61	3.52	3.86	3.73
Mean rate for 2008-2013 - 3.55					
GDP growth rates (%)					
5.2	-7.8	4.5	4.3	3.4	1.3
Mean rate for 1999-2007 - 7.09					

Source: Russian Statistical Agency data; authors calculations.

with sufficiently high and sustainable rates of the Russian economy growth. First, this chance demand for changes in the structure of the economy, which should be clearly associated with the identification and implementation of reasonable measure to reduce economic differentiation of regions and macro-regions of Russia. The national development strategy should not just declare this task in general, but should contain economically relevant indicators, quantitatively showing the necessary progress in the reduction of such a differentiation. But this progress is possible only via targeted government economic policy, based on the alignment as a strong priority of national economy spatial development.

There is another important condition, which could contribute to the reduction

of regional economic disparities simultaneously with the sustainable growth of the national economy. That is setting the entire consistency of “spatial activities of all institutions and instruments of the federal economic policy. By the moment the total picture of ”spatial activities of all these institutions and policy instruments isn’t anyway regulated by the RF Government. The main tool of the well-known “social alignment” (i.e. alignment of provision of public goods of a social nature for the Russian regions population) is the system of so-called “fiscal equalization” transfers from the federal budget to regional budgets. However, as has shown already the practice of several decades, the current model of financial equalization, partially offsetting the social effects of spatial disparities in the Russian economy, actually leads to the conservation of economic background of inter-regional disparities and doesn’t ensure trend to growing financial self-sufficiency of subjects of Federation. The grant component of these transfers has almost nothing to do with the intensification of investment processes and growth rates in the regions and for the country in total [5]; doesn’t stimulate sufficient efforts of the regional and local authorities, aimed to support entrepreneurial activity and attraction of investors, including on the basis of public-private partnership. In other words, the financial equalization mechanism acts, but real economic alignment, as shown above, doesn’t occur. Practical implementation of the all-national vertical of strategic planning needs for a new model of fiscal federalism for Russia with active stimulating mechanisms for the stabilization of sub-federal (regional and local) budgets [6].

However, in the current situation the sphere of inter-budget relations already isn’t the only or even the predominant instrument of the federal impact over socio-economic development of the regions. This impact at present is multi-link, and, unfortunately, unsystematic. This situation puts the task of strategic coordination of all the channels (instruments, links) of federal funding for socio-economic development of regions, in particular, resources going through state targeted territorial development programs, through the operation of institutions for territorial development, as well as in the framework of the “standard” system of inter-budgetary interactions. This practically means a binding of spatial strategic planning and monitoring the final picture of the spatial distribution of all expenditures of the federal budget. Here, in fact, it would be possible to return to the idea, proposed in the early 2000s, in the framework of the target state program. That is the idea of setting special “Regional development Fund”. But now this idea should be implemented at a qualitatively higher level of institutional arrangement, i.e. not simply in the form of a financial institution, but as a supervising institution with the functions (authority) for coordination of the spatial distribution of all types (channels) of federal resources, directed for socio-economic development of regions of the country.

Respectively, should be offered a system of clear and transparent criteria for the selection of regions (macro-regions), to which federal funds are implemented through state target territorial development programs or are established special territorial development funds and corporations, etc. According to the experience of some countries, may be approved a special status the regions, which on the basis of statutory criteria can be declared “economic disaster areas”. These regions will receive in such a case additional forms of government assistance while taking measures to conserve and rehabilitate the regional finances. For example, in Germany such territories for a long time are the states (lands) of Bremen and Saar [7]. Similarly, should be formalized principles of spatial localization and concrete functions of federal “development institutions” (“science-towns, special zones and other territories of “advanced” development, etc.), as well as conditions and forms of federal support to various regional development institutions (regional economic zones, industrial parks, etc.). It is important that each institution has a transparent, targeted adjusted spatial pattern (program) of its activities, i.e. among other functions, operated as a policy instrument for regional development. These institutions should be objective-oriented on the spatial distribution of “pulses” of industrial-innovative development and, thus, contribute to the integration of the economic space of the country on the basis of “economy of innovations.

4 Conclusion

To summarize the research, the following results can be formulated:

1) Most likely, the current trend towards relative stabilization of the economic differentiation of Russian regions will continue, but letter cannot serve as satisfactory solution of the problem of positive alignment of the total economic space of the country.

2) At present its too early to remove economic alignment of the regions from the position of one of the main priorities of the state economic policy.

3) National development strategy should not just declare this task in general, but should contain economically relevant indicators, quantitatively showing the necessary progress in the reduction of such a differentiation. But this progress is possible only via targeted government economic policy, based on the alignment as a strong priority of national economy spatial development.

4) The Russian Federation Government must ensure the entire consistency of “spatial activities of all institutions and instruments of the federal economic policy and establish a special state institution, aimed to provide unified management, coordination and control of all resources of the regional policy of the federal center.

5) For the state regional policy should be approved a system of transparent criteria for the selection of regions (macro-regions), to which federal funds are

implemented through state target territorial development programs; besides following the experience of some countries, may be approved special status the regions, which on the basis of statutory criteria can be declared as “economic disaster areas”.

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