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The papers study the following problems: sustainable development of local production systems, business strategies of LPS, innovativeness of clusters, critical infrastructure protection, corporate social responsibility, environmental protection, local production system management, governance of local production systems in Bulgaria, Poland, Ukraine and Russia, policy guidelines with some measures of general application, aimed at problems observed in all LPS, and some specific measures differentiated according to a typology of local production systems.

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THE ROLE OF LOCAL GOVERNMENT IN THE FORMATION OF FAVOURABLE CONDITIONS FOR REGIONAL DEVELOPMENT

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This article deals with the problems concerning the development of the local government. These problems are primarily due to the significant differentiation of spatial socio-economic development and the peculiarities of the legal framework regulating the local government development. Substantiated are some recommendations to improve fiscal relations and the necessity to establish local regional clusters for municipal entities management. The establishment and development of regional clusters are expected to ensure the rational spatial specialization and the use of competitive advantages of the territories.

Russia's peculiarities require the national government to be more proactive in matters of territorial development of the country and in the solution of problems associated with unjustified regional disparities. In a situation of more stable political and economic growth, as well as with a larger role of strategic priorities, the role of regional governance in the economic and social spheres will be more recognized.

The Russian experience in market reformation shows that the regional level of administration is not quite prepared to a transition to new relations; it is, on the one hand, due to disparities between the existing juridical framework and the financial-economic situation of regions and, on the other hand, to the uncertainty surrounding their place in the established system of governance. It is also the absence of an unbiased information-forecast framework, objectively representing the interests and functions of the regional link of the administration system, as well as a lack of coordination between forms and methods of interaction among different structures of the territorial system. In order to improve socioeconomic interactions, it is necessary to create a methodology for regional administration which would adequately represent the new socioeconomic and financial environment and the interrelations among its elements.

Issues related to the improvement of regional management have lately been in the middle of attention in Russia. This is seen in all critical areas of social activity. In the system of legislative bodies, the number of adopted normative and other procedural decrees concerning the structures and mechanisms of decision making in processes of regional socioeconomic growth has increased. In the area of executive power, there is a constant reformation of decision making structures both in the area of personnel and functions up to the absolute liquidation of some power institutions and creation of others, i.e., principally new ones. Public organizations criticize (according to the topics most often discussed in mass media) the existing situation and openly debate with the authorities.

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Business structures do not accept the current system of taxation, licensing, regulatory mechanism of tariffs on services of natural monopolies, customs policy, and other methods of government participation in economic management. All this leads to the ignorance of the government's management policies in the form of direct refusal to follow them (shadow economy) or following them partly (tax evasion, undeclared income, etc.).

In the academic and expert community, interest is growing in the investigation of the theory and practice of the decision making process at the level of federal subjects (regions) and municipalities to search for ways to increase the efficiency and validity of the federal and municipal government [1–4].

The creation of a new system of governance of the regional economy should be based on understanding, first, that the regional economic system has a complex structure; second, that the governance of the composite parts of this system needs specific mechanisms; and, third, that such mechanisms should be mutually compatible. Governance at the regional level should be based on a certain system of methodological principles, representing the objective features of the regional sustainability process:

- The earmarked governance. The objective of governance follows from the interests of a particular governance object. If the object is a region, its interests are determined by the interests of its residents (material standing, culture, education, creative activities, physical state of health, and high quality of life);
- The use of regional advantages in the territorial division of labor. The system of regional governance should provide the effective use of natural–climatic and socio-economic advantages of a region in the territorial division of labor and at the same time contribute to the comprehensive growth in the regional economy. This principle represents a dual function of the regional economy: on the one hand, it presents an integral composite of the uniform socioeconomic system of the federal state, has its own specialization, and participates in the development of integration links; on the other hand, it is a relatively independent sustainability system, and the level of its interdependence is substantial for the efficiency of its growth;
- The combination of interests of all economic agents participating in the process of regional sustainability. This principle reflects the presence of own interests by each economic agent and presupposes the existence of objective discrepancies among them. The main requirement for the mechanism of social sustainability governance is the creation of conditions for activity, under which a certain balance among the interests of all structures interacting in this process is achieved;
- The economic self-reliance, which is not simply treated as absence of direct intervention of the federal state in a region's affairs, but in a more general sense. The principle of economic independence should imply the equal status of different forms of ownership and economic independence of all proprietors. In addition, economic independence presupposes a clear cut distribution of powers and functions of governance between different levels of power and the creation of financial and economic conditions for their implementation;
- Self-financing. A region's growth should take place in a direction providing for the possibility of covering the expenditure obligations at the expense of income, formed in the territory itself. This is far from total financial self-reliance of regions, but it implies such a scheme of financial flows, in which redistribution processes are not dominating;
- The correlation between the efficiency of regional economic growth and the formation of the resource base of the social and general economic development of a region. According to this principle, the economic interests stimulating economic growth and its efficiency should be taken into consideration;

- The responsibility for those governance functions that present the essence and content of the governance system at the level of a region of a given rank.

The implementation of the entire system of principles will allow for the creation of premises for the formation of a reliably acting and stable system of governance, providing efficient regional growth consistent with the achievement of objectives and planned measures. All these principles should be laid in the basis of juridical and normative-legal acts creating the framework of the governance system of the regional economy and determining the choice of those concrete instruments of the governance mechanism, which determine its efficiency.

In order to ensure the effective development of the regional economy and liquidation of socioeconomic disparities, it is important to detect in advance the situation arising from the confrontation of different interests in order to prevent conflicts and their negative consequences. This is also important for the development of a policy of efficient interaction between regional governing bodies and business in dealing with common problems and for the integration of efforts in order to practically implement the socioeconomic programs of a region. The plurality of interacting economic interests that should be taken into account in the formation of governance mechanisms at the regional level can be reduced to two groups: a) the interests of business structures concerning the development and functioning objective of the regional economy; b) regional interests related to the provision of balanced comprehensive development of the economy and social area and the active participation of a region in interregional interactions, increasing the efficiency of the use of its resource potential.

The economic interests associated with the activity of business structures are regulated by the existing legislation, so the interaction in this field is guaranteed by the system of legal instruments. A different situation arises regarding socioeconomic objectives of a general regional character. This field has no clear-cut norms and rules regulating agents' interactions that would be mandatory to all involved organizations. So, in terms of regional governance, it is necessary to consider the interaction between economic interests and those arising in this situation, at the basis of which qualitatively new integrated interests are.

For the effective governance of a region's socioeconomic development, the following conditions are necessary. Regional administrations (government), not interfering in the activity of economically independent firms, should play an integrating role in the formation of the socioeconomic environment of a region, i.e., to control those processes, in which both business and a region's people take interest and which companies cannot perform separately. Then, the formation of a socioeconomic environment in a region is considered as a process of local sustainability cycles, and the financial-economic base of a region is created on the basis of equivalent production-economic ties between business and the region, which presupposes the direct dependency of economic opportunities of regional governance bodies on the efficiency of the activity of enterprises situated in the territory.

Administrative-business relations are to be viewed in terms of their influence on a region's standing (economic, social, technological, ecological, etc.). In the estimation of regional taxation for business, of importance are aspects, such as the effect made on profit, investments, technology, whereas for regional administration those are opportunities for financial policy, for a choice of instruments for motivating new directions of the region's economic growth, and a rise in its competitive advantages. The interaction between business and a regional administration can also be based on principles of private-public partnership, and regional taxes should perform the role of an effective instrument for the maintenance of mutually beneficial relations [5].

The Institute of local government plays an important role in the development of civil society since all civil rights and active manifestation of public initiatives are born and ultimately implemented in local communities. Local government has its own managerial

apparatus acting on the basis of laws and regulations and it may form the budget and establish and collect taxes.

Key activities of the developed local government are as follows:

- to stimulate the growth of budget revenue and rational use of the expenditure part of local budgets;
- to provide minimum living standards of the population;
- to improve the quality of the living environment of the local population;
- to contribute to the strengthening of the Institute of local self-government by the effective exercise of its powers.

Despite the fact that in accordance with the legislation local self-government has a financial autonomy and its own managerial apparatus, in practice, it is so tightly intertwined with the state structures that it actually performs the functions of a representative of the state authorities at the local level. This situation is due to both subjective and objective reasons. As to subjective reasons, they, as it has already been mentioned, are determined by the nature of power and its pursuit of accretion. As far as the objective reasons is concerned, the main one is that at the present stage for the vast majority of the municipalities there are no conditions for the formation of self-sufficient local budget, which is a consequence of an unacceptably great spatial differentiation in the level of socio-economic development of the country. This differentiation is manifested, first of all, at the level of subjects of Federation.

Analyzed was differentiation index of some of the main macroeconomic indicators for the subjects of Federation in 2010 (according to official statistics). Index is calculated based on average per capita indicators for 2010. Only the index of investment differences was calculated on the basis of the average per capita indicator of investment costs for a period of ten years (2001–2010). Two subjects of Federation from each Federal District that differ in their financial and economic potential were considered. Population trend of subjects of Russian Federation may serve as the integral indicator of this differentiation: in the relatively prosperous Russian Federation subjects population increases or, at least, population size does not change. The more under-developed the region is, the greater is the decrease of population. The Republic of Dagestan is characterized by demographic processes quite different from all-Russian ones. The analysis of data shows, first of all, that there is no effective regional policy in the country, and if the existing tendency persists, it will have a negative impact on the overall economic development of the country and its position in the world economy.

But the real differentiation in the quality of living of people is still higher as each subject of the Russian Federation is characterized by heterogeneity of spatial socio-economic development. For example, in Novosibirsk oblast, population, industrial potential and infrastructure are concentrated in Novosibirsk and Novosibirsk agglomeration, while the rest of the municipal entities are characterized by underdeveloped transport service, backwardness of social services, low density and low incomes of population.

If we consider only rural municipal entities, we'll see that the maximum average monthly earning (in Iskitim district) is 1.6 times higher than the minimum one (in Ust-Tarcksk district). The average monthly earning in Ust-Tarcksk district is as much as 0.52 that of the Novosibirsk oblast. The lowest average monthly earning (in Kuibyshev district) is 3.3 times less than that of Novosibirsk rural district. Among rural districts (with the exception of the Northern district where oil is produced) the maximum average per capita investment in two years is in Maslyanino district, which is 11.6 times as much as the minimum one (in Kuibyshev district). The analysis of level of investment costs in rural municipal entities primarily suggests that the tendency toward differentiation in the development of the municipalities will persist in the years to come.

The integral indicator of the level of socio-economic development of territories confirms socio-economic strength – population dynamics relationship: in comparison with 2000, in 2010, population increased only in cities, in all rural areas population decreased, and in two municipal districts with the lowest level of socio-economic development the population decreased almost by a quarter.

Spatial heterogeneity of socio-economic development of the country in general and of each subject of Federation as well enables us to talk about the great originality of the Russian federalism. Not by chance there appeared such a concept as a “unitary federalism” [6]. Translated, this means, that the Russian state is federal in form and unitary in content.

The Constitution adopted in 1993 simply obliged to create a legal framework for the establishment of local government. In 1995, adopted was a law “About general principles of local self-government organization”. However, the lack of real community participation practice in solving issues of local importance affected the quality of the law itself. It lacked certainty in such fundamental issues as the territorial boundaries of local government, financial independence and cooperation with regional authorities.

In 2003 a new law on local self-government was adopted, nevertheless, problems concerning local self-government still remain unsolved due to the fact that there are no objective preconditions for the proper functioning of the overwhelming part of the Russian municipal entities under the terms of local self-government. Probably, local self-government system should be established step-by-step, its development should take more time, with regional specifics being taken into account. In this case would be appropriate to use different types of fiscal relations for the territories with the status of a municipal entity and territorial-administrative units, which, with strengthening of economic and fiscal potential could also obtain the status of municipal entities and, accordingly, more autonomy in solving problems concerning the development of their territory.

The main financial source providing the fulfillment of expenditure commitments and implementation of control functions by the state, a city, a town, or a village, is its budget. Needless to say, that budgeting is very time consuming, complicated and contradictory. The trouble is that the ideal model of the fiscal system formation does not exist, and each country finds its own approach, which corresponds to its peculiarities, state structure, as well, as to its economic, financial and social relations.

Russia is still in search of its model of fiscal system formation and this is not surprising, because issues concerning the economy model still raise heated debate. Labeling the state as an ineffective owner, in no time private business laid its hands on the resources that are competitive in the world market and calmed down on this. The results are easy to guess: the state that has been expelled with shame from economy, the economy in which mainly the primary industry is being developed, and the budget, which, naturally, depends on the price of oil in the world market. For such a large modern state this situation is abnormal, so the task of structural reconstruction of the economy and the creation of modern high-tech sectors are a priority. All this requires technological modernization and the development of modern native engineering. Unfortunately, there are no creditworthy entities that are interested in such modernization. Interest of the state is explained by the instinct of self-preservation, because only the transition to innovative development will ensure its national independence and economic competitiveness. But most of financial resources are concentrated in the hands of raw companies that do not need this modernization with all its risks. Prospects for technical retooling of the economy are complicated by the low investment grade of the state. The governmental authorities express deep concern as to the low investment grade of the state and to the outflow of its capital abroad. According to expert estimates, in the first quarter of 2012 capital outflow amounted to \$42 billion. Of great interest is what the share of the state and state-owned corporations is in this amount.

As far as the formation of fiscal system of the state is concerned, broadly speaking, there are two main approaches based on two different principles – principal of centralization and that of decentralization. Centralized system implies the concentration of all the taxes and levies at the upper level of the state budget system and its subsequent distribution between regions in accordance with certain rules, with political factors being taken into account. A decentralized system assumes that assigned to each level of the budgetary system – federal, regional and municipal – is its own system of taxes and levies.

In the modern world no developed state uses only one approach in its pure form – a completely centralized or a fully decentralized system of the state budgeting. Generally, a mixed system combining both principles in various proportions is used. For instance, the U.S. budget system is largely decentralized. In the U.S.A the main municipal tax is an individual property tax, which is over 20% of the local budgets (over 50% in Canada). Municipalities closely follow issues concerning the collection of individual property tax and are greatly interested in its increase. It should be pointed out that the American model does not exclude some redistribution of the federal budget funds between the states and their municipalities. This redistribution is carried out mainly in the form of grants for implementation of municipality social projects.

In Russia primarily decentralized approach is absolutely unacceptable due to the following reasons. Firstly, due to excessive differentiation of the regions in terms of socio-economic development and the concentration of wealth in few well-known places the use of such a model will only lead to the further deepening of the gap between the regions and to the impoverishment of the majority of the municipal entities of Russia. Secondly, in Russia the land tax and individual property tax do not fulfill the role they do in Western countries. This is because there are often no properly registered real estate units for taxation and the unwillingness of citizens themselves to put their own property rights in order, since it requires time and money, which may exceed the costs of the property.

Use of mainly centralized approach actually contradicts the principles of a democratic state, the main feature of which is the active participation of citizens in the management of socio-economic development, and especially in solving matters of local importance. Nevertheless, it is this approach that is used as the difference of potentials and infrastructure gap of the regions of Russia objectively require significant reallocation of funds from economically developed regions to the backward ones. Paradoxes of Russian federalism may lead to a situation where the region that firmly stands on its feet in one second may turn into a backward one, although nothing changes in its economy. This happened to the Omsk region, where the head office of “Sibneft” was registered. Then it was reregistered in St. Petersburg, and the budget of Omsk region lost almost 40% of its income, at the same time the budget of Saint-Petersburg – acquired it. In 2011, the head of the company “Wimm-bill-Dann” changed his residence permit in Moscow to that in the Republic of Kalmykia and paid 2.3 billion rubles to the Republican budget, which was nearly as much as a half of that. You may only be happy for Kalmykia, which does need funds for the development of its economy and infrastructure. However, it is abnormal, because the fiscal system of a big developed state should not depend on someone's formal registration.

Still more clearly paradoxes of the Russian fiscal system are manifested in Moscow where head offices of most of the major corporations of the country are registered, and the budget amounts of which are much bigger than those of the other subjects of Federation, that the city authorities have the ability to pay extra to pensioners, teachers, and above all – to the judges. It may be that some other centers of the subjects of Federation would have such an opportunity, but they, unlike Moscow and St. Petersburg (the economy of which is not burdened by agriculture), have serious obligations to their rural areas, which are also inhabited by people, and these people are feeding the country and ensure its food security.

The current practice of local budget formation is not to bring into balance income and expenditures but to reduce the amount of expenditures up to the level of income, so the budgeting is limited to the disposition of funds for the most emergence needs. Bodies of local self-government have to carry out a selective expenditure financing policy. Under these circumstances, lost is the very opportunity of carrying out a responsible fiscal policy, improving the quality of services, effective cost controlling and attracting investment for the development of municipalities. No wonder, that when it comes to the local self-government, as a rule, they say about the powers of local authorities and almost never about the liability of this government to its population. But under circumstances, where almost all municipal units are subsidized, local authorities are primarily dependent on the superior authorities, rather than on local communities. Fiscal system in its current state is, no doubt, in need of serious changes, and those changes should be result-oriented and capable to solve the following tasks.

Firstly, it is necessary to reduce counter flows of funds. Norms of federal tax deductions into the local budget are established in such a way so as to exclude the withdrawal of excessive taxes as if such a situation emerges it will generate counter flows.

Secondly, fiscal policy should be capable of forming an autarkic budget at the expense of its own sources of income in cases when taxable capacity of a territory is rather high. If this takes place, then the conditions for real liabilities of local government authorities to the population will be created.

Thirdly, fiscal sharing should stimulate local self-government interest in the developing income basis and permit it to encourage its growth.

The state is actually interested in the development of fiscal processes, since the possibility of the local government to display initiative and its independence are the additional resource of the management system to improve its effectiveness.

The analysis of present-day financial and economic relations has no sense at all since the Russian statistics considers some kind of virtual economic functions. For example, 40.4% of income tax from consolidated returns to the federal subject budgets is formed in the Central Federal District, with Moscow share being equal to 29% and the total share of Yamal-Nenets and Khanty-Mansijsk Autonomous Districts being only 5.8%. Proceeding from the obvious disadvantages of modern fiscal practices, as well as from the common sense, it would be, apparently, appropriate to entirely assign income tax to the federal level. In this case, “restless urge for change of place” of large corporations would not influence the stability of regional budgets and greater justice of financial and economic relations would be ensured. Probably, at last, the government will pay back the profits from offshore accounts, all the more so as at the present day there is no economic justice to keep them.

At the same time, it would be justified to transfer individual income tax predominately to the budget of the territory where a person lives. The point is that currently there is a considerable labor migration, especially between the major centers of subjects of Federation and the surrounding small towns and rural areas. In this case, the return of individual income tax to the budget of the territory where the enterprise is registered does not reflect the relationship between the labor quality and that of living environment of employees. A worker and his family enjoy all the services financed from the local budget (housing and public services, system of education, health, transport) without participating in creating a financial base for their maintenance and development.

For a long time vain discussions concerning more objective assessment of such taxes as taxes on land, property and luxury have been conducted. Those who are interested in preserving the existing status quo, it is they who make decisions, convince the public that the revision of taxes won't yield any tangible results and give almost nothing to the budget. Naturally, the question arises, why these taxes that are competently used in other developed countries will give nothing to the budget of the Moscow region where the real estate is much more expensive than in the USA.

At the same time, it is obvious that to improve the efficiency of socio-economic development of the country, regions and municipalities, it is necessary to improve the entire management system, not only the part that relates to fiscal relations. The main resource determining the socio-economic well-being of the state and its regions is an effective management system and the Russian management system has great untapped reserves.

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