Regional Development Policies and Local Government in the Russian Federation

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Abstract: This paper focuses on methodological issues concerning principles, forms and methods of regional development policies and regional planning. This paper analyzes (1) the challenges Russia faces today in regional economic development and (2) reasons of ineffectiveness of regional policies in the Russian Federation. One of these challenges is a significant differentiation of spatial social and economic development of the country. Another serious challenge is the inconsistency of national economic policy and its disconnection from the problems of regional development. It is concluded that required is the design of flexible regional policy with due account of priorities of regional socioeconomic development and regional specifics. It should be oriented at creating favorable investment climate and at equalizing levels of regional social and economic development. The authors consider possible areas of regional and local government system improvement including the elaboration of a new system of regional government regulation.

Keywords: Regional competitiveness, Regional governance, Regional planning, Spatial differentiation

JEL Classifications: H70, O57, R58

1. Introduction

Economic studies analyze issues of regional economic policy in all its aspects, including: interrelationship between the elements of regional economic system; ensuring integral socio-economic development of a region; coordination of State and regional interests; integrated solution of problems of socio-economic development of a region on the basis of its competitive advantages; a whole range of regional aspects of different types of policies; regional integration and sustainability in the common economic space; interregional socio-economic disparities (Bennett, 2012; Blair and Carroll, 2008; Klistorin, 2013; Leksin, 2013; Melnikova, 2008, and Seliverstov, 2009).

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Two levels of regional policy are considered in economic literature: federal and sub-federal. They differ in the level of governance, actors, range and dimension of tasks and challenges to face and solve, as well as in the methods and mechanisms for the attraction of investment. The role of regional authorities is twofold: (1) management of socio-economic development of a region as a whole (acting as objects of regional policy) and (2) spatial organization of the economy of a region and creating proper living and working conditions for its population (acting as subjects of federal policy). Refer to Kryukov et al., 2012; Saveliev and Yu, 2013; Seliverstov, 2013; and Suspitsyn, 2014.

Being the largest country in the world, the Russian Federation has an enormous resource potential which significantly increases its competitiveness in the world economy. However, Russia’s economic, financial and intellectual potential is not fully and effectively used. As is known, the national economy model of Russia which is based on natural resources is one of the key reasons of significant structural disproportions in the country’s economy: in large measure it is dependent on exports of oil and gas (about 50% of total exports), petroleum products, metals and timber. A high concentration of Russia’s economic, financial and human potential in just a few regions contributes to imbalances and has a significant impact on regional economic development. The economic imbalance between wealthy and economically backward regions is huge. Thus, in the Russian Federation, with its extensive territories and spatial diversity, to ensure a relative homogeneity of its economic space is obviously very much a current challenge.

Numerous regional development programs elaborated by the Ministry of Economic Development of the Russian Federation aimed at equalizing levels of regional socioeconomic development and supporting economically backward regions have failed because they lack a strategic approach to regional policy.

2. Current Challenges of Regional Development in Russia

In the current context of the extremely negative impact of external factors on the financial and economic situation in Russia, raw materials export is not able any longer to compensate the shortcomings and losses caused by a general ineffectiveness of the country’s management system at all its levels. The indisputable evidence of this ineffectiveness is a practically total absence of positive results achieved in implementing main priority programs of Russia’s economic development. It is clear that among challenges presenting a certain threat to Russia’s sustainable economic development the key one is the exaggerated role of raw materials sector in the Russian economy and, accordingly, a very high financial and economic dependence of the country on the world raw materials market, primarily on fuel and energy one. It is not unknown that Russia uses the so-called “oil needle”. For this reason the priority directions of Russian economic development are considered to be the diversification of the economy, its transition to the innovative development, the establishment of modern knowledge-intensive high added value industries and modernization of obsolete fixed assets in the traditional branches of the Russian economy. It is worth mentioning that the situation has not changed much since then as no big stride yet has been made toward solving this challenge. For example, according to the official statistics, the share of the raw material sector in the balanced financial result 2008-2013 year-wise ranged from 20 to 25%. The share of electrical and optical equipment production didn’t exceed 1% at the same period. Fuel and energy resources revenues still remain to be the main sources of the national income in the Russian federal budget. Yet have not been created the effective mechanisms able to provide for the diversification of the economy, stimulation for the innovative products demand and the attraction of private investors for the development of the real sector of the economy.
The inconsistency of national economic policy of Russia is reflected in the fact that priorities of socioeconomic development declared by the government have little connection with the extremely expensive and ambitious state investment projects, such as the Skolkovo Innovation Center in Moscow, the Russky Island Bridge in Vladivostok, the World University Summer Games in Kazan and the Olympic Games in Sochi. It’s needless to say that the exceedingly high costs required for the implementation of these federal budget projects are incommensurable with the negligible positive impact they have on the development of the economy of these regions.

The analysis of the results of investment policy implementation in Russia has revealed the absence of systematic approach in strategic planning of economic development and the lack of differentiated approach in considering investment climate discrepancies of regions of the Russian Federation. In the period from 2005 to 2013 about 23.1% of the total amount of government investment is accounted for by two subjects of the Russian Federation – Moscow (16.2%) and Saint-Petersburg (6.9%). In 2014, continuing to show the tendency of concentrating state investments on the territory adjoining to Moscow, the Government of the Russian Federation has made a decision to allocate significant public funds for the Third Transport Ring Road construction. It would be quite reasonable and realistic to entice private investors to this project, but in this case, considerable intellectual and organizational efforts would be required whereas to make budgetary provisions for these purposes is much easier.

More than a quarter of the total government investment is allocated to the city of Moscow, Moscow region and to St. Petersburg. Thus, it is these three subjects of the Russian Federation that have the most favorable investment climate and much more chances than all of the other regions of the country to attract private investment, so it can be easily inferred that all of the rest of the federal subjects of the Russian Federation has little prospect of investment-driven development. In addition, there appeared some new priority directions of spatial economic development in Russia, such as the development of Crimea and the Far East as the priority growth zones. Nobody doubts that in the first place the infrastructure development of these regions will require significant government investment. Therefore, essential is the development of a new investment policy that will be consistent with the policy priorities and will take into consideration the influence of all factors creating investment climate in different regions of the country.

Unduly big disparities in the level of regional socio-economic development are also a serious problem in modern Russia. As a comparison, per capita money incomes of population in Moscow are 2.1 times that of the national one, and those of the Republic of Kalmykia are only 0.44 of the national average money incomes. The average monthly salary in Moscow is 1.88 times that of the average for Russia and that of the Republic of Dagestan is 0.51. Per capita investment in the period of ten years in Moscow is 1.42 times that of the average national level, and in the Republic of Ingushetia it is only 0.21.

Actually, the regional differentiation in the living standards and in the quality of life of population is even more, as each subject of the Russian Federation is characterized by a different degree of spatial heterogeneity of socio-economic development. For example, in the Novosibirsk oblast, population, industrial potential and infrastructure are concentrated in the city of Novosibirsk and in the Novosibirsk urban agglomeration, while rural areas are characterized by a backwardness of transport and social service sectors development, low population density and low money incomes. In 2013, the average monthly wages and salaries in municipal districts ranged from 23.9 thousand to 12.3 thousand rubles, while in the rural areas of Novosibirsk oblast average wages ranged from 21.4 thousand to 5.1 thousand rubles, with the average oblast’s wages and salaries being equal to 23.2 thousand rubles.

Over the past 10 years the population in all rural municipalities has decreased, and in some areas – almost by a quarter. A trend in the change of population may serve as an integral indicator
of this differentiation: population grows (or at least does not decline) in relatively wealthy subjects of the Russian Federation. The less developed a region is, the more is the decline of population. After the analysis of the current situation it entirely logically provokes the conclusion that regional policy conducted in Russia is ineffective and the continuation of the existing trends will have a negative impact on the country’s overall economic development and may lead to social tensions and instability. Mass public protests against the unpopular decision of the Moscow authorities to reduce the number of public hospitals are a good example. This is particularly troubling as it happens when municipal medical facilities in Siberia remain poorly stuffed, there is a lack of doctors and nurses and their salaries are very low. Besides, the salary gap between doctors having equal qualification and doing the same work or work of equal value in regions and in Moscow is significant: the salary of doctors working in Moscow is a two – three times that of doctors working in other regions of Russia. Therefore it’s quite logical that professionals leave regions for Moscow in search of higher salaries and better living conditions.

The current trends in the development of rural municipal units will be accompanied by the growing public discontent and a drain of rural population from villages. In order to radically change these trends it is necessary to solve a wide range of challenges, including the reduction of excessive differentiation in the level of socio-economic development of territories, but the main challenge is to provide the innovative management of municipal units’ economic development.

Speaking about the necessity of transition to the innovation management system, it should be said that the basic strategy of an innovation approach is to create a management system based on methodological principles reflecting the objective laws of socio-economic development of society.

3. Main Principles of Regional Development Planning

The principle of system approach to management decision making. Violation of this principle can be seen when analyzing the state regional economic policy aimed at the development of recreational and tourism sectors of the country’s economy.

The state certainly has a strong interest in the development of these sectors. So, in the district of Sochi new roads and interchanges, about 10 tunnels, stations, dozens of hotels and two new railways connecting Sochi with Adler and Krasnaya Polyana have been built, the airport has been redeveloped and expanded, mountain and coastal tourism clusters have been created. The state succeeded in attracting private investors’ funds that made up approximately 65% of all investments. Created was a modern infrastructure for the development of winter sports. Today in Sochi there are all conditions for year-round resort operation. But after the Olympic Games period, in the middle of summer of 2014, hotels and boarding houses were filled only one-third although prices were quite reasonable. The airfare, however, is so high that holidaymakers prefer low cost and comfortable vacation in Turkey.

Here is another example showing that officials who make state managerial decisions and allocate financial resources, are either not familiar with the laws of the market, or don't have an exact picture of the true socio-economic situation in the country. With per capita money incomes of population in Moscow being more than twice as high as that in Novosibirsk (for instance, in 2012 it was 48622 rubles, and in Novosibirsk - 23245 rubles), Muscovites would rather choose to stay in comfortable resorts in Spain, even if round trip air ticket price to the Crimea is only 7000 rubles, while residents of Novosibirsk will unlikely go to the Crimea with the round-trip air ticket price being 37500 rubles. Without considering the possibilities of real consumers, one may declare the Crimea a free economic zone, but the effective development of its main sector of the economy - tourism will remain to be a big question. If, when solving problems of domestic recreational and
tourism sector development, non-system approach will continue to be used, then funds invested in tourist zones development will never pay off.

*The principle of considering social objectives in developing territories.* One of the most important contemporary issues even in the context of low unemployment is the lack of staff, especially qualified one, a situation that is particularly acute in rural areas. Many officials of rural municipalities of Siberia consider a shortage of personnel, particularly that of trained professionals to be the main challenge. This is the lack of doctors, teachers, educators, cultural workers and skilled agricultural workers. The problem lies in the quality of life in rural areas, rather than in low salaries (in the public sector salaries, by the standards of rural population, are not low). Skilled workers who have secondary special or higher education, in addition to having decent salaries, want to have a real opportunity to buy comfortable housing, get a quality education for their children and leisure-time activities, a wide range of recreation facilities, i.e., another, better quality of life.

Everywhere government financial support for the construction of comfortable housing including social housing and hostels for both public sector workers and for those, working in agricultural enterprises is used as the main way to solve the challenge of personnel attraction and retention. But, first, the amount of funding does not correspond to the real needs, and secondly, the average price per square meter of housing in the areas of the Novosibirsk oblast is about 30 thousand rubles, as required is comfortable housing, supplied with gas, water and wastewater disposal system. In this case, even 50 m² of housing for a family will cost 1.5 million rubles. For a young family it is very much even in the case of higher wages and with the average wage in rural areas being 10-15 thousand rubles, this price is high-sky. It is the state that should address and overcome staffing issues in rural areas and its policy should be focused on improving housing conditions and social level of living of rural population. Nowadays the issue is being raised that young specialists having received education at the expense of the State budget funds should be obliged to work on the assignment within a given time in rural areas. Probably, it is even fair, but in this case, a necessary condition should be a provision of specialists with comfortable accommodation, with their wages being not lower than the average ones for the region.

However, this is no longer sufficient for the young specialists at their will instead of on compulsion to move to small towns and rural areas to settle there. Young people today have significantly changed their requirements to medical, educational, cultural services and leisure opportunities. The modern standard for such services providing implies the availability of the Internet and computer software, modern medical equipment, high level of improvement of the premises, which offer state and municipal services. To operate such equipment higher workers’ qualification is needed. All this inevitably results in a significant increase in the cost of social services financed from the budget. The increase of budget expenditures for social services is accounted for by the fact that before the transition to a market economy at least 30% of social services cost was financed by large enterprises, including agricultural, and today they should be covered only from the budget.

*The principle of harmonizing the regional entities’ economic interest.* The priority of food security of the country is hardly questionable. Meanwhile, the interests of food producers are not adequately reflected in the economic policy of the state as far as the development of the agri-food industry is concerned, which does not correspond to the needs of the state.

A significant part of the rural economy is characterized by a pre-industrial level of agricultural technology development and, accordingly, extremely low productivity. In the Novosibirsk region much of agricultural production is made up of a relatively small number of large agricultural enterprises and farmers, with lots of people of working age working only in their private
households. In many regions processing of agricultural products, as well as procurement and marketing infrastructure are entirely or almost entirely absent.

Farmers and individual entrepreneurs, and they are much more numerous than large producers today, are cut off from the market of finished products. This is due to phasing out of cooperation activities related to procurement and primary processing of agricultural products of individual households. Currently, only consumer cooperatives operate in rural areas, which soon will be driven out by the competition of large supermarket chains due to its low profitability and lack of government support.

The exclusion of agricultural producers from the market is related to the closure of food industry enterprises (milk and butter production, meat processing plants, grain storage bins) in most regions. Farmers have to carry raw grain to the Altai region grain elevators and storage bins, as grain sorting, packing, storing and processing services in the immediate neighborhood of Novosibirsk region are either unavailable or their cost is too high because of transportation expenses. Moreover, after the entry of Russia into the World Trade Organization (WTO) strengthened have been the requirements for slaughter or killing of animals prescribed as food for mankind. As a result, rural enterprises lose their own food market, which is being replaced by supermarket chains. Agricultural products grown in regions are transported to Novosibirsk for processing at large processing enterprises, often at a distance over 100-300 km and regions have to buy meat for hospitals and kindergartens at a high price at places where processing enterprises are located. Besides, available in rural areas is only poorly paid agricultural labor, while higher paid workplaces at processing enterprises have moved to the city.

So as to improve the efficiency of agricultural production, it is necessary to support and restore the primary processing of agricultural products in rural areas and to create a favorable environment for the interaction between major and small agricultural producers and for the revival of cooperation.

To improve the economic efficiency and living conditions in rural areas, state policy should be designed to ensure the effective specialization and cooperation of agricultural producers taking into account regional specificities. A focus on isolated smallholder farmers in small rural settlements only slows down the deterioration of agricultural production in Siberia. This policy is not able to provide jobs and promote social and economic development of rural areas.

Competition for the food market of Russia from foreign countries imposes more stringent requirements on the quality of the product and its cost. In these circumstances economically advantageous are large producers having diversified production, supplied with modern equipment, and what is most important - access to the ultimate consumer. Only in cooperation with large-scale highly efficient farms small peasant farms will be able to stay up and ensure the minimum necessary profitability just for the simple reproduction.

It is not easy to obtain credit even to successful rural entrepreneurs. Moreover, after Russia joined the WTO a real support to agricultural production was reduced. Currently, farm subsidies provided to agricultural producers do not depend on the costs of land improvement (by using fertilizers, herbicides, etc.) and other real costs, but depend only on the size of a farm land. There is every indication that deteriorating conditions for agriculture exert a detrimental effect on efficient farming.

Without active public support of agricultural producers, housing and infrastructure development prospects for rural areas sustainable development are very pessimistic.

Thus, even this brief analysis suggests that laws, based on a set of known principles of management should be at the core of innovative approach to the system of governance at all levels.
4. Problems of Local Self-government Development in Russia

4.1 The role of local self-government in the development of civil society

Local self-government in accordance with the Constitution of the Russian Federation is one of the elements of the political state system that ensures the implementation of the principle of democracy. Local government is characterized by certain signs of government institutions and institutional settings. The social and state nature of the local self-government institute makes it a central link in the mechanism of interaction between civil society and the state. This is the main role of local government in any state.

The essence of a state nature is such that in the absence of effective mechanisms to limit the power of a state it will always seek to centralize its power, which in its extreme situations leads to authoritarianism. But under the conditions of high globalization of the modern world and its information openness an authoritarian state becomes an international pariah and eventually due to the pressure of domestic and external forces its strength falls.

The paradox of the coexistence of state and local self-government is that their attempts to increase their influence at the expense of each other lead to the violation of balance of interests and to a general weakening of their power and the confidence of population as well. Centralization of power in the Central apparatus of the state and the absence of a constructive dialogue with a society leads to making decisions that do not reflect the interests of society, which ultimately results in social development destabilization. In any developed country, the issues concerning the mechanism for the prevention and overcoming a state power crisis are always on the table. As shown by the experience of many centuries, such a mechanism is a local government.

Local government cannot be regarded as a substitute for governmental authorities. Developed local self-government is a sign of a strong state power. At the same time, a strong local self-government, undertaking the problems concerning life support at the local level, contributes to the strengthening of a state power as well as to the effectiveness of its management. The Institute of local government plays an important role in the development of civil society since all civil rights and active manifestations 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.

The role and the key activities of the developed local government are as follows: the stimulation of the growth of budget revenue and the rational use of the expenditure part of local budgets; the provision of minimum living standards for the population; the improvement of the quality of the local population living environment; the Institute of local self-government strengthening 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 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 its 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 a self-sufficient local budget, which is a consequence of an unacceptably great spatial differentiation at the level of socio-economic development of the country. This differentiation is manifested, first of all, at the level of subjects of Federation.

To reveal spatial socio-economic disparities among different regions of the Russian Federation the differentiation index of some main macroeconomic indicators for federal subjects (according to
official statistics) has been calculated on the basis of average per capita indicators for 2013. The index of investment differences has been calculated on the basis of the average per capita indicator of investment costs for a period of ten years (2003-2013). Studied have been two subjects of the Russian Federation from each Federal District differing in their financial and economic potential. The population trend of subjects of the Russian Federation might serve as an integral indicator of this differentiation: in relatively prosperous subjects of the Russian Federation the population is growing (or, at least, does not change). The more under-developed a region is, the greater the decrease of population. The obtained data demonstrate the ineffectiveness of existing regional policy: the continuation of the current trends 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 an underdeveloped transport service, a 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 earnings exceeds the minimum one nearly 1.6 times, with the minimum average monthly earnings being about 0.52 of the oblast’s average one and only 0.33 of the Novosibirsk rural district. Per capita investment in some entities for the two years period differs by a factor of 11.6. The level of investment spending in rural municipal entities testifies first of all that the tendency toward growing differentiation in municipalities’ socio-economic development will persist in the years to come. The integral indicator of the level of area’s socio-economic development confirms the dependence between social and economic potential of a territory and population dynamics: in comparison with 2004, in 2014, 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 by almost a quarter.

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

The Constitution adopted in 1993 was simply obliged to create a legal framework for the establishment of local government. In 1995, a law was adopted “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 it 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.
4.2 Local budget formation in the context of the Russian fiscal system

The main financial source providing the fulfillment of expenditure commitments and the 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 for its model of fiscal system formation and this is not surprising, because issues concerning the economy model still cause heated debate. On declaring the state to be an ineffective owner, the private sector has privatized mineral raw resources without delay. As a result, the public sector of the economy has been sufficiently reduced, primarily developing in the economy are base materials sectors, and due to all these the Russian budget today depends on the free market oil price. 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 of this requires technological modernization and the development of modern native engineering. Unfortunately, there are no creditworthy entities that are interested in such modernization. The 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 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 2015 capital outflow amounted to $120 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 a fiscal system of the state is concerned, broadly speaking, there are two main approaches based on two different principles – the principal of centralization and that of decentralization. A 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 the implementation of municipality social projects.

In Russia a primarily decentralized approach is absolutely unacceptable due to the following reasons. Firstly, to excessive differentiation of the regions in terms of socio-economic development and the concentration of wealth in few well-known places means the use of such a model will only lead to the further widening 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 that 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.

The use of a 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 of the Republic of Kalmykia and paid 2.3 billion rubles to the Republican budget, which was nearly as much as a half of that again. You can 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 large 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 them are much bigger than those of the other subjects of the 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, the very opportunity for carrying out a responsible fiscal policy, improving the quality of services, effective cost control and attracting investment for the development of municipalities is lost. It is not coincidence that when speaking about local self-government, as a rule, only the powers of local authorities are meant and almost nothing is said about its liability to the 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.

The fiscal system in its current state is, no doubt, in need of serious changes, and those changes should be result-oriented and capable of solving 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 as to exclude the withdrawal of excessive taxes, because 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 consider 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’s 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 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 present there is no economic justice to make them.

At the same time, it would be justifiable 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 the subjects of the 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 a more objective assessment of such taxes as those 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 and 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.

5. Concluding Remarks

A realistic estimation of all undertaken measures for the perfection of regional governance and available proposals characterizing the general concept of economic reformation at a regional level allow for the following conclusions. First, the basic elements of regional socio-economic systems are not equally prepared to a transition to a new model of regional governance. Second, the powers of official bodies of the hierarchical system of territorial governance are not clearly defined. Third, the economic, social, and financial norms, which should perform the functions of financial economic instruments providing the achievement of objectives and targets of integrated socioeconomic development, are not justified. Fourth, in some governmental links of a region’s economy, there is a lack of worldview susceptibility and personnel preparedness to a transition to a new model of regional governance.

From this it follows that a transition to a new model of economy governance of a federal subject should be of a stepwise character and should imply constant replacement of ineffective elements of economic mechanism.

The Russian experience in the last decade has shown that, to achieve the objectives of regional
governance, it is not enough to formulate them, supply with a legal framework, and develop a plan of actions. In order to achieve significant publicly important results, it is needed to introduce a result based system of governance which will link the objectives to measures, and resources necessary for the achievement of governance objectives. This system should use a mechanism of project management which allows exercising control not only at the decision-making stage, but at the implementation stage as well. The absence of this mechanism considerably impedes the achievement of the outlined results at both regional and municipal levels of government. Its introduction is equally important for the formation of a new system of governmental regulation on the whole and for the solution of many other problems associated with the implementation of structural transformations in the economy.

References