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# **ECONOMIC AND SOCIAL CHANGES: FACTS, TRENDS, FORECAST**

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The formation of the scientific personnel with an active life position, a great demand for Institute's investigation, academic community's support of the new journal published by ISED T RAS, which combined efforts of the economic institutes of RAS in the Northwestern Federal District, and furthermore development of international ties have become the main outcomes of the last years.

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# FROM THE CHIEF EDITOR

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## National Security Strategy 2015 – a Step towards the New Phase of Russia's Development



**Vladimir Aleksandrovich  
ILYIN**

Doctor of Economics, Professor, Honored Scientist of the Russian Federation  
Institute of Socio-Economic Development of Territories of RAS  
56A, Gorky Street, Vologda, 160014, Russian Federation  
ilin@vscc.ac.ru

*December 31, 2015, Russian President Vladimir Putin signed the new National Security Strategy. Having analysed the key provisions of this document, we conclude that this event can be regarded as a new and historically significant step toward the strengthening of the Russian statehood and transition to a new stage of development.*

*The National Security Strategy—2015 stipulates that “the implementation of the government policy of the Russian Federation in the sphere of national security is carried out through the concerted actions of all the elements of its system under the supervision of the President of the Russian Federation and with the coordinating role of the Security Council of the Russian Federation”. Thus, the President takes on personal responsibility for ensuring the implementation of priority directions of state policy in the sphere of national security, and this is not only a timely step, it also demonstrates Vladimir Putin’s ability to assume the historical role of leader when Russia experiences hard times.*

The centuries-long history of formation and development of the Russian state demonstrates that the key role of personality is one of its features. The historic decisions crucial for Russia were always made by a concrete person – its leader.

The adoption of Christianity in Russia under Vladimir the Great (9th century); the strengthening of absolutism during the reign of Ivan the Terrible (16th century); the reforms

of Peter the Great carried out according to the European model (1st quarter of the 18th century); the era of “enlightened absolutism” of Catherine II (2nd half of the 18th century); the abolition of serfdom under Alexander II (2nd half of the 19th century); the establishment of the Soviet power and the Communist regime after the October Revolution in the period of Vladimir Lenin’s political leadership (1st half of the 20th century); the victory in the

Great Patriotic War during the reign of Joseph Stalin (1st half of the 20th century) – each of these events was followed by many years of periods that form the history of our country and specifics of the Russian mentality. There can be different opinions about these events, but it is clear that each of them is unique; all of them did not emerge “from scratch”, but matured from the daily lives of millions of Russians. Each of these landmark events was accompanied by the fact that the system put forward its leaders, historically significant individuals who carried in their words and actions the ideas of Russia’s modernization in the struggle for strengthening its international status.

There were other periods in the Russian history when the country had no clearly defined leader, when he could not take responsibility for making decisions or when his decisions were inconsistent with the national interests. As a rule, those “troubled” times were characterized by endless coups, struggle for power inside the country and external interventions. Such was the reign of Boris Godunov (which led to the Polish-Lithuanian intervention; the end of the 16th – beginning of the 17th century); the era of Palace revolutions (mid-18th century); the reign of Nicholas II, which ended with his abdication and the establishment of the Provisional Government, which became one of the key events of the February Revolution of 1917, almost 100 years have passed since that time (2nd half of the 19th century – beginning of the 20th century); the period of Mikhail Gorbachev’s “perestroika” (2nd half of the 1980s – beginning of the 1990s) which ended with the “August Putsch” and the dissolution

of the Soviet Union (the Belavezha Accords on the establishment of the Commonwealth of Independent States; 1991); the reign of the first President of Russia Boris Yeltsin, remembered for the bloody events of 1993, when the Congress of People’s Deputies and the Supreme Soviet of the Russian Federation were dispersed by force with the use of tanks.

The modern stage of the Russian history is no exception; the role of personality is important today as well. According to experts, specific actions and management decisions made by Vladimir Putin as President become truly historical for Russia<sup>1</sup>. His name is associated with overcoming the catastrophic situation that our country faced in the late 1990s, the settlement of the conflict in Chechnya, the accession of Crimea to the Russian Federation... For the period from 2000 to 2015 Russia transformed from the country on the brink of extinction into the state without which it is impossible to solve key world issues. During this time in the Russian society there emerged and strengthened the middle class, the financial needs of people have changed and, most importantly, the attitude of the Russians towards themselves changed, their self-esteem and self-respect increased, the people have revised their view about the place of Russia in the world, what they desire and what they actually have in our reality, our successes and failures<sup>2</sup>.

<sup>1</sup> Glavnyi marafonets [The Main Marathon Runner]. *Zhurnal “Ekspert”* [The Journal “Expert”], 2016, February 14. Available at: <http://expert.ru/expert/2016/01/glavnyj-marafonets/>

<sup>2</sup> Esli budut ukhudsheniya, to reiting Putina budet menyat’sya poslednim [If the Situation Becomes Worse, Putin’s Rating Will Be the Last to Change]. *Izvestiya* [The News], 2016, January 20. Available at: <http://izvestia.ru/news/601912>

However, throughout the whole period of Vladimir Putin's presidency, there were some contradictions in the domestic administration system. The history of Russia knows examples of such situations (for instance, the activity of Alexander Menshikov during the reign of Peter the Great or the activity of Ernst Johann von Biron during the reign of Empress Anna Ivanovna<sup>3</sup>).

Currently, the effectiveness of independent policy pursued by the President in order to ensure national interests and strengthening

Russia's sovereignty and its status in the international political arena is "inhibited" by internal administration decisions taken primarily by the financial-economic block of the Government with the support of the liberal media. As a result, Russia that is reinforcing its international status and its influence in the world each year is also a country with an inefficient, raw materials exporting model of economic development that does not correspond to the trends of the world economy and national security interests.

<sup>3</sup> Some excerpts from the textbook on Russian history by V.O. Klyuchevsky (source: Klyuchevsky V.O. Kurs russkoi istorii [A Course in Russian History]. *Internet-resurs "Khronos: vseмирnaya istoriya v internete"* [Internet-Resource "Chronos: World History on the Internet"]. Available at: [http://www.hrono.ru/libris/lib\\_k/klyuch00.php](http://www.hrono.ru/libris/lib_k/klyuch00.php)).

#### 1. About Prince Menshikov:

- "In the conditions of total lawlessness at the bottom and arbitrariness on the top, timid people did not put their savings into circulation... *Prince Menshikov himself had more than one million of money on deposit in London*".

- "...Peter himself with the engineers toured the area between Ladoga and Shlisselburg and assigned the case to *Prince Menshikov, who did not understand anything in it, but tampered with everything. Menshikov and his friend managed the matter so that he spent more than 2(16) million rubles digging in the earth for no reason, thousands of workers died because of bad food and disease, and nothing was done*".

- "...Kurbatov complained to the Tzar about the people in power and even about his chief overseer Prince F.Yu. Romodanovsky, and covered only for his patron *Prince Menshikov, a minor embezzler*".

- "*Menshikov surrounded himself with a gang of bureaucratic predators, who became rich and made their patron rich at the expense of the Treasury*".

#### 2. About Duke Biron:

- "The Germans poured into Russia like rubbish from a leaking bag, swarmed the court and the throne, and tried to get all the lucrative posts. This human whatnot consisted of the sidekicks of two strong patrons: "*the Courlande rascal*" whose only merit was that he was able to find purebred dogs – that was spoken of Biron, and the other rascal – count Löwenwolde the Livonian, Biron's apprentice and even rival as a minion, chief master of the horse, a deceitful man, passionate gambler and bribe taker. *The whole pack was partying in the splendour, dissipation and festivities that ruled at the court at the expense of the money squeezed out of common people. No wonder that under Anna, the court was five or six times more expensive than during the reign of Peter the Great, though state revenues did not increase, but rather diminished. Ambassadors wrote: "Given an unheard-of luxury of the court, the Treasury is empty and no one is paid for anything". Meanwhile, the management was carried on without any dignity*".

- "State revenue sources were extremely exhausted, and people could not pay either: in 1732 it was estimated to get 2/2 million rubles of revenues from customs and other indirect taxes, but actually it was managed to collect only 187 thousand. *Millions of tax arrears dazzled the eyes of Biron. In addition to natural disasters like crop failures, famine, epidemic diseases and fires that Russia experienced in that period, the authorities launched extortion expeditions against peasants, regional rulers who failed to do their job properly were put into irons, landlords and headmen starved to death in prisons, peasants were beaten with rods and were deprived of everything that could be sold. It was like a new Tatar invasion, but this time they came from Russia's own capital. The moan and the cry went around the country. People said: Biron and Münnich acquired great strength, people suffer because of them, they allowed foreigners to rule; they collect taxes stained with blood and tears of poor citizens and spend the money on delicious food and drinks; Russian peasants are treated worse than dogs; our country is lost!*"

- "*The inept passion for policy on the part of the higher class resulted in the fact that the entire nation was punished by the regime of Bironovshchina; having experienced Russian lawlessness under Menshikov and Dolgoruky, Russia experienced German lawlessness under Biron and Löwenwolde*".

Public speeches of the President, during which he regularly demonstrates a deep knowledge of the Russian history<sup>4</sup>, suggest that Putin understands the controversy of the situation in the internal administration system. So, step by step, he is pursuing a policy aimed to improve the efficiency of Government performance. One of the latest steps was a new National Security Strategy approved on December 31, 2015.

It should be noted that the Law on Strategic Planning adopted in 2014 commits to review key strategic documents every six years. The previous Strategy, according to expert assessments, was “knowingly helpless, irrelevant to reality, providing for no implementation mechanisms, and clearly demonstrating the intellectual impotence of the liberals”<sup>5</sup>. The Strategy was signed by Dmitri Medvedev in 2009, i.e. after the famous Munich Speech of Vladimir Putin, when he first declared that Russia is ready and will pursue its independent foreign policy.

Dmitri Medvedev was President in 2008–2011. In anticipation of the next presidential election (2012) Vice President Joe Biden visited Moscow (March 9, 2011). According to experts, this demonstrated “the Western support of Dmitri Medvedev’s candidacy for

the second term in office”<sup>6</sup> or, in other words, it was directed against the return of Vladimir Putin as President of Russia.

However, despite external pressure from the United States, on March 4, 2012, the Russians made their choice, which clearly showed that only Vladimir Putin could effectively represent the interests of the majority of citizens (in the presidential election, he scored 63.6% of the vote; the closest contender was Gennady Zyuganov with 17.2%). Vladimir Putin showed the desire and ability to continue the implementation of an independent foreign policy, the basic principles of which were outlined in the Munich Speech of 2007; the U.S. Government responded to this fact by unleashing a new round of hybrid warfare, which continues to evolve actively. Ukraine got the role of a “bargaining chip” in this regard.

Subsequent events showed two things.

*First*, it has proven the fact that the hybrid warfare between Russia and the U.S. goes far beyond the bilateral conflict. It has involved most countries of the world, and this means that the key ideas of Vladimir Putin’s Munich Speech of 2007 were actually implemented, that the unipolar model of the world is really “not only unacceptable but completely

<sup>4</sup> For example: the Address to the Federal Assembly on December 3, 2015, the speech at the meeting of the Valdai International Discussion Club on October 22, 2015, the speech at the 70th session of the UN General Assembly on September 28, 2015.

<sup>5</sup> Delyagin M. Shabash liberalov [The Coven of the Liberals]. *Gazeta “Zavtra”* [Newspaper “Tomorrow”], 2016, no. 3 (1155), January 21. Available at: <http://www.zavtra.ru/content/view/shabash-liberalov/>

<sup>6</sup> Dzhо Baiden popytaetsya otgovorit’ Vladimira Putina ballotirotat’sya na post Prezidenta RF v 2012 godu? [Will Joe Biden Try to Dissuade Vladimir Putin from Running for President of the Russian Federation in 2012?]. *Obshcherossiiskaya obshchestvenno-politicheskaya elektronnaya gazeta “The Moscow post”* [All-Russian Social and Political Electronic Newspaper “The Moscow Post”]. Available at: <http://www.moscow-post.com/politics/000129922924180/>

impossible”, and Russia as a country with more than a thousand-year history “practically always had the privilege to conduct independent foreign policy”<sup>7</sup>.

*Second*, as follows from the events of 2012–2015, the Russians made the right choice. In the conditions of continuous information pressure on the society through the media, and regular provocations with the goal of engaging Russia in military action in Ukraine, the Russian President faced the necessity to address foreign policy objectives. And we can assert that during this period Vladimir Putin showed everything, which the Russian people voted for in the presidential election of 2012: a deep, strategic understanding of the situation and commitment to clear and timely action in the interests of the majority of the population.

Evaluating the consequences of one of the major global events of 2014 – the accession of Crimea and Sevastopol to the Russian Federation, many scientists (Gennadii Osipov, Mikhail Gorshkov and others) have speculated that Russia is on the threshold of a new stage of its historical development, that the “Crimean spring”, has possibly forever changed the attitude of the Russians toward the world, their country and themselves.

This is confirmed by the events in Syria since June 2015 when upon the official request

by Syrian President Bashar al-Assad<sup>8</sup> Russia’s military-space forces began the anti-terrorist operation against the Islamic State of Iraq and the Levant (30 September 2015); it is now obvious that Russia does not need to prove it is a full-fledged partner of the leading world powers. The effectiveness of air strikes of Russian air and space forces was recognized by the United States and around the world, and Russia has become not only an equal, but the key “player”, without whom it is impossible to resolve the Syrian issue.

However, there are serious problems on the way to the new stage of development. Along with the strengthening of Russia’s international positions, there emerge more requirements to ensure that Russia corresponds to its status in matters of not only foreign policy but also domestic economic development, self-awareness of the Russians, cultural and ideological foundations of the society, the state of the social sphere.

**In recent years, it becomes more and more clear that Russia is lagging behind developed countries in terms of economic development. And this threat is no less dangerous than any armed conflict. While the United States and industrial countries of the EU, have high-tech digital industrialization that enables the transition to post-oil energy, recycling of**

<sup>7</sup> Stenogramma vystupleniya V.V. Putina na Myunkhenskoi konferentsii po voprosam politiki bezopasnosti 10 fevralya 2007 g. [Transcript of Vladimir Putin’s Speech at the Munich Security Conference, February 10, 2007]. *Ofitsial’nyi sait Prezidenta RF* [Official Website of the RF President]. Available at: [http://archive.kremlin.ru/appears/2007/02/10/1737\\_type63374type63376type63377type63381type82634\\_118097.shtml](http://archive.kremlin.ru/appears/2007/02/10/1737_type63374type63376type63377type63381type82634_118097.shtml)

<sup>8</sup> September 30, 2015, the Administration of Syrian President Bashar al-Assad confirmed that it asked Russia to provide military assistance. “Any strengthening of the Russian military support of Syria has happened and is happening as a result of the request from the Syrian state”, – declared the administration of Syrian President (source: *RBC News*. Available at: <http://www.rbc.ru/rbcfreenews/560bbb069a7947a7de197c8b>).

**resources and energy efficiency of all social production, Russia retains the raw materials export model of the economy.**

“Neo-industrial change in the structure of public power balance in industrialized countries makes the raw materials exporting countries even more dependent on them. If we retain the raw materials exporting model of the economy after the crisis, then instead of high growth rates we will get a protracted depression... Based on post-oil power generation, industrialized countries would be able to unilaterally manipulate the global market of hydrocarbons and the oil and gas market. For example, they will be able to without any harm to themselves to bring down the prices as low as they want and set up the crisis conditions for oil-producing countries not every 3–5 years, but every six months”<sup>9</sup>.

**Neoindustrialization is a natural course of development of postindustrial society. Any crises or armed conflicts will be overcome as time goes by; and the change in economic structure is a natural process which nothing can stop. Therefore, countries that do not have time to adapt to this process, become uncompetitive.**

Thus, it has been 6 years since the adoption of the National Security Strategy of 2009, and during that time Russia faced new global challenges related to strengthening its international status and to the natural process of neo-industrialization going on in developed

countries. In order to reflect the priorities of ensuring national interests in the changed geopolitical conditions it was necessary to adopt a new Strategy, which was signed by the President on December 31, 2015.

This document contains several fundamentally significant changes that reflect the new status of Russia in the world and the new priorities of domestic policy. The key priorities, in our opinion, are the following.

*First*, “state policy of the Russian Federation in the sphere of national security is carried out through the concerted action of all elements of its system **under the leadership of the President of the Russian Federation** and coordinating role of the Security Council of the Russian Federation”<sup>10</sup>, i.e. the head of state takes personal responsibility for ensuring the implementation of the priorities identified in the Strategy 2015.

*Second*, the new Strategy significantly increases the emphasis on the priorities of economic security and quality of life. They now include “improvement of the quality of life of Russian citizens, economic growth, science, technology and education, health, culture”; the list of key threats includes “the risks of misuse of budget funds”; the indicators of national security include “satisfaction of citizens with the degree of protection of their constitutional rights and liberties, personal and property interests”, “life expectancy” and “GDP per capita”.

<sup>9</sup> Gubanov S.S. *Sistemnye predposylki ekonomicheskogo pod"ema Rossii: doklad na VII nauchno-prakticheskoi konferentsii "Strategiya i taktika sotsial'no-ekonomicheskikh reform: regional'nyi aspekt" (g. Vologda, ISERT RAN, 18.12.2015)* [System Prerequisites for Economic Recovery of Russia: the Report at the 7th International Research-to-Practice Conference “Strategy and Tactics of Socio-Economic Reforms: Regional Aspect” (Vologda, ISERT RAS, December 18, 2015)].

<sup>10</sup> Ukaz Prezidenta Rossiiskoi Federatsii ot 31 dekabrya 2015 goda №683 “O Strategii natsional'noi bezopasnosti Rossiiskoi Federatsii” [The Decree of the President of the Russian Federation of December 31, 2015 No. 683 “About the National Security Strategy of the Russian Federation”]. *Rossiiskaya gazeta* [Russian Newspaper], 2015, December 31. Available at: <http://www.rg.ru/2015/12/31/nac-bezopasnost-site-dok.html>

**Thus, according to the new strategy, the President takes responsibility for ensuring the state policy in the sphere of national security, and in those issues that mostly concern the Russian citizens – financial issues, standard of living, and the state of the economy<sup>11</sup>.**

The new National Security Strategy points out the changes in the implementation of foreign policy, which still occupies an important place due to objective circumstances prevailing in the international arena. The main task is to prevent threats on the part of NATO (USA) and not on the part of “several leading foreign countries”, as was stated in the Strategy 2009.

It is obvious that the President understands the true causes of the military conflict that Russia was dragged into in recent years

(primarily the Ukrainian and Syrian crises). **The uncompromising recognition of the fact that these crises are backed by the U.S.<sup>12</sup> is exactly what was not reflected in the Strategy 2009; and this is what radically distinguishes Leader Putin from Leader Medvedev.**

However, in general, the main difference between the Strategy 2015 and the Strategy 2009 is that it pays significantly more attention to the internal life in the country. Indeed, its lack of competitiveness due to the “hopeless and initially criminal” model of economic development, which is based on “parasitism on the heritage of ancestors instead of intense scientific, technological and industrial development”<sup>13</sup>, is the main issue of national security. It is no coincidence

<sup>11</sup> The results of sociological measurements confirming this fact are given below in the section “Public Opinion Monitoring of the State of the Russian Society”.

<sup>12</sup> Vladimir Putin about the situation in Ukraine: “Our western partners, led by the United States of America, prefer not to be guided by international law in their practical policies, but by the rule of the gun. They have come to believe in their exclusivity and exceptionalism, that they can decide the destinies of the world, that only they can ever be right. They act as they please: here and there, they use force against sovereign states, building coalitions based on the principle “If you are not with us, you are against us.” To make this aggression look legitimate, they force the necessary resolutions from international organizations, and if for some reason this does not work, they simply ignore the UN Security Council and the UN overall. This happened in Yugoslavia, and then, they hit Afghanistan, Iraq, and frankly violated the UN Security Council resolution on Libya... A similar situation unfolded in Ukraine.” (Source: Obrashchenie Prezidenta RF k deputatam Gosudarstvennoi Dumi, chlenam Soveta Federatsii, rukovoditelyam regionov Rossii i predstavitelyam grazhdanskogo obshchestva 18 marta 2014 g [Address of the President of the Russian Federation to State Duma Deputies, Federation Council Members, Heads of Russian Regions and Civil Society Representatives on March 18, 2014]. *Ofitsial'nyi sait Prezidenta RF* [Official Website of the RF President]. Available at: <http://www.kremlin.ru/events/president/news/20603>).

Vladimir Putin about the situation in the Middle East: “Why is it that the efforts of, say, our American partners and their allies in their struggle against the Islamic State has not produced any tangible results? Obviously, this is not about any lack of military equipment or potential. Clearly, the United States has a huge potential, the biggest military potential in the world, only double crossing is never easy. You declare war on terrorists and simultaneously try to use some of them to arrange the figures on the Middle East board in your own interests, as you may think. (источник: Стенограмма выступления В. Путина на заседании международного дискуссионного клуба Валдай 22.10.2015 [Электронный ресурс]. – Режим доступа: <http://kremlin.ru/events/president/transcripts/statements/50548>).

An excerpt from the National Security Strategy 2015: “The implementation of independent foreign and domestic policy by the Russian Federation has provoked opposition from the United States and its allies, seeking to maintain their dominance in world affairs. Their policy of containment of Russia provides for the exertion of political, economic, military and informational pressure on Russia” (source: Ukaz Prezidenta Rossiiskoi Federatsii ot 31 dekabrya 2015 goda №683 “O Strategii natsional'noi bezopasnosti Rossiiskoi Federatsii” [The Decree of the President of the Russian Federation of December 31, 2015 No. 683 “About the National Security Strategy of the Russian Federation”]. *Rossiiskaya gazeta* [The Russian Newspaper], 2015, December 31. Available at: <http://www.rg.ru/2015/12/31/nac-bezopasnost-site-dok.html>).

<sup>13</sup> Boldyrev Yu. Tragediya ili shans? [A Tragedy or a Chance?]. *Literaturnaya gazeta* [The Literary Newspaper], 2016, no. 5 (6540), February 04. Available at: <http://www.lgz.ru/article/-5-6540-4-02-2016/tragediya-ili-shans/>

that the new Strategy pays much attention to the national priority “Economic growth”. “Low competitiveness, adherence to the raw materials export model of development and high dependence on external economic conditions, delays in the development and implementation of advanced technologies, vulnerability of the national financial system”<sup>14</sup> are pointed out as the main strategic threats to national security in the economic sphere.

An objective criterion – the dynamics of official statistical indicators – shows that the system of Russia’s economic development management is inefficient. In recent years, it led Russia to the crisis that goes far beyond the sphere of economy. It is a structural crisis, manifesting itself in various fields and directions: in the real sector of the economy, in fiscal policy, in the social sphere and management system.

In 2012–2013, unlike Russia, developed countries managed to overcome negative economic trends that occurred during the

global financial crisis. This is clearly reflected in the dynamics of GDP growth (in 2012–2014, the growth rates of GDP on average across countries amounted to 3.4% of the previous year’s indicator; they increased from 1.2 to 1.8% in developed countries, and declined from 3.4 to 0.6% in Russia; *tab. 1*).

According to preliminary estimates by the International Monetary Fund, in 2015, Russia will take the 9th place among the developing countries by the pace of GDP decline, and it is the level of the countries of South Africa. In the group of CIS countries, a deeper collapse in real GDP is expected only in Ukraine.

In the past 12 years (2002–2014), experts note the reduction in the share of manufacturing industries along with the increase in the extraction and export of minerals, the high level of differentiation of population by income, the decline in labor potential, the “distortions” in the system of administration that is reflected in the significant growth of the bureaucratic apparatus (*tab. 2*).

Table 1. Dynamics of GDP growth rates in countries of the world in 1997–2015 (% to the previous year, in comparable prices)

Countries	Average for 1997–2006	Average for 2007–2015	2007	2008	2009	2010	2011	2012	2013	2014	2015, estimate
<b>World</b>	<b>4.0</b>	<b>3.5</b>	<b>5.7</b>	<b>3.1</b>	<b>0.0</b>	<b>5.4</b>	<b>4.2</b>	<b>3.4</b>	<b>3.3</b>	<b>3.4</b>	<b>3.1</b>
<b>Developed countries</b>	<b>2.8</b>	<b>1.2</b>	<b>2.8</b>	<b>0.2</b>	<b>-3.4</b>	<b>3.1</b>	<b>1.7</b>	<b>1.2</b>	<b>1.1</b>	<b>1.8</b>	<b>2.0</b>
USA	3.3	1.3	1.8	-0.3	-2.8	2.5	1.6	2.2	1.5	2.4	2.6
Japan	0.9	0.4	2.2	-1.0	-5.5	4.7	-0.5	1.7	1.6	-0.1	0.6
Eurozone	2.3	0.4	3.0	0.5	-4.6	2.0	1.6	-0.8	-0.3	0.9	1.5
<b>Developing countries</b>	<b>5.4</b>	<b>5.6</b>	<b>8.7</b>	<b>5.8</b>	<b>3.1</b>	<b>7.5</b>	<b>6.3</b>	<b>5.2</b>	<b>5.0</b>	<b>4.6</b>	<b>4.0</b>
<i>CIS</i>	<i>5.5</i>	<i>2.4</i>	<i>9.0</i>	<i>5.3</i>	<i>-6.3</i>	<i>4.6</i>	<i>4.8</i>	<i>3.4</i>	<i>2.2</i>	<i>1.0</i>	<i>-2.7</i>
<b>Russia</b>	<b>5.0</b>	<b>1.8</b>	<b>8.5</b>	<b>5.2</b>	<b>-7.8</b>	<b>4.5</b>	<b>4.3</b>	<b>3.4</b>	<b>1.3</b>	<b>0.6</b>	<b>-3.8</b>
Besides Russia	6.6	3.8	10.4	5.6	-2.5	5.0	6.2	3.6	4.2	1.9	-0.1

Source: *International Monetary Fund*. Available at: <http://www.imf.org/external/russian/pubs/ft/weo/2015/02/pdf/texttr.pdf>

<sup>14</sup> Ukaz Prezidenta Rossiiskoi Federatsii ot 31 dekabrya 2015 goda №683 “O Strategii natsional’noi bezopasnosti Rossiiskoi Federatsii” [The Decree of the President of the Russian Federation of December 31, 2015 No. 683 “About the National Security Strategy of the Russian Federation”]. *Rossiiskaya gazeta* [The Russian Newspaper], 2015, December 31. Available at: <http://www.rg.ru/2015/12/31/nac-bezopasnost-site-dok.html>



Table 2. Some indicators of a systemic crisis in Russia

Indicator	2002	2014
The share of manufacturing, % of total GVA in industry	62.5	53.2
Mineral extraction, in % of total GVA in industry	24.2	35.2
Exports of mineral products %	55.2	70.5
Decile coefficient, times	14	16
Gini coefficient	0.397	0.416
The number of employees of state administration bodies at all levels and all branches of government, thousand people	1252.3	1548.1*
The number of employees in the executive branch, thousand people	1070.2	1264.8*
The number of employees of federal agencies, thousand people	444.4	589.0*
The number of people employed in the economy per 100 pensioners, persons	170	163
The real amount of pension, in % to previous year	116.3	100.9
Real disposable income, in % to previous year	111.1	99.3

\* Data for 2013.

Source: Nikolaev I., Marchenko T., Tochilkina O. Kakoi v Rossii krizis i kak dolgo on prodlitsya? [What Kind of Crisis is in Russia and How Long Will It Last?]. *Obshchestvo i ekonomika* [Society and Economics], 2015, no. 8-9, pp. 5–44.

An extremely low degree of export diversification that indicates low competitiveness of Russia's manufacturing industry on a global level is "not just risky but dangerous"<sup>15</sup>, because the mining industry becomes very dependent on world prices for minerals.

Domestic and foreign experts recognize that the systemic crisis in Russia is generated not by geopolitical factors but by inefficient economic policy<sup>16</sup>. The situation can be changed with the help of political will and decisive action, the examples of which can only be seen in the implementation of the foreign policy pursued by the President.

As for the liberal wing of the Government, many experts provide evidence of its helplessness: "Our government officials are

*constrained by a sort of shyness, it seems that it will be very difficult to expect large-scale and effective solutions from them... hesitation and haughty rejection of others – these are the qualities which are inherent in the same group of the Russian bureaucracy that is responsible for the economy, and they hamper the forward movement and become a political issue*"<sup>17</sup>. "It seems that ministers and their superior do not meet at work, do not discuss problems, do not work out a LINE of government, which is expressed and defended by everyone"<sup>18</sup>.

Some go even further in their assessments and compare the actions of the Cabinet of Ministers to the betrayal of national interests, stating that "the government should stop deceiving the people. It cannot cope with

<sup>15</sup> Nikolaev I., Marchenko T., Tochilkina O. Kakoi v Rossii krizis i kak dolgo on prodlitsya? [What Kind of Crisis is in Russia and How Long Will It Last?]. *Obshchestvo i ekonomika* [Society and Economics], 2015, no. 8-9, p. 18.

<sup>16</sup> This opinion, in particular, was expressed by President of the Federal Association of the German Industry (BDI) Ulrich Grillo: "The deep economic crisis in Russia is caused primarily by the errors committed by Moscow in the past. The main cause of the current crisis is not the sanctions, but a one-sided fixation of the Russian economy on oil and minerals". Available at: <http://www.perspektivy.info/rus/ekob/>

<sup>17</sup> Fadeev V. Ekonomika tonet v fariseistve [Economy Is Drowning in Pharisaism]. *Zhurnal "Ekspert"* [The Journal "Expert"], 2016, no. 3 (971), January 18. Available at: [http://expert.ru/expert/2016/3/#page\\_3](http://expert.ru/expert/2016/3/#page_3)

<sup>18</sup> Starikov N. A znakomy li mezhdu soboi Siluanov i Medvedev? [Do Siluanov and Medvedev Even Know One Another?]. *Ofitsial'nyi blog N. Starikova* [N. Starikov's Official Blog]. Available at: <http://nstarikov.ru/blog/61831>

*the development of the economy. What is happening in the country is not the crisis. It is the degradation and disintegration of the socio-economic system... Since the times of Gaidar we have chosen a vicious course of development and constructed a defective socio-economic system. It is beneficial for certain narrow circles. And the economic bloc of the government works for the benefit of those circles and not for the good of the country*"<sup>19</sup>.

Both generally come to the same conclusion: **"If we do not change our economic policy, then someday our research and technology will fall way behind those in the West so that no one will buy our energy resources any longer – they will just come and get them"**<sup>20</sup>.

The inefficiency of the liberal wing of the Cabinet of Ministers paralyzes the development of the entire Russian economy, creates fertile ground for the growth of corruption not only in government but in big business; not only at the federal but also at the regional level. This is demonstrated by the performance results of the largest resource-extracting companies that are the basis of economic prosperity in the countries with raw-material orientation of the economy.

Russia's oil and gas complex forms almost one third of tax proceeds and is a key source

of revenues of the budget system of the Russian Federation. However, research results<sup>21</sup> indicate that the lack of state regulation allows the leadership of state corporations to pursue their own distribution policy in order to satisfy their personal interests that do not correspond with the increase of profitability of the budget.

The estimated shortfall in the revenues of the budgetary system due to the use of different schemes of minimizing taxation of oil and gas corporations shows that in 2008–2014 additional tax payments by open joint-stock companies Gazprom, Rosneft, Tatneft, and Rosneftegaz could have been 2880.5 billion rubles per year, including those in the federal budget – 2648.2 billion rubles, in the budgets of the regions – 232.3 billion rubles (*tab. 3*).

The situation is also acute in the basic enterprises of ferrous metallurgy<sup>22</sup>.

In 2008–2014, additional tax payments from Cherepovets, Magnitogorsk and Novolipetsk metallurgical plants could have amounted to 81.3 billion rubles per year, including: in the federal budget – 37.7 billion rubles, in territorial budgets – 43.6 billion rubles, in the budget of the Vologda Oblast – 22.7 billion rubles; in the budget of the Chelyabinsk Oblast – 15.9 billion rubles; in the budget of the Lipetsk Oblast – 5.0 billion rubles (*tab. 4*).

<sup>19</sup> Zapesotskii A. Pravitel'stvo Rossii kak ugroza natsional'nym interesam [The Russian Government as a Threat to National Interests]. *Komsomol'skaya Pravda* [Komsomol'skaya Pravda Newspaper], 2016, January 13. Available at: <http://m.kp.ru/daily/26479/3349764/>

<sup>20</sup> Boldyrev Yu. Tragediya ili shans? [A Tragedy or a Chance?]. *Literaturnaya gazeta* [The Literary Newspaper], 2016, no. 5 (6540), February 04. Available at: <http://www.lgz.ru/article/-5-6540-4-02-2016/tragediya-ili-shans/>

<sup>21</sup> The study was conducted by ISED T RAS on the example of three largest Russian oil and gas corporations: Gazprom, Rosneft and Tatneft. All these companies are on the Forbes list, they are also on the list of strategic organizations, approved by the RF Government on February 05, 2015 and have state ownership (more than 50% of the shares of Gazprom and almost 70% of the shares of Rosneft belongs to the Russian Federation).

<sup>22</sup> The study was conducted on the example of Cherepovets, Magnitogorsk and Novolipetsk metallurgical plants. PAO Severstal, OJSC MMK and OJSC NLMK are on the list of strategic organizations approved by the Government of the Russian Federation. Source: Ilyin V.A., Povarova A.I. *Problemy effektivnosti gosudarstvennogo upravleniya. Tendentsii rynochnykh transformatsii. Krizis byudzhethnoi sistemy. Rol' chastnogo kapitala. Strategiya – 2020: problemy realizatsii* [Public Administration Efficiency. Market Transformation Trends. Crisis of the Budget System. Role of Private Capital. Strategy-2020: Implementation Issues]. Vologda: ISERT RAN, 2014. 188 p.

**The reduction in the fiscal function of the largest taxpayers results from the oligarchic nature of the national economy.** This unsolved problem leads to the fact that against the background of the annual growth of revenues of the largest corporations in the country the volume of accumulated debt of the RF subjects and municipal entities continues to increase.

Thus, in 2008–2014, it increased by 2.3 times (from 14.4 to 33.5% of the volume of territorial budgets' own revenues). Over the past five years, debt obligations of regional budgets increased nearly twofold, and the number of regions with critical level of debt (over 80%) increased from 4 to 25. By the end of 2014, public debt in 13 regions of the Russian

Table 3. Tax and non-tax revenues that were not received from oil and gas corporations by the budget system of the Russian Federation in 2008–2014, billion rubles per year

Indicators	Gazprom	Rosneft	Tatneft	Rosneftegaz	Total
Export sales of hydrocarbons at low prices	52.4	32.5	4.1		89.0
Uncontrolled growth of specific commercial, administrative and interest expenses	29.7	7.1	1.8		38.6
Unjustified tax concessions to Gazprom	1644.0				1644.0
Reduction of taxable profits of Gazprom at the expense of writing off its doubtful debts	17.0				17.0
Tax refunds	291.8	31.7	18.1		341.6
Repayment of tax debts to the budget	165.6	201.0	14.6		381.2
Shortfall of the dividends, derived from profit according to Russian Accounting Standards	164.8	88.9			253.7
Unremitted dividends of Gazprom and Rosneft				32.0	32.0
Lack of clear legal regulation of the net profit used for dividends	Shortfall of the dividends from 10 largest companies				83.4
<b>Total</b>	<b>2365.3</b>	<b>361.2</b>	<b>38.6</b>	<b>32.0</b>	<b>2880.5</b>
- in the federal budget	2243.4	260.0	29.4	32.0	2648.2
- in the territorial budget	121.9	101.2	9.2		232.3

Table 4. Tax revenues that were not received from the largest enterprises of ferrous metallurgy in the Russian Federation in 2008–2014, billion rubles per year

Source	CherMK	MMK	NLMK	Total
Underpricing when exporting products	1.7	4.3	2.7	8.7
The increase in specific commercial, administrative and interest expenses	3.1	1.3	2.2	6.6
Export VAT refund	5.0	6.9	12.2	24.1
Refund of profit tax	1.3	1.7	0.6	3.6
Taxation of profit received from participation in other organizations, at the rate of 0%	2.3	0.2	3.9	6.4
Taxation of dividends at the reduced rate of 5%	1.5	0.6	0.7	2.5
Expenses charged for losses on formation of reserves under depreciation of financial investments of foreign companies*	19.0	10.1		29.1
<b>Total</b>	<b>33.9</b>	<b>25.1</b>	<b>22.3</b>	<b>81.3</b>
- in the federal budget	11.2	9.2	17.3	37.7
- in the territorial budget	22.7	15.9	5.0	43.6

\* Calculated based on the amount of losses of profit tax as a result of referring to the costs of CherMK and MMK of reserves under depreciation of financial investments of foreign subsidiaries of PAO Severstal and OJSC MMK.

Federation neared or exceeded the volume of their own budget revenues<sup>23</sup>.

Despite the fact that the President of the Russian Federation set out the goal of de-offshorization of the Russian economy in 2012<sup>24</sup>, no significant success in the reduction of the role of offshore factor in the economy has been achieved so far<sup>25</sup>. As for metallurgical corporations, it is manifested in the ongoing manipulation of transactions with related parties, with the help of which the Russian taxation annually lost more than 40 billion rubles of revenue from export sales; as a result, budget losses due to the shortfalls of income tax in the budget are estimated at about 9 billion rubles.

Leaders of corporations actively use the legislatively authorized ways to optimize profit by increasing the managerial and commercial costs and accumulating corporate debt, which contributes to the reduction in the amount of budget receipts. In such a way, the tax base declined annually on average by 20–30 billion rubles.

<sup>23</sup> *Vliyaniye interesov sobstvennikov vertikal'no-integriruyemykh korporatsii na sotsial'no-ekonomicheskoe razvitiye: otchet o NIR* [The Influence of the Interests of Owners of Vertically Integrated Corporations on Socio-Economic Development: a Research Report]. Executed by A.I. Povarova. Vologda, 2015. 101 p.

<sup>24</sup> *Address of the President of the Russian Federation to the Federal Assembly on December 12, 2012; Budget Message of the President of the Russian Federation on Budget Policy for 2014–2016 on June 13, 2013; Address of the President of the Russian Federation to the Federal Assembly on December 12, 2013; Decree of the President of the Russian Federation of May 7, 2012 No. 596 "About the Long-Term State Economic Policy"*.

<sup>25</sup> Only at the end of 2014, the State Duma adopted the law on controlled foreign companies, according to which every Russian who has control over a foreign company must pay taxes to the budget according to the legislation of the Russian Federation. Another significant event happened on December 1, 2015, when the Government of the Russian Federation submitted to the State Duma a bill limiting the state support to foreign legal entities in the form of subsidies, guarantees, and investments.

Thus, amid steadily falling payments into the budget, metallurgical corporations received a compensation of about 30 billion rubles each year in the form of refund of overpaid profit tax and export VAT refund; this was equal to 60–90% of the taxes actually paid, which devalued their participation in the mobilization of budget revenues. The growth rate of VAT refunds outpaced the growth rate of exports, which indicates the inefficiency of provision of tax incentives to large exporters.

The losses of non-operating activities have become one of the permanent major threats not only to the financial stability of enterprises, but also to the inflow of profit tax to the budget. The main factor in the losses is not so much the results, as the tax legislation that has deliberately created extremely intricate, complex and opaque mechanisms of administration of profit of the largest taxpayers along with the provision of tax exemptions often devoid of economic significance.

After the establishment of tax offices in Moscow that govern the taxation of big business, regional authorities lost control over the completeness of inflows of profit tax – the key revenue sources of budgets of single-industry territories.

These data indicate that private owners of strategic enterprises and heads of state corporations openly violate the moral norms of behavior characteristic of a socially oriented state, deepening the conflict of interests between the owners and other shareholders and public interest. And all this is going on with the active participation of liberal financial and economic bloc of the Government and the media that serve its interests; in fact, they consider Russia to be a colony, the resources of which can be used in personal, rather than national, interests.

“The liberals don’t like Russia, not as an enemy, not as an opposing force, but only as an annoyance, as a tack in the shoe: liberals want to consume, but Russian people get in their way, like the legs of a bad dancer impede his dancing... But it is the liberals that have a distinguish consumer orientation expressed very fully, and it is precisely because of their ideology. And, by serving their consumption, they automatically, almost unnoticeably, begin to serve the countries and regions where it is most comfortable to consume, and they are our objective strategic competitors. And, living for the sake of consumption, they begin to love the places where it is good and comfortable to consume, and they begin to dislike those places where it is bad and uncomfortable to consume. They start to dislike Russia. And it is very well demonstrated by the practical actions of the liberals who still serve the government and virtually define its socio-economic policy”<sup>26</sup>.

In mid-2015, when the Russian President gave an order to draft a new National Security Strategy, he noted: “We know the reasons for the pressure being put on Russia. We follow an independent domestic and foreign policy and our sovereignty is not up for sale. This does not go down well in some quarters, but this is inevitable”<sup>27</sup>. In the Strategy itself states: “The fact that the Russian Federation pursues its own independent foreign and domestic policy has provoked opposition from the United States and its allies that seek to maintain their dominance in world affairs”.

<sup>26</sup> Delyagin M. Globalizatsiya i predatel'stvo elit [Globalization and the Betrayal of the Elites]. *Gazeta "Zavtra"* [Newspaper "Tomorrow"], 2016, no. 2 (1154). Available at: <http://www.zavtra.ru/content/view/globalizatsiya-i-predatelstvo-elit/>

<sup>27</sup> Stenogramma vystupleniya V.V. Putina na zasedanii Soveta bezopasnosti RF 3 iyulya 2015 g. [Transcript of Vladimir Putin's Speech at the Session of the RF Security Council, July 03, 2015]. *Ofitsial'nyi sait Prezidenta RF* [Official Website of the RF President]. Available at: <http://kremlin.ru/events/president/news/49862>

Indeed, the independent foreign policy pursued by Vladimir Putin receives wide public support<sup>28</sup>. However, it is doubtful whether the people at the helm of the financial-economic bloc of the Government also want to strengthen the sovereignty of Russia rather than only seek “to finally put the Russian state at the service of global business, the interest of which is objectively incompatible with the interests of development of our country and even with the interests of its existence”<sup>29</sup>.

Thus, the adoption of a new National Security Strategy is dictated not only by changes in foreign political environment. The deep and systemwide prerequisites for this step primarily concern the organization of internal management of development of the economy and the country as a whole.

The history of Russia teaches us that at critical moments in our country there emerges a leader and only the leader takes on historic responsibility by making decisions that lead to a new era. Another critical moment came when the Soviet Union collapsed and the former superpower was on the verge of extinction. Vladimir Putin throughout his presidential terms successfully proved his ability to take a historic leadership role, first – by preventing the collapse of the Russian economy and demographic collapse, and then – after returning to the Russian people their self-respect and pride for their country.

<sup>28</sup> According to sociological measurements carried out by ISEDT RAS, the proportion of people who consider that the President is successful in the strengthening of Russia's international position is 50–52% since 2014. For comparison, 28–35% of citizens think that the President is successful in dealing with the issues of economic recovery and increasing the welfare of citizens (see the section “Public Opinion Monitoring of the State of the Russian Society”).

<sup>29</sup> Delyagin M. Shabash liberalov [The Coven of the Liberals]. *Gazeta "Zavtra"* [Newspaper "Tomorrow"], 2016, no. 3 (1155), January 21. Available at: <http://www.zavtra.ru/content/view/shabash-liberalov/>

A telling example is the military-industrial complex (MIC), which in the period of the Soviet Union was a “segment of the economy that was clearly organized on a sectoral basis and controlled by the highest leadership of the country”, but by the early 2000s, it was virtually eliminated as a result of “deliberate” policy of “effective managers”. In 2007, MIC was removed from the control of the Government and placed directly under the control of the President by creating a new legal form – state corporation<sup>30</sup>. As a result, by the beginning of the 2010s the military-industrial complex changed so that for outside observers it was “a shock, akin to the rise of a phoenix from the ashes, and the emergence of the Russian aerospace forces in the sky of Syria has silenced all who have been screaming that all is lost”<sup>31</sup>.

Essentially, vertically integrated government-owned corporations are used worldwide, and an example of the military industrial complex is a real confirmation of the effectiveness of creation and development of a complex agglomeration under the direct control of the President. It is an example that should be spread to all the major sectors involved in national security, it will help solve the task of new industrialization and help Russia overcome its critical lagging behind developed countries.

In the conditions of systemic crisis the President has to handle the issue of accelerating the pace of nationalization of the elites and providing its political and economic independence from the influence of Russia's geopolitical rivals. The results of sociological assessments show that in the second half of 2015 there emerged negative trends in social mood – a complex indicator that reflects the psychological state of society (*tab. 5*).

The decline in the share of those who experience positive emotions is registered not only among the socially vulnerable categories of the population, but also among middle class people, young and middle aged people – those who support the current government. In fact, in late 2015 – early 2016, there was a significant deterioration in social mood in all socio-demographic categories except for the richest people – those who, according to their own assessments of their incomes, fall into the category of the wealthiest 20%.

Such dynamics of public sentiment indicates the long-standing expectations of the people regarding the solution of common issues related to the quality of life, such as low wages, inflation, the situation in the economy – all those problems that Russia's leading sociological centers point out as “the most significant” for the Russians<sup>32</sup>.

<sup>30</sup> Laws on state corporations:

- Federal Law of May 17, 2007 No. 82 “About the Development Bank” (Bank for Development and Foreign Economic Affairs (Vnesheconombank));
- Federal Law of July 19, 2007 No. 139 “About the Russian Corporation of Nanotechnology”;
- Federal Law of July 21, 2007 No. 185 “About the Fund for Assistance to Reforming the Housing and Utilities Sector”;
- Federal Law of October 30, 2007 No. 238 “About the State Corporation on Construction of Olympic Venues and Development of Sochi as a Mountain Climatic Resort” (State Corporation “Olympstroy”);
- Federal Law of November 23, 2007 No. 270 About the State Corporation “Rostekhnologii”;
- Federal Law of December 01, 2007 No. 317 “About the State Corporation for Atomic Energy “Rosatom”.

<sup>31</sup> Bryzgalov A.L. Putin i Pravitel'stvo: vozrozhde-nie VPK [Putin and the Government: the Revival of the Military-Industrial Complex]. *Ofitsial'nyi blog N. Starikova* [N. Starikov's Official Blog]. – Available at: <http://nstarikov.ru/blog/62800>

<sup>32</sup> Press-vypusk VTsIOM ot 01.02.2016 № 3029 “Problemnyi fon: v fokuse – rost tsen” [Press-Release of VCIOM of February 01, 2016 No. 3029 “A Problem Background: Focus on Rising Prices”]. *Ofitsial'nyi sait VTsIOM* [Official Website of VCIOM]. Available at: <http://wciom.ru/index.php?id=236&uid=115568>

Table 5. Index of social sentiment in different socio-demographic groups of the Vologda Oblast population (in points)\*

Population group	Aug. 2015	Oct. 2015	Dec. 2015	Feb. 2016	Dynamics (+/-) Feb. 2016 to...	
					Aug. 2015	Dec. 2015
<b>Sex</b>						
Men	153.9	144.6	147.0	136.6	-17	-10
Women	146.0	145.4	143.7	133.0	-13	-11
<b>Age</b>						
Under 30	160.7	169.2	159.2	147.8	-13	-11
30–55	146.9	139.7	143.4	131.3	-16	-12
Over 55	146.6	137.3	139.5	131.2	-15	-8
<b>Education</b>						
Secondary and incomplete secondary	144.3	137.1	137.8	124.7	-20	-13
Secondary vocational	153.7	145.3	142.0	129.6	-24	-12
Higher and incomplete higher	151.5	153.4	156.9	151.4	0	-5
<b>Income groups</b>						
20% of the poorest	115.2	116.9	115.4	97.0	-18	-18
60% of those with median income	158.2	144.1	148.7	138.8	-19	-10
20% of the wealthiest	172.5	176.4	160.3	160.8	-12	+1
<b>Territories</b>						
Vologda	159.6	156.7	151.5	139.5	-20	-12
Cherepovets	151.6	145.3	148.9	137.5	-14	-11
Districts	143.0	138.4	139.4	130.2	-13	-9
Oblast	149.6	145.0	145.2	134.6	-15	-11
* Data of the public opinion monitoring carried out by ISEDT RAS. In order to calculate the index, the percentage of negative answers (“I feel tension, irritation, fear, anguish”) is subtracted from the share of positive answers (“Good mood, normal, smooth condition”), then 100 is added to the value, so as not to have negative values.						

Today, the consequences of the domestic economic policy that does not meet the national interests dominate public consciousness and lead to the worsening of social mood. So far, it only creates the ground for social unrest and loss of confidence in the government. However, if the problem of nationalization of the elites is not solved, it can lead to more serious consequences that are difficult to predict, they range from the results of the upcoming parliamentary and presidential elections to mass protests.

Looking back at the recent past, we can see that in order to ensure the independence of domestic economic policy, Vladimir Putin

takes very important and historically significant steps that at first glance may seem untimely and incomprehensible. However, they are arranged in a clear logical series of decisions aimed to strengthen the power vertical through the creation of “a new ideological and political platform, which gives a different vision of economic issues and different ways of solving them; this platform has moral foundation and moral power, which will be recognized by society”<sup>33</sup>.

<sup>33</sup> Fadeev V. Ekonomika tonet v fariseistve [Economy Is Drowning in Pharisaism]. *Zhurnal “Ekspert”* [The Journal “Expert”], 2016, no. 3 (971), January 18. Available at: [http://expert.ru/expert/2016/3/#page\\_3](http://expert.ru/expert/2016/3/#page_3)

Such solutions might include:

- ***Federal Law No. 95 of July 11, 2001 “On political parties”***, in which, according to experts, “none of the current political players was interested; however, it was a strategic choice made by the President, the choice of the way to develop the system, a signal that the presidency is guided not only by short-term considerations, that it has a wide horizon for decision-making”<sup>34</sup>;

- ***amendments to the Constitution of 2009***, which increased the term of office of the President and the State Duma;

- Vladimir Putin’s initiatives on the creation of ***the Public Chamber and the All-Russian People’s Front***;

- ***the reform of the Federation Council***, which was at first perceived as “half-hearted and cosmetic”, because “the presidential version of the draft gives the citizens in the best case the role of a filter in the elections, but in fairness it should be noted that the new system is still able to add some representativeness to the upper chamber of the Parliament”<sup>35</sup>;

- ***Federal Law No. 20 dated February 22, 2014 “On the elections of deputies of the State Duma of the Federal Assembly of the Russian Federation”***, which restored the mixed electoral system under which one half of the State Duma deputies out of 450 people were elected out of single-mandate constituencies

<sup>34</sup> Skorobogatyi P. Tirazh prezidentskoi “romashki” [The Circulation of the presidential “Camomile”]. *Zhurnal “Ekspert”* [The Journal “Expert”], 2016, no. 5, February 01. Available at: <http://expert.ru/expert/2016/05/tirazh-prezidentskoj-romashki/>

<sup>35</sup> Vse pustoe: reforma Soveta Federatsii okazalas’ polumeroi [Everything Is Useless: the Reform of the Federation Council Turned Out to Be a Half Measure]. *Novostnoe internet-izdanie Lenta.ru* [Online News Edition Lenta.ru]. Available at: <https://lenta.ru/articles/2012/06/28/sovfed/>

and the other half – out of party lists (the last time such a system was used in 2003, and this step significantly changed the law “in the direction of openness, transparency and competitiveness”<sup>36</sup>);

- ***the reform of the judicial system***, in the course of which the powers of the Higher Arbitration Court (the highest court specialized in economic disputes) are transferred to the Supreme Court of the Russian Federation, thus the procedural legislation is drastically changed, the control over the decisions of judges increases, the presidential administration creates a working group on enforcement and monitoring of law enforcement in the sphere of entrepreneurship<sup>37</sup>;

- ***the measures taken against offshore companies*** (in particular, Law No. 23 “On introducing amendments to the Budget Code of the Russian Federation”, which forbids government funding of companies with more than 50% of the share capital in offshore jurisdictions);

<sup>36</sup> Chem obnertsya smeshannaya sistema vyborov na Kavkaze [What Will Come Out of the Mixed System of Elections in the Caucasus]. *Ofitsial’nyi blog radio “Ekho Moskvy”* [Official Blog of the Radio “Echo of Moscow”], 2014, March 17. Available at: [http://echo.msk.ru/blog/kavkaz\\_politic/1260888-echo/](http://echo.msk.ru/blog/kavkaz_politic/1260888-echo/)

<sup>37</sup> The President pointed out that “our reform should first of all assist in improving the quality and accessibility of justice. It was launched with exactly this aim in view – the efficient protection of the rights, dignity and property of this country’s citizens, and increasing their trust in courts and judges... at the same time respect for court rulings and a civilized attitude to them should be instilled in society... Those judges who have any interests that prevent them from meeting the requirements of the existing legislation or the Judicial Ethics Code should look for a different place to apply their knowledge and efforts” (source: Stenogramma vystupleniya V.V. Putina na seminar-soveshchaniy predsedatelei sudov 16.02.2016 [Transcript of Vladimir Putin’s Speech at the National Conference of Court Chairmen]. *Ofitsial’nyi sait Prezidenta RF* [Official Website of the RF President]. Available at: <http://kremlin.ru/events/president/news/51343>).



- *the anti-corruption campaign* that includes a whole range of activities, such as the strengthening of criminal liability for corruption, the involvement of the presidential administration and public organizations to carry out joint anti-corruption monitoring;

- *the establishment of a mechanism for regular dialogue between business representatives and law enforcement authorities with the mediation of the presidential administration and Vladimir Putin's personal participation*, in order to “reveal the bottlenecks and things that are bothering, on the one hand, the law enforcement system, which is obliged to protect the interests of the whole society, and on the other hand, the business community... So that the regulations and, what is very important, law enforcement practice were consistent with the interests of the state as a whole after the adoption of these acts”<sup>38</sup>.

In combination, these measures lead to a situation where different political forces act in the framework of sovereign national policy determined by the President and experiencing pressure from civil society that demands the awareness of its purpose and its responsibility on the part of the elites.

It is still unknown what the next step of the head of state will be; but we believe that the

strategical activities aimed to nationalize the elites have been going on for many years throughout Vladimir Putin's presidential terms. Its purpose is to form a ruling class, which itself will maintain the framework of competition policy. The ongoing major reform of 2012–2016 has consolidated the movement of our country along this path. “And the beginning of the election campaign to the State Duma in 2016 will be a test of strength”<sup>39</sup>.

The National Security Strategy is the main strategic document that defines the development priorities of the country; this document consolidates the foundations of domestic political and economic development, it allows us to expect that this work will continue, that it will be effective and will ultimately lead Russia not only to external political but also to internal economic willingness to comply with the status of one of the centers of the multipolar world.

**Vladimir Putin has taken responsibility for comprehensive support of priority directions of state policy in the sphere of national security (including economic development, increase in the standard of living and quality of life), thus he has made a new significant step toward the strengthening of the Russian statehood in the process of its transition to a new stage of development.**

<sup>38</sup> Putin predlozhl biznesu regulyarno vstrechat'sya s pravookhranitelyami [Putin Suggested that the Business Should Regularly Meet with Representatives of Law Enforcement Agencies]. *RIA-novosti* [RIA News], 2016, February 15. Available at: <http://ria.ru/politics/20160215/1374839273.html>

<sup>39</sup> Skorobogaty P. Tirazh prezidentskoi “romashki” [The Circulation of the presidential “Camomile”]. *Zhurnal “Ekspert”* [The Journal “Expert”], 2016, no. 5, February 01. Available at: <http://expert.ru/expert/2016/05/tirazh-prezidentskoj-romashki/>

### Information about the Author

Vladimir Aleksandrovich Ilyin – Doctor of Economics, Professor, Honored Scientist of the Russian Federation, Scientific Director, Institute of Socio-Economic Development of Territories of Russian Academy of Science (56A, Gorky Street, Vologda, 160014, Russian Federation, [ilin@vscc.ac.ru](mailto:ilin@vscc.ac.ru))

## Public Opinion Monitoring of the State of the Russian Society

As in the previous issues, we publish the results of the public opinion monitoring of the state of the Russian society conducted by ISEDT RAS in the Vologda Oblast<sup>1</sup>.

The following tables show the dynamics of a number of parameters indicating the social feeling and socio-political sentiment of the Vologda Oblast population in December 2015 – February 2016, and also on average for the last six polls (April 2015 – February 2016). These data are compared with the data for 2007 (the last year of Vladimir Putin’s second presidential term, when the assessment of the President’s activity was the highest) and for 2011 (the last year of Dmitri Medvedev’s presidency). The yearly dynamics of the data is presented beginning from 2013.

### Estimation of performance of the authorities

In December 2015 – February 2016, the assessment of work of the President of the Russian Federation did not change significantly (68–70%) which corresponds to the average indicators for 2015 (69%) and which is significantly higher than in 2011–2014 (59–64%).

In the past two months there was a slight increase in the support of the Chairman of the Government of the Russian Federation (by 3 p.p., from 58 to 55%). In February 2016, the level of support of the Chairman of the RF Government was lower than in 2011 and 2015 (58–59%).

*For reference: the nationwide level of approval of the RF President’s performance in December 2015 – January 2016 decreased by 2 p.p. (from 86 to 84%) according to VCIOM data and by 3 p.p. according to Levada-Center data (from 85 to 82%).*

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<sup>1</sup> The polls are held six times a year in Vologda, Cherepovets, and in eight districts of the oblast (Babayevsky District, Velikoustyugsky District, Vozhegodsky District, Gryazovetsky District, Kirillovsky District, Nikolsky District, Tarnogsky District and Sheksninsky District). The method of the survey is a questionnaire poll by place of residence of respondents. The volume of a sample population is 1500 people aged from 18 and older.

The sample is purposeful and quoted. The representativeness of the sample is ensured by the observance of the proportions between the urban and rural population, the proportions between the inhabitants of settlements of various types (rural communities, small and medium-sized cities), age and sex structure of the oblast’s adult population. Sampling error does not exceed 3%.

More details on the results of ISEDT RAS polls are available at <http://www.vsec.ac.ru/>

How do you assess the current performance of..? (as a percentage of the number of respondents)

Answer option	2007	2011	2013	2014	2015	Apr. 2015	June 2015	Aug. 2015	Oct. 2015	Dec. 2015	Feb. 2016	Average for the latest 6 surveys	Dynamics (+/-), the latest 6 surveys in comparison with...		
													2014	2011	2007
<b>RF President</b>															
I approve	75.3	58.7	55.3	64.1	69.1	67.5	69.5	72.0	69.3	69.7	68.1	69.4	+5	+11	-6
I don't approve	11.5	25.6	29.4	22.3	17.5	16.2	16.1	17.8	18.1	16.5	16.1	16.8	-6	-9	+5
<b>Chairman of the RF Government*</b>															
I approve	-*	59.3	48.9	54.2	58.1	56.5	59.1	60.7	58.1	57.9	54.9	57.9	+4	-1	-
I don't approve	-	24.7	32.8	27.6	21.7	20.5	19.5	22.5	21.0	21.7	22.6	21.3	-6	-3	-
<b>Governor</b>															
I approve	55.8	45.7	44.4	40.1	39.3	37.1	40.5	41.5	38.7	39.7	35.1	38.8	-1	-7	-17
I don't approve	22.2	30.5	33.2	38.9	36.2	37.5	35.4	35.4	36.0	35.3	38.2	36.3	-3	+6	+14
* Included into the survey since 2008.															

In December 2015 – February 2016, the share of the Vologda Oblast residents who think that the President successfully copes with the task of strengthening international positions of Russia did not change significantly (51–53), which corresponds to the level of 2014–2015.

However, the assessment of success of the President's actions in addressing the key problems of the country in December 2015 – February 2016 slightly reduced:

- the share of the Vologda Oblast residents who think that the President successfully copes with the task of restoring order in the country decreased by 3 p.p. (from 51 to 48%);
- the share of those who believe that the President is successful in protecting democracy and strengthening citizens' freedoms decreased by 4 p.p. (from 41 to 37%);
- the share of those who believe that the President successfully copes with the task of economic recovery and promotes the increase in the welfare of citizens decreased by 3 p.p. (from 31 to 28%).

In general, the assessment of the success of the President's work on all these issues remains at the level of 2014–2015 except for his work on economic recovery and improvement of the citizens' welfare (34–35% in 2014–2015, 28% in February 2016).

In your opinion, how successful is the RF President in coping with challenging issues?\*

(as a percentage of the number of respondents)

Answer option	2007	2011	2013	2014	2015	Apr. 2015	June 2015	Aug. 2015	Oct. 2015	Dec. 2015	Feb. 2016	Average for the latest 6 surveys	Dynamics (+/-), the latest 6 surveys in comparison with...		
													2014	2011	2007
<b>Strengthening Russia's international standing</b>															
Successful	58.4	46.2	45.7	50.4	51.7	52.7	51.1	52.2	50.7	53.2	50.9	51.8	+1	+6	-7
Unsuccessful	24.9	33.7	36.2	32.4	31.3	28.7	32.5	32.4	33.1	31.5	29.1	31.2	-1	-2	+6
Index of success	133.5	112.5	109.5	118.0	120.4	124.0	118.6	119.8	117.6	121.7	121.8	120.6	+3	+8	-13
<b>Imposing order in the country</b>															
Successful	53.2	36.6	39.4	48.0	50.2	50.1	49.9	51.7	48.6	50.5	47.7	49.8	+2	+13	-3
Unsuccessful	34.0	50.0	47.5	39.1	37.9	37.5	38.0	37.9	38.7	38.0	37.2	37.9	-1	-12	+4
Index of success	119.2	86.6	91.9	108.9	112.3	112.6	111.9	113.8	109.9	112.5	110.5	111.9	+3	+25	-7
<b>Protecting democracy and strengthening the citizens' freedoms</b>															
Successful	44.4	32.4	31.8	37.5	40.4	39.2	42.2	42.6	38.1	41.0	36.9	40.0	+3	+8	-4
Unsuccessful	37.0	48.3	51.0	45.4	41.5	39.9	38.3	41.7	44.3	43.7	44.3	42.0	-3	-6	+5
Index of success	107.4	84.1	80.8	92.1	99.0	99.3	103.9	100.9	93.8	97.3	92.6	98.0	+6	+14	-9
<b>Economic recovery and increase in the citizens' welfare</b>															
Successful	47.2	30.7	31.3	34.8	34.2	34.7	36.2	36.6	32.1	30.9	28.0	33.1	-2	+2	-14
Unsuccessful	39.1	56.1	56.8	53.4	52.3	49.9	49.9	52.6	54.3	55.7	57.0	53.2	0	-3	+14
Index of success	108.1	74.6	74.5	81.4	81.8	84.8	86.3	84.0	77.8	75.2	71.0	79.9	-2	+5	-28

\* Ranked according to the average value of the index of success for 2014.

Compared with December 2015, in January 2016, the proportion of people who believe that their interests are expressed by the political party “United Russia” decreased (by 4 p.p., from 39 to 35%). Their share is lower than the average for 2015 (39%), but higher than in 2007–2014 (30–33%).

There was a slight increase (by 2 p. p., from 7 to 9%) in the share of those who support the Communist party (KPRF): in February 2016, it reached its peak over the period from April 2015 to February 2016 (9%).

As for the rest, the structure of the Russians’ preferences concerning political parties did not see any significant changes: LDPR is supported by 7%, the “Just Russia” – by 3–4%. This distribution of assessments remained during the entire year of 2015.

Which party expresses your interests?  
(as a percentage of the number of respondents)

Party	2007	Election to the RF State Duma 2007, fact		Election to the RF State Duma 2011, fact		2013	2014	2015	Apr. 2015	June 2015	Aug. 2015	Oct. 2015	Dec. 2015	Feb. 2016	Average for the latest 6 surveys	Dynamics (+/-), the latest 6 surveys in comparison with...		
		2011	2011	2011	2011											2014	2011	2007
United Russia	30.2	60.5	31.1	33.4	29.4	32.8	38.8	38.2	40.3	38.5	38.0	39.0	35.1	38.2	+5	+7	+8	
KPRF	7.0	9.3	10.3	16.8	11.3	9.7	7.1	7.8	6.8	7.1	6.9	6.5	9.4	7.4	-2	-3	0	
LDPR	7.5	11.0	7.8	15.4	7.2	7.6	6.2	6.1	5.4	5.9	6.1	7.1	6.9	6.3	-1	-2	-1	
Just Russia	7.8	8.8	5.6	27.2	4.6	3.5	3.6	3.7	3.3	3.5	3.3	3.7	2.7	3.4	0	-2	-4	
Other	1.8	–	1.9	–	0.6	0.3	0.2	0.1	0.2	0.1	0.1	0.4	0.5	0.2	0	-2	-2	
No party	17.8	–	29.4	–	34.9	34.4	31.8	31.5	32.5	33.8	32.3	30.5	31.7	32.1	-2	+3	+14	
It is difficult to answer	21.2	–	13.2	–	10.2	11.7	12.2	12.5	11.6	11.1	13.3	12.9	13.7	12.5	+1	-1	-9	

In December 2015 – February 2016, the assessments of social condition of the Vologda Oblast residents worsened noticeably (in April 2015 – February 2016 we observe the minimal values of positive and maximum values of negative assessments):

– the proportion of people who describe their mood as “normal, good” decreased by 7 p.p. (from 70 to 63%);

– the proportion of those who say that “everything is not so bad; it’s difficult to live, but it’s possible to stand it” dropped by 5 p.p. (from 78 to 73%).

The deterioration of psychological well-being of the population is apparently due to the absence of positive changes in the dynamics of their financial situation. For instance, for the last two months there were no significant changes in the share of the Vologda Oblast residents who consider themselves “poor and extremely poor” (50–51%, this indicator remained stable over the past year); The consumer sentiment index continues to decline (78 points in December 2015, 75 points in February 2016, which is the lowest level since June 2015). The negative trend of the CSI indicates, first of all, the deterioration of expectations in the dynamics of personal financial situation and economic situation in general.

Estimation of social condition (as a percentage of the number of respondents)

Answer option	2007	2011	2013	2014	2015	Apr. 2015	June 2015	Aug. 2015	Oct. 2015	Dec. 2015	Feb. 2016	Average for the latest 6 surveys	Dynamics (+/-), the latest 6 surveys in comparison with...		
													2014	2011	2007
<b>Mood</b>															
Usual condition, good mood	63.6	63.1	68.6	69.4	68.7	67.6	69.5	73.1	70.4	69.6	63.4	68.9	0	+6	+5
I feel stress, anger, fear, depression	27.8	28.9	26.2	24.9	25.9	26.6	24.4	23.5	25.4	24.3	28.9	25.5	+1	-3	-2
<b>Stock of patience</b>															
Everything is not so bad; it's difficult to live, but it's possible to stand it	74.1	74.8	79.3	80.8	78.4	78.9	79.0	82.2	78.2	78.0	73.1	78.2	-3	+3	+4
It's impossible to bear such plight	13.6	15.3	14.2	12.6	14.5	14.9	14.7	13.3	13.9	12.7	16.1	14.3	+2	-1	+1
<b>Social self-identification*</b>															
The share of people who consider themselves to have average income	48.2	43.1	43.9	43.2	38.7	36.7	39.4	39.9	39.2	38.9	39.9	39.0	-4	-4	-9
The share of people who consider themselves to be poor and extremely poor	42.4	44.3	46.9	49.1	50.7	51.6	48.0	50.5	50.2	50.5	51.4	50.4	+1	+6	+8
<b>Consumer sentiment index</b>															
Index value, points	105.9	89.6	90.3	87.6	77.1	73.4	80.1	77.9	77.7	77.7	75.0	77.0	-11	-13	-29
* Question: "Which category do you belong to, in your opinion?"															

In annual dynamics, the share of people who characterize their mood as “good, normal” has been stable since 2013 (69–70%) and higher than in 2007 and 2011 (65–67%).

On average over the past six surveys, in comparison to 2014, a slight decrease in the proportion of positive assessments of social mood can be observed only among city dwellers (in Vologda – by 3 p.p., from 76 to 73%; in Cherepovets – by 5 p.p., from 76 to 71%) and also among the people who, according to self-assessments of their income, fall into the group of 20% of the wealthiest inhabitants of the Vologda Oblast (by 3 p.p., from 85 to 82%).

Compared to 2007 and 2011, on average for the last six surveys, the changes are positive: in most socio-demographic categories of the population, the share of people experiencing positive emotions increased by 5–8 p.p.

Social mood in different socio-demographic groups (answer “Good mood, normal condition”, as a percentage of the number of respondents)

Population group	2007	2011	2013	2014	2015	Apr. 2015	June 2015	Aug. 2015	Oct. 2015	Dec. 2015	Feb. 2016	Average for the latest 6 surveys	Dynamics (+/-), the latest 6 surveys in comparison with...		
													2014	2011	2007
<b>Sex</b>															
Men	65.9	64.5	69.9	68.9	69.5	67.4	72.7	75.2	69.8	69.9	63.9	69.8	+1	+5	+4
Women	61.7	62.0	67.5	69.8	68.0	67.8	66.8	71.3	70.9	69.2	63.1	68.2	-2	+6	+6
<b>Age</b>															
Under 30	71.3	70.0	75.5	75.1	77.1	73.5	79.4	78.9	82.8	76.9	69.9	76.9	+2	+7	+6
30-55	64.8	62.5	69.2	69.5	67.2	67.9	67.6	72.1	68.0	69.0	62.1	67.8	-2	+5	+3
Over 55	54.8	58.3	62.4	65.4	65.5	63.7	65.9	70.8	66.0	65.9	61.5	65.6	0	+7	+11
<b>Education</b>															
Secondary and incomplete secondary	58.4	57.4	60.6	62.5	63.6	62.1	64.0	70.2	65.7	64.6	57.8	64.1	+2	+7	+6
Secondary vocational	64.6	63.6	68.1	70.4	70.1	68.2	73.6	75.3	70.3	67.7	60.7	69.3	-1	+6	+5
Higher and incomplete higher	68.6	68.3	77.4	76.2	72.7	73.1	70.6	74.1	75.8	76.9	72.9	73.9	-2	+6	+5
<b>Income groups</b>															
20% of the poorest people	51.6	45.3	46.2	50.8	51.8	55.6	57.1	55.7	54.2	49.8	42.6	52.5	+2	+7	+1
60% of the people with median income	62.9	65.3	71.9	72.3	71.0	69.2	71.3	77.7	70.1	72.2	66.3	71.1	-1	+6	+8
20% of the most prosperous people	74.9	75.3	83.3	84.8	82.0	78.1	82.5	85.1	87.1	78.8	77.9	81.6	-3	+6	+7
<b>Territories</b>															
Vologda	63.1	67.1	75.0	76.4	73.9	72.5	75.6	77.9	77.6	73.6	65.1	73.7	-3	+7	+11
Cherepovets	68.1	71.2	75.3	76.3	70.6	69.8	71.2	74.9	71.4	73.2	66.4	71.2	-5	0	+3
Districts	61.6	57.1	61.6	61.8	64.6	63.7	65.1	69.4	65.9	65.0	60.9	65.0	+3	+8	+3
Oblast	63.6	63.1	68.6	69.4	68.7	67.6	69.5	73.1	70.4	69.5	63.5	68.9	0	+6	+5

Negative trends in social mood are observed in the short-term dynamics of public opinion. In the first half of 2015 (February – June) there was a steady increase in the share of the Vologda Oblast residents who characterized their emotional state positively. However, in August – October 2015, negative trends were observed in most groups and they remain in early 2016.

Short-term dynamics of assessments of social mood in different socio-demographic groups  
(answer “Good mood, normal condition”, as a percentage of the number of respondents)

Категория населения	Feb. 2015	Apr. 2015	June 2015	Aug. 2015	Oct. 2015	Dec. 2015	Feb. 2016	Dynamics (+/-), Feb. 2016 in comparison with...	
								Feb. 2015	Dec. 2015
<b>Sex</b>									
Men	61.7	67.4	72.7	75.2	69.8	69.9	63.9	+2	-6
Women	61.9	67.8	66.8	71.3	70.9	69.2	63.1	+1	-6
<b>Age</b>									
Under 30	71.3	73.5	79.4	78.9	82.8	76.9	69.9	-1	-7
30-55	58.3	67.9	67.6	72.1	68.0	69.0	62.1	+4	-7
Over 55	60.7	63.7	65.9	70.8	66.0	65.9	61.5	+1	-4
<b>Education</b>									
Secondary and incomplete secondary	54.8	62.1	64.0	70.2	65.7	64.6	57.8	+3	-7
Secondary vocational	65.2	68.2	73.6	75.3	70.3	67.7	60.7	-5	-7
Higher and incomplete higher	65.8	73.1	70.6	74.1	75.8	76.9	72.9	+7	-4
<b>Income groups</b>									
20% of the poorest people	38.3	55.6	57.1	55.7	54.2	49.8	42.6	+4	-7
60% of the people with median income	65.2	69.2	71.3	77.7	70.1	72.2	66.3	+1	-6
20% of the most prosperous people	80.3	78.1	82.5	85.1	87.1	78.8	77.9	-2	-1
<b>Territories</b>									
Vologda	66.4	72.5	75.6	77.9	77.6	73.6	65.1	-1	-9
Cherepovets	63.1	69.8	71.2	74.9	71.4	73.2	66.4	+3	-7
Districts	58.6	63.7	65.1	69.4	65.9	65.0	60.9	+2	-4
Oblast	61.8	67.6	69.5	73.1	70.4	69.5	63.5	+2	-6

The share of those who characterize their emotional state positively decreased especially noticeably in the following categories of population:

- people aged under 30 (by 13 p.p. from 83 to 70% in October 2015 – February 2016);
- the Vologda Oblast residents with secondary and incomplete secondary education (by 11 percentage points from 70 to 59% in August 2015 – February 2016) and secondary vocational education (over the same period by 14 p.p. from 75 to 61%);
- people who according to their own assessment of their income belong to the groups of the poorest 20% (by 15 p.p. from 58 to 43% in August 2015 – February 2016) and 60% of the residents with average income (over the same period – by 12 p.p. from 78 to 66%);
- residents of Vologda (by 13 p.p. from 78 to 65% in October 2015 – February 2016).

In the past two months (December 2015 – February 2016) the assessments of social mood deteriorated in all socio-demographic categories of the population (by 4–7 p.p.). There are no negative changes only among people who belong to the category of 20% of the wealthiest inhabitants of the Vologda Oblast according to their assessments of their own income.

## Conclusion

In the period from December 2015 to February 2016 the dynamics of public opinion on the majority of key issues related to self-assessment of financial status and social well-being has worsened:



- assessment of the President’s success in dealing with the tasks of economic recovery and growth of the citizens’ welfare decreased by 3 p.p. (from 31 to 28%);
- the consumer sentiment index decreased by 3 points (from 78 to 75 p.);
- the percentage of positive ratings of social mood decreased by 7 p. p. (from 70 to 63%), the stock of patience – by 5 p.p. (from 78 to 73%);
- the share of the Vologda Oblast residents considering themselves “poor and extremely poor” remains at a consistently high level (50%) (for comparison: the proportion of people of “average income” is significantly lower – 39%).

The lack of positive changes in the dynamics of financial situation is one of the main concerns of the population. This concerns not only the Vologda Oblast inhabitants, but also the Russians in general. According to VCIOM, “in January 2016 the Russians were most worried about inflation. But they became less concerned with foreign policy issues”. Low wages, rising prices and the situation in the economy – these are the three most acute problems noted by the Russians in early 2016.

The lingering character of economic problems that is felt by the population, has a negative impact on the dynamics of assessments of performance of the authorities. The level of support of the head of state in the Vologda Oblast remains stable so far (68–70%), but in the country as a whole, there is a decrease in the assessments of the President’s work (from 86 to 84% according to VCIOM and from 85 to 82% according to Levada-Center).

Thus, the ongoing negative processes in the Russian economy are becoming an increasingly important factor in determining the trend in the social well-being of the Russians and their attitude towards the work of the government. At the beginning of 2016, the fears for one’s well-being became more important for people than international issues. A similar situation was observed at the beginning of last year, when rising prices and falling standards of living became more important for people than the development of events in Ukraine (including the accession of Crimea and Sevastopol to the Russian Federation).

December 31, 2015, Vladimir Putin signed a new National Security Strategy, which says that “the state policy of the Russian Federation in the sphere of national security is carried out through the concerted action of all elements of its system under the leadership of the President of the Russian Federation and coordinating role of the Security Council of the Russian Federation”<sup>2</sup>.

Thus, the President takes personal responsibility for the implementation of key national security priorities and also those in the sphere of economy, standard of living and quality of life. This step of the head of state suggests, on the one hand, the dissatisfaction with the results of the work of the economic bloc of the Government; on the other hand, it allows us to hope it will be possible to overcome negative processes in the economy and to bring the domestic management system in line with Russia’s national interests.

<sup>2</sup> Ukaz Prezidenta Rossiiskoi Federatsii ot 31 dekabrya 2015 goda №683 “O Strategii natsional’noi bezopasnosti Rossiiskoi Federatsii” [The Decree of the President of the Russian Federation of December 31, 2015 No. 683 “About the National Security Strategy of the Russian Federation”]. *Rossiiskaya gazeta* [Russian Newspaper], 2015, December 31. Available at: <http://www.rg.ru/2015/12/31/nac-bezopasnost-site-dok.html>

# CRITICAL ECONOMIC ISSUES

*In the latest issue of the Journal we informed our readers about the 7th International Conference “Strategy and Tactics of Socio-Economic Reforms” that was held in December 2015 in Vologda. The event was dedicated to the 25th anniversary of ISEDT RAS. Renowned Russian scientists, chief editors of social science publications and representatives of regional and local authorities delivered their reports at the plenary sessions of the conference. The report delivered by Sergei Gubanov, Doctor of Economics, Professor, Chief Editor of the journal “Economist”, was considered to be of great interest by the conference participants. Here we outline the main provisions of the report\* touching upon the key issues that would help resolve economic and social problems that Russia is facing at the current stage of its development.*

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## System Prerequisites for Economic Recovery of Russia



**Sergei Semenovich**

**GUBANOV**

Doctor of Economics, Professor

Lomonosov Moscow State University

1, Leninskie Gory, Moscow, 119991, Russian Federation

*As an opening remark, Sergei Gubanov noticed that all the speakers before him had described the current events going on in Russia as a stable crisis situation. The notion that the country is plunged into a state of uncertainty is becoming a popular trend. S. Gubanov pointed out: “I would call this idea the certainty of “uncertainty”. Why is it so?*

First of all, it is due to the fact that on the background of the modern neo-industrial development paradigm the formula of “vertical integration plus neo-industrialization” applies not only to Russia but also to the world economy as a whole. We can definitely say that industrialized countries are deploying high-tech or technological industrialization

\* The overview of Sergei Gubanov’s report “System prerequisites for economic recovery of Russia” was prepared by Ph.D. in Economics Mikhail Sychev.

and digital industrialization that are combined with vertical integration – its systemwide foundation. And today one may talk of network integration. But it would be enough, if it were possible to provide at least horizontal and vertical integration.

Russia's development formula is as follows: vertical integration plus neo-industrialization. The above formula does not include the raw materials exporting model, and it was already obvious several years ago.

For instance, our publications on the situation of 2009 pointed out: if in the post-crisis period we still adhered to the raw materials exporting model, then instead of high growth rates we end up in the situation of lingering depression. According to estimates, in 2009, the real efficiency of the raw materials exporting model did not exceed 13%. Now its efficiency is equal to the arithmetic zero. What do these 13% signify? In 2000–2008, in dollar terms, Russia's GDP increased in about six times, and the real purchasing power of the budget, citizens and enterprises increased by a maximum of 27%, i.e. it has not even reached one third. This difference is a consequence of the petrodollar inflation – a parameter, which our country does not control. But the "raw materials export" game is a zero-sum game: when we sell oil, gas and other resources at higher prices, we buy equipment and other products at higher prices. Inflation of the petrodollar does not give us any advantage whatsoever.

In 2009, based on an analysis, we made another seemingly categorical judgment that there would be no raw-materials-based growth of our GDP in the post-crisis period under any circumstances.

We published interesting findings in January 2012. Pay attention that at that time there were no Ukrainian events, there was no Maidan, oil prices were high, there were no sanctions, Russia was not isolated from global refinancing markets, the situation was favorable from the view point of external environment. We executed our research at that period and, as it usually happens, together with the chief findings we obtained quite an interesting side result proving that there would be no second wave of a global recession in the industrialized world in 2012. But quite unexpectedly, according to the calculations, we revealed the threat of autonomous recession for Russia.

The analysis of empirical and statistics data carried out in mid-2012 showed that the estimate made in January had been absolutely correct. It had forecast what we witnessed later in December 2014. And that was the time when professional economic community started talking about the anti-crisis policy.

So, what do we have to deal with: the temporary cessation of export and commodity growth rates or the death of the raw materials exporting model? What do we see? If it is a break in growth, then this is a temporary, opportunistic and non-fundamental event. If it is the end of the raw materials exporting model, then it is necessary to shift to an entirely new development model. This does not mean the end of Russia; on the contrary, it is the end of the old and the beginning of a new model.

If in 2008, we were unanimous in the opinion that the 1998 situation would not be repeated, then, unfortunately, the current situation has created prerequisites for national

default. Its latent state can be traced by the inability of the government to meet its domestic obligations, for example, to public sector employees, pensioners, etc. The current rejection of full adjustment for inflation is nothing but partial default from the point of view of financial discipline. Budget default is nothing but a result of the default of the raw materials exporting model.

Therefore, from today's perspective, we are disputing with retroliberals – those who represent the viewpoint of the past. I mention them because they started to search for the origins of the autonomous recession in our country after it had become a fact. And we knew these reasons before the onset of the recession. This raises a rhetorical question: who has the right to develop anti-crisis measures: those who know nothing of the situation, or those who proved they understood it by anticipating it three years ago?

The proposals put forward by retroliberals are as follows: to carry out the shift from demand-side economy to supply-side economy. It seems reasonable: anyway, at present the government has no funds to support demand, so let us move on to the economy of supply, reduce taxes, remove support of many expenditure items such as defense and infrastructure, reduce social spending and spending on science. Naturally, supply-side economy, as viewed by retroliberals, is nothing but a banal throwback to the situation of the 1990s, when the entire export resource rent went to the pockets of oligarchs, and they did not support domestic demand in any way. We want to pay particular attention to the fact that all the arguments of retroliberals like Alexei

Kudrin, Alexei Ulyukayev and Evsei Gurvich are based solely on the myth about the absence of demand-side economy in Russia.

Does the entire growth of GDP in the first decade of the 2000s mean the growth of the total domestic demand in the country? If there existed the economy of demand, then everything that was added to GDP turned into domestic demand. If it is not so, then the arguments concerning the economy of demand is just idle talk. But how can this be checked? It is clear that it is necessary to consider another option – the amount that is deducted from this increase, i.e. the so-called net exports. Our calculations show that net exports over the analyzed period exceeded the growth of GDP; as a result, the aggregate domestic demand did not increase in proportion to the GDP increase, and it even decreased from year to year due to the outflow of capital, reservation, placement of funds in foreign securities and also because there was the exchange of commodities for non-commodities.

But what finished off the raw materials exporting model? It is neither the sanctions, nor oil prices or other external factors; it is a phenomenon that is called new industrialization of industrialized countries.

Sometimes we hear about re-industrialization in the EU, USA, UK. Unfortunately, in Russia, there is a considerable confusion in translated terms and one does not know exactly what it is. Sometimes you can hear an absurd interpretation that re-industrialization means the increase in the share of industry in GDP. This translation is not authentic. Industrialized countries understand re-

industrialization, first of all, as the antipode of financialization, i.e. the current situation when financial capital is dominant in the economic system and commands it. Re-industrialization means striving to restore industrial capital to its dominant position. This is the authentic understanding of re-industrialization in the U.S. and the Anglo-Saxon countries. However, this still does not cover the processes of development and progress that actually take place in industrialized countries, because these countries are implementing full-fledged automation and robotization of productive forces. The increase in the quality and share of automated workplaces is the first indicator of new industrialization. Over 25% of workplaces in the U.S. are automated. In general, today the number of automated workplaces in industrialized countries reaches 60%. This is new industrialization in action. In Russia, the level of automation is only 0.2%.

How did the EU's new industrialization bury our raw materials exporting model? Primarily through increasing the share of post-oil energy sources, because the process of new industrialization is connected with the transition from thermal hydrocarbon-based energy to post-oil energy. According to our calculations made in 2009, the present-day share of post-oil energy in the power balance of the European Union was forecast to reach 33–35%. Indeed, the European Union has already reached 33% of the share of alternative sources in the total electricity supply, which in oil equivalent means annual savings of up to 160–170 million tons of oil. The demand for Russian oil and gas exports decreased by this sum. It is clear that this includes processes

such as resources recycling, energy efficiency increase, etc. They smash to bits the former idea of turning Russia into an energy superpower.

I emphasize once again that the old economic system has no prospects whatsoever. It will not promote growth, no matter what we do. But this does not mean that our country has no development opportunities. The prospect of development exists, as well as resources and development potential, but we lack an economic system aimed to boost the country's recovery. We need to make the transition to an economic system designed for socio-economic recovery. This very transition will ensure Russia's development.

In connection with the above, Sergei Gubanov puts forward the following suggestions.

1. It is necessary to develop a long-term strategy for the new industrialization of Russia until 2020, rather than some vague Strategy–2030. Russia's productive forces should be rapidly automated. From the point of view of social structure this means an increase in the share of intellectual labor in the total distribution of social labor.

2. The government must ensure equal conditions for the development of both retroliberal and neo-industrial development programs. So far, administrative and financial resources are in the hands of retroliberals, and those who uphold the new industrialization have absolutely no opportunities and proper conditions for the development of a program for Russia's new industrialization. We advocate that both programs get equal conditions for development, for attracting specialists, organizing research teams, etc.

3. Today, the entire forecast model is calculated taking into consideration the input parameter such as the price of one barrel of oil. It is necessary to create another model of forecasting and planning that takes into consideration an input parameter in the form of hourly labor productivity and wages. It is a professional issue, and we know how to solve it.

4. It is necessary to hold a national economic conference on the system issues of new industrialization. It is a form that is flexible enough for the government leadership and also in a political sense on the eve of the electoral cycle. If the government leadership finds that not all the issues have been elaborated sufficiently, it can distance itself and say that this is a debate in the scientific community. If it decides that the issues have been resolved, it can proceed to

their nationwide implementation. Therefore, I believe that this form of discussion and adoption of system changes on the eve of the electoral cycle is quite productive.

These proposals can be implemented if the scientific and industrial communities obtain support from regional and federal authorities and if the relevant orders are made by the President of the Russian Federation. The President has given the task to update the Strategy–2020 to the wrong people and teams. This is what I mean when I talk about the President' other instructions on the issues raised.

These are the alternatives of the system choice. We clearly see the prospects for Russia's development, we have specific proposals and complete understanding of how to implement them.

### **Information about the Author**

Sergei Semenovich Gubanov – Doctor of Economics, Professor, Chief Editor of the journal “Economist”, Lomonosov Moscow State University (1, Leninskie Gory, Moscow, 119991, Russian Federation)

## Theoretical-Methodological Preconditions for the Formation of Mixed Economy in the Russian Federation\*



**Aleksandr Ivanovich  
TATARKIN**

RAS Academician, Professor

Institute of Economics, Ural Branch of RAS

29, Moskovskaya Street, Yekaterinburg, Sverdlovsk Oblast, 620014, Russian Federation  
tatarkin\_ai@mail.ru

**Abstract.** The article presents the author's point of view on the formation of the mixed (convergent, double-track) model of socio-economic and community development in the Russian Federation – as inherent in the federal state with multinational population, open space, and diversified economic orders determined by historical and national-cultural traditions. The author's stance is based on the widely discussed and debated thesis about the necessity of organic combination of primary state regulation of macroeconomic processes with predominant market self-regulation of microeconomic processes. The framework of the mixed model of socio-economic and community development presupposes more active and effective use of the “point” state regulation in the creation of favorable and equal conditions for the systematic development of all forms (private, with public participation) of business and the expansion of the “corridor of opportunities” for the spatial development of all regions and the improvement of quality and standard of living of the Russian population (regardless of place of residence and position). The article substantiates theoretical and methodological possibility of successful implementation of the mixed model in the Russian Federation.

**Key words:** theoretical-methodological directions of socio-economic development regulation, their role in regulation, liberal-market, state-planned, mixed regulation, their strengths and “failures”, regulatory potential of the society, quality of regulatory impact and its “boundaries”, assessment of regulatory impact efficiency.

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*Great nations are never impoverished by private, though they sometimes are by public prodigality and misconduct.*

Adam Smith. *An Inquiry into the Nature and Causes of the Wealth of Nations* [1, p. 349].

World and domestic literature actively discusses the increasing role of regulating influence of society and the state on socio-economic and community processes for the purpose of improving sustainability, consistency and effectiveness of social development [2, pp. 96-100; 3]; authors discuss different methodologies and propose their own methods for assessing the quality and effectiveness of government's regulatory impact on socio-economic and social processes [4; 5]; researchers substantiate proposals for the improvement of legal institutions in order to achieve saving mode and sustainable development [6; 7; 8]. They offer to use mathematical models for achieving the "optimality of the developed regulatory solution" [4; 9]; "the failure of current Russian economic system and the errors of its design are explained with the help of economic and mathematical modeling" [10, p. 2 (summary)].

All this gives reason to believe that the issue concerning the quality of managing socio-economic and community development requires the following efforts to be implemented: first, it should be continuously and professionally updated in order to improve the quality and effectiveness of regulation taking into account changing conditions (international and domestic); second, it should be constantly "focused" on the optimization of public expenditures for the maintenance of the state

apparatus, effective and efficient spending of public investment and preferential credit resources, the implementation of the comprehensive saving regime as the decisive condition for the stability and competitiveness of any market system; third, it requires the active and comprehensive use of innovation factors and development sources of leading branches of the real sector of the economy and all levels of management and regulation. This requires not so much to carry out constant reforms that to "adjust" science (academic, applied, sectoral), education (general, vocational, higher), health and other social sectors to suit the needs of sustainable and socially-oriented development of the Russian Federation.

*Theoretical approaches to the choice of regulatory models for socio-economic development in different countries*

Traditionally, every country has many regulatory impacts on all the subjects and participants of the market and uses them in the interests of comprehensive and sustainable development, focusing on historical, national, cultural and other traditions and the way of life of the population and the priorities for their conservation and development. A significant role in the choice of development priorities belongs to the power structure (unitary, federal, confederal), and the form of government (monarchy, presidential republic, parliamentary republic). On the other hand, every country relies on the structural, spatial, infrastructural, social and other features that require urgent solving in order to maintain development consistency and sustainability. Depending on these features, we can classify



basic theoretical approaches and regulatory models (regulators) in three integrated groups.

*The market model (liberal-market model)* – one of the earliest models; it is a largely effective and universal model of regulatory impact on socio-economic and public processes; its development was based on several theoretical directions and schools. The most famous of them is the so-called School of Salamanca (Juan de Matienzo, Juan de Lugo, etc.) that prevailed in the 16th – 17th centuries and was considered the founder of the theory of free markets with competitive rivalry and absolute freedom of market agents. The role of government regulation consisted in creating conditions for free entrepreneurship and limiting outside competitors. From the late 17th up to the early 20th century, all national market systems developed in the framework of the classical school founded by great economists such as William Petty, Adam Smith, David Ricardo, Jean-Baptiste Say. In their view, the use of *laissez-faire* principles and absolute freedom of market automatically provide effective distribution of the goods (services, works) according to Pareto. Their main postulate of market self-regulation is based on the assumption that overproduction in the market economy is impossible in principle, because, with the help of market mechanisms and “the invisible hand” (A. Smith), production would automatically generate its own demand and support (again automatically!) the balance on the national market.

By the way, the “invisible hand of the market” is used by Adam Smith in an entirely different sense, not in terms of recognizing the

market as the universal and the only effective regulator, but as a mechanism capable of providing “support to domestic industry” through achieving private economic interest in the production and appropriation of surplus value. A. Smith continues: “He (the owner of capital. – A. T.) generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it.... He intends only his own security... He intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention...” [1, p. 443]. A. Smith consistently spoke against restrictions of the freedom of entrepreneurial self-regulation, including the restrictions of monopolization of the economy, excessive government intervention, increased public spending.

The Cambridge Scientific School of Alfred Marshall and other prominent economists emerged in the 19th century and gained popularity in the 20th century. A. Marshall considers free competition – a special institution of self-organization and self-regulation – as a special form of freedom of production and entrepreneurship. Free competition is presented as a way of organization that ensuring optimum allocation of labor and resources between market agents.

Representatives of the Austrian School of Economics (Friedrich von Hayek, Ludwig von Mises, Benjamin Anderson and others, 19th – 20th century) carried out their theoretical studies proceeding from the proposition that effective exchange and efficient use of resources are possible only through the price mechanism on the market that is free from

state intervention. The price mechanism, in their opinion, is able to optimally share and synchronize common and personal knowledge, allowing society to achieve the highest results at the expense of self-organization. The Chicago School (Milton Friedman, Arnold Harberger and others) is considered close to the Austrian School. The central idea of the Chicago School is the decentralization of power and transfer of power to the grassroots level, because, in their opinion, there is a direct dependence of economic growth on the level of economic freedom of the population and market agents.

*The state-planned model* of regulation of socio-economic and market relations and processes. Two scientific schools are of interest in this group. Representatives of the Romantic School in economics (Jean Charles Léonard de Sismondi, Pierre-Joseph Proudhon) proceeded from the premise that “the invisible hand” of the market does not necessarily endorse the equilibrium, neither does the strive to increase personal income. Hence the necessity of the regulatory intervention of the state for “smoothing the suffering of the population” in times of crises that result from advanced development of production.

The prominent representatives of the Marxist school of thought (Karl Marx, Friedrich Engels, Karl Kautsky, Vladimir Lenin and others) insisted that only the socialization of property and the systematic regulation of reproduction processes were able to eliminate “anarchy” and “distortions” of the market and provide comprehensive and sustainable socio-economic and social development.

*The mixed model* of optimal and flexible combination of state regulation of macro-economic parameters of socio-economic and social development with market self-regulation at the micro level.

Many authors consider it as a double track or converging economy. Pitirim Sorokin, an American sociologist of Russian origin, is considered the founder of this model. His ideas are being implemented quite successfully in Sweden, Finland, China, Kazakhstan, Belarus and other countries. The mixed model of regulatory impact on the socio-economic development has its own relatively autonomous scientific schools and research directions. In particular, Keynesian economics (John Keynes, Joan Hicks, Joan Robinson and others) based its research on the inevitability of economic crises and their cyclic nature in the conditions of market overproduction, which makes the participation of the state and its regulatory and supervisory capabilities inevitable for maintaining sustainability and balance of supply and demand. Representatives of the scientific direction of convergence (rapprochement) of the capitalist market and the state planning regulatory systems (John Galbraith, Thorstein Veblen and others) rely on the inevitable convergence of the two regulatory models by borrowing each other’s positive qualities in order to form a post-industrial society, free from market and planned defects [11, p. 27, 28].

A brief overview of the most discussed models of socio-economic and community development allows us to allocate common features that unite them and essential features that separate them. The uniting element for

all the schools and their proposed regulatory models is the search for the most effective (from the point of view of costs) and efficient (from the standpoint of the end result) government regulators (GR) and market regulators (MR) that correspond to the national and historical specifics of the country and the mentality of the majority of its population. At that, other models and approaches are usually rejected on ideological, political and moral, i.e. non-economic, grounds. All of the above models and schools are separated, in our opinion, by the lack of will to realize the obvious truth: nature and society do not and cannot have any phenomenon (process, model, relation, institute, mechanism, etc.) with only positive or only negative properties or characteristics, just like there is and can be no atom with only positive or only negative charge. Especially if we talk about regulating the problem of socio-economic development, where even a small growth factor may be decisive in competitive struggle.

The dialectics of development of any phenomenon (process, institution, relationship) is based on the “struggle of opposites”, which become, when regulated professionally, the source of their sustainable and systemic development. The lack of professionalism inevitably slows the development and reduces its effectiveness. That is why we propose to consider the regulating potential of society in the unity of all existing and current forms of institutions and patterns of regulatory impact of the actors (government, its competent bodies, market agents) on socio-economic and public processes in order to achieve a predictable end result (promotion of

sustainable and balanced economic growth, modernization upgrading of production, economic restructuring, promotion of social harmony in the society, improvement of the quality of life).

The practice of recent years shows that the proposed representation of the regulatory potential of the society requires its greater specification with regard to different levels of social and public construction, private companies and monopolistic associations, public associations and civil society institutions. Special forms of regulating influence should be applied to regions and municipalities, financial and fiscal systems, spatial formations (agglomerations, economic zones, territories of priority development, cluster associations, innovation centers, etc.), small and medium businesses, especially in the agro-industrial complex.

We shall make an attempt to understand from the theoretical and methodological aspect how efficiently and effectively the regulatory potential in the Russian Federation is used and what prevents its full, efficient and effective use in the interests of the system and sustainable development for the common good?

*Methodological approaches to the evaluation of criteria for assessing the quality and effectiveness of economic regulators*

There is a widely accepted theoretical postulate that economic regulators can have different impacts on socio-economic and community development. First, they are able to promote and motivate the development of society in the desired direction and the achievement of desired results, if they

objectively take into account external conditions and no less objectively assess the resource potential of society. Second, the regulatory effect may be an impediment to socio-economic and community development because of the low quality of the regulator, formal evaluation of the final result of the regulatory impact, lack of professionalism in the development and use of the regulator. Russia knows a lot of various examples of such deterrence: for instance, a purely subjective “desire” of government officials to raise the prices and tariffs on gas, electricity, rail transport and utilities by 8–31% in 2011–2020 rather than raise salaries, pensions and child allowances; or the increase in insurance and pension contributions of small businesses and individual entrepreneurs that has led to a sharp reduction in their numbers, and the slowdown of business activity in all the regions and municipalities.

Third, given its poor scientific elaboration, the regulatory impact can serve as an artificial “barrier” to comprehensive sustainable socio-economic development as a whole and its separate directions. According to T. Fomichenkov, “500 thousand or even a million people can be additionally involved in small business, if the tax system is properly adjusted and regulated” [12, p. 5]. Unfortunately, the Russian government often delays the “adjustments”, as it happened to its latest promise (it is already February 2016, but the regulation has not started yet!), or these “adjustments” cause significant damage to market agents, people and society as a whole. The fact that the RF Government more than twice raised the amount of the fixed

insurance premium for compulsory pension insurance for individual entrepreneurs and did it without any professional preparation has caused a sharp decline in the number of these entrepreneurs: in the Vladimir Oblast – 6,800, in the Kirov Oblast – 6,493, in the Republic of Buryatia – 4,133, in the Tomsk Oblast – 4,000, in the Kaliningrad Oblast – 2,872, in the Bryansk Oblast – 7,557 [13, p. 1, 3].

A regulatory decision that was prepared non-professionally not only “tossed” more than 100 thousand people from economic activity, depriving individual entrepreneurs (and their employees) of the source of income, but also did not help achieve the goal of filling “to the brim” the insurance part of the pension fund. Moreover, considerable damage was inflicted on regional and municipal budgets. According to Yu. Roslyak, an auditor at the Accounts Chamber, the budgets of the Belgorod Oblast lost 247 million rubles, Vladimir Oblast – 46 million rubles, Kirov Oblast – 28 million rubles [ibidem, p. 3] thanks to the “regulatory innovations of the government”. And these are only direct taxes. And what damage has been done to business?

Conclusion in such cases arises is straightforward: the unprofessional and often formal attitude of the power elite to the state regulators costs the Russian society too much.

The Russian Union of Industrialists and Entrepreneurs (RUIE) has serious complaints about the quality of state regulation. The main problem, according to the Union, is the shortage of skilled staff and insufficient research on the regulatory decisions adopted by the government [14, pp. 38–41]. Judging by

the results of the survey of members of RUIE, the problem of price and tariff regulation continues to be the main “deterrent” factor in business development. More than 38% of the respondents expressed concern over the following facts: the growing “lack of control”, the growth of prices and tariffs (to some extent “lobbied” by the government), the creation of preferential price and tariff conditions for individual companies by government authorities, the lack of effective regulators of price actions of intermediaries. The representatives of business suggest a wider use of “price, investment, tax and credit incentives” for import substitution, development of innovative and competitive products, modernization and reindustrialization of domestic economy.

Business representatives, heads of regions and municipalities, scientific and educational community, and the majority of Russian citizens are concerned about the task of improving the efficiency and effectiveness of regulatory influence of the government on socio-economic and community development. There are different forms of social evaluation of the regulatory impact projects: on the one hand, their approval by the community, the conditions of which are changing (for instance, the meeting of Alla Pugacheva [a famous Soviet and Russian singer and producer. – Translator’s note] with the State Duma deputies), the transition to the project management with scientific justification of the aim and the end result, appointment of persons responsible for support of the project and for monitoring its implementation; on the other hand, the rejection of any

regulatory reforms and initiatives “imposed” on the society without serious scientific and legal expertise and public endorsement. We consider the viewpoint of Herman Gref to be most representative: opening the discussion at the Saint Petersburg International Economic Forum, he said: “The only difference between successful and non-successful countries is the quality of their state apparatus and its management. History knows cases when the state had all the resources and remained poor for centuries. There are states that do not have the resources, but due to the quality of public administration they achieved significant success in the development and well-being” [15, p. 17]. Foreign politicians and representatives of the business community have to point out the need for increased attention of the Russian leadership to the issue of the quality and effectiveness of state regulatory impact on the socio-economic and community processes.

Delivering his speech at the Saint Petersburg International Economic Forum, a former UK Prime Minister Tony Blair said that comprehensive transformation of society required the methodology of reforms that would be crucial for achieving the forecast result. “You need to have the tools for the implementation of reforms that will help people understand what you do, and help your country to follow you” [15, p. 19]. Lim Siong Guan (President of Government of Singapore Investment Corporation, Singapore) supported this idea and pointed out that “the government’s goals should reflect the needs of society in general and... attract professionals to achieve these goals” [ibidem, p. 20]. At the

Saint Petersburg Forum and then at the Gaidar Forum it was noted that in order to focus Russia's economy on the path of sustainable development it will be necessary to restructure the economy, to reform and upgrade the government (by involving professionals in it), which must finally determine its course (model) and work on the basis of trust to improve business innovation and investment climate. The fact that this has not been done so far, is regarded by foreign and domestic experts as one of the most serious flaws of the Russian political leadership [16, p. 1, 2]. "Of course, we carried out modernization, but not at the pace that could be, if we did not have such social spending", – said Dmitri Medvedev, adding that the welfare is increasing faster than the growth of the economy [16, p. 2].

Quite a long period of development of most countries that use different models of the market system of economic management suggests that each model has not only the drawbacks that were extensively analyzed and the society and the state tried to minimize them. Each state defined and worked out the models of market development that take into account the historical, national-cultural, structural-industrial, spatial, scientific, educational and other features that make public bodies more responsive to the needs of all population groups and contribute to their fulfilment. The countries with developed market economy use mainly two models: the liberal economic model (LEM) and the model of the social market state (MSMS), each of which has advantages and disadvantages, discussed in detail by V.A. Kashin [6, pp. 47-62].

Any market system has its national advantages that are to be understood professionally and used comprehensively in the interests of sustainable development and improvement of the welfare of the entire population; this should become a driving force of the activities of Russia's authorities. What are the advantages of the market system that make it attractive to many countries, including former socialist states?

Let us highlight the advantages that are the most significant and the most important for development, but still often disregarded by the Russian leadership and officials.

1. Private initiative and entrepreneurship of the majority of the population in conditions of market competition becomes the "engine" of innovation development of production and formation of the economy based on the latest knowledge; this is why their systemic government support should be the norm and not the exception.

2. Private initiative and entrepreneurship involves labor, money and resources saving. The action of the universal law of economy of time in a market system turns into the crucial source of systemic and sustainable socio-economic and community development. No doubt, stability is often disturbed by economic crises of overproduction, which, in our opinion, is the further evidence of "imbalance" of the efforts of government and business in their consistent regulation of socio-economic development. This essential axiom of any market, unfortunately, still does not find understanding with the Russian leadership. The call for the Russian authorities to reduce government spending and optimize

the state apparatus can be considered a positive recommendation voiced at the Saint Petersburg International Economic Forum. Current government spending amounts to 40% of the country's GDP, more than 32% of them go to the maintenance of the state apparatus, which is 2.5 times higher than in the U.S. (13%), three times higher than in Germany (11%), three times higher than in the UK (10%) [22, p. 69].

3. Private initiative and entrepreneurship help develop the most competitive sectors of the national industry systematically and at a high technological level, turning them into an engine of socio-economic and community development, increasing international recognition of the country.

4. Free market pricing should be controlled by society represented by the government. The "price range" set by many states (including the U.S.) for socially important goods and services was designed not only to limit their production, but to support the social well-being of the majority of the population in the globalizing and rapidly changing world community.

5. The problem of social welfare is solved in the countries with the developed market system taking into account historical and national-cultural traditions. Under the conditions of LEM, as V.A. Kashin notes, the fundamental basis of social security of citizens is decent salary (the minimum amount of which is regulated by the government) and their social insurance, i.e. government involvement in social services is limited. The state "takes care of the citizens only in case of insured events – when they are physically

not capable to provide for themselves (due to illness, disability, etc.). In other cases, the citizens who are able to work should solve their social problems on their own..." [6, p. 51].

When the SMS model is used, the government, on the contrary, assumes all the costs of organizing and financing (full or partial) the social security of its citizens regardless of their status and income. Both the first and the second models have their advantages and drawbacks; therefore, this question can not be resolved without the support of the majority of the population. Thus, even in the framework of the model of the SMS model there are the Swedish, German, Greek and other national models. The Russian Federation government has its own attitude toward social welfare of the population.

According to the Constitution, the Russian Federation is a "social state", but in fact and judging by its policy, especially in recent years, it is hard to agree with that. The Russian leadership regularly talks about the necessity to improve the quality of social support, adjusting it to different national models, is designed more to reduce budget funding of the social sphere, to depart from the constitutional norm by shifting the "concerns about social well-being" to the Russian population itself, which is in a very difficult financial situation. According to estimates [17, pp. 44–60], since 2014 unemployment rate has been increasing, prices of goods and foodstuffs have been growing, as well as the tariffs on utilities and other services. These processes inevitably "spur" inflation, devaluing the already meagre savings of the Russian population, and limiting

the standard of living and quality of life in comparison with the populations of other countries.

No doubt, the Russian society needs reforms, especially those that can change the lives of the majority of the population for the better. Scientific analysis and practice of successful implementation of planned reforms (Alexei Kosygin's reforms in the Soviet Union, Lee Kuan Yew's reforms in Singapore, reforms in newly industrialized countries, reforms in China, India, Brazil, etc.) help generate a model for designing reforms and develop a road map for phased project implementation oriented on the final result.

*Designing the reforms in transition economies: from the project to the road map of step-by-step implementation of the final result*

The reform of the state sector, economy and social sphere of the Russian Federation, active formation and use of market institutions of spatial development and spatial planning started in 1992 and is still going on. During this period, several reforms were initiated in different spheres and segments of the Russian society, but only one of them was brought to its logical conclusion, and its result is questionable: the majority of state enterprises were privatized, but the country and the economy, unfortunately, did not get "effective owners". Even a small excursion into the history of reformation of the Russian society suggests that the failures of the majority of conducted reforms were due to their weak and often extremely formal and professional preparation and execution – not so much to achieve socially significant results, as to make a report to one's superior. In such a way the

following reforms were initiated: the reform of the education system (general, vocational and higher education), healthcare reform, the reform of the Russian Academy of Sciences, which, after short interruptions, are still going on today, and the society still cannot feel or evaluate any positive effect of these reforms.

Reforming a large and complex socio-economic and community system like that in the Russian Federation, indeed, is a complicated and time-consuming process. It is almost impossible to rebuild from scratch and quickly "a complex system so that it initially became effective; it is not possible to reform a complex system radically (be it a country, a system of federative relations, local self-government, education, healthcare, housing and utilities or the Russian Academy of Sciences, etc. – A. T.) so that it became effective" [19, pp. 50-53]. A system is considered to be complex, first, because it is the result of long evolutionary transformation and development. Systemic reform of such objects is always considered as an inevitable return to the origins of their high performance in previous periods and as the simulation of possible development scenarios to meet changing conditions until the final decision on the need for reform.

Scientific community pays much attention to the issue of social development reforms regulated by the government [see: 10; 18; 20]. Scientists substantiate and propose different approaches, models and sequences of organizing, designing and implementing the reforms using the most effective marketing and planning institutions and mechanisms of their implementation to achieve the designed



result. We agree with RAS Academician V.M. Polterovich who proposes to begin the reforms with the development and understanding of the most important elements of the reform theory, so as not to “wander senselessly” in the mazes of darkness deprived of the light of theoretical knowledge [20]. World experience of successful reforms allows us to work out a definite road map for designing the reforms and the step-by-step implementation of the project focused on the result.

1. Execution of the comprehensive analysis of the state of the object of regulation (reform) (for instance, objects such as general and higher professional education system, healthcare, the Russian Academy of Sciences, municipalities, etc.) with the involvement of experts and academic community representatives and determination of its weak and strong sides. The second stage should identify “the causes of weakness of the system” and identify the real measures for their reduction (minimization) from the professional point of view; in this case it is also necessary to define professionally the measures to “reinforce and enhance” the strengths of the system. In our opinion, the next step is to offer the professional community to discuss and identify opportunities and mechanisms for quality updates of the system to achieve a given public outcome of its functioning. According to the results of this discussion, relevant decisions can be made concerning the partial reform of the system through its optimization, increase of professional level of employees (managers), improvement of the structure and motivation of labor, etc.

We think that the continuing practice of administrative reform is explained by the “substitution” of the issue of increasing the quality and effectiveness in the functioning of the system with the cynical reduction of its financing from the budget. But this does not solve the issue; on the contrary, it exacerbates the problem, making it not only challenging, but also more costly and long-lasting [32; 33].

2. The formation of achievable goals and socially significant end result (economic, social, environmental) of the reforms understandable to every citizen, so that the residents could see themselves as part of the projected reforms and assess their own (family, corporate, group, national) interest in the success of the reforms and in the achievement of the goals. Brashness in the initiation of reforms, their insufficient elaboration and often the complete lack of preparation in the absence of clear targets and projected results perceived by the majority of the population, and inconsistency in the implementation of the reforms have turned the recent reforms carried out by the Russian government into “the games of reforms”, the hidden purpose of which is to shift to the population and business the increasing costs, unprofessional regulation and control of social development.

It is noteworthy to pay attention to the evaluation of the quality of state regulation of socio-economic and community processes in Russia presented by former Minister and Deputy Head of the Government of the Russian Federation Alexei Kudrin, who was also the initiator of budgetary funds centralization and abandonment of fiscal self-sufficiency of regional and municipal

authorities. Commenting on the results of the audit carried out by the Prosecutor General's Office regarding the use of budget funds and on the decision of the RF Government to attract businesses and people to control budget spending, Alexei Kudrin admits that "the efficiency of the government does not depend on the work of official control bodies like the Accounts Chamber and Gosfintnadzor (Federal Service for Fiscal and Budgetary Supervision of the Russian Federation)... We all pay taxes, but we don't always ask about where the money received by the Treasury go. The government can't be effective without this form of control of the expenditure of budgetary funds" [cit. by: 13, p. 1, 2]. Herman Gref agrees with that and suggests that the Government of the Russian Federation should establish "the Center for change management" that would be professionally engaged in designing and implementing the reforms through the attraction of science and by relying on public opinion [cit. by: 22, pp. 63-65].

3. The project as one of the effective institutions of program-project planning with the use of various forms of public-private partnerships can be the most effective mechanism of target-setting, sequence (phasing), resource and staffing and the final public significant result of the reform [8, pp. 9-27; 23, pp. 19-25]. A professionally elaborated project must undergo scientific and legal examination as to its relevance and provision with resources and personnel, and compliance with the Constitution of the Russian Federation. The representatives of the scientific community can, and should be involved in the development

of the project from the moment the project ideas are discussed and up to the evaluation of its results. The Constitutional Court of the Russian Federation may and must carry out the legal examination on compliance of the project with the Constitution of the Russian Federation, and if the conclusion is positive, it should be regarded as the permission to carry out the reform.

In order to improve the quality of projects it is proposed to establish specialized project institutes and/or design bureaus, which "must involve not only engineers, economists, managers, but also demographers, sociologists, lawyers, etc. But the management of the project, its development and implementation should be carried out on the principles of undivided authority" [21, p. 12]. We agree with the opinion of Academician V.L. Makarov who points out that a project should be supervised by the general or chief designer, a professional in engineering business and project development. "And a manager, a specialist in business can be the second person..." According to the author, the project supervisor "should keep in mind the main thing – the achievement of the goal. And if the project is supervised by a manager or a businessman, than whatever the original purpose, they will seek to gain profit... This is impossible in a purely market economy, because everyone wants to obtain profit rather than implement a project objective" (our italics. – A. T.) [ibidem]. The privatization of objects of state and municipal property, the establishment of RUSNANO and SKOLKOVO with the "curators" of business are the telling examples in this regard.

The assessment of the project's compliance with public needs, the relevance of its goals and the tangibility of achieving the end result is one of the possible and, in some areas, mandatory directions of participation of scientists in public discussions of the project. Before the "launch" of the project, it is advisable to scientifically assess the completeness and effectiveness of relevant forms, mechanisms and institutions of support of the processes of implementation, monitoring and adjustment of the project under the influence of the changing environment. It is necessary to forecast the impact of project implementation for the whole country, its population, and status in the world community.

4. Any management decision designed to regulate socio-economic and/or community processes and relations must comply with the Constitution of the Russian Federation. Strict compliance of the developed and implemented project (law, decree, regulation and other normative acts) with the constitutional norms of the Russian Federation requires, in our view, a mandatory expert examination of the project by the Russian Constitutional Court and a public disclosure. Seemingly harmless deviations from the constitutional norms concerning the elections of deputies to the legislative assemblies at various levels on the party lists have become a "snowball" of solid and increasingly dangerous "disregard" of the will of the people. Abandonment of direct elections of governors, the establishment of institution of city managers in municipalities, the change of the terms of elections of deputies and the President, the fact that metropolitan centers of regions are turned into a kind

of "hybrid" of local government and its administrative regulation allow us to speak about serious flaws in the Russian practice of civilized and optimal regulation of social processes.

The Constitution of the Russian Federation states: "The bearer of sovereignty and the only source of power in the Russian Federation shall be its multinational people" [25, Article 3, Item 1]. The same article (Item 3) states that "the supreme direct expression of the power of the people shall be referenda and free elections, without any restriction and derogation, since "no one may usurp power in the Russian Federation. Seizure of power or usurping state authority shall be prosecuted under federal law" [ibidem, Item 4]. The Constitution of the Russian Federation as the Basic law is obligatory for observance and execution by all Russian citizens – from ordinary people to MPs and the President of the Russian Federation, for according to the Constitution, the President is its Guarantor [Article 80, Item 2] with all that it implies. If we compare Russia's recent and ongoing reforms with what is stated in the Russian Constitution, it appears that many of the reforms (education system, healthcare, higher education, the Russian Academy of Sciences, the limitations of the constitutional rights of local authorities, etc.) are carried out with deviation from the procedures prescribed by the Constitution.

Experts, politicians and top leaders of the country pointed out many times that one can criticize the Constitution, demand its revision and refinement, "adjusting" it to different current needs. But the Constitution is

recognized as the Basic law so that any attempt to modify, clarify or cancel its provisions requires a special procedure in the form of the public referendum. And only the referendum can make changes legitimate and make it the duty of all to accept and obey them., Russian President Vladimir Putin at the meeting with the constitutionalists admitted that the Constitution “is not a law that can be changed and altered to accommodate the current events...” [cit. ex.: *Kommersant Newspaper*, 2013, no. 210, November 15, pp. 1-2].

5. Any governing norm, if it aims to change the already established rules, norms and regulation of conduct of staff, community or institutionalized population groups should be discussed and approved by the community, whose conditions of functioning can change. And only with the consent of the community can the regulatory norm be formally adopted by an appropriate authority. Here is a telling example: the attempt of the State Duma to change the conditions of concert activity in the Russian Federation without the coordination with the creative community aroused indignation on the part of representatives of the entertainment sphere. “This is criminal indifference! – Alla Pugacheva said at the meeting with the Duma deputies. – We (the artists with whom the authorities have not even bother to consult. – A. T.) are the serfs like animals that will accept anything that will be done!.. Any excessive orderliness always leads to a mess” [cit. ex.: *The Arguments and Facts Newspaper*, 2016, no. 5, February 3-9, p. 2]. Ultimately, the draft law had to be brought back for revision. Indeed, we can defend our professional interests when we want to!

The current practice of initiating, discussing and adopting such regulations stems from the presumption of the “rule of the power over the people”; this presumption contradicts the Constitution (Article 3, Item 1): “The bearer of sovereignty and the only source of power in the Russian Federation shall be its multinational people”. If we strictly follow the Constitution, then the laws adopted by the Federal Legislative Assembly and aimed to reform the Russian Academy of Sciences, to change the status and working conditions of employees of schools and universities, to impose legislative restrictions on the rights of the population to free health care and others violate the Basic law, because they are adopted without discussion and approval by the professional Community and without their discussion at the referendum.

The proposed practice of improving the quality of regulation of social processes will require that the government work out draft laws more professionally, it should also involve representatives of science, business, public and creative associations and unions, and the public from regions and municipalities in the elaboration and discussion of draft laws. First, this practice will significantly improve the quality of state-legal regulators by carrying out a more objective assessment of the need to update the regulatory impact to support the sustainability, balance and social orientation of development. The quality of regulatory impact in the context of globalization and updating of domestic sources and development becomes a priority for the Russian Federation. It is the quality of public administration and regulation of social processes in the absence of social

and public beneficial results of the reform of “all” limits the opportunities for Russia’s sustainable and systemic development.

Second, this practice will enhance responsibility and motivate the authorities, officials and developers of regulations to take more responsibility for their quality, also with the help of scientific and professional expertise, discussion and consideration of proposals, monitoring of implementation and achievement of the goal. The proposal will be implemented more efficiently and effectively if the current project defines initiators, motives and the appropriateness of taking regulatory decisions, developers and experts, forecast outcomes (results) of its implementation.

Third, this practice will significantly strengthen the confidence of the population and the entire Russian community to the government and its policies on the development of democratic principles in the administration of community development. Not a very long practice of using the institution of “feedback” of the municipal authorities of Yekaterinburg and its urban community has shown and proved that this institution is able to contribute new impulses to the processes of system-wide and accelerated development of not only large cities and municipalities, but also regions, federal districts and the country as a whole. The impulses based on mutual respect between the government that adequately represents people’s interests and the people who elected it, can become an additional and significant source of development. The institution of “feedback” can be compared to the “road with the meeting of traffic” which speeds up traffic and makes it more comfortable and safe,

without traffic jams and other impediments to sustainable movement.

6. We believe that the reasonably optimal combination and use of planned and market institutions and mechanisms of regulatory impact on reforming processes is a compulsory theoretical and methodological requirement for any reform carried out in the Russian Federation. This should be done not only for the purpose of involving in the reform the maximum number of citizens that represent a diversity of views on the model (market or planned) of Russia’s socio-economic development. It seems that the main reason lies in the fact that in modern conditions there is no country that would not use the elements of the mixed (convergent, double track) models of socio-economic development. The differences are seen in the share of market (free) or planned (public) regulators in maintaining the sustainability of socio-economic and community development processes. In France, the UK, Japan and many other developed countries there are planning commissions, committees, ministries, etc. engaged in state planning.

In the U.S., for example, there are many liberal market institutions and mechanisms; as for state regulators, they are used, on the one hand, to create and maintain equal macroeconomic conditions for sustainable development of all forms of business through participation in the regulation of loan and mortgage rates, competitive placement of state orders, etc. On the other hand, state regulators are used for regulating social processes by establishing a minimum hourly wage for employees, price caps for socially

important goods and services to the population, development of environmental standards and strict control over their observance.

The position of the UK, a country with more than two hundred years of practice of market liberal economic model (LEM), is a telling example. In March 2012, the UK published a draft government document on the further development and refinement of the system of planned management of socio-economic development headlined “National Planning Policy Framework”, which defines procedures for the development of plans of different levels, harmonization of national, regional and local development priorities with the participation of the population and business, etc. The document from the state positions raises the national issue of the necessity of compliance with the requirements of environmental protection and promotion of sustainable growth. Greg Clark, the UK Secretary of State for Communities and Local Government, drew attention to the focus of the document on the achievement of goals, he said in the foreword: “The purpose of planning is to help achieve sustainable development. Sustainable means ensuring that better lives for ourselves don’t mean worse lives for future generations... So sustainable development is about positive growth – making economic, environmental and social progress for this and future generations. The planning system is about helping to make this happen. Development that is sustainable should go ahead, without delay – a presumption in favor of sustainable development that is the basis for every plan, and every decision...” [cit. ex.: 26, p. 169].

The draft document was discussed by experts, representatives of business, academia and the public for about a year. In general, it received positive assessments, and a lot of ideas were put forward, which were reflected either in the plan, or in some other solutions.

An example of systemic sustainable development of Singapore is also instructive, it combines market and planned institutions and mechanisms in a smart way. In his book “From Third World to First: The Singapore Story” [27], Lee Kuan Yew, the initiator and head of the government of reformers, says their success is due to two essential requirements. First: the design and successful implementation of reforms requires a team of professionals and its constant renewal under changing priorities and conditions for development. Second: continuous feedback between the authorities and population helps find compromise solutions even in the most difficult and complex situations.

The state legal regulator, like any other governing document, has its life cycle; therefore, it objectively requires continuous and timely upgrade or replacement. It is impossible to be proactive without making timely adjustments in the current regulators and without the partial (to meet the changing needs of the development) upgrade of the team of professionals, which needs to be focused on achieving the larger goals useful for society. In this sense, the state regulator can be considered as a special kind of project, the consistent implementation of which can be carried out by the executive directorate under the agency or body charged with following and monitoring the process of its

system implementation. It is clear that this proposal could be perceived negatively due to the possibility of increase in the number of officials, the number of which is already too great for the market (resource-saving system) economy. But two circumstances make it necessary to submit this proposal for discussion. First, this proposal is already under discussion at the Expert Council of the Open Government of the Russian Federation and is considered to be the most effective form of improving the quality of project control focused on results. Second, the executive management may be formed from the staff of one or two departments of the ministry – the initiators and developers of the regulatory project – without increasing the total number of officials.

*Modern models of socio-economic development in the estimates of the Russians*

Internal and external crises and constraints that accompany socio-economic and community development of the Russian Federation have a critical impact on the pace and sustainability of development, quality of life and well-being of the population, prestige of the country in the international arena. Attempts to seek the guilty ones in the international community are, frankly speaking, not always a good thing, though, because in any confrontation it is both sides that bear the blame. What are the origins and the causes of misunderstanding? Yevgeny Primakov in one of his latest scientific papers at the meeting of the Mercury Club identified and convincingly showed the flaws and failures of market self-regulation, which are essentially impossible to eliminate and even

minimize within the liberal market model [Rossiiskaya Gazeta, 2014, no. 6, January 15, p. 5]. Primakov substantiates his position by the fact that the crises and constraints in the development of Russia are caused by internal rather than external factors.

Yevgeny Primakov highlighted several reasons that prove the necessity to demand a fundamental correction of the neoliberal course of the Government of the Russian Federation in order to make it more suitable for the needs and traditions of the majority of the Russian population. We pay attention only to one reason: the principled attitude of the neoliberals towards social justice is derived from free competition of “economic forces” rather than from government regulation of price, production and labor, environmental and other restrictions, which is widely practiced in most countries with the market system of economy.

Other authors also point out the fundamental uncertainty of the market and market regulation. Yu.Ya. Olsevich argues that “the fundamental uncertainty of the market can be overcome only by ensuring the optimal necessary and coordinated state regulation at all three levels – macro-, meso- and micro-levels... The market is able to adjust itself to competition only to the extent to which the state provides regulation of the institutional and organizational framework of the market and its macro-properties” [28, p. 95].

Those who support the universality of market self-regulation put forward one more argument – the lowering efficiency of state regulation and functioning of state corporations. Actually, according to estimates

of the Russian Union of Industrialists and Entrepreneurs, public corporations continue to be the “engine” of Russia’s economic development, although there a lot of claims to their work, and most of them are fair. While Russia’s Gazprom consider that its priority is to obtain from the government the right to raise domestic gas prices annually, French energy companies that are wholly or partially owned by the government carried out successful international pricing and service expansion over the past 15 years. This trend was the result of consolidation process organized and directed by the state in the framework of planned EU directives for the implementation of successful competition on the European and world markets.

Comparing the effectiveness of regulatory impact of the Russian and French governments, Yannick Mireur provides examples of successful coordination and integration of state planning regulators with the self-organization of public and private companies in order to maintain social stability and develop competitive advantages. In his opinion, “the political rather than legal environment in which Russia’s state-owned industry is developing does not create similar opportunities and hampers the chances of obtaining international status by Russian industrial groups” [29, p. 161].

Many countries such as Sweden, China, India, Belarus, Kazakhstan, etc. provide examples of successful combination of state (planned, programmed and designed) regulators and market self-regulation in the “mixed model” of socio-economic and community development. If we think about

what political ideas and theoretical models are used by newly industrializing economies like China, India, Vietnam, etc. that made a leading breakthrough in economic development, it turns out that they are not the same, which were imposed on the Russian society since the early 1990s and until the present time. In these countries, the state uses regulatory measures and provides a “socially useful supervision” of priority directions of socio-economic and community development and supports the system sustainability and socio-political harmony in society. The state does not abolish market institutions, but becomes an initiator and main developer of the national project on their socio-economic and community renewal with the aim to bring the country to a higher level of scientific, technological and industrial development and achieve a new and better quality of life.

The recently formed world practice of choosing the national model of social development is based on three crucial conditions. The first one: only the national Leader (head of state, head of Government) can urge people to choose and support a model of socio-economic and community development, persuade the majority of the population to participate in its discussion and implementation. This Leader enjoys the trust of the people and is not going to put the idea of the reform “on the shelf”; on the contrary, he will develop and propose to the society the project for gradual formation of the model of development and its implementation on the basis of the existing national and historical traditions, recommendations of science and opinion of the population.



The second condition: it is necessary that society support the proposed model of social development so that each group, each community, each state agency and each person could determine their place in the reforms and actively participate in them with personal interest. The third condition: the social perception of the idea of forming a new model of development requires clear and understandable setting of the goal of the reform and gradual determination of the end result in order to correct or clarify the project.

The published results of opinion polls of the Russian population allow us to say with a certain degree of conditionality that not all the population supports the policy of the Government and top management of the Russian Federation focused on the liberal economic model of development, especially in the interpretation of the Government [30]. The opinion of the Russian population expressed in the opinion polls of 2012–2015 and showing their preferences regarding the planned and market regulatory institutions and models of further socio-economic development of the country is fundamentally inconsistent with the policy of the authorities. An opinion poll by Levada-Center (2012) carried out among over 10 thousand Russians from 47 regions on the subject of “Expediency of using the institution of planning in the Russian practice” shows not just the mismatch between positions of “power” and the population on fundamental problems of Russia’s development. Over 51% of respondents believe it is appropriate to use planning institution, especially in terms

of socio-economic planning and spatial development of Russia’s territories. 15% of respondents consider it possible to use planned regulators to address priority development challenges.

The Institute of Sociology of the Russian Academy of Sciences (2011–2012) carried out a survey of 1,750 respondents from 22 subjects of the Russian Federation; they answered a different question: “What kind of social structure is most suitable for Russia?” The results of the survey once again do not “fit” into the mainstream of socio-economic and public policy pursued by the Russian leadership. More than 56% of respondents preferred the model of “mixed economy” in the framework of which more than 31% of respondents said they preferred “socialism with a planned economy and elements of market relations” and 25% preferred “capitalism with a market economy and elements of planning and preservation of socialist principles” (accessible education, health care, government regulation of prices and tariffs in the interests of people and not monopolies and state-owned companies, differentiated taxation, etc.). Twenty-two percent of respondents advocated “socialism with a planned economy and the dominance of state and kolkhoz-cooperative ownership”, and 17% said they preferred the liberal market model – “capitalism with a free market economy and the rule of private property” [31, pp. 27-30].

What positive and negative features can be the result of continuing confrontation between power structures and people with regard to choosing a model of socio-economic and

community development? We can say that the expression: “Truth is sprout in discussion” could be named among positive features to a certain degree. In this particular case, there is neither dispute nor dialogue and they are not expected in the near future. The tenacity with which the Russian government under various pretexts “imposes” on the society the exclusively liberal economic development model that is not considered professionally and that is implemented at the expense of increasing costs is akin to the tenacity with which the Russian population rejects this model. Ivan Krylov in his fable “Swan, Pike and Crawfish” described such a situation as follows:

When partners can't agree  
Their dealings come to naught  
And trouble is their labor's only fruit...  
Who's guilty here and who is right is not for us  
to say –  
But anyway the cart's still there today.

[cit. ex: Krylov I. A. *Writings in 2 Volumes*. Volume 2. Moscow: Pravda, 1984. P. 79].

The essence of the fable reflects the current situation in Russia: “When the society cannot agree” (already about a quarter of a century!), then there are no conditions in the format of a public platform to establish a coherent system of sustainable development, growth of people’s welfare, prosperity of the Russian state, enhancement of its international status. And this is more than the negative, which is able to restrain and “destroy” stability, depriving it of the sources and driving forces of systemic development and growth of welfare. The unwillingness of state leaders to reckon with

the opinion of the population and society as a whole gives rise to the negatives that produce more “failures” in relations between the state and society.

Public opinion experiences continuous pressure that is direct and indirect, official and “hidden” by the actions of government agencies (Central Bank, Ministry of Finance, etc.), it drastically reduces the credibility of the government and its leaders due to their incompetence and inability to ensure systemic and sustainable socio-economic development of the Russian Federation in the interests of the entire Russian population. What arguments do the Russians give in favor of the mixed model of development?

The first argument: no matter how badly socialism is criticized for its “flaws” and excessive planning centralization “of everything”, in its essence and social orientation it claimed to be and in fact it was one of the most “socially equitable and sustainable” models of development. Universal accessibility and government support for public and higher education, its quality and importance in the society remain a model of imitation for many countries and nations, except Russia. The quality of medical services and the health system as a whole complied with world standards not by all its indicators. But it was available for everyone. There was no such sharp differentiation in incomes. According to Yevgeny Primakov’s estimates [*Rossiiskaya Gazeta*, 2014, no. 6, January 15, p. 5], 110 Russian billionaires control 35% of all Russian assets. He cites the international financial corporation Credit Suisse Group and it has to admit that “during the transition period there

were hopes that Russia would be converted to highly profitable economy with highly skilled workers and strong social protection programs inherited from the Soviet times. In practice it turned out to be almost a parody” [ibidem].

Today’s Russia is hardly inferior to the Soviet Union by the number of schools, health facilities and even the number of higher education diplomas. But as for literacy, professional skills, ability of a teacher or university professor to teach and train professionals efficiently: to train doctors to provide better treatment, to train scientists to provide social development with innovative ideas and solutions –the Russian Federation has not just lagged behind in these aspects. The majority of the population thinks that Russia can become more and more backward. The government allowed the functioning of private educational, medical and scientific organizations, and it contributed to the fact that they focus their activities not on “the quality of training (treatment, research)” but on “making money”, which has become the purpose of their activity, the main motive and the end result. On the other hand, the government allowed state-financed institutions in the interests of “reducing the load on the budget” to introduce fees for the provision of public services, which inevitably increased the burden on workers, reduced the quality of services and limited the availability of public services for a significant amount of the population. And this despite the fact that according to the Constitution of the Russian Federation the state and municipal institutions provide services to the population free of charge.

The second argument: the majority of foreign and domestic researchers consider a competitive market to be the socially necessary, but not sufficient, condition for systemically sustainable development of the country and growth of public welfare. In most evaluations, the market is considered as a favorable environment that may or may not provide social development and people’s well-being [35, pp. 9-10]. Only the diversity of ownership and diversity of the economy under centralized planned management of priority development directions with the use of efficient sources and institutions can provide a systematically sustainable and harmonious functioning of the whole society. This norm becomes particularly relevant when national projects are developed and implemented: when there is a change or updating of socio-economic structures, when social and/or socio-economic systems are reformed, when individual territories undergo development and spatial arrangement (the Arctic zone of the Russian Federation; territories of the Far East), when there is import substitution and economic re-industrialization, etc. We agree with G.N. Tsagolov who points out that “left to its own devices, the economy is incapable of sustainable development” [35, pp. 229-230], maintaining political peace and social harmony in the society.

The professionally regulated market economic system acquires complete integrity and full capacity for sustainable development and renewal only if this system is subordinate to the public interest in general, evidence-based needs and priorities for development. The regulatory functions of the state under

these conditions acquire characteristics of the basic standards of social behavior of all the participants of market relations, and market economic system reaches its completed form and operates effectively and efficiently in the interests of the majority of the population.

The third argument: the ratio of market and state regulators and institutions in each national model of a mixed economy can be different in practice; it depends on political-economic, cultural-historical, national, natural, and other features. For example, in Belarus and Kazakhstan, where different cultures, religions, political orientations coexist and where there are different lifestyles of the population, there are mixed planned-market economic systems. Belarus is dominated by state-planned regulatory institutions of social development, and Kazakhstan is dominated by market regulation institutions and private-capitalist modes. But in both these national socio-economic systems there is the balance of state and market regulators that are different and largely opposite, but complementary at the same time.

If we turn to the world practice of using the model of the mixed economy, it turns out that it is these countries, having the optimal combination of state planning and market regulators, are the most stable in socio-economic and social development, they are socially and politically more consolidated and sustainable in times of global crises. Socio-economic development indicators of Sweden, Norway, China, Vietnam, Finland and some other countries clearly confirm this conclusion.

The fourth argument: from the viewpoint of the objects of regulatory impact of planned and market institutions, the practice of countries with the mixed economy allows us to assert that the forecasting and planning state regulators are the most efficient and effective when they are supervised by the government, when macroeconomic processes are regulated and socially important programs and projects are implemented, which requires the mobilization of funds and resources, initiative and enterprise, professionalism and social activity of the population.

Self-regulating market mechanisms and institutions, as evidenced by the more than two centuries of experience of developed countries, perform their regulatory functions most effectively at the micro level, in the relations between market agents, and their employees, the state and its agencies when they execute state orders and competitive projects and with appropriate control of the buyer, customer, consumer and society in general.

The fifth argument: the proposed delimitation of the spheres of regulatory influence of state and market mechanisms is largely conditional, because the model of the mixed economy is based not on confrontation, but on the convergence of planning and market mechanisms of regulation and their optimal combination for greater effect and efficiency. State planning of modernization and reindustrialization cannot be effective and efficient without the active use of market institutions and mechanisms of motivation and internal control. The institution of public-private partnership and other market

institutions (concessions, corporate social responsibility, consumer cooperatives, etc.), originated and evolves, in our opinion, solely as the institutional framework of the mixed (converged) model of socio-economic and community development. Of course, they need to be developed, updated, improved and adjusted to changing conditions. But the very fact of their use gives reason to believe that they have great opportunities for systemic and sustainable development and solution of social problems of territories.

The growing needs of regions and municipalities in a system and sustainable development and spatial arrangement of territories under the increasing shortage of their budget provision make it necessary to involve people and business through the use of PPP for the implementation of regional and municipal programs and projects. For this purpose, certain municipalities, primarily million-plus cities, have started to implement the institution of program and project development of municipal infrastructure by smoothly connecting in a single document – the Strategic plan – the forecast parameters of development with market needs and opportunities of the urban population, the

business community of the city and adjacent territories. The results of their work [23, pp. 19-25] suggest that the mixed model has a great future, because it helps use the socially significant advantages of market and planned systems in the interests of sustainable system-wide development.

The specific feature of protracted crisis in the Russian Federation is seen not so much in the “machinations of enemies” as in meaningless attempts of the authorities to maintain the same line of socio-economic and community development, which only exacerbates the crisis, condemning the economy, society and the population to degradation and stagnation. It is time to understand and realize that Russia has a limited number of options to choose from: the classical market model, the centralized planned model and the mixed model. It is time to decide where to go and what colors to hoist. And this time, inaction and another error in the choice may prove fatal. We can still pin our hopes on the Understanding of the situation, on the Selflessness in decision making and on the Political will of the government to be with the people and to serve the community... And we will succeed!

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### Information about the Author

Aleksandr Ivanovich Tatarkin – RAS Academician, Professor, Institute of Economics, Ural Branch of RAS (29, Moskovskaya Street, Yekaterinburg, Sverdlovsk Oblast, 620014, Russian Federation, tatarkin\_ai@mail.ru)

# SOCIO-ECONOMIC DEVELOPMENT STRATEGY

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## The Strategy for Development of Small and Medium Entrepreneurship in Russia till 2030: Ambitions and Realities\*



**Evgenii Moiseevich**

**BUKHVAL'D**

Doctor of Economics, Professor

Institute of Economics of RAS

32, Nakhimov Avenue, Moscow, 117218, Russian Federation

buchvald@mail.ru

**Abstract.** The article analyzes the basic propositions of the Strategy for Development of Small and Medium Entrepreneurship (SME) in the Russian Federation till 2030 and the comparison of the key parameters of this strategy with target SME development indicators, which had been earlier given in various planning and forecasting documents of the RF Government. The paper investigates the main causes of the failure with the previously declared benchmarks for a powerful “breakthrough” in this sector of the national economy, in particular, via realization of a set of goal state programs of SME promotion and development. Insufficient results of the state policy for promotion and development of SME for a long time were explained not only by its rather primitive tools, but also by its isolation from other key directions of the state economic policy and by general unsatisfactory trends in structural reforms in the Russian Federation economy. The paper also proves the need to upgrade the entire ideology of SME promoting policy in the Russian Federation taking into account the actual level of development of small business in the national economy as well as the tasks that define its priorities for the future, mainly, in the context of transition to innovative development. The author formulates the conditions under which it would be possible to implement the main parameters of a new strategy for SME development in the country. Special attention should be paid to the practical ways of coordinating state policy for promotion and development of SME with the formation of a single system for strategic planning in the Russian Federation, with the elaboration of efficient industrial policy,

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expansion of public-private partnership practice, etc. An important prerequisite for effective strategy making in the sphere of government policy aimed to develop and promote SME consists in its decentralization, i.e. the expansion of the functions and economic interest of sub-federal (regional and local) authorities in implementing the measures aimed to support SME.

**Key words:** small and medium entrepreneurship, government support, strategic planning, industrial policy, decentralization of government policy in relation to SME.

The current stage of Russia's economic development and its inherent difficulties now more than ever before require comprehensive managerial decisions that would be intended for a long-term period and would support new and positive trends in economic and social development in the country. The adoption of the Federal Law "On strategic planning in the Russian Federation" [17] provides an opportunity of practical formation of the system of state and municipal administration. This task concerns all levels of public authority – federal, regional and local, which, in accordance with the law, form a "vertical" of strategic planning based on a unified regulatory and methodological base.

At the same time each administration level forms its own "horizontal" of strategic planning that integrates the spatial and sectoral components of the plan and its key tools, namely: program-target methods of management and budgeting, a system for plans and programs forecasting and monitoring, development institutions, public-private partnership mechanisms, etc. This also concerns the range of issues relating to various aspects of government policy aimed to develop and support small and medium entrepreneurship.

### **Socio-economic strategizing and small business**

Modern society cannot do without ideas about the future of the economy as the basis of its development; without the ideas about what its future would be. But this strategizing does not have only a purely economic sense. As L.I. Abalkin points out, the development and adoption of a strategy "provides the government policy with moral support and expresses confidence in it" [1, p. 85]. This idea is extremely important when applied to the strategizing of SME development, since SME is not only a sector of the economy, but also a mass economic and social phenomenon, because small and medium business comprises 95% of commercial companies operating in Russia. It is also one of the most important components in the formation of the middle class, which is the most significant pillar of economic dynamics and socio-political stability of modern society.

First of all, it is necessary to focus on what characterizes the strategic approach to socio-economic planning under the conditions of modern social market economy. In our view, it is the following principles of public and municipal administration: comprehensive coverage of all the main spheres of economic

and social processes in the economy as a whole and its individual spheres in accordance with the regulation of the spatial pattern of distribution of productive forces; a scenario variant of socio-economic strategizing; long-term character of the goals and their adequate economic support; program-targeted management and budgeting; the use of public-private partnership mechanisms.

An important principle of economic strategizing consists in the harmonious combination of targeting for each level of management with the system of incentives that characterize the priorities set out in the strategy as key interests of society as a whole. R.S. Grinberg points out that economic strategies and indicative plans they contain are “not orders but incentives to reach the goals desired” [19, p. 19]. Of course, such an economically and institutionally optimal model of strategic planning in the form of a single and coordinated “vertical” for all levels of state and municipal administration cannot be created overnight. It requires the accumulation of experience, continuous improvement of the legislative framework and related methodological developments and selection of the relevant tools.

In their current form, the structuring of the key strategic planning documents is presented in the context of the “sectoral” and “spatial” components of the plan (Article 19 – “Sectoral strategic planning documents of the Russian Federation” and Article 20 “The strategy for spatial development of the Russian Federation” of Federal Law 172). For instance,

Article 19 states that the sectoral strategic planning documents define the development of a given sector of the economy and can be the basis for the development of state programs of the Russian Federation and its constituent entities, program-target documents of state corporations, state companies and joint stock companies with state participation. This approach does not seem quite correct, in our opinion.

First, statistics refers to the “sectoral” aspect of national economy as “type of economic activity” rather than “industry”. This often leads to the mismatch between the regulatory framework, individual parameters of the state programs and available statistical data, including the data on the development of SME. For instance, Russia is implementing the state program “Development of industry and increase of its competitiveness for the period till 2020” [8]. The provisions concerning the development of small and medium enterprises are contained in Federal Law 209 in Article 22 “Assistance to the subjects of small and medium business in the sphere of innovation and industrial production” [15]. Finally, there is Federal Law 488 “On industrial policy in the Russian Federation” [16]. But statistical data on the structure of GDP lack a general indicator such as “industry”; it was replaced with indicators for certain types of economic activity that correspond to the previous ideas about the branches of industrial production.

Second, modern economic system has socio-economic entities (institutions) that cannot be considered purely as a sectoral or

spatial aspect of strategic planning, because, in essence, they act as their symbiosis. The SME sector is such an institute, it integrates industrial aspects and spatial characteristics of national economic development.

Strictly speaking, Federal Law 172 does not say anything directly about SME. But this does not mean that the requirements of strategic approaches do not apply to the government policy related to SME. First of all, it is extremely difficult to imagine productive socio-economic strategizing in the country, especially at the sub-federal level, separately from the notions on long-term trends of SME development, and on the necessary measures of government and municipal support. Further, it becomes apparent that FL 172 focuses not on individual segments of the economy, but on the key principles, methods and strategic planning documents, the elaboration of which in management practice will be determined by a significant number of sub-legal acts, which will require further refinement for a long time. Finally, the success of strategic planning in the country in its sectoral and spatial elements will be determined to a large extent by the degree of integration and interaction of several recently adopted important legislative acts that create the foundation for government regulation of the economy. In addition to the above mentioned law on industrial policy, these acts include a law on public-private partnership [18].

At the 14th Forum on Strategic Planning held in Saint Petersburg on October 19–20, 2015, much was said about how the ideas on

the development of certain industries and sectors of the Russian economy can be “fit” into such long-term planning. This fully applies to the practice of strategizing the development of Russian SME and of all political measures of its state support. In this case it is necessary to decide what can actually be strategized in the sphere of development and state support of SME; how this strategy should be linked to other documents of sectoral and territorial strategic planning; whether a scenario variant of strategizing is applicable to SME, etc.

No doubt, it would be logical and very productive to make the national strategy for SME development and state support a mandatory strategic planning document at all the levels of management. This would help shape the strategy of SME in accordance with the strict requirements of the law to all strategic planning documents, in particular, in the context of their consistency – both in the sectoral and spatial aspects of strategizing. However, the emphasis on such a proposal might generate a large number of similar opinions concerning many other strategic documents developed in the country in individual areas and sectors of the economy, this would make such planning technically unfeasible.

In this regard, the proposal to introduce appropriate amendments to FL 209 of 2007 seems more realistic [15]. Thus, Article 2 of this law should be supplemented with a definition of national, regional and municipal strategy for SME development. Accordingly, it is necessary that articles 9, 10 and 11 of this

law contain the information on the powers of state authorities of the Russian Federation, constituent entities of the Russian Federation and local government bodies, the information should concern the formation of strategies for the development and support of SME according to the strategic planning documents developed at this level of management. The implementation of these standards will undoubtedly promote the strategic principles in the framework of government policy aimed to develop and support small forms of business in the national economy. However, in themselves, the innovations in legislation will not produce the desired effect, if the formal obligations are not backed up with economic resources for the development and support of SME and also with the institutions for their implementation at each level of management. This situation required the adoption of system-wide decisions.

The meeting of the State Council of the Russian Federation on development of small and medium business was held in April 2015. At the end of this meeting, the President of the Russian Federation Vladimir Putin signed a list of instructions, according to which the Ministry was given the task to prepare the draft SME development strategy up to 2030 (hereinafter – the Strategy). The special attention paid to this Strategy was due to the fact that it actually could initiate the development of strategic planning documents after the adoption of FL 172. According to the draft Strategy, its goal is to develop SME, on the one hand, as a factor in the

innovation development and improvement of the sectoral structure of the economy and, on the other hand, as an important tool of social development, ensuring the high level of employment and incomes and the formation of the middle class in contemporary society.

Several major socio-economic tasks are highlighted as the key elements of the Strategy for SME development up to 2030 (this paper is still under discussion). These elements include the increase of SME turnover in comparable prices in 2.5 times in comparison with the level of 2014. This is expected to match the increase in the share of SME in Russia's GDP by no less than 1.5 times. Indeed, in the world practice the most important indicator of SME development is considered to be its share in GDP. However, Russian statistics has not published the data on the share of SME in GDP for quite a long time (these data were published in 2006 for the last time). Such information appears from time to time in different sources and often differs as well. For example, the draft Strategy states that SME currently accounts for “about one fifth” of Russia's GDP. The Strategy also suggests there will be a 2-fold increase in the labor productivity of those employed in the SME sector in comparison to 2014; according to the Strategy, the share of manufacturing in the economic turnover of SME will increase up to 20% (vs the current 12–13%). As for social consequences, the Strategy envisages the increase in the proportion of those employed in SME up to 35% in the total employment.

Proportion of small and medium businesses in the main economic indicators of the Russian Federation, as a percentage to result

Indicators	Medium enterprises				Small and microenterprises			
	2010	2011	2012	2013	2010	2011	2012	2013
Average number of employees (without external part-timers)	5.2	4.3	3.7	3.6	21.0	22.7	23.4	23.5
Turnover	7.1	5.1	5.4	4.9	21.4	22.2	21.1	20.5
Investments in fixed assets	2.3	2.4	1.7	2.3	7.2	3.9	4.1	4.3

Source: Rosstat data.

The main indicators that characterize the place of the SME sector in the Russian economy are presented in the *table*.

When assessing these targets, we must primarily bear in mind that in the period of Russian economic reforms, the sphere of SME (the term “medium entrepreneurship” was fixed in the legislation only in 2007) developed very unevenly and ambiguously. This was largely due to the fact that the measures of government support to SME at all levels of management in that period were declared more than actually implemented [2, p. 2-14; 7]. Thus, after 2010, there was a decrease in the number of enterprises that met the criteria of “medium business”, the number of those employed at these enterprises reduced as well as the economic turnover of these enterprises, alongside a moderate increase in investments of this group of enterprises in fixed capital. The situation was slightly more favorable in the sphere of small and microenterprises. Formally, their total number and volume of economic turnover (in current prices) increased, but the number of employees of these enterprises remained virtually unchanged in recent years; investment of small enterprises showed no visible growth (in constant prices). The SME

sector accounts for only 5–6% of the total amount of fixed assets and 6–7% of the volume of investment in fixed assets in the country as a whole. The characteristics of Russian SME that we formulated almost 20 years ago as “entrepreneurship without ownership” is still relevant today [3, p. 9; 4, p. 10].

The share of manufacturing industries in the economic turnover of medium enterprises (22–23%) is not growing; nevertheless, it remains more than twice higher than that of small and microenterprises (9–10%). Given the certain reduction in the number of medium enterprises, we can conclude that here the layer of already mature enterprises is identified, and they are able, under appropriate targeted support measures, to solve the development issues of modern competitive high-tech industries, to occupy their own niche in the process of re-industrialization of Russia's economy. At the same time, the fact that small and microenterprises are abandoning the service and trade-and-intermediary niche, despite the previously optimistic forecasts, still seems to pose quite a challenge.

Thus, on the whole, small business of Russia still cannot turn its “face” to the real sector of the economy, the sphere of industrial

production, and solution of modernization tasks. In essence, it remains low-active not only in investment aspect but also in innovation aspect. According to the data presented at the meeting of the State Council of the Russian Federation on April 7, 2015, the proportion of small businesses operating in the field of technological innovation, has remained below 5%. Moreover, according to Rosstat (2013), according to an indicator such as the share of innovation goods, works and services in the products of manufacturing industries, small business (excluding medium and microenterprises, and individual entrepreneurs) is significantly inferior to large enterprises (2.24% vs 11.6%).

The specific feature of the Strategy consists in the fact that it involves not only the quantitative growth of SME in the Russian economy (by its share in GDP and total employment), not only its qualitative improvement (e.g. labor productivity indicators), but also the achievement of the fundamentally different role of SME in forming long-term development trends in Russia's economy. To achieve these objectives, the Strategy envisages a significant volume of budget expenditures and a number of significant institutional innovations. They include the creation of a single center for support of SME, the creation of new market niches and new opportunities for technological development for small businesses, available financing and predictable fiscal policy, and qualified personnel. Does it provide sufficient grounds to say that strategizing in

the development of Russian SME and the formation of the corresponding direction of economic policy of the state has been successfully implemented?

In other words, it is necessary to answer the question: to what extent is the “Strategy of SME – 2030” consistent with current trends in the public administration system and the current stage of development of this sector of the Russian economy? Of course, the article does not intend to make an exhaustive “critical analysis” of this document. The author aims to highlight a number of aspects that are especially important for making the Strategy a practically significant document in this area of government economic policy.

#### **Strategy – 2030: what are the chances for implementation?**

It is obvious that the “SME Strategy until 2030” may not be a simple renewal of a series of similar documents that were adopted in previous years and did not enjoy much success in terms of their practical implementation. Otherwise, the final result of the new SME strategy will be the same. The so-called road map “Development of small and medium business” until 2012 can serve as an example, it provided for the increase in the share of the SME sector in Russia's GDP from 21% in 2008 (what we have today) to 29% in 2012, the figure we never reached. Now it is planned to increase this share up to 45–50% (!), which actually requires a fundamentally different structure of the whole national economy. From this point of view it is important that strategic planning in the sphere of SME (like



in the economy on the whole) would not be reduced only to the stabilization of quantitative indicators. You need a specific “slice” of institutional strategizing, i.e. simultaneous planning on the long-term horizon of those institutional innovations that should ensure the achievement of plan priorities, including the development of the SME sector and enhancement of its positive impact on the development of the national economy.

The regulatory document of a new type – a genuinely strategic document – can be worked out provided that at least two major issues are resolved. First, it is necessary to determine to what extent and how exactly this strategy should be linked to other documents of sectoral and territorial strategic planning. Second, it is necessary to determine what exactly should be strategized in the field of SME development and government support.

The answer to the first question seems self-evident. The actual strategizing of SME that overcomes the former tendency of self-isolation of this direction of government economic policy is possible only in linking the SME strategy to all the source or key strategic planning documents. The main role among these documents belongs to the Strategy for Socio-Economic Development of the Russian Federation until 2030, the work on which is still going on. It would be incorrect to assert that the SME Strategy until 2030 “pays no attention” to FL 172 on strategic planning and does not take into account its basic requirements, etc. However, achieving real

coordination is complicated by the fact that the implementation of the model of strategic planning in the Russian Federation is still at a very early stage, and the corresponding key documents have not been prepared yet. It is not clear when the strategic documents for the development of industry referred to in FL 172 on strategic planning and FL 488 on industrial policy will appear.

The state program “Development of industry and increase in its competitiveness” [8] does not serve as a means of consolidation, because it is difficult to find anything in it that reflects the vision of the role of SME in the development of Russia’s industrial potential. An example of this situation can be found in the so-called departmental programs for providing support to SME, these programs are implemented by several federal bodies of executive power. Even if these programs include the goals of development of industrially-oriented SME, they cannot fully solve this problem, since they are implemented by departments alone and without any coordination with the programs (strategies) in other industries.

The state program “Economic development and innovation economy” [9] presents the goals and tools of state policy in relation to SME in a very blurred way. This program includes subprogram 2 – “Development of small and medium entrepreneurship”. This subprogram focuses on increasing the proportion of people employed in the SME segment of Russia’s economy from 25% in 2012 to 29.3% in 2020 and on increasing the

total number of SMEs that receive government support by not less than 1,650 thousand units (!) by 2020. Despite the fact that the essence of the program lies in the idea of transition to innovation economy, the document makes it very difficult to understand what exactly is viewed as the role of small economic forms as special subjects of innovation activity. Nor does the document contain instructions concerning the targeted measures of support provided to a special group of innovation-oriented SMEs. In fact, it is all reduced to adding “legitimacy” to the departmental programs of the Ministry of Economic Development. Such measures are necessary and timely, but there are other necessary prerequisites for the transition of Russia’s SMEs to a qualitatively new stage in their development and approval of their role as an important “actor” of innovative modernization of the economy.

We believe that the central position in the strategizing of government policy in relation to SME should be the formation of a new ideology of this policy and, accordingly, a new system of priorities, institutions and tools for its implementation. In general, modern economic theory and management practice pay great attention to the specifics of small business entities and their importance as objects of government regulation policy. At that, in the Russian context in the last 20 years, the practice of such regulation favored the large-scale government paternalism with respect to SMEs and to the measures of direct and indirect (in the form of tax and other

benefits) investments of significant budgetary resources in this sphere. This has led to the situation in which the ideology and practice of government policy in relation to SME is dominated by the principles of mutual benefit, granting tariff preferences, quotas, etc. Of course, these methods of government policy in relation to SMEs as such are still relevant and they remain important in the practice of SME support in all developed states and especially in developing countries. Another thing is when these principles become prevailing and non-alternative in nature. Then the effectiveness of government policy in relation to SME, as demonstrated by the Russian practice, reduces considerably.

This again suggests that the new SME-related strategy up to 2030 cannot be a simple renovation or reincarnation of the numerous programs, concepts and road maps that have already been worked out previously. The ideology and practical tools of this policy that have been developed during 20 years of economic reforms in Russia require a deep rethinking. This is what should be primarily reflected in the Strategy for SME until 2030. We are talking about government policy in relation to SME that:

- is focused mainly not on achieving welfare and benefits, but on rapidly achieving market maturity and stability of the majority of SMEs, in order to promote greater independence from the state support factors;
- takes into account the increased ability of Russia’s small business to carry out not only

“compensatory” functions in the transition economy, but also to solve strategic problems that include innovation modernization and reindustrialization policy;

– is focused on the current internal segmentation of Russia’s small business with regard to the measures of support on the part of the government; this, in fact, must become a kind of compass for this direction of economic policy. It is possible to implement an effective development policy and support SME apart from selecting the relevant focal groups in it. What does the Strategy – 2030 offer in this regard?

The strategy allocates two focus groups of SMEs, namely: 1) “mass” SMEs that, as a rule, specialize in commercial transactions, services, manufacturing, and sales of agricultural products and, thus, they play a key role in providing employment, improving the quality of living environment; 2) “high-tech” SMEs that are export oriented enterprises, enterprises in the sphere of manufacturing and services, fast-growing companies (“gazelles”) that facilitate the implementation of innovation in production.

We believe that such grouping of SMEs as objects of state support is clearly insufficient, because it does not allocate the most important focus group – the group of Russian industrial SMEs – as a target for such support. These SMEs, in our opinion, do not necessarily have to be export oriented or even “super-innovative” but they must be able to play a significant role in the “new industrialization” of the Russian economy and in dealing

with practical issues of import substitution. This is where we can see the importance of close linkages between the SME Strategy until 2030, the main areas of industrial policy in the country and a relevant federal law and program documents on industrial development.

In this regard, we think it is very damaging for state policy in relation to SMEs that there is no adequate reflection of this issue in the law on industrial policy. The fact that SME is not mentioned in the law on strategic planning is not critical because this legislative act, as mentioned above, only generally refers to sectoral strategic planning documents. But the lack of direct links to the issues of development and state support of SME in the law on industrial policy is very difficult to explain. A long period of discussion of the draft law on industrial policy, unfortunately, has not ensured its high quality. The main and very common problem of this document lies in the lack of a system-wide and flexible and targeted approach to the object of legislative regulation. The law, in particular, is not clearly focused on the creation of a balanced system of economic entities in the Russian industry, while industrially-oriented small and medium business with its specific functions has long become a necessary element of “industrial landscape” in all the developed countries in the world, especially in terms of providing its innovation orientation [5, pp. 23-31].

The current situation is rather strange: the federal law on development of SME contains an article about providing support to industrial

SMEs (Article 22, FL 209 of 2007) and the key law on industrial policy contains no information on this account. This raises great concern that all the documents in the sphere of industrial policy that should be elaborated in the development of this law and strategic planning practices in general will simply pay no attention to the development of the industrial sector of SMEs. In addition, it has been almost 10 years since the law introduced the concept of “medium enterprise”; however, there is no clear notion concerning this group of economic entities as a special object with regard to objectives and policy instruments of government support, especially in industries [13, pp. 112-121]. This gap must be eliminated.

At the same time, strategic planning documents on the development of Russia’s industry should take into consideration that the system of economic entities in this sphere of economy should be not only balanced (large, medium and small enterprises), but also interrelated due to cooperation. Economic science and management practice have a firm opinion that the cooperation and other interaction of large, medium and small business is of paramount importance for the development of modern and industrial oriented SME. In general, small business promotes the development of business environment in the industry exactly to the same extent as any large industrial business “pulls” small business. This is why in the understanding of the causes of current stagnation of SME in Russia we cannot but agree with the opinion of R.S. Grinberg,

who points out that “small and medium business emerge when large business already exists. And large business in Russia is resource-oriented. It does not need small business” [11]. In this sense, it is difficult to agree with the fact that the first principle for implementing the Strategy for SME is as follows: “Small business first”. This is either a clear exaggeration, or just a misunderstanding of the real origin of current issues of Russia’s economy.

Of course, our viewpoint cannot be understood in the sense that all existing measures of providing government support to SMEs should be wound up due to their inefficiency. Accordingly, all the efforts should be refocused on structural change in the field of large-scale industrial production, because the very success in this direction will sooner or later initiate a powerful rise of the SME sector in the Russian economy. It would be reasonable just to abandon the remaining priority of “wide-coverage” measures of government support and to focus the provision of this support on the institutions and tools of support that meets the priority tasks of re-industrialization and modernization of the national economy as a whole.

It is also necessary to pay attention to the fact that the Strategy for SME development in the Russian Federation till 2030 poorly represents the spatial dimension of SME support and development. Meanwhile, interregional differentiation in this sphere is so great that all the talk about the trends and challenges of SMEs and about appropriate ways (measures) of their support “in general”

often resemble the measuring of the “average temperature in the hospital” – a Russian proverb about the uselessness of blind averaging. This means that the territorially differentiated efforts to support SMEs may not only contribute to the alignment of the Russian economy as a “field” of SME development, but also play a significant role in the alignment of the levels of economic development of Russian Federation subjects [12, pp. 43-58].

Technically, the current version of the Strategy contains a special Section 7 – “Territorial development”. However, its provisions are mostly general and declaratory; they are not based on the analysis of specific issues and difficulties of SME development in different types of Russia’s regions and, accordingly, do not contain specific proposals for overcoming them. The latter is possible through the decentralization of the whole system of government support of SMEs, the differentiation of its tools and terms of provision in different types of Russia’s regions [6, pp. 81–95], and through the stimulation of interest of sub-federal (regional and local) administration in the implementation of effective measures to support SME in the field. Nominally, the Strategy declares this principle of government policy in relation to SME: “It is profitable to create conditions for development of small and medium enterprises”. In this regard, the Strategy, just like all the previous documents of this kind, again and again promises that there will be incentives for involving public authorities

and local government in the activities aimed to develop SME. But the Strategy does not specify what exactly these incentives should be; and what it describes (for example step-by-step transfer of the greater share of tax revenues to local budgets; elaboration of the issues concerning the establishment of additional deductions in local budgets through tax revenues paid by SMEs) is, in fact, being discussed – and unsuccessfully – for more than a year [14, pp. 197-210].

Finally, it should be noted that the existing version of the SME Strategy barely mentions the role of the so-called development institutions in the development of SMEs. It mentions only the newly created corporation – JSC “Corporation of SME”, which apparently is the “single center of SME support”, which is mentioned in the key objectives of the Strategy (in the 1990s, similar functions were performed by the State Committee of the Russian Federation on support and development of small business, but it was a plenipotentiary federal body of executive power). The Strategy contains much information on other specialized financial institutions, property, information and other support provided to SMEs.

However, we cannot ignore the fact that nowadays the Russian Federation has many other institutions of industrial-innovation development, which, even if they are not formally focused on providing support to SMEs, in fact, cannot function well without the adequate development (participation) of this group of economic entities. These are

federal and regional science cities, public corporations, special economic zones of the federal and regional level, territorial development zones, rapid socio-economic development territories, industrial parks, etc. In the conditions of target management and, of course, with the integration of their participation in the SME Strategy until 2030, these institutions can also provide a powerful incentive to industrial and innovative SME as potentially the most dynamically developing sector of Russia's economy.

Thus, the Strategy for SME development in the Russian Federation must be not just a document that reflects the current problems and prospects of this sector of Russia's economy. The strategy should contain mechanisms for constant updating and flexible orientation of this direction of government policy towards the potential points of the most active growth of small and medium business, new promising "niches" of his contribution to the formation of a new, innovative image of Russia's economy as a whole.

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### **Information about the Author**

Evgenii Moiseevich Bukhval'd – Doctor of Economics, Professor, Head of the Center for Federative Relations and Regional Development at RAS Institute of Economics (32, Nakhimov Avenue, Moscow, 117218, Russian Federation, buchvald@mail.ru)



## Geosystem Approach to Socio-Economic Development in the Regions of the North of Russia



**Vitalii Nikolaevich**

**LAZHENTSEV**

RAS Corresponding Member, Doctor of Geography

Institute of Socio-Economic and Energy Problems of the North, Komi Science Center, Ural Branch of RAS

26, Kommunisticheskaya Street, Syktyvkar 167982, Russian Federation

vnlazhentsev@iespn.komisc.ru

**Abstract.** The paper considers the Russian North in various geographical dimensions: circumpolar, zonal (latitudinal), meridional, structural and territorial. The author estimates the number and dynamics of the population in three zones of the Russian North with the use of primary data provided by district and regional municipalities; he uses the same data to arrange the Northern territories into groups depending on the systems of resettlement of the population and economic specialization of the territories. The analysis of “anatomy” of the North shows that the majority of issues related to socio-economic policy should be considered at the regional and local levels with regard to those territorial and economic systems which have already been formed, but require modernization on the basis of technology adapted for extreme and difficult climatic conditions. The applied part of research on the issues of the North is linked to the theory of the territorial (geosystem) organization of economy.

**Key words:** Arctic, Far North, Near North, meridional integration, territorial and typological groupings of municipalities, intra-oblast economic districts.

Since 1945 the regional policy of Russia regarding its northern territories has used two terms: “Far North” and “areas equated to the Far North”. Their administrative-territorial structure is established by the public authorities. The decree of the RF President of May 2, 2014 No. 296 stipulates the com-

position of land territories of the Arctic zone of the Russian Federation. The Arctic is the first part of the North; the Far North (the Extreme North without the Arctic) – the second; the Near North (territories equated to the Far North) – the third (*Fig. 1*).

Figure 1. Latitudinal projection of the Russian North



■ Far North regions

■ Areas equated to the Far North

The red line shows a land boundary of the Arctic zone of the Russian Federation in accordance with the Presidential Decree of 4 May 2014 No. 296.

**The Arctic** is a special area of geopolitical relations aimed at peaceful resolution of the issues to develop its mineral and biological resources and creation of transport communications with the use of the Northern Sea Route. In the given geopolitics Russia focuses on the legislative and normative regulation of social (especially life of the indigenous peoples of the North) and economic activity, including environmental protection. In 2015 the State Commission on Arctic Development was set up; the report “On state and problems of the legislative support of realization of the Strategy for development of

the Arctic zone of the Russian Federation and national security for the period up to 2020” is made annually.

The Strategy primarily takes into account the Arctic nature characteristics: low radiation balance, close to 0 °C average temperature in summer months with negative average annual temperature, existence of glaciers and permafrost, predominance of tundra vegetation and Arctic deserts. Due to the actualization of the climatic factor in the mankind development the experts say that the Arctic climate have, indeed, fluctuated significantly over the last 600 years. During

this time period there were at least 3 or 4 significant warmings, but that (according to many opinions) was completely determined by the change in natural factors, primarily the Earth rotational rate, solar activity and the atmospheric circulation nature.

The geopolitical aspect of the Arctic thematic substantiates the necessity of its consideration in the *circumpolar projection* in order to position the Russian Arctic in the international cooperation with the mobilization of scientific and technological potential of many countries and the establishment of the legal order that equally protects the interests of each country. It is the Russian part of the Arctic that is most populated and developed. In 2010 in the Arctic zone of the Earth 4,238 thousand people lived, the Russian Arctic – 2,080, the Arctic Europe – 1,280, and the American Arctic – 827 thousand people. In the land territories of the Russian Arctic zone, established by the Presidential Decree of May 2, 2014 No. 296, the population amounted to 2,383 thousand people at the beginning of 2015.

Russia occupies high positions not only in social, but also natural-resource potential of the world Arctic. Here there are economic complexes with the almost-complete network of settlements that serve as the basis for development of the Arctic Ocean resources. Total reserves of oil and gas in the national Arctic sectors are distributed as follows (in billion tons of conditional fuel): Iceland – 16, Alaska (USA) – 40, Canada – 61, Denmark–Greenland–Faroe Islands – 65, Norway – 65, Russia – 105 (by estimations of national energy agencies). In the Arctic zone about

80% of Russian gas, more than 90% of nickel and cobalt, 60% of copper, 96% of platinum-group metals, and 100% of barite are extracted. The important role in food security of the population is played by fish and other marine bioresources<sup>1</sup>.

There are conflicts about the Arctic Ocean resources use among the countries adjacent to the Arctic. But the situation is not a matter for political-military tension; it is considered in the framework of normal international relations [2]. D.A. Dodin believes that the Circumpolar Arctic zone can be considered as an object of international programs for sustainable development [1]. Moreover, A.N. Pilyasov states that over time around the Arctic Ocean, as once around the Mediterranean Sea, a global cooperation with general features of economic behaviour will form [6]. Yu.F. Lukin relies on the identity of peoples of the Arctic countries as a factor in economic order and social justice [5].

Biologists have shown that risks and threats to the Arctic development are largely linked to the unfavourable dynamics of vegetation cover of the tundra. Metabolism of tundra biosystems has changed for the worst in terms of biomass growth, overgrowing of large areas of mosses and lichens by shrubs, and the accelerated process of eutrophication. Science poses the problem of the fodder base for reindeer husbandry and emphasizes that its decision should be primarily based on fundamental research in the tundra as a unique natural area. Modernization of reindeer herding is

<sup>1</sup> See: <https://www.google.ru/search?q=Арктика>.

associated with provision of the industry with necessary structures, equipment, means of communication, transport, creation of a base for deer hides processing, production of high-value and high-yield endocrine-enzyme raw materials, which are in great demand abroad.

The issue about the development of shelf and remote seas of the Arctic Ocean is particularly problematic. N.P. Laverov, studying the Arctic problems, pays special attention to the technology of extraction, transportation and processing of oil and gas. The Academician rightly points out that haste in the industrial development without radical technological modernization often leads to huge losses [3]. Not accidentally, “the companies “Rosneft”, “Gazprom Neft” and “Novatek” have applied to the RF Government with the request to postpone the commissioning of 29 new oil fields with total extraction of over 26 million tons per year”<sup>2</sup>.

As the Arctic is officially considered as a specific object of state policy, it would be useful to define status positions in terms of forms of government regulation of socio-economic activities and maintenance of a proper quality of life. It is necessary to formalise the difference of the Arctic from regions of the Far and Near North. Thus, it is justified to strengthen the Arctic vector of regional policy of the federal government, especially in terms of improving economic regulators of economic activity, objective assessment of a living wage, retirement security, resettlement guarantees, state support of family and childhood, life activities of the indigenous peoples of the

North, and socially equitable distribution of natural resource rents [8].

In this regard, we note the following. The Presidential Decree of May 2, 2014 No. 296 stipulates the minimum boundaries and composition of land territories of the RF Arctic zone to focus on solving current issues regarding strengthening of defence capacity in this geopolitical sector of our country, creation of coastal infrastructure of the Northern Sea Route, exploration and initial development of shelf resources of the Arctic Ocean. However, to address the problems of socio-economic development of the high-latitude territories Russia’s Arctic zone should be studied in other, specified borders; moreover, it is necessary to harmonize the legislation and regulations relating to the Far North and “anew identified Arctic”. The latter includes, for example, the Arkhangelsk Oblast, where Arkhangelsk and 3 other municipal districts in the mentioned decree are referred to the Arctic, but not to the Far North. It turns out that the Arctic includes 6 districts of the Arkhangelsk Oblast, only 5 districts of the Sakha (Yakutia) Republic, and the city of Vorkuta of the Komi Republic. The Northern subjects’ desire to enter the Arctic zone is reasonable and fair. This primarily concerns the Komi Republic (Intinsky and Usinsky districts) and the Sakha (Yakutia) Republic, where the districts (ulus), fully or partially lying norther than 65 degrees north latitude, of course, are Arctic.

**The Far North** is a high latitude zone of Russia, characterized as the Continental Far North (except for the part adjacent to cold seas of the Pacific Ocean), that has not less harsh climate than land territories of the Arctic, more significant remoteness from transport

<sup>2</sup> *Argumenty nedeli* [Arguments of the week], 2015, November 26, no. 45, pp. 8-9.

highways, and, at the same time, extensive experience in the development of mineral resources and organization of mining, fishing and agriculture.

The problems of this area development are largely related to the mining industry upgrade. Only new technologies can extend the life of “old” ore, coal and oil fields, including application of hydrochemical methods of mineral resources extraction.

The state regulation of socio-economic development of the Far North regions is completely “covered” by regulatory and legal framework of the Extreme North. Here it is not so much about the creation of new regulators, but, to a greater extent, the proper implementation of already existing ones.

**The Near North** is the most habitable natural-economic zone among northern territories. Its area is home to 58% of the Russian North population. The problems of its economic development in terms of oil and gas and mining complexes are approximately the same as those of the Far North. However, the biological resource complex is specific. It is leading for many regions of the Near North. Experts believe that besides traditional wood processing it is very promising to promote bioconservation of cellulosic feedstock for production of valuable biological products and technically important products. For example, the cultivation of wood-destroying fungi on cellulosic wastes (sawdust, shavings, bark) helps obtain feed additives for livestock; production of glucose by enzymatic hydrolysis of cellulose is also very economically profitable and ecologically expedient. The use of cell cultures as producers in biotechnology gives an opportunity to produce a wide range of

plant biopolymers and bottom amolecular bioregulators. Dendrochemistry also “claims” for processing the entire wood biomass, including production of alcohol, turpentine, provitamin concentrate, conifer and essential oils, balsamic pasta, pine wax, polyprenols, etc. The rural energy development prospects are connected with the use of wood waste.

Agriculture of the Near North needs modernization, aimed at the formation of adaptive-landscape systems agriculture based on modern agricultural technologies. The attraction of rural households and country estates technical progress is an important aspect of modernization. They should be provided with mechanization means. In addition, it is advisable to organize technical stations for the general use (rental of equipment and mechanisms) in rural areas. Small forms of agriculture can be more susceptible (compared with large enterprises) to the application of new technologies: domestic row-band and Dutch methods of planting potato, the Finnish method of growing seedlings and planting cabbage, and storage of fruits using ice as a construction material of storages, etc.

The Near North industry differs little from this sector of non-northern Russian regions by territorial-economic characteristics. It also is dominated by large enterprises, included into the structure of transnational and national corporations, little correlated with small and medium enterprises and the domestic scientific-technological sector. This important economic function of the Near North, such as establishment of industrial, scientific and educational bases for the entire North, including the Arctic, is fulfilled very poorly and without target program provision.

The legal specifics of the Near North are fixed in the concept “areas equated to the Far North”. The set standards and correction factors in terms of income are quite sufficient regarding their conformity to the degree of appreciation of costs for life support. Northern allowances should be fixed for the Vologda Oblast districts, which border with the Arkhangelsk Oblast (Veliky Ustyug is Ded Moroz’ residence); the Kirov Oblast districts, located close to Kotlas; northern districts of

the Sverdlovsk Oblast (in the same way as it is done for the north of the Perm Oblast).

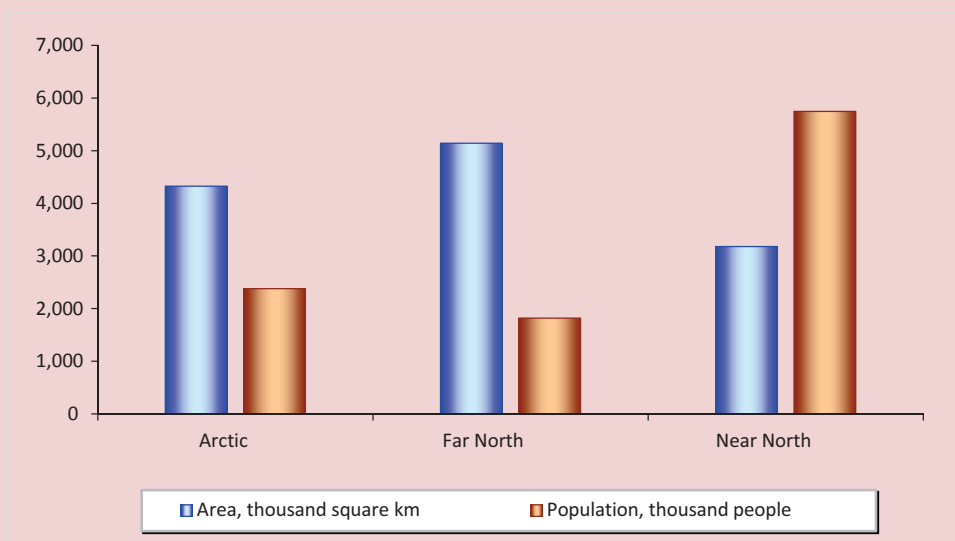
**The North in general** consists of 13 subjects of the Russian Federation and certain territories of 11 subjects. Their area amounts to 12.6 million km<sup>2</sup> ( $\frac{2}{3}$  of the country); their population – about 10 million people (7% of the population), including about 350 thousand people classified as minorities, and 1,250 thousand people – as indigenous peoples (*tab. 1; fig. 2*).

Table 1. Area and population of the Russian North and northern natural-economic zones\*

Zone	Area, thousand km <sup>2</sup>	Population, thousand people				Dynamics, %		
		1990	2000	2010	2015	2015 in % to 2010	2015 in % to 2000	2015 in % to 1990
Russian North	12,654	12,418	11,011	10,153	9,954	98	90	80
Including: Arctic	4,328	3,178	2,664	2,431	2,383	98	89	75
Far North	5,144	2,432	2,084	1,870	1,823	97	87	75
Near North	3,182	6,808	6,263	5,852	5,748	98	92	84

\* Calculated by the author on the basis of data of “Wikipedia” (Internet) and district municipalities with the use of reference materials of the Census of the Russian Federation in 1989 and 2010; given rounded to the nearest thousand.

Figure 2. Russian North: area (thousand km<sup>2</sup>) and population (thousand people), 2015



*Massive outflow of the population* is the most impressive process that encourages reflections about the future of the Russian North (fig. 3 and 4).

In 1990–2015 the population of the Russian North decreased by 2,464 thousand people, or 20%, including: in the Euro-

pean part – by 27%, in the North of Eastern Siberia – 17, the Far East – 38%; in the North of Western Siberia population increased by 17%. Against this general background north-eastern “corners” seem negative: in the Komi Republic the population declined by 28%, the Magadan Oblast – 62%, and Chukotka

Figure 3. Population dynamics by zones of the Russian North, %

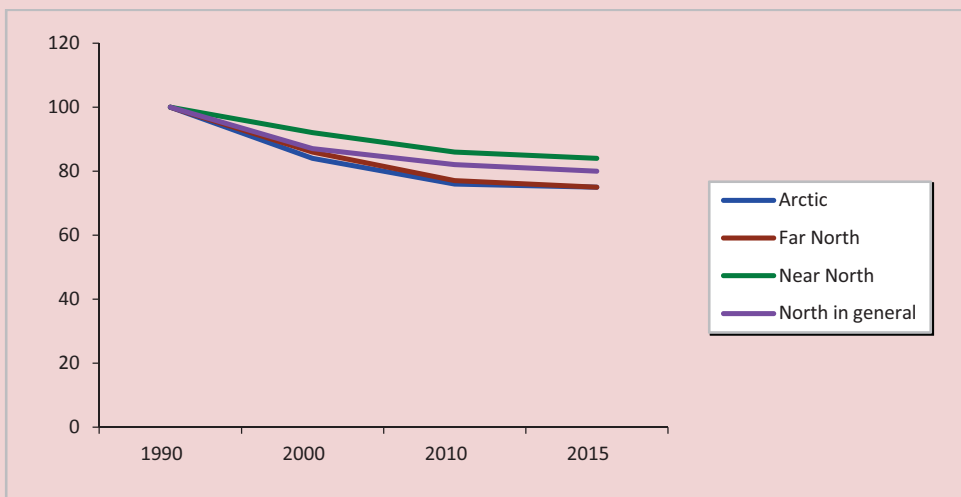
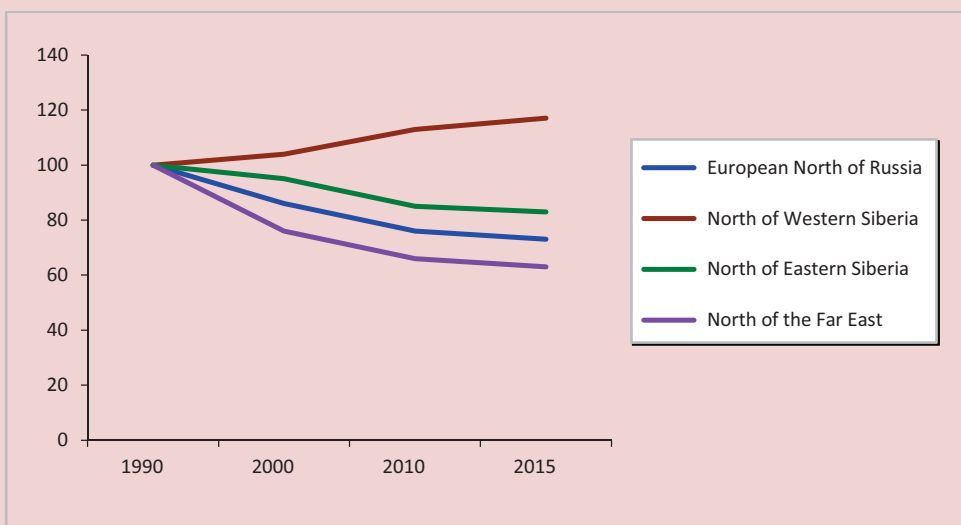


Figure 4. Population dynamics by sectors of the Russian North



Autonomous Okrug – 69%. The European North of Russia is losing its population faster than the North of Eastern Siberia due to close location to the regions with more favorable climatic and social conditions.

Let us note that the migration processes occur amid positive developments in the reproductive behavior of population and the growth of fertility. In the regions of the European and Asian North the year of 2013 was a turning point: the birth rate exceeded the death rate; besides, there is a rise in migration and mobility. People move out the North and around it. The percentage of migrants from Central Asia countries increases.

Though each person finds his/her own reasons to leave northern regions, there are common grounds: prevalence of low-income jobs, almost complete disappearance of the stimulating role of “northern quick money”, low level of social development, loss of traditional socio-economic relations between city and village, and fear of losing health.

The regions located close to the North also have a negative migration balance of the population. This reduces the hope that they (automatically) will be supportive bases for the North development. Meantime, they have become a transit corridor for people migrating into central and southern regions. This is one of the significant shortcomings of Russia’s spatial development.

In whatever combination we consider the northern and arctic areas, they will always be part of certain **meridional geo-structures “North – South” and major economic regions**. Federal and regional administrative centers should solve socio-economic problems within the boundaries of large meridional systems.

Thus, the economic policy of federalism should include not only the relations “center – region”, but also inter-regional integration. This is a significant factor in the formation of a unified domestic market space.

The improvement of socio-economic development regulation, is indeed, largely dependent on concerted the initiatives of northern and southern regions, especially if they represent the interests of population, united by a single socio-economic space. At first, the regional governments should focus on the rationalization of intergovernmental relations, then legally justify the degree of each region’s participation in the implementation of federal programs and national projects and finally strengthen the role of regional programs for the formation of “transit” infrastructure and comprehensive development of adjacent municipalities.

For example, the coordinated development of the Vologda Oblast, the Arkhangelsk Oblast and the Komi Republic is of great concern for the entities, such as the Office of the Northern Railway (Yaroslavl), OJSC “Belkomur” (Syktyvkar), Vologda Forest Inventory Organization “Northern Branch of State Forest Inventory at Federal State Unitary Enterprise “Roslesinforg”, Dvina- Pechora Basin Water Department of the Federal Agency for Water Resources (Arkhangelsk), Arkhangelsk Center for Hydrometeorology and Environmental Monitoring, and almost all oil and gas production and exploration companies working in the North of the Komi Republic and Nenets Autonomous Okrug. Naturally, the leading role in the coordination of policies and programs for socio-economic development is given to



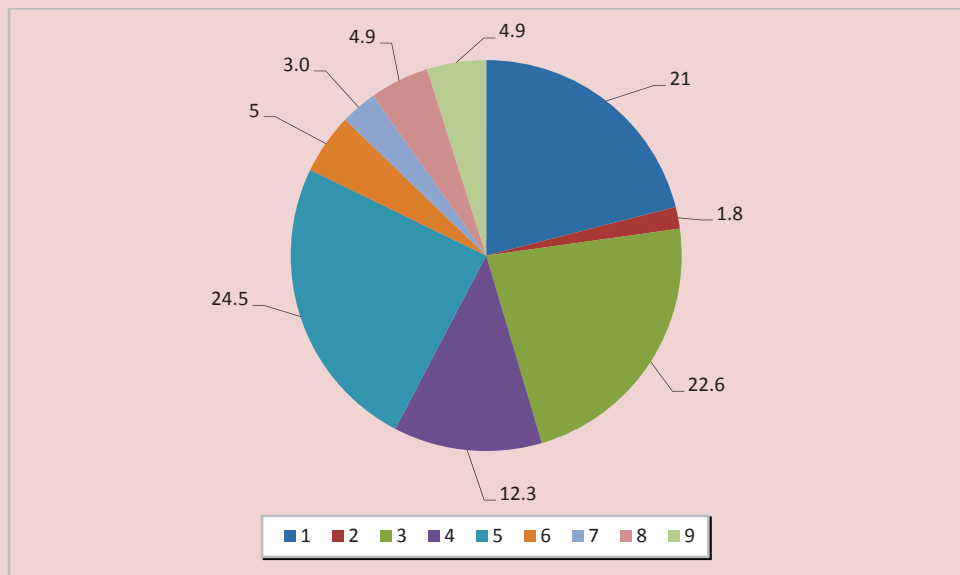
regional governments and municipalities. However, this role is realized insufficiently and limited to cooperation agreements, common institutions for investment and conduct of major economic events are not set up.

The territory conditionally called the “five corners” can be considered as a promising object of spatial integration: the south of the Arkhangelsk Oblast (Kotlas, Solvychevodsk, Koryazhma, Vychegodsky District), the south of the Komi Republic (Obyachevo, Spasporub, Loima, Letka), the east of the Vologda Oblast (Veliky Ustyug, Kichmengsky Gorodok, Nikolsk, Permas), the north of the Kirov Oblast (Luza, Pinyug, Oparino, Murashi), the east of the Kostroma Oblast (Vokhma,

Pishchug, Pavino). This should be the object of special territorial planning, regional design and target-program management. The problematic character of these territories is not in doubt, because it is in these “corners” where the poor state of the periphery is particularly apparent. There are similar examples of spatial cooperation can in other northern regions [7].

Many socio-economic problems of the North are **territorial-sectoral**. Their scale can be estimated by grouping municipal areas of respective specialization. We single out 9 groups, each associated either with the leading sector of the economy or the multi-functional mission of administrative centers and large cities (*fig. 5*).

Figure 5. Distribution of the Russian North population by economy types of district municipalities, 2015, %



**Economy types:** 1. Regional (Republican) city-centers. 2. District city-centers. 3. Cities and districts of oil and gas specialization in combination with deer breeding, and (or) agriculture. 4. Cities and districts of mining specialization in combination with deer breeding and (or) agriculture. 5. Cities and districts of forestry and agricultural specialization. 6. Districts of deer, sheep and horse breeding, not included in the third and fourth economy types. 7. Ports and fish specialization. 8. Others, including closed administrative-territorial units. 9. Large cities with a diversified large-scale industry.

Let us formulate the content of such problems:

1. Unsatisfactory fulfillment of metropolitan functions by regional, national and district centers, uncertain limits for the population's outflow from the periphery into centers and large cities, and difficulty of their maintenance at high cultural and scientific level, etc.

2. Uncertainty in the development of cities and districts of oil and gas and mining specializations, including in terms of their relationship with deer breeding and agriculture. With the "attenuation" of the activities of mining and oil enterprises the situation is critical for herders and workers of the service sector due to lower demand for their products and services.

3. Threats to the sustainable development of territories of forestry and agricultural specialization are observed not on the part of production, but also people's welfare in forest settlements and villages. According to the logic of post-industrial development, the districts of deer, sheep and horse breeding that do not have cities and live a relatively autonomous life, often leading subsistence farming, should be transferred to the new technological and social basis, without interfering in the traditional way of life. It is very difficult to find the right solution.

4. Difficult situation in the fishing industry, which level of organization affects lives of more than 300 thousand people.

5. Problems of closed administrative-territorial units (CATU) in terms of their food and manufactured goods provision and the need to increase the share of local economy in this provision that would help the CATU

staff adapt to the harsh natural conditions of the North and the Arctic.

**The geographically-complex problems of the North** are connected with the organization of economic systems of three types, such as:

– *"supportive" economical complexes (hubs)* (there are 26 in the North), based on expendable resources; modernization should be focused on the already existing urban and rural settlements, housing and communal services, environmental protection, production and infrastructure;

– *industrial periphery* (53 small and medium-sized cities of the northern zone), based on mineral development and maintenance of infrastructure communications; it is, as a rule, settlements of cyclical development, which decay eventually becomes inevitable, unless there is a different basis of the economy;

– *rural-type periphery* (all settlements characterized by a rural way of life), which could enter the system "center – periphery" only in case of presence of certain infrastructure, namely: sustainable year-round transport connection with the use of, if necessary, river ways, floating (pontoon) bridges, roads, small aircraft; telephone, post and telegraph, cellular and television networks and the Internet by means of optic fiber and satellite communications; offices of multifunctional centers providing state and municipal services; fixed and mobile points of sale, medical and veterinary care; school education, if necessary, with the delivery to school by bus; regional courses for adult education (computer, technical, sanitary, medical, veterinary, etc.); mini-MTS (machine tractor stations) providing technical services to personal households and farms.

The distribution of the population by types of territorially-economic formations is shown in *Figure 6*.

The authorities have to solve these territorial-sectoral and geographically-complex problems (it is so right!) within the boundaries of specific territorial-economic systems, which are in essence objects of program planning. These systems, as if lying on top of administrative boundaries, include intra-oblast (intra-krai, intra-republic) economic areas. They are the structural units that are mandatory in the development of territorial planning schemes.

One hundred and four intra-oblast areas are allocated in the North, including 30 – in the European part (together with the Vologda Oblast they make 35; see *Fig. 7*), 13 – in the West-Siberian part, 32 – in the East-Siberian part, 29 – in the Far-Eastern part [4]. When the specifics of the North and the Arctic

becomes crucial for making planning and design decisions, it becomes necessary to find a common basis for its accounting, which, in turn, requires the sharing of experience with those areas. Why do the intra-oblast areas that have similar economic capacity and natural conditions of development have considerably different social results?

We have divided intra-oblast areas as objects of spatial planning into four groups relative to the population dynamics. The results are as follows (*tab. 2*).

Intraregional dynamics in all intra-oblast areas is negative, but in varying degrees. Greater resilience to socio-political conflicts is registered in cities with a population of over 100 thousand people: Arkhangelsk, Severodvinsk, Vologda, Cherepovets, Petrozavodsk, Syktyvkar, Ukhta – Sosnogorsk agglomeration, Surgut, Nizhnevartovsk, Bratsk, Yakutsk, Komsomolsk-on-Amur,

Figure 6. Distribution of the population of the North of Russia by types of territorial-economic systems in 2015, %

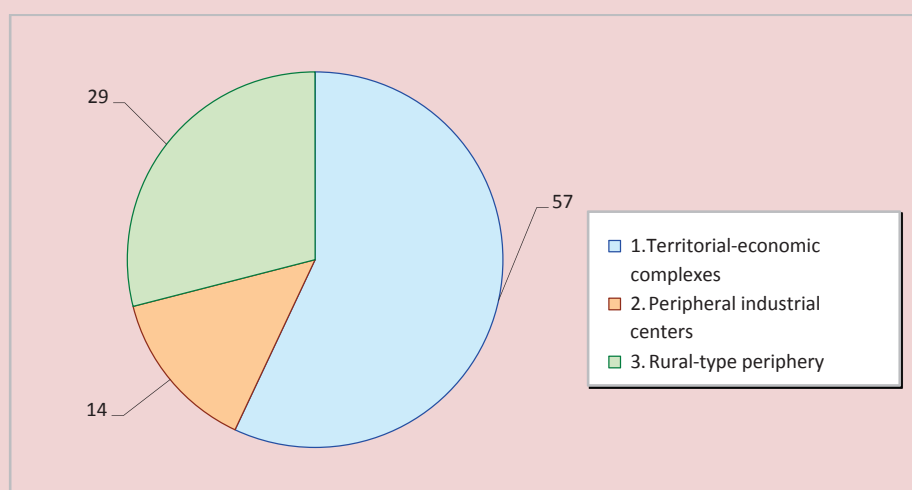


Table 2. Distribution of population by type of intra-oblast areas; the North in general = 100%\*

Types of districts	1990	2000	2010	2015
1. Stable population, population outflow is compensated by natural growth	27	33	36	38
2. Population decline, population outflow is not compensated by natural growth	49	48	47	47
3. Significant reduction in the population, negative migration and natural population decline	14	13	11	11
4. Extremely negative migration with an organized relocation, in rural areas population ageing	10	6	6	4
* Figures in the table were calculated by the author.				

where industrial and transport enterprises are located, and some rural areas – a kind of enclaves with indigenous way of life. Single-industry towns and areas such as Vorkuta, Inta, Kirovsk, Monchegorsk, Kostomuksha, Norilsk and others, and areas of logging and agriculture are less sustainable.

*Figure 7* shows the intra-oblast areas of the European North. It can be seen that the areas and oblast and national centers replenish the diminishing population with the help of the births and to a large extent – with the help of internal migration from rural districts. The exceptions are Murmansk and other coastal settlements of the Murmansk Oblast; this fact shows that the situation concerning Russia's functions in the Arctic is critical (fishing in the cold seas, maintenance of the Northern Sea Route, establishment of bases for development of the Barents Sea shelf, etc.).

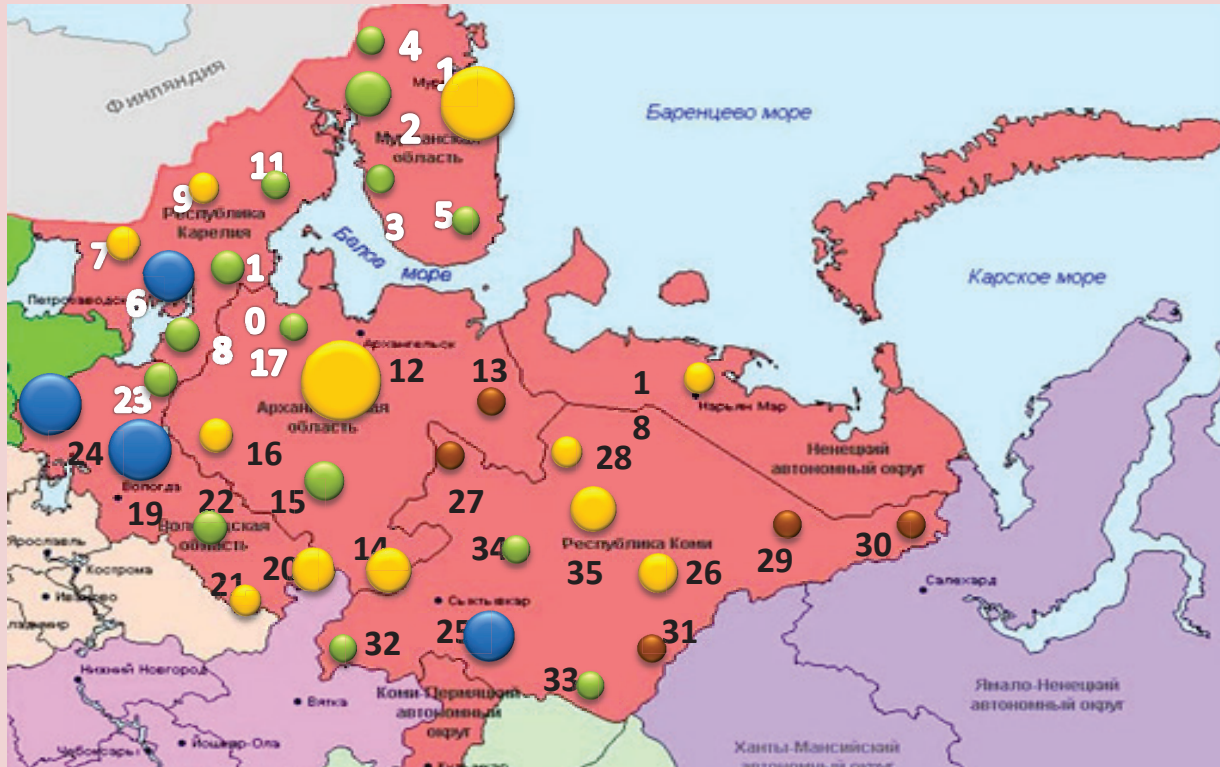
The European North of Russia has the spatial characteristics of already developed areas; that is, with the established pattern of location of production and distribution of population. The region is marked by the diversity of forms of territorial organization of economy and population resettlement. The main direction of its development is to

preserve and upgrade these forms on the basis of scientific and technological achievements, strengthening internal and inter-regional relations. The Asian North combines what has been developed and what is being developed, the “in depth” and “in breadth” types of development are combined as equivalent vectors of development.

*In general it can be said that the modernization of existing facilities, construction of infrastructure on developed areas, increase in the standard of living and quality of life taking into consideration traditional activities of small-numbered peoples are the priorities in the development of productive forces in the North. The “development in breadth” fades into the background; paramount importance is attached to the “development in depth”. The movement from developed to new territories and water areas involves huge costs and requires time-consuming scientific and technical training.*

The experience of studying the North shows that it is **methodologically necessary to combine the theory of territorial development, program-target planning and the geo-systemic approach to identifying and addressing socio-economic issues**. The geosystem approach is that in which natural environment,

Figure 7. Example of the European North of Russia: characteristics of intra-oblast economic areas by population dynamics in 1990–2015



The numbers represent economic areas:

- 1 – Murmansk, 2 – Apatity-Monchegorsky, 3 – Kandalakshsky, 4 – Pechengsky, 5 – Kolsky (Lovozerky), 6 – Petrozavodsky,
- 7 – Sortavalsky, 8 – Medvezhiegorsky, 9 – West-Karelian, 10 – Segezhsy, 11 – North-Karelian, 12 – Arkhangelsky,
- 13 – Mezensky, 14 – Kotlassky, 15 – Velsky, 16 – Nyandomsky, 17, Onegzhsky, 18 – Nenetsky, 19 – Vologodsky,
- 20 – Velikoustyugsky, 21 – Totemsky, 22 – Kharovsky, 23 – the area near Sheksna, 24 – Cherepovetsky, 25 – Syktyvkarsky,
- 26 – Pechorsky, 27 – Udorsky, 28 – Ust-Tsilemsky, 29 – Intinsky, 30 – Vorkutinsky, 31 – Vuktylsky, 32 – South-Western (Priluzsky), 33 – Ust-Kulomsky, 34 – Knyazhpogostsky, 35 – Ukhtinsky.

The area of a circle is proportional to the population in 2015.

- – stable population, population outflow is compensated by natural growth;
- – population decline, population outflow is not compensated by natural growth;
- – significant reduction in the population, negative migration and natural population decline;
- – extremely negative migration with an organized relocation, in rural areas population ageing.

population, and production are considered jointly within a single territorial economic complex. The integration of natural and social systems of approximately the same dimension is methodologically quite legitimate. Our experience of comparing the quantitative measurements of physical-geographical provinces with the characteristics of the economy shows the possibility and usefulness of calculations of natural and natural-resource potentials and their input into the assessment of economic conditions.

If we take into account the limited financial and organizational resources of Russia and its regions, it is necessary to recognize the appropriateness of the use of program planning at the level of sub-region – geosystem within the boundaries of two–three subjects of the Russian Federation. These include, for example, Kola-Karelian, Dvina-Pechora, Ob-Irtysh. The geosystem character of large

natural-economic regions like the Arctic, the Far and the Near North is rather conditional, truncated or artificial. For example, the North in general has only one sign of geosystem character – the territory of the watershed of the Arctic Ocean. In this case, the North needs to have a natural southern boundary along the line of world watershed. It is considered in such a way by hydrologists and sometimes by geologists but it is not consistent with common perceptions about the North and its problems of socio-economic development. Latitudinal natural-economic zones of Russia cannot act as program planning objects. Of course, the program for development of the Arctic is possible to work out, but it will be a non-constructive document. And it is advisable to apply the program method of management not to the zones but to integrated territorial systems subordinated to specific administrative centers.

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### Information about the Author

Vitalii Nikolaevich Lazhentsev – RAS Corresponding Member, Doctor of Geography, Chief Research Associate, Institute of Socio-Economic and Energy Problems of the North, Komi Science Center, Ural Branch of RAS (26, Kommunisticheskaya Street, Syktyvkar 167982, Russian Federation, [vnlazhentsev@iespn.komisc.ru](mailto:vnlazhentsev@iespn.komisc.ru))

## Correlation between Economic Growth, Oil Prices and the Level of Monetization of Economy in Oil and Gas Exporting Countries: Challenges for Russia



**Denis Viktorovich  
DOMASHCHENKO**  
Ph.D. in Economics, Associate Professor  
Plekhanov Russian University of Economics  
36, Stremyanny Lane, Moscow, 115054, Russian Federation  
dendv@rambler.ru

**Abstract.** The low monetization of the Russian economy occasionally provokes serious debates on the necessity of its substantial increase in order to promote economic growth. However, this step will not change the crisis situation due to the counteraction of structural factors and flaws in monetary regulation. The study of the level of monetization in the periods of stagnation and decline in oil prices in the countries that export raw materials shows it is impossible to promote economic growth only at the expense of additional money supply. The policy of inflation targeting in commodity-based developing economies proves efficient only if commodity prices are growing, when monetary policy restrains excessive credit activity. At present, falling oil prices and a liberal foreign exchange regime stimulate high inflation and decline in credit activities. Therefore, during the time of negative commodity market conditions, it is necessary to readjust monetary regulation so that it could counteract deleverage processes in the real sector of economy. The dynamics of credit activities should become the main regulating indicator instead of the consumer price index. The Bank of Russia should start lowering interest rates if credit activities are declining, even if the consumer price index remains high. It will be possible to return to neutral monetary policy only after the falling trend in oil prices is reversed and credit activities increased.

**Key words:** monetization, banking system, inflation targeting, financial stability, loans.



The level of monetization of the economy is essential for creating the necessary conditions for successful economic development. For example, Ya. M. Mirkin in [8, p. 22] shows that “low monetization and the saturation of the economy with financial assets at the level of developing countries that are in the lower zone of per capita income lead to the deceleration of economic growth, excessive dependence on short investments of non-residents, to the weakness of the resource potential of the financial sector, to inflated price of money in the economy”. The work [12] also confirms the stable relationship between monetization and GDP per capita for a sample of 120 countries. Finally, the author of [1] argues that low values of the coefficients of monetization of the Russian economy and high speed of money circulation indicate the insufficient trust of economic agents in the national monetary system, which, as a rule, is an inevitable consequence of high inflation, as evidenced by the state of the Russian economy. The patterns examined by the authors cover a very wide range of countries with source actual data collected in the period of growth of the world economy and the upward cycle in oil prices. However, since the middle of 2014, there is a downward trend in oil prices, which negatively affects the economy of hydrocarbons exporting countries.

Money is a key component in calculating the level of monetization of the economy. Money represents information about the ability of economic agents to perform an economic or financial transaction. Nowadays, money emission depends on the ability of the banking system, economy and government

to generate debt obligations. The stronger and the more diversified the economy and economic ties, the greater the capacity to carry out monetary emission under the new debt obligations. Thus, the level of monetization of the economy is largely determined by economic structure, by the activity of business entities and by the depth of the financial system. The Ministry of Economic Development of Russia clearly states that the “growth of monetization coefficient means that the accumulation of financial resources in the financial sector goes faster than the growth rate of the nominal gross domestic product (GDP). This process does not ensure the growth of investment volumes, it changes the structure and diversifies the ways of formation of investment sources” [14]. Does it mean that the government does not pay attention to the calculations and conclusions made by economists?

Developed countries are characterized by the high level of monetization; however, the situation is not so clear with regard to commodity export oriented countries. Oil and gas producing countries can be divided into two groups: the countries where GDP per capita is extremely low and most people live below the poverty line, and the countries where GDP per capita is very high and the population is relatively wealthy.

The success of the second group of countries is associated not so much with a low number of population relative to the volume of commodity exports (e.g. Norway and Canada), as with the ability of the financial system to accumulate and redistribute savings effectively, which ultimately has a positive effect on the overall level of monetization of the economy.

However, the increase in the level of monetization does not mean the automatic and accelerated GDP growth. There is an opinion that the growth of monetization of the economy can increase economic growth rates. In our opinion, this is true only in the framework of oil prices growth in the countries in which monetization level was insufficient. The work [4] reveals a positive correlation between the positive increase in the level of monetization of the economy and GDP per capita. But attention is drawn to the limit of monetization coefficient equal to 54%, under which its further increase does not produce a significant effect on the increase in GDP per capita.

The simple increase in the level of monetization in the conditions of the falling trend in oil prices will not stimulate the growth of the Russian economy that is oriented mainly on the export of hydrocarbons, because the

set of factors that in modern conditions goes together with a significant reduction in foreign exchange export revenues will in any case outweigh the positive effects of developing monetization.

*Table 1* shows the macroeconomic indicators of countries focused on oil and gas exports, among which we can see different levels of monetization of their economies; and the degree of dependence of GDP on oil prices dynamics in the countries under consideration does not depend on the dynamics of monetization of their economies.

We can see that the countries are arranged in descending order by share of oil and gas in total exports of goods. So, Russia has only 70% of oil and gas export, among other goods; but the correlation between the dynamics of its GDP in relation to the dynamics of oil prices reaches 83%. In addition, the fluctuations in GDP dynamics in relation to the changes in oil

Table 1. Calculated indicators of dependence of macroeconomic indicators of the countries focused on oil and gas exports on the dynamics of oil prices from 2000 to 2014

Country	Rank according to the monetization of economy	Share of oil and gas exports in total exports, %	Correlation coefficient of the dynamics of GDP and oil prices, %	Beta coefficient of GDP dynamics for oil prices, %	Monetization of economy (M2/GDP, %)	
					2000	2014
Algeria	2	97	95	53	38	71
Nigeria	13	97	54	71	22	20
Kuwait	3	94	93	70	71	65
Azerbaijan	12	93	68	66	16	28
Saudi Arabia	5	86	98	56	45	55
Kazakhstan	10	78	80	57	15	34
Russia	9	70	83	64	22	44
Norway	7	69	88	38	48	53
UAE	11	67	93	48	33	30
Colombia	8	56	76	38	26	47
Bolivia	1	55	52	20	52	78
Canada	4	26	84	32	72	63
Mexico	6	13	75	28	23	54

Source: calculated by the author using the source data of Thomson Reuters.

prices account for 64% which is an impressive figure. According to this index, only Nigeria (71%), Kuwait (70%) and Azerbaijan (66%) are in a worse situation than Russia. However, in these countries the share of oil and gas exports significantly exceeds 90% of the total exports of goods.

The highest correlation between the dynamics of oil prices and the GDP dynamics is typical for countries of the Middle East, fluctuations in their GDP growth is significantly lower than in Russia.

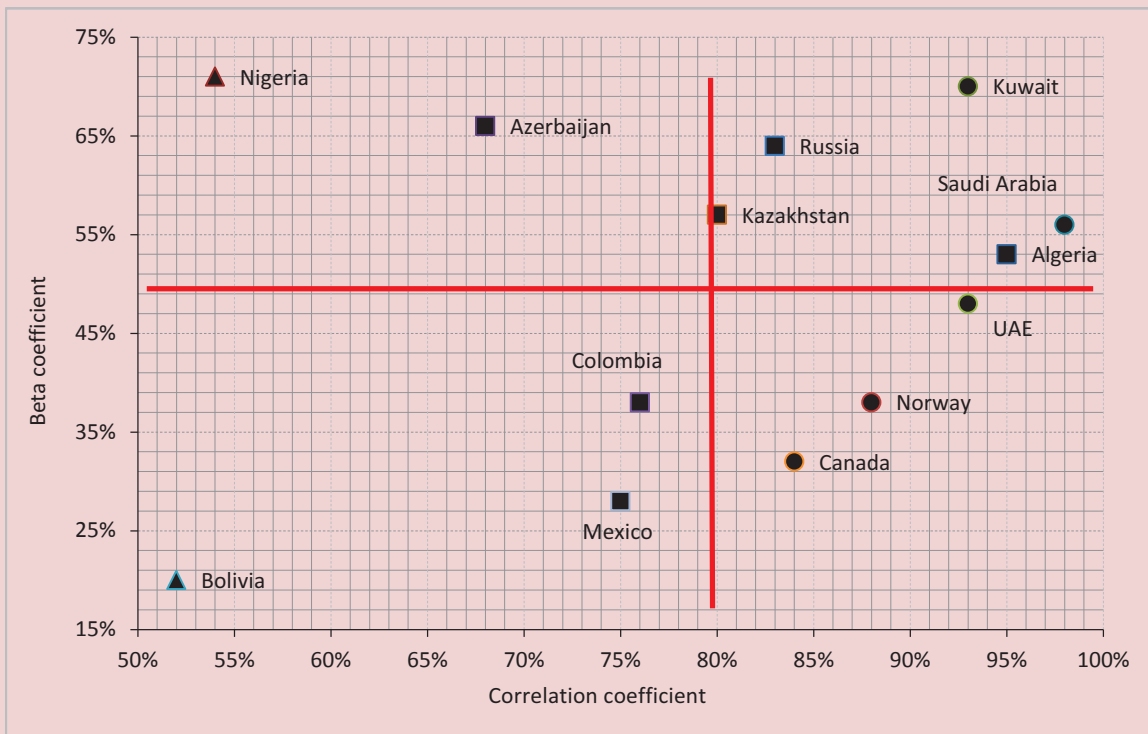
After 15 years, Russia’s economic growth rate still depends to a great extent on the fluctuations in world commodity markets.

According to the results of the graphical analysis of correlation coefficients and beta dynamics of nominal GDP relative to world oil prices (see Fig. 1) we determined four groups of hydrocarbons exporting countries that are characterized by different degree of dependence of economic growth on changes in oil prices.

Russia is in the “risk group” (with high factors of correlation and beta) together with Kuwait, Saudi Arabia, Algeria and Kazakhstan.

The situation is slightly better in Azerbaijan and Nigeria: their GDP, despite lower correlation with oil prices, also reacts strongly to the direction of the trend in oil prices.

Figure 1. Correlation and variability (beta coefficient) of GDP depending on oil prices since the beginning of the 21st century



Source: author’s calculations based on source data from Thomson Reuters Agency.

UAE, Norway and Canada managed to achieve more smoothed fluctuations in GDP, despite their strong correlation with the dynamics of oil prices.

Finally, Bolivia, Mexico and Colombia form a group of countries that react to oil market trends very weakly.

In the case of stabilizing oil prices, and even more when the trend in oil prices is downward, the majority of countries under consideration show the decorrelation between the indicators of monetization of the economy and the pace of their economic growth. In this period, even the growth of monetization of the economy may well be accompanied by reduction in GDP.

In the near future the Russian economy will not be able to get rid of the high dependence of its GDP on oil prices; however, it is crucially important to reduce the amplitude of fluctuations in the growth rate of the economy in response to the oil trend. In this case the key objective is to reduce the beta coefficient of GDP to 25–30%, as in Norway or Canada.

It does not make sense to continue to increase the monetization of the economy without its structural reforms, but it is essential to promote conditions for financial stability.

Financial stability, in the opinion of the author, is ensured through the simultaneous increase in lending and in money supply. The growth of lending that is observed in virtually all commodity export driven economies and that promotes the processes of economic restructuring and diversification provides adequate growth of revenues and indicators of money supply. The terms of financial stability ensure the balanced development of the economy and protection from subsequent external opportunistic risks.

In case of mismatch between the increase in loan debt and money supply aggregates, we observe the formation of financial instability conditions that create risks in the implementation of external opportunistic risks.

*Table 2* shows that the strongest loan expansion since the beginning of the century occurred in Azerbaijan, Kazakhstan and

Table 2. Growth rates of indicators (2014/2000), at the exchange rate of the U.S. dollar

Country	Banking sector loans	Money supply M2	GDP	International reserves	Population	Currency
Azerbaijan	43.83	24.51	14.26	23.27	1.19	0.88
Kazakhstan	36.51	25.61	11.60	13.80	1.16	0.80
Russia	31.17	14.63	7.16	13.96	0.98	0.48
Algeria	20.30	7.31	3.91	13.75	1.28	1.19
UAE	8.94	3.44	3.85	5.75	3.10	1.00
Colombia	7.79	6.85	3.78	5.20	1.21	0.94
Nigeria	7.70	11.29	12.26	3.71	1.45	1.18
Saudi Arabia	7.29	4.89	3.96	35.71	1.37	1.00
Arabia	5.88	4.15	4.51	4.52	1.80	1.07
Kuwait	3.44	3.21	2.92	2.32	1.14	0.60
Norway	2.93	6.11	4.07	12.78	1.30	0.92
Bolivia	2.90	4.36	1.88	5.50	1.20	0.62
Mexico	2.57	2.13	2.42	2.30	1.16	1.58

Source: calculated by the author using the source data of Thomson Reuters.

Russia – the former Soviet republics focused on hydrocarbon resources. However, the pace of economic growth in these countries was 3–4 times slower than the growth of the total loan debt in the economy. In most cases the majority of money supply generated through lending either left the country in the form of capital outflow or was disinvested through consumer lending of imported goods instead of increasing domestic production with high added value.

If loan growth significantly exceeds GDP growth, we can say there are the risks of fueling the credit bubble. If the growth of loans corresponds to the growth of money supply, then it is premature to talk about the credit bubble, because the entire money supply generated in the process of lending is concentrated in the national banking system and forms the resource base for future economic development.

The countries that experienced inadequate credit expansion together with limited monetization will have more problems in dealing with the crisis associated with the deterioration of commodity market environment. And vice versa, in the countries that carried out the policy of simultaneous growth in lending and savings, oil deflation will not have negative effects on the state of their economies. These countries include, first of all, Norway, Canada, Mexico and Bolivia.

It is interesting to note that the resistance of GDP to oil prices fluctuations is typical of those countries in which there was a simultaneous growth of credit and money supply over the last 15 years, namely in Canada and Norway. And in those countries where the

growth of money supply 1.5–2 times exceeded the growth of debt load, the fluctuations of oil trend had almost no impact on the amplitude of GDP fluctuations.

Currency regime is the most significant factor in providing the required level of monetization in raw materials producing countries. Under the “currency board” regime in the country the parameters of money emission are “anchored” to the country’s export revenue and to the algorithm of formation of international reserves. If the national currency is freely floating, then it is necessary to develop domestic debt market and bank lending for the adequate growth of money supply. Nominally the tasks of the Bank of Russia remain the same: to ensure the stability of the ruble and price stability. The author agrees with M.V. Ershov that “the Bank of Russia has not yet managed to achieve either the first goal – to preserve the stability of the ruble, or the second goal – to ensure price stability” [6, p. 38]. At the same time, there is no clear answer as to which currency regime is effective in an open economy. For instance, S.R. Moiseev, on the basis of analyzing dynamic stochastic general equilibrium models, notes that “in some cases, for example, if there is a threat of sudden cessation of foreign capital inflows, lowered nominal price rigidity or in the prevalence of pricing in the currency of the consumer (importer), researchers recommend to stick to the policy of fixed exchange rate. However, the vast majority of economists believe that, in the absence of speculative attacks in the currency market and non-fundamental fluctuations in the exchange rate, an optimal regime is the floating exchange rate regime” [9, p. 22].

In the end of 2014, Russia abandoned the policy of currency corridor and moved to inflation targeting, therefore, it chose a way to support money emission through the growth of the debt market. However, the past year that was characterized by the inflation targeting regime in the conditions of falling trend of oil prices has exposed the stagflationary signs of such a policy. A.E. Dvoretzkaya writes: "...While not denying the enormous potential inherent in the mechanism of inflation targeting, we note that its use gives good results only in a stable economic and political environment, and in a diversified economy" [2, p. 21]. The problem of the floating exchange rate in Russia also consists in the fact that the foreign exchange market did not always react adequately to the changing dynamics of the oil trend, no matter how the Bank of Russia and the Ministry of Finance wanted it. For example, we can observe the slowdown in the weakening of the ruble in October – December 2015 against the speed up of the fall in oil prices in the same period. In order to speculate successfully against the ruble, it is necessary to show an increased demand for the currency, but the amount of free rubles in the market is becoming smaller and international speculators by the end of 2015 have turned their attention to attacks against the South African rand and Brazilian real.

In this regard, a softer interest rate policy of the Bank of Russia should "help" speculators borrow rubles at a lower interest rate in order to bring the weakening of the ruble to the levels recommended by the budgetary policy of Russia, namely 3,200 rubles per barrel of oil. As

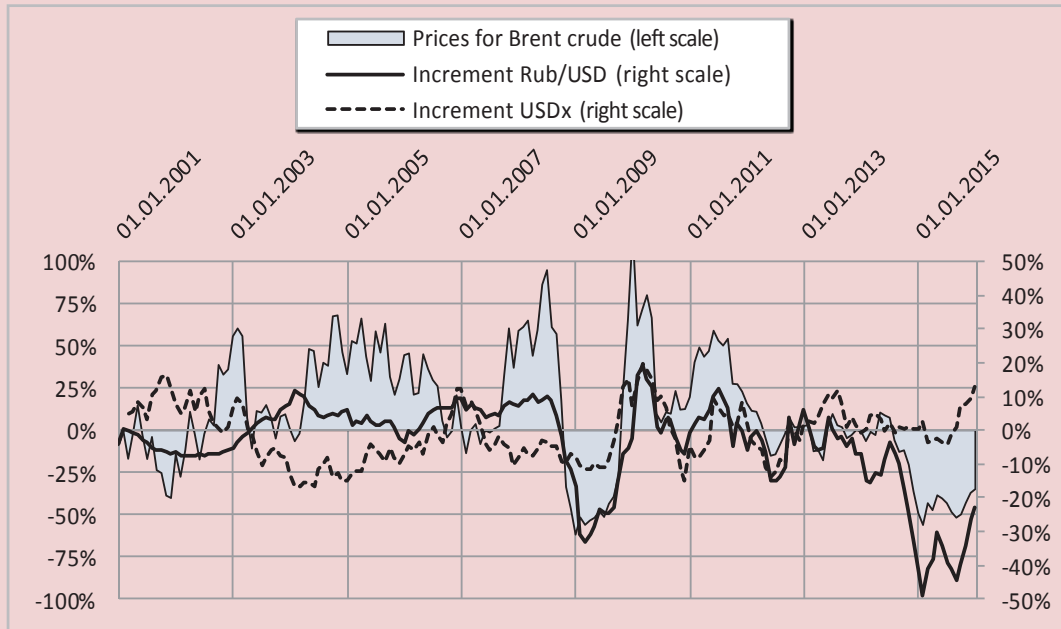
of mid-January 2016, the ruble strengthened against the balanced level provided for in the federal budget in 2016 by 25% (2,500 rubles per barrel of oil), and with the current interest rate policy of the Bank of Russia, it will be not so easy to provide the necessary devaluation of the ruble to a level more "comfortable" for the budget. The situation is changing towards the necessity to have a weaker ruble. If at the end of 2014, the Bank of Russia raised interest rates to protect the ruble from speculators, then exactly one year later there emerges the issue of the "strong ruble" that hampers the execution of the budget.

Since the beginning of the 21st century, oil prices have formed four upward, three downward and three consolidation medium-term trends. Moreover, the increase in oil prices within the framework of these trends lasted 83 months, the decrease lasted 38 months, and the neutral tone lasted 34 months. In December 2015, the price of Brent crude oil returned to the level of the spring of 2004, which started a prolonged upward trend that lasted 29 months (*Fig. 2*). The recent upward trend in 2009–2012 started with approximately 35 U.S. dollars per barrel and lasted also 29 months.

The specific feature of the current downward trend of oil prices consists in the fact that it is more extended in time (by February 2016, the decline has been going on for 17 months) and has much smaller potential for a trend reversal in the near future in view of objective fundamental and technical factors.

*Figure 3* shows the dynamics of prices for Brent crude oil since 1987. It is obvious that the bubble has burst in this market, and now

Figure 2. Annual increase in the prices for Brent crude oil (left scale), the Russian ruble and the U.S. dollar index



Source: calculated by the author with the use of the data provided by Thomson Reuters.

Figure 3. Prices for Brent crude for the past 28 years



Source: Thomson Reuters.

the prices above 80 U.S. dollars per barrel are viewed as completely biased. In the medium term, we can expect the consolidation of oil prices in the range from 10 to 40 U.S. dollars, as it was since the late 1980s and up to 2004 (the average price per barrel of oil in 1987–2004 was 20.6 million U.S. dollars). Given the inflation of the U.S. dollar that has accrued since 1999 in the amount of 44%, we can say that today the price of oil adjusted for inflation of the U.S. dollar is at the level of 29.7 U.S. dollars per barrel that should not be perceived as a disaster, but it is an average level with regard to inflation.

*Table 3* shows comparative data on the dynamics of oil prices and the consumer price index in the United States and Russia. Even with the significant decline in oil prices over the past 16 months in comparison with the inflation of the U.S. dollar, their current level is 2.4 times higher than in 1999.

Thus, aside from the emotional assessment of the situation, we can note an absolutely objective nature of events occurring in the oil market. Further decline of oil prices in the Russian rubles is also very likely.

Having changed the currency regime in favor of the free float of the Russian ruble, the Bank of Russia should use the official interest rate in the regulation of economic activity and fulfillment of the task of balancing the budget. By the end of 2015, Russia's foreign exchange market has come to equilibrium, but the amplitude of its fluctuations is historically two times lower than the fluctuations of oil prices. Thus, another reduction in the price of oil in rubles will cause a significant decline in domestic consumption.

The consequences of the credit bubble, which was inflated in the Russian Federation during the periods of continued rise in oil prices, generally have a negative impact on the current state of the economy: credit risks are growing, it is more and more difficult for enterprises to service the accumulated debts, investment pause is prolonged. The Bank of Russia needs to pay more attention not only to the rate of consumer inflation that serves as the basis for its interest rate policy, but also to the indicators that characterize the components of financial stability of the banking system. So, in the current conditions it is necessary to

Table 3. Dynamics of oil prices and inflation indicators in the U.S. and Russia

Date	Price of Brent crude, U.S. dollars/barrel	Price of Brent crude, rubles/barrel	Accumulated inflation of the Russian ruble since Jan. 01, 1999	Accumulated inflation of the U.S. dollar since Jan. 01, 1999	Oil prices/ CPI in U.S. dollars
Jan. 01, 1999	10.5	217.7	-	-	1.00
Jan. 01, 2004	30.3	892.5	150.8%	12.5%	2.57
Jan. 01, 2009	35.9	1052.9	329.4%	28.3%	2.67
Jan. 01, 2014	110.0	3590.8	511.6%	42.2%	7.37
Jan. 01, 2015	55.3	3108.3	581.1%	43.3%	3.67
Jan. 01, 2016	36.5	2660.1	663.2%	44.8%	2.40



smooth the processes of deleverage in the real sector of the economy where the interest rate should be the main instrument of regulation. Given the limited money supply growth in 2015, the Bank of Russia has an opportunity to pursue a much more accommodative monetary policy. The current high interest rates of the Bank of Russia artificially preserve the increased interest bank margin, which only increases the disparity between the growth rates of the accumulated debt and the aggregate money supply M2. At that, the indicator of monetization of the economy will increase simultaneously with the aggravation of the recession, i.e., the level of monetization will increase on the background of the downturn in the economy.

When the growth rate of the accumulated debt and the aggregate of M2 money supply are aligned, the Bank of Russia will be able to conduct neutral monetary policy without jeopardizing the financial stability of the banking system.

At present, pursuing its interest rate policy, the Bank of Russia pays attention to the consumer price index and inflation expectations; this excludes the possibility of maneuver to mitigate the processes of deleverage in the real sector of the economy.

A more explicit identification of the trend of lowering official interest rates by the Bank of Russia would not lead to a substantial increase in lending activity. Economic agents in the conditions of gradual but steady decline in interest rates, as a rule, are in no hurry to expand lending, especially if the economy is in a state of decline. The gradual reduction of interest rates enables soft refinancing of the accumulated debt for current borrowers on

more favorable terms. Enterprises will spend less on servicing the current debt, creating the conditions for dealing with other costs of the enterprises, which ultimately reduces the prices of final products. In other words, at the present time it is especially important not to limit access to credit by restricting money supply, but to promote more favorable conditions for the refinancing of the accumulated debt in order to help business survive.

If the Bank of Russia can be proactive, then its trend aimed to decrease the official interest rate will help meet the inflation target level in 2017. Otherwise, the rapid credit contraction is inevitable along with the aggravation of the recession.

The adjustment of the interest rate policy of the Bank of Russia towards the resumption of the downward trend of official interest rates in order to stop the processes of deleverage in the real sector of the economy will balance the budget, reduce the recession in the economy, create conditions for doing away with the investment pause. This will change the existing mechanism of the reaction of the mega-regulator on the macroeconomic indicators after the fact, when the Bank of Russia expects the end of the stagflationary spiral after the restoration of the raw materials market, fearing to be proactive toward the deteriorating conditions of the Russian business environment.

If the Bank of Russia focuses on the quantitative indicators of financial stability, if it synchronizes the rate of growth of monetary aggregates and credit activity by using the monetary policy instruments, then there will be no new imbalances in the monetary sphere hindering socio-economic development.

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### Information about the Author

Denis Viktorovich Domashchenko – Ph.D. in Economics, Associate Professor, Chief Research Associate at the Laboratory for Cloud Technology and Big Data Analytics, Plekhanov Russian University of Economics (36, Stremyanny Lane, Moscow, 115054, Russian Federation, dendv@rambler.ru)

## Why Is the Self-Sufficiency of Urban Districts Budgets Not Growing



**Anna Ivanovna  
POVAROVA**

Institute of Socio-Economic Development of Territories of RAS  
56A, Gorky Street, Vologda, 160014, Russian Federation  
anna631506@mail.ru

**Abstract.** Urban districts occupy a special place in the system of municipalities due to their potential and role in the implementation of governmental economic policy. Possessing the most developed infrastructure, facilities and a good financial basis, large and medium-sized cities accumulate the major part of budget revenues. However, the predominant part of their revenues that amounts, according to various estimates, to 70–85% [1, 6, 15] goes to superior budgets. As a consequence of the reforms of intergovernmental fiscal relations and local government that were held in 2000–2009, cities were left without stable, legislated fiscal revenue sources that were sufficient to fulfill their obligations to the population. Currently, city government can fully dispose of single tax on imputed income, individual property tax and land tax. Significant imbalances in the distribution of budget revenues make cities dependent on the financial assistance of higher levels of public authority and lead to an accumulation of problems. The Federal Treasury data on the execution of urban districts budgets show the stagnation of own revenues in 2011–2014. According to the calculations made by ISEDT RAS, in 2014, the availability of own budget revenues per capita was below the average value in 60% of the capital cities of Russia's constituent entities (regardless of Moscow and Saint Petersburg). This affected even major centers like Voronezh, Volgograd, Ufa, Chelyabinsk and Omsk. In the Vologda Oblast, the fiscal capacity of residents in urban districts that include the cities of Vologda and Cherepovets was 17% below the national average due to the reduction in the amount of receipts of own budget sources since 2012. In the conditions of acute shortage of financial resources to meet the growing obligations to support citizens, local authorities are forced to make borrowings; this fact limits the possibility of conducting a responsible fiscal policy and implementation of strategic investment projects. The paper presents the results of the analysis of execution of the budgets of the Vologda Oblast municipal

districts. The main objective of the analysis was to identify the factors that reduce the self-sufficiency of urban districts in relation to intergovernmental fiscal policy at the regional level. The main conclusion of the research consists in the fact that the actual state of city budgets reflects the lack of economic ties between budgetary security of cities and the efficiency of their economies.

**Key words:** urban district, urban districts budgets, own revenues of the budget, intergovernmental fiscal relations, efficiency of intergovernmental fiscal policy.

The state of budgetary security of the cities of Vologda and Cherepovets is particularly important for the regional economy development: they account for 87% of industrial output, 65% of retail turnover, 42% of volumes of commissioned housing, focus 90% of fixed assets, and employ 63% of working population.

What is the situation in the budgets of urban districts in? To answer this question, we study the reports on the execution of municipal budgets. They show a drop in key budget parameters. In 2011–2014 the provision with own revenue sources in the form of tax and non-tax revenues decreased by a third. The amount of municipal debt of

the city of Vologda reached 1.9 billion rubles at the end of 2014; it was four-fold higher than in 2011. The debt of the Cherepovets' budget is progressively accumulated, though the city had not had any debt obligations till 2013. It is important to emphasize that, in general, by budgets of RF urban districts the dynamics of own incomes has not changed (*tab. 1*).

The deterioration of financial autonomy of the cities is testified by the general negative dynamics of the key indicator of budget process management – provision with own revenues per one resident. In 2010–2012 the average annual growth rate of this indicator was 99% against 10–20% in 2000–2009; the greatest fall was observed in 2012 (*fig. 1*).

Table 1. Key parameters of urban districts' budgets in 2011–2014

Parameters	2011	2012	2013	2014	2014 to 2011, %
<b>Vologda, million rubles</b>					
Own revenues	3,987.4	2,875.9	3,198.9	2,912.1	73.0
Surplus, deficit (-)	-328.8	-481.1	-520.1	-231.7	70.5
Municipal debt	535.2	1,109.2	1,877.7	1,941.9	362.8
<b>Cherepovets, million rubles</b>					
Own revenues	4,132.4	3,056.2	3,181.7	2,894.3	70.0
Surplus, deficit (-)	120.5	-181.2	-246.2	-64.0	x
Municipal debt	0	0	501.7	601.4	x
<b>Russian Federation, billion rubles</b>					
Own revenues	741.7	727.0	790.3	740.2	99.8
Surplus, deficit (-)	-31.3	-31.0	-43.4	-38.4	122.7
Municipal debt	215.5	245.3	288.9	313.2	145.3
* In general, for all levels of municipalities. Sources: data of the Ministry of Finance of the Russian Federation [7]; the Federal Treasury [8]; reports on the execution of budgets of the cities of Vologda [9] and Cherepovets [11]; the author's calculations.					

Figure 1. Dynamics of average annual growth rates of per capita provision of the Vologda Oblast urban districts with own budget revenues in 2000–2014, %



Source: data from the reports on the execution of budgets of the cities of Vologda and Cherepovets; Federal State Statistics Service of the Russian Federation [12]; the author's calculations.

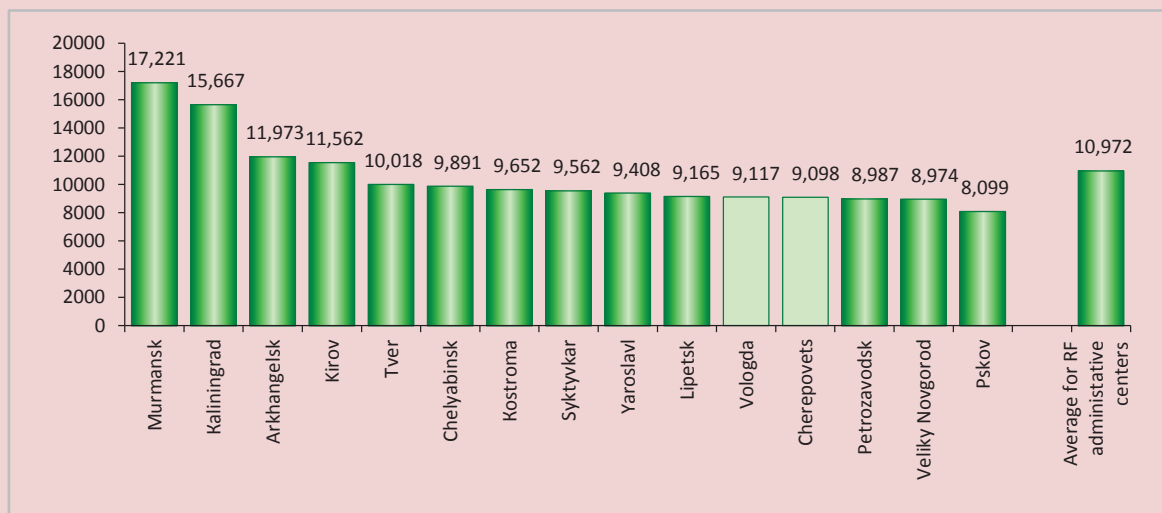
The absolute volume of own incomes per capita in the city of Vologda in 2014 was lower than in many administrative centers of the Northwestern Federal District and the neighboring regions. By this indicator, the “city-metallurgist” of Cherepovets lagged behind its counterparts – Lipetsk and Chelyabinsk (*fig. 2*).

What is the reason for the situation, why is the state of municipal budgets characterized by destabilization today? Is it based on economic factors perhaps? However, the official statistical data refute this assumption. In 2012–2014 the city’s economy developed rapidly, without creating obvious threats to reduce tax potential: the key macroeconomic indicators show increasing trends (*tab. 2*).

The more detailed research in the structure of tax payments to the budgets of cities shows sharp changes in the dynamics of the main revenue source – personal income tax (PIT). In 2014 with the 30 percent growth in average monthly wages the amount of fees did not account for half of the total receipts in 2011. The role of personal income tax in the formation of own budgetary resources declined significantly: the share of this tax in the total revenue decreased from 46–54% to 30–36%, respectively (*tab. 3*).

Personal income tax receipts to the budgets of Russia’s urban districts, unlike the Vologda Oblast, went down on average only by 7% for the specified period.

Figure 2. Provision of the RF urban districts with own budget revenues in 2014, rubles per capita



Source: the author's calculation by the data of the Federal State Statistics Service of the Russian Federation.

Table 2. Key macroeconomic indicators of urban districts in the Vologda Oblast in 2011–2014

Indicators	2011	2012	2013	2014	2014 to 2011, %
<b>Vologda</b>					
Industrial production index, % to the previous year	115.0	97.4	103	140.9	141.4
Retail trade turnover, billion rubles	33.3	45.1	48.1	53.2	159.8
Housing commissioning, thousand m <sup>2</sup> of the total area	140.6	144.6	164.5	183.8	130.7
<b>Cherepovets</b>					
Industrial production index, % to the previous year	103.1	100.6	102.0	103.5	106.2
Retail trade turnover, billion rubles	31.3	38.6	41.4	43.8	140.0
Housing commissioning, thousand m <sup>2</sup> of the total area	110.1	63.0	97.1	138.5	125.8

Sources: data of the Federal State Statistics Service of the Russian Federation; official websites of the cities of Vologda and Cherepovets; the author's calculations.

Table 3. Personal income tax receipts to the budgets of urban districts in 2011–2014

Indicators	2011	2012	2013	2014	2014 to 2011, %
<b>Vologda</b>					
Average monthly wage, thousand rubles	20.7	23.1	25.5	26.7	129.0
Personal income tax, million rubles	1,850.4	997.0	1,091.9	872.8	47.2
Share in own revenues, %	46.4	34.7	34.1	30.0	-16.4 p.p.
<b>Cherepovets</b>					
Average monthly wage, thousand rubles	26.4	29.6	32.4	34.3	129.9
Personal income tax, million rubles	2,247.9	1,231.8	1,272.4	1,046.3	46.5
Share in own revenues, %	54.4	40.3	40.0	36.1	-18.3 p.p.
<b>Russian Federation</b>					
Personal income tax, million rubles	361.9	376.9	420.3	337.0	93.1
Share in own revenues, %	48.8	51.8	53.2	45.5	-3.3 p.p.

Sources: data of the Federal State Statistics Service of the Russian Federation; the Federal Treasury; reports on the execution of budgets of the cities of Vologda and Cherepovets; the author's calculations.

Since personal income tax is the main tool to regulate interbudgetary relations at the level of “region – municipality”; the reasons of its fiscal functions deterioration should be sought in the existing intergovernmental fiscal policy.

I should say that due to the intergovernmental reforms in Russia in the early 2000s the budgets of cities were left without half of their taxes that were withdrawn to the budgets of higher levels (*tab. 4*).

In the subsequent years by analogy with the federal government the regional authorities carried out centralization of budgetary revenues, reducing the rates of tax deductions to the cities’ budgets. As a result, of the total tax and non-tax payments collected, for example, on the territory of Vologda, 9% went to the city’s budget in 2014, compared to 28% in 2010–2011 (*fig. 3*). We should stress that the reduction in standards of the receipts allocated to the city’s budget occurred on the background of growing payments.

According to the Control and Accounts Chamber of the city of Vologda [10], in 2014 the standards of distribution of the revenues collected in the city to the higher budgets were as follows: to the regional budget – 35.2%; to the budgets of state extra-budgetary funds – 32.8%; the federal budget – 22.8%.

Depriving the cities of the lion’s share of budgetary resources, the state transferred most powers of the federal and regional authorities to local authorities. In 2014 half of the expenses of budgets of the Vologda Oblast urban districts accounted for the delegated powers of public authorities of higher level, which limited the possibilities for building their own budget policy. In the period from 2008 to 2014 the delegated authorities increased 3-fold, and the co-financing of obligations to the cities’ population from federal and regional budgets in the form of subsidies decreased by 1.8 times (*tab. 5*).

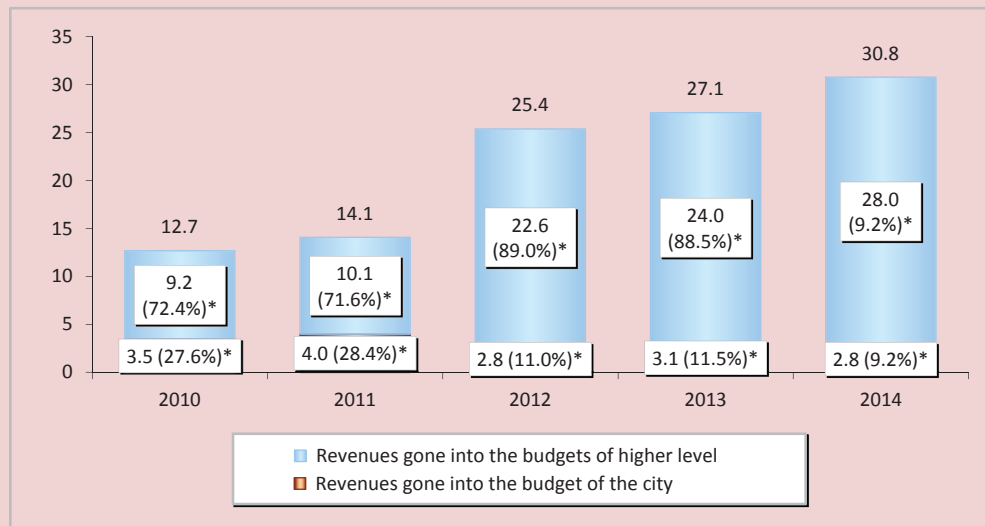
Table 4. Structure of the Vologda budget’s tax revenues in 1999, 2005 and 2014

Tax revenues	1999		2005		2014	
	Billion rubles	%	Billion rubles	%	Billion rubles	%
Total	771.5	100.0	1,885.9	100.0	1,894.1	100.0
corporate tax	131.1	17.0	98.6	5.2	0	0
Personal income tax	213.4	27.7	1,014.3	53.8	872.8	46.1
Value added tax	57.3	7.4	0	0	0	0
Excises	65.6	8.5	190.4	10.1	4.4	0.2
Sales tax	27.9	3.6	0	0	0	0
lumpsum tax	17.6	2.3	125.7	6.7	296.8	15.7
Property taxes	82.6	10.7	419.2	22.2	661.8	34.9
Payments for the use of natural resources	14.0	1.8	0	0	0	0
State tax	2.1	0.3	22.4	1.2	58.3	3.1
Local taxes and fees*	149.3	19.4	0	0	0	0
Other taxes, fees and charges	10.6	1.3	0	0	0	0

\* Tax on maintenance of housing and objects of the socio-cultural sphere, target tax on police maintenance, landscaping and education, tax on advertising, fee for granting a patent.  
Sources: data of the reports on the execution of the budget of the city of Vologda; the author’s calculations



Figure 3. Structure of distribution of tax and non-tax revenues, received in the city of Vologda in 2010–2014, billion rubles



\* Brackets indicate the share of revenues transferred to the budget system levels, total revenue.

Sources: data of the Control and Accounts Chamber of the city of Vologda; reports on the execution of the budget of the city of Vologda; the author's calculations.

Table 5. Expenditures of the urban districts budgets' on the execution of delegated authorities in 2008–2014, billion rubles

Indicators	2008	2009	2010	2011	2012	2013	2014	2014 to 2008, %
<b>Vologda Oblast</b>								
Delegated authorities	2.55	2.59	2.87	3.06	3.99	4.45	6.95	272.7
Share in total expenditure, %	21.0	26.8	24.0	23.1	30.3	33.3	48.1	+27.1 p.p.
Subsidies	2.45	1.05	1.79	1.65	2.37	1.87	1.39	56.8
<b>Russian Federation</b>								
Delegated authorities	210.5	230.3	256.6	295.2	386.6	400.3	549.7	261.1
Share in total expenditure, %	17.4	19.3	19.8	19.9	25.1	24.1	31.8	+14.4 p.p.
Subsidies	206.9	198.1	222.8	254.2	279.3	316.6	293.3	141.8

Sources: data of the Federal Treasury; the author's calculations.

Let us note that with the equivalent growth of delegated expenditures in general by RF urban budgets the subsidiary financing increased by 1.4 times. This trend suggests that the regional authorities solve the problem of the Vologda Oblast budget system imbalance

by gradually distancing themselves from participation in those or other directions to develop local territories.

The declining dynamics of the budget's provision with own resources indicates the reduction in fiscal autonomy of the cities. If

in 1999 the city authorities could fully provide expenditure commitments with own receipts, in 2014 – only 72–84% (*fig. 4*).

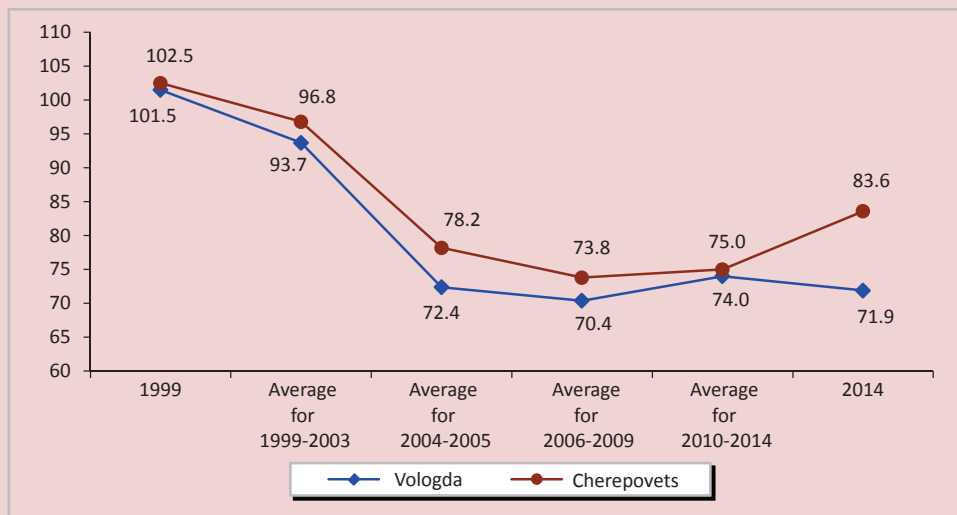
In 2012 the replacement of equalization transfers by differentiated rates of PIT deductions is innovation of the interbudgetary regulation in the Vologda Oblast. This replacement was conducted mainly at the expense of the withdrawal of part of personal income tax from the budgets of the cities of Vologda and Cherepovets, thus involving the fall in own revenue sources. So, in 2014 the budgets of urban districts received only 16% of the total amount of collected income tax (*fig. 5*).

In our opinion, budgetary maneuver has not achieved the desired effect, although at first glance, the regional authorities' efforts to reduce subsidization of the municipalities have

reached their goal. Since 2012, when the interbudgetary interaction principles were adjusted, the share of financial aid in the municipal budgets' revenues has decreased from 82 to 72%, but it is still very high (the national average is 77%). Moreover, after the decline in the share of transfers in 2012–2013 it increased in the following two years. At the same time, gratuitous receipts in municipal budgets increased from 38% to 55%. Therefore, there was no overall significant reduction in the local budgets' dependency on transfers (*fig. 6*).

Besides, the withdrawal of the cities' revenues artificially deprive other municipalities of the incentives to seek additional receipts of their budgets, as they receive minimum funds to resolve issues of local significance in any case. In 2012–2014 tax revenues of budgets of the Vologda Oblast municipal districts went up

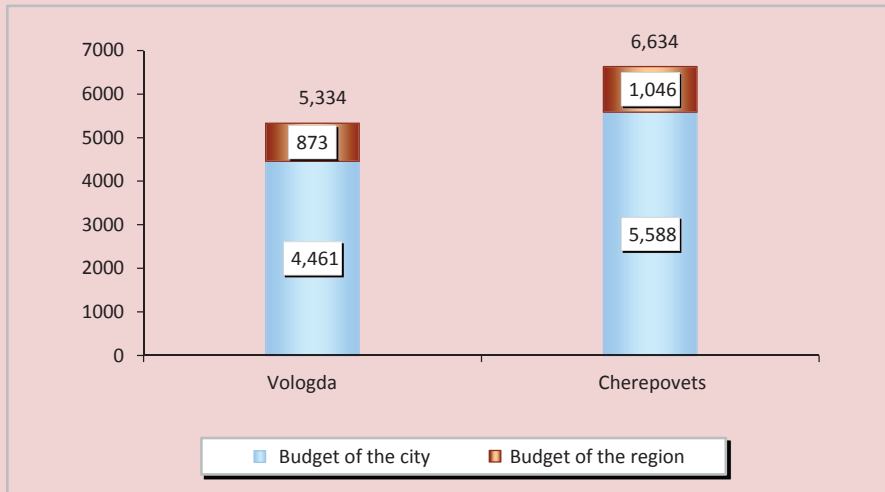
Figure 4. Indicator of the balance of budgets\* of the Vologda Oblast urban districts in 1999–2014, %



\* Calculated as the ratio of own revenues to expenses minus subsidies.

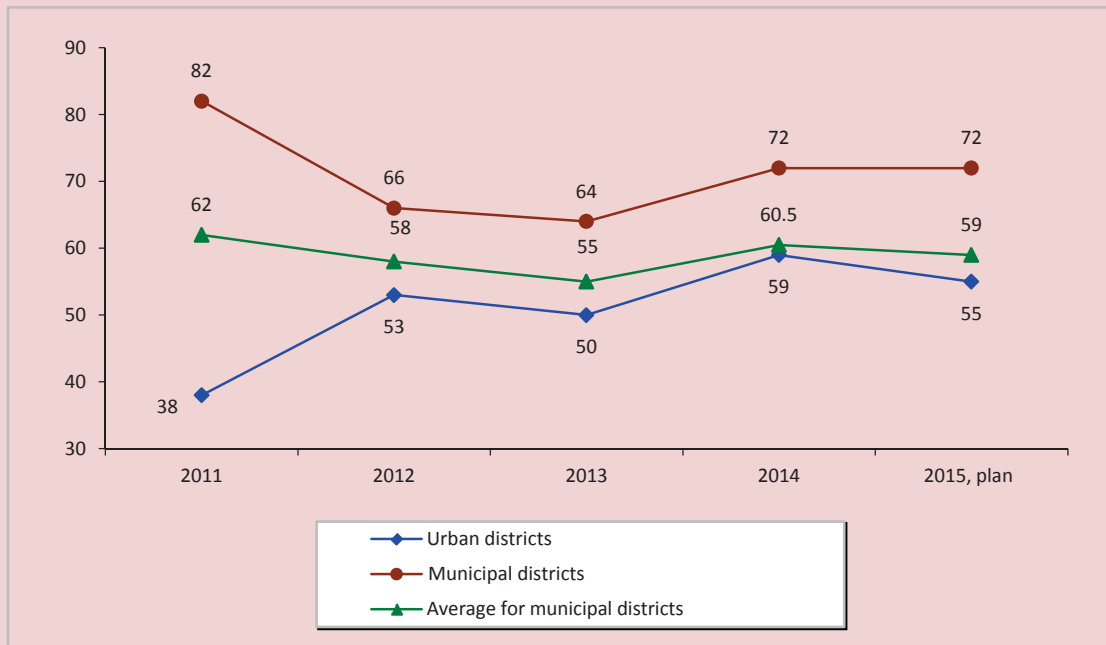
Source: data of the reports on the execution of budgets of the cities of Vologda and Cherepovets; the author's calculations.

Figure 5. Structure of the distribution of personal income tax, received from the Vologda Oblast urban districts in 2014, million rubles



Sources: Department of Finance of the Vologda Oblast [14]; the author's calculations.

Figure 6. Proportion of inter-budgetary transfers in the revenues of the Vologda Oblast local budgets in 2011–2015, %



Sources: data of the Federal Treasury; the author's calculations.

by 80% compared to 2011, primarily due to the transfer of income tax, while the other sources are characterized by a downward trend (*tab. 6*).

The new regime of interbudgetary regulation did not contribute to any appreciable changes in the municipalities' economic

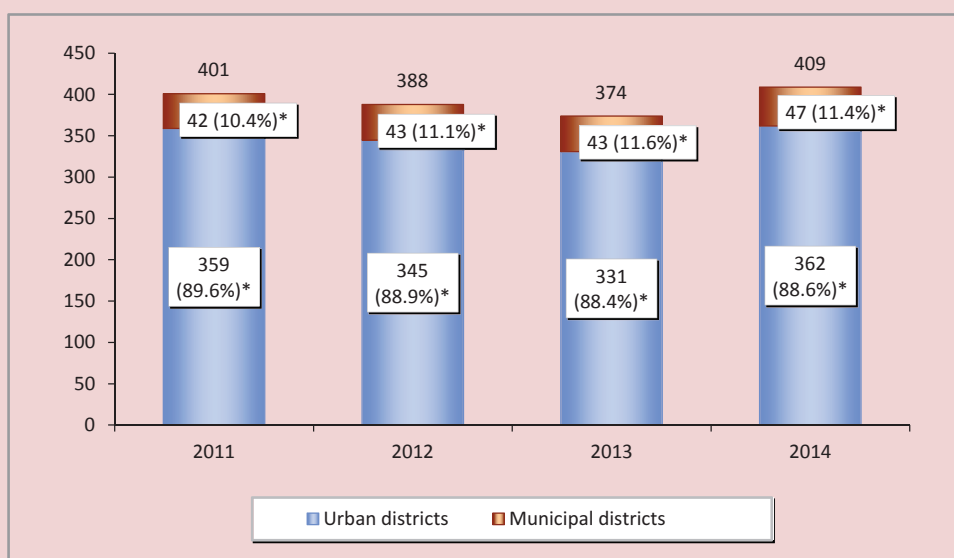
development: in 2011–2014 the share of regions did not amount to 12% in the volume of shipped products of regional manufacturing enterprises (*fig. 7*). Thus, the urban districts continued to be key drivers of its economic growth.

Table 6. Income tax receipts to the budgets of the Vologda Oblast municipal districts in 2011–2014, million rubles

Tax revenues	2011	2012	2013	2014	2014 к 2011, %
Total	2,055.7	4,298.4	4,203.9	3,677.2	178.9
Personal income tax	1,310.5	3,370.1	3,113.4	3,173.0	242.1
lumpsum tax	403.2	504.8	554.2	357.9	88.8
Property tax	220.8	401.1	508.9	0	x
State tax	120.7	22.4	27.4	34.6	28.7

Sources: data of the Federal Treasury; the author's calculations.

Figure 7. Structure of the volume of shipped products of the manufacturing industry in the Vologda Oblast in 2011–2014, billion rubles



\* Brackets show the share in total shipments.

Sources: Federal State Statistics Service of the Russian Federation; the author's calculations.

Table 7. Forecast parameters of the budgets of the Vologda Oblast urban districts in 2016, million rubles

Indicators	Vologda				Cherepovets			
	2014, fact	2015, as- assessment	2016, forecast	2016 to 2015, %	2014, fact	2015, as- assessment	2016, forecast	2016 to 2015, %
Own revenues	2,912.1	3,253.9	2,842.3	87.3	2,894.3	3,103.0	3,103.5	100.0
Subventions	3,543.1	3,368.1	2,346.1	69.7	3,406.2	3,216.1	2,494.8	77.6
Costs	7,593.2	7,728.4	6,062.2	78.4	6,866.2	6,902.6	6,018.2	87.2
Deficit	-231.7	-295.2	-150.4	50.9	-64.0	-112.8	-77.1	68.4
Municipal debt	1,941.9	1,800.0	1,538.4	85.5	601.4	679.2	643.5	94.7
To own revenues, %	66.7	55.3	54.1	-1.2 p.p.	20.8	21.9	20.7	-1.2 p.p.

Sources: data of the reports on the execution of budgets of the cities of Vologda and Cherepovets; the approved municipal budgets for 2015; the draft municipal budgets for 2016; the author's calculations.

The urban districts budgets' for 2016 do not contain any visible signs of declining budgetary tensions (*tab. 7*).

So, in the budget of the city of Vologda the positive dynamics of own revenues resumed in 2015 will be interrupted: the forecast for 2016 indicates its 13% decline. There will be no growth of own revenue sources in the budget of the city of Cherepovets. Together with the decline and stagnation of own revenues the 20–30% reduction of subventions transferred from higher budgets is expected; it involves insufficient funding of delegated authorities.

The municipal debt will be reduced, but the debt load of the Vologda's budget will remain substantial, accounting for more than half of its total receipts.

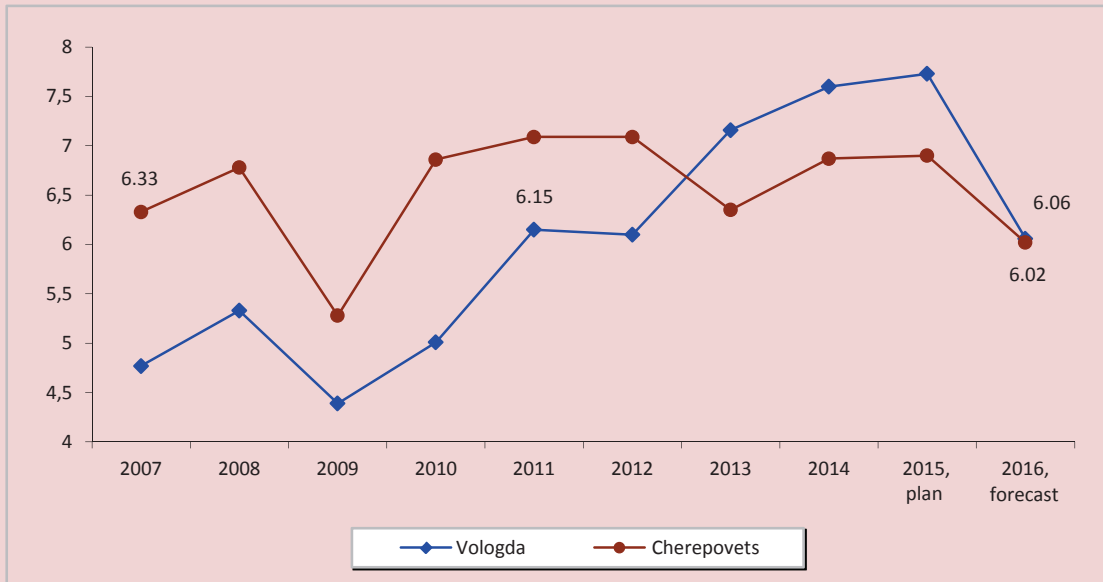
The expected reduction of the deficit will be achieved by cutting spending by 22% in the budget of the city of Vologda and by 13% in the budget of Cherepovets. If personal income tax receipts remained at least at the 2011 level, the city authorities would not have to implement the large-scale sequestration of costs on socio-economic development of

their territories. According to the forecasts, in Vologda in 2016 the budget spending will not reach the 2011 level even at current prices, while the expenditure part of the city's budget will be lower than in 2007 (*fig. 8*).

The decrease in capital investment or, in other words, the development budget is one of the most negative consequences of reduced budgetary self-sufficiency of the cities: in Vologda in 2014 budget investment decreased to 1.4 billion rubles, compared to 3.6 billion rubles in 2012. The draft budget of the city of Cherepovets for 2016 stipulates the reduction of financial support of the municipal investment program in the amount of 70 million rubles, or by more than 20% to the 2015 level.

The results of the conducted analysis allow us to conclude that during the years of market reforms in Russia the authorities have not achieved any key goals of the fiscal policy – an objective and efficient system for the distribution of revenue between levels of public authority. As a result, with the cities' decisive contribution to territorial and national economy they have minimum sources for self-development.

Figure 8. Dynamics of the expenses of budgets of the Vologda Oblast urban districts in 2007–2016, billion rubles



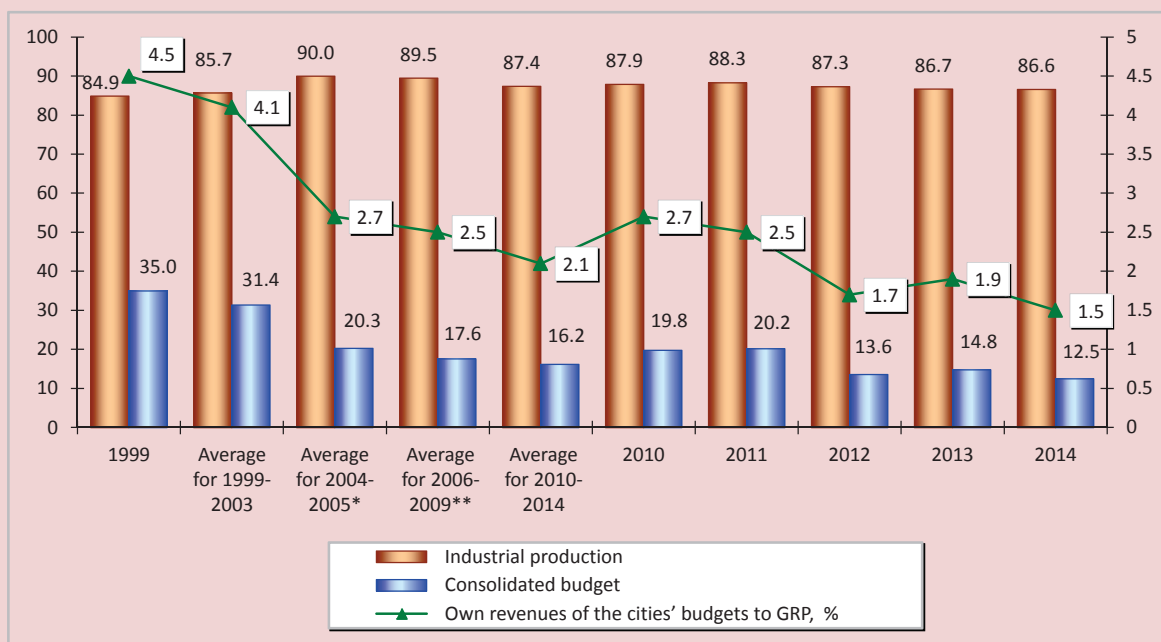
Source: data of the reports on the execution of budgets of the cities of Vologda and Cherepovets; the approved municipal budgets for 2015; the draft municipal budgets for 2016.

So, in 1999–2014 the two largest cities of the Vologda Oblast produced about 90% of industrial output on average, but their share in the consolidated budget of the region decreased from 35 to 12.5 percent. There is a clear relationship between the reform and the reduction of financial autonomy of the cities (*fig. 9*). During the years of reforms the share of municipal budgets' own revenues in gross regional product of the Vologda Oblast reduced from 4.5 to 1.5%; consequently, Vologda and Cherepovets did not receive any positive effects in terms of their budgets' revenues from the regional economy growth, mainly provided by these cities.

Surely, the lack of budgetary resources for basic needs of the population living in the municipalities of lower level increases the load on the regional budget: every year more than a third of its expenses go to local budgets as financial assistance.

You cannot deny that today many municipalities of lower level will not survive without allocation of certain cities' receipts to districts and villages. But the question is what part of the collected revenue shall be withdrawn from cities. Only in 2014 due to the insufficient amount of income tax received to the budget, the city authorities of Vologda and Cherepovets were unable to

Figure 9. Share of the urban districts in industrial production and own revenues of the Vologda Oblast consolidated budget in 1999–2014, %



\* Period of the interbudgetary reform and preparations for the local government reform.

\*\* Period of the local self-government reform.

Sources: data of the Federal Treasury; Federal State Statistics Service of the Russian Federation; the reports on the execution of budgets of the cities of Vologda and Cherepovets; the author's calculations.

assign 10 billion rubles for the solution of social problems, repair of roads, resettlement, and other issues of survival.

It seems that cities should have more than half of all revenue collected and the losses of regional budgets should be compensated by means of revising the current budget and tax policy, especially redistributing taxes in favor of RF subjects, but not the federal government.

Specific proposals in this direction have been reflected in a number of works by the representatives of expert and scientific community [2, 3, 4, 5, 13].

In our view, different approaches to inter-budgetary policy are required; they should take into account the interests of all participants of the budget process. Cities, especially administrative centers, should be legislatively singled out from the total number of municipalities because of their special relevance to the socio-economic life of regions; strategies and comprehensive plans of urban development should have sufficient and stable budgetary support. Unfortunately, the cities' current budgeting system has not yet focused on the future development of the country and its territories.

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### Information about the Author

Anna Ivanovna Povarova – Senior Research Associate, Institute of Socio-Economic Development of Territories of Russian Academy of Science (56A, Gorky Street, Vologda, 160014, Russian Federation, [anna631506@mail.ru](mailto:anna631506@mail.ru))

## Transformation of Investment and Savings Behavior of High-Income Groups during the Crisis



**Ol'ga Arkad'evna  
ALEKSANDROVA**  
Doctor of Economics, Professor  
Institute of Social and Economic Studies of Population of RAS  
32, Nakhimov Avenue, Moscow, 117218, Russian Federation  
a762@rambler.ru



**Aziza Viktorovna  
YARASHEVA**  
Doctor of Economics, Professor  
Institute of Social and Economic Studies of Population of RAS  
32, Nakhimov Avenue, Moscow, 117218, Russian Federation  
baktriana@rambler.ru

**Abstract.** On the basis of results of the study conducted in several large cities of Russia the article presents key models of investment and savings behavior of high-income groups in the unfolding crisis. It shows the impact on the choice of a particular model of respondents' views about the situation in the banking sector and the economy as a whole, determines the nature of emerging attitudes and expectations. It analyses well-to-do households' approaches to the choice of a bank and a type of deposit and their willingness to use other ways of investing, including participation in the system of voluntary pension insurance; reflects the experience of borrowing and the attitude to different credit products. Negative phenomena in the economy and the financial sector concern households, invoking parallels with the crises of 1998 and 2008 and even with the era of the 1990s. In the near future the recession is expected to worsen. The respondents, focusing on the effect of sanctions and falling oil prices, believe that it will be short. Other respondents, concerned

about the degree of de-industrialization and inefficiency of public administration, predict long economic malaise. The majority of respondents expect disturbances in the banking sector, and half of them believe that they will be wide-scale and will have a significant negative impact on the economy. As before the crisis, this income group prefers to save rather than invest, with investment in real estate or own business being the only exception. The preferred form of savings is ruble deposits in large Russian banks within the limits stipulated by the deposit insurance system.

**Key words:** economic crisis; banking system; high-income group; savings; investment; deposits; loans; retirement savings.

Both in the times of economic growth and crises the transformation of financial behavior of the population attracts attention of scientists – economists, sociologists, and psychologists. Nobel laureates in Economics G. Akerlof (2001), D. Kahneman (2002), R. Shiller (2013) received global recognition for the study of various factors influencing the formation of motives of human behavior and decision-making in the financial sphere [18; 19]. In our country the research associated with identifying dominant drivers of household saving, incentives to transform savings into investment, and a level of public confidence in the banking and overall financial system is of high scientific and practical significance [6; 8, 13]. Regular sociological studies are organized by the National Agency for Financial Studies (NAFI) [15]. For more than two decades the Institute of Socio-Economic Studies of Population of RAS (ISESP RAS) have been actively developing topical issues relating to the determinants of financial behavior of the Russians in terms of the whole country, its regions and socio-income groups [1; 2; 11]. Thus, the study of people's savings by the sample representative for Russia reveals

that 2% of very rich people concentrate the significant amount of informal savings (in rubles and foreign currency) [9]. The main problem of transforming these savings into investments is to overcome the savers' deep mistrust in sustainability of the political situation and reliability of the Russian financial and banking system.

Nowadays ISESP RAS continues such research, primarily regarding the changes in financial behavior of the Russians in terms of deepened differentiation of income of residents of different cities and regions [3; 4; 17] that directly affect the acceptance of financial decisions.

Investment and savings behavior of the population traditionally arouses scientific and practical interest, because it gives the right idea about many things: distribution of income; potential resources of lending to the economy; public trust in the banking system, national currency, stock market, pension system and, eventually, the state as a universal regulator. The analysis of internal sources of investment of the Russian economy is especially relevant due to the current situation characterized, on the one hand, by the Western sanctions

introduced in 2014, which deprived the Russian entities of the access to long-term borrowing on foreign financial markets and significantly reduced business contacts with potential foreign investors and, on the other hand, by the continuing outflow of capital abroad and the “internal outflow” of capital when rubles are converted into foreign currency. The scale of capital outflow from Russia amounts to hundreds of billions dollars (in 2014 net capital export amounted to 154.1 billion dollars, over 11 months in 2015 – 53 billion dollars [14]), and so far the discussions to introduce restrictions on cross-border capital flows support refusal from serious currency regulation. As for the appropriateness of external borrowing and hopes for foreign investment, these questions are also more than debatable. Anyway, the two-year economic history of post-Soviet Russia indicates the weak inflow of direct investment and its notable selectivity (mostly – in FEC), which does not always coincide with the interests of long-term development of the country. The build-up of external debt, even corporate, is also not very desirable: first, in terms of emerging difficulties with arrears payment to the enterprises strategically important for the country, the burden of solving problems, one way or another, is laid on the state – we have recently observed it; second, the conditions for granting loans, the foreign financial institutions provide, encourage Russian corporate borrowers to transfer their assets in foreign jurisdiction [5].

Thus, it is more adequate to calculate internal sources of lending to the economy, both from an economic and from a geopolitical point of view.

In this research investment and savings behavior of high-income groups is a study object. Obviously, this layer of society as a potential investor is of particular interest. Only a very small part of the Russians has the possibility to accumulate sufficient funds, which can be qualified as savings, due to a lack of adequate income policy. According to VCIOM, as of 4th quarter of 2014, 32% of the Russian population had savings – the ratio, characteristic of the preceding period [12]. And, apparently, the crisis phenomena, acutely manifested last year, lead to further reduction in the proportion of households able to save. So, according to the report presented by the Center for Macroeconomic Analysis at Alfa-Bank December 2015, this year the savings rate continues to decline (to 10% from 13% in 2014 and 15% in 2013) and is the lowest in a decade since 2006. Today, the saving rate is lower than during the 2009 crisis when it dropped to 13% [7]. A similar picture is drawn by experts of the National Agency for Financial Studies: according to them, about 35% of people has real savings (another 42% of the respondents has the amount of “savings” that in case of loss of earnings let them hold out a week or a month) [10].

The study into investment and savings behavior of high-income-groups of the population is implemented by the ISESP RAS

staff<sup>1</sup> by order of the State Corporation “Agency on Insurance of Contributions” in December 2014 in 8 Russian cities specified by the Customer: Voronezh, Ekaterinburg, Kazan, Krasnodar, Moscow, Nizhny Novgorod, Rostov-on-Don and Saint Petersburg. In accordance with the Agency’s method, high-income-groups include respondents with per capita household income not less than 70 thousand rubles; their bank deposit is another requirement for respondents. Given the Rosstat data, the research group “ROMIR” refers families with income equal to 30–45 thousand rubles per household member to the middle class in Moscow and 20–35 thousand rubles in Russia [16]; we can say that in our research we are talking about the representatives of the so-called “upper middle” and the social strata, occupying a higher position on the income scale.

The conduct of a series of in-depth structured interviews is selected as a method of sociological research. First, carrying out the quantitative research, as a rule, it is not possible to cover really profitable groups of the population. Let us note that in the framework of this study it is very difficult to find wealthy respondents ready to communicate on very sensitive topics regarding savings, especially in the regions. Second, the very problematic economic context (increase in the crisis phenomena in the economy and the withdrawal of banking licenses, ruble sharp devaluation in autumn 2014), demand a thorough discussion.

<sup>1</sup> Project supervisor – Doctor of Economics O.A. Aleksandrova.

The interview includes 10 sets of questions aimed at identifying the priorities and typical patterns of investment and saving behaviors of high-income groups, as well as the key determinants that shape these or other models; justification of the choice of bank and bank deposit type, availability to use other ways of investing; borrowing experience and attitudes to certain credit products; awareness of the system of voluntary pension provision and attitudes to participation in it. We also fix the socio-demographic portrait of respondents (age, sex, level and education profile, occupation and job status, marital status, presence and age of dependents). Although the qualitative research is not focused on establishing any significant correlations, however, these characteristics are very significant for the interpretation of respondents’ statements and in some cases can be approximated in a similar situation.

Almost all the respondents<sup>2</sup> aged 28–77 have higher education and their occupation is related to business, protective services, teaching, the media, work at public and private pension funds, exchange activities, etc.

The interview starts with a block of questions regarding the respondents’ assessment of socio-economic situation and forecast of its development. Obviously, it is expectations about the likelihood of realization of those or other scenarios in the country and the world, determining the planning horizons of households and forming their perceptions

<sup>2</sup> 32 respondents were interviewed, while in Moscow and Saint Petersburg the number of respondents was 8 and 5 persons, respectively. The number of respondents in each city was determined by the Customer.

of the degree of their freedom to act that determine models of investment and savings behavior to a significant extent. Taking into account the crisis phenomena observed in 2014, reflected both in the objective indicators (inflation, ruble fluctuations, decline in the prices of key export commodities; increase in the recession indicators in the real sector of the economy, etc.) and the subjective ones (pessimistic comments by the representatives of the socio-economic block of the Government and the Central Bank of the country; adverse forecasts of the Russian economy development announced in the media by international institutions (IMF, rating agencies, etc.) it is required to clarify the respondents' ideas about:

- severity of negative phenomena in the economy, their nature and continuity;
- governance structures' abilities, determining economic policies, to adequately respond to current and new challenges and keep the situation within acceptable limits;
- during the crisis probability of government's application of previously unused measures that can limit the maneuver with available savings (for example, imposition of restrictions on currency transactions and export of capital) or influence the incomes of high-yielding groups (for example, introduction of the progressive scale of personal income tax; rise in dividend tax rate; abolition of the regressive scale of contributions to social funds; strengthening of the progression in property taxation; extension of the objects falling within luxury tax, etc.);

- probability of events beyond the control like government's freezing of deposits (part of deposits), etc.

In addition to finding out how respondents qualify the socio-economic situation in the country and predict the future course of events it is also necessary to identify:

- what determines one or another vision of the situation (macroeconomic indicators and trends; situation in the industry or the company/organization of respondents; expert opinion);

- a range of information sources the respondents use to develop their own opinion. They can include people's own deductions (independent analysis of macroeconomic statistics; stock market reports; legal documents defining credit and financial, budget and tax policy of the state, etc.); information presented in the media (in this case it is reasonable to study what media sources, including Internet resources, the respondents find most objective); expert opinion (in this case, it is important to figure out what experts' estimates and projections are most authoritative for the respondents).

Another block of questions is focused on obtaining information revealing the high-income group representatives' estimation of the general state of the Russian banking system. Relying on the assumption that such assessment is based on the reflection of previous experience, estimate of the current situation and projective representations, we ask the respondents 3 groups of questions,

concerning, respectively, the evaluation of past, present, and future of the banking system.

The first two sets of questions, designed, in fact, to study the forming economic behavior of households of the institutional context, are followed by the others aimed to identify typical patterns of investment and savings behavior and consider certain aspects in detail. In particular, we try to consistently identify what the respondents mostly orientate on – current consumption or savings/investment; what strategy they use to accumulate funds – saving or investing; if investing what tools they use; what the main savings tools are, etc.

Let us focus on some important results obtained in the course of the study.

The 2014 negative events in the financial and economic sphere, particularly a sharp drop in the national currency rate and a rise in inflation, force the respondents to assess the current economic situation negatively (“bad”, “tense”, “worrisome”, “unstable”, “difficult”, etc.), albeit with varying degrees of finality and pessimism:

*“Economic situation? Cannot bad language be used? On the eve of the crisis” (marketing department head, aged 31, Voronezh);*

*“We are not at the initial stage of the crisis yet. The economic situation is very unstable” (deputy director of the non-state pension fund branch, aged 33, Rostov-on-Don);*

*“Actually, yet it is not as bad, sometimes it was even worse – for example, in the 1990s. I assess it according to my purchasing*

*power, received income, work” (individual entrepreneur, aged 38, Nizhny Novgorod);*

*“Assessing the behavior of my investors, the dynamics of macroeconomic indicators I see that the situation is quite complex, intense, with a tendency to deterioration. But not “all is lost”. There is no default, and we will not die from hunger. There are people who believe that it is a war, famine. I do not panic” (asset manager at the stock market, aged 31, Voronezh,).*

A number of respondents compare the current situation with the 1998 and 2008 crises or with the beginning – mid of the 1990s:

*“The crisis and the recession are characteristic of the country. The wage level has remained the same. Prices are growing sharply. People can no longer keep up with them. Living standards are falling again. It reminds the 1998 crisis” (chief accountant, aged 39, Krasnodar);*

*“The situation is like “the calm before the storm”. Based on my own experience – I am one of those who received education in 1992 and watched the change in the situation several times: from the card system to the free development of wild capitalism, when we started to live a little better. Now we are back to what it was 15–20 years ago. At work we can see optimization, in industries jobs are cut, the dollar exchange rate is increasing. It is not a crisis yet, but it suggests that it will be soon” (department head at the RF PF office, aged 44, Rostov-on-Don);*

*“My assessment? Crisis. I think that is the same as in 2008” (chief accountant, aged 37, Krasnodar).*

If some respondents base their estimates primarily on recent developments, such as ruble devaluation, rising inflation, and produce reasons voiced in the media (sanctions, bad oil situation, global crisis), some also consider apparent negative trends in the past year or even two years (lack of wage growth, reduction of staff at enterprises, decline in effective demand for products, etc.):

*“It is a difficult situation. I can see it at work: decline in construction, as the new housing market stalled and sales fell” (commercial director of the construction company, aged 50, Yekaterinburg);*

*“The situation can get a” satisfactory grade”, it is unstable. All the enterprises of our city are experiencing some temporary difficulties. It is very difficult to pay wages and buy goods. Turnover – all is shattered, broken. The sanctions and the war in Ukraine affected steel production, construction, and machine building” (chief accountant, aged 37, Rostov-on-Don);*

*“Our enterprise purchases 70% of the components abroad. And the ratio “ruble – dollar” does not promise anything joyful. There is inflation – we need to raise salary, for it we require customers. Due to the current financial situation there is a handful of customers. Orders are minimum: with the overall decrease in the cities’ budgets a little*

*money remains on transport” (enterprise director, aged 71, Saint Petersburg);*

*“If salaries are not raised for two years and not indexed and, on the contrary, personnel is reduced in important sectors, everything is clear” (head of the RF PF department, aged 44, Rostov-on-Don);*

*“The situation leaves much to be desired. I assess it according to the price growth and the situation in the company – the percentage of the dismissed rises” (project manager at the insurance company, aged 28, Moscow).*

The third group of respondents focuses on the inefficient type of economy (non-productive, critically dependent on external economic conditions, etc.) and the insufficient quality of public administration:

*“The country is a big gas station. And if oil becomes cheaper, we live badly. And the situation will remain the same until our wonderful leaders start thinking – about people, social policy, domestic policy, economy, and not just about foreign policy and other things” (businessman, aged 38, Nizhny Novgorod);*

*“Many factors make us look at the situation pessimistically. This is commodity dependence: the falling prices for hydrocarbons affect the economy as a whole. As such, the production is highly developed only in the military sector, in the civilian one there are a lot of gaps, so we are very dependent on what is sold” (director general of the enterprise, aged 38, Saint Petersburg).*



*“There is a complete mess in the economy. The main thing is corruption, whatever you touch upon, you come across some difficulties, the whole business is based on the transfer of something to someone” (senior broker, aged 39, Voronezh).*

*“There is something that confuses me: we mark time, we become too bureaucratic. I feel it at my work – I have no time to think, as they say, about the structure of the universe. I write reports, write application, write plans and these reports become more formalized, the essence disappears, it is meaningless work” (department head at the university, aged 65, Kazan).*

Besides the respondents' own observations of everyday reality, the main information sources about the state of Russian economy and forecasts of its development, are news programs, “RBC” channel, printed business publications and the Internet, acting as one of the most informative and credible channels. When possible, the respondents are trying to compare the information available in the Russian information space and foreign sources. In this case, the respondents try to analyze information in the aggregate, developing their own opinions and not trusting anyone's predictions. Communication with “well-informed” people is another information source for some respondents; however, the reliability of this source is limited, since, according to the respondents, a very narrow circle of people takes critical decisions in the country.

Almost all respondents expect that the year of 2015 will be characterized by serious problems in the economy associated with the decline in business activity and the general decrease in living standards. As for long term forecasts, the respondents' opinions can be divided into 2 groups. Some respondents believe that the current economic malaise will be quite short and transient and will last for 1–2 years. In their forecasts these respondents often refer to sanctions, oil prices and other factors of the provisional and voluntary character:

*“I do not see the ground for long-term problems. No matter how tough the pressure of sanctions is, there is no alternative to Russia as a source of oil and gas. There is a possibility of partial import substitution and import redirection from South America and neighboring countries” (economist, aged 30, Moscow);*

*“During the year there can be problems. In a year, unless the dollar returns to its value, wages will rise, prices will grow, but we will come to more-or-less stable state” (chief accountant, aged 37, Krasnodar);*

*“I think it will last for 2 years. And something has to be changed in the economy. Without serious changes it is not possible to recover from the crises” (manager, aged 41, Moscow);*

*“The current problems will last from several months to, in the worst options, to several years” (asset manager at the stock market, aged 31, Voronezh).*

The other respondents believe that due to the accumulated problems, particularly the degree of economy's deindustrialization, the way out with a guarantee from its return requires much more time (decades) and effort. In this group of respondents the need to seriously change the economical development vector – from the dependent on commodities to the relatively self-sufficient productive – was clearly stated. At the same time, not all the respondents from this group are sure that the governance structures will learn a lesson from the current crisis:

*“If we have enough reserves, reorient our domestic consumption fast enough, and begin to develop industry, we have some probability that there will be not much bad. And even if there are structural changes in personnel – the administrative staff is now the biggest in the entire history of the state. If adequate policies are implemented, it is possible to address the challenges, and if not – we can not be so lucky then” (director general, aged 38, Saint Petersburg).*

However, the main refrain of the speech is focused on overcoming the challenges:

*“According to Murphy's laws, if there is a forecast indicating that the situation will be bad, so it will be even worse. But “worse” does not mean that we should panic” (department head at the University, aged 65, Kazan).*

As for the state of the Russian banking system, at the time of the survey it was assessed as unsatisfactory by most respondents. In this case, the respondents consider not only

deposit terms, etc., but also evaluation of the banking system's participation in the development of the national economy and its real sector. Due to this approach, their overall assessment is largely unsatisfactory. In relation to state support of banks amid the unfolding crisis the respondents' opinions are divided exactly in half. The key claims are the following: irresponsibility of banks as a whole, systematically, and in the case of individual banks. As a result most respondents expect turmoil in the banking sector as inevitable (the majority of the respondents thinks so), or, at least, possible. In this case a fifth of the respondents believe that the negative consequences of future shocks will be moderate, allowing the banking system to handle them without serious long-term side effects, and half of the respondents that they will be ambitious and will have a significant negative impact.

Given the identified views on the economic and institutional context, wherein the high-yield households have to determine the most rational strategy for surplus funds disposal, as well as their current financial situation (more than half of the respondents' income remained at the same level in 2014), we can say that the chosen behaviors seem quite logical.

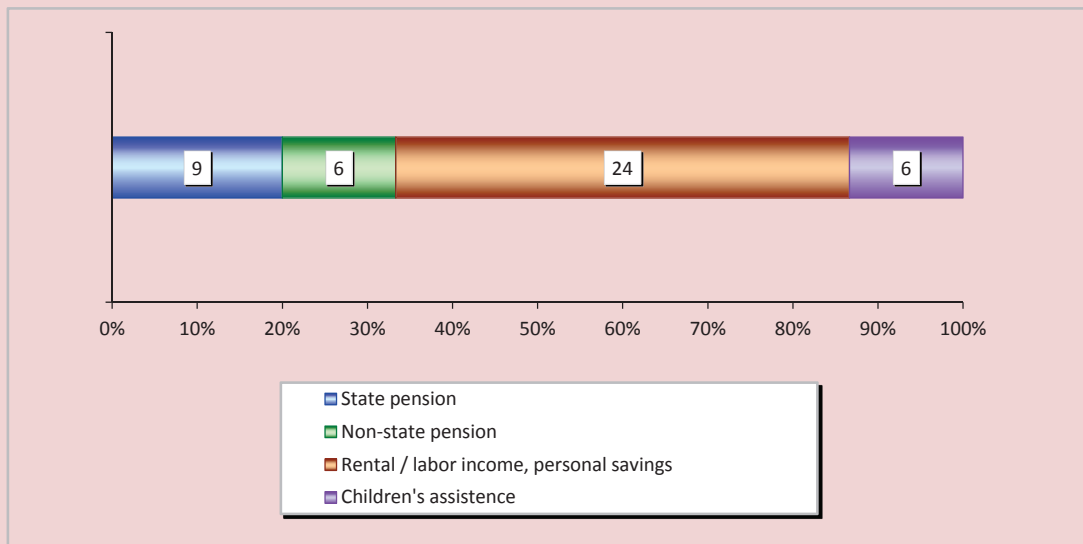
The vast majority of respondents save funds only after paying current expenses. At the same time, the saving share of monthly income varies in the range from 10 to 70%. The option “first to save and then spend” is spread among the respondents over 50 years of age, that, apparently, can be caused not by only clear

age-related conservatism, but by the absence of necessity to address the challenges young families face.

Savings trends greatly prevail over investment ones in terms of surplus funds disposal. Savings are directed on purchase of a car, payment for tuition, purchase and repair of real estate, vacations, business development, and old age security. In particular, more than half of our respondents plan to spend a significant sum of money on construction or arrangement of houses/villas, payment for the education of children, purchase of equipment for business, purchase of a car, etc. As for the objective “old age security”, a separate block is devoted to the topic of pension provision (participation in the system of private pension

insurance). Not being able to dwell upon it in detail in this article, we will mention only a few noteworthy moments. Although, in general, this population group is characterized by a more systemic approach to investment and savings behavior, the respondents demonstrate low awareness about pension provision and low level of trust in the pension system in general and the system of voluntary pension insurance in particular (*fig. 1*). Most respondents intend to rely on personal savings in old age, formed without the aid of pension funds, as well as self-organized rent and other similar sources of income. Accordingly, only a small number of the respondents make a choice in favor of one or another tool offered by any entity of the pension system.

Figure 1. How are you going to provide yourself after retirement?\*



\* Respondents can mention more than one source.

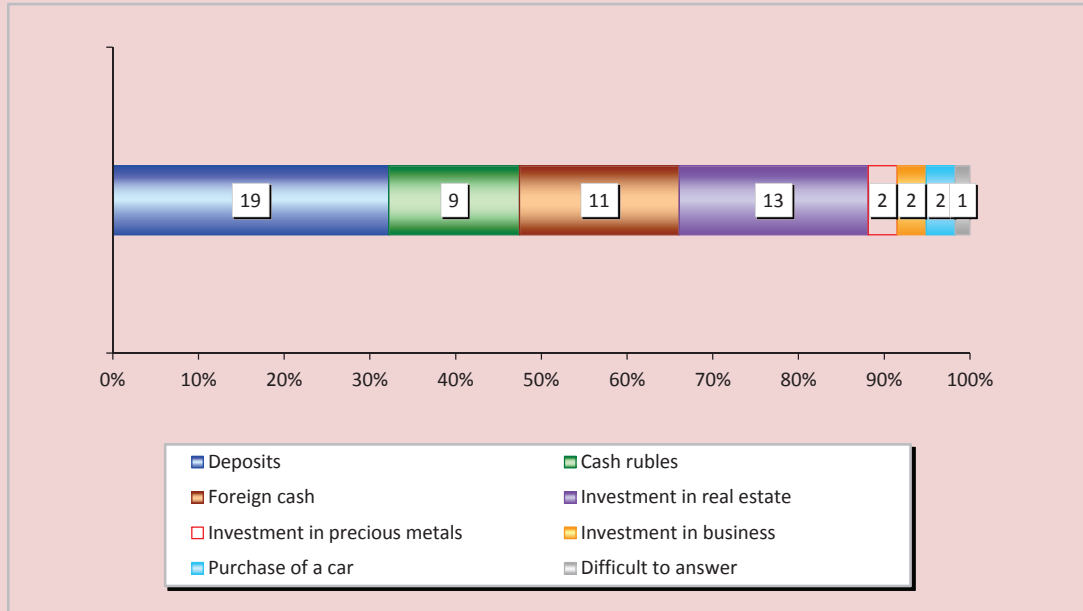
Most respondents prefer to keep their mandatory pension part at Vnesheconombank, the state bank. The apparent failures in the mandatory funded system do not concern the respondents, as they do not associate their future with the public pension system; at the same time, a number of respondents draw attention to the deliberate ephemerality of any large-scale system in the modern world.

As for investment, the vast majority of respondents prefer to use controlled tools connected mainly with investment in real estate in order to get the rental income, as well as with private business. Investment in mutual funds, stocks and bonds is mostly rejected by

the respondents, as these instruments do not meet their demands either to have the state guarantee (as in the case with a bank deposit, insured in the deposit insurance system) or to control the business personally. Investment in metal accounts is also unpopular – banks’ voluntarism in determining domestic prices for precious metals and related accounts is a negative factor here.

In general, answering a question about preferred forms of available funds use (fig. 2), more than half of the respondents mention bank deposits. The motives of this preference are the following: if not to maintain the purchasing power of savings, then at least

Figure 2. Preferred form of surplus funds disposal\*



\* Respondents can mention more than one form of savings.

minimize losses from inflation; limit the temptation to spend money (especially true for younger respondents); eliminate risks of funds loss due to theft, etc.; easily operate funds via a bank card; accumulate funds for a long time. Besides, investment in property is also popular, about a third of the respondents prefer cash rubles and foreign currency, some respondents invest in their own business.

At the time of the survey the overwhelming majority of respondents preferred to keep their savings in Russian banks. Interaction with foreign financial institutions on the background of Western sanctions and general deterioration of Russia-EU relations, in their opinion, poses serious risks; however, two respondents stress the need to diversify savings into different jurisdictions. Two-thirds of respondents express a preference for ruble-denominated deposits and the rest has deposits in foreign currency or combined deposits. In any case one-year deposits dominate.

The 2014 crisis made the respondents take certain measures to protect their savings – this was pointed out by about half of the respondents. We can identify the measures by distribution of answers to the question about most advantageous ways of investing at the present time: it is purchase of foreign currency, followed by purchase of property, opening a deposit in a Russian bank, purchase of gold and accumulation of cash rubles.

They respondents have learned the lessons of previous crises. Some respondents try to reduce risks by diversifying deposits in different currencies. The risk reduction is

primarily related to the financial institution selection – interaction with major banks with state participation is more preferred; if a deposit is opened in a smaller and less reliable bank to get greater interest rates (so does a minority of respondents), the latter should belong to the deposit insurance system and the deposit account is opened within the insured amount. A significant proportion of respondents even in case of a large and seemingly reliable bank try to open a deposit only within the sum insured, distributing remaining funds among different banks; at the same time, several respondents had the opportunity to open a deposit exceeding the sum insured, as they believed in bank's reliability (in all cases it was "Sberbank") or wanted to be a VIP-client of a particular bank.

Thus, according to the respondents, it is the introduction of the deposit insurance system that contributes to the growth of trust in the banking system (some respondents begin to show interest in the opportunities provided by smaller banks). However, they consider only the amount of insurance coverage. In this regard, the respondents agree on the need to increase the amount of insurance coverage (the survey was conducted prior to the adoption of the relevant amendment to the law). Some respondents discuss the specific amount of the sum insured and want it to be 1–3 million rubles. The other respondents insist there should be no limits at all and the state is obliged to guarantee the entire amount of a deposit. Referring to the experience of Western

countries, they state that such guarantees have significantly increased bank customers' loyalty and trust in financial institutions and the system as a whole. A number of respondents focus on the secondariness of the deposit insurance system in relation to the institute of personal responsibility of senior members of a bank and complain that no progress in this direction is observed at the legislative level.

At the same time, the poll reveals that many respondents have an information gap or very dangerous illusions. So, the majority of respondents are not aware of the terms of compensation, while in case of force majeure with the national currency (as it was, for example, after the default announcement in August 1998) this issue becomes crucial. When opening deposits, the respondents, as a rule, are not interested in the participation of credit institution in the deposit insurance system, believing that individual deposits in a certain amount are insured in any case; some respondents are confident that all banks are included in this system, the other – that banks not parties to this system have no right to attract funds of individuals. Such misconceptions can lead to placing funds at higher interest rates in small commercial banks not participating in the deposit insurance system with appropriate dire consequences.

Finally, let us briefly describe the high-income respondents' behavior in the field of lending. The respondents' experience of borrowings is primarily associated with getting a mortgage or a loan for business development. Less often the respondents take loans to buy a car and make other major purchases. They take a loan in case they do not want to withdraw funds from business or from a deposit, but not because of lack of funds. As for credit cards, the high-income groups use (for trips abroad, major purchases, etc.), the respondents perceive them not as credit but as debit with small additional amenities. In general, the representatives of this group tend either not to take loans or use bank-offered products very carefully – they use credit cards only within the grace period without paying interest.

Thus, the study identifies moods, expectations and attitudes of high-income groups in relation to the preferred models of investment and savings behavior in the crisis and their determinants. The task of the state, the respondents refer during the interview with dissatisfaction or hope to, is to begin implementing the economic policy that would let use the funds accumulated in households for creative purposes – for investment in the national economy.

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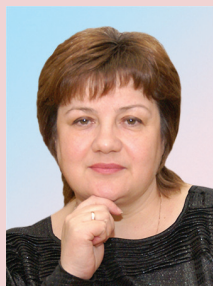
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### **Information about the Authors**

Ol'ga Arkad'evna Aleksandrova – Research Associate, Lecturer, Doctor of Economics, Institute of Social and Economic Studies of Population of RAS, Financial University under the Government of the Russian Federation (32, Nakhimov Avenue, Moscow, 117218, Russian Federation, a762@rambler.ru)

Aziza Viktorovna Yarasheva – Research Associate, Lecturer, Doctor of Economics, Professor, RAS Professor Institute of Social and Economic Studies of Population of RAS, Financial University under the Government of the Russian Federation (32, Nakhimov Avenue, Moscow, 117218, Russian Federation, baktriana@rambler.ru)

## Non-State Preschool Education: Current Practices of Territorial Development\*



**Galina Valentinovna**

**LEONIDOVA**

Ph.D. in Economics, Associate Professor

Institute of Socio-Economic Development of Territories of RAS

56A, Gorky Street, Vologda, 160014, Russian Federation

galinaleonidova@mail.ru



**Irina Ivanovna**

**SVIRELKINA**

Secondary School No. 14, Vologda

32A, Dalnaya Street, Vologda, 160024, Russian Federation

svirelkina@mail.ru

**Abstract.** The paper is concerned with the problem of preschool education in Russia and the Vologda region. It shows that in the current context of shortage of places in state nurseries it is necessary to develop private care service providers. Day-care is in great demand among parents having children aged 1–3. The article analyses the main characteristics of preschool educational organizations. It shows that in the Vologda Oblast, particularly in Vologda, private demand for preschool education service is unsatisfied to a wide extent. In Vologda more than ten thousand children are on waiting lists for preschool educational organizations. In total, in the Vologda Oblast about 28.9 thousand children are in line for admitting to a kindergarten, 34% of them are registered in Vologda. The paper provides the results of the study into Vologda private nurseries and day-care carried out in May–June 2015 by method of involved observation.

\* The study is performed under support of Russian Foundation for Humanities, project no 15-02-00482 “Socio-cultural determinants of modernization development of Russia: methods of measurement and analysis of causal dependencies (2015–2016)”.

It reveals the key factors hampering growth of private nurseries. It indicates the lack of license of educational activities and motivation of most entrepreneurs to obtain it as one of the factors. The results show that unlicensed gardens are not controlled by the authorities and public organizations. Interaction between the private institutions of pre-school education is not provided as well. We can observe that some private sector organizations do not meet the requirement of health and safety standards and impose limiting measures for the sake of children health such as organization of walks due to the absence of a secure walking site. High amount of parental fee is also found out. The article offers directions for the development of private preschool education service.

**Key words:** preschool education, accessibility, non-public area, private nursery, day-care.

Ensuring accessibility of preschool education is one of the most important tasks, which solution does not only affect the education system itself, but also the socio-economic situation in the country, contributing to the employment of families with young children, thereby increasing their welfare. The main targets of preschool education in the medium term are defined in the RF President Decree “On measures on state policy implementation in the field of education and research” No. 599 of May 7, 2012 (achievement of 100% accessibility of preschool education for children aged 3–7 to 2016) and the National strategy of actions in the interests of children for 2012–2017<sup>1</sup>. The main expected results of the Strategy realization are the following: provision of general availability of preschool education for all categories of children, increase in the flexibility and diversity of forms of pre-school services through the implementation of existing and additional forms of their financing and organization, etc.

<sup>1</sup> *O Natsional'noi strategii deistvii v interesakh detei na 2012–2017 gody: Ukaz Prezidenta RF ot 1 iyunya 2012 g. № 761* [On the National Strategy of Actions in the Interests of Children for 2012–2017: RF President Decree of June 1, 2012 No. 761]. Available at: <http://base.garant.ru/70183566/>

According to the Federal State Statistics Service of the Russian Federation, the total number of children registered in pre-school educational institutions amounted to 2.7 million people in 2013. That is by 13% more than in 2012 and by 2.8 times more than in 2005<sup>2</sup>.

However, families' requirements in pre-school education for children aged 18 months are more relevant and significant. When a child reaches this age, the payment of state benefits is terminated<sup>3</sup> and, accordingly, parents want to go to work: it is especially important for single-parent families<sup>4</sup>. However, the public sector of preschool education for children of this age does not guarantee a place in kindergarten. The task to provide the consumer market with the services, such as supervision and care for toddlers, their development and education, could be fulfilled by the private sector. The

<sup>2</sup> *Federal'naya sluzhba gosudarstvennoi statistiki* [Federal State Statistic Service of the Russian Federation]. – Available at: <http://www.gks.ru/>.

<sup>3</sup> *This is the monthly benefit (40% of the average wage) to care for a child up to 18 months.*

<sup>4</sup> Kalachikova O.N., Shabunova A.A. *Reproduktivnoe povedenie kak faktor vosproiz-vodstva naseleniya: tendentsii i perspektivy: monografiya* [Reproductive Behavior as a Factor in the Reproduction of Population: Trends and Prospects : Monograph]. Vologda : ISERT RAN, 2015. 172 p.

study of the state and problems of private enterprise development in preschool education is the purpose of this article.

All trends in preschool education of Russia in the period from 1991 to 2015 are based on the changes in socio-economic life of the country (*tab. 1*).

In 1990–2013 the number of kindergartens in Russia decreased twofold (from 88 to 43 thousand units). This happened due to baby bust, closing of kindergartens and transfer of facilities either to primary schools, or commercial structures. In the 1990s the outflow of children from pre-school facilities

was associated with financial problems as well (someone could not pay for them, someone hired a babysitter) [22, p. 18]. The analysis of the given data (*tab. 2*) shows that during the period of economic transformations in the social sphere (the 1990s – the beginning of 21st century) and in modern conditions (2010–2015) the system of preschool education experienced and continues to experience tensions.

Today, one pre-school organization in the country accounts for by 24% of children more than in 2010 (148 pupils in 2013 versus 119 in 2010) and almost by 1.5 times more than

Table 1. Features of preschool education sphere development in Russia in the post-reform period (1990-2015)

Period	Trends and features of the period
Early 1990s	Maximum number of kindergartens during this period (about 88 thousand). Pre-school education was characterized by departmental affiliation of most institutions that gave advantages in material resources, etc. The coverage of preschool services accounted for more than 66%
Mid 1990s	Massive reduction of the network of kindergartens. Four-five thousand organizations were annually closed (reformed, etc.). It mostly concerned departmental educational institutions, which were transferred to municipalities. The coverage of children by preschool educational institutions was decreased (55%) (parents were granted leave to care for a child under the age of 3, the parent fee grew)
Late 1990s – early 2000s	Gradual recovery from the crisis situation. The PEI network continues to decline, but at a slower rate (in 2002 1,100 kindergartens were closed). The coverage of children by preschool education accounted for 56%; demand of preschool institutions increased, especially groups for children under 3 years of age
2005 – 2010	In preschool education the long decline of contingents came to an end, there was a slight growth in the number of children attending kindergartens. There was a rise in the coverage of children by preschool educational institutions – 61% in 2005
2011 – 2015	Emergence of the crisis situation in provision of the child population with pre-school education establishments. In 2013 the coverage of children by preschool educational institutions amounted to 63% of the total children of appropriate age. The demand for preschool education increased dramatically due to the grown birth rate due to, on the one hand, the entry of representative of the cohort born in the 1980s into reproductive age and, on the other, the state measures (maternity capital, etc.)

Source: compiled by the authors; *Chislo doshkol'nykh obrazovatel'nykh uchrezhdenii* [Tumber of preschool educational institutions]. Available at: [http://www.gks.ru/wps/wcm/connect/rosstat\\_main/rosstat/ru/statistics/population/education/#](http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/population/education/#) (data obrashcheniya:15.10.2015).

Table 2. Number of preschool institutions in the Russian Federation and number of pupils (at the year-end)

Area	2010		2011		2012		2013	
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
Number of preschool organizations*, thousand units	26.7	18.4	26.9	18.0	26.5	17.8	25.7	17.5
	45.1		44.9		44.3		43.2	
Number of pupils in pre-school institutions, total, thousand people	4,280.6	1,107.3	4,502.4	1,158.8	4,750.6	1,232.2	5,037.1	1,310.2
	5,388.0		5,661.1		5,982.9		6,347.3	

\* Including the structural units (branches) of pre-school educational institutions.  
Source: Federal State Statistics Service of the Russian Federation.

in 1990. The number of children<sup>5</sup> per 100 pre-school places in 2013 amounted to 105 people, including 108 in cities and urban-type settlements and 93 in rural areas.

The main factor stimulating the development of private entrepreneurship in this field is the shortage of places in public kindergartens. The promotion of the non-state preschool education sector is part of the state policy in the sphere of attracting private investment in the education system. In the Annual Address to the Federal Assembly<sup>6</sup>, December 4, 2014, Russian President Vladimir Putin said: “We must eliminate discrimination of the non-governmental sector in the social sphere, remove all its barriers” [20].

Nowadays in Russia there are about 50 thousand public kindergartens and only 1200 private ones. Around 600 kindergartens are

registered as non-profit organizations<sup>7</sup>. The share of private kindergartens accounts only for 1.3% of the total number of kindergartens. Moreover, 66% of all private kindergartens are concentrated in 8 RF regions, with Moscow, the Samara Oblast and the Omsk Oblast being the leaders. According to target indicators of the “road map” (action plan) “Support of the access of non-state organizations to the provision of services in the social sphere”, prepared by the Agency for Strategic Initiatives of Russia, non-state preschool organizations are to provide children aged 12 months–7 years with education: by 2016 – 8% of children, by 2018 – 15%.

Today, according to the Minister of Education and Science Dmitry Livanov, the share of private licensed kindergartens is significantly higher than the national average (1.8%) in such RF subjects, as the Sakha (Yakutia) Republic – 4.5%, Primorsky Krai – 3.1%, Khabarovsk Krai – 3.5%, the

<sup>5</sup> *Doshkol'nye obrazovatel'nye organizatsii (na konets goda)* [Preschool educational organizations (end of year)]. Available at: [http://www.gks.ru/wps/wcm/connect/rosstat\\_main/rosstat/ru/statistics/population/education/#](http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/population/education/#) (accessed October 26, 2015).

<sup>6</sup> *Poslanie Prezidenta RF Federal'nomu Sobraniyu 4 dekabrya 2014 g.* [Address of the President of the Russian Federation to the Federal Assembly December 4, 2014]. Available at: <http://kremlin.ru>

<sup>7</sup> In Russia there will be a certificate of a preschooler, which will allow parents to send their children to a private kindergarten at state expense. Available at: [http://www.asi.ru/news/25079/?sphrase\\_id=784289](http://www.asi.ru/news/25079/?sphrase_id=784289)

Sverdlovsk Oblast – 5.5%, Yamalo-Nenets Autonomous Okrug – 6.2%, the Republic of Karelia – 4.4%, the Irkutsk Oblast – by 3.0%, Krasnoyarsk Krai – 3.0%, and Moscow – 6.3%. At the same time, there are regions that have no non-state kindergartens, such as the Kabardino-Balkar Republic, Kamchatka Krai, and the Tambov Oblast [3, 11].

The study shows that, in general, Russia has formed *the legislative basis for the functioning of non-state preschool education establishments of different types and their support on the part of federal and regional authorities*. In particular, the rights and responsibilities of individual entrepreneurs are equal to state organizations operating in the sphere of preschool education. The conditions and mechanisms of financial support and tax exemptions for private kindergartens are determined.

The functioning of non-governmental organizations of preschool education is regulated by the federal law “On education in Russian Federation” of December 29, 2012 No. 273-FZ [15].

In 2010 the federal law “On non-commercial organizations” No. 7-FZ included Article 31.1 “Support for socially oriented non-profit organizations by public authorities and bodies of local self-government” [18]. According to this article, organizations, performing activity in the field of education (including preschool), are classified as socially-oriented. It describes forms of their support ensured by the authorities of RF subjects and bodies of local self-government, such as:

- financial, property, informational, consulting support, as well as support in the

field of training, retraining, advanced training and additional professional education of employees;

- provision of privileges on payment of taxes and fees;

- placing of orders for execution of goods, performance of works, rendering of services for state and municipal needs in the procedure provided for by the federal law of July 21, 2005 No. 94-FZ;

- guaranteeing legal persons, financially supporting socially oriented non-profit organizations, exemption from taxes and duties in accordance with the law.

The Ministry of Economic Development of Russia assists small and medium enterprises in form of subsidies to the RF subjects [19] (Ministry of Economic Development Order of April 24, 2013 No. 220). The new sanitary-epidemiological requirements to preschool groups, located in apartments and private homes are approved [17, 23].

May 3, 2015 the Russian President signed the law, stipulating that private day care organizations for early childhood education are exempt from profit tax [13]. Such organizations are entitled to the zero tax rate on profit. The new rule concerns kindergartens, pre-school and after-school care groups at schools<sup>8</sup>.

Let us consider the formation of the framework for private entrepreneurship in the sphere of preschool education on the example of a specific territory (the Vologda Oblast and Vologda).

<sup>8</sup> Markelov R. *Sbory ushli v nulevku* [Fees Went to Zero]. Available at: <http://www.rg.ru/2015/05/05/detsad.html>

Table 3. Key indicators of the preschool organizations functioning in the Vologda Oblast

Indicators	Year								2014 to 2000, %
	2000	2008	2009	2010	2011	2012	2013	2014	
Number of preschool organizations	683	624	617	600	598	577	560	490	71.7
Number of pupils, thousand people	51.5	60.8	61.8	62.9	65.1	67.4	70.7	72.9	141.5
Number of children per 100 places	76	103	104	106	103	101	102	104	136.8

Sources: Detskie doshkol'nye uchrezhdeniya v Vologodskoi oblasti v 2004–2008 godakh : stat. sb. [Preschool Institutions in the Vologda Oblast in 2004–2008 : Statistics Digest]. *Vologdastat* [Territorial Body of the Federal State Statistic Service in the Vologda Oblast]. Vologda, 2009. 42 p.; Doshkol'nye obrazovatel'nye organizatsii Vologodskoi oblasti v 2010 – 2014 godakh : stat. sb. [Preschool Institutions in the Vologda Oblast in 2010–2014 : Statistics Digest]. *Vologdastat* [Territorial Body of the Federal State Statistic Service in the Vologda Oblast]. Vologda, 2015. 63 p.

Table 4. Key indicators of the preschool organizations functioning in Vologda

Indicators	Year								2014 to 2000, %
	2000	2008	2009	2010	2011	2012	2013	2014	
Number of preschool organizations	78	82	82	82	83	84	86	85	108.9
Number of places	17,047	13,856	13,978	13,698	16,740	16,968	17,430	17,649	103.5
Number of pupils	12,795	16,177	16,630	16,781	17,840	18,642	19,867	20,443	159.8
Number of children per 100 places	75	117	119	123	107	110	114	116	154.7

Sources: Data of the Federal State Statistics Service of the Russian Federation. Available at: <http://www.gks.ru/>; Detskie doshkol'nye uchrezhdeniya v Vologodskoi oblasti v 2004–2008 godakh : stat. sb. [Preschool Institutions in the Vologda Oblast in 2004–2008 : Statistics Digest]. *Vologdastat* [Territorial Body of the Federal State Statistic Service in the Vologda Oblast]. Vologda, 2009. 42 p.; Doshkol'nye obrazovatel'nye organizatsii Vologodskoi oblasti v 2010 – 2014 godakh : stat. sb. [Preschool Institutions in the Vologda Oblast in 2010–2014 : Statistics Digest]. *Vologdastat* [Territorial Body of the Federal State Statistic Service in the Vologda Oblast]. Vologda, 2015. 63 p.

In the Vologda Oblast, as in the whole country, the network of preschool educational organizations gradually reduced in 2000–2014 (*tab. 3*).

In comparison with 2000 their number decreased from 683 to 490 units, or by 28%. At the same time, the number of pupils in kindergartens rose from 51.5 thousand to 73 thousand, or by 42%. This was reflected at the demand for a pre-school place. In 2000, 100 places accounted for 76 children, in 2014 – 104. There are 261 pre-school organizations in the region, while the number of pupils exceeds the number of places. According to the 2014 data, the share of children aged 1–6 attending the Vologda Oblast kindergartens amounted to 83% of the total number of children of this age. This is significantly higher than the average

value in the Russian Federation (63.1%) and the Northwestern Federal District (76%). The enrolment rates in preschool education increased in 2012 and 2013 by 3 percentage points, despite the reduction in the number of kindergartens. There is an increase in the coverage of children under the age of 3 with preschool education: 33.1% in 2013 against 30% in 2012<sup>9</sup>.

During the study period the number of kindergartens in Vologda grew from 78 to 85 (*tab. 4*). They include 20,443 pupils. In comparison with 2000 their number increased by 7,648 people, or 60%. At the same time, the number of places in kindergartens grew

<sup>9</sup> *Informatsiya o vypolnenii plana meropriyatii ("dorozhnoi karty") za 1 polugodie 2014 goda* [Information on the implementation of the Action Plan (Road Map) for the 1st Half of 2014]. Available at: <http://depobr.gov35.ru/>

only by 3.5%: 17,047 places in 2000 against 17,649 in 2014.

Preschool education organizations of the regional center are “overloaded”, as the number of their pupils exceeds the number of places: 100 places per 116 pupils (in 2000 – 75, respectively). This overcrowding results in the deterioration of children’s health. So, in 2014 of 100% days children did not attend kindergartens 25% were missed due to illness (tab. 5).

The increasing demand for preschool education is still largely unmet. This is one of the critical social problems today. More than ten thousand young people are registered to get a place at a preschool educational organization. Compared to the previous year’s level, the queue increased by 2%, and since 2006 – by 2.8 times (tab. 6). In the Vologda Oblast 28 thousand children wait for a place in a kindergarten, of which 36% – in Vologda.

Table 5. Attendance in pre-school institutions in 2014

Territory	Total attendance, days	Missed, days	Including	
			Due to illness	For different reason
Vologda Oblast	12,748,927	4,805,048	1,218,901	3,586,147
Vologda	3,726,661	1,442,078	365,868	1,076,210

Sources: Doshkol'nye obrazovatel'nye organizatsii Vologodskoi oblasti v 2010 – 2014 godakh : stat. sb. [Preschool Institutions in the Vologda Oblast in 2010–2014 : Statistics Digest]. *Vologdastat* [Territorial Body of the Federal State Statistic Service in the Vologda Oblast]. Vologda, 2015. 63 p.

Table 6. Indicators of provision with places in preschool educational institutions of the Vologda Oblast and Vologda, people

Indicators of provision	Year									2014 to 2013, %
	2006	2007	2008	2009	2010	2011	2012	2013	2014	
<i>Vologda</i>										
Number of children registered to get a place in pre-school organizations (people)	3,640	4,264	4,872	4,851	4,994	8,044	9,084	9,828	10,054	102.2
Number of children who got a place in pre-school organizations, people	2,633	2,409	2,968	3,559	3,909	4,365	4,218	4,778	3,942	82.5
Difference, people	1,007	1,855	1,904	1,292	1,085	3,679	4,866	5,050	6,112	121.0
<i>Vologda Oblast</i>										
Number of children registered to get a place in pre-school organizations (people)	7,500	11,965	14,521	14,545	15,724	19,087	19,929	28,927	27,736	95.8
Number of children who got a place in pre-school organizations, people	-	-	12,083	13,750	14,036	14,785	15,469	17,172	16,084	93.6
Difference, people	-	-	2,438	795	1,688	4,302	4,523	11,755	11,652	99.1

Sources: Detskie doshkol'nye uchrezhdeniya v Vologodskoi oblasti v 2004–2008 godakh : stat. sb. [Preschool Institutions in the Vologda Oblast in 2004–2008 : Statistics Digest]. *Vologdastat* [Territorial Body of the Federal State Statistic Service in the Vologda Oblast]. Vologda, 2009. 42 p.; Doshkol'nye obrazovatel'nye organizatsii Vologodskoi oblasti v 2010 – 2014 godakh : stat. sb. [Preschool Institutions in the Vologda Oblast in 2010–2014 : Statistics Digest]. *Vologdastat* [Territorial Body of the Federal State Statistic Service in the Vologda Oblast]. Vologda, 2015. 63 p.



Table 7. Forecast of the number of children aged 0–3 in Vologda for 2015–2023, people\*

Age	Year									
	2014**	2015	2016	2017	2018	2019	2020	2021	2022	2023
2 years	3,947	4,308	4,240	4,190	4,147	4,110	4,087	4,076	4,063	4,041
3 years	3,826	3,946	4,307	4,239	4,189	4,145	4,108	4,086	4,075	4,061

\* It is an inertial forecast scenario, which assumes the permanence of sex-age fertility and mortality rates throughout the forecast period.  
\*\* Factual data.  
Source: compiled by the authors.

In the regional capital, according to the results of the inertial forecast for the medium term, implying the permanence of sex-age fertility and mortality rates, the number of two-year and three-year-olds will not reduce in the coming years (*tab. 7*). The peak growth of children aged 3 will be in 2016; compared to 2014 the number of this population group will increase by 13% (4,307 children). In 2023 it will be by 6% more than in 2014 (4,041 children). Nowadays (2015) we observe the peak of growth in the number of children aged 2 – which is by 9% more than in the previous year. In 2014–2023 the number of two-year old children will grow from 3,947 to 4,041, or by 2%.

The forecast data indicate that in the near future the load on the municipal network of preschool education will increase. Taking into account the growth in the number of two-year-olds and the unceasing demand for preschool education services for this category of citizens, we should emphasize that the problem of accessibility of pre-school education will remain relevant [9].

The regional authorities have recently adopted a series of documents that define measures to support the non-state sector of preschool education in the Vologda Oblast, in particular the Procedure for determining the amount and paying subsidies for the

provision of pre-school education in private educational institutions (the Vologda Oblast Government decree of March 3, 2014 No. 169). In accordance with this document, private pre-school educational institutions having the license for realization of educational activity get subsidies for salaries, purchase of textbooks, teaching AIDS, toys (with the exception of expenditure on maintenance of buildings and utilities).

In the Vologda Oblast there are 5 private organizations, having the license for realization of educational activity and guaranteeing the provision of 665 places<sup>10</sup>. In the first half of 2014, 48 individual entrepreneurs and 33 legal entities registered their activity as “Preschool education” according to the all-Russian classification.

Private entrepreneurship in the sphere of preschool education, according to the study, is more characteristic of urban areas. For example, in Vologda there are more than 40 private organizations, including licensed and unlicensed. It is difficult to identify their exact number for a number of reasons. First, the activities of such organizations are very dynamic. Individual entrepreneurs can start

<sup>10</sup> *Informatsiya o vypolnenii plana meropriyatii (“dorozhnoi karty”) za 1 polugodie 2014 goda* [Information on the implementation of the Action Plan (Road Map) for the 1st Half of 2014]. Available at: <http://depobr.gov35.ru/>

and then terminate their business without notification of tax authorities. Second, there is a share of the shadow economy. Only two organizations have licenses (“Kid” and “Sprout” with 9 branches). Other organizations are registered as individual entrepreneurs and fulfill the function of supervision and care of children. Judging by the study results<sup>11</sup>, entrepreneurs providing services of supervision and care of preschool children do not seek to obtain a license for realization of educational activity, as, according to them, “*registration is associated with the collection of a large number of documents, and this, in turn, requires a lot of time and effort*”. Licensing is considered as a major barrier among the managers of non-state child centers and mini-gardens in Moscow, according to the survey [21, p. 86], conducted by the National Research University Higher School of Economics with support of the NGO “Council for Management and Development” and the Department of Social Protection of Moscow<sup>12</sup>: “...we call it as supervision, because it is very difficult to get a license”. “To get an

educational license is very difficult. Because it is very difficult to get a fire license...”, – the managers of private kindergartens of the city of Taganrog in the Rostov Oblast claim [1, p. 102]<sup>13</sup>.

Moreover, some leaders of this business, as it became clear during the participant observation in Vologda, do not find it necessary to have a license. The licensed private kindergartens are controlled by the regional authorities. The activities of unlicensed preschools are not monitored, unless there is a formal complaint from neighbors or parents: “*There is no communication with authorities, we do not feel either control, or interest in our activities on the part of education authorities. The city government does not have sufficient information on the activities of the private sector of preschool education*”. The analysis of private institutions of preschool education shows a lack of information about the licensing procedure; thus, these organizations have certain concerns. The municipal and regional authorities interested in the private sector development should support it not only in terms of paperwork, but also provide information about existing possibilities of state support to the non-state sector of preschool education, thereby stimulating individual entrepreneurs take their business to the next level. The conclusion is shared by the HSE researchers (for example, O.B. Savinskaya [21]), who claim the need for “additional campaign that informs mini-organizations

<sup>11</sup> In the second quarter of 2015 ISEDТ, using the method of participant observation, surveyed 4 private kindergartens and 10 private organizations that provide services of supervision and care for preschool children in Vologda. The method of participant observation involves an informal collection of data, the researcher is interested in, without questionnaire, but with elements of interviews and observations of social phenomenon. The report on the results of participant observation is descriptive and does not assume any global generalizations and exact numbers. In this case, it was “the choice of nursery for a child”, the researchers acted as “parents”.

<sup>12</sup> Savinskaya O.B. Chastnyi detskii sad v Rossii: obydennye praktiki i perspektivy razvitiya [Private Kindergarten in Russia: Routine Practices and Development Prospects]. *Sotsiologicheskie issledovaniya* [Sociological Studies], 2014, no.11, pp. 83-90.

<sup>13</sup> Aleksandrova O.A., Nenakhova Yu.S. Peremeny v doshkol'nom obrazovanii: tuda li idet Rossiya? [Changes in Preschool Education: where the Right Direction Russia is Going To?]. *Narodonaselenie* [Population], 2015, no. 1, p. 102.

operating as individual entrepreneurs about new opportunities for rendering educational services without licensing, stipulated in the new law “On education in the Russian Federation”<sup>14</sup>. O.B. Savinskaya also calls to work out a simplified licensing system for organizations that operate as NGOs and provide educational services [21, p. 87].

Nowadays the effective work is impossible without long-term collaboration, combining resources to achieve concrete results and distributing responsibilities and risks between private and public partners. The licensed private kindergartens “Sprout” and “Kid” demonstrate good examples of effective collaboration. “Sprout” got a license in July 2013. At first, the organization consisted of 3 branches, today it is a network of 9 kindergartens located in different districts of Vologda. The rapid development of “Sprout” is influenced by the cooperation with OJSC “Vologda Region Development Corporation” that from the very beginning of the kindergarten functioning stimulates its growth by providing informational, legal and methodological support.

The private kindergarten “Kid” received a license in February 2015. It was created with the assistance of the private educational institution of additional education “Center “Ego” and with the support of the Department of Psychology and Pedagogics of the Vologda State University.

<sup>14</sup> Savinskaya O.B. Chastnyi detskii sad v Rossii: obyden-nye praktiki i perspektivy razvitiya [Private Kindergarten in Russia: Routine Practices and Development Prospects]. *Sotsiologicheskie issledovaniya* [Sociological Studies], 2014, no. 11, p. 87.

The child’s stay in a licensed private kindergarten costs approximately 9 thousand rubles a month. One of the surveyed kindergartens has a system of discounts for early payment for some (2 to 12) months. In the period of child’s adaptation to a kindergarten (1–2 months) parents pay by 2 thousand rubles less.

According to the Russian legislation<sup>15</sup>, citizens whose children attend kindergartens are entitled to compensation. It is return of parent fees paid for attendance at kindergarten. The amount of compensation is fixed in the normative legal acts of RF subjects, but it is not be less than [15]:

- 20% of the average size of parent payment for supervision and care of children in state and municipal pre-school educational organizations located on the territory of the corresponding RF subject, for the first child;
- 50% of such payment for the second child;
- 70% of such payment for the third child and subsequent children.

The resolution of the Vologda Oblast Government<sup>16</sup> stipulates the average size of

<sup>15</sup> Ob obrazovanii v Rossiiskoi Federatsii : Federal’nyi zakon ot 29 dekabrya 2012 g. № 273-FZ, ch.5 st. 65 [On Education in the Russian Federation : Federal Law of December 29, 2012 No. 273-FZ, part 5 article 65]. *Konsul’tantPlyus* [ConsultantPlus].

<sup>16</sup> Ob ustanovlenii srednego razmera roditel’skoi platy za prismostr i ukhod za det’mi v munitsipal’nykh obrazovatel’nykh organizatsiyakh, realizuyushchikh obrazovatel’nyu programm doshkol’nogo obrazovaniya: Postanovlenie Pravitel’stva Vologodskoi oblasti ot 11 noyabrya 2013 g. №1155 [On Establishment of the Average Size of Parental Fee for Supervision and Care for Children in Municipal Educational Institutions that Implement Educational Program of Preschool Education: Vologda Oblast Government Decree of November 11, 2013 No. 1155]. *Konsul’tantPlyus* [ConsultantPlus].

parent payment for supervision and care of children in state and municipal pre-school educational organizations – 1,450 rubles. In this regard, the calculation of compensation of part of parental fee to parents of a child attending a licensed private kindergarten is based on the size of this amount. Until recently compulsory tax amounting to 13% (PIT) has been levied. However, since January 1, 2015 on the initiative of Vologda Oblast deputies this tax has not been collected and, therefore, the amount of returned payment has increased. Moreover, parents are eligible to social tax deduction in the amount that they have paid for education of their child in kindergarten as long as the organization has a license<sup>17</sup>.

The cost of services provided by unlicensed private kindergartens varies from 8,000 to 13,000 rubles per month. On average the parental fee amounts to 10,230 rubles, which is by 14% higher than in licensed kindergartens. Of 10 unlicensed private kindergartens 3 organizations have fees above average and 3 – below. In most cases there are no specific relations between the cost of services in unlicensed private kindergartens, their location in the city, conditions of placement, facilities, and the number of teachers and children. In the process of pricing some heads do not rely on certain rules of the market and set their fees on the basis of purely personal interests, ambitions, level of aspiration, and social positioning of their business. Some heads of unlicensed private gardens are focused exclusively on families

with income above average. In some cases the higher cost is justified: scenic area, 3 teachers and 1 junior teacher for a group, 5 meals, modern toys and educational games, weekly inspection by a pediatrician, surveillance cameras. However, some kindergartens set the fees, not corresponding to the quality of services provided, relying on stable demand for places in preschool educational institutions in the city. Currently in the regional capital the private sector of licensed kindergartens provides approximately 165 places, but more than 10 thousand kids are in line for admitting to municipal kindergartens. A simple mathematical calculation can show that there is sufficient demand for child care services rendered by individual entrepreneurs.

Thus, the non-state sector of educational services in the sphere of preschool education is forming in the municipal education system. Its appearance is associated with a significant shortage of places in kindergartens for children up to 3 years. Private kindergartens are more flexible and can better respond to the needs of children and their parents, thereby eliminating the problem of preschool education availability. However, their development is hampered by several factors [14]:

1. Absence of a license for educational activity and motivation of most individual entrepreneurs to receive one.
2. Lack of control over unlicensed gardens on the part of authorities and public organizations.
3. Lack of interaction among private kindergartens.
4. High amount of parent fees.

<sup>17</sup> In accordance with Subparagraph 2 Paragraph 1 Article 219 of the RF Tax Code approved by federal law of July 31, 1998 No. 146-FZ (amended June 8, 2015).

Despite the demand for private institutions, their capacity is not revealed enough today.

Effective development of public-private partnership in this sphere requires, on the one hand, reduced administrative burden on private business in the social sphere [1, 4, 21] and, on the other, strong supervision of the non-state sector of preschool education on the part of regional authorities. It is necessary to define indicative percentage shares of the non-state sector of preschool education in strategic programs, sub-programs of socio-economic development of territories, and road maps.

The problem to motivate individual entrepreneurs to get a license for supervision and

care of children can be solved if the calculation of pensions of non-state organization employees will include pedagogical experience. It possible to back private business in preschool education by creating consulting centers that provide legal services to private entrepreneurs in the sphere of educational activity and considering this sphere during negotiations between the authorities and entrepreneurs, including business rights commissioners (business-ombudsmen).

The implementation of these measures will help rise the share of the non-state sector in preschool education and ensure meeting the targets of the “road map” to improve the efficiency of education.

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### Information about the Authors

Galina Valentinovna Leonidova – Ph.D. in Economics, Associate Professor, Institute of Socio-Economic Development of Territories of RAS (56A, Gorky Street, Vologda, 160014, Russian Federation, [galinaleonidova@mail.ru](mailto:galinaleonidova@mail.ru))

Irina Ivanovna Svirelkina – Secondary School No. 14, Vologda (32A, Dalnaya Street, Vologda, 160024, Russian Federation, [svirelkina@mail.ru](mailto:svirelkina@mail.ru))



# BRANCH-WISE ECONOMY

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## Strengthening the Tourism Appeal of Russian Territories: Current Trends and Management Practices



**Elena Viktorovna  
FROLOVA**

Doctor of Sociology, Associate Professor  
Russian State Social University  
4, building 3, Wilhelm Pieck Street, Moscow, 129226, Russian Federation  
FrolovaEV@rgsu.net



**Elena Evgen'evna  
KABANOVA**

Graduate Student  
Russian State Social University  
4, building 3, Wilhelm Pieck Street, Moscow, 129226, Russian Federation  
KabanovaEE@rgsu.net

**Abstract.** The article is devoted to an acute issue of regional governance – the development of tourism appeal of Russian territories. The article discusses the concept of “tourism appeal”, substantiates the author’s viewpoint in relation to its content. The research methods by the author include document analysis and the sociological survey of experts (heads of local authorities). Statistical and sociological data served as the basis for determining the specifics and problems of tourism development in the Russian Federation reflected in the objective and subjective indicators of tourism infrastructure performance. The article determines the malfunctions of modern management practices in tourism development in the Russian Federation; it also reveals the main problems related to the implementation of program-target management methods in modern government and regional policy. The authors make a conclusion that the implementation of program-target methods of development of the tourism appeal of territories is associated with a number of drawbacks that limit their effectiveness; they distinguish the following main problems that emerge in

the implementation of the federal target program “Development of domestic and inbound tourism in the Russian Federation (2011–2018)”: financial risks; the declarative principle of selection of regions for participation in the federal target program; focus on the achievement of economic indicators – these problems make it difficult to assess the long-term prospects of aspects of tourism appeal such as the creation and/or development of unique tourist attractions, the image of a territory, high threshold values of co-financing of expenditure obligations to implement the programs for regional budgets. The article highlights the main constraints for tourism development in the Russian Federation on the basis of the comparative analysis of results of surveys of residents and experts. The authors justify the need for a transition from the government policy of direct intervention to the model of indirect regulation of tourism development. The article defines the main directions for modernization of the interaction between the federal, regional and local authorities for the purpose of effective development of tourism appeal of Russia.

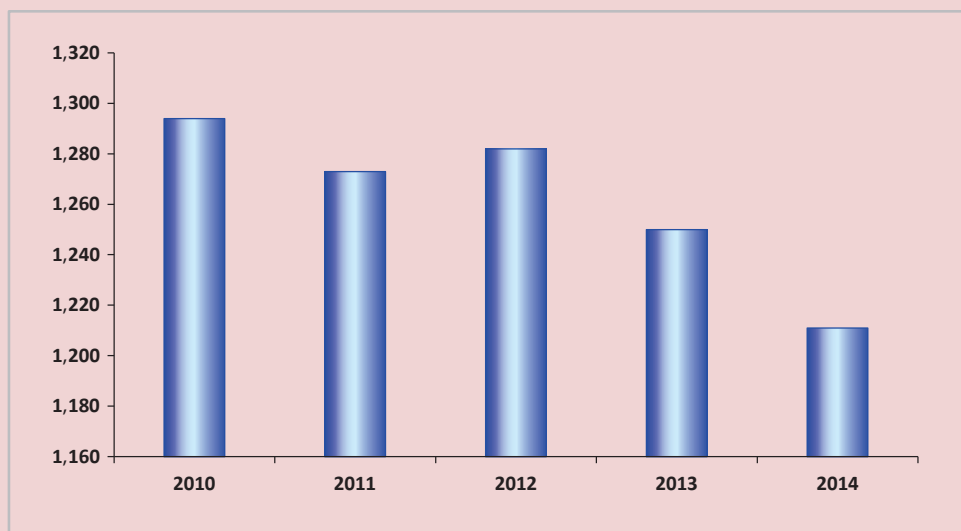
**Key words:** tourism, tourism appeal, tourist potential, management practices, management system, local governments, program-target method.

**Introduction.** Tourism in modern conditions is one of the most dynamic and lucrative sectors of the economy, providing an influx of investment, new job and strengthening small and medium-sized businesses. At the same time, tourism fulfils social functions, such as creation of conditions to realize people’s needs in rest, and familiarization with historical and cultural values, history, religion, and traditions [15, p. 3]. The analysis of recent trends in the tourism industry development in Russia leads to the conclusion that by some indicators there was an increase in the number of tourist infrastructure objects. Thus, according to the Federal State Statistics Service of the Russian Federation, the number of hotels and similar accommodation facilities grew 1.5-fold (6,774 in 2008 and 9,855 in 2013) [20]. However, according to the results of sociological research, the level of Russia’s tourist attractiveness in the estimates of population is quite low.

Experts note ‘the decline in efficiency of tourism functioning in all, even advanced, regions of the Russian Federation, which necessitates the search for new anti-crisis models of tourism organization’ [12, p. 4]. The key factors hindering the promotion of tourism in Russia are still undeveloped tourist infrastructure, slow pace of development and improvement of its main elements: transport system, accommodation facilities and food, as well as quality and price of services provided [11, p. 3]. The Federal State Statistics Service of the Russian Federation records the negative dynamics of changes in the number of tourist infrastructure objects, such as holiday centers and boarding houses with treatment (*fig. 1*) [20].

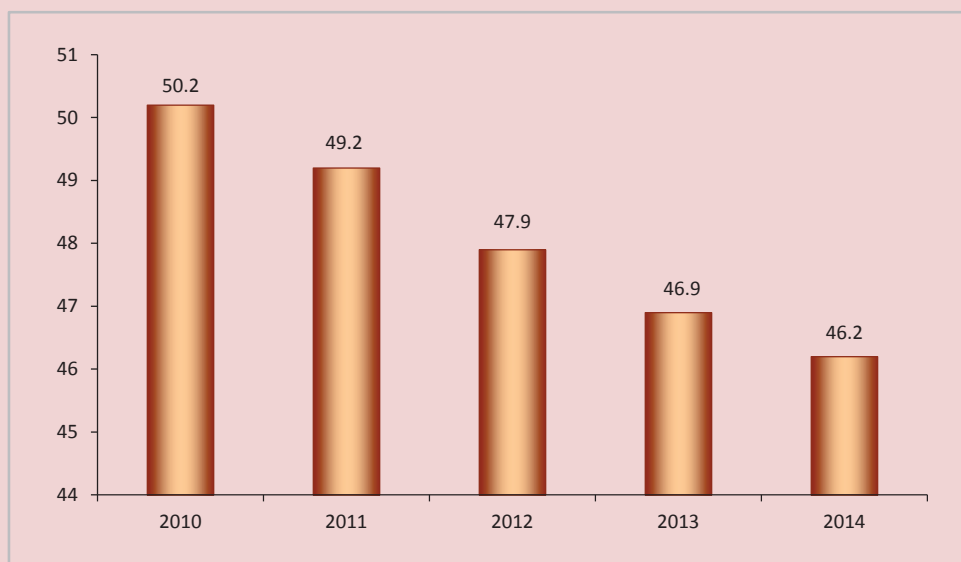
The indicators characterizing the development of tourist infrastructure for children seem rather pessimistic. Thus, the number of children’s health institutions decreased by 10% over the last 5 years (*fig. 2*) [20].

Figure 1. Dynamics of changes in the number of holiday centers and boarding houses with treatment



Source: Sotsial'no-ekonomicheskie pokazateli Rossiiskoi Federatsii v 1991– 2014 gg. Kul'tura, otdykh i turizm [Socio-Economic Indicators of the Russian Federation in 1991–2014. Culture, Recreation and Tourism]. *Federal'naya sluzhba gosudarstvennoi statistiki* [Federal State Statistics Service]. Available at: [http://www.gks.ru/bgd/regl/b15\\_13\\_p/Main.htm](http://www.gks.ru/bgd/regl/b15_13_p/Main.htm)

Figure 2. Number of children's health institutions, thousand



Source: Sotsial'no-ekonomicheskie pokazateli Rossiiskoi Federatsii v 1991– 2014 gg. Kul'tura, otdykh i turizm [Socio-Economic Indicators of the Russian Federation in 1991–2014. Culture, Recreation and Tourism]. *Federal'naya sluzhba gosudarstvennoi statistiki* [Federal State Statistics Service]. Available at: [http://www.gks.ru/bgd/regl/b15\\_13\\_p/Main.htm](http://www.gks.ru/bgd/regl/b15_13_p/Main.htm)

These trends severely hinder the development of tourism in our country and reduce the level of competition in the industry. For the last 4 years the number of objects of tourist infrastructure of economy class decreased by 10%, particularly resorts and campsites (1,687 in 2010 and 1,515 in 2014). The rapid decline in the number of institutions of cultural and leisure type is particularly alarming – by 5 thousand units in recent years, and since 2003 – by more than 10 thousand [20]. Thus, this problem is relevant due to the contradiction between the high socio-economic importance of tourism and the insufficient level of its development in modern Russian conditions.

**Methodology and method.** The theoretical issues and the analysis of conceptual framework of the functioning and promotion of tourism and tourist infrastructure are reflected in the works of such scientists, as A.Yu. Aleksandrova [1], M.B. Birzhakov [3], A.V. Velichkina [5], I.V. Zorin, V.A. Kvartal'nov [13], A.I. Shishkin [26], H. Godfrey [8], B. Dellaert, Arentze T., O. Horeni [28], H. Hilman, N. Kaliappen [29], M. Landauer, W. Haider, and U. Pröbstl-Haider [30]. The analysis of regional aspects of tourism development and characteristics of tourist activity is conducted by S.V. Dusenko [10], L.A. Golubchikova [9], S.E. Shcheglov [27], and A.S. Kuskov [16]. However, the mentioned works pay insufficient attention to the analysis of activity of the subject who manages tourism development processes and directions to

optimize of interaction of federal, regional and local authorities. A significant number of recent works are dedicated to territories' tourist attractiveness and its formation factors [4; 6; 19]. These studies present an analysis of socio-economic, marketing strategies of tourism development. But, in our opinion, the elaboration of recommendations on the enhancement of Russian regions' tourist attractiveness should be based on the analysis of existing management practices, their resource provision and most significant constraints. In this context, it is interesting to consider results of the survey of population, as well as heads of local authorities directly involved in the development of tourism industry of the municipality and the decision of problems of the tourist infrastructure functioning.

The analysis of scientific publications in terms of tourism development leads to the conclusion that a number of works quote the concepts “tourist attractiveness” and “tourist potential”. Let us note that, in our opinion, tourist potential is only a precondition for tourist activity organization, including components, such as objects of historical, socio-cultural heritage, natural resources, while tourist attraction is already a result of relevant activities to improve tourist potential and create appropriate tourist infrastructure. Tourist attractiveness is a characteristic of the territory, reflecting the demand for territorial tourist services and the related level of tourist needs satisfaction [14, p. 17].

This article analyzes the problems to form and develop tourist attractiveness of Russian regions, the major activities of the federal, regional and local authorities in this sphere, the constraints and prospects of tourism development in modern conditions. The information base of research is the following: federal and regional normative legal acts, statistical data, information and analytical materials of federal, regional and local authorities. The paper also uses the results of the study “Development of tourism and cultural potential of municipal entities of the Russian Federation”. The research was conducted in February–May 2015 by means of questionnaires distributed via the Internet by the All-Russian Council of Local Self-Government (with the authors’ participation). The sample included 514 experts (heads of the local authorities of RF municipal formations). The work was aimed at analyzing the resources and constraints in the formation and development of tourist attractiveness of the RF municipalities. The sampling was multi-level, territorial, and casual. At the first stage 76 RF subjects were identified as selection units. The list of municipalities was taken as a sampling frame at the second stage. The sample of municipalities by federal districts reproduced the structure of general population in proportion to the number of municipalities in the district.

To analyze the population’s estimates we used the results of the research conducted by the Russian Public Opinion Research Center (VCIOM) and the Fund “Public Opinion” (FOM).

**Results.** At the federal level the authorities’ activities in terms of tourism development are focused on the implementation of program-target methods. The federal target program “Development of domestic and inbound tourism in the Russian Federation (2011–2018)” (hereinafter – the Program) is considered as the main tool. The quantitative certainty of the set target indicators is clearly stated: for example, 1.9-fold growth of investment in fixed capital; 1.5-fold increase in the number of Russian citizens placed in collective accommodation facilities; 4.7-fold rise in the volume of paid tourist services, provided to population and 4.3-fold increase in the volume of paid services of hotels and similar accommodation (compared with 2010) [21].

According to the analysis, the effectiveness of the Program is measured primarily through the indicators of tourist infrastructure development (growth of fixed capital investment in accommodation facilities, increase in the number of workers in collective accommodation facilities and tourist companies). At the same time, the indicators describing the development of tourist potential of the territory (modernization and reconstruction of cultural and historical sites, restoration and conservation of natural and recreational potential, construction and improvement of leisure facilities) are not stipulated in the Program. However, the creation of a network of competitive tourist clusters (stated as a Program goal) involves the development of appropriate infrastructure and tourist attraction objects, forming

the basis for tourist attractiveness of the territory. Let us also note that the evaluation of the Program effectiveness includes, primarily, economic indicators, such as growth in the volume of paid tourist services and rise in the number of Russian and foreign citizens, placed in hotels and places for temporary accommodation. In our opinion, the assessment of efficiency of the competitive tourist market formation in the country should not be limited to the features of the paid tourist services. It is more significant to estimate activities, such as creation and/or development of unique objects of tourist attraction, preservation and actualization of historical and cultural heritage objects, innovative ideas, development of event tourism, and modernization of practices to realize tourist products in the sphere of folklore, folk crafts, and local initiatives. The competitiveness of regional tourist products is composed of the characteristics of functioning of both objects of tourist infrastructure and objects of tourist potential of recreational and cultural orientation.

The Program pays insufficient attention to the indicators of information provision of tourist attractiveness development. The functioning of relevant regional information and travel portals is the most effective factor in the promotion of territorial tourist products to international and domestic markets, ensures the presentation of cultural, historical and recreational potential, advertising and sale of tourist products and services. In our view, the growth in the number of regional tourist information portals is one of the priorities in

modern conditions, and, accordingly, this indicator (given its clear quantitative certainty) can be considered in the elaboration of final results of the Program realization.

In the framework of financial provision of the Program activities we can single out a specific problem, such as established thresholds for programs co-financing on the part of regions. Most regions get subsidies. So, in terms of the measures to boost domestic and inbound tourism the level of co-financing of RF subject's expenditure commitments can not be lower than 5% [21].

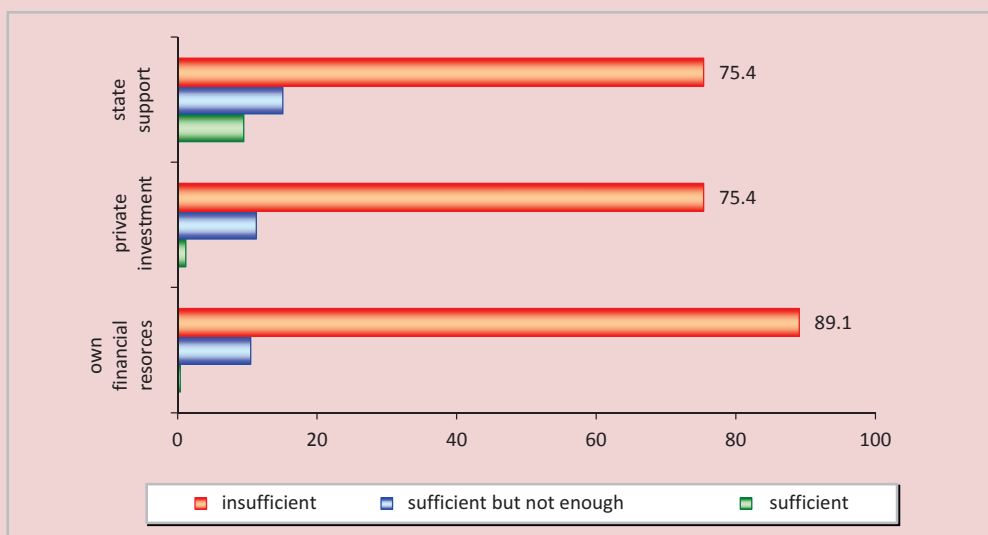
The application-based principle of selecting regional projects for participation in the federal target program also hinders effective implementation of the Program. In this context, we can consider not so much tourist potential of the territory, as initiative of the RF subject's authorities and its economic opportunities to participate in co-financing as the decisive factor in raising funds for regional projects of tourism promotion. This limits the selection of regions that, in fact, have unique tourist-recreational resources and potential to increase domestic and foreign demand for tourist services. In order to improve the efficiency of state support of tourism development it is appropriate to take measures, such as monitoring Russian regions' tourist and recreational potential, making comparative rankings of regions in terms of both real and potential competitiveness of rendered tourist services, and promoting territorial tourist products. Let us note that in 2011–2014 the key Program activities include “monitoring of the availability, level of

development and availability of regional tourist and recreational resources”. However, due to a lack of the generally accepted methodology of system evaluation of these indicators it is very difficult to obtain relevant and objective information. In our opinion, the monitoring of RF subjects’ tourist and recreational potential should result in public information, objective ratings of regional tourist resources. In order to ensure the maximum transparency of the procedures of making these ratings, consider both quantitative and qualitative indicators it is reasonable to use the methods of expert evaluation, social studies, taking into account tourist preferences of potential service consumers.

The instability of budgetary financing of the Program activities is one of the most significant economic risks in its implemen-

tation. So, the total amount of funding of the federal target program “Development of domestic and inbound tourism in the Russian Federation (2011–2018)” was reduced by 2.4 times in comparison with the originally planned estimates (from 332 billion rubles to 139.5 billion rubles). The co-financing was decreased at the expense of the regions, local budgets and extra-budgetary sources of financing, primarily, due to certain problems in the Russian economy [7]. According to the survey of experts, heads of local authorities, the financial constraints reduce the effectiveness of management activities to the greatest extent (*fig. 3*). Evaluating resources for the development of tourist attractiveness of the municipality, 89.1% of the experts note the shortage of financial resources.

Figure 3. Resource assessment of municipalities’ tourist attractiveness, according to the survey of experts, %



In addition, the regional reports on the 2014 results illustrate the problem of a long process of approval and adoption of budget allocations and receipt of funds. In some cases, the given federal revenues went into the regional budget very late (December 2014). As a result, the funds could not be utilized and were returned to the federal budget.

Thus, the main problems of realization of the federal target program to develop domestic and inbound tourism are the following:

- focus on the achievement of economic indicators, which do not take into account the strategic perspectives of tourist attraction aspects, such as creation and/or promotion of unique objects of tourist attraction, image of the territory;

- priority of the purposes to enhance tourist infrastructure, lack of indicators characterizing the level of development of the territory's tourist potential;

- lack of indicators providing information on tourism development (for example, number of regional information-travel portals);

- high threshold of co-financing of expenditure obligations to implement programs for regional budgets;

- application principle to select regions for participation in the federal target program;

- long process of negotiation and financing – the complex hierarchical funding system causes a significant loss of time and a high level of risks in the process of planned activities implementation;

- financial risks of financing the Program in the unstable socio-economic conditions;

- limited opportunities for adjusting programs; the provision of conditions for adjusting program objectives and activities seems necessary, given the programs' variable nature and the appearance of additional possibilities and resource constraints;

- absence of the effective system to evaluate and monitor the implementation of programs, low level of public participation in their elaboration and the process of control over funds expenditure.

**Key trends and problems of development of tourist attractiveness of Russian territories.**

The identified dysfunctions in the implementation of program-target methods result in the low achievement of stated results, the cost overrun in the measures realization and, moreover, the inflated volume of attracted federal funds.

The city of Sochi in Krasnodar Krai is a bright example of this practice. When preparing for the 2014 Winter Olympics the Program's budget was initially estimated at 327 billion rubles, but the total costs exceeded the stated estimates by five times and amounted to 1.5 trillion rubles. The implementation of the infrastructure project (roads, bridges, tunnels, hotel facilities, train stations, sea port, etc.) required 1.3 trillion rubles, of which 400 billion rubles from the federal budget and 900 billion rubles of attracted investments [18]. The infrastructure upgrade enables the city to develop the possibilities of summer vacation,

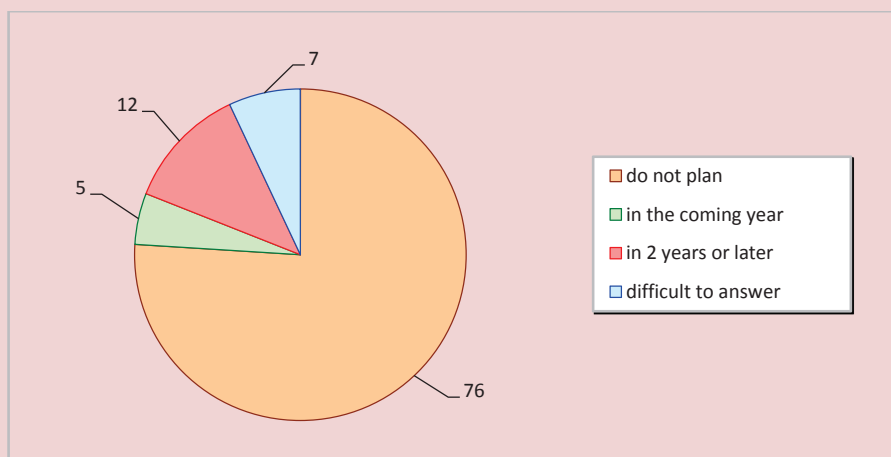


open new ski runs and expand the therapeutic profile of the treatment cluster, helping Sochi to withdraw completely from the seasonality factor and become a multi-functional resort. However, the complex of activities does lead to a higher volume of tourist flow, primarily due to the high cost of provided tourist services [25]. These findings are confirmed by the sociological research. Judging by the survey results (1,600 people were polled in March 2014), the vast majority of Russians (76%) do not plan tourist trips to Sochi (fig. 4) [2].

Despite the wide information support and coverage of the Winter Olympics, the level of tourist attractiveness of Sochi is quite low: for example, 41% of the respondents are not eager to visit this resort after the 2014 Olympics. More than half of the respondents (53%) do not recommend recreation in Sochi due to its high cost [2].

Overall, the insufficient level of tourist attractiveness of Russian territories is confirmed by the results of opinion polls. So, according to VCIOM (1,600 people were surveyed in June 2011), answering the question “What country would you like to visit?” 20% chose the option “France”, 19% – “Italy”, 12% – “Germany”, “Turkey”, 11% – “Egypt”, and 10% – “Spain”. Russia was at the bottom of the ranking of most attractive travel destinations [2]. According to FOM (1,500 people were polled in June 2011), 39% of the Russians have never traveled around Russia. 68% of the respondents do not intend to have a rest in any Russian regions in the coming year [22]. Let us note that the economic crisis, currency fluctuations, the unstable foreign policy situation make the Russians change their travel plans somehow. At the end of the 2015 summer holidays,

Figure 4. Distribution of answers to the question: “Are you going to go to Sochi or not?”, %



Source: VCIOM base data. Available at: [http://wciom.ru/zh/print\\_q.php?s\\_id=953&q\\_id=65433&date=16.03.2014](http://wciom.ru/zh/print_q.php?s_id=953&q_id=65433&date=16.03.2014)

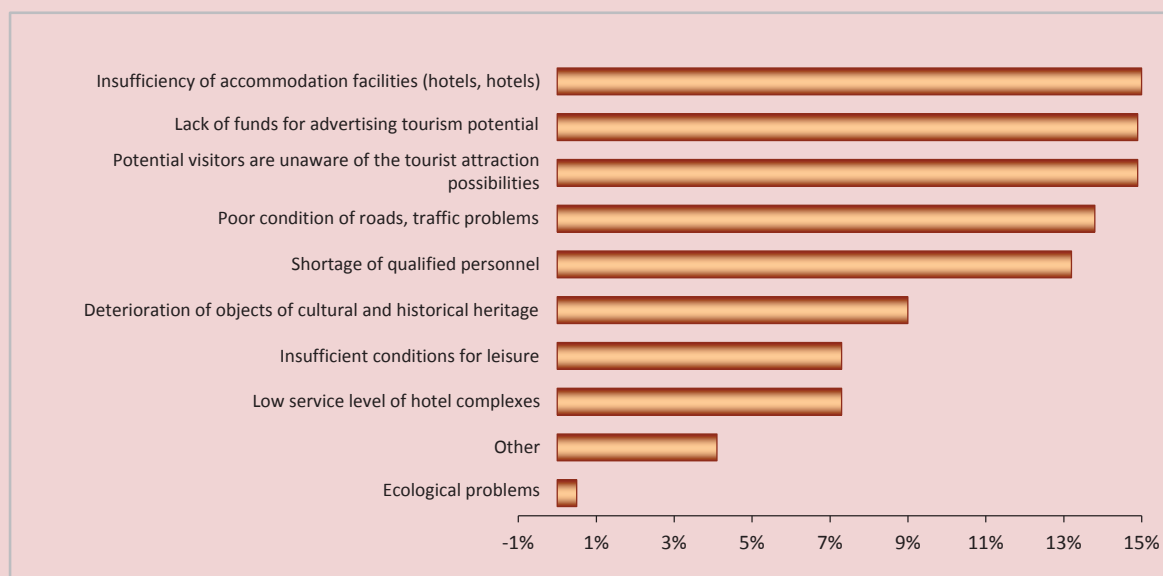
according to the surveys, there was a decrease in the percentage of respondents vacationing abroad. Meanwhile, domestic travel became more popular, particularly to the resorts of Krasnodar Krai and the Crimea. In addition, according to the VTCIOM poll (conducted in 2015 after announcing a ban on flights to Egypt), two-thirds of the Russians (67%) mention that the Russian authorities should focus their efforts on the improvement of domestic tourism, but not on the safety of foreign travel [2].

According to the August 2013 survey (FOM polled 1,500 respondents), the low public awareness of tourist opportunities, the Russian regions have, hinders the development of domestic tourism. So,

almost every third inhabitant of the country can not name the main attraction of the Russian Federation. Eight percent of the respondents believe that in Russia there are no places they would like to visit; one in five (22%) find it difficult to answer the question [22].

The obtained results are confirmed by the expert survey data. So, the local authorities consider the insufficient level of information and advertising support of local tourist potential as a key obstacle in the enhancement of tourist potential of the area (the experts identify 2 problems: potential consumers' ignorance of the opportunities of tourist attraction in the municipality and lack of funds for advertising) (*fig. 5*).

Figure 5. Distribution of answers to the question: "Please, identify the main problems that hinder the development of tourist potential in your municipality", %



The insufficient level of tourist infrastructure development and the disparity of price and quality of services provided also hamper the development of Russian regions' tourist attractiveness. The regular surveys conducted by the all-Russian sociological services help identify the unsatisfactory state of infrastructure in the Russian territories, its non-compliance with people's needs and the presence of so-called territorial inequality, namely unequal access to certain social goods and services for people of various regions and types of settlements [23].

In modern conditions for the majority of municipalities the infrastructure problems are a major cause of declining competitiveness on the tourist market. The statistical data are confirmed by the expert survey results. More than half of the surveyed local authorities (51.8%) indicate the insufficient number of accommodation facilities (hotels, hostels). In addition, the experts give very low estimates of accommodation quality in hotel complexes on the territory of municipal formations.

**Discussion.** Thus, although the federal government allocates substantial funding, the level of tourist attractiveness of Russian regions is quite low. The analysis of modern trends in domestic tourism development in the Russian Federation allows us to single out most critical problems: deficit of local budgets, lack of funds for advertising Russian regions' tourist potential, people's low awareness about tourist opportunities in Russian municipalities, infrastructure problems, and mismatch ratio of price and tourist services quality.

At the same time, a number of problems in the implementation of the federal target program "Development of domestic and inbound tourism in the Russian Federation" significantly downgrade the level of Russia's tourist attractiveness. The concentration of financial and economic mechanisms and control power at the federal level negatively affects the organizational activity parameters in this field. In our opinion, it is possible to solve the problem by enhancing the interaction of federal, regional and local authorities. The activities of federal administrative bodies should be, primarily, aimed at creating the motivation system, ensuring the high efficiency of management practices to boost tourism at the regional and local level. Effective tourism development should be a priority of local authorities; they have a greater number of opportunities for assessment of tourist potential, identification of problems in the tourist industry, rapid response, monitoring of funds utilization, and attraction of private investors. Local authorities are closest to economic entities, have greater abilities to develop innovative and unique ideas in a particular area, interact with the public, and support action teams.

The public policy transition from direct intervention to indirect regulation of tourism development involves changes in the centralization degree in the inter-budgetary relations. The analysis of the RF budget system does not clear up the principles of tax revenue distribution among budgets of different levels. The federal tax structure is determined mainly

by the yield factor, since it mostly includes tax payments, which provide the largest amounts of fiscal revenues. The deficit of local budgets is steadily increasing (more than twice): from 52.4 billion rubles in 2007 to 125.5 billion rubles in 2013. The analysis of budgetary legislation norms and statistical data allows us to draw a conclusion about artificial subsidization of both RF subjects and municipal entities. The withdrawal of the vast majority of tax revenues to the higher budgets and then their return in the form of inter-budgetary transfers lead to the maintenance of the high level of power centralization and dependence of local governments on regional and federal. Transfers go to both objectively weak municipalities and those that have a stable tax base and could have financial autonomy in resolving local issues provided that the standards of tax deductions are changed. Such a policy limits the motivational mechanisms for the implementation of own socio-economic potential of modern municipalities [24, p. 354].

Thus, when changing the budgetary centralization policy, the federal authorities should focus primarily on the creation of motivation systems, ensuring the effectiveness of management practices to develop tourism at the regional and local level. For example, the transfer of powers to form a material and financial resource base from the center to the local level could be productive. Such successful experience is observed in the developed foreign countries, such as Italy, France, USA, Austria,

Poland, the Netherlands, UAE, Spain, Switzerland, and Montenegro, where tourist tax is introduced. Levied funds go to the city budget and are used for the development of tourist potential of the area. So, for example, 60% of the funds, Zurich gets to promote tourism, are received at the expense of tourist tax.

As for the regional authorities' key tasks in the sphere of tourism development, they could assist local authorities of municipal formations in reconstruction, maintenance and restoration of monuments of cultural and historical heritage, formation of tourist clusters, and enhancement of transport infrastructure. The activities of regional authorities that promote tourist attractiveness include the creation of conditions for inter-municipal cooperation in the field of construction of major tourist infrastructure facilities and transport communications.

Information and methodological support is a topical issue within the framework of the regional authorities' activities. It involves the publication of booklets, brochures and memos for tourist market participants and the conduct of conferences, exhibitions and seminars on experience exchange, joint meetings with representatives of regional and local authorities, private investors and population. For example, in the Leningrad and Vologda oblasts there are schools for the development of rural tourism, which hold seminars with representatives of tourist industry and heads of local administrations. In the Ulyanovsk Oblast

the regional authorities held a rally “Live and rest on the Volga”, aimed at attracting area residents to relax at boarding houses, holiday centers and rest homes of the region [17].

**Conclusions.** The analysis of statistical and sociological data helps identify key trends in the development of tourist attractiveness of RF territories, as well as basic problems of program-target management methods realization. The identified constraints of domestic tourism improvement, on the one hand, expand knowledge in the field of scientific support of the economy of territories, and on the other hand, have practical importance, helping identify areas for managerial improvement in the industry. The article presenting practical recommendations for improving interaction

of federal, regional and local authorities can serve as the conceptual basis for the development of Russia’s tourist attractiveness. The article substantiates the conclusion that the consolidation of efforts of local authorities, business and population at the municipal level is most effective management measure to form and promote tourist attractiveness. The priority directions of administrative activity are the following: creation and/or development of unique objects of tourist attraction, updating of objects of cultural and historical heritage, search and implementation of innovative ideas devoted to event tourism, and modernization of practices to create tourist products and services in the field of folklore, folk crafts, local initiatives.

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### **Information about the Authors**

Elena Viktorovna Frolova – Doctor of Sociology, Associate Professor, Department for Public and Municipal Administration and Social Engineering, Russian State Social University (4, building 3, Wilhelm Pieck Street, Moscow, 129226, Russian Federation, FrolovaEV@rgsu.net)

Elena Evgen'evna Kabanova – Graduate Student, Lecturer at the Department for Public and Municipal Administration and Social Engineering, Russian State Social University (4, building 3, Wilhelm Pieck Street, Moscow, 129226, Russian Federation, KabanovaEE@rgsu.net)

# ECONOMICS OF THE AGRO-INDUSTRIAL COMPLEX

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## Impact of Market Reforms on the Agricultural Sector Development and Food Self-Sufficiency in the Northern Region



**Valentin Aleksandrovich  
IVANOV**

Doctor of Economics

Institute of Socio-Economic and Energy Problems of the North Komi SC UB RAS  
26, Kommunisticheskaya Street, Syktyvkar, 167982, Russian Federation  
ivanov.v.a@iespn.komisc.ru

**Abstract.** The successful development of Northern and Arctic areas depends on sustainable functioning of the agricultural sector. Agriculture and fishing agriculture is a way of life of the indigenous population. The article discusses the state of agriculture and food self-sufficiency in the Komi Republic in the years of relatively stable development (1960–1980) and in the conditions of market reforms. It analyzes production and consumption of food and shows a positive effect of modernization processes on the agricultural sector in the pre-reform period. It studies market transformation of the agrarian economy, accompanied in the 1990s by the sharp decline in agricultural production, degradation of productive capacity, rural demography, rural infrastructure, decrease in living standard of farmers, and disparity of prices on agricultural and industrial products. The paper discloses trends in food self-sufficiency of the northern region in 1980–2013 and reveals reasons for the decrease in its level in the period of market reforms. It considers possible scenarios to develop the agrarian sector and food self-sufficiency. To predict the agriculture development the author identifies strong and weak sides, opportunities and threats by means of SWOT-analysis. The article proposes 3 scenarios: inertial (pessimistic), baseline and optimistic. It finds out the most reasonable optimistic development scenario based on innovative modernization for the Komi Republic. The study results can be used to adjust the current State program of agricultural development and elaborate the strategy of the agro-food sector of the region.

**Key words:** market reform, agrarian sector, food self-sufficiency, development scenarios, Komi Republic.

The scientific literature adequately addresses the current crisis state of the agrarian sector and rural areas, threatening not only food, but also national security in general [1–7, 10–11]. The market transformation of the agrarian economy was accompanied by its de-industrialization; de-intellectualization of labor potential of the village: degradation of productive capacity, rural demography, industrial and social infrastructure of the village; impoverishment of peasants; deepening of differentiation in the development of the agricultural sector and the social sphere in the countryside among regions, agricultural producers, rural areas of the center and the periphery; sharp decline in agricultural production in the 1990s; de-ecologization of the agrarian sector, resulting in the destruction of the drainage, irrigation and chemical reclamation of land, excess of nutrient removal over its refund in the form of fertilizer; breaking of horizontal and vertical linkages in the agricultural sector; disparities in the inter-industry exchange of agriculture with other sectors of the economy. Overcoming the agrarian crisis, according to scientists and experts, requires a new model of the country's agrarian policy and adequate mechanisms of its realization [3].

The purpose of this article is to study the consequences of market transformations affecting the agrarian economy and food self-sufficiency of the Komi Republic population.

#### *Development of agriculture in 1960–1980*

The analysis of agricultural production indicators dynamics in the Komi Republic for 30 years, conducted by means of regression equations, shows that the average annual

growth rate of production per capita amounted to 1.5%, the unit of land area – 4.3, labor productivity in the public sector – 4.4%. Moreover, yields of crops, milk yield, and average daily weight gain of pigs were higher than in the Northern region as the whole.

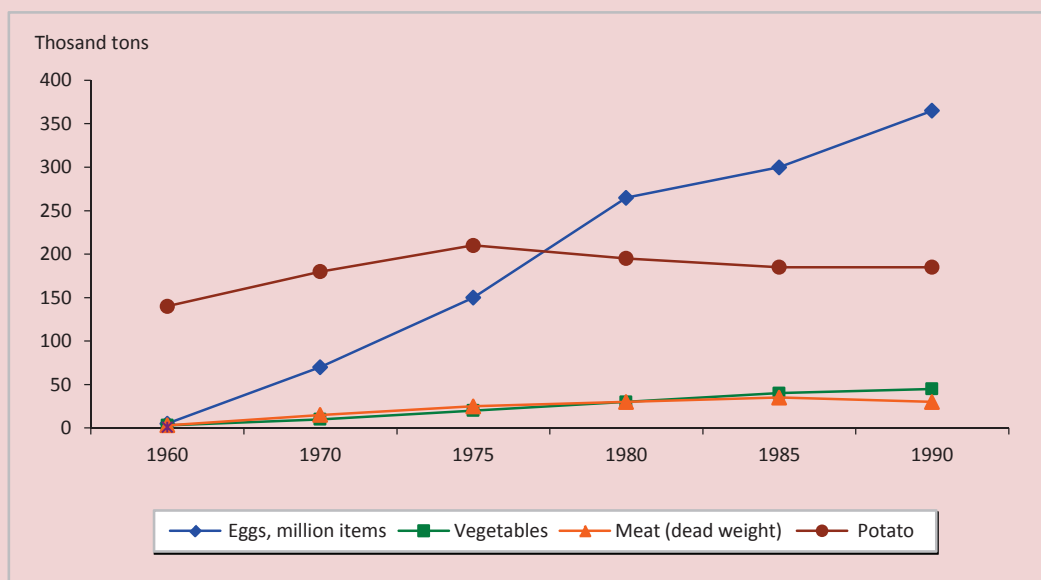
The positive dynamics of crop and livestock production until the early 1990s (with the exception of potato production in 1975–1990) is revealed in *Figure 1*.

The rates of increasing volumes of poultry and pork were the highest. In 1970–1990 with the overall 2.4-fold growth in meat production of all kinds, the production of poultry meat rose by 10.8 and pork – by 4.2 times. It is the result of the implementation of the industrial poultry and pig breeding development program.

The strategy for agrarian sphere development in the pre-reform period was determined by the intensification of agriculture through strengthening its material and technical base. In 1965–1990 the capital-area ratio increased by 11.4 times, the capital-labor ratio – 9.4, electric power per worker – 12.4 times. The park of tractors rose by 2.7 times, harvesters – 4.2, potato harvesters – 25, and milking installations – 3. The level of mechanization of vegetables sowing and planting went up from 18 to 91%, grass mowing – from 30 to 100, potato harvesting – from 42 to 100%, including by means of – harvesters from 5% to 38%. In 1990 the level of comprehensive mechanization on cattle farms was 54%, at the complexes for production of – 75 milk and pork – 80%.

In the pre-reform period the agricultural sector introduced crop rotation, new varieties, breeds and crosses of poultry, advanced techno-

Figure 1. Dynamics of production of main kinds of products of crop and livestock production in all categories of farms in the Komi Republic in 1960–1990



Compiled by: Agropromyshlenniy kompleks Respubliki Komi: istoriya i sovremennost': stat. sb.[Agro-Industrial Complex of the Komi Republic: History and Modernity: Statistics Digest]. *Komistat* [Territorial Body of the Federal State Statistics Service in the Komi Republic]. Syktyvkar, 2011, pp. 59, 74.

logies. In the Republic the scientists and specialists of agriculture worked out and implemented the scientifically based system of agriculture, differentiated by natural areas [8, 9].

The measures were taken to improve land fertility. The system of soil fertility reproduction included the annual application of mineral and organic fertilizers, recurrent liming, technical works, and drainage melioration. The application of mineral fertilizers per 1 ha of sowing crops increased from 57 kg of active substance in 1965 to 135 kg in 1990 and the application of organic ones –from 12 to 18 tons, respectively.

The extensive work on personnel training and re-training was conducted. In 1990 one in five working in the industry had higher and

secondary special education. Of specialists with higher education more than 70% were engineers, agronomists, zootechnicians and veterinarians. In the mid-1980s 2–3 thousand skilled workers were annually prepared for agriculture. Rural secondary school made a significant contribution to training young people. About 1,000 rural machine operators and about 700 milking machine operators left secondary schools every year.

There were positive changes in pricing through increased purchasing prices for agricultural products and the financial situation of agricultural enterprises. In 1990 the level of agricultural production profitability amounted to 44%, which corresponded to the optimal norm, making it possible to carry

out the process of expanded reproduction on the basis of own funds. In addition, budget allocations were a significant funding source.

The aggregate income of rural households went up steadily; its level gradually approached urban indicators. In 1990 the total income for a rural family accounted for 85% of an urban one, and average per capita income of a villager – 73% of a citizen. There was a clear trend to increase provision of rural population with different types of social services; the comprehensive construction of central estates of households as strongholds of rural areas was conducted.

All this contributed to the improvement of food self-sufficiency of the population. In 1991 for local population meat consumption constituted 86% of science-based nutrition standards, milk and dairy products – 79, fish – 60, egg – 104, vegetables – 75, and sugar – 97%. The Republic residents' consumption of food was close to the national average level, with consumption of meat and meat products, eggs, vegetables, vine crop, and sugar being even higher than in Russia.

However, agriculture had a lot of unresolved problems. Despite the increase in the capital-area ratio, the capital-labor ratio and gross production, the negative tendencies in the agricultural sector development still remained: low crop yields, livestock productivity, labor productivity, and resource use efficiency, high loss of products, backlog of industrial and social infrastructure in rural areas, outflow of able-bodied population to cities, etc. Moreover, the 1970–1980s witnessed the decrease in output growth, labor productivity and the increase in the capital-output ratio and material capacity. Under these conditions,

the increased production required greater amount of financial resources from the state. The situation in the agricultural sector formed in the late 1980s objectively demanded the creation of effective business entities, changes in ownership, and systemic reforms.

Still the processes taken place in agriculture in the pre-reform period can be considered as modernization both in terms of integrated rural development and specific production achievements.

*Transformation of the agrarian sector in the period of market reforms*

The analysis of market reforms does not allow us to give a clear assessment of current controversial socio-economic processes in the agricultural economy. In recent years the legal and organizational conditions for the operation of various forms of ownership and management are created and the foundations for market-based development mechanisms are laid. There is a new socio-economic structure of agricultural production, characterized by the presence of private, collective and individual legal forms of farming.

At the end of 2014 the Republic's agricultural sector comprised of 148 organizations, including 111 large and medium, 37 small, 370 peasant (farm) households, 92 thousand private farms and 106 thousand families of gardeners. Among large and medium-sized agricultural enterprises the share of limited liability companies was 69%, production agricultural cooperatives – 27, municipal enterprises – 3, and open joint-stock companies – 1%.

In the total gross agricultural production in 2014 the share of agricultural enterprises accounted for 57.3%, households of the population – 38.1, peasant (farm) house-

holds – 4.6%. Agricultural companies dominate the production of eggs, meat and milk, and households of the population – the production of potatoes and vegetables: farm households do not play a significant role in the production of agricultural products (they increased the share of milk production from 2.4% in 2005 to 12.1% in 2014). Since the mid-2000s the role of collective farms in production of agricultural products has been growing. In the structure of gross output the share of agricultural enterprises rose from 46% in 2005 to 57% in 2014, farm households – from 1.7 to

4.6, the share of households of the population declined from 53% to 38% (*tab. 1*).

The transition to the market economy with the help of monetarist approaches had a very negative impact on the agricultural sector. In 1990–2014 production of cattle meat decreased by 5.3 times, pork – 3.6, milk – 3.2, and eggs – 2.9. There was only the 43% growth of poultry meat production. This result was provided by the development of meat production in OJSC “Zelenetskaya Poultry Farm”. Particularly severe decline in crop production was observed in collective farms (*fig. 2*).

Table 1. Dynamics of the ratio of the share of different social types of households in the agricultural production in the Komi Republic, %

Indicator	1990	1995	2000	2005	2010	2014
Potato						
agricultural companies	42.1	14.4	12.0	9.6	4.0	5.3
households of the population	57.9	84.7	87.0	89.0	94.6	92.4
farm households	0.0	0.9	1.0	1.4	1.4	2.3
Vegetables						
agricultural companies	89.6	50.7	35.3	22.4	22.5	18.3
households of the population	10.4	49.2	63.8	75.3	77.0	78.6
farm households	-	0.1	0.9	2.3	1.5	3.1
Meat (in slaughter weight)						
agricultural companies	79.9	57.4	54.2	69.7	81.6	87.8
households of the population	20.1	41.7	44.8	28.0	16.2	9.7
farm households	-	0.9	1.0	2.3	2.2	2.5
Milk						
agricultural companies	84.6	63.6	50.0	45.6	53.4	62.8
households of the population	15.4	35.3	48.8	52.0	39.8	25.1
farm households	-	1.1	1.2	2.4	6.8	12.1
Egg						
agricultural companies	97.7	95.4	98.7	99.2	98.7	96.9
households of the population	2.3	4.5	1.3	0.8	1.2	2.1
farm households	-	0.1	0.0	0.0	0.1	1.0
Gross production						
agricultural companies	80.1	53.0	48.5	45.6	53.8	57.3
households of the population	19.9	46.1	50.7	52.7	42.4	38.1
farm households	-	0.9	0.8	1.7	3.8	4.6

Calculated by: 1. Sel'skoe khozyaistvo v Respublike Komi. 2009: stat. sb. [Agriculture in the Komi Republic. 2009: Statistics Digest]. Komistat [Territorial Body of the Federal State Statistics Service in the Komi Republic]. Syktyvkar, 2009, pp. 27, 63, 106. 2. Sel'skoe khozyaistvo v Respublike Komi. 2014: stat. sb. [Agriculture in the Komi Republic. 2014: Statistics Digest]. Komistat [Territorial Body of the Federal State Statistics Service in the Komi Republic]. Syktyvkar, 2015, pp. 6, 49, 73.

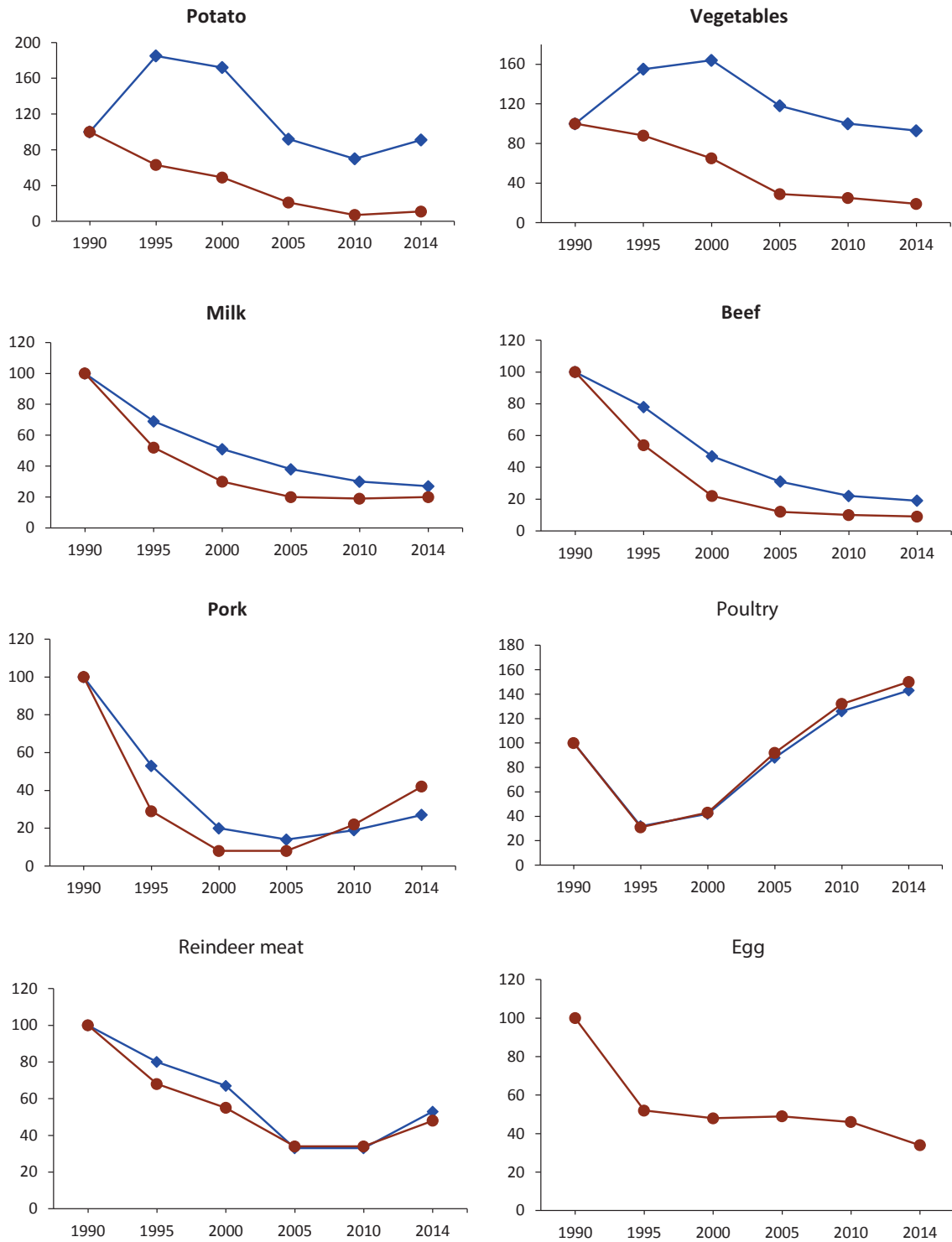


Figure 2. Dynamics of production of agricultural products in the Komi Republic in 1990–2014 (1990=100)

Compiled by: Sel'skoe khozyaistvo v Respublike Komi: stat. sb. [Agriculture in the Komi Republic: Statistics Digest]. Komistat [Territorial Body of the Federal State Statistics Service in the Komi Republic].

The agricultural sectors of the Arctic (the urban district of Vorkuta) were seriously affected. During the period under review the production of milk went down by 174 times. In 1990 the city had 7 farms and more than 20 households. There were 9.5 thousand heads of cattle, including 4.8 thousand cows, and more than 7 thousand pigs. In 2015 there was only one agricultural enterprise. The number of cows was reduced to 4, pigs – 123.

In the period of market reforms the steady decline in production of beef and veal was recorded. Due to the structural shifts the share of cattle meat decreased from 52% in 1970 to 37% in 1990 and 16% in 2014, while the share of poultry meat increased from 5 to 24 and 63%, respectively.

The decline in crop and livestock production is caused by the reduced acreage and number of animals, especially in agricultural enterprises, where in 1990–2014 the acreage of crops went down by 3.1 times, potato – 15, vegetables – 19, and forage crops – 2.9 times. The growth of population's cultivated areas was observed until 2000. The stock of cattle in agricultural enterprises decreased by 7.9 times, cow – 6.9, pigs – 4.3, and poultry – 2.3 times. At the same time, milk production per cow increased by 20%, hen-day average – 13, average daily gain of pigs – 87%, but average daily gain of cattle decreased by 12%.

There was a decrease in cattle and egg poultry production per capita. During the study period with the 1.4 decrease in population, milk production per capita decreased from 166 to 65 kg, beef – from 11.2 to 2.3 kg, eggs – from 294 to 144 items.

Production of poultry meat for this period increased from 7.4 to 15.2 kg.

The decline in animal breeding affected the processing industry adversely. In 1990–2014 the production of dairy products in recalculation on milk decreased by 5.9 times and oil – by 3.5 times. As for meat and meat products, the maximum decline in their production was observed until 2000, and then due to the increased production of poultry meat there was stabilization and growth of production of meat products. In 2014, compared to 2000, there was a 2.9-fold rise in meat production.

The reform years witnessed degradation of productive capacity due to the sharp reduction in investment. Investment in fixed capital of agriculture in total investment declined from 5.7 to 0.4% in 1990–2014, with the share of agriculture in gross regional product being equal to 1.3%. The rate of decline in investment in the agricultural sector is by more than four times higher than in the whole country. Fixed assets in the industry are worn nearly by half, and in most rural areas – by 70–80%.

The park of tractors in this period decreased by 9 times, machines for sowing – 11, balers – 5, forage harvesters – 4, potato harvesters – 12, machines for making solid organic fertilizers – 29, machines for making liquid organic fertilizers – 13, milking installations – 10, and the amount of generating capacity – 6. The technology update stopped until the implementation of the priority national project “AIC Development” (*tab. 2*).



Table 2. Coefficients of the update of key types of machinery in the agricultural organizations of the Komi Republic

Types of equipment	1990	1995	2000	2005	2008	2009	2010	2014
Renewal coefficient								
Tractors of all brands	10.0	2.0	5.0	1.6	3.1	6.3	2.8	4.4
Forage harvesters	16.1	4.4	4.1	4.8	9.1	11.8	5.8	20.7
Potato harvesters	19.6	0.5	2.2	-	-	31.3	-	-
Milking machines	14.3	2.0	1.7	2.0	-	3.1	1.1	13.9
Retirement rate								
Tractors of all brands	9.4	11.3	10.0	7.6	8.5	3.2	4.4	5.5
Forage harvesters	7.5	36.7	5.3	25.0	-	6.8	3.9	-
Potato harvesters	17.1	10.8	17.8	6.6	-	9.1	-	12.5
Milking machines	9.7	19.1	8.9	21.5	2.9	2.0	4.2	6.3
Calculated by: Sel'skoe khozyaistvo v Respublike Komi: stat. sb. [Agriculture in the Komi Republic: Statistics Digest]. <i>Komistat</i> [Territorial Body of the Federal State Statistics Service in the Komi Republic].								

Technical equipment of livestock deteriorated significantly. The number of milking machines decreased by 9.8 times in 1990–2014. The indicators of commissioning of individual capacities reduced dramatically due to new construction, expansion and reconstruction. If 2.8 thousand cattle stalls were commissioned in 1990, in 2014 – 0.5 thousand units; the work on drainage land reclamation was terminated in 2007.

In crop production agrochemical and water-physical properties of soil are aggravated and the area of marshy and bushy land expanded due to the destruction of drainage systems and almost the cessation of reclamation work. The application of mineral fertilizers in recalculation on 100% of nutrients per 1 ha of sowing fell from 135 in 1990 to 20 kg in 2014, organic – from 18 to 4.2 tons. If in 2014 crop plants were nourished by mineral fertilizers by 23% and organic ones by 10%, in 1990 the figures were 81%

and 26%, respectively. The area of meadows and pastures fertilized with mineral fertilizers reduced especially sharply. At the same time, the area under crops fertilized with mineral fertilizers in agricultural companies decreased by more than 8 times, the fertilized area of natural forage lands – by 25 times. As a result, the removal of nutrients from the soil exceeds their introduction.

During the years of market reforms the number of people employed in agriculture went down by 6 times (from 29.5 thousand people in 1990 to 4.4 thousand people in 2014). The outflow of workers from agriculture led to a shortage of qualified personnel in the industry. In the Republic in the total number of employees in agriculture having vocational education the share of specialists with higher education accounts for 10%, with average – 21%. In the rural periphery these figures are lower: 7 and 15%, respectively. The low level of professional education is observed on peasant

(farm) households. Here the share of workers with higher education accounts for 5%, with average – 10%. In the Republic the system of agricultural professional education almost collapsed (Komi Branch of the Vyatka State Agricultural Academy is closed, agricultural specialties in Syktyvkar Forest Institute and secondary specialized educational institutions are shortened and re-profiled).

Market transformation deepened the differentiation in incomes of employees of agriculture and other industries. Average nominal wages of the employed in the agrarian sector are by 2 times lower than in the whole national economy. In all rural areas, except for Syktyvdinsky District and Priluzsky District, wages are well below subsistence minimum of the able-bodied population. Low incomes, poor housing, poor infrastructure, and high unemployment have a negative effect on migration processes of the village, especially remote rural areas.

The countryside lags much behind the city by the development of social infrastructure and quality services. Individual housing in rural areas has virtually no amenities. Most peripheral municipalities do not have paved roads to the city of Syktyvkar.

The realization of the priority national project “Development of AIC” since 2006 results in a number of positive trends in the agrofood sector of the Republic. The volume of investment into fixed capital of agriculture in comparable prices for 2006–2014 doubled, the food industry – by 2.6 times. This leads to the upgrade of machinery and equipment (see

tab. 2). In 2010–2014 the implementation of 13 investment projects involved commissioning of 1.9 thousand stalls for cattle and 1.23 thousand stalls for pigs and reconstruction of 3.8 thousand stalls. In 2016 LLC “Prigorodnyi” completed construction of the complex for storage and preselling preparation of potatoes and vegetables of open ground with a capacity of 3200 tons.

Modernization processes in meat poultry farming and pig breeding contributed to the increased production of broiler meat and pork. Since 2007 there has been steady growth in the production and sale of products of the fishing industry.

The share of profitable agricultural enterprises increased from 33% in 2006 to 72% in 2014; average monthly nominal accrued wages of workers employed in agriculture in the region rose by 3.2 times (from 6.5 to 20.8 thousand rubles).

The implementation of measures to upgrade production ensured the creation of 454 jobs in the agricultural sector over the past four years, including 135 job places in 2014, of them – 56 new jobs.

The Republic continues to carry out measures to improve living conditions in rural areas. A number of projects on gas, water and amenities provision are implemented in rural settlements. In 2010–2014 the housing conditions of 326 rural citizens with the provision of social benefits are improved, including 153 young families and professionals. 34.8 thousand square meters of housing was commissioned.

However, the current socio-economic state of the agricultural sector, primarily in peripheral (remote) rural areas, is characterized as unstable and can become extremely negative due to the eliminated agricultural production and the reduced inhabited rural area.

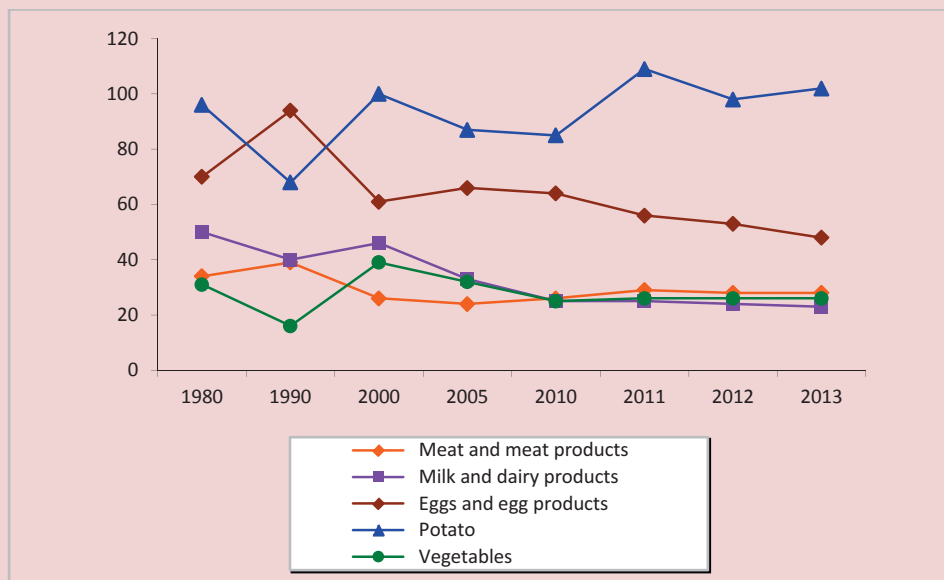
#### *Impact of market reforms on food self-sufficiency*

The modernization processes in the pre-reform period contributed to the increase in agricultural production and food self-sufficiency. The dynamics of changes in the level of self-sufficiency of the Komi Republic population in food in the reform period indicates the decline in the rate of food self-sufficiency in animal products. In 1990–2013

the level of population's self-sufficiency in meat and meat products fell from 39 to 28%, milk and dairy products – from 40 to 23%, egg from 94 to 48%, potatoes rose from 68 to 102%, and vegetables – from 16 to 26% (fig. 3).

The decline in production of livestock products, together with the reduction in purchasing capacity of the population, determined the decrease in its consumption by the population in the 1990s. Increased import of food, raised production of poultry meat, and grown income of the population since the mid of the 2000s had a positive impact on the consumption of animal products, fish, vegetables and vine crops, vegetable oils, fruits and berries (tab. 3).

Figure 3. Self-sufficiency of the Komi Republic population in basic food, %



Based on: 1. Agropromyshlennyy kompleks Respubliki Komi: istoriya i sovremennost': stat. sb. [Agro-Industrial Complex of the Komi Republic: History and Modernity: Statistics Digest]. Komistat [Territorial Body of the Federal State Statistics Service in the Komi Republic]. Syktyvkar, 2011, pp. 86-87. 2. Sel'skoe khozyaistvo v Respublike Komi. 2014: stat. sb. [Agriculture in the Komi Republic. 2014: Statistics Digest]. Komistat [Territorial Body of the Federal State Statistics Service in the Komi Republic]. Syktyvkar, 2015, p. 103.

Table 3. Per capita consumption of basic food in the Komi Republic, kg

Food	Rational consumption rate*	1965	1970	1980	1990	2000	2010	2013
Meat and meat products	70–75	40	52	69	70	51	76	80
Milk and dairy products	320–340	258	295	341	396	211	264	271
Egg and egg products, items	260	90	136	306	290	259	273	267
Fish and fishery products	18–22	...	...	25	18	15	21	...
Sugar	24–28	...	...	47	56	43	39	38
Vegetable oil	10–12	...	...	7.7	9.1	12.8	13.8	13.6
Potatoes	95–100	133	124	131	95	113	56	55
Vegetables and vine crops	120–140	59	68	81	90	81	91	96
Fruits and berries	90–100	...	...	...	...	29	50	58
Bread products	95–100	128	127	125	116	109	116	111

Compiled by: 1. Agropromyshlennyi kompleks Respubliki Komi: istoriya i sovremennost': stat. sb. [Agro-Industrial Complex of the Komi Republic: History and Modernity: Statistics Digest]. *Komistat* [Territorial Body of the Federal State Statistics Service in the Komi Republic]. Syktyvkar, 2011, p. 88. 2. Sel'skoe khozyaistvo v Respublike Komi. 2014: stat. sb. [Agriculture in the Komi Republic. 2014: Statistics Digest]. *Komistat* [Territorial Body of the Federal State Statistics Service in the Komi Republic]. Syktyvkar, 2015, p. 103.

\* Recommended rational consumption norms, approved by the Ministry of Healthcare and Social Development of the Russian Federation of August 2, 2010 No. 593n.

In the Komi Republic nowadays per capita consumption of meat and meat products exceeds the rational norm by 5–10 kg, eggs – 6 items, fish – 1–5 kg, cereals – 6–16, sugar – 10–14, and vegetable oil – 1.6–3.6 kg. It should be noted that the rational norms of consumption in the Far North compared to temperate climates recommended by the Scientific Research Institute of Nutrition of the Russian Academy of Medical Sciences should be higher: meat – by 1.2–1.25 times, milk – 1.23–1.3, fish – 1.4–1.5, and vegetables – 1.35–1.4 times. Therefore, taking into account the northern specifics, the level of food consumption based on the scientifically valid standards is significantly lower in the Republic.

#### *Scenarios of possible development of the agricultural sector and food self-sufficiency*

When substantiating prospects for food self-sufficiency in the Komi Republic we should identify strengths and weaknesses of the agricultural sector, opportunities and threats to its development by means of the SWOT analysis (*tab. 4*).

In connection with the difficult natural and economic conditions for agriculture development in the Komi Republic and other regions of the Russian North, the principle of food self-sufficiency is unacceptable. According to A.N. Chekavinskii, in 2014 the self-sufficiency of the European North in meat was 41%, milk – 45, and egg – 65% [11, p. 142]. However, production of basic food

under favorable conditions is the objective necessity in the North in the foreseeable future. The priority directions to develop agrarian and trade economy in the Komi Republic: production of socially significant

food products – potatoes, vegetables of local assortment, whole milk, fresh meat, eggs; preservation and development of traditional industries, and collection of wild fungi and berries and their processing.

Table 4. SWOT-analysis to forecast the development of agriculture and food self-sufficiency in the Komi Republic

Strengths	Weaknesses
<p>Competitiveness of traditional northern industries at the national and international markets. High demand and guaranteed consumption of local products. Significant natural and labor resources. Long daylight hours during the growing season, good supply of plants with moisture. High genetic potential of cattle. Favorable conditions for production and export of organic products Significant potential of agricultural science.</p>	<p>Adverse natural conditions for agriculture. Low provision with farm resources. Heavy dependence of livestock production on the supply and market conditions of concentrated feed. Outdated technology and equipment. Deficit, low professional qualification of the staff. Low level of innovation activity of agricultural organizations. Insufficient level of management. Inefficient mechanisms of territorial distribution of financial support. Lack of a clear development strategy. Limited access of agricultural producers to food markets, logistical means and financial resources. Low quality of rural living environment (poor infrastructure, landscaping, services) Low of life quality of peasants. Unstable sales of agricultural products, removal of local producers from food markets. Low productivity, crop yield, livestock productivity. Insufficient competitiveness of agricultural and food products.</p>
Opportunities	Threats (risks)
<p>Increased production of local products. Transition to the international standards of quality and safety of products. Creation of integrated structures in the system of production, processing and sales. Availability of budget funds for modernization and integrated rural development. Participation of industrial enterprises in the financing of agricultural and rural development. Activation of state and municipal policies to promote the agri-food sector.</p>	<p>Physical and moral obsolescence of the material and technical base. Dependence of food production on imported technologies. Reduction of biological resources. Outflow of qualified personnel. Decrease in the rural population, its ageing will be a barrier to the development of agrarian economy in the future. Decline of profitability and investment attractiveness, agricultural bankruptcy of economic entities in the conditions of Russia's membership in WTO. Unfavorable external conditions (sanctions, economic crisis, price disparity). Decline in financial support, unavailability of soft loans. Increase in the differentiation in agricultural and rural development. Deterioration of the socio-economic situation in the village in connection with the collapse of agricultural production.</p>

Table 5. Options of the forecast of development of the agricultural sector and food-sufficiency in the Komi Republic in 2016–2030

Scenarios of development	Expected socio-economic results
Inertial (pessimistic)	Reduction in the number of farm and private households. Increase in pig breeding and fisheries in the near future. Stabilization or slight growth of production of milk, beef, poultry and reindeer. Outflow of qualified personnel from the industry. Low profitability of agricultural activities. Increase in the lifeless space in peripheral areas. The level of self-sufficiency in potatoes will be 85-90%, vegetables – 18-23, meat and meat products – 23-28, milk and dairy products – 19-24, eggs – 48-53%.
Basic	Slight modernization of the agrarian economy and rural infrastructure. Small increase in investment and innovation activity. Creation of the conditions to reduce the provision of the industry with personnel. Development of cooperation and integration processes. Moderate rate of agricultural production growth. The level of self-sufficiency in potatoes will be 90-95%, vegetables – 23-28, meat and meat products – 25-30, milk and dairy products – 24-29, eggs – 60-65%.
Optimistic	Mixed agrarian economy will be formed. Active innovative modernization of the agrofood sector and rural infrastructure. Production of organic products will develop rapidly. Deep processing of products of cattle breeding, reindeer herding and wild plants, expanding the range of food products with new consumer properties. The average annual growth rate of agricultural production will be 4-5%. Full self-sufficiency of the population in potato and vegetables of the local range (except for early production). The level of self-sufficiency in vegetables will make up 45-50%, meat and meat products – 35-40, milk and dairy products – 40-45, eggs – 75-80%.

To forecast the development of agriculture and food self-sufficiency in the Komi Republic for the next 15 years there are 3 scenarios: inertial (pessimistic), basic and optimistic (*tab. 5*). In all forecast options it is necessary to consider the ongoing systemic crisis of the agricultural sector.

The inertial (pessimistic) scenario does not assume the significant growth of agrarian economy. The deterioration of the socio-economic situation depending on the influence of adverse external conditions (accession to the WTO, sanctions, economic crisis, high inflation), the conservation of

price disparity on agricultural and industrial products, the reduction in financial support and availability of preferential credit resources and the strengthening of the outflow of skilled personnel from the village are possible. In the village the worsening of the demographic situation will continue and, as a consequence, the habitable rural area will reduce.

The basic scenario assumes continuation of the current rates of change in the performance of agriculture, the level of state support of the industry, the conditions of inter-sectoral exchange in the agricultural sector, the access of organizations and households to financial

markets, the price and tax policy, and the relatively low investment in production capacity upgrade. According to this scenario, the growth in agricultural production will occur in the suburban and its reduction in the peripheral areas. The level of self-sufficiency in food will increase only slightly.

The optimistic scenario is characterized by the use of selective-genetics, technical-technological, organizational-economic and socio-ecological innovations that form the fifth and sixth technological structures in the agro-food sector; the active protectionist policy of the state, the use of effective tools and mechanisms of strategic development: increase in investment aimed at improving soil fertility, upgrade of productive capacity; attraction of qualified personnel into the industry; the improvement of the placement, specialization, cooperation and integration in the agrifood sector, providing a closed cycle of agricultural production, its processing and marketing; the development of industrial infrastructure, the significant enhancement of social and living conditions, quality and standard of life of peasants.

The research in the state of the agricultural sector and food self-sufficiency in the pre-reform and market periods allows us to draw the following conclusions and recommendations.

1. The 30-year period prior to the market reforms is most favorable for agricultural sector development and local food provision. The 1960–1980s agricultural policy aimed at accelerating the pace of intensification and industrialization of agricultural production

ensured the stable growth of production and labor productivity, the improvement of the level and quality of life of peasants. In the early 1990s the Republic produced the statutory minimum amount of food necessary for sustainable livelihood.

2. The 1990s agrarian reform, representing a long process, was conducted rashly on the basis of revolutionary, not evolutionary methods and by some provisions it was obviously wrong. In practice, the main directions of agrarian reform were not to improve the efficiency of agricultural production through modernization, but through conversion of land ownership, reorganization of state and collective farms and their fragmentation; liberalization of prices for material and technical resources purchased by agricultural producers and deterrence of prices for agricultural products that created unequal economic conditions of inter-branch exchange of activity results; minimization of agrarian sector subsidizing; focus on food import.

3. The market transformation was accompanied by the destruction of the material-technical base of agriculture, the sharp reduction in the cultivated land and the number of animals and workers, the deterioration of people's professional level and quality of life, the decline of agricultural production, especially on collective farms. During the reform years the crop and livestock production fell to the volumes of the second half of the 1950s. The north village is undergoing a systemic crisis. The decline in animal production involved the reduced rate

of food self-sufficiency. Now the share of imported food of animal origin to the amount of own production is substantially higher than in 1990.

4. The future of agriculture and food self-sufficiency is represented in the scenarios: inertial (pessimistic), basic and optimistic. The most acceptable scenario for agriculture development is optimistic, based on the mixed agrarian economy and its innovative type of reproduction. For its implementation it is first necessary to overcome the negative effects of sharp industry's transition to the market economy using monetarist approaches and create the multipurpose agricultural policy focused on the agrofood sector upgrade. The possibility of implementing the optimistic scenario will depend on the coordinated work of the Ministry of Agriculture and Food, Ministry of Economic Development and other departments of the Komi Republic aimed at attracting greater investment in the

agricultural sector, research and educational programs and infrastructure projects in remote rural areas and bettering the level and quality of life of peasants.

5. The realization of the optimistic variant of agrarian sector development will fully provide the population with potatoes and vegetables of open ground of local range (except early production), expand production of vegetables in greenhouses, raise self-sufficiency in meat and meat products up to 30–40%, milk and dairy products – 40–45, egg – 75–80%. The achievement of marked results will contribute to the improvement of living conditions in the harsh climate.

6. The key results of the study can be used as a basis for the development and adoption of managerial decisions by the regional agricultural authorities and municipalities when working out the state program for agro-food sector development and boosting agriculture in the Komi Republic.

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### **Information about the Author**

Valentin Aleksandrovich Ivanov – Chief Research Associate, Doctor of Economics, Institute of Socio-Economic and Energy Problems of the North Komi SC UB RAS (26, Kommunisticheskaya Street, Syktyvkar, 167982, Russian Federation, ivanov.v.a@iespn.komisc.ru)

# FOREIGN EXPERIENCE

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## Analysis of the Impact of the Flow of Migrant Workers on Regional Economy: Based on the Thought about the Promotion of Jiangxi Regional Economic Competitiveness



**Sun Yuping**  
Jiangxi Academy of Social Sciences  
Nanchang, China

**Abstract.** Labor resource is the necessary productive factor in regional economic development, and one of important indexes to evaluate regional economic competitiveness. The great economic achievement brought by the 30-year reform and opening up of China is due to the fact that China brought the backward advantage of “demographic dividend” into play, promoted the fast development of industrialization and urbanization, and became the second largest economy in the world. The entity of “demographic dividend” is the non-agricultural migrant population, i.e., migrant workers. The transfer employment of migrant workers has typical regional liquidity, and the imbalance of regional economy causes the flow of many migrant workers. In order to achieve harmonious development and coordinated development, underdeveloped areas must understand the character and regulation, adopt positive industrial policy and supportive policy, guide the reasonable flow of migrant workers, and realize the transfer of local employment and citizenization of migrant workers, which can enhance regional economic competitiveness.

**Key words:** distribution of agricultural migrant workers, interregional migration of workers, characteristic of the flow of migrant workers, Jiangxi province.

Labor resource is the necessary productive factor in regional economic development, and one of important indexes to evaluate regional economy competitiveness. The great economic achievement brought by 30-year reform and opening up of China can be contributed to that China has brought the backward advantage of “demographic dividend” into play, promoted the fast development of industrialization and urbanization, and become the second largest economic entity in the world. The entity of “demographic dividend” is the nonagricultural migrant population, i.e., migrant workers. The transfer employment of migrant workers has typical regional liquidity, and the imbalance of regional economy causes the flow of many migrant workers. In order to achieve harmonious development and coordinative development, underdeveloped areas must understand the character and regulation, adopt positive industrial policy and supportive policy, guide reasonable flow of migrant workers, and realize the transfer of local employment and citizenization of migrant workers, which can enhance regional economic competitiveness.

### **1. Development trend and flow status of migrant workers**

When studying population flow of the process of urbanization, American economist Louis found that the rural labor will definitely flow to urban areas if the urban salary was 30% higher than the real salary of rural residence. Price scissor of industrial and agricultural products has existed for a long time since new China was founded, and it has made a

comparatively big salary difference between urban residence and rural residence. The salary difference between urban residence and rural residence was as high as 2.36:1 in year 1978. Due to the limitation of dual economic structure and household management system dividing urban and rural areas, the peasants occupying 80% of population were limited in the land. With reform and opening up, global integration of Chinese economy moved rapidly, and urbanization, industrialization and agriculture modernization developed fast, which made agricultural transfer population flow into township enterprise, industrial park, urban and economic developed areas.

Surplus labor continuously released from traditional agricultural departments – peasant, is the important resource of 30-year fast economic growth and development, and “demographic dividends” promotes prosperity of export-oriented economy based on international market. According to the statistics of *China’s Floating Population Development Report-2013* issued by National Health and Family Planning Committee, China’s floating population increased from 6 million to 236 million from 1979 to 2012. The statistics of migrant worker monitoring survey from National Bureau of Statistics indicated that population of migrant workers reached 269 million, and outgoing migrant workers were 166million.

### **2. Characteristics of cross-regional flow of migrant workers**

Affected by regional resource and opening degree of industry, the flow of Chinese migrant

workers has an unbalanced trend. Analyzing from basic status of migrant workers' flow after reform and opening up of China, we can find one obvious characteristic that eastern developed areas effect middle and western underdeveloped areas. The rapidly developed export-oriented manufacturing industry in eastern area has attracted a lot of surplus labors of middle and western areas to transfer to eastern area, which has become an important area to take in surplus population of China. Regional advantage and industrial first-mover advantage of Yangtze River Delta and Pearl River Delta were made good use by Zhejiang province and Guangdong province in eastern area which became preferred regions to take in migrant works in China.

According to the statistics issued by National Bureau of Statistics in 2012, 65% of outside migrant workers chose to work in eastern area, 17.9% in middle area, and 17.1% in western area.

Taking Zhejiang for an example, migrant workers to Zhejiang province in 2010 were 11,823,900, among which over one million were transferred from 5 provinces, as shown in the table below (*Table 1*).

While the outgoing migrant workers of Zhejiang province were only 1.85 million in the same year, the net inflow of labor resource was 5.4 times. Migrant workers play a very important role in rapid development of economy in Zhejiang province.

### 3. Flow of Jiangxi migrant workers and its impact on economic development

#### *Current situation of Jiangxi migrant workers*

As a big agricultural province, Jiangxi has a large ratio of rural population as big as 27,234,000 in 1978, which occupies 85.56% (The whole country is 80.08%) of total population. After reform and opening up, agricultural migrant population has experienced the first period of flowing to township enterprise, and the historical process of transferring to industrial park, urban and developed coastal areas. After financial crisis in 2008, there were a lot of migrant workers returning home. But in a short time, many of them went out to work. Jiangxi had 7.563 million migrant workers which occupied 23.8% of labor population with year-on-year growth of 226,000 agricultural transfer labor forces, and 70% of migrant workers went to work in other provinces.

Table 1. Main regional distribution of migrant workers to Zhejiang in 2010 (10,000 people)

Total population of Migrant workers to Zhejiang	1182.39
Including:	
Anhui	228.52
Jiangxi	152.98
Guizhou	149.92
Sichuan	124.05
Henan	122.42

Source: Data of the sixth national census in 2010.

We can see from *Table 2* that the ratio of Jiangxi outgoing migrant workers reduced gradually, and the backflow and local employment willingness were obvious, but the total population of migrant workers that went to work in other provinces was still big.

*Table 3* reflected that middle areas are still main areas for agricultural transfer population, while employment ratio inside Jiangxi, Hunan and Anhui provinces were comparatively low, which became the main reason to limit industrialization and urbanization of the three provinces.

#### *Effect on regional economic competitiveness*

The outgoing phenomenon of local migrant workers will cause several major problems:

- first, local industrial development lacks efficient labor supply;
- second, it is hard to promote urbanization;

– third, polarization effect will come into being, and the following work and exceeding strategy of regional economic development will be passive;

– fourth, development of private economy will be comparatively lagged behind.

As for the labor supply, Jiangxi Academy of Social Sciences once investigated three industrial parks in Nanchang city in 2012, finding the rate of migrant workers is 73.8% of total employees in the parks, and they had been the main force of Jiangxi industrialization (*Table 4*). But the critical situation is that it's normal for three parks to lack labor forces. The rate of shortage of labor in Nanchang Hi-Tech Industrial Development Zone was 15–20%, Nanchang Economic and Technological Zone was around 15%, and Jiangxi Shanghai Economic Technology Zone was even more than 50%. It's hard for enterprises in the parks to employ workers locally. They

Table 2. Employment of agricultural transfer population of Jiangxi in 2010–2012

Employment Year	Employment outside the province (10,000 people)	Employment inside the province (10,000 people)	Total population (10,000 people)	Ratio (%)
2010	518.8	199.5	718.3	72:28
2011	512.8	220.9	733.7	70:30
2012	522.7	233.6	756.3	69:31

Table 3. Employment of agricultural transfer population of middle six provinces in 2012

	Jiangxi	Henan	Shanxi	Hubei	Hunan	Anhui
Population (10,000 people)	756.3	2458	470	1076.3	1470.8	1449
Employment ratio inside the province (%)	30.9	51.6	74	53.5	30.5	26

Source: Statistics yearbook of every middle province.

Table 4. Labor shortage in 3 industrial parks of Nanchang in 2012 (%)

Development District	Rate of labor shortage
Nanchang Hi-Tech Industrial Development Zone	15-20
Nanchang Economic and Technological Development Zone	15
Jiangxi Sanghai Economic Technology Zone	50

Figure 1. Location of Four Provinces



must hire people from the western places like Guizhou and Yunnan. Therefore, many investment attraction projects choose to quit Jiangxi because the labor supply lacks security.

Table 5 is about comparisons of 4 provinces including Zhejiang of eastern area, Jiangxi and Hunan of middle area, Sichuan of western area at the same latitude (Figure 1). Jiangxi,

Hunan and Sichuan are big provinces to output migrant workers, and their economic strengths lag behind Zhejiang of eastern area and are lower than the national average level. In order to promote regional economic competitiveness, it's necessary to guide the reasonable flow of migrant workers and strengthen the attraction of local employment.

Table 5. Main economic indexes of Zhejiang, Hunan, Sichuan, Jiangxi in 2012

Index Area	GDP (100 million yuan)	GDP per person (yuan)	Industrial added value (100 million yuan)	Three times industrial structure	Urbanization rate (%)
Zhejiang	34665.3	63266	15338.0	4.8:50.0:45.2	63.2
Hunan	22154.2	33480	9140.0	13.6:47.4:39.0	46.7
Sichuan	23849.8	29579	10800.5	13.8:52.8:33.4	43.5
<b>Jiangxi</b>	<b>12948.5</b>	<b>28799</b>	<b>5854.6</b>	<b>11.7:53.8:34.5</b>	<b>47.5</b>
China	519322.0	38354	199860.0	10.1:45.3:44.6	52.6

### *Policy recommendations*

#### **(1) Undertake gradient transfer of coastal industry**

In order to take in local labor for employment, Jiangxi needs to seize the strategic opportunity of eastern coastal industry's transformation and upgrading, take comparative advantages to the full, strengthen industrial cooperation among areas, attract investment positively, and develop export processing industry and manufacturing industry suitable for mid-term features of industrialization and local resource conditions.

At the same time, Jiangxi should make full use of the advantage of local ecological resources to promote the development of industries such as ecological agriculture, tourism and service, and green environmental protection, which cannot only expand employment market of labor force, but also achieve sustainable development.

#### **(2) Improve development level of open economy**

One of the main reasons for underdeveloped economy of Jiangxi is that its openness is not

enough. Strengthening development of open economy is an inevitable choice for Jiangxi to realize the exceeding in economy and narrowing the gap with developed areas. Open economy will definitely create good external conditions for the return of migrant workers, and attract local migrant workers to go back to work in hometown.

Actions will be taken:

1. Pay attention to connection and cooperation of industries, and extend the production space and market space.

2. Enlarge the openness to foreign enterprises and central enterprises, focus on bringing in transnational enterprises which can make global effects, and promote competitiveness and power of industries.

3. Pay attention to development of strategic new industries such as new energy, new material, equipment manufacturing and biological medicine, develop domestic and international market actively, make good use of technical renovation to realize transformation and upgrading of traditional competitive industry, and strengthen competitiveness of regional industry.



### **(3) Enhance group development of regional economic entity**

Low level competition era of industry has changed silently. City, as an important platform of industrial competition, is playing a more and more important role. Economic integration and industrial group development make modern urban economy choose the way of group to enhance overall regional economic strength and competitiveness. Jingjinji, Pearl River Delta and Yangtze River Delta economic districts are all typical cases of urban group development and strong rise.

Jiangxi is requested to use strategic commanding point of “integration of Nanchang and Jiujiang” to achieve breakthrough of urban group strategy, and use policy coupling effect of urban group construction of Yangtze River economic district and the middle reach of Yangtze River to achieve new breakthrough of urban economic development.

The promotion of urban development level will inevitably attract the backflow of outgoing migrant workers, which will provide constant labor support for the development of urban economy and industry.

### **(4) Guide migrant workers for local transfer and citizenization**

Guiding rural surplus labor for local transfer is the key to secure industrial development and strengthen urbanization.

In order to let migrant workers get employed smoothly, the migrant workers must integrate to cities and become real citizens and enjoy the same social and economic rights of original citizens.

Breaking the limitation of urban and rural household system is just the first step. More importantly, the migrant workers in the city should possess the ability to work in the city and enjoy complete social security. Therefore, it's the highest priority to raise employment ability and quality of migrant workers, and government has responsibilities to provide relevant social services.

### **(5) Encourage returned backflow migrant workers to start business to become rich**

Government is suggested to create good environment and conditions of starting business and realizing their dreams for the migrant workers who have dreams after they return. Outgoing work not only makes



migrant workers accumulate the capitals to start business, and also let them learn how to develop industry and manage an enterprise. As for private economic development, government needs to make policy guidance and loosen the limitation of private investment capital through making industrial entry list. Establishing power list

can clarify the limit of government, build uncorrupted and efficient government and create flexible environment of market economic development.

It's time for Jiangxi economy to take off when private economy becomes prosperous. Entrepreneurship will definitely realize the dream to raise Jiangxi.

### **Information about the Author**

Sun Yuping – Research Associate, Director of the Institute for Application Strategies, Jiangxi Academy of Social Sciences, Nanchang, China

# YOUNG RESEARCHERS

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## Labor Activity of the Population of Retirement Age as a Factor in Socio-Economic Development of the Territory



**Vitalii Nikolaevich  
BARSUKOV**

Institute of Socio-Economic Development of Territories of RAS  
56A, Gorky Street, Vologda, 160014, Russian Federation  
Lastchaos12@mail.ru

**Abstract.** The problem of population ageing in Russia is increasingly attracting attention of scientists and politicians. Long ago researchers recognized the irreversibility of the population ageing process in the conditions of narrowed population reproduction, but the measures to mitigate the consequences in our country, unlike Western countries, are not well developed yet. Population ageing with high probability leads to the change in labor market functioning due to the reduction in the share of able-bodied population and children and, consequently, the permanent increase in the proportion of older people in the total number of population. In these conditions the effective realization of resource potential of the older generation becomes one of the most important factors in socio-economic development of the territory. This article is aimed at studying the changes and specifics of labor activity of the population of retirement age on the example of the Vologda Oblast. The first part of the article is devoted to the main aspects of the impact of population ageing on economic development. It considers the prerequisites for the formation of the regressive age structure of population in the country and the region, determines the level of “age” of Russia and the Vologda Oblast. It identifies the features of population ageing of the region and its districts and the underlying factors of transformation of the age structure of the territory. The second part of the article presents the analysis of changes in the economic activity of the population of retirement age in the Vologda Oblast, the structure of employment of the older generation. On the basis of the sociological survey data the author describes the key incentives to continue working in retirement age, the current level of employment of seniors, and the difference between actual and nominal retirement age, etc. The main conclusion of the article is the following: the population of retirement age in the Vologda Oblast has considerable resource

potential. Its realization can be a significant factor in socio-economic development of the territory in the conditions of population aging. For this purpose it is necessary to create comfortable conditions for the employment of older people at the level of regional authorities and business structures.

**Key words:** population ageing, transformation of the age structure, the elderly, retirement age, labor activity.

### Population ageing and economic development

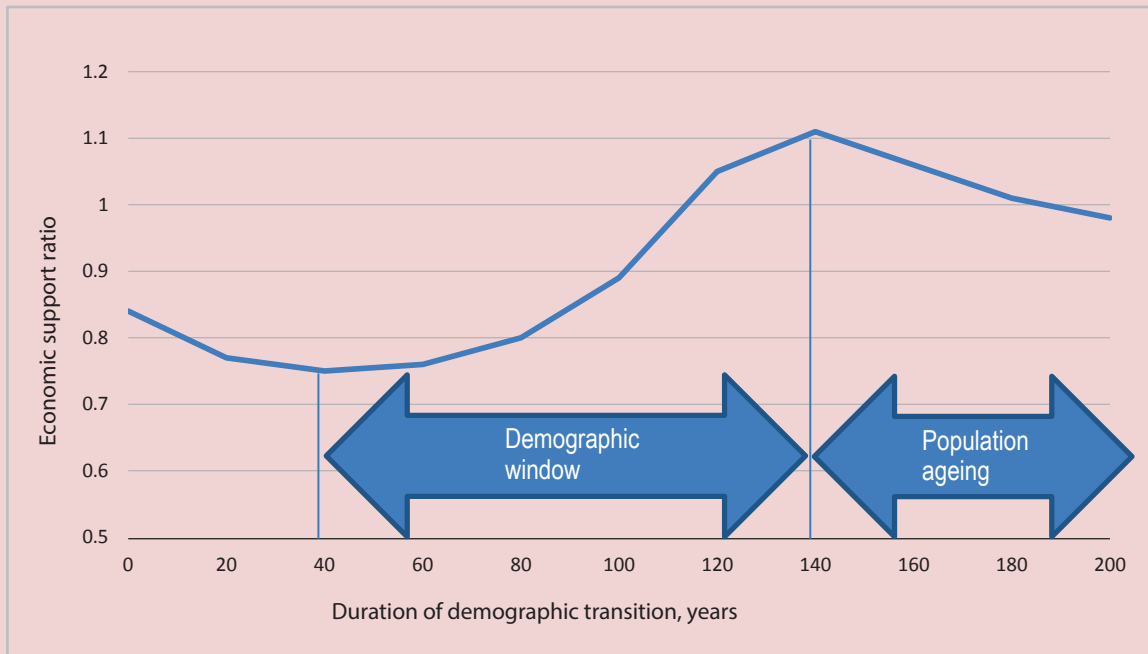
Population ageing is a consequence of the so-called “demographic transition” (DT) – a historical process of the change in the type of population reproduction from the extensive with high mortality and fertility to the intensive one with low mortality and fertility [18]. The beginning of the 4th stage of the DT is characterized by a slight rise in the birth rate and natural increase, followed by stabilization or depopulation. The decreased levels of fertility and mortality accompanied by the raised life expectancy and stabilized population lead to *the process of population ageing* – transformation of the age structure of population in the direction of increasing the share of older cohorts. This phenomenon has a significant impact on social development and economy.

Nowadays the situation is worsened by the fact that the demographic dividend that arose at the second stage of DP, when on the background of sharp decline in the birth rate and, consequently, reduction of the share of dependent groups the percentage of the working-age population rose, has already exhausted [13]. The given period of growth in the size of cohorts of working age is called a “demographic window”. American researchers Lee and Mason developed a

model [24], which visualized the effect of the “window”. They used an *economic support ratio*, calculated as a ratio of the total number of producers to the total number of consumers, and studied its dynamics over the 200-year period of the DT (*fig. 1*).

The figure shows that the demographic window is being “closed” at a certain moment due to the increase in the elderly population and the weak replacement of the working-age population caused by low birth rates. If it is possible to ensure productive employment of the majority of working population during this period, the growth rate of income per capita is significantly accelerated, leading to the sustainable increase in economic growth [15]. The period of demographic transition, and, accordingly, of the “window” can differ significantly: in particular, in developed countries, where population ageing started much earlier, there were more temporary possibilities to realize the demographic dividend and reforms aimed at mitigating the consequences, and the process of the age structure transformation was much more intense. However, despite the presence of regional features of population ageing (associated primarily with the time of entering the 4<sup>th</sup> stage of demographic transition), the vector of changes in the economic support ratio is similar for all countries and territories.

Figure 1. Change in the economic support ratio for the 200-year period of demographic transition



Source: Lee R., Mason A. *Population Aging, Wealth and Economic Growth: Demographic Dividends and Public Policy*. WESS background paper, 2015. 35 p.

Li and Mason [24] made a conclusion in their article that the second dividend could appear under certain conditions, even after the closing of the demographic window. The increase in the number of elderly population creates additional demand for separate types of resources needed to maintain the previous level of consumption in old age.

The authors present 3 main arguments in defense of their hypothesis:

- the elderly have the opportunity to accumulate capital during their working stage of their life and on average are more wealthy than the younger population of working age;

- if a person plans to live a long life, throughout life he/she makes more savings and increases the accumulation of funds;
- the low birth rate provides the opportunity to increase spending on personal consumption, including, and in old age.

For all these reasons even at the fourth stage of DT the amount of wealth per capita can increase. However, the authors make a reservation that such a scenario is almost impossible in countries with low income levels and, consequently, low savings. The article does not identify the type of per capita income in the country for the second demographic dividend to emerge. Russia, according to the

World Bank method, is characterized high per capita income (gross national income per capita in 2014 amounted to 23,910 U.S. dollars in current prices, which greatly exceeded the desired “high” threshold in 12,616 U.S. dollars [23]), however, it is significantly inferior to most Western countries, for which the findings of Lee and Mason are correct. In the Russian case, the need for maintaining the same level of consumption forces the elderly to seek other sources of income, the most obvious of which is to continue working in retirement.

The high level of employment of the elderly does not always have a positive effect. Moreover, American researcher James Moore showed on the example of the USA [25] that the growth in pensioners’ labor activity could become a serious structural problem for the economies of developed countries. Pensioners begin to compete with the able-bodied population on the labor market. As a result, the growth in the labor force is achieved at the expense of other populations to a lesser extent that, in turn, leads to higher unemployment among the youth. So, the level of employment either remains stable or stops increasing. Moore also notes that the Federal Reserve System keeps its dual mandate – control of inflation and employment. The regulator answers the challenge of unemployment by increasing the period of low interest rates, involving the rise in the number of working pensioners.

All the above effects are a threat to developed economies, where there is no shortage of manpower, and the labor market is successfully regulated at the expense of attraction of abroad immigrants of working age.

In Russia, a country with low fertility and life expectancy, as well as a shrinking share of able-bodied population, relatively high employment of the elderly provides many industries with sufficient staffing. The resource potential of the older generation is qualitative characteristics of an individual that are important for him/her personally and give the ability to effectively interact with other people, participate in socio-economic life of the community [9]. Employment of older people increases their purchasing power, pension capital and contributes to the preservation of social ties, but also have a significant impact on the operation of large public institutions. Let us consider the example of potential positive opportunities of the realization of labor potential of the population of retirement age, such as the situation with the balance of the budget of the Pension Fund of Russia. For the first time since 2010 in 2014 the expenditure side of the budget of the Pension Fund of Russia exceeded revenues (6.19 trillion rubles and 6.16 trillion rubles, respectively [4]). However, the in-depth analysis of the revenue and expenses structure reveals that in 2014 the total amount of insurance contributions for obligatory pension insurance amounted to 3.69 trillion rubles, whereas 4.98 trillion rubles was spent on the payment of insurance part of labor pension. The federal budget allocated 41 trillion rubles to the Pension Fund, of which at least 1.3 trillion rubles was spent to cover the deficit caused by the imbalance in the ratio of workers and pensioners. At the same time, according to the medium variant of the forecast made by the Federal State Statistics Service of the

Russian Federation, in 2031 the number of the dependent will account for 832 per 1,000 of the able-bodied population, of them two thirds are people aged 60 and over [22]. So, it can be assumed that the deficit of the PF budget will grow, thus requiring additional funds from the federal budget to cover it. The increase in the retirement age is most often mentioned as a solution to the problem of pension system financial sustainability [14;17]. However, studies show [2] that there are no demographic reasons (in particular, this applies to life expectancy and health) for it in our country. This contradiction makes it difficult to make managerial decisions in the conditions of population ageing. The increased employment of the population of retirement age can be one of the possible solutions to the problem of PF deficit budget. The promotion of employment among older people (which, by the way, is stipulated in the public draft of the “Strategy of actions in interests of senior citizens by 2025” [20]) could potentially “mitigate” the burden on the working population and the Pension Fund budget through the payment of insurance premiums by retirees working for a certain period after retirement.

#### **Trends and patterns of population ageing in Russia and the Vologda Oblast**

Russia is among those countries with the “old” age structure. The decline in fertility and mortality in Russia led to the fact that in 1926–2015 the proportion of population aged over 60 increased almost 3-fold (7% and 20%, respectively). In 2013 the Russian Federation ranged 44th in the ranking of the “oldest countries of the world” [26].

Regions’ differentiation by this indicator is one of the main features of population ageing in Russia. The analysis by the method of E. Rosset describing the classification of territories by level of “age” [16] shows that the vast majority of the regions entered a phase of “population ageing” (2015 in 74 regions of the country the share of population aged 60+ exceeded the threshold of 12% [10]), and in 56 regions the share of the elderly exceeded the critical value of 18%. However, the difference between the “oldest” region (the Tula Oblast) and the “youngest” region (the Chechen Republic) is 18 percentage points (25% and 7%, respectively).

The Northwestern Federal District ranges 2nd in terms of age (as of January 1, 2015 the share of population aged 60+ amounted to 21%) following the Central Federal District (22%, respectively). The alignment of population ageing in the NWFD regions in the period from 1990 to 2015 is of particular importance (*tab. 1*). Such changes occurred due to greater intensity of population ageing in the regions with the relatively “young” age structure. The greatest increase in the aging factor in this period was observed in the Murmansk Oblast (by 2.5 times) and the Komi Republic (by 2 times), where the rise in the share of the elderly was determined not only by the changes in the parameters of natural reproduction of the population (i.e. mortality and fertility), but also by the significant outflow of working-age citizens.

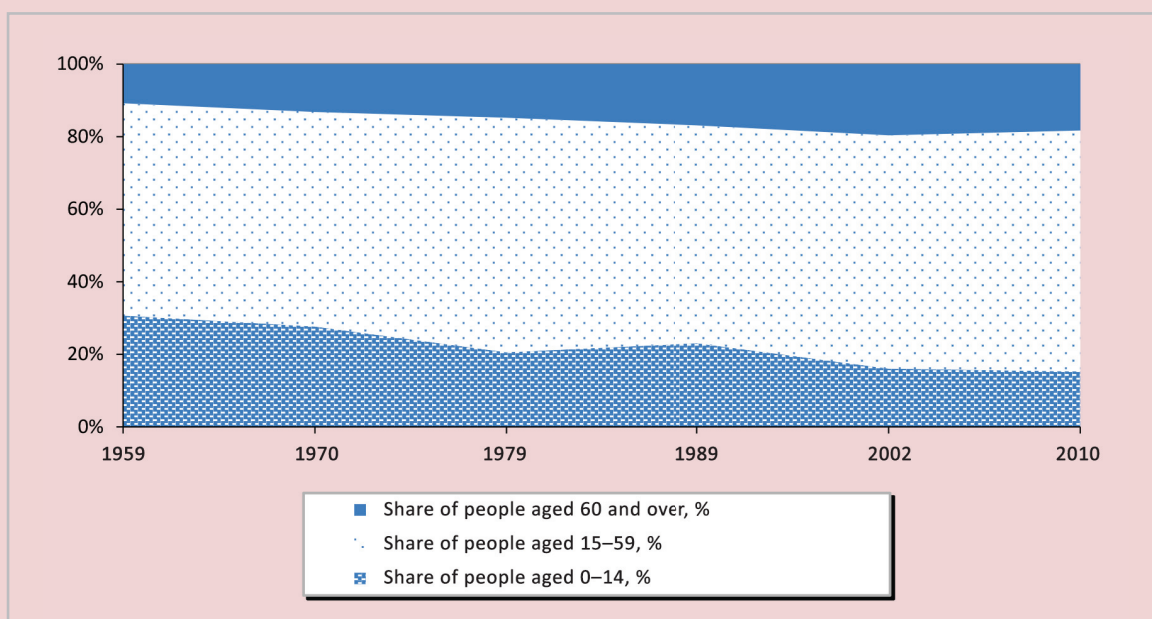
The Vologda Oblast “aged” considerably earlier than most considered regions: even in the 1960s the proportion of older persons exceeded the 12% threshold. Today, the share

Table 1. Dynamics of the changes in the aging factor in the NWFD regions, 1990–2015

Federal district	Aging factor, %		2015 to 1990, %
	1990	2015	
1. Pskov Oblast	21.2	23.7	113
2. Novgorod Oblast	19.2	23.3	121
3. Leningrad Oblast	16.8	22.0	131
4. Saint Petersburg	17.5	21.7	124
5. Republic of Karelia	13.2	20.7	157
6. Vologda Oblast	17.3	20.2	117
7. Arkhangelsk Oblast	12.9	20.0	155
8. Kaliningrad Oblast	13.9	19.8	142
9. Murmansk Oblast	6.7	16.4	245
10. Komi Republic	8.1	16.0	197

Source: data of the Unified Inter-Departmental Information and Statistical System. Available at: <http://fedstat.ru/indicators/start.do>; the author's calculations.

Figure 2. Distribution of the Vologda Oblast population by major age groups



Source: compiled with the help of data of the 1959–2010 censuses. Available at: <http://demoscope.ru/weekly/pril.php>

of the population aged 60 and over in the Vologda Oblasts is equal to 20%. It ranks 6th by level of “age” among the NWFD regions and 38th in the country.

The dynamics of the share of 3 major age contingents presents the transformation of the age structure of Vologda Oblast population in 1959–2010 (*fig. 2*). For half a century there



have been a two-fold reduction in the share of children and, consequently, a rise in the share of adults of working and retirement ages. Thus, the share of the pension contingent has grown much faster than of the able-bodied [1].

The change in infant mortality is an important element of the population ageing process. On the one hand, its decline leads to the increase in the number of children that hypothetically involves the “rejuvenation” of population, because it raises the survival rate of children; for the age pyramid it is equivalent to increasing the birth rate. On the other hand, the decrease in this index results in higher life expectancy, which in the conditions of low fertility leads to population ageing. In the Vologda Oblast there are positive changes in the dynamics of this indicator: from 1990 to 2014 infant mortality in the region fell from 17.7 to 7.7 per mille [7]. The reduction in infant mortality on the territories with the model of “ageing from the bottom” is a significant factor in the intensification of the ageing process, contributing to the growth of life expectancy due to the increased survival rate. In turn, the achievement of the rate of infant mortality observed in the developed countries leads

to the reduction in resources to enhance life expectancy “from the bottom”, presenting one of the components of territories’ transition to the model of “ageing from above”, when the lengthening of the period of survival at older ages is the main factor in population ageing.

Migration is a factor that has a significant impact on population ageing in the majority of Russian regions. The analysis of migration processes in the Vologda Oblast reveals that the population outflow is caused to a greater extent by the retirement of able-bodied citizens and representatives of the younger age group (aged 0–14) from rural areas (*tab. 2*). At the same time, in-migration is observed in the elderly group (in 2012 the growth amounted to 402 persons, in 2013 – 593). It can be concluded that the age structure of rural areas is more susceptible to changes as a consequence of migration processes. The outflow of young cohorts of population creates preconditions for the formation of unfavorable forecast of the age structure of rural population. The urgency of the population ageing problem in rural areas is also confirmed by the following figures: in 2014 in villages there were 841 dependents per 1,000 population (average for the oblast – 737 [3]).

Table 2. Migration growth (decline) of the Vologda Oblast population geographically and by age group, persons

Age group	Year					
	2012			2013		
	Urban area	Rural area	Total	Urban area	Rural area	Total
Entire population	<b>1,017</b>	<b>-2,070</b>	<b>-1,053</b>	<b>720</b>	<b>-2,041</b>	<b>-1,321</b>
Including						
Under working age	84	-363	-279	322	-434	-112
Of working age	935	-2,109	-1,174	498	-2,020	-1,702
Over working age	<b>-2</b>	<b>402</b>	<b>400</b>	<b>-100</b>	<b>593</b>	<b>493</b>

Source: data of the Territorial Body of the Federal State Statistics Service in the Vologda Oblast. Available at: <http://vologdastat.gks.ru/>

In five districts (Vashkinsky, Kharovsky, Belozersky, Ust-Kubinsky, Kirillovsky) the aging factor is more than 27%, and the proportion of working age population is already smaller than the one of children and pensioners (*tab. 3*). Each person of working age accounts for more than one dependent group representative and two-thirds of this load is formed by the population of retirement age.

The variable-based demographic forecast of the changes in the Vologda Oblast population up to 2030 reflects the continuation of depopulation, though the increase in the birth rate is planned [11]. In turn, according to the inertial scenario, the aging factor will increase to 30.8 % in the region in 2050 [6]. The implementation of such a forecast seems to be most probable in view of the fact that there are no prerequisites for fundamental changes in the regional situation. The substantial increase in the elderly population will further decrease supply on the labor market, raise the

demographic burden on working population and the pension fund deficit. The demographic processes are slow in nature; in the literature population ageing is called a “quiet revolution” [8]. The implications of population ageing are stretched in time, that is why strategic planning should consider risks associated with changes in the age structure of population for the region to become ready for the upcoming challenges.

#### **Socio-economic analysis of labor activity of the population of retirement age (case study of the Vologda Oblast)**

In the conditions of population ageing leading to the transformed labor market functioning due to the declined share of employees, economic activity of the population of retirement age is becoming one of the most important resources for socio-economic development of the territory. The analysis of the 1992–2014 statistical data shows that the employment rate of retirement age population tends to increase in the Vologda Oblast (*fig. 3*).

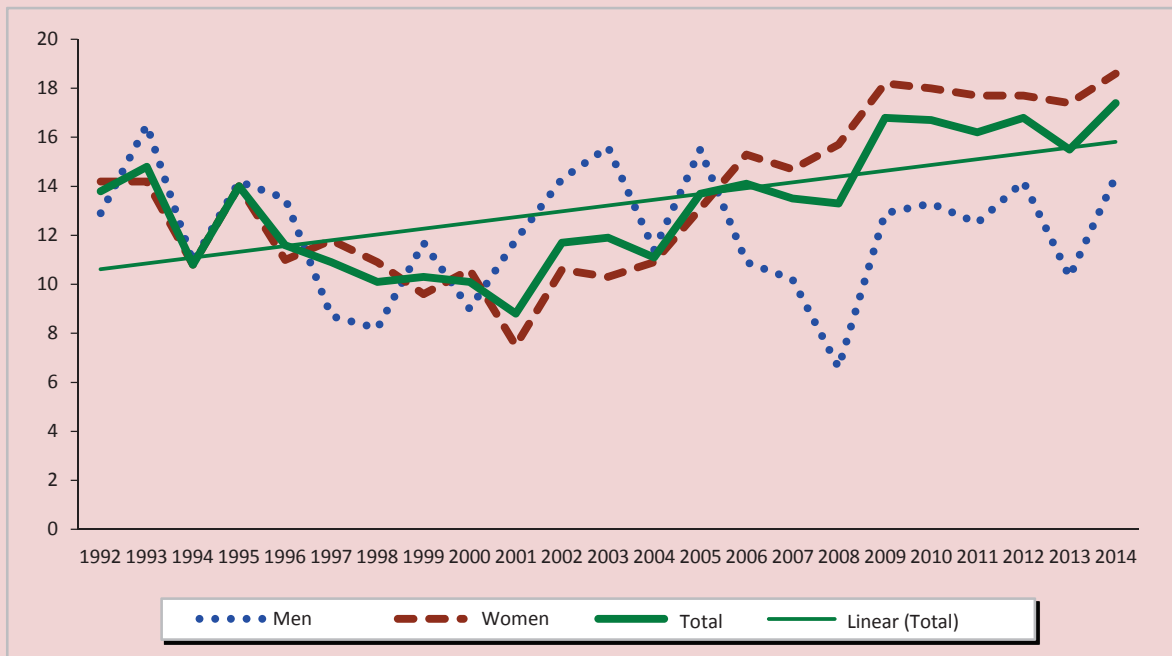
Table 3. Basic indicators of population ageing of the Vologda Oblast territorial entities in 2014

Territory	Aging factor, %	Aging index	Demographic burden	Demographic burden of children	Demographic burden of the elderly	Share of people under working age, %	Share of people of working age, %	Share of people of retirement age, %
Vashkinsky	29.0	174	1,126	372	754	17.5	47.0	35.5
Kharovsky	28.3	172	1,046	355	691	17.3	48.9	33.8
Belozersky	28.1	172	1,034	353	681	17.3	49.2	33.5
Ust-Kubinsky	27.9	166	1,052	364	688	17.7	48.7	33.5
Kirillovsky	27.6	164	1,039	359	680	17.6	49.0	33.4
...	...	...	...	...	...	...	...	...
Cherepovets	18.3	106	684	304	379	18.1	59.4	22.5
Nikolsky	18.0	89	783	379	404	21.3	56.1	22.7
Vologda	17.8	105	664	295	368	17.7	60.1	22.1

Ranked by the aging factor value.

Sources: Vozrastno-polovoi sostav naseleniya Vologodskoi oblasti v 2014 godu: stat. sbornik [Age-Sex Composition of the Vologda Oblast Population in 2014: Statistical Collection]. *Vologdastat* [Territorial Body of the Federal State Statistics Service in the Vologda Oblast]. Vologda, 2015. 96 p.; the author's calculations.

Figure 3. Change in the level of employment of the population of retirement age in the Vologda Oblast, % of the total population of retirement age



Source: data of the Territorial Body of Federal State Statistics Service in Vologda Oblast. Available at: <http://vologdastat.gks.ru/>; author's calculations.

In the 1990s the decline was caused by the unstable economic and political situation in the country and the region, when due to mass unemployment older people found it difficult to apply for jobs. However, the stabilization of the socio-economic situation in the country in the early 2000s led to the “return” of pensioners to the labor market. Noteworthy is the stepwise change in the employment rate of men of retirement age, with a substantial decline in “crisis” years. This leads to the

conclusion that the position of older men on the labor market has a strong dependence on the changing socio-economic situation in the country and the region.

The higher employment rate of women is substantiated by several reasons: they retire earlier, have relatively higher life expectancy, moreover, the nature of women’s work in most cases is less energy-intensive and harmful than of men’s<sup>1</sup>. In addition, there is a significant change in the structure of value

<sup>1</sup> Article 253 of the Labor Code establishes a general rule on the limitation of women’s employment in heavy works and works with harmful and (or) dangerous working conditions and underground work except for nonphysical jobs or sanitary and consumer services. Part 2 Article 253 of the Labor Code prohibits the employment of women in works connected with lifting and moving manually weights, exceeding maximum permissible norms, established by the RF Government Decree of February 6, 1993 No. 105. Maximum allowable cargo weight when lifting and moving weights when rotating works is about 10 kg, and when lifting and moving weights constantly during a work shift – 7 kg.

orientations of older women. According to experts [19], the recently emerged diversity of women's life strategies is replaced by the dominance of survival strategies, which become more widespread amid the increasing social stratification of population and high risk of poverty for the vast majority of women. As a result, women living in families, on the one hand, spend more time on domestic work and service of the family, on the other – the value of involuntary employment increases for these women.

If we turn to the economic activities of working pensioners in the Vologda Oblast, we can highlight some most “popular” areas, which include education and healthcare, agriculture (which is traditionally characterized by the high proportion of workers of retirement age) and mining (*tab. 4*). The smallest percentage of working pensioners is observed in the financial sector, hotel and restaurant business.

The distribution of working pensioners by economic activity also has its own cha-

Table 4. Distribution of the employed by age and economic activity in 2014

Activity	Employed as total, thousand people	Aged 55–72, thousand people	Aged 55–72, in % of the total number	Average age, years
Agriculture, hunting and forestry	55.9	12.1	16.2	43.7
Fishing and fish farming	0.7	0.2	14.4	45.5
Mining	0.4	0.1	25	48.3
Manufacturing	111.8	10.9	10.5	39.4
Production and distribution of electricity, gas and water	24.2	5.2	10.2	43.3
Construction	41.9	3.9	5.6	37.8
Wholesale and retail trade; repair of motor vehicles, motorcycles, household goods and personal items	90	6.3	6.5	36.3
Hotels and restaurants	10.6	1.3	3.8	38.9
Transport and communications	53.6	5.6	6.7	39.6
Financial activities	9.1	0.4	1.4	34.6
Operations with real estate, rent and granting of services	25.5	4.7	9.7	40.9
Public administration and military security; social insurance	44.3	3.4	4.1	37.5
Education	53.6	10.6	13.8	43.1
Healthcare and social services	45.7	9.7	13.0	44
Total	589.7	77.4	13.1	40

Source: Trud i zanyatost' v Vologodskoi oblasti v 2010–2014 gg.: stat. sbornik [Work and Employment in the Vologda Oblast in 2010–2014: Statistical Collection]. *Vologdastat* [Territorial Body of the Federal State Statistics Service in the Vologda Oblast]. Vologda, 2015. 111 p.

racteristics. Over one third (35%) of all skilled agriculture workers and one of five (20%) unskilled workers account for the population over 55 years of age. The myth about the “geriatric” structure of executive personnel is disproved by the following figure: only 14.6% of the heads of institutions, organizations and their structural subdivisions in the Vologda Oblast is over 55 years of age [21].

The actual irreversibility of the population ageing process, along with increasing life expectancy, creates a situation where the socio-demographic category of the elderly is becoming increasingly important, which, in turn, actualizes the research on the subject. These statistics allow us to estimate the rate of changes in pensioners’ economic activity and some structural elements, but do not give an opportunity to determine, for example, motives for work in retirement.

Taking into account the problem importance, in 2015 the Institute of Socio-Economic Development of Territories of RAS carried out an expert survey “Quality of life of older persons in the Vologda Oblast”. The sample size is 1,500 people. The distribution of respondents by sex and age conforms to the general totality of Vologda Oblast population aged over 50 (according to age and gender indicators presented in the statistical compilations) that allows us to evaluate the obtained results as reliable. To determine territorial characteristics of the study we single out 2 major cities – Vologda and Cherepovets. The sampling error does not exceed 4%. A substantial part of the questionnaire is devoted to various aspects of labor activity of the elderly population.

Assessing resource potential of the older generation in the future, it is important to understand, whether citizens of preretirement age intend to continue the labor activity. According to the findings, 53% of the respondents of preretirement age plan to retire immediately upon attainment of the age point. A quarter (25% of the respondents) have not decided yet. Accordingly, 22% of people aged 50–59 do not plan to retire in the first year.

More than a third of the population of preretirement age (35%) plan to continue working in retirement. A significant proportion of the respondents (38%) find it difficult to answer this question: their decision can be influenced by economic (additional income) and non-economic (need for communication) motives. The data of our study confirm that the need for additional income (94% of the respondents) is the main motive for the population of preretirement age to continue employment. The interest in constant communication (15%) and the desire to be useful to society (11%) are less significant.

The duration of work after retirement is the most important indicator to assess pensioners’ labor activity. According to the comprehensive monitoring of living conditions of the population conducted by Rosstat, in Russia the average length of employment in retirement amounts to 6.3 years for working pensioners and 6.4 years for citizens who have completed their career [5]. The study reveals that in the Vologda Oblast the average planned duration of employment in retirement is 5.5 years. One fifth of the respondents (21%) plan to work in retirement for 1–5 years. About the same proportion of region’s residents

of preretirement age are going to work for 5–10 years after retirement, and 3% of the respondents – more than 10 years. More than half of the respondents (53%) ready to work in retirement find it difficult to specify the approximate number of years, during which they are going to continue their career.

The study allow us to identify the difference between the actual and nominal (55 for women and 60 for men) age of retirement. According to our calculations, the actual age of retirement for men amounts to 58 years (the deviation from the nominal age of retirement is equal to 2 years) (*tab. 5*), and every third of the male respondents retires early (32.3%). The actual age of female retirement coincides with the nominal and is equal to 55. Unlike men, only 12% of the women retire early.

The vast majority of the respondents of retirement age receive old-age pension (78.5%). Every tenth of the respondents (11%) gets superannuation, 6% – disability pension, and 2% – military pension. The average size of pension in the area, according to the respondents, amounts to 11,860 rubles (*tab. 6*). The average size of old-age pension is in the range of average regional values (11,832 rubles). Among men it is slightly higher than among women (12,090 and 11,744 rubles, respectively). The largest size of old-age pension is observed among the regional population aged 50–54 (13,670 rubles) and the lowest – among the residents aged 55–59 (10,671 ruble).

Almost half of the surveyed pensioners (45%) continue to work after retirement. The respondents receiving pension have motives

Table 5. Distribution of answers to the question: “At what age have you retired?”, %

Answer option	Total	Men	Women
No answer	4.5	5.2	4.2
Aged under 50	3.2	4.6	2.6
Aged 50–54	9.4	8.8	9.7
Aged 55–59	61.2	18.9	79.9
Aged 60–64	20.3	60.1	2.7
Aged 65 and over	1.4	2.4	0.9
<b>Average age, years</b>	<b>55</b>	<b>58</b>	<b>55</b>

Source: here and below, unless otherwise indicated: data of the survey “Quality of life of the elderly” conducted by ISEDT RAS in 2015. Sample size – 1,500 people aged 50 and over.

Table 6. Distribution of answers to the question: “Please, indicate the size of your pension”, rubles

Answer option	Total	Gender		Age				
		Men	Women	50–54	55–59	60–64	65–69	70 and over
Aaverage value	11,860	12,282	11,686	12,789	10,886	11,334	11,730	12,800
Average pension: old-age	11,832	12,090	11,744	13,670	10,671	11,394	11,838	12,704
war	20,167	20,167	-	22,667	22,000	17,250	15,000	22,667
disability	11,500	11,190	11,741	9750	9889	10,827	10,900	14,093
superannuation	11,038	11,070	11,018	11,167	12,000	10,387	11,544	10,306

to continue working that are different from the population of preretirement age: the need for additional income is less important (81% against 94%, respectively), the need to communicate (20% against 15% respectively) and the desire to do good to the society (13% against 11%, respectively) become increasingly urgent. According to the analysis of pensioners' attitudes, becoming older, people are more concerned about altruistic and aesthetic values, while the influence of the material factor becomes a little less significant. Such changes in the structure of older persons' values have certain influence on the motives to continue working at older ages.

The conducted research reveals that about half of the retirees (45%) of those who continue working after retirement work up to date (tab. 7). The most obvious reduction in work activity is recorded in the group of people aged over 70 (of which only 9% continue working at the time of the survey), whereas in the group of respondents aged 65–69 39% of the pensioners carry out labor activity (of the those who continue working after retirement). This allows us to assume that the limit in 70 years is a conditional point of finishing realization of older people's labor potential. However, it is also necessary to pay attention to the fact that by the age of 60 almost half of the respondents stop working.

A third of the retirees (33%, carrying out labor activity at the time of the survey) are going to work in retirement for 1–5 years, and every fifth (18%) – in for 5–10 years. The state of health is a determining factor in the prolongation of labor activity in retirement, which is confirmed by the decrease in the respondents' estimates of the possible employment period with age, and great "enthusiasm" of women.

Of those people who continue working at the time of the survey, the majority has a permanent job (71%). Every fifth retiree (20%) holds a contract, has a temporary job. To a greater degree it is characteristic of the elderly aged over 70 (53.8% of the total number in this age group) due to the unsatisfactory state of health, preventing to work on a regular basis. The employer's position in relation to older people is also a significant limiting factor, which is evidenced by the fact that 13% of the pensioners face manifestations of age discrimination in hiring.

According to the study data, 21% of the non-working pensioners are ready to accept any feasible job if they received an offer. Over half of the respondents (61%) are more likely to refuse it. This can be caused by either the impossibility to continue labor activity due to poor health (70% of the respondents assess their health as "imperfect" and "bad") or the

Table 7. Distribution of answers to the question: "Are you working now?", % of those who continue to work after retirement

Answer option	Total	Gender		Age				
		Men	Women	50–54	55–59	60–64	65–69	70 and over
Yes	44.8	48.3	43.3	78.9	73.8	52.2	39.3	9.0
No	55.2	51.7	56.7	21.1	26.2	47.8	60.7	91.0

lack of motivation, as for many older people the value of rest prevails over the desire to continue employment.

Older people can fulfil their potential and some their needs (communication, hobby, etc.) doing volunteer work. However, only 13% of the retirees have a positive attitude towards the opportunity to work on a voluntary basis in public organizations. However, the proportion of older people skeptical about this occupation is also relatively small – 23%. The majority of the respondents (63.5%) find it difficult to answer this question due to, in our opinion, the pensioners' insufficient awareness about the work of community and voluntary organizations. Volunteer organizations should pay more attention to the dissemination of information concerning their activities and the possibility of attracting the elderly.

The level of older people's qualification and the correspondence of their skills to the modern requirements are the factors determining the possibility to continue employment in retirement. The ability to quickly adapt to innovations is an important competitive advantage of any specialist, which is the key to the success of both an employee and an organization. The survey shows that only 12% of the retirees would currently take training courses, learn new skills and knowledge. A quarter of the respondents (24%) find it difficult to answer the question. The rest (64%) indicate that do not need training at the moment.

In the questionnaire the respondents are asked to rate the truthfulness of some statements about the employment of older people. So, 61% of the retirees agree that

older employees give more time and effort to the work than their younger colleagues. However, about half of the respondents (46%) believe that most elderly people lack sufficient motivation and commitment to career development.

Also about half of the surveyed retirees (44%) believe that in most cases older employees are not inclined to innovations and more likely to work "the old way" (*fig. 4*). However, according to 61% of the respondents, older employees are people to rely on in the organization, and their experience accumulated over a long working life helps even in the most difficult situations.

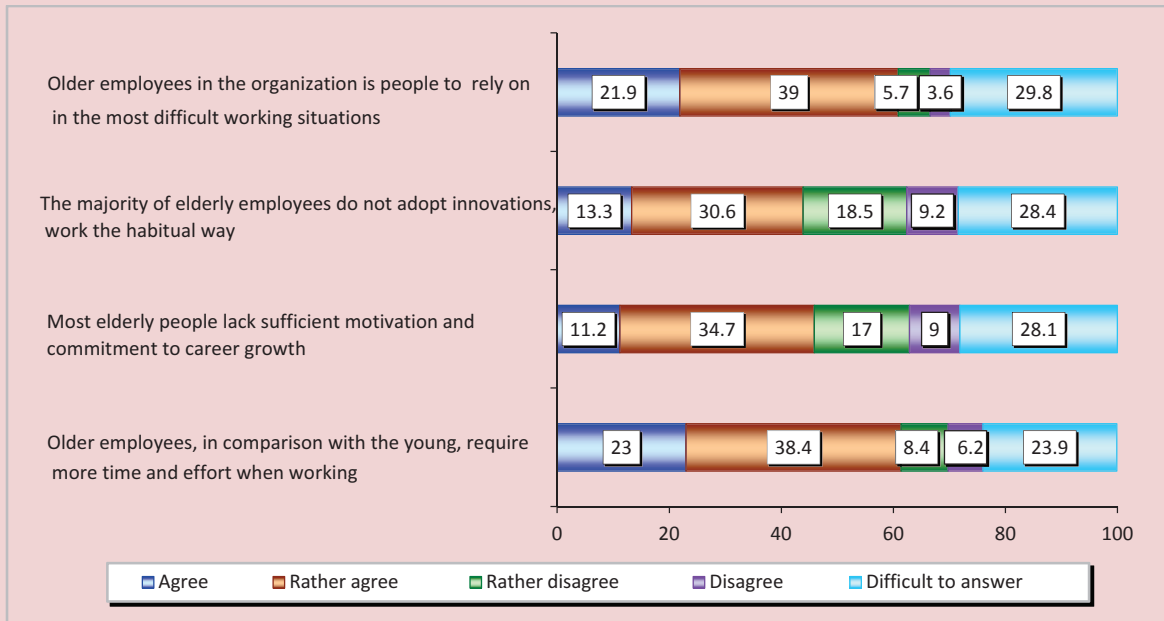
Thus, the sociological portrait of an elderly employee, based on the pensioners' subjective evaluations, is as follows: this is an experienced and responsible worker, whose opinion is respected; however, he/she has a fairly conservative approach to the duties and finds it difficult to adapt to innovations.

#### **Conclusions and recommendations**

Labor activity of older persons in the Vologda Oblast can be described as the average: about 45% of the respondents continue working after retirement. For comparison, the national average amounts to 31% [5]. The need for additional income is the key motive to continue employment in retirement, but with age there increases the importance of such factors as communication and desire to do good to the society. The important result is that a fifth of the population approaching retirement age is not planning to retire immediately after reaching the required age. It can have a positive effect on the pension system and the region's economy in the future.



Figure 4. Distribution of answers to the question “Do you agree with the following statements?”, %



As for reserves of increasing pensioners’ labor activity in the area, a fifth of pensioners are ready to take up any possible work. At the same time, 13% of the respondents experience manifestation of age discrimination in hiring.

On the one hand, population ageing entails a number of negative consequences for the society (deterioration of the employment structure of population, raised population pressure and burden on social infrastructure, etc.), on the other hand, older people have vast experiences and resources that can and should be implemented in the social and economic spheres of public life. The positive aspects include the grown employment and economic activity of pensioners and increased levels of education. This confirms the fact that the social group of older people will play

a more important role in the near future and become one of the major resources for Russia’s development [19].

The main activities of the state and society, which, in our opinion, help realize the resource potential of older population, are presented below.

1. It is necessary to form the legal base to regulate various aspects of older people’s employment, in particular, working conditions. This process should be connected to all main actors: the state, as a guarantor of protection of the right to employment at any age, employers, offering jobs, and the elderly themselves, offering their labor. According to the analysis and expert evaluation [19], in the modern realities it is necessary to adopt a law on non-discrimination by age.

2. It is important to encourage the business community to create jobs appropriate for the older generation.

3. It is necessary to pay much attention to the enhancement of employees' qualification throughout the period of their employment, including after retirement. The reduction in the difference in time between training courses will help the elderly better adapt to the latest innovations.

4. The pensioners' remote involvement into work via the Internet can be a perspective direction to raise labor activity and productivity of older people. The main obstacle is a lack of computer literacy of the elderly population. Nine of ten respondents aged over 70 (90%) indicate that they do not have the skills to work with computers. However, among the respondents of pre-retirement age (50–59 years), the proportion is only 37%. These figures suggest that in the near future the

problem of insufficient computer literacy among the elderly will be solved in a natural way.

5. It is necessary to focus on the promotion of ideas of healthy (self-preserving) behavior among the population [12]. In our opinion, this direction can be realized through the adoption of the active ageing concept at the federal and regional level, which aims at developing personal responsibility for own health, knowledge and skills of a long and active life.

6. There is a need to introduce gerontology profiling for professionals working with older people, medical workers, teachers, employees in the sphere of recreation and leisure.

7. It is important to keep a balance of work and rest modes that can positively influence the state of health in old age and, in turn, significantly extend the period of employment.

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### Information about the Author

Vitalii Nikolaevich Barsukov – Junior Research Associate, Institute of Socio-Economic Development of Territories of Russian Academy of Science (56A, Gorky Street, Vologda, 160014, Russian Federation, Lastchaos12@mail.ru)

### **About the Results of the 7th Research-to-Practice Conference “The Strategy and Tactics of Socio-Economic Reforms: the Regional Aspect”**

December 17–19, 2015, Vologda hosted the 7th research-to-practice conference “The Strategy and Tactics of Socio-Economic Reforms: the Regional Aspect”, which coincided with the 25th anniversary of the Institute of Socio-Economic Development of Territories of RAS. We can say that ISEDT history is a unique experience in the formation and progressive development of the institution of the Russian Academy of Sciences in the region in the conditions of formation of market relations.

Today, the Russian Federation is shifting to a new stage of its development. On the one hand, the country strengthens its position in foreign policy; on the other hand, there emerge internal comprehensive systemic issues, and the pace of economic growth is slowing down. In turn, this leads to problems in regional development and negatively affects the quality of life.

In this situation, regions have to adapt to the new challenges that are also caused by the uncertainty and instability of development, rapid changes in global, national and regional economies. The socio-economic and political orientation of the state at a particular stage

of its development also causes changes in the strategy of economic development of regions.

The adoption of the Federal Law “About Strategic Planning in the Russian Federation” in 2014 opened up new opportunities for enhancing the efficiency of public and municipal administration. Sustainable development of territories is possible only if its goals and priorities are defined, investment, innovation and social strategies are worked out. Recent years of economic reforms have shown that the regions that apply progressive methods to manage their development are less prone to crisis trends. Under the difficult conditions of overcoming the crisis, comparative advantage were available first and foremost in those regions that used adequate methods and tools to manage their development. Of course, there is an increase in the autonomy of the regions that bear most of the responsibility for the results of the regional economic development.

The search for solutions to emerging issues was the topic of the 7th research-to-practice conference “The Strategy and Tactics of Socio-Economic Reforms: the Regional Aspect”.

The conference was organized by the Federal Agency for Scientific Organizations, the Russian Academy of Sciences, the Government of the Vologda Oblast, the Department for Strategic Planning of the Vologda Oblast, Vologda City Administration, and the Institute of Socio-Economic Development of Territories of RAS.

The goal of the conference was to develop the theory and practice of socio-economic reforming and development prospects of Russia's regions in the context of modernization transformations. Scientists engaged in regional studies, representatives of state research and scientific institutions, government authorities, the media, non-governmental and commercial organizations discussed the successes and failures, opportunities and mechanisms to improve public administration efficiency in the sphere of formation and implementation of regional policy.

Over 300 people participated in the event. Leading Russian scientists A.D. Nekipelov, M.K. Gorshkov, V.N. Lazhentsev, R.S. Grinberg, S.D. Valentey, S.S. Gubanov and others presented their reports at the conference.

In the framework of the scientific forum, the participants discussed the importance of socio-economic reforms for regional development at the new stage of formation of the Russian statehood; attempts were made to assess positive results achieved in the framework of the ongoing reforms, to identify problems and possible ways to solve them. Great attention was paid to the issues of the Russian regions in contemporary Russian society and current challenges, and also to the

role and importance of improving the quality of public administration.

V.A. Ilyin – ISEDT RAS Director, Doctor of Economics, Professor; A.I. Sherlygin – First Deputy Governor of the Vologda Oblast; M.Yu. Romanovsky – Head of the Department for Coordination of Work of Scientific Organizations under the FANO of Russia; Academician A.D. Nekipelov – Director of Moscow School of Economics at Moscow State University – these participants made their welcome addresses at the opening of the forum.

V.A. Ilyin pointed out that the first conference was held in 1997 under the guidance of Academician D.S. Lvov whose authority contributed to the involvement of academicians and leading economic scientists of the Russian Academy of Sciences in the conference.

A.I. Sherlygin welcomed the conference participants on behalf of the Vologda Oblast Governor O.A. Kuvshinnikov. A.I. Sherlygin noted that technological modernization, the necessity of which was underlined by President Vladimir Putin, is impossible without innovation and scientific developments. The current situation requires new approaches and bold solutions. Today, the competitive advantages of the economy and the possibility of modernization are largely associated with the accumulated and realized human potential. The Vologda Oblast Government pays considerable attention to the development of personnel, scientific and innovation potential in order to establish progressive economic foundations that will define the image of the region in 15–20 years.



Presidium



Plenary Session



A.I. Sherlygin



M.Yu. Romanovsky



A.D. Nekipelov



M.K. Gorshkov



R.S. Grinberg



S.D. Valentey





From right to left: V.A. Ilyin, A.A. Shabunova, K.A. Gulin, T.V. Uskova



V.A. Ilyin receives the highest state award of the Vologda Oblast



V.V. Lokosov



E.B. Shulepov



S.S. Gubanov



V.N. Lazhentsev



V.V. Markin



V.K. Egorov

M. Yu. Romanovsky stressed the importance of the issues to be discussed at the conference and wished ISED T RAS researchers success in their work.

According to A.D. Nekipelov, the fact that this forum is held on a systematic basis – and this is already the seventh conference – indicates the level of development of science in the Vologda Oblast and the development of close cooperation between the Vologda Oblast Government and academic institutions. A.D. Nekipelov stressed that the topic of the conference had been chosen very accurately. At present, the country and its regions face a great number of problems, and if they remain unsolved, it will be difficult to talk about strategic objectives. But if we do not look into the future, we can get caught up in dwelling upon what is happening now. Today, the topic of the strategy attracts attention of different parties. The strategy till 2030 is being developed at the federal level. It has been agreed that the strategy should ensure modernization of the country, its economy and society as a whole. However, there is a wide field for discussion of questions relating to what has to be done on a large-scale basis. This problem can be solved if there are strategic approaches to various areas of economic policy. A.D. Nekipelov pointed out that it was therefore very important, that this problem would be considered as a strategy of a region – the region that was interesting and complex, and the results of the discussion should be very significant. It would be a sort of test of common approaches and specifics that would inevitably characterize the application of this strategy in different regions, in this case, the Vologda Oblast.

The conference was held in the format of plenary sessions, each of which had its own subject for discussion. The topic of *the first plenary session* “Russia in the New Socio-Political Reality: Challenges and Risks” was due to the following circumstances. At the end of the 20th and beginning of the 21st century, human civilization went through the qualitative changes that lead to the formation of a new social reality, the immanent elements of which are potential threats and risks that can involve modern society in a global catastrophe.

Socio-economic contradictions in contemporary Russian society have become key obstacles to the transition to a new development model that will replace the resource-based model which exhausted its capacity. Human potential, social capital and scientific knowledge are becoming crucial development factors in the new geopolitical and social reality. The main report “Russian Society: a Year in the Conditions of Crisis and Sanctions” was delivered by Mikhail Konstantinovich Gorshkov, RAS Academician, Director of the Institute of Sociology of RAS. He presented the findings of the “third wave” of the monitoring (October 2015) of the all-Russian sociological research. It shows the opinion of the Russians on the following issues: changes happening in the society; the impact of the crisis on the socio-psychological well-being of the Russians; what the Russians are ready to give up for the sake of their country; main contradictions in the society in the context of value perception of the population; the government and society in

crisis conditions: between consolidation and dissatisfaction; what is more important in the daily lives of the Russians today.

Delivering their reports, A.I. Sherlygin, V.V. Lokosov, D.V. Afanasiev, V.V. Markin, and A.A. Shabunova addressed the issues of transition of Russia's economy to a new development model, and the issues of social cohesion and development of civil society.

*The second plenary session* was devoted to the issues of improving the quality of public administration. Modern Russian society is a result of the reforms that transformed the Soviet planned economic system into a market system. However, more than twenty years of market transformation have not produced the desired effect. The operation of the national economy in the conditions of market and its integration into the world economy require new, science-based forms and methods of socio-economic processes management. In this regard, the issue of public administration efficiency becomes particularly important.

In the framework of the session, its participants discussed the reports and recommendations that substantiated the necessity of essential correction of socio-economic policy pursued by the state for overcoming negative trends in the economy, accelerating economic growth, increasing the real incomes and enhancing the quality of life of the population on this basis.

Summing up his speech, R.S. Grinberg, RAS Corresponding Member, Scientific Director of the Institute of Economics of RAS pointed out the following regularity: the

change of power occurs through the political process, and political competition is a very important tool to change economic policy.

E.B. Shulepov, Head of Vologda City presented the experience of Vologda in his report "Modern Methods and Issues of Managing a City". Reports were also made by S.S. Gubanov, D.B. Kuvalin, and V.K. Egorov.

It was no coincidence that *the third plenary session* was devoted to current issues of Russia's regions. Socio-economic space of Russia is characterized by heterogeneity that has a significant impact on the functioning of the state, on the effectiveness of socio-economic policy, its structural component, and on the strategy and mechanisms of institutional reforms. Sustained negative trends in the economy and social sphere of Russia's regions and their substantial differentiation in terms of socio-economic development reduce competitiveness and security of the country, prevent the economy from shifting to a new model of development.

S.D. Valentey, Doctor of Economics, Professor, Scientific Director of Plekhanov Russian University of Economics, Chief Editor of the journal "Federalism" spoke on the topic "Russian Regions and Economic Growth", in which he attempted to show on the example of interesting scientific publications that national experts, even the leading ones, are far from understanding the importance of regional specifics of economic development in formulating recommendations on how to overcome the crisis in Russia's economy. According to S.D. Valentey, this problem is crucial. The academic community bears part

of the blame for the insufficient attention of the executive and legislative branches of government to the role of regional factors in the development of Russia’s economy.

S.A. Ponomareva, V.N. Lazhentsev, K.V. Yankov spoke about scientifically sound solutions to modern problems of Russia’s regions ensuring the effective modernization of regional socio-economic systems.

The conference participants appreciated the opportunity to get acquainted with lessons learned socio-economic reform and regional development in the context of the modernization and transformation mechanisms for improving the efficiency of state management in the sphere of formation and implementation of

regional policy. Great interest was shown by the presenters the results of empirical studies on the issues discussed.

The Institute of Socio-Economic Development of Territories of the Russian Academy of Sciences expresses appreciation to the Federal Agency for Scientific Organizations, the Vologda Oblast Government, the Vologda Oblast Department for Strategic Planning, the Department of Social Sciences of the Russian Academy of Sciences, and Vologda City Administration for their support and assistance in organizing this very important scientific event and hopes that the tradition started in 1997, will continue in the future.

*L.V. Babich*  
*ISED T RAS Deputy Director*  
*Ph.D. in Economics*

## ANNIVERSARIES

### Vladimir Aleksandrovich Ilyin Celebrates His 75th Anniversary



January 19, 2016, Vladimir Aleksandrovich Ilyin – Doctor of Economics, Honored Scientist of the Russian Federation, Scientific Director of the Institute of Socio-Economic Development of Territories of the Russian Academy of Sciences, Honorary Citizen of Vologda – celebrated his 75th anniversary.

V.A. Ilyin was Director of the Institute of Socio-Economic Development of Territories of RAS for 25 years he established the Institute virtually “from scratch” in the conditions of market transformations of Russia’s economy. He became scientist when he was already an experienced manager: he had worked for 32 years in the most advanced sectors of Soviet

industry – the defense industry, where he rose from an ordinary worker to Director General of the specialized production association. The systemic approaches that V.A. Ilyin used in the sphere of production served as the basic criteria in his subsequent work as head of a scientific institution.

His entering the field of science was due to several objective circumstances. The first one: by the end of the 1980s, the Vologda Oblast was a leader in the economic development of the European North (especially in ferrous metallurgy, mineral fertilizers, timber industry, livestock production, capital construction). However, the Vologda Oblast development

prospects did not have a proper scientific basis. But the nearby Northern territories of the Murmansk Oblast and the Komi and Karelian autonomous republics had their own scientific centers under the Academy of Sciences of the USSR that functioned and developed for many years. The authorities of the Vologda Oblast convinced the federal center that the oblast also needed to start developing its fundamental scientific basis. It was then that the first academic research institute was established in the Vologda Oblast, and this institute's scientific works always reflect the current socio-economic situation in the country and region.

V.A. Ilyin is the author of over 300 scientific publications. The first of them were devoted to the analysis of processes representing a "jump" from the Soviet planning and distribution system to market principles of management, known as the "shock therapy".

During the 1990s, the scientific team headed by V.A. Ilyin performed a number of studies in which they proved the urgent need to correct the socio-economic policy conducted by the then Russian authorities.

The works of V.A. Ilyin and ISEDT RAS research team in the early 2000s point out that the measures taken by the new President of Russia in order to strengthen the role of the state in managing economic and social life in the country give positive results. Monographs such as "Region's Development Strategy" (Moscow: Academia, 2006), "Regional Growth Strategy—2015" (Moscow: Nauka, 2007), "Spatial Aspects of the Region's Development" (Vologda: VSCC CEMI RAS, 2008) were executed and published under the supervision of V.A. Ilyin. The authority of ISEDT

RAS increased significantly in the academic community due to the publication of the following scientific works under the supervision of V.A. Ilyin: "Trends and Problems of the Region's Development" in three parts in 2005 and in four volumes in 2010, and collected works "Trends and Problems of Development of Territories" in six volumes in 2015.

V.A. Ilyin's monographs were more than once named among the best scientific books in Russia. For instance, in 2014, V.A. Ilyin and A.I. Povarova's work "Public Administration Efficiency Issues: Budget Crisis in the Regions" won the Third Regional Contest "Vologda Book – 2013" in the nomination "Best Scientific Publication". In 2015, the monograph "Public Administration Efficiency. Market Transformation Trends. Crisis of the Budget System. Role of Private Capital. Strategy-2020: Implementation Issues" prepared by V.A. Ilyin in collaboration with A.I. Povarova became laureate of the All-Russian Best Scientific Book Contest.

On the eve of V.A. Ilyin's anniversary, ISEDT RAS published his book "Public Administration Efficiency: Chief Editor's Point of View" that contains his articles from the journal "Economic and Social Changes: Facts, Trends, Forecast" issued in 2008–2015. They are devoted mainly to the efficiency of public administration. The author shows the complexity and difficulties of this process that arise out of the current internal and external situation in Russia. The articles consider the objective and subjective factors that hamper the improvement of public administration efficiency in the country, they also substantiate the possibility of constructive actions on the

part of Russian authorities in this respect. The author's point of view is based on his many years of creative production, research, organizational and social activities.

V.A. Ilyin's contribution to the development of ISEDT RAS is difficult to overestimate. The main achievements of the Institute were made possible largely thanks to his truly selfless work. The colleagues of Vladimir Aleksandrovich, academicians, directors of scientific institutes of RAS, and politicians say he is a true scientist, a talented organizer, a person with great life experience and outstanding "go-ahead" qualities, he knows how and is able to

assemble a team of enthusiastic people like himself, possessing the ability to foresee and prioritize, to combine and focus the efforts to achieve the goal.

On the eve of his anniversary V.A. Ilyin received the highest state award of the Vologda Oblast – the Medal of Merit for the Vologda Oblast due to his significant contribution to the development of the region and his outstanding research achievements.

The Journal's Editorial Board congratulates Vladimir Aleksandrovich on his anniversary and wishes him success and prosperity for many years to come.

## Requirements to manuscripts

The proposed articles should contain the results of the studies characterized by novelty and practical orientation. They should be available in the form of presentation for a wide range of readers and meet the scientific focus of the journal (economic and sociological researches).

The article should generally include the following aspects: the purpose of research; method and methodology of work, its results and the field of their application; conclusions. The findings may be accompanied by recommendations, suggestions and hypotheses, resulting from the contents of the article. When presenting the results of sociological research in the article, it is necessary to state the following information: methods and methodology; the date, place (territory) and organization which carried out the study; the structure of total population; the type, volume and sampling error; the description of methods of data collection and analysis. This information should be arranged according to one of the following options: in the special section (paragraph) of the article; directly in the text; in the footnote. When creating tables, it is necessary to specify, whether the percentage of persons is calculated out of the number of those who answered the question, or out of the total amount of respondents. References should demonstrate the author's professional outlook and the quality of the research.

Authors are responsible for the selection and authenticity of the facts, quotations, statistical and sociological data, proper names, place names and other information, as well as for ensuring that the article does not contain the data that cannot be liable to open publication.

The cost parameters in tables (diagrams) related to different time periods are usually represented in the form of comparable scores. If tables (diagrams) contain comparative data on some territories, kinds of economic activities, etc., they should be presented in rank order, indicating the period of ranking.

The volume of articles should be no more than 40 000 printed characters (1 author list), including spaces and footnotes, for doctorates and PhDs (including the co-authors having no degree). It should contain no more than 20 000 printed characters (0.5 AL) for the rest of the authors. Exceptions are possible only in terms of a preliminary agreement with the editorial board.

The author should send the text of the article and supporting information in printed form by mail (1 copy on one side of the sheet) and identical materials by e-mail. The printed copy must be signed by the author(s).

The text of the article is sent in MS Word format, in accordance with the following parameters: headset Times Roman, font size – 14-point type, line spacing – 1.5, footnotes in Arabic numerals are placed at the end of the text in the order mentioned in the text. Graphs and charts for an electronic version of the articles are performed in MS Excel. They should be done in a separate file, which must contain not only the graphics, but initial data (tables). Flowcharts are drawn in MS Word or MS Visio.

The article should be assigned **the UDC index** (it is located above the title of the article).

The article should be accompanied by **the abstract** (600-700 printed characters; the summary is supposed to contain the following aspects: statement of problem, research techniques and information resources, characteristic of basic research results, the ways of problem solving), **key words in the English and Russian languages, references**.

The works in references are arranged in alphabetical order, firstly in the Russian language, then – in English (other languages – in Latin). When the author makes reference to the work, it is necessary to give its number in square brackets.



**Information about authors** is attached to the article in a separate file. It should contain the title of the article (**in Russian and English**), surname, name and patronymic (in full), academic degree, academic rank, full name and address of the organization – the place of employment, work status, telephone and fax numbers, e-mail address and mailing address for correspondence.

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