

Stages of control of regional development in Russia*

The article considers the dynamics of the system of regional development state regulation in Russia. The stages of state regulation are identified through the use of dialectical and historical-logical analysis methods.

The basic goals, achievements and shortcomings are identified at each stage. The consequences of regulation are considered under the prism of asymmetry problem of socio-economic space as a reflection of dominant values of sociality or effectiveness in regional policies, and as a measurement of practical management effectiveness. The conclusion on the substantial theoretical and methodological shortcomings of regional development regulation is argued.

Regional development, government control, regional differentiation.



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Works on the dynamics of the system of the state regulation of regional development are relatively rare. However, significance of such studies is undeniable, since it allows to relate theoretical views on issues of regional development and practical steps of the state and administration authorities. In the paper, results of regulation are considered under the prism of a problem of socio-economic space asymmetry. The emphasis on this issue stems from the fact that it is a reflection of dominant values of sociality or effectiveness in the regional politics, as well as a unique measure of results of practical management measures.

It is generally accepted that these spatial differences are the basic object of study in domestic and foreign studies as well. In particular, in the proceedings of Organization for Economic Cooperation and Development (OECD), summarizing theoretical aspects and practical experience of regulation [23, p. 51] it is stated that the object of government regulation is spatial inequality of different kinds - differences in the level and living conditions, employment, rates of economic development in individual regions, business conditions, etc. One of the main purposes of government regulation is to minimize those inequalities

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that may potentially lead to social tensions and conflicts that interfere with balanced and effective development of economic and social development (see, for example [24]). It is obvious the decision of this purpose is particularly significant for countries where conditions of economic and social development are very diverse.

In this study I will not invoke detailed quantitative data on dynamics of inter-regional differentiation. But there are given references to studies in which in detail with proven statistical methods the phenomenon of inter-regional differentiation of various components of the resource and infrastructural, social, financial and economic development is studied.

Complexity of quantitative representation of calculations is associated with this complex phenomenon of inter-regional differentiation. Consequently, a variety of criteria, symptoms, possible valuation methodologies (more about the problems of measuring differentiation see, for example [3]). Consequently, there is a problem of too cumbersome presentation of these results. Often, in the theoretical studies there is the use of the method – give the break on some indicators of regional development (“the best” region / “the worst” region).

However, this simplification is unacceptable, because it characterizes only scale and differentiation between two regions apart from the existence of other Russian regions. Therefore, in this article there are findings of quantitative researches with appropriate references to the works.

According to the author’s opinion, since the beginning of the market reforms in Russia there are three stages of formation of the modern system of the state regulation of regional development.

The first stage covers the period 1991 – 1993. This period can be called “a period of destruction” of the existing system of management of regional development, and management approach can be called a situational approach.

Radical reforms are characterized by two trends. On the one hand, at the federal level remained a number of features of the Soviet policy of control (in the form of specialized forms of industry knowledge accumulation; prevalence of intra-industry rather than regional information, etc.) [see 16]. Obviously, this is the legacy of the previous Soviet period. On the other hand, when weakening capacity of the federal budget and control, a number of central powers were delegated down the vertical of power. As a result, there were new forms of regional coordination, characterized by the informal nature and lead to the strengthening of the role of regional governments. The result is the disordered giving to the number of regions economic benefits and privileges (the Republic of Tatarstan, Bashkortostan, etc.), leading to imbalance in the interests of the regions. This powerful trend has been motivated by a desire to preserve its territorial integrity in exchange for major concessions to the regions.

The destruction of the existing system of economic relations has led to particularly sharp deterioration in the socio-economic characteristics of the following groups of regions.

Firstly, regions with high concentrations of MIC production (due to the decline of public orders and implementation of an ill-considered diversification system) and production of consumer goods (due to liberalization of foreign trade activities).

The second group - the peripheral regions, the most important characteristic of which is their location outside the zone of economic activity.

The third group, according to the established typology, form “regions, previously received substantial funds from the federal budget for investment and subsidies for production and lost these sources of financial existence (forexample, alotofnorthernregions)” [17, p. 21]. We can not agree with selection of regions of the North as problematic regions in connection with deprivation of their “sources of financial existence”.

This approach depreciates significance of the North to the national economy and the role of northern specifics predetermined particular pain of transition from planned to market economy. In the author's opinion, it is useful to define a third group as "the regions of the North". And the reasons for their "problem" are to be associated exclusively with specifics of the northern territories linked with the increased cost of reproduction of all types of capital and intergovernmental relations, "washing out" incomes from the territories of their formation.

Despite the proposed clarification, notes and alerts the fact that, when applied to the Russian Federation adopted in the world qualifiers, in its territory there are practically no regions that do not belong to the category of depressive ones. In the worse conditions there are the industrialized regions [19]. In the relatively better conditions there are extractive entities of the Russian Federation [21].

Thus, various conditions of adaptation in the absence of targeted measures of the state regulation were the impetus for the asymmetrical socio-economic development of the territory of the Russian Federation. A number of researchers believe that in fact it led to the consolidation of the specific feature of the Soviet economy – the imbalance of regional development. It is difficult to agree with such a characteristic of the USSR. Socio-economic characteristics of the regional development period of the Soviet Union indicate significant achievements in addressing the problem of unbalanced, asymmetrical development.

In numerous studies on historical aspects of the state regulation formation of the territorial development, it is noted that in this period all the known methods of government regulation were involved in: administrative and legal methods, tax administration, public contracts, methods of direct control (public investment, subsidies, transfers to the problem regions), etc.

Obviously, the extremely low efficiency of direct and indirect measures is explained by chaos of compromises between different levels of power and corruption. This naturally led to the consolidation of the specific feature of this stage of the system development of the state regulation of regional development - violation of the unity of the legal and economic space.

Generalization of the works by E.M. Buchwald [5], S.D. Valentey [6], L.N. Lykova [13] allows to establish a multifaceted impact of this feature on the development of managerial relations of the federal center and regions. It manifests itself in a "permanent "fiscal war" of the Russian Federation and its regions; and in total uncertainty of the question of ownership on the vast majority of objects;... in the uncertainty of the boundaries and forms of interference of the executive and legislative branches of the Russian Federation within the competence of its constituent entities...; in intrusion of transformation models to the regions without taking into account their socio-economic, socio-cultural and other specifics; in the practice of non-fulfillment by the Center of its obligations to the places" [6, p. 29].

The situation was worsened by natural reaction of the regions to not thought-out decisions of the federal center in the virtual absence of mechanisms of influence on the regions of the Russian Federation. For example, it is an attempt mentioned enough often to acquire the status of a constituent territory under the protection of "titular ethnic groups", naturally limiting the provision of social cohesion. Inherited from the Soviet Union the principle of "ethnoregional" (in terms of S.D. Valentey) administrative-territorial division caused the deformation problem. In particular, the former ASSR (the Russian republics presented as a part of Russia), having the right to the constitution and other attributes of the state power, had the right to claim on a special status; national autonomies found themselves in legal vacuum; it appeared that the socio-economic

and political status of national autonomies, not subjects of the Russian Federation, had not been elaborated on. These features are largely due to inherited from the USSR administrative-territorial division and the process of law adaptation under the specifically folding compromise relations between the central and regional political elites as well.

As a result of political and, consequently, economic adaptation, in this period were initiated by the processes of development of the phenomenon of high inter-regional differentiation, due to both objective factors (geographical, cultural) and subjective (the regulation of regional development).

The second stage (1994 – 1999) is characterized by the ordering system of state regulation of regional development, strengthening the power vertical, considerable efforts and achievements in the field of separation of powers between levels of government, etc.

Note that the analysis of specificity of the state regulation of this period in various aspects is presented in the works of A.G. Granberg [8], N.I. Larina [10], O.P. Litovka, N.M. Mezhevich [12], S.A. Polynev [16], V.P. Samarina [19], T.P. Skufina [20], a number of authors' studies [1, 2, 3]. Generalization of the results indicate that the defining feature of this stage is the transitional nature of the system of state regulation – from the “destruction” to the purposeful formation of a system of relations of the regions and the center.

For the first time a set of interrelated goals and objectives of regional development is presented in the Russian Federation Government Resolution “Main regulations of the regional policy in the Russian Federation”. Analysis of these objectives makes it possible for to specify that the main purpose of the regional development of this period was the solution to the problem of deepening inter-regional differentiation of social and economic development of the territories of the Russian Federation.

Note that the priority of this goal was established by objective circumstances. Thus, according to the evaluation of A.O. Polyneva the gap between regions in average per capita industrial production reached by 1996 approximately 100 times, by the magnitude of per capita income of the population – more than 14 times, by the level of official unemployment rate – 23 times [16, p. 140]. In a number of studies was highlighted the incompetence of determination of inter-regional differentiation as swing between the “best” and the “worst” territory, leaving apart other, repeatedly proven ways to evaluate differences that take into account not two, but all the territories of the Russian Federation (see, for example [3]). However, the problem of asymmetry of socio-economic development is undeniable. That is why in the Resolution under discussion among the eight most important problems of regional economic policy was formulated a single goal – “reducing of deep differentiation of levels of socio-economic development of the regions, the gradually creating of conditions for the strengthening of their own economic base growth of the population, rationalization of the settlement systems”.

Some other problems also directly related to solving the problem of asymmetry of the RF territories. For example, the task of “promoting the development and deepening of the economic reform, formation of **mixed economy in all the regions**, the establishment of regional and nationwide markets for goods, labor and capital, institutional and market infrastructure (*emphasis added* – S.B.)”.

Another objective – “development of inter-regional infrastructure systems (transport, communications, informatics, etc.)” – also contributes to leveling differences between strong and less developed regions covered by infrastructure projects.

The next objective – “to provide state support for regions with difficult economic conditions, which require special methods of control

(regions of the Arctic and the Far North, Far East, the border regions, etc.)” – is aimed at consideration of regional differences in the possibilities of adapting the territories of the Russian Federation to formed market relations.

Note that in the medium-term program “Reforms and development of the Russian economy in 1995 – 1997” there was given typification of problem regions for which it is necessary to conduct a special regional policy. It is obviously, taking into account of these regional characteristics in forming and implementing regional policy was also a guarantee of reducing regional socio-economic disparities.

During this period the most important form of regulation of regional development towards the realization of these goals were federal programs of socio-economic development. According to the A.G. Granberg more than 75% of the territory of the Russian Federation has been involved in approved federal programs for regional development. As it is known, the results of realization of the federal programs in Russia have been extremely low.

The first reason for this is obvious – underfunded programs (according to experts, the overall level of funding did not exceed 20% of planned volumes). According to experts of The Council for the Study of Productive Forces, the second reason lies in the shortcomings in the programs themselves. Typical shortcomings of programs include the following ones. Firstly, the selective implementation of the program activities, that changes the original plan, structure and ultimate goals. Secondly, there is the lag in the creation of mechanisms for the implementation of programs, particularly financial. Thirdly, the lack of coordination between the federal target programs, carried out in parallel in a certain territory. Fourthly, there is the absence of fixed rules of allocation of scarce financial resources between the programs. Fifthly, the lack of control over the use of budgetary funds allocated for the programs and the conformity of the results to the program objectives [7].

In addition to these, it should be noted weak interaction between the programs both horizontally and vertically, the lack of a clear link between objectives, targets, means of specific program documents to the priorities in the field of regional policy at all levels.

Another feature of this period was the introduction of a new mechanism of financial relations between the federal center and territories of the Russian Federation. Its essence was in the formation of the Fund for Financial Support of Regions (FFSR), distributing federal aid for regions on the basis of established special procedures. You can completely agree with that “embedded in the practice the mechanism of fiscal adjustment has failed to provide equal opportunities to strengthen the revenue base of the Federation territories, radical improvement of the financial situation of the majority of the country. Its major shortcoming is the ignoring of the sharp territorial differentiation of the needs of the regional budgets ...” [16, p. 141]. That is what led to constant changes in the procedures for calculating the distribution of funds to the regions of Russia.

However, it must be said - by the end of the century the problem of inter-regional differentiation has not been substantially transformed. Moreover, in most studies [16] there was observed its steady growth during the period under review. However, the author’s calculations on a wide range of socio-economic indicators and evaluation criteria indicate a lack of a growth trend of inter-regional asymmetry of development [1, 2, 3].

We believe the most notable element of the formed model of intergovernmental relations was, in fact, unitary nature of regional policy. This new character was explained by the increase in importance of solving the fundamental problem of the declared objective – to achieve the overcoming of the tendency of deepening the differentiation in levels of economic development and the current socio-economic situation of the Russian regions.

In particular, adopted in 1998 the concept of reforming inter-budgetary relations in 1999 – 2001, even more fixing the unitary nature of regional policy, defines the main purpose of FFSR – alignment of fiscal provision of the RF regions.

Note, in this regional alignment policy there is a number of contradictions. Firstly, as E.M. Buchwald rightly points out, “activization of the role of regional link of the Russian economy in terms of ensuring its stabilization and long-term recovery requires the overcoming of trends of dependency that will be inevitably formed by the budgetary situation of infinite endowment, and gain of a direct interest of the territories of the Russian Federation in the mobilization of domestic resources for covering their essential needs, including a major share of costs of the social nature” [5, p. 71]. For example, it is the arrears of wages which indicate on the typicalness of such a position of regional authorities.

The active solution to this problem by federal authorities, particularly in 1998, led to an increase in targeted cash transfers (to pay off debt in 1998, the Finance Ministry sent 26.2 billion rubles) and loans for the repayment of arrears of wages (in 1998 total budgetary loans were 2.5 billion rubles, written off debts for loans amounted to 4.1 billion rubles) [5, p. 73].

However, the studies of E.M. Buchwald indicate that in practice the situation with the increase in debt of almost all the regions to workers of the budgetary sphere was reproduced in the subsequent period. This is due to the adoption of unfeasible budgets by the RF regions, diverting funds to other needs, as well as artificial support of low proportion of spending on wages in the total regional costs (in Russia they were at 16.8% in the average according to 1998).

The situation is that the alignment of conditions of social-economic development of the regions by the federal government deprived the authorities of the territories the necessary independence, and as a consequence, the regional

authorities declined all responsibility before the public in the case of unfavorable socio-economic development in the regions.

In view of these contradictions there was traced inconsistency in the basic practical steps of the regional policy. Most of the research teams associates these differences with the lack of clear conceptual beginnings of development of Russian federalism.

Without denying this important cause, we believe that the incompleteness and inconsistency of national and state reforms in the regional sphere associated with a large number of objective constraints of the federal government activity.

The first constraint should include the general economic situation – the economic crisis, fiscal crisis (aggravated in summer of 1998), high inflation, etc.

A significant outflow of capital abroad shows the growth of destructive tendencies in the economy and financial sector. According to estimates of “Expert Institute” on the basis of payment balance of the Russian Federation on the sum of three items (net errors and omissions, granted trade credits and advances, the change in debt in not timely received currency and ruble receipts and outstanding import advances) capital exports in 1996 amounted to 27,904 million dollars, in 1997 – 26,061 million dollars, in 1998 – 23,342 million dollars, in I quarter of 1999 – 3,665 million dollars. According to the estimates of the rating agency Fitch IBCA, the export of capital from Russia in 1993 – 1998 reached 136 billion dollars [9]. It was during this period that is fixed the effect of implicit capital flight in the form of increasing share of foreign investment by domestic enterprises, including public corporations.

The direct impact of the financial crisis led to a dramatic change in the ratio of ruble revenues to the regional budgets and the size of foreign currency obligations to foreign creditors. The problem was aggravated by failure to refinance debt obligations of the RF subjects by issuing securities in connection with consistent

leaving of investors from the market of sub-federal securities. The deterioration of the RF subjects was complicated by the fact that the loans of commercial banks 1998 – 1999, intended for regional investment development, virtually turned into an instrument for the refinancing of debt obligations, leading to the formation of a kind of financial scheme. For example, in May 1998, the Leningrad oblast obtained a loan of \$ 50 million dollars for investment purposes. As a result, 93% of the loan was spent on repaying current liabilities [14].

The growth of losses from enterprises, especially in 1998 – 1999, inevitably led to reduction of state and federal revenues. Note that in this period, the income tax played a crucial role in the formation of revenues of the regional budgets. For example, the budget of the Nizhny Novgorod oblast in 1998 was performed by 88% of the plan, the Republic of Bashkortostan – 82%, the Voronezh oblast – by 79% (and this in the beneficial effects of inflation on the execution of budgets).

Moreover, investigations of A. Lyasko demonstrate that the regional authorities were actively using the mechanisms of changing legislatively established ratio of tax revenues to the federal and regional center (at the time about 50:50) at the expense of the possibility of making parts of payments in non-monetary form to the budget of the regional level, which was strongly banned until September 1998, with offsetting of debts at the federal level.

For example, in 1998, in the Chelyabinsk oblast revenues in the federal budget declined compared with 1997 by 38%, and regional – to only 10% [14]. In fact, this confirms the assertion of S.D. Valentey, made in 1996, about the existence of a “permanent” fiscal war” of the Russian Federation and its regions” [6, p. 29]. However, we believe, due to worsening economic conditions for the territories of the regional economy and relatively small federal transfers payments in non-monetary form between enterprises and regional budgets was a logical and cost-effective event.

The second constraint is associated with redistribution of the real power of the federal government in favor of the territories of the Russian Federation in the previous period.

The third constraint is the following. The growing problems of socio-economic development of the Russian regions, industrial and investment spheres suggests that the liberal approach to reforms for 1993 – 2000 did not prove itself, that is explained by the virtual absence of market mechanisms.

These constraints and uncertainty of many basic provisions of regional policy and management, apparently, were the reasons that in spite of taking the task of reduction of inter-regional differentiation to the priorities of management, at this stage it was not possible to launch a comprehensive program of leveling the socio-economic status of regions. The task of forming a coherent program of raising the depressed Russian regions was also left unresolved. Statistical studies show [1, 2, 3, 18] that in the aspect of inter-regional differentiation, a fundamental feature of this period was the strengthening of regional factors that affect the socio-economic asymmetry of the RF development.

The third stage in the formation of the regulatory system for regional development is the period from 2000 to the present. Highlighting of 2000 as the beginning of a new stage is linked to the sharp change by the RF President of the approach in the management of territorial development, aimed at strengthening the vertical of power at the expense of the concentration of federal power and financial resources, unification of relations between the region and the center, the increased responsibilities of regions. It is rightly considered that the greatest achievement of this stage was a clear division of powers between the federal authorities, authorities of the RF territories and local authorities on the base of phased adoption of laws.

Thus, the federal law from July 4, 2003 № 95-FL “On Amendments to the Federal Law” On general principles of organization of

legislative (representative) and executive authorities of regions of the Russian Federation” has established a confidential list of powers of public authorities of the Russian regions on the subjects of joint jurisdiction for which implementation their own income is permanently assigned; it is found that the alignment of budgetary provision is made by subsidies from the Federal Fund for Support of Regions of the Russian Federation.

We can completely agree with V.A. Cherepanov [22], A.V. Bezrukov [4] that for the effective implementation of planned changes of a federal reform to avoid counteraction at the regional level there was a need to strengthen dependence and direct reporting of regional governments to the federal center.

This predetermined the adoption of the Federal Law dated 11 December, 2004 № 159-FL “On Amendments to the Federal Law” On general principles of organization of legislative (representative) and executive authorities of the regions of the Russian Federation” and the Federal Law “On basic guarantees of electoral rights and the right to participate in the referendum of the citizens of the Russian Federation”. They canceled the election of the Chief of the region of the Russian Federation, defined empowerment of senior official of the region of the Russian Federation by the legislative (representative) body of the region of the Russian Federation by the representation of the President of the Russian Federation; established a procedure for replacement of the head of the RF region, greatly limiting the powers of the legislative (representative) body of the region of the Russian Federation; simplified the process of dissolution of the legislative (representative) body of the region of the Russian Federation; determined that only in case of distrust to the RF President and for the improper performance of duties only the President has the right to strip a senior official of the RF region of power.

It should be noted that the objective of state regulation, which consists in achieving social and economic equality of the territories, had a special position in the regional politics in the early period of this stage.

This is evidenced by the adoption in 2001 of the Federal Target Program “The reducing of disparities in the socio-economic development of regions of the Russian Federation (2002 – 2010 and till 2015)”. However, despite the obvious importance for the economic and social development of the program that uses the interests of nearly half of the regions, according to M.M. Minchenko, the planned funding for it in 2003 was 7 times less than the program of development of Tatarstan and Bashkortostan [15].

We believe that this is the result of the transition from the policy of “equalization” (realizing the goals of social equality) to “effective” policy which primary goal is development of competitive regions in the global economy and which guides other regions to the forces of self-development. As conceived by the Government on the surface of the regional events this new goal is to be realized in the form of maximizing the production of GRP.

In the field of intergovernmental relations further increase of the unitary principle is observed. Reducing resource base of the regions limits the ability of the regions of the Russian Federation to use the mechanism of self-development. One of the main reasons for this is to set of the Government for reduction of the share of consolidated budget expenditures in GDP and territorial budgets in tax revenues of the consolidated budget of Russia.

The second reason is connected with the transfer of most collected taxes from the regions in the federal government (VAT, royalties, excise duties on tobacco products, etc., along with the abolition of sales tax, highway tax, etc.).

The third cause is further consolidating of the duties for regional budgets in the social sector [15]. Studies show that in the terms of

full self-financing by the regions of the sphere of public social services in 2005 – 2006 the regions faced with a number of additional problems caused by unequal economic opportunities of the regions. There has been a growing shortage of own financial resources in the municipalities, respectively, increased their dependence on the budgets of higher levels.

In many ways, these factors led to the unresolved problem of inter-regional differentiation, particularly on social indicators. An increase of the level of depression in the Russian Federation against the background of strengthening the federal government gives rise to speculation that “one of the hidden problems of the campaign on creating new regions of RF by combining “depressed” (“weak” or “backward”, “problem”, etc.) regions with relatively affluent ones is statistical adjustment of territories. Indeed, with simple administrative measures we can achieve that differences between the main socio-economic parameters of 25 – 40 enlarged (and, simultaneously, “averaged”) regions will be 1.5 – 2.0 times less than the difference between the original 89 subjects of the Russian Federation” [11]. However, in the opinion of the author, the main reason for combining regions with the titular nations is the leveling of the possible problems of separatism.

We believe in the current stage of reforms in progress, it is prematurely to evaluate results, but facts of the regions’ development indicate that the current policy does not create the underlying conditions and prerequisites for self-development of the regions. This demonstrates the unrealized goal of effectiveness by the government, aimed at developing regional competitive structures and activation of internal factors of socio-economic development. The problem increase of inter-regional socio-economic differentiation draws atten-

tion, indicating a lack of implementation of a goal of social equity in the regional aspect.

Summing up the results of these stages of reforming the state system of regulation of regional development, it must be noted that none of the goals of reforming has not been realized, despite the fact that at different stages the state involved almost all known to world experience of industrialized countries, methods of regulating the development of regional systems. This indicates serious theoretical and methodological miscalculations that lead to errors in management practices.

For example, if during the implementation of the policy of “alignment” the active regulatory role of the state was necessary, there was the opposite – increased independence, weak dependence of the regions on the federal government, liberal forms of reforming.

In the modern period of the regional policy aimed at strengthening forces of self-regulation in every region of the Russian Federation, the regions require financial and power capabilities for searching, recording and development of their specific socio-economic potential. In practice, there is the opposite – reducing its own resource base of regions and strengthening the control influence of the center. As for the problem of asymmetry of socio-economic development, its acuteness remains the same.

Taking into account some uncertainty of theoretical bases of state regulation of regional development, it seems appropriate in analyzing and developing proposals on managing regional systems not to go from theoretical postulates to attempts to explain the practical results of government regulation of regional development. We consider it is necessary to go from real indicators to research of their theoretical explanation, and then – to development of practical proposals for the adoption of cost-effective solutions.

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