



The Preconditions of Economic Management of Problematic Region in a Federal State

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ABSTRACT

The relevance of the study is conditioned by the need for a balanced socio-economic development of territories in a Federal state. Socio-economic development of the regions of a Federal state is inhomogeneous. Some regions, independently solving socio-economic problems is steadily growing. Other regions need support from the outside. One of the solutions to the problem is the transition to a new model of environmental development of the economy through strengthening of the system of strategic management of regional development; more integrated and balanced regional development and distribution of productive forces; reduction of territorial socio-economic differentiation to the level, conditioned by the objective differences of the regions; the balance of the revenue base and expenditure commitments of the regions. The purpose of the article is to identify prerequisites of economic management of problematic region in a Federal state. A leading approach is the institutional approach that considers the problematic region as an area that needs state support in solving the socio-economic problems. The article presents a typology of problem regions; clarifies the essence of the problem region; identifies and scientifically justifies managerial preconditions (historical-geographical, fiscal, Federative-subsidiary) of the economy of the problematic region in a Federal state. The paper submissions can be useful for specialists of Federal and regional authorities, local governments, line ministries, scholars interested in regional Economics.

Keywords: Socio-economic Development, Inter-territorial Differentiation, Problem Region, Economic Management

JEL Classifications: H53, H83, O35

1. INTRODUCTION

1.1. The Relevance of the Study

Socio-economic development of the regions of a Federal state is inhomogeneous. Some regions independently solving socio-economic problems are steadily growing. Other regions need support from the outside. One of the solutions to the problem is the transition to a new model of environmental development of the economy through strengthening of the system of strategic management of regional development; more integrated and balanced regional development and distribution of productive forces; reduction of territorial socio-economic differentiation to the level, conditioned by the objective differences of the regions; the

balance of the revenue base and expenditure commitments of the regions (Shurkina et al., 2015; Sabirov et al., 2015). The purpose of the article is to identify prerequisites of economic management of problematic region in a Federal state.

1.2. The Typology and Classification of Regions

An outstanding Soviet geographer Alaev under the typology understands the grouping of the studied objects based on sets (types), stable differences in qualitative features (Alaev, 1977). Under the classification he proposes to understand the grouping of objects mainly for quantitative traits, where qualitative differences between classes reflect either the dynamics of objects, or the hierarchical order. It is found that to solve the problem of regional

differentiation, it is important to take into account qualitative differences between regions, so the grouping of regions in order to formulate regional policy are represented as a typology. The most important purpose of regional typologies is the formation of regional policy of the state, taking into consideration current environmental, social, economic conditions. To achieve this, a typology of regions is developed, followed by selection of problem areas, i.e., those which are not able to cope with their problems or realize their potential. These territories are assisted within the framework of state regional policy. In the Russian economy different typologies of regions are known: On manufacturing process peculiarities (Kolosovsky, 1947); on the ratio of the availability of natural and labor resources (Korneev, 1987); on areas' development (indicator - population density) and the level of production's development (indicator - data on the volume of production of industry and agriculture in terms of value per capita) (Mironova et al., 1970); on the level of quality of life and level of economic development (Dmitrieva, 1992). Problem regions are dedicated the specific typologies.

1.3. The Typologies of Problem Regions

In Russian economic science in the preparation of a typology of problem regions different criteria are used.

Treivish and Nefedova (1994) on the basis of criteria such as a strong decline in industrial production, the rate of relative poverty (prices ahead income), the migration imbalance of the population, high unemployment, two types of regions are allocated: The crisis and relatively prosperous.

Faybusovich (2001) notes that despite all the differences of regions the solutions to the problems are associated with attracting of investment to create well-paid jobs.

Granberg (2004) allocates two basic approaches to the classification of problem regions. The first approach involves the delineation of regions by degree of severity (of crisis) of the most important problems. To crisis regions he refers the territory suffered from the ravages of natural or man-made disasters, regions of large-scale socio-political conflicts that cause the destruction of accumulated economic potential and large size of the forced emigration of the population, the regions in which the depth of the economic crisis may cause irreversible social and political strain. The second approach is based on the typology on the fundamental development problems of the region. The regions have problems of economic, demographic, ethnic, geopolitical or other nature and their combinations. From the point of view of regional economic policy the main types of problem regions, according to Granberg (2004), are backward (underdeveloped) and depressed. To the type of backward problem regions he refers the regions with traditionally low standard of living compared to the bulk regions of the country. Depressed regions, according to Granberg (2004), fundamentally differ from the retarded ones by the fact that at lower than the national average, the current socio-economic indicators in the past, these regions were developed and in some industries they took the leading place in the country. As a rule, these regions had fairly high levels of accumulated production and technical potential, a

significant share of industrial production in the structure of the economy and relatively high level of personnel training. However, for various reasons (because of falling of the demand for key products or reduce its competitiveness, depletion of mineral resources or deterioration of geological conditions and etc.), these regions have lost their former economic importance and relative strengths. From the point of view of the duration of depressive condition Granberg (2004) distinguishes two groups of regions: (1) Pre-reform depressed regions, the regression of which started in the pre-reform period, and in the course of market reforms the situation deteriorates further; (2) new depressed regions, which in the pre-reform period had a relatively high level of development, but currently are in crisis and do not have the necessary conditions to get rid of it.

This approach can be seen in Ivanchenko, who compares concepts of retardation and depression. To backward regions he refers regions with low thresholds of the social and economic sphere in comparison with other regions of the country. To depressive ones Ivanchenko (2006) include regions or areas experiencing protracted and deep economic crisis.

The identification of problem areas interested Stulberg and Vvedensky (2000). He gave the following interpretation of the terms "depressed" and "backward" region. To the type of depressive regions he includes areas with a relatively high level of previously accumulated economic potential, a considerable share of industrial production (mostly manufacturing) in the structure of the economy, relatively high level of qualification of local labor resources but possessing a higher rate of economic decline of the main industries, more high unemployment, low investment activity, low levels of fiscal capacity and real income of the population, compared with the average for the country. In contrast to the depressive, to the type of underdeveloped (backward) regions he refers areas with very low overall level of economic activities, slow diversified industrial structure of the economy, with considerable lag from most regions of the country according to the level of the accumulated production and technical potential and level of development of social sphere.

From the point of view of Mashbitz (1998) problem region is the region which is not able itself (without help from the state, from outside) to solve escalating problems. The problematic region is allocated by the magnitude and particular crisis condition of this or that major problem's manifestation. Their unresolved status poses a threat to the socio-economic mechanism throughout the country. The problematic region is characterized by the presence of problems, which on the scale and severity mark this region possessing large value of their solution for the country as a whole.

According to Tolchinskaja (2016), a problem region can be defined as a territory, having for a long time low economic potential, the development of production and investment activity, the level of living of the population and a high unemployment rate compared to the average in the country. Tolchinskaja (2016) proposes to divide the problem areas, firstly, on backward, which in turn are represented by the regions with possessing or without potential, and secondly, depressive, including pre-reform and new regions.

Seliverstov et al. (1996) believe that the main signs of problem areas are: The particular crisis condition of the major problems' manifestation being unresolved of which poses a threat to the socio-economic situation in the country, may lead to political instability, can cause catastrophic state of the natural environment, etc.; the availability of the resource potential, the use of which is essential for solving of major social and economic problems of the country; special significance of the economic-geographical, geopolitical position or natural complex of the region, which necessitates the implementation of special actions of state regulation at the level of the Federal authorities; the lack of resources of the region required for the solution of problems of Federal or regional significance that implies a direct or indirect participation of the state in providing for the region of material and organizational aid; the feasibility of the program-target approach, the special forms of implementation of programs and formalized presentation of the status of the regional problem as the object of state regulation. A fundamental difference of depressed regions from backward ones is that at lower than the national average, the current economic indicators, in the past these regions were developed and in some industries took the leading place in the country. As a rule, these regions have a fairly high level of accumulated production and technical potential, a significant share of industrial production in the structure of the economy and relatively high level of personnel training. However, for various reasons (because of falling of the demand for core products or reduction of its competitive ability, resource depletion or deterioration of geological conditions and etc.), these regions have lost their former economic importance (Seliverstov et al., 1996).

The next typology of regions is obtained on the basis of a qualitative analysis according to the three-dimensional classification of regions in terms of: (1) Economic potential; (2) the standard of living; (3) investment activity (Boots et al., 2002). Polynov (2010) developed a typology, which is based on the competitive opportunities of the regions. To assess the socio-economic potential of the regions basic evaluation system of indicators was used, including levels' indicators of the regional provision with resource and resource potential, human capital, fixed assets, transport and communications and social infrastructure, market infrastructure objects.

1.4. The Essence of Problem Region

It is found that the problematic region is the area which for its socio-economic problems' solving needs the support of the state. Because there is no a unified classification of problem regions in the scientific literature, it is proposed to allocate depressive (characterized by decline in production) and backward (the slowest developing) regions. The assignment of the region to problem ones can be based on the following criteria: The index of industrial production; volume of shipped goods by type of activities; retail trade turnover; investments into fixed capital; the receipt of taxes and levies to the budget system of the region; real disposable monetary incomes of the population.

2. MATERIALS AND METHODS

2.1. Methodological Approaches to Research

A leading approach is the institutional approach that considers the management of the economy of the problematic region in the

Federal state as a purposeful system of measures aimed at ensuring of a balanced socio-economic development of regions.

2.2. Methods of the Study

During research the following methods were used: Analysis of normative documents, content analysis, foresight, facet method, classification and synthesis of facts and concepts, modeling, expert evaluation method.

2.3. Approbation of the Research Results

Approbation of the research results was conducted in the process of the concept's developing of long-term socio-economic development of the Smolensk region of Russia till 2020. Identified preconditions (historical-geographical, fiscal, Federative-subsidary) of management of the economy were applied in the programs' development for the development of enterprises and institutions of tourist, educational sectors and the sector of consumer services.

2.4. Stages of the Study

The study was conducted in three stages:

- At the first stage modern state the research problem in economic theory and practice was analyzed;
- At the second stage the typology of problem regions was identified; the essence of the problem region was revealed; the preconditions of economic management of problematic region in a Federal state were identified and scientifically justified;
- At the third stage the systematization, interpretation and synthesis of the research results were carried out; theoretical conclusions were refined; the obtained results were processed and presented.

3. RESULTS

The main result of the study was the identification and the scientific justification of prerequisites (historical-geographical, fiscal, Federative-subsidary) of management of the economy in the problematic region in a Federal state.

3.1. Historical and Geographical Preconditions of Economic Management of Problematic Region in a Federal State

It is found that the historical and geographical background not only reflect the diversity of regional and national ways of life, but also deal with intangible assets of the region (natural features, national-cultural characteristics, etc.) that are objectified and incorporated capital, influencing the development of the economy.

This idea was suggested by Bourdieu in his article "Forms of capital": "...Capital, depending on the area in which it operates, and the price of more or less serious transformation, which is a prerequisite for its effective action in this area, can act in three main guises: Economic capital, which is immediately and directly converted into money and institutionalized in the form of property rights; cultural capital, which under certain conditions can be converted into economic capital and can be institutionalized in the form of educational qualifications; social capital formed by

social obligations (“connections”), which under certain conditions is converted into economic capital and can be institutionalized, for example in the form of aristocratic title” (Bourdieu, 2002).

Cultural capital, according to Bourdieu, can be in three conditions:

- Incorporated (embodied - includes species of capital operating within the social environment, and, as a rule, do not have their material expression. In material form incorporated capital manifests itself through its conversion into various types of objectified capital through “finding of media with legal rights.” To incorporated capital can be attributed the entrepreneurial and managerial culture, skills and experience, image and reputation, public acceptance);
- Objective (objectified state, i.e., in the form of cultural goods (pictures, books, dictionaries, instruments, machines, etc.), natural resources, fixed assets, real estate, Finance. Objectified capital includes forms of capital that function within the physical environment and provide the society with factors of production);
- Institutionalized (institutionalized state, i.e., in the form of objectification. The conversion of the incorporated and objectified capital into institutional capital depends on a very wide range of factors (cultural characteristics, regulatory environment, etc.).

It is established that, from the point of view of social development it is necessary to create favorable conditions for the formation of objectified capital on the basis of availability and the quality of incorporated capital (e.g., by improving of social security system, the development of the education system, labor market, etc.). This, ultimately, leads to concentration of capital. And this influences directly on the competitiveness of a particular community, raising its profile in the systems of movement and redistribution of capital.

For example, in the Smolensk region for the development of intangible assets in the service sector its tourist-recreational potential was used. Taking into account the high growth rate of demand for recreation among the residents of cities and increasing population mobility, the capitalization of the tourist and recreational potential has become one of the important directions of development in the sphere of services in the district.

The first step towards the development of tourist-recreational potential was the program of a tourism development, including an analysis of promising sectors and territories, the territories’ choice of priority development, development of urban planning concept of the territories’ development, short-list of anchor investors. The program gave an idea about the necessary funding for infrastructure development in selected areas, the effects from implementation of investment projects and served as the basis for negotiations with potential investors.

At the next stage by building of a modern infrastructure, the focus will be done on the development of additional proposal related to the cultural and historical potential of the region: The development of tourist routes, the capitalization of unique cultural objects – manors, houses-museums, holding of massive cultural events, etc. Perspective directions of development of recreational tourism

in Smolensk region are: (1) Development of special programs for tourists’ leisure organization coming with the purpose of recreational activities. This will create conditions for additional costs of this category of tourists. Such services may include, for example, services in the so-called wellness or spa tourism. It is very popular in the world in recent years, the direction on recreational tourism. Wellness is a new concept of a healthy lifestyle that combines physical impact on people of all possible forms (water, sun, fire/heat, air/scents, sounds/music, food/products) in order to compensate for the load of a modern urban lifestyle. Wellness-complexes, as a rule, combine pools, special showers, salt caves, saunas, infrared and ordinary sauna, massage services, herbal bars, aromatherapy, color effects, united by a single concept and allowing a person to get maximum relaxation and stress relief. (2) the development of tourism products in the National Park “Smolensk Lakeland” (monuments of archeology, history and architecture; familiarity with the species of fish, animals, birds, plants). (3) the construction in hotels of special facilities (e.g., conference rooms of adjustable square) for holding of various mass events: From seminars and corporate events to festivals.

3.2. Fiscal Prerequisites of Economic Management in Problematic Region in a Federal State

It is found that fiscal prerequisites of economic management in problem region are caused by the practice of fiscal federalism. It is known that, in practice, there are two main models of fiscal federalism - American and German. The first is characterized by a relatively rigid clamping of different tax instruments for the budgets of the respective levels. This means that Federal, regional and local budgets are formed at the expense of “their own” (Federal, regional and local) taxes; inter-budget transfers are insignificant and are not widely used. For the German model acts the principle of “splitting” of the Federal (national) taxes among the budgets of 3 levels. Thus each current unified tax is redistributed among the budgets of the country in strictly defined proportions.

A priori no preference to one or another model can be given. With proper organization of the process this or that models of fiscal federalism give good results. In practice, building of an effective model of fiscal federalism assumes a reasonable differentiation of taxes on budgets of different levels. For example, for the American model, this translates into the need to define the set of Federal, regional and local taxes, through which will be updated the respective budgets and developed sectors of the economy. For the German model, the task is transformed into the need to determine the proportions of distribution of each tax among budgets of different levels. And in this and in that case the main principle should be kept: None of the levels of the budget system should be unduly infringed. As a rule, in its pure form neither the German nor the American model is observed; it is lawful to speak only about a certain dominance of a particular scheme.

Due to historical peculiarities in Russia its own model of fiscal federalism was developed, which can be called mixed, because it accumulates the elements of the American and German models at the same time. Moreover, in historical retrospective, one can see that in Russia periodic experiments on the transition from

the dominance of one model to dominance of the other took place. For example, since 1994 the value added tax (VAT) was “split” between the Federal (75%) and regional (25%) budgets, with a clear preponderance in favor of “center,” i.e., the German model acted. The law on the Federal budget for 1999 reduced the share of budgets of entities of the Russian Federation to 15%. However, the availability of resource-rich regions in the country meant that they wrongfully became rich at the expense of national natural resources. This circumstance led to the fact that in 2001 with the introduction of the 2nd Chapter of the Tax code such a scheme was abolished, and the VAT was removed into the Federal budget, i.e., the transition to the American model was carried out. In the future, this accumulation of taxes in the “center” allowed redistributing of Federal funds between the problematic regions; to provide selective support for specific economic projects. The VAT and the established procedure for payment is one of the most powerful economic instruments that contribute to the subsidized regions. In fact, the VAT paid to the Federal budget by regional enterprises, is a tax on the demand in the regions. However, the basic VAT rate is 18%, meaning that 18% of the gross regional product of entities in the Russian Federation every year flows to the Federal budget. Currently, in accordance with the current legislation the tax payments for VAT are credited to the Federal budget in full volume; no breakdown of VAT in favor of regions is provided. For regions, the Federal government is the administration to ensure institutional functioning of the economy.

International experience shows that VAT and its analogues, as a rule, “work” still in favor of the regional rather than Federal budgets. For example, in the USA sales tax (as an analogue of the Russian VAT) is a tax-free of the state and the revenue from this tax is fully credited to the budget of the state. Similar policies are characteristic of Australia. In Germany, which is by the administrative-territorial structure is a Federation, receipt of the value-added tax are distributed almost equally between the Federal budget and budgets of lands. Similar fiscal policy is conducted in Austria. In Canada, some regions receive VAT, and others - sales tax (Suskie-Basic, 2016).

In Russia practice of fiscal federalism resulted in the service sector’s formation of management of public Finance as the regulation of the transferred by the taxpayers to public entities cash resources for transparent, sustainable and accountable implementation within the budgetary process of their expenditure commitments providing the achievement of goals. The main features of public Finance management in the service sector are the staging (presence of partial overlapping stages of budget planning, execution, reporting, control and audit), cyclicity (annual frequency of the stages of the budget process) and internal causality (the dependence of each stage from the previous one and the need for subsequent). An example of a public Finance management in the service sector can be long-term and departmental target programs. For example, in the Smolensk region for the development of public health in 2011 were directed 2 long-term regional target programs and 9 departmental target programs.

Thus, fiscal tax preconditions have both positive and negative impact on the economy of the region. Therefore, for a further

positive development of the regional economy modernization of the redistributive policy of budgetary funds is required through: (1) The creation of an effective property tax system as one of the most important sources of revenue for regional and local budgets; (2) coordinating of infrastructure investments of the state and investment strategies of business in services’ sphere in line with priorities of environment development and resource constraints, including demographic; (3) reducing of disparities in the level and quality of life of the population in the regions with effective mechanisms of government regulation and selective support for the development of services; (4) provision of financial support to agencies of services’ sphere with the aim to provide a statutory minimum standard of living associated with the provision of opportunities to obtain quality education, health and cultural and leisure services; (5) provision of financial support to the regions in order to reduce disparities in the level and quality of life in terms of changes in services provided by the state policy.

3.3. Federative-subsidary Preconditions of Economic Management in Problematic Region in a Federal State

It is found that the Federative-subsidary preconditions of economic management in problematic region are aimed at voluntary and a contractual division of responsibilities between levels of government.

The principle of subsidiarity or complementarity is the leading and most recognized principle of division of competences between the Federation and its entities. Federative subsidiarity means the priority of the rights of smaller community compared to larger community (higher level). In accordance with it the powers should be transferred to a higher level only if the lower level one does not have opportunities (economic, social and other) for their implementation. That is, the essence of the principle means that all the major problems facing the state, to some extent should be able to be done by the entities of Federation and local self-government. The role of the Federal “center” should be vicarious, that is complementary. The principle of subsidiarity implies that the Federal “center” performs such tasks which non entity of the Federation can perform independently and simultaneously in which regions are collectively interested. For example, the main instrument of state policy in the sphere of healthcare of the Smolensk region is the implementation of Territorial programs of state guarantees for providing free medical and medicinal help to the population of the Smolensk region.

Many countries in the division of competences between levels of government are based primarily on the principle of subsidiarity, which plays a role of counterbalance and neutralize the danger of the regime of power center or a bureaucratic dictatorship.

According to the American Constitution, the objects by their nature are divided into three types: National, regional and mixed. The subjects of the Federation are of national interest, and Federal authorities are delegated explicit authority by their decision, which is an exclusive competence of the Federation. The list of Federal powers in the USA Constitution is not exhaustive, as, for example, in the Russian Federation. In addition to the agreed authority levels, each entity is also entitled to delegate to the center more

powers. To mixed objects of reference are referred those which have nationwide importance, but are of particular relevance in the context of individual entities, and for the Federation is not necessary in general to take care of them.

A fundamental principle of the Canadian Constitution is the granting of a Federal level with authority on subjects of public and “national” character. The powers of the provincial authorities are applied to spheres of activities which are traditionally associated with areas of regional interests. The jurisdiction of the provinces is listed in article 92, paragraph 16 of which to the jurisdiction of the provinces regard “all matters of a merely local nature or private value in the province” (Kozak, 2002). In modern conditions the economic and social role of entities of Federation in Canada was increased dramatically, and, thus, the Basic Law created an objective basis for strengthening and expanding of economic and political influence of the provinces on matters of public life, for the growth of the role of the provincial level of government in the national system of legal regulation (Kokotov, 2002).

Thus, the principle of subsidiarity underlies the delimitation of competencies between the levels of Western governments and its implementation involves the transfer of the majority of subjects and powers to the regions, since it is on local level the most effective regulation of those spheres of public life is carried out, which are crucial for the inhabitants of specific territories.

4. DISCUSSIONS

Important theoretical and practical significance for the research have the works on the theory and practice of state regulation of territorial development by Baklanov (2007), Kuznetsova (2009), Leksin and Shvetsov (2004). Of great interest are the publications in the field of strategic planning of development of regions Kolomiychenko and Rokhchichin (2003). To achieve the objectives of the study recent publications on mechanisms of regional policy are relevant by Stulberg and Vvedensky (2000), Satarov (2004), Polynov (2010). In the collective study of Terentyeva et al. (2016), a method to assess the quality and accessibility of public services as a component of state management of the economy of the region is developed (Terentyeva et al., 2016). However, the analysis of scientific works shows that the problem of economic managing of the problematic region in a Federal state has discussion nature. In the special literature the question about the preconditions of economic management in problematic region in a Federal state is not solved.

5. CONCLUSION

It is found that the effectiveness of economic management in problematic region in a Federal state is conditioned by a combination of historical - geographical, fiscal, Federal-subsidiary premises. Historical and geographical preconditions are natural-resource potential of the region’s economy. Fiscal prerequisites form the basis of a redistributive budget. Federative - subsidiary prerequisites include the division of responsibilities between levels of government. The programming of economic management

in problematic region in a Federal state based on historical and geographical, fiscal, Federal-subsidiary preconditions leads to a balanced socio-economic development of regions and aimed at reducing of the level of interregional differentiation in the quality of life.

The paper submissions will be useful for specialists of Federal and regional authorities, local governments, line ministries, scientists interested in issues of regional economy and management services.

Taking into account the obtained results of the study a number of research challenges and promising directions that require further consideration can be allocated: Sector and cluster analysis of economic development in the problematic region in a Federal state; setting of economic management in problematic region; assessment of the quality of economic management in problematic region in a Federal state.

6. RECOMMENDATIONS

The economic management’s efficiency in problem region in Federal state will rise in case of development and implementation of economic mechanisms of state regulation that contributes to the maximization of the value of regional assets and transparent socially-oriented selective support aimed at increasing of human capital.

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