



The Mechanism of State Regulation of Regional Services Markets as an Imperative to Reduce Territorial Socio-economic Disparities

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ABSTRACT

The relevance of the study is conditioned by the development of regional services' markets, as components ensuring the balanced socio-economic development of territories in a Federal state. Balanced territorial development of a Federal state involves the creation of conditions that allow each region to have necessary and sufficient resources to ensure decent living conditions of citizens, complex development and increase of competitiveness of the regional economy. The development of regional services markets can be considered as the imperative to reduce territorial socio-economic differentiation to the level, due to objective differences of the regions and to ensure balance of their revenue base and expenditure commitments. The purpose of this paper is to develop a mechanism of state regulation of regional services markets, ensuring the reduction of territorial socio-economic differentiation. A leading approach is the institutional approach that considers state regulation of the regional markets of services in the Federal state as a system of state control measures oriented on the goal that contributes to maximizing of the value of the assets of the service sector in the process of socio-economic activities and aimed at ensuring of a balanced socio-economic development of regions. The service sector is one of the most dynamic and growing segments of regional markets, as well as one of the characteristics of effective socio-economic policy in the region. The growth of assets yield from the service sector while risk diversification, focused on the development of regional services markets, meeting the needs of the population for public goods and improving the life quality will ensure a sustainable development of the Federal state. The paper presents perspectives on the content of the economic mechanism; identifies the functions of regional services markets; reveals the essence of the mechanism of state regulation of regional services markets and the characteristics of its structural components (goals, objectives, principles, actors, objects, forms, methods, tools); establishes the regularities in the process of state regulation of regional services markets. The paper submissions can be useful for specialists of Federal and regional authorities, local governments, line ministries, scientists interested in issues of regional economy and management of services sphere.

Keywords: Regional Services Market, Regional Economy, Socio-economic Differentiation, Management of Services Sphere

JEL Classifications: H53, H83, O35

1. INTRODUCTION

1.1. The Relevance of the Study

The service sector is one of the most dynamic and growing segments of regional markets, as well as one of the characteristics

of effective socio-economic policy in the region. The growth of assets yield from the service sector while risk diversification will ensure the development of regional services markets, meet the needs of the population for public goods and improve of the life quality (Vasilieva, 2011; Malysheva et al., 2016). It is established

that the service sector is considered as one of the targets of the balanced socio-economic development of constituent entities of a Federal state, aimed at reducing of the level of interregional differentiation in the life quality (Lunev et al., 2014b; Sabirov et al., 2015). It is found that a balanced territorial development of a Federal state involves the creation of conditions that allow each entity to have necessary and sufficient resources to ensure decent living conditions of citizens, complex development and increase the competitiveness of the regional economy (Kolomiychenko and Rokhchin, 2003). This leads, firstly, to the improvement of the comprehensiveness and balance of socio-economic development of entities of Federation (Kuznetsova, 2009), and secondly, to the integration of the commitments of the Federal, regional and municipal authorities and their financial possibilities for environmental and sector development in order to reduce the level of interregional differentiation in the life quality (Satarov, 2004; Shurkina et al., 2015). The purpose of this paper is to develop a mechanism of state regulation of regional services markets, ensuring the reduction of territorial socio-economic differentiation.

1.2. The Concept of the Economic Mechanism

In economics the concept of mechanism has come from technology, as the need arose in the description of social and productive processes in their interaction. In this analogy the ability to generate traffic, gain in force, movement, use of resources for positive effect is rather important. Prototypes of elementary mechanisms, borrowed from mechanics (lever, inclined plane, hinge, etc.), formed in the economy a group of so-called tools, which are part of the mechanism.

In the Russian economy the term “mechanism” was introduced into circulation in the second half of the 60-ies of XX century and, despite its relative novelty, was immediately given wide circulation. Academician Abalkin (2000) determines the structure of the economic mechanism in the following way: (1) Forms of organization of social production (the division of labor, specialization of production, its location and other facilities with the help of enhancements of which society influences the development of the productive forces and enhances the effectiveness of their use); (2) forms of economic relations, thanks for which a kind of “metabolism” in the economy is carried out, including the circulation of the means of production, financial relations, etc. (3) structure, form and methods of planning and economic management, in the composition of which in tandem with economic development legal and socio-psychological forms and methods can also be allocated; (4) the set of economic levers and incentives of impact on production and economic stakeholders, which provide coordination and stimulation of economic activities (Abalkin, 2000).

Today in economic research such concepts as “financial mechanism,” “mechanism of management,” “economic mechanism,” “mechanism of socio-economic development,” etc. are widely used. Moreover, under the mechanism a set of states of a system is understood (for example, “financial mechanism,” “mechanism of socio-economic development”); the main engine of development (the main element of the structure of the system, features of its interaction with other elements,

and the like); a system of interrelated, interdependent forms and methods of production management and its structural components (the economic mechanism); the method of functioning of the economic system (regardless of size), which is based on a certain set of production relations; the set of processes, organizational structures, specific forms and methods of management, and legal norms, with the help of which economic laws are implemented operating in specific conditions, the reproduction process; the set of methods and means of influence on economic processes and their regulation; a combination of financial tools, instruments, and methods of regulation of economic processes (Baklanov, 2007; Izmalkov et al., 2008; Isaev, 2016; Seliverstov, 2012). The use of the borrowed mechanics of the concept of “leverage” is interesting which is not disclosed in the economy practically. Following mechanical logic, it would be necessary to formulate economic analogue of components of a lever: “Mechanical power,” “shoulder,” “torque.” However, it is not. As a result, for example, to financial leverage, many authors refer factors totally unrelated logically: Profit, revenues, depreciation, economic purpose funds, financial penalties, rents, interest rates on loans, deposits, bonds. In recent economic literature economic mechanism is regarded as a market mechanism, which combines self-regulation of business entities with the regulatory functions of the state (Polanski and Soloviev, 2001). Some authors talk about the economic mechanism in the case where some initial economic phenomenon entails a number of others, and for their occurrence an additional impetus is not required. They follow each other in a certain sequence and lead to some obvious results. As a result, the mechanism is attributed a sign of “self-promotion” (Baklanov, 2007; Seliverstov, 2012). The opinion of leading scientists is known who determine the economic mechanism not as a simple set of economic instruments and tools, but as their system that is as interconnected and interdependent combination of specific economic regulators (Abalkin, 2000; Lexin and Shvetsov, 2012).

Nobel Prize in Economics for 2007 was awarded to Leo Hurwicz, Roger Myerson and Eric Maskin for fundamental contributions to the theory of economic mechanisms. According to their opinion, the most common definition that can be applied to any interaction between economic entities, considers such interaction as a strategic game, and calls as the mechanism the form of the game. Game is a description of how the players can act (economic actors) and what will be in case of any set of actions. A stricter formulation proposed by Hurwicz, defines the mechanism of the interaction between the actors and the center, consisting of three stages: Each entity privately sends to the center a message m_i , the center, having receiving all messages calculates the expected outcome $Y = f(m_i, m)$; the center announces the result Y and brings it to life if it is necessary (Izmalkov et al., 2008).

This concept is the most general form of abstraction however it may not accurately reflect the real economic situation. The concept of the center remains unclear: What is it, “mechanic” - the owner of a mechanism, or the same mechanism, but at a higher level. Mechanism of resources and the principles of their connection also are not defined. An integral part of the mechanism, as a rule, are tools – resources which are not expended in the economic process, but supporting it, which should also be reflected in its structure.

These semantic concepts should be delineated in order objectively to determine the nature of the concept of “mechanism.”

Summarizing all the above mentioned, it should be noted that all of the definitions of the economic mechanism in their conceptual definition close to the process, while in the natural sciences the mechanism has exclusively the resource definition.

1.3. The Essence of State Regulation Mechanism of the Regional Services Market

It is established that the services market is the sphere of exchange, interaction between producers and consumers of services to ensure the satisfaction of people’s needs and the statutory minimum acceptable standard of living. The essence of the economic mechanism of state regulation of the regional market of services is to integrate the goals, objectives, principles, actors, objects, forms, methods, tools, a synergistic effect of which is reflected in the indicators of quality development of services sphere, determined by the management entities.

2. MATERIALS AND METHODS

2.1. Methodological Approaches to the Study

The leading approach is an institutional approach, which allows considering of state regulation of regional services markets as a goal-oriented system of measures of government management that lead to the maximization of the value of the service sector’s assets in the process of socio-economic activities and aimed at ensuring of a balanced socio-economic development of regions.

2.2. Methods of Study

During the research the following methods were used: Analysis of regulatory documents, content analysis, foresight, faceted method, systematization and generalization of facts and concepts, modeling, method of expert evaluations.

2.3. Testing of Results of the Study

The revealed methods and tools of state regulation of the regional services’ markets are embedded in enterprises’ and agencies’ development programs of tourism and educational sectors and consumer services industries.

2.4. Stages of Study

The study was conducted in three stages:

- In the first stage of the study the current state of the problem in economic theory and practice was analyzed;
- In the second stage the content of the economic mechanism was clarified; the functions of regional services markets were defined; the essence of the mechanism of state regulation of the regional services market was revealed and its characteristic’s structure-forming components was made (goals, objectives, principles, actors, objects, forms, methods, tools); patterns in the process of state regulation of the regional services market were established;
- In the third stage, the systematization, interpretation and synthesis of the research results were carried out; theoretical conclusions were refined; processing and presentation of the obtained research results were carried out.

3. RESULTS

The main result of the study are: (1) The functions of the regional services markets; (2) characterization of structure-forming components of state regulation mechanism of the regional services markets (goals, objectives, principles, actors, objects, forms, methods, tools); (3) establishment of laws of formation and development of state regulation mechanism of the regional services markets.

3.1. Functions of Regional Services’ Markets

It is found that the service sector is not only one of the important characteristics of the effectiveness of social and economic policy in the region, but also one of the most dynamic and fastest-growing segments of the regional markets, performing the following functions: (1) Regulatory, which through supply and demand affects the inside/inter-sector competition. Services’ sectors are labor-intensive ones and the provision of services is a process of personal contact of personnel of the organization and the customer. Possibilities of automation in the production of services are severely limited, and productivity improvements by reducing the quality are unacceptable. The reduction of expenditures on the service production can be achieved by reducing wages to employees using foreign labor (as it is done in the field of tourism). As a result of intra-industry competition, the company with a higher technical level and higher labor productivity than the average one receives additional profit. Intra-industry competition thereby stimulates technical progress. It is no accident that for the production of new services, various achievements in the field of engineering and technology are used (e.g., use of information technology for distance learning, the introduction of new equipment in health facilities). Intra-industry competition reduces costs, promotes productivity growth, technological progress and improves the services’ quality. Inter-industry competition - It is a struggle between entrepreneurs of various industries for getting the highest rate of return. It is expressed in the flow of capital from industries with low profit margins in the industry with high profit margins. An example is the outflow of capital from the industry in a variety of service industries. On the basis of inter-industry competition the flow of capital and resources occurs, which forms a structure of the economy that meets the requirements of the market and consumer needs. Inter-industry competition by the overflow of capital from industry to industry generates an optimal structure of the economy and stimulates the expansion of advanced service industries; (2) integrating function, providing the establishment and support of backward and forward linkages between producers and consumers. The needs change causes the change in demand. Consumers through demand affect the change in the production of intangible services in the desired direction for the society; (3) stimulating, which means the orientation of market prices on the public level of expenditures and accounting of consumers’ demand, encourages service providers to save resources and to provide the market with the services that are required by the purchaser. In turn, the market encourages consumers to measure the level of demand for intangible services with their income level; (4) mediating, expressing the connection in a single system of economically marginalized producers and consumers of

services. Without market it is impossible to determine mutually beneficial economic ties between particular parties of a social production. The consumer has the opportunity to select the best manufacturer from the point of view of services' quality, their price, service time, while the seller is given the opportunity to choose a suitable buyer. In addition, each manufacturer of one type of service is the buyer and consumer of other species. Mediating function involves economic optimum of the contracting parties, the base of which are the high quality of services and reliability of its provision; (5) informational is mediating the knowledge of the market environment. Studying of market conditions requires the selection and analysis of statistical data, pricing, analyses and other essential information. Market relations diverse information is collected, completed and given by the market in the form of generalized data for the whole environment that it covers. This information provides an opportunity for each manufacturer continually to compare their own production with the changing market conditions, to monitor the decrease of their individual production costs, improving of services' quality, changing of their range. As the mediation function, the information function of the market helps to ensure continuous technological progress of the entire social production; (6) pricing, which is expressed in the fact that the market recognizes only socially necessary costs that agree to pay the consumer, and therefore public, the market price, which simultaneously reflect the needs of the consumer and the level of services' supply. The market sets the movable relationship between cost and price that responds to changes in the production of intangible services, needs, conditions. Despite the fact that the prices are closely aligned with demand, reducing of prices for individual services do not always increase the demand for them. Sometimes reduction in prices for consumers can be a signal of quality reduction. The demand's degree, which reflects the level of community needs, is limited in customers' incomes, i.e. purchasing power of population. The proposition characterizes the dynamics of social production and represents a set of services offered for final implementation in the market. The ratio of supply and demand has a direct impact on the formation of a certain price level. The price movement in the market ultimately reflects changes in productivity, volume and proportions of social production, the dynamics of money incomes. Prices may rise, but it does not always lead to a drop in demand. Demand responds to price changes and customers' incomes or production volumes of various intangible services; (7) sanitizing through which the production is cleaned up from economically weak institutional actors and the development of effective and promising firms to provide services is encouraged. According to some estimates, from 2\3 to 4\5 for all services supplied to the world market, is made on the basis of preliminary agreements between producers and consumers. But in any business enterprises inevitably enter into competitive relations with each other, and at the present time, especially is increasing the competition in the global market of intangible services. However, it should be noted that the concentration of production and capital in the service sector weaken the sanative function of market because on the market there are enough large firms and transnational corporations that can dictate the demand for its services; (8) social, which, on the one hand, leads to customers' satisfaction in the benefits, on the other, differentiates the market participants' incomes.

3.2. Characterization of the Structure-forming Components of State Regulation Mechanism of Regional Services Markets

It is established that the purpose of state regulation mechanism of regional services markets is conditioned by the management strategies of regional development, aimed at improving of the comprehensiveness and the balanced development of the regions and the distribution of productive forces; the reduction of territorial socio-economic differentiation to the level, due to objective differences of the regions; balance providing of the revenue base and expenditure commitments of the regions. It is clarified that the purpose of state regulation mechanism of regional services markets is to create conditions that allow each region to have necessary and sufficient resources to ensure decent living conditions of citizens, complex development and increase of competitiveness of the economy. Achieving this goal involves the following tasks' solving: Development of long-term program of systematic and structural transformation of the territories taking into account environmental development priorities and resource constraints; the formation in the regions of favorable innovation and investment climate; the settlement of the financial relations between Federal, regional and municipal authorities regarding the accumulation, redistribution, and use of financial resources in the service sector.

It is determined that the principles of state regulation mechanism of regional services markets are strategizing, participation, fiscal federalism. The principle of strategizing involves the development of state regulation mechanism of regional services' markets in the long-term, by means of diagnostics of the service sector state to identify the trends of development and factors hindering the implementation of potential opportunities by regions to improve the level and life quality of the population; coordination of regional, sector and corporate strategic goals and directions of development of services' sphere and formation of integrated programs. The principle of participation mediates the development of public-private partnerships as an innovative institution of a mixed economy, financially and organizationally providing for the implementation of socially important projects for the development of regional services markets, through such forms as concessions; commercial leasing; rental; project finance; provision of state guarantees for attraction by business entities of borrowed funds from third parties; transfer on the balance of the business structures of the facilities; subsidies at the expense of costs' budget on services' production. The principle of fiscal federalism is aimed at regulating of financial relations between Federal, regional and municipal authorities regarding the accumulation, redistribution, and use of financial resources in the service sector in the multi-level budget system, through financial flows between the budgets of regions.

It is found that the entities of state regulation mechanism of regional services' markets are: State government authorities and local governments; the business community, scientific organizations, participating in the development and implementation of programs and projects for the development of the service sector; population, expressing its position through the bodies of territorial public self-government, public organizations, as well as through participation in elections and referendums.

It is found that the objects of state regulation mechanism of regional services markets are numerous and qualitatively different. Based on the faceted classification method, the following objects of state regulation of the regional services' market are allocated: (1) Resources (tangible and intangible assets, on the base of which regional services' markets are developed); (2) social infrastructure (a set of industries and institutions, providing production and consumption of services in the overall regional process of reproduction); (3) employment (socially useful activities of citizens bound with satisfaction of personal and public needs, not contradicting the law and bringing them salary, earned income); (4) monetary circulation (the movement of money in domestic circulation in cash and cashless forms in the process of services' providing and various payments' making); (5) social security (system of material security and social services for elderly and disabled citizens, and families with children); (6) the system of personnel training and retraining (ensuring of services sector's needs in a competitive, competent personnel, able to implement innovations); (7) the environment (the set of natural, anthropogenic, social and cultural objects with which the person is in direct or indirect relationship to the process of life); (8) human potential (an index of which is calculated as the arithmetic mean value of three equally important components: Income defined by the indicator of gross regional product at purchasing power parity in USD per capita; education, measured by literacy and enrolment rates among children and youth aged 6-23 years; longevity which is determined using life expectancy); (9) human capital (products of services sphere in knowledge, competences of citizens).

It is found that the forms of state regulation mechanism of regional services markets provides additional financial support; the system of Federal targeted programs as instruments of target financing from the Federal budget; budget investments and investment projects; distribution of state orders for the supply of products for state needs.

It is established that the methods of state regulation mechanism of regional services markets are represented by several groups: (1) Administrative law, defining administrative-legal norms and relations in the managerial process of regional services markets (regulatory legal acts, standards, legislative tasks, centralized distribution of resources, contests, etc.); (2) financial-economic providing financial assistance and support to the managerial process of the regional services' market: (a) Grants (budget funds provided to the budget of other level on gratuitous and irrevocable bases for running costs' cover); (b) subventions (budget funds provided to the budget of another level or to a legal person on a gratuitous and irrevocable basis for implementation of certain trust expenses); (c) grants (budget funds provided to the budget of another level <http://www.budgetrf.ru/Publications/Glossary/Glossary110.htm>, person or entity on terms of shared financing of target expenditures); (d) transfers (transferred in budgets of subordinate territorial level from the fund of financial support of regions, in which the proportion of each entity requiring financial assistance is determined by calculation); (3) program-targeted towards the goals of management of regional services markets, as well as concentration of resources, coordination and systematization of activities of entities to achieve them (target

programs, program-target planning of the budget); (4) informational and communicational stipulating the provision of information, "feedback" between entities and objects of management of the regional services' markets ("e-government"; foresight).

It is revealed that the tools of state regulation mechanism of regional services markets include: (1) The allocation of the regional component in the development of Federal forecasts and programs; (2) the harmonization of fiscal, monetary, structural, regional and social policy; (3) differentiation of subjects of conducting and powers between the Federation and its entities, allowing the latter in the specific historical conditions effectively to solve tasks on ensuring of overall development and competitiveness of regional economies, as well as statutory minimum level of life standards of citizens; (4) the development of a system of standardization of services' quality; (5) program-targeted management of public finances; (6) the establishment of an effective property tax system as one of the most important sources of revenue for regional and local budgets; (7) public-private partnerships; (8) the electoral impact of the state on the establishment of regional conditions for strengthening the territories' independence to ensure quality of the social environment; increasing of the competitiveness of human capital and of ensuring it social sectors of the economy; (9) improving of obligations' balance of regional and municipal authorities and their financial resources; (10) the formation of services market; (11) reforming of budgetary-insurance model of social policy.

3.3. Regularities of Formation and Development of State Regulation Mechanism of Regional Services Markets

The following regularities of formation and development of state regulation mechanism of the regional services' market are established: (1) The formation of state regulation mechanism of development of services' sphere is optimized if to direct the state regional policy on reducing of regional disparities in socio-economic status of regions and life quality; (2) the effectiveness of state regulation of services sphere's development increases if priorities of environmental development and resource constraints are taken into account; (3) integration of goals, objectives, principles, actors, objects, forms, methods, instruments of state regulation of services sphere's development is increased if to determine the authority and responsibility of all entities of state regulation based on delimitation of jurisdictional subjects and competencies; (4) synergistic effect of state regulation of services sphere's development increases with a more efficient tax system and consolidation of resources of municipal, regional and Federal authorities; (5) social orientation of state regulation mechanism of services sphere's development is increased under condition of its transparency and the establishment of a quality assessment system; (6) qualitatively new level of development of services' sphere is achieved through prioritization of objectives; (7) the quality of services and living conditions of citizens are raised in case of approval of the budget, regional and social policy with the aim of necessary infrastructure's creating; (8) interregional differentiation in the level and quality of life is reduced under condition of formation of economic incentives for public-private partnerships; (9) human potential development is optimized under the condition of providing of a statutory minimum

standard of living; (10) the competitiveness of human capital increases if provided support to ensure its social sectors of the economy; (11) the efficiency of politico-legal institutions providing social services to the population, is enhanced, while increasing the role of civil society; (12) dynamics of gross regional product per capita will be positive, in case of public policy direction to reduce regional disparities in socio-economic status of regions and quality of life.

4. DISCUSSIONS

Works on the theory and practice of management of regions' economic development by Baklanov (2007), Kolomyichenko and Rokhchin (2003), Kuznetsova (2009), Lexin and Shvetsov (2012), Mikheeva (2000) are of important theoretical and practical significance for the study. The research methodology of the competitive capacities of the regions and ways of their improvement are presented in the study by Polynov (2010). Publications about the peculiarities of the regional policy in a Federal state by Satarov (2004), Stulberg and Vvedensky (2000) are of great interest. To achieve the objectives of the study the current work on the content of the economic mechanism by Abalkin (2000), Izmailkov et al. (2008), Seliverstov (2012) are actual. Our attention was drawn to research on the state regulation of territorial development by Isaev (2016), Lexin and Shvetsov (2004), Lunev et al. (2014b). The role of public investments and public-private partnership in the regional economic development is revealed in the works of Akitoby et al. (2007). Methods of assessing of the service sector enterprises' competitiveness is developed by Vasilieva (2011), Terentyeva et al. (2016). Features of services sphere's management are identified in papers of Polanski and Soloviev (2001), Lunev et al. (2014a). However, analysis of scientific papers shows that the problem of state regulation mechanism of the regional services' market, ensuring reduction of territorial socio-economic differentiation in a federal state has debatable nature. In the special literature there are different views about the nature of modern economic mechanism, but there are no the regularities of formation and development of state regulation mechanism of the regional services' market in a federal state.

5. CONCLUSION AND RECOMMENDATIONS

The qualitative difference of the proposed state regulation mechanism of the regional services' market consists, firstly, in a stable orientation on the territorial socio-economic differentiation's reduction to the level resulting from objective differences between regions, as well as the capitalization of the service sector, which will lead to positive changes in employment and population's income. Second, in the focus on reducing of interregional disparities in the level and life quality of the population, the creation of equal opportunities for citizens, human potential development, which will make the transition to the innovative socially oriented type of economic development. Third, in an effort to meet the needs of the population in public goods and improve their well-being, which will not only increase the effectiveness of political and legal

institutions that provide social services to the population, but also to improve the living conditions of citizens and the quality of the social environment.

Paper submissions can be useful for specialists of federal and regional authorities, local authorities, ministries, scientists who are interested in the regional economy and management in services sector.

Taking into account the research results a number of scientific problems and promising areas for further consideration can be identified: Improvement of the organization, management of regional services' markets; mechanisms of formation of sector, regional and national markets for services; organizational and economic mechanisms for innovative development of services' spheres; forms of state support of domestic producers in the services sector.

The effectiveness of state regulation mechanism of regional services' markets will increase in case of its complex (administrative and legal, economic and financial, program-oriented, information-communicative) provision and development of services' quality standards system.

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