

# FROM THE CHIEF EDITOR

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## Modernization of the economy as the daily and strategic problem



**Vladimir A.  
ILYIN**  
Doctor of Economics, Professor  
Honored Scientist of the RF  
Director of the Institute of Socio-Economic  
Development of Territories of RAS  
ilin@vscc.ac.ru

The current financial crisis has once again demonstrated the futility of the development model implemented in Russia, in which the stability of the socio-economic system is entirely dependent on fluctuations in world prices for energy and the first conversion industrial products. In this regard, the most important task is to diversify production and increase the innovation orientation of national economy. This is consistent with the goals declared by the country's leadership. As the President of the Russian Federation D.A. Medvedev noted in his policy article "Russia, forward!" (September 2009), "in the coming decades, Russia should become a country whose welfare is ensured not so much by commodity but by intellectual capital: "intelligent economy", creating a unique knowledge, exporting high technology and innovation products".

However, the situation in solving these tasks remains difficult. Russia's share in world exports of high technology products, which was meager in 2000, has even more reduced by 2007 – from 0.4 to 0.2%.

China is an opposite example, which due to the policy systematically implemented in this direction, managed to become the market leader in high technology during a very short period of time. Its share in the world has increased from 3.6 to 18.1% (*tab. 1*).

In the period from 2000 to 2007 the total export of high technology products per capita in Russia has not changed, making 29 US dollars (at current prices), while most other countries has gone far ahead (*tab. 2*). The world average has increased from 189 to 280 US dollars (or 1.5 times). As a result, Russia has moved on this parameter from the 47th place in 2000 to the 60th place in 2007. For comparison: China, which had quantitatively the same starting position at the beginning of the period (32 US dollars), 8 times increased the amount of per capita exports (up to 256 US dollars).

The number of researchers per 10 thousand people in Russia between 2000 and 2007 decreased by 4% (*tab. 3*). Such a reduction could be called not very important, if not taking into account the fact that it goes against the

Table 1. The share of different countries in the world export of advanced technology products, %

Rating 2007	Country	Share, %		Increase/decrease 2007 to 2000	Rating 2000
		2007	2000		
1	China	18.1	3.6	+14.5	10
2	USA	12.3	17.1	-4.8	1
3	Germany	8.4	7.2	+1.2	3
4	Japan	6.5	11.1	-4.6	2
5	Republic of Korea	6.0	4.7	+1.3	7
6	Singapore	5.7	6.4	-0.7	4
7	France	4.3	5.0	-0.7	6
8	Netherlands	4.0	3.9	+0.1	9
9	Malaysia	3.5	4.1	-0.6	8
10	United Kingdom	3.4	6.1	-2.7	5
<b>31</b>	Russia	0.2	0.4	-0.2	29

Source: World Bank's statistical database (design data). – Access mode: <http://data.worldbank.org>

 Table 2. The volume of exports of advanced technology products per capita<sup>1</sup> (US dollars, current prices)

Rating 2007	Country	US dollars		2007 to 2000, %	Rating 2000
		2007	2000		
1	Singapore	23,002	18,283	126	1
3	Netherlands	4,540	2,790	163	4
7	Malaysia	2,432	2,019	120	7
11	Republic of Korea	2,283	1,148	199	14
15	Germany	1,895	1,006	188	16
18	France	1,299	985	132	18
19	United Kingdom	1,034	1,187	87	12
20	Japan	950	1,004	95	17
23	USA	758	697	109	22
36	China	256	32	8 times	46
<b>60</b>	Russia	29	29	100	47
	World at large	280			

Source: World Bank's statistical database (design data). – Access mode: <http://data.worldbank.org>

global trend of gradually increasing the share of researchers in the population. The number of researchers has increased in all countries of the “Big Eight”, Asian countries also demonstrate a substantial growth. At a general growth background China stands out actively developing its scientific potential: for short time – from 2000 to 2007 – the number of researchers per 10 thousand people there rose from 5.5 to 10.7 people (i.e. twice).

The sharp weakening of the scientific, technical and human capacities is one of the hardest losses for Russia from economic and social point of view in all years of the reforms.

A characteristic feature of all advanced countries is a high proportion of public spending in the development of their economy. However, the forecast of socio-economic development in the medium term (September 2010) promulgated by the RF Ministry of Economic Development provides a reduction in government spending (relative to GDP) from 23.6% in 2009 to 17.5 – 18.9% in 2013 (*tab. 4*). (For comparison: public spending in the US in 2009 accounted for 42% and, according to the forecasts, they will remain at the same level in 2013<sup>2</sup>.) This suggests that our ruling elite are increasingly abandoning the state's

<sup>1</sup> Tables 2 and 3 provide information on countries that are listed in table 1 as the leaders of world exports of advanced technology products.

<sup>2</sup> <http://www.usgovernmentspending.com/index.php>

Table 3. The number of researchers per 10,000 of the population (people)

Rating 2007	Country	People		2007 to 2000, %	Rating 2000
		2007	2000		
3	Singapore	60.9	41.4	<b>147</b>	4
4	Japan	55.7	51.1	<b>109</b>	2
8	USA (2006)	46.6	44.8	<b>104</b>	3
9	Republic of Korea	46.3	23.3	<b>199</b>	15
14	Germany	34.5	31.4	<b>110</b>	10
15	France (2006)	34.4	29.1	<b>118</b>	12
<b>17</b>	Russia	<b>33.1</b>	<b>34.5</b>	<b>96</b>	<b>8</b>
20	United Kingdom	28.8	27.4	<b>105</b>	13
24	Netherlands	26.8	26.5	<b>101</b>	14
41	China	10.7	5.5	<b>195</b>	35
51	Malaysia	3.7	2.8	<b>132</b>	41
	World at large	12.7	present days		

Source: World Bank's statistical database. – Access mode: <http://data.worldbank.org>

Table 4. Budgetary financing of the main priorities of social and economic policy in Russia (% of GDP)

№	Priority	2009	2010	2011	2012	2013
				Estimate		
<b>I.</b>	<b>New quality of life</b>	<b>12.4</b>	<b>1.5</b>	<b>10.7-10.9</b>	<b>10.0-10.1</b>	<b>9.3-9.5</b>
<b>II.</b>	<b>Innovative development</b>	<b>1.5</b>	<b>1.1</b>	<b>0.9-1.1</b>	<b>0.9-1.1</b>	<b>0.9-1.0</b>
2.1.	Development of fundamental and applied science	0.1	0.2	0.2-0.4	0.2-0.3	0.2
2.2.	Development of high-tech industries	1.3	0.7	0.6	0.6	0.6-0.7
2.3.	Development of Information Society	0.2	0.2	0.1	0.1	0.1
<b>III.</b>	<b>Modernization of traditional industries</b>	<b>1.6</b>	<b>1.4</b>	<b>1.3</b>	<b>1.1</b>	<b>1.0-1.6</b>
IV.	Defense and security	5.6	5.2	5.2	4.9-5.3	5.2-5.6
V.	Balanced regional development	2.5	2.3	2.0-2.1	1.3-1.4	1.1-1.2
	State budget expenditures, total	23.6	22.5	20.1-20.6	18.2-19.0	17.5-18.9

Source: Forecast of the Ministry of Economic Development of the Russian Federation.

active role in achieving the declared priorities of development.

Theory and economic practice show that it won't be possible to change the socio-economic situation in the country radically without active government policy. Under the existing approaches Russian economy will continue to be structured spontaneously, primarily in the interests of transnational corporations.

The editors of the "Journal of the New Economic Association" in the seventh issue in 2010 under the heading "Hot Topic. Round table" organized a discussion of the leading Russian scientists and economists on the most urgent problems the solution of which will ensure the success of modernization breakthrough claimed by the country's government. Without attempting to convey the full range of the topics discussed,

I would like to focus attention primarily on the fact that during the discussion it was stressed the critical importance for the modernization of Russia of the time factor with great force. "If the current uncertainty remains, – the director of the Institute of Economics of RAS, Corresponding Member of RAS R.S. Greenberg believes, – just in five-six years the country will lose its scientific and technological potential completely". According to him, it is urgently required to implement an inventory of the country's ideas and resources and make its results to a broad discussion. **It is urgently needed to develop a long-term socio-economic strategy, which will clearly link the subjects, the mechanisms and the timing of its implementation**<sup>3</sup>.

<sup>3</sup> Grinberg R.S. Is Russia's modernization realizable? // The Journal of the New Economic Association. – 2010. – № 7. – P. 145.

Director of the Center of Post-Industrial Society Studies, Doctor of Economics Inozemtsev V.L. believes, that modernization has not been comprehended yet by the Russian political class as a complex process. He continues: “Five ways of modernization, which advisers have put into the mouth of the President, represent programs, which are not completely interrelated and qualitatively different in the scheme of implementation”. As to the administrative environment, which is often referred to corruption, the scientist believes that this interpretation is not too correct.

**“What we are witnessing today in Russia is not quite corruption. Rather, it is the transformation of power into the business, which took quite a statutory character... Many-billion deals are signed between deputies of the State Duma, the relatives of ministers and governors possess the most profitable businesses in their industries and regions – and this does not confuse anyone! Companies are imposed huge tax claims, which are then removed through the court, after the property passes into other hands. Law enforcement agencies openly become one of the biggest “businesses” in the country ... In these circumstances, modernization is impossible”. “Today the task of modernization is political”, – this is the opinion of the expert. He believes that the progressive part of the political elite must find the strength to appeal to the masses, to create a broad promodernization party, which would declare itself as a serious political force. It should select personnel on a strictly professional basis, to improve governance practices, move away the conservative part from the power<sup>4</sup>.**

Academician V.L. Makarov, director of the Central Economics and Mathematical Institute of RAS, supporting the idea of focusing on the development of science, technology and innovation, observes that **“society wants to know ultimate goals, to know for what taxpayers spent a lot of money... People need to feel, whether**

**there is progress toward goals, and to know when the goal is reached. They must be sure that the goal is really achieved – and not just in words but in practice”<sup>5</sup>.**

These conceptual provisions must be taken into account not only in the design and implementation of parameters of long-term orientation, but in the medium and annual term programs and current activities. There should be a close link between them in a temporary cut and target parameters. This applies to the federal government and the regional and municipal levels as well. Unfortunately, the federal and regional authorities have no desire for such a link yet.

I will focus on only one example. This year in November at the request of the Public Chamber of the Vologda oblast the Institute Territories’ Socio-Economic Development of RAS carried out the expertise of two bills introduced in the Legislative Assembly of the oblast: “On the approval of the socio-economic development of the Vologda oblast for the period to 2013” and “On the regional budget for 2011 and the planned period of 2012 and 2013”. These bills are related to key issues of life in the region: the content determines the motion vector of the regional economy not only in the medium term, but also a long-term outlook.

Employees of the ITSSED RAS reviewed the bills and made expert judgments on them<sup>6</sup>. It was noted that in the bills are not clearly formulated conceptual provisions and identified the activities associated with the transition to a policy of modernization and development of innovative economic and social spheres in the region. On the most important positions there were offered specific parameters and indicators of possible ways to achieve them. This involved making of significant changes in the documents. However, due to the fact that up to 80% of the time at a public parliamentary hearing was devoted to presentations by the regional

<sup>4</sup> Inozemtsev V.A. Modernization in Russia: what are the chances of success // *Ib.* – P.146-148.

<sup>5</sup> Makarov V.L. Again on the anti-crisis measures // *Ib.* – P. 156.

<sup>6</sup> Expert judgments on the bills are published as an appendix to the article of the chief editor.

government officials, and participants did not look through the texts of their statements beforehand, the debate has been reduced mainly to the formal discussion of the proposed government bills. After insignificant adjustments the bills were recommended for approval as laws, although they had unresolved significant issues and controversies, therefore, there is no assurance that the performance of the planning and budgeting system will function effectively in the unity of their economic, financial and managerial aspects.

We believe that the approval process of the main normative documents regulating the life of society, including in the regions (programs of their socio-economic development, budget laws, etc.) should include systematic discussion of these bills by expert scientific community and civil society. Regulation of this procedure must ensure the possibility at the earliest possible stage of discussion of prepared projects all interested parties to speak, and also determine the procedure to achieve compromises on contentious issues.



Dear readers, by tradition in the final issue of the calendar year we sum up the main results of the work.

The third year of our journal was associated with a very important event – it was listed in the leading scientific publications recommended by the Higher Attestation Commission of the Russian Ministry for publication of the results of Doctoral and Ph.D. dissertations (Decision of the Presidium of HAC on February 19, 2010 № 6/6).

In 2010, the members of the Editorial Board became **Jacques Sapir** – Professor, Director of School of Social Sciences (EHESS) of Research Center of Industrialization (CEMI) (Paris, France) and **D.A. Gaynanov** – Doctor of Economics, Professor, Director of the Institute of Social and Economic Research of the Ufa Scientific Center of RAS. It was very valuable to the magazine that the Institute of Social and Economic Research of the Ufa Scientific Center has become one of the founders of the journal.

In accordance with the recommendations of the members of the editorial board, there were introduced new headings: “Economic Theory”, “Knowledge Economics”, “Industrial Economics”, “Problems of the expanded reproduction”, “Environmental Economics”, “Innovative Development”, “Modelling and forecast”. In the heading “Young researchers” the journal publishes articles by graduate students, written without collaboration with their academic supervisors.

Next year the editorial board will continue to improve the scope of the journal, the introduction of new headings, to include the journal in international databases<sup>7</sup>.

In 2011, the magazine will organize “round tables” to discuss the key issues of social and economic life of regions.

I would especially like to point out that Heads of academic institutions of North-West Russia, who are the organizers of the journal, despite the increased financial burden for the release of the English version, agreed to increase from 2011 the number of issues up to 6 per year and increase the volume of each issue up to 180 pages.



In the previous issue the statistical information, prepared according to the data of the journal site, about the first fifteen articles on the total duration of their viewing was published. Today we suggest you to become familiar with the list of top ten articles on the total duration of their viewing on the site during the period from September to December 2010 and express your opinions and suggestions.

<sup>7</sup> The full-text English version of the journal is included in the WDB and specialized search engines Ulrich's Periodicals Directory, ProQuest: ABI / Inform Global, Google Scholar.

The first fifteen articles in the magazine for the duration of their viewing (December 2009 – December 2010)

№	The total duration of viewing, minutes	Total number of viewings	Average viewing time, minutes	Article title	The journal issue	Authors
1	5,967	229	26	Development of regional cluster systems	№1 March 2008	Tamara V. Uskova
2	5,444	178	31	Spatial aspects of the socioeconomic stratification of the population of the region	№7 September 2009	Ludmila V. Kostyleva
3	4,565	273	17	Organizational and economic mechanisms for the implementation of strategic priorities for tourism and recreation in North-West Russia	№6 June 2009	David T. Akhobadze
4	3,740	144	26	Prospects of small innovative enterprises in the academic and university sectors of science of St. Petersburg	№6 June 2009	Alexey A. Rumyantsev Alexey G. Strelnikov
5	3,168	116	27	The tourism sector: levels and approaches to the formation	№5 March 2009	Tamara E. Dmitrieva Vitaly A. Schenyavsky
6	3,086	177	17	Methodological foundations of innovation development of agro-industrial complex	№2 June 2008	Valentin A. Ivanov
7	2,941	183	16	Status and prospects of development of tourism industry in the Vologda oblast	№5 March 2009	Svetlana A. Selyakova Ludmila V. Dubinicheva Kirill V. Markov
8	2,780	132	21	Strategy to diversify the regional economy	№1 March 2008	Leonid G. logman
9	2,183	100	22	The region's economy: from crisis to sustainable development	№7 September 2009	Leonid G. logman
10	2,181	134	16	Technological innovations – a necessary condition for improving productivity in the Pechora coal basin	№4 December 2008	Albina A. Kalinina Vera P. Lukanicheva
11	2,172	104	21	Housing construction in the region: problems and solutions	№6 June 2009	Anna I. Povarova Olga N. Gordin Tamara V. Uskova Anna M. Cherevko
12	1,946	103	19	Trends and prospects in socio-economic development of the Murmansk oblast	№1 March 2008	Vladimir V. Didyk
13	1,903	96	20	Regional aspects of food security	№7 September 2009	Valentin A. Ivanov Vitaly V. Terentyev
14	1,827	113	16	Problems of tourism development in Arkhangelsk oblast	№5 March 2009	Vera E. Toskunina Natalia N. Shpanova
15	1,811	106	17	Issues of state regulation of processes of distribution and use of proceeds in modern Russia	№5 March 2009	Ishkhan A. Avetisyan

## The first ten articles of the journal for the duration of their viewing (September – December 2010)

№	The total duration of viewing, minutes	Total number of viewings	Average viewing time, minutes	Article title	The journal issue	Authors
1.	595	26	23	Strategic reserves of productivity growth in the regional economy	№9 March 2010	Vladimir A. Ilyin Konstantin A. Gulin Tamara V. Uskova
2.	522	12	43	Studies in living standards of the national municipal district of the Republic of Karelia	№8 December 2009	Anatoly I. Shishkin Inna V. Chubieva
3.	473	17	28	Prospects for forecasting of power consumption in the North	№1 March 2008	Svetlana S. Tuinova
4.	469	18	26	Problems of local budgets and municipal property formation	№1 March 2008	Sergey D. Valentey Talia Ya. Habrieva
5.	463	9	51	Economic and social changes in Russia's coal industry during the crisis	№ 10 June 2010	Vitaly N. Lazhentsev Albina A. Kalinina Vera P. Lukanicheva
6.	353	19	19	Intellectual resources as a factor of innovative development	№11 September 2010	Vladimir A. Ilyin Konstantin A. Gulin Tamara V. Uskova
7.	336	14	24	The effect of economic and financial crisis in 2008 – 2009 on the region's economy and prospects of its development in 2010 – 2011	№10 June 2010	Leonid G. Iogman
8.	302	17	18	Agriculture of the European North: the results of the All-Russian agricultural census	№11 September 2010	Valentin A. Ivanov Elena V. Ivanova
9.	290	15	19	Vologda oblast: prospects of demographic development of the territory	№11 September 2010	Aleksandra A. Shabunova Anton O. Bogatyrev
10.	271	16	17	Economic features of projects on hydrocarbon shelf deposits development	№11 September 2010	Alexey M. Fadeev Alexey E. Cherepovitsyn Fedor D. Larichkin Oleg I. Egorov

## Annex 1 to the article of the chief editor

***Expert's Report of ITSED RAS on the Vologda oblast draft law "On the approval of the socio-economic development program of the Vologda oblast for the period till 2013"***

The draft law of the Vologda oblast "On the approval of the socio-economic development program of the Vologda oblast for the period till 2013" in principle answers to the purposes of social and economic development of the region for the medium-term period. It is aimed to solve the tasks ensuring the increase in competitive capability of the regional economy, the growth of the region's development potential, the enhancement of the life quality of population and the rise in efficiency of the state administration system.

**Therewith, we believe that the draft law demands to be improved to a large degree.** The main shortcoming of the document is that it doesn't formulate the conceptual items clearly enough as well as it describes the measures connected with the transition to the modernization and the innovation development of the social and economic sphere in a poorly defined way.

**1. The point is first of all that the draft offers low growth rate of the gross regional product: in 2011 the increase is expected to be 3.5%, in 2012 – 4%, in 2013 – 5%.** Whereas the most Russian experts consider that **it is necessary to go to the economic growth rate of about 7 – 8% a year.** At the same time it is necessary to seek for some certain solutions which will favour to achieve higher economic growth.

**The draft doesn't indicate the key directions and measures for rise in labor productivity rate in the basic branches of industrial production,** construction and agriculture. In these production complexes the labor productivity rate must be no less than 10% a year, in order to ensure the proper rates of gross regional product increase.

For the forthcoming period the raising of the volumes of innovation production is of great importance. In 2009 its specific weight in the total volume of the shipped production made up only 2.6% in the oblast. But

the expected index of 6.5% for 2013 doesn't give any significant changes. It is necessary to examine the possibilities for increasing of innovation production volumes in a detailed way, especially in the traditional spheres of regional economy – iron-and-steel industry, timber processing complex and engineering, **in order to bring the specific weight of innovation production in the total volume of industrial production up to 10 – 13% in 2013.**

The attainment of more considerable volumes of gross regional product, the significant increase in labour productivity and in indices of innovation activity will lead to the rise in parameters connected with the growth of life standard and life quality of the region's population. For the time being the level of average per capita cash income of the region lags behind the Russian average indices. In 2008 in Russia this average index made up 14.9 thousand rubles a month, in Vologda oblast it was 12.2 thousand rubles that is by 28% lower. It is the main reason for considerable specific weight of people whose income is lower than the living wage: in 2009 it was 18.6% against 13.1% on the average in Russia. **In our opinion, the suggested law should include the task of bringing the region to the Russian average level of cash income per capita in 2013.**

2. As for the first strategic purpose stated in the draft – "Creation of the potential for the future development on the basis of diversification and rise in competitiveness of the oblast's economy" – we'd like to note that the document reflects the current and prospective tasks of growth of region's scientific and technical potential weakly. Moreover, the authors of the draft law haven't put the development of the region's scientific and technical potential into the main strategic direction of the region development. The personnel, financial and

material provision of the scientific and technical organizations development hasn't been represented at all.

In this connection we should notice that in 2009 the share of staff engaged with the researches and designing in the total number of people engaged in the economy of Vologda oblast was only 0.07%, while in Russia this index made up 1.11%. It says about **the need for system-defined raising of the scientific staff in the region**, particularly at the expense of creating of scientific and innovative organizations of small business.

In recent years the problem of scientific and technical sphere in Vologda oblast as well as in the country on the whole is the research and development financing. In 2009 the share of internal costs for researches and developments in the gross regional product (0.08%) was less than the average index in Russia on the whole (1.24% in GDP). **Along with the budget resources it is necessary to obtain the funds of private sector more actively in order to develop the region's scientific and technical potential.**

3. Within the second strategic purpose – “Development of human potential and increase in life quality of population” – the document doesn't plan some active progress at the level of labour potential, especially in relation to the increase in qualitative characteristics of the leading personnel. So in the agriculture organizations of the region the share of heads and specialists with higher education don't change practically (2009 – 34.4%; 2013 – 38%). The program notes that there is no demand for the graduates with primary and secondary professional education in the region's economics: the share of graduates employed in their professional field was 42% in 2009, in 2013 this share won't change considerably and will be only 57%.

It is not provided for any profound changes to solve a number of acute social problems. So in 2013 the provision of the children with spare places in preschool education institutions will make up 78 – 79%, i.e. it will be far from full satisfaction of need.

The expected reduce in death from cancer and blood circulation illnesses among employ-

able population won't be able to **increase the lifetime up to the age of 70. The program should give more detailed system of measures that will ensure the attainment of this index.**

The renewal of basic funds of social establishments hasn't got proper attention in the draft (while about 50% of the buildings need for capital repair). In the main it is very important to solve the tasks to develop the youth self-government and to support some important initiatives of young generation, to organize the citizen and patriotic education of youth.

The assessment indices of development of physical training and sports represented in the draft don't reflect the results of program tasks on training the qualified personnel for physical training and sports and for informative, preventive, educative measures aimed at forming the health way of life.

4. About the third strategic purpose – “Enhancement of management system” – only part of planned measures is linked to the expected results. The definite mechanisms of realization of measures resulting in predicted results haven't been denoted. For example, the document doesn't give the evaluation indices of executive authorities' work and efficiency of their interaction at the different levels. It is impossible to understand why there has been remarkably little attention paid to informatization of health care and culture establishments (only 20 – 30% in 2013) when the information and communication technologies being introduced into state authorities and education filed actively (2013 – 100% of informatization). The measures on monitoring of program fulfilment haven't been worked out. Such measures would ensure the regular control and correction of current and medium-term planning in accordance with the changeable situation. The draft hasn't been coordinated with the program and normative documents accepted at the federal level by quite a number of important points.

On the whole the document contains a set of activity directions and purpose indices of the region's development, but it doesn't outline clearly some definite measures, the terms of their execution and resource supply (both the budget and obtained funds). The

executing officials haven't been indicated in some cases. It will cause some problems when organizing the control system for fulfilment of the program.

Taking into account all mentioned above the Institute of Territories' Social and Economic Development of RAS advises to work further on the draft law of the Vologda oblast "On the approval of the program of social and

economic development of the Vologda oblast for the period till 2013" in relation to more precise program tasks, parameters and development indices as well as the mechanisms of their achievement. There are sufficient reasons for organizing of public discussion of the draft law with the wide participation of public organizations and citizens and after that it is necessary to reflect their suggestions if the draft law.

#### Annex 2 to the article of the chief editor

### *The Expert's Report of ITSED RAS on the Vologda oblast draft law "On the regional budget for 2011 and for the planned period of 2012 and 2013"*

The draft of the regional budget for 2011 and for the planned period of 2012 and 2013 is based on the Budget message by the President of the Russian Federation "On the budget policy in 2011 – 2013", Basic directions of budget and tax policy in the Vologda oblast (approved by the Decree of the oblast government as of September, 27, 2010 №1101) and takes into account the Forecast of social and economic development of the Vologda oblast for 2011 – 2013 being in line with the moderate optimistic version of forecast of functioning of the RF economy in 2011 – 2013 (according to it the financing volumes of basic priorities of social and economic policy are being reduced; *tab. 1*).

There is no doubt that forming of the region budget depends much on the macro economic situation in the country and the economic and budget-taxation policy conducted by the state government.

However, it should not detract from the role of regional authorities and management in solving the problems of sustainable socio-economic development of the region.

Analysis of the draft regional budget and projection of social and economic development of the Vologda oblast in 2011 – 2013 suggests the following conclusions.

#### **1. The objective of the budgetary and fiscal policy in 2011-2013 to restore a pre-crisis level of revenue base budget will unlikely be achieved.**

The positive dynamics of the basic macroeconomic indicators (*tab. 2*) and the main

parameters of the regional budget (*tab. 3*) are projected to be reinstated in the Vologda oblast in 2011 – 2013. The economic growth rates in the Vologda oblast will amount to 3.5-5% with growth in Russia amounting to 3.9-4.5%.

However, the pre-crisis level of incomes of the regional budget will not be succeed in 2013: incomes will be lower by 8.4%, and its own revenues will be lower by 3.2%. In addition, since 2011 the Vologda oblast will be subsidized: subsidy for balancing the budget system will amount to 2.3% of total revenues of the regional budget in 2011.

If we take into account that trends to reduction of federal revenues (relative to GDP) and budgeted deficit (mainly due to shortfall of oil and gas taxes and the imbalance of the pension system) are built into the projection, we can say that inter-budgeted relations with the federal center will be strained.

Therefore, it is necessary to adjust appreciably the regional budget and economic policy, including:

- systematic transition from the raw orientation of economy to the high-technology industries and reduce of dependence on the prices in the world markets;

- diversification of economy, a balanced structure of the industrial complex (associating of tax base in the region to the metallurgical complex, which will generate 60% of profit and 40% of income tax in medium-term prospect, is built into the projection);

Table 1. Financing of the main priorities of social and economic policy, % of GDP

№	Priority	2009	2010	2011	2012	2013	Trend*
				Assessment			
I.	NEW QUALITY OF LIFE	12.4	12.5	10.7-10.9	10.0-10.1	9.3-9.5	▽ (-2,9)
1.1.	Wage rates in the budgetary sector, provision of pensions and social welfare	11.2	11.0	9.5-9.8	9.2-9.3	8.7-8.9	▽
1.2.	Human capital (public health, demography, education, culture)	0.8	0.7	0.7	0.6	0.5	▽
1.3.	Housing and communal services and accommodation	0.4	0.8	0.4	0.2	0.2	▽
II.	INNOVATIVE DEVELOPMENT	1.5	1.1	0.9-1.1	0.9-1.1	0.9-1.0	▽ (-0.5)
2.1.	Development of fundamental and applied science	0.1	0.2	0.2-0.4	0.2-0.3	0.2	▽
2.2.	Development of high-tech industries (Defense Industry Complex, space, aircraft building, atomic energy power complex, radio electronics, medical equipment and pharmaceuticals)	1.3	0.7	0.6	0.6	0.6-0.7	▽
2.3.	Development of Information Society	0.2	0.2	0.1	0.1	0.1	▽
III.	MODERNIZATION OF TRADITIONAL INDUSTRIES	1.6	1.4	1.3	1.1	1.0-1.6	▽(-0.6)
3.1.	Transport sector	1.0	0.8	0.8	0.7	0.7-1.2	▽
3.2.	Agricultural sector	0.4	0.2	0.2	0.2	0.2	▽
3.3.	Other support of sectors (fishing industry, coal-mining industry, source of raw and mineral materials, timber processing complex, light industry, export maintenance)	0.3	0.3	0.3	0.2	0.1-0.2	▽
IV.	DEFENCE CAPACITY AND SECURITY (NATIONAL DEFENCE AND NATIONAL SECURITY AND LAW ENFORCEMENT)	5.6	5.2	5.2	4.9-5.3	5.2-5.6	▽(-0.4)
V.	BALANCED REGIONAL DEVELOPMENT	2.5	2.3	2.0-2.1	1.3-1.4	1.1-1.2	▽(-1.3)
	State budget expenditures, total	23.6	22.5	20.1-20.6	18.2-19.0	17.5-18.9	▽(-4.7)

\* ▽ – reduction by 2013 relative to 2009, p.p.

Table 2. Main macroeconomic indicators for the regional budget drafting

Item	In fact		2010, estimate	Projection		
	2008	2009		2011	2012	2013
GRP, billion rubles	298.1	213.4	258.7	287.0	306.6	326.8
Growth rates to the previous year in comparable prices, %	-3.9	-13.0	+5.0	+3.5	+4.0	+5.0
Investment in fixed capital, billion rubles	78.5	55.5	57.2	64.6	71.0	78.3
Growth rates to the previous year, %	-8.8	-29.3	+3.0	+12.9	+9.9	+10.3
Industrial production index to the previous year, %	95.8	87.5	108.5	103.5	103.0	104.5
Real disposable incomes of people to the previous year, %	98.7	89.9	105.0	100.0	100.7	101.1
Level of unemployment which is officially registered, %	1.5	3.7	3.1	2.8	2.6	2.3
Inflation (CPI), prices increase, %	15.2	10.7	6.6	7.9	5.7	5.4
Benefit of profitable enterprises, billion rubles	99.5	22.6	47.6	53.0	56.4	60.4
Growth rate to the previous year, %	+22.7	-77.3	+2.1 p.	+11.3	+6.4	+7.0
Growth rate of wages in real terms, % to the previous year	+8.3	-5.9	-4.8	-1.6	+0.3	+0.7
Wage fund, billion rubles	90.5	86.1	91.1	97.1	103.3	110.1
Growth rate to the previous year, %	+24.5	-5.0	+5.8	+2.3	+6.4	+6.6
Net book value of fixed assets	252.8	266.2	283.6	302.9	308.4	319.1
Growth rate to the previous year, %	+20.5	+5.3	+6.5	+6.8	+1.8	+3.5

\* According to the projection of the Ministry of Economic Development of the Russian Federation.

Table 3. Main parameters of the regional budget, billions of rubles

Indicators	In fact		2010, estimate	Projection		
	2008	2009		2011	2012	2013
Revenues, total	39.5	31.2	35.0	32.0	34.1	36.2
<i>in % to the previous year</i>	125.5	79.0	112.2	91.4	106.6	106.1
<i>in % to GRP</i>	13.3	14.5	15.1	11.1	11.1	11.1
Including tax and nontax revenue	34.4	19.0	26.0	27.8	30.7	33.3
<i>private the previous year</i>	128.9	55.2	136.8	106.9	110.4	108.5
<i>in % to GRP</i>	11.5	8.9	11.2	9.7	10.0	10.2
Charges	39.1	37.7	42.2	36.0	31.8	32.9
<i>in % to the previous year</i>	121.0	96.5	111.9	85.3	88.3	103.7
<i>in % to GRP</i>	13.2	17.6	18.2	12.5	10.4	10.1
Deficit-, surplus+	+0.4	-6.5	-7.2	-4.0	+2.3	+3.3
<i>in % to private incomes</i>	+1.2	-34.1	-27.6	-14.4	+7.5	+9.9
<i>in % to GRP</i>	+0.1	-3.0	-3.1	-1.4	+0.8	+1.0

– renewal of investment demand to 20% per year (it is projected to increase it by 10-13%); searching for other sources of income of the regional budget.

**2. The objective to ensure stable operation of the social sphere and to maintain the volume and quality of budgetary services and public infrastructure service will not be solved in corpore.**

The main task of the regional budget is to carry out its social obligations. Social policy will be the largest item of expenses in the planning period. A quarter of the budget will be sent annually to finance it. Education and health will take the second place (16-17% of total expenditures); general inter-budgetary transfers and national economy will be on the third place (10-11% of budgetary allocations). More than 60% of budget expenditures will be used to finance the social sphere. However, the overall social expenditures will be declined.

Firstly, educational expenditures will be provided in 2013 for 8% below than in 2010.

Secondly, the budget allocations for social policy activities will be reduced by 22% in 2011 compared to the expected level in 2010, they will also be decreased by 7% in 2012 – 2013.

Thirdly, according to the bill, expenditure obligations in the field of public health will be increased by 3.3% in 2011 – 2013 compared to 2010. However, analysis of apportionment of allocations for public health gives grounds to conclude that expenditures for the basic

functions of public health will be decreased; moreover, there is a trend to reduce them in the planning period.

Fourth, reduction of expenditures for housing and communal services will be provided annually. Their share in the budget will be reduced from 6% in 2010 to 2.6% in 2013 while wear of accommodation will be increased with 25% in 2007 to 50% at the end of 2009. It is obvious that all repairs in the housing and communal services are shifted on the population's shoulders.

The situation is exacerbated by the fact that costs are projected at the current prices, excluding the inflationary component, the rate of which will be about 20% during this period according to the projection of the Ministry of Economic Development.

Taking into account the rate of inflation, we can assume that the real wages of employees of government-financed organizations also will be reduced. Thereupon, it is important to increase budget expenditures on social services. It is necessary to revise the budgetary allocations for social support of motherhood, fatherhood and childhood and providing housing for young families in order to stimulate the demographic situation in the region.

**3. The issue of ensuring of macroeconomic stability remains to be opened.**

Expenditures on the state support of the sectors of economy will be reduced in the nominal terms one and a half times as much in

2011 relating to 2010 in the draft budget; and also they will be reduced almost twice next two years, including:

- financing for the item “Macroeconomic issues” will be reduced 4.2 times as much;
- government support for agriculture at the expense of the region budget will be reduced by 22%, and its share of budget expenditures – from 2.8% in 2011 to 1.9% in 2013;
- allocations for forestry will be decreased one and a half times as much relating to 2010.

**4. Limited budgetary resources create certain risks in using the budget as an instrument to implement the main objectives of modernization in the region.**

However, the budget does not stimulate the structural shift in favor of innovative industries. Among the 46 long-term target programs, offered to be adopted in the draft budget, there are six programs of modernization and innovation, which will be funded in the amount of 1.3-1.4 billion rubles it is 4-5% of budget expenditures.

**5. Working balances full increasing the revenue base of the regional budget weren't used in.**

The important source of the regional budget's income is **the settlement of arrears in the budget payments**. The amount of arrears involved in the formation of budget revenues isn't stipulated in this draft. Meanwhile, the amount of arrears in the regional budget is 0.7 billion rubles as of October 1<sup>st</sup>, 2010.

**Updating of policy of tax incentives** is an important reserve of growth in the regional incomes. During the crisis period the regional budget lost more than 22% of tax revenues because of tax concessions. So, the regional budget didn't received the taxes amounted to 2,554 million rubles in 2009, the consolidated budget didn't get 2,641 million rubles. Property tax benefits for organizations amounted to 2480.5 million rubles. Consequently, a reserve of the regional treasury, which wasn't used by the region, amounted to 2.641 billion rubles.

The Vologda oblast is incompatible with other regions of the North-West federal district in terms of benefits size. And for property tax, the share of benefits is 90.9% of the tax amount which is calculated to pay. It should be noted

that the clauses of laws demanding of reports on targeted use of funds by the managing entities were annihilated by the Decision of the Legislative Assembly of the Vologda oblast of June 30, 2010 № 417.

We suppose, it is necessary to use more reasonable approach to the issue of granting of tax benefits and take into account the efficiency of savings.

It is also necessary to continue to abolish federal benefits for state and local taxes, which are included completely in the budget of the region. It will increase the budget revenues by about 3 billion rubles (about 12% of regional budget revenues).

In our opinion, it would be appropriate to extend additional budget funds to support the social sector, agriculture, to solve the problem of diversity and innovation of economy (development of small-scale businesses, implementation of technological, organizational and managerial innovations).

The value of the regional budget as the main instrument for the implementation of strategic objectives provides for increasing of responsibility for the accuracy of financial and economic indicators.

However, the level of projections, which are laid on the basis for the budget plans, is usually low. It is a **reason for systematic reviews of the budget** for the current year. So, the regional budget was adjusted 9 times in 2009 and 8 times in 2010.

There is a practice of underfunding of the approved expenditure obligations in the performance of the regional budget. Such position is bad for the budget receivers, it is also disrupts the functioning of the relevant sectors of economy. It seems that we should increase the personal responsibility for the quality of preparation of the draft budget and its execution. It is necessary to establish legally a threshold of acceptable changes in the budget as a whole, its structural parts, and target programs.

Having examined the draft law “On the regional budget for 2011 and the planned period of 2012 and 2013”, we consider that it can be adopted having taken into account the above comments and suggestions.