

# THEORETICAL ISSUES

UDC 332.01

LBC 65.040

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## Socio-economic differentiation of space: inconsistencies between the theory and regulation practice

*The article notes the inconsistency between significant efforts aimed at resolving the differentiation issue of the social-economic development and low effectiveness of countries, regions. The article analyzes the theories relating to the subject matter of asymmetric development and current reality. The author argues that the modern economic theory leaves unanswered the question concerning the possibilities to eliminate the issue of inequalities within the existing world order, which can potentially result in social tensions and conflicts. The article notes the specifics of the Russian research experience with regard to the socio-economic differentiation: great number of scientific works, extrinsic interest of the management system, lack of theoretical development, research bias. The criticism of the basic research and regulation postulates of the differentiation in Russia allowed determining the main problem – the necessity to develop the quantitative analysis of the differentiation issue.*

*Socio-economic differentiation, globalization, regionalization, economic theory, research postulates.*



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The formation of economically feasible model regulating the issue of uneven socio-economic development is one of the fundamental contemporary scientific problems. The specific theoretical-methodological and application tasks when resolving the given issue

are aimed at minimizing the inequalities that can potentially lead to mounting conflicts, social tensions and hinder balanced economic development. However, the practical results concerning the regulation of inter-country, interregional and inter-municipal differences

\* The article was prepared with the support of the grants of the Ministry of Education and Science, provided under the Federal Target Programme “Scientific and Scientific-Pedagogical Personnel of the Innovative Russia” for 2009–2013 – No. 2012-1.2.1-12-000-3002-007; RFBR – No.13-06-00030.

are quite insignificant<sup>1</sup>. As the natural result this contradiction stipulates the expediency of considering modern views on the issues of socio-economic differentiation of space. However, such consideration encounters difficulties. The problem is the following: in fact any economic event in the world, country, region ultimately affects the ratio of indices, changes socio-economic differentiation. Therefore, any research, any theoretical description of these events, concerns, to some extent, the issue of differentiation. Certainly, every economist knows that “everything depends on everything”, but the full meaning of this generalization is not recognized until it comes to such structurally complex subject of research. However, it seems relevant to identify theoretical constructs, directly related to the problem of uneven development, as well as the consistency (inconsistency) between the theory and practical results concerning the development and regulation of the issue, the solution of which is addressed in the given publication.

#### **Economic theory of developed and developing countries on socio-economic differentiation**

From theoretical point of view, modern research into socio-economic development asymmetry in developed countries is still mainly based on “centre-periphery” theoretical platform. The literature on the theory is so extensive, that it is not presented itself possible or reasonable to describe the theory in the given work. Many books and textbooks on economic theory provide not only a

comprehensive presentation, but also make one firmly convinced in little feasibility and certain dogmatism of prerequisites<sup>2</sup>.

However, the contemporary postulate that “theory is to be assessed not by the feasibility of prerequisites, but by the complexity and significance of the problem definition” is widely shared. This allows “centre-periphery” models to be used as a visual display of uneven development, first of all, in the global context.

As for the regional level, despite the huge number of works, a streamlined theory describing or explaining the issues of asymmetric development within the framework of the “centre-periphery” theory has not yet emerged. However, it is possible to highlight several large construction conglomerates. For example, the first of them is based on the idea of promoting competition between the “developed”, “promising”, “backward” regions in order to even economic levels in the “region-center-region-periphery” system. The second involves the development of “city-centre” and “region-periphery” cooperation, with large firms acting as the cores, providing an impetus for the development. All these theoretical constructions are characterized, summarized, diversely synthesized in secondary sources, some of which even present the results of allocating the centre and the periphery of specific regions [14]. However, such allocations are of absolutely no use when searching for practical meaning: it is impossible not only to diagnose, but also to use the results obtained in prognostic elaborations<sup>3</sup>.

<sup>1</sup> Lack of effectiveness in global economic context is reflected in the relevance of reproduction issues: “But what place does the equalization of the economic development of countries take in the processes of globalization itself? Why does the world market resist such leveling?” [9, p. 83]. On the dead-end nature of equalizing the budget sufficiency of the subjects of the Russian Federation, see, e.g., [10, 12]; on the absence of trends of equalizing basic social and economic statistical indicators of regions, see [1, 3]. Statistical assessments clearly show that interregional differences by the main social and economic development indicators are even sharper than interregional [2, 5].

<sup>2</sup> The amount of ideas that can be considered a retrospective basis for the location theory, and “centre-periphery” theory (that was, in fact, formed as the result of inactive discussion of this very location theory), is clearly presented in [4, p. 568-585]. The renunciation of the postulate of the invariability of the international division of labour, based on statically understood principle of comparative costs, can be considered a modern specificity.

<sup>3</sup> So it is absolutely unclear, for example, whether the existence of periphery is good or bad? And in case it is necessary to combat it, what are if not the recipes, then at least the principles on achieving overall progressiveness of space? Etc.

Therefore, management practices, in particular regional development, are traditionally based on strategic planning, which, unlike “central-peripheral” approach, includes the optimization of development parameters on the basis of developed solution algorithm, aimed at the achievement of the main goal, i.e. the spatial factor is not the most significant or strictly specified.

Economic theories of the Third World countries, directly related to the problems of asymmetric development, proceed from the criticism of modern inter-country division of labour, the existing system of wealth distribution and the theoretical concepts of developed countries, securing this order. The concepts of developing countries are of huge interest<sup>4</sup>: the concept of peripheral economy by Raúl Prebisch (Argentina), Theotonio dos Santos and Celso Furtado (Brazil); the concept of “Arab socialism”, practically superseded by its multivariable “fundamentalist alternative” (“Islamic alternative”), etc. Each of them involves reformist programme, certain “projects of the nation”, based on a heightened attention to the problem of unequal relations between developed and peripheral countries, between “centre” and “periphery” within the country.

Latin American programmes are based on different ways of changing the national product structure on the basis of certain methods of change in demand, i.e. ways of satisfying consumption. Theoretical standpoint is very strong: the advancement of the criterion of per capita income maximization, supplemented by conversion rates, providing import substitution, the substantiation of industrialization, etc. Besides, it was and is considered in Latin American variants that it is the industrialization in developing countries that will lead to structural adjustment, making it possible not only to accelerate economic growth, but

also to solve the problem of domestic income differentiation and interregional differentiation by the level of economic development. The bottom line is known: the establishment of individual industrial base increased the dependence on the world market, the pressure of transnational corporations increased, international inequality consolidated. As for domestic differentiation of population by income, for example, the gap has not narrowed in Latin American countries, social stratification has been observed to strengthen, i.e. the probability of vertical movement of an individual by social strata has been reducing year after year. It is fair to say that the latter peculiarity is characteristic of developed countries, as well.

The studies devoted to the factors consolidating intercountry and interregional differentiation are extremely diverse. Archilochus said: “The fox knows many things, but the hedgehog knows one big thing”. In the author’s opinion, the problem is the essence of the capitalism model, which is based, as is well-known, on greed and exploitation of the weak. In case the political component (unipolarity of the world, probability of military and economic sanctions against the Third World countries, etc.) is laid aside, the perspective model of the world in economic terms is the following: the one, who owns capital, determines the global economic processes. Thus, “the big thing” is capital.

In terms of economic theory, it is possible to prove that the capital is the only production factor. The author shares this position with regard to the world perception model. Considering the external enormity of this thesis, this should be briefly explained, referring to recognized theorists. The fundamental work by Mark Blaug “Economic Theory in Retrospect” combines the theses of Fischer and Valras [4]. Fischer defined capital as any reserve that brings in service flow – land, machinery, raw materials, natural resources

<sup>4</sup> Secondary source of these concepts, see, e.g., in [11].

and labour skills, while income was defined as a surplus of these services over the costs of replenishing wealth reserves. Hence, the capital is the only production factor, all distributable income consists of interest, wages are the interest payments for human capital, and the national income comprises consumer spending. Certainly, at this point Fischer went far in the construction of reality, but for modern global processes the conclusion that, in fact, the capital is the only production factor, that it represents a homogenous “eternal background” of production forces, that the one major asset can be converted into another without affecting the consumption, is extremely important. That is what determines the immanent essence and logic of globalization, primarily as a financial globalization.

Financial globalization fixes and extends the capabilities of the world centres to dominate when the prospects of the “periphery” are weakening. This trend is traditionally believed to be a negative consequence of globalization. Positive results include not only the advanced technologies boost availability for the entire population and peripheral economies, but also the diffusion, but rather, the export of Western ideologies<sup>5</sup>. It should be also noted that modern political science and economics are formally

<sup>5</sup> Let us give a representative definition: “Economic globalization is a complicated and contradictory process. On the one hand, it facilitates economic interaction between states, creates the conditions for the countries’ access to the recent advances of the mankind, provides ability to save up resources, stimulates the world progress. On the other, globalization has a negative impact: it consolidates the peripheral model of the economy, causes the countries, not included in “the Golden billion”, to lose their resources, ruins small business, spreads “globalization of competition across the weakest economies, decreases living standards, etc. One of the greatest challenges facing the international community is to make the benefits of globalization available to the maximum number of countries” (Economic dictionary.—<http://abc.informbureau.com/>). The latter suggestion and statement, being typical, as well, illustrates the metaphysical nature of the economic doctrine of globalization. The definition itself includes both the support and negation of “one of the objectives” of the world community. At the same time, it is never explained, what follows from these contradictions? What is the mechanism handling this problem?

deprived of certain “censorship mechanisms”, but are essentially biased, drawing a clear line between those who “cultivates”, who is already “cultivated”, and those who are to be “cultivated”. As a result, it is considered in a number of studies [see, for example, 19] that even the division into centre and periphery itself is not so much caused by differences in the parameters of socio-economic development, as by the degree of the infiltration of European traditions in the life of their peoples.

However, according to the author, it is hard to agree that “the world mentality crisis, fraught with the war between two major civilizations – Christian and Islamic, has become the basis risk” for the global system of capital [9, p. 93]. The community of institutional environment concerning the underlying unity of the conditions for the movement and flow of capital is important for the world capital. As for the mentality formation, especially in “Christianity-Islam” context, it is mainly an extraneous feature, hindering the consideration of the essence of things.

Indeed, the modern model of global development, consolidating the problem of inter-country and in-country differentiation, leads naturally to the ideas of alternative development of the countries that are not considered “developed”. The responses to the established world order are regional Islamic projects (the alternative mechanism is most clearly reflected in the “Libyan alternative” – “Third International Theory”, formulated by Muammar Gaddafi) and the projects of economic integration of the Arab countries [17]. Modern military and political results in the Arab world postponed the implementation of these ideas for many decades, and the further efforts of the democratic forces will postpone it for eternity. But the reason is not in “the crisis of mentality”, but in the establishment and protection of the required unification of the global rules of conduct of the “big thing” – capital.

Not only the history of relations between Libya and Venezuela, but also the absolute similarity between Hugo Chavez's "Bolivarian doctrine" and the ideology of the Socialist People's Libyan Arab Jamahiriya in the context of the commitment to the "left" values proves "non-Islamic" nature of the concepts of alternative development [6]. Integration idea is another general feature. Thus, the goal of all Latin American Countries (without any notable exceptions) to form an alternative economic system, grouping around ideas of social concentration and continent-wide consolidation, is reasonably considered by a number of researchers socially claimed and rational [15]. However, when speaking of "rationality", a substantial reservation of "unrealizable rationality" is to be made.

Thus, the modern economic theory does resolve the question, how to eliminate the issue of inequalities within the existing world order, which can potentially result in conflicts. Therefore, some ideal models are frequently made, in which the goals of development are profoundly changed without any external causes: from profit maximization, expansion ideas, etc. to the ideas of equality, free development of each state, individual; making of ideal models of sustainable development, etc.<sup>6</sup>

<sup>6</sup> These theoretical concepts and their derivative constructs (the dominant example is the concept of sustainable development) are generated by a range of interrelated factors. Let us enumerate only a few. The first is political situation, that is a number of "inconveniences" and "contradictions" generated by modern global capitalism, that is resolved by one-stage transformation of the declared development ideas. The second is that new, "correct" declared values are in conflict with practical steps, including the ones taken by the governments of developed countries, advocates of Western universal values. This naturally gives rise to "rejection reaction" of the reality, at least at the level of economic theory. The third is that with the understanding of the globalization development as a linear progressive process, its dead-end character is revealed, resulting in legitimate attempts to "prove the inevitability of transition from traditional catching-up development to the new, more modern synergetic model. In new models all subjects of the economy – from state up to each individual – play by completely different rules, following which, they act as creative partners and competitors, both nationally and internationally. Thus, they get equal chances of success" [9, p. 95].

The unlikely nature of these concepts allows making the main conclusion from the consideration of the existing theoretical constructions relating to the subject matter of the differentiation of socio-economic development. **Current models, stipulating the global resolution of contradictions are extremely common, and hardly bring anything in practice management, except for the prospect that everything will somehow be all right. At the regional level, the "centre-periphery" is of little use to solving practical problems.**

#### **Russian experience in research and regulation of socio-economic differentiation**

As for domestic research, a great number of works on the given topics is to be noted. The external interest displayed by the control system is sufficiently significant, as well. A vivid example – the Federal Target Programme "Reduction of differences in the socio-economic development of the regions of the Russian Federation (2002–2010 and up to 2015)", which was not completed neither in time nor in its results. However, the extreme insignificance of the reflection of theoretical constructions on the issue of socio-economic development differentiation is brought to attention.

In most studies the issue of socio-economic differentiation of Russian space consists of several acknowledged theses.

The first widespread thesis concerns the interregional differentiation increase in Russia. The specificity of its application is often beyond the context of what exactly is growing. Let us refer to the phrases typical of University textbooks: interregional differentiation in Russia makes up 19 times and continues to grow; in another manual the figures are different – 8 times, etc.<sup>7</sup> The example stating "the main contemporary transformation trends in the Russian economic space: ongoing

<sup>7</sup> Standard statement of the differentiation issue in university literature, see, e.g., in [16, p. 147-148].

strengthening of interregional socio-economic differentiation (space heterogeneity)...” is typical, as well [5, p. 17]. At the same time no criteria, indicators, underlying such statements, are given.

Another consideration for applying the thesis concerning differentiation increase is the frequent use of all sorts of comparisons of the smallest and largest values of an indicator in “the best” and “the worst” region in research, university textbooks, formal legal documents, including federal ones. The result of the studies, based on such comparison is revealed in the following conclusions. For example: “Interregional differentiation by the end of 2000 makes up almost 64 times by per capita volume of industrial production, more than 8 times by the ratio of per capita income and the minimum subsistence level, etc.” [15, p. 9-10]; “The differentiation of regional development level will be not only far from decreasing, but, on the contrary, will almost double” [13, p. 40] (referring to the three-year period). However, the given examples register only the range of indicators and do not assess the objective tendencies of interregional differentiation development for all regions, resulting in distorted ideas about the tendency due to certain extreme values<sup>8</sup>.

The second firm thesis that “interregional differentiation in Russia is to be reduced”, is presented again out of context, what is to be reduced and why. A typical example of such attitude is the above-mentioned Federal Target Programme, the purpose of which, as denoted in its passport is “the reduction of differences in socio-economic development of regions of the Russian Federation, reduction of the gap by the main indicators of socio-economic development between the most advanced and backward regions by 1.5 times in 2010, 2 times by 2015”.

<sup>8</sup> That is actually a differentiation between two regions of the Russian Federation, and the fact that there are yet 81 subjects of the Russian Federation (according to the modern system of the Federal structure) is ignored.

Such theses are dangerous due to their unreasonably general character. The danger, of course, is speculative when implementing research tasks, but real when making management decisions. The result is the formation of tasks, concerning the resource capabilities of the above Programme, which are no less vague. For example, the tasks such as “formation of conditions for the development of regions, socio-economic indicators of which are below the average for the country; the establishment of an environment for the development of entrepreneurship and improvement of the investment climate; the improvement of the efficiency of the state support, provided to the subjects of the Russian Federation”, are not comparable with resource availability. The actual financing made up 22 183 million rubles for the real term of the 2002–2006 Programme implementation.

As for the postulate concerning the necessity of reducing interregional differences, the author takes more pragmatic position. In the context of any spatial socio-economic systems, differentiation is the inherent property of the system components, traceable by quantitative criteria. And the basic task that will allow eliminating the problem of the reliability of the interregional asymmetry study results, is the development of methodology and proper methods of information generalization.

#### **Some conclusions and prospects concerning the research of the issue of Russia’s socio-economic differentiation**

Thus, the absence of any prospect of practical solution of the issue concerning the socio-economic differentiation of space is connected with at least three factors. Firstly, the vagueness of theoretical substantiation of the problem of spatial development asymmetry. Secondly, the goals, which are phantom for regulatory practices. Thirdly, insufficient use of the existing capacities of statistical methods in typical schemes of quantitative evaluation of differentiation phenomenon. The “perfect

simplicity” which underlies the world order and makes it possible to fit the pieces of the diversity of uneven development phenomenon together, is missing.

According to the author, productive efforts to reveal the problem of socio-economic development asymmetry of Russia, in particular, include gradual overcoming of the following stages. The first stage implies the development of a methodology to analyze socio-economic differentiation, including the development and formulation of key methodological guidelines, the substantiation of the use of the typical and the development of new proper comparison methods. The second stage is an integrated assessment of the specifics, trends, perhaps, the regularities of the development of the

differentiation phenomenon. The third stage is the verification of the theoretical concepts of measurement results. The fourth stage includes the formulation of perspective methodological measures of Russia’s spatial development regulation, which consider new proportions of socio-economic characteristics, opportunities and priorities.

It is the movement by these steps that will deepen the theoretical ideas of objective prerequisites, directions, mechanisms of the asymmetry formation of Russia’s socio-economic space, determine the actual facts, reasons, possibilities and prospects for the formation of the system of balanced development of the subjects of the Russian Federation in new economic conditions.

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