

# *Spatial development strategy: economic issues and legal bases*

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**Abstract** — The adoption of spatial strategy formation as an independent element of strategic planning poses new requirements to the development and implementation of the state policy regarding the regional development in the Russian Federation. Among these are a focus on long-term priorities and objectives; placing this policy based on identifying different types of regions and settlements; coordinated action of all the institutions and instruments of regional policy; emphasizing the formation of conditions and stimuli for the self-development of entities of the Russian Federation. However, one never succeeded to prepare the spatial development strategy of the Russian Federation [1] on the timely and high quality level. One cannot blame only some shortcomings and gaps in the law on strategic planning. It was also affected by other outer, objective factors (the complexity of long-term results framework and plan resourcing while preserving trade and financial sanctions regime) as well as a number of subjective causes. Among those are an utter deficit of conceptual developments aimed at the state policy of regional development that would take into consideration both all the hardships and miscalculations of that policy over the past period and new priorities and opportunities of the country and its regions for the prospect of approximately 10-15 years.

**Keywords** — *strategic planning, spatial regulation, institutions and instruments of the regional development policy*

## I. INTRODUCTION

Currently the situation of “conceptual deficit” can be referred to a special degree to a spatial “section” of social-economic strategic planning. The most significant purpose of this in the public administration system is to form essential institutions and mechanisms to regulate the spatial structure of the Russian economy, in particular within the context of not only the main tasks of a federal policy of regional development but also the key priorities of community and social development in the country as a whole. However, the legal and regulatory documents we have thus far that are somehow related to this segment in the public administration system do not give an unequivocal and distinct interpretation of the notion of “spatial economic structure”; there is no sufficient specification of objectives, tasks and instruments of its regulation from a strategic prospective. A constant confusion of such notions as “spatial”, “regional”,

“territorial”, “social-economic” and others can be found in legal literature and methodological documents. The lack of due coordination of the tasks of spatial strategic planning with the development of economic and regulatory framework of federative relations have constantly been affecting the research [2]. As a result, as V.N. Leksin reasonably stated, such tasks were set before the designers of the spatial development strategy, “...for whose solution there was neither any experience, nor information and institutional resources available” [3].

The logical sequence in drafting of documents for strategic planning stipulated in Federal Law 172 [4] has made a negative impact on forming the current situation. As it has been fairly reasonably stated in this act of law (art. 20, para. 1) the strategy of spatial development is designed “to implement the main provisions of the strategy of social-economic development in the Russian Federation”. In that sense an opinion is fair that the recent adoption of spatial development strategy prior to the official emergence of the “basic” strategy of the country’s social-economic development has indeed made the spatial development strategy not just insufficiently well-founded and specified but also somewhat illegitimate in purely legal sense.

One may pertinently ask a question, which requires an exhaustive answer: perhaps there is still no “basic” strategy of the Russian Federation’s social-economic development because it is virtually impossible to draft it in the current economic reality, isn’t it? Or it does not exist because it is no longer needed, and they just have not got around to formally acknowledging the fact in Federal Law 172, have they?

## II. MATERIALS AND METHODS (MODEL)

The article is based on the use of the method of legal-economic analysis. The method shows that the adoption of Federal Law No 172 on strategic planning has somewhat enabled to overcome a protracted deadlocked situation in the field of the conceptual acknowledgement and legislative regulation of regional policy in the Russian Federation. For all the imperfections of the act of law in question its benefit can be considered the fact that its general idea is built on linking the strategic planning of sector and spatial economic

development as well as on the coordination of the practice of results framework and its resourcing.

However, as it often happens in legislative practice, the adoption of a new law has sharply highlighted other outstanding “niches” of legal regulation regarding, among other things, those legislative initiatives, which had been rejected earlier and now seem to be quite relevant and practically applicable. This is exactly the case with regard to the whole number of important aspects of the state policy of spatial regulation and regional development, whose reflection in the current version of Federal Law 172 must be supported by additional norms of legal provisions including those on a legislative level.

### III. RESULTS AND DISCUSSION

The present necessity of adopting additional legal regulatory norms including those in the form of a “target” federal law is based on the fact that within the state policy of spatial development a number of important issues has arisen. Those are the issues that do not have as yet an exhaustive legal regulation. Above all they are connected with the coordination of objectives and means of this policy with the prospect of further modernization of economic and legal framework of federative relations in the country. These relations are the main structure that captures all the parameters of the state policy of regional development. By now an uncertain situation has developed in the field of federative relations: either the federative reform whose onset dates back to 2000 has been accomplished and reached all the goals set or it hasn't. One has to admit: if the reforms in this direction are still of great current interest, then it is necessary to decide upon which further steps in this respect would be most viable to increase the efficiency of the state policy aimed at regional development.

The previous presidential decree No 803 dated 1996 also aimed at securing the foundations of the state's regional policy contained a broad programme of actions on reforming the Russian model of federalism. Many provisions of the Decree may be viewed today as fairly essential and requiring practical implementation. In contrast, in those legal regulatory documents that predetermine today institutional and economic bases of the state policy of the regional development, the issues of upgrading federative relations have fragmented representation at their best. These documents do not contain distinct purpose or a programme of specific actions in respect of a logical follow-up to the federative reform in the country.

It is fair to assume that the law on the basic principles of the state policy regarding regional development is unable to form an exhaustive legislative regulation of further possible tasks and specific directions in which the country's federative reform will be continued. However, one cannot but notice that in a federation-type country a regional police acts not just as a form of realizing the Federal Centre's responsibility for the sustainable development of the entities of the Federation [5]. Moreover, this policy is in essence part of legal and economic mechanism of federative relations in itself. All the major elements of this mechanism (fiscal federalism, state programmes and national projects etc.) in the practice of state management function through the system of continued federal-

regional interactions, thus making a considerable impact on the development of each of the entities of the Federation. As a result, it is the consistent achievement of the priorities of the state policy of regional development that is predominantly becoming an indicator of how effectively the whole mechanism of federal relations operates as well as how effectively and not formally the principles of federalism operate in the country as a basis of the Russian statehood as a whole.

Naturally, as it has been mentioned above, the legislation framework on the policy of regional development cannot serve as a full-scale basis of the development of the Russian federative statehood. Nevertheless, this legislation framework is able and has to point to those essential tasks of the modernization of federal relations whose solution could ultimately increase the performance of that vector of state social-economic policy as a whole, give an additional stimulus to the strengthening of the regional level in the Russian economy. First of all, we believe it is necessary to identify exactly which “model” of regional development policy corresponds to a greater degree to Russian modern conditions and priorities, being the federation-type state.

In our opinion, this is a model within which a key form of realizing the functions (competences) of the Federal Centre as an entity of regional policy is ensuring conditions and stimuli of “self-development” of all the Russian regions as well as sub-regional territorial units [6;7].

This is a clear sign that it is necessary to reject the conventional practical model of the state regional policy as a system of continuing assistance to the Federations' entities, with which, in spite of a large scale of the current financial equalization, the progress of the real regional economic equalization and the elimination of considerable manifestations of economic underdevelopment turned out to be insignificant at the most. Such assistance (at least applied to most of so-called “artificial endowment” Russian regions) must be consistently replaced by a flexible joint participation of the group of the Federation entities in question within the system of state programmes and national projects that are implemented based on federal co-funding of those programmes and projects. In this case, the mentioned co-funding has to be flexible with regard to its conditions, i.e. coordinated with real opportunities and resources of each of the regions.

An important issue, the key approaches to the solution of which also have to be stipulated in the legislation on the basic principles of the state regional policy, is an economically sound balance of centralization and decentralization in the distribution of functions and competences of the Federal Centre and the regions in the key spheres of community and social development. Experts have stated on a number of occasions that the trends of centralization and decentralization in the distribution of functions and competences between the Federation and its entities are rather contradictory: there is a displacement of functions towards one or the other side, though the prevailing trend as a result still remains that of their centralization. This situation does not correspond to the best world's experiences and practices [8;9], especially with the

federation-type states. Such a trend fails to meet the standards of the “self-development” model of the Russian regions and it definitely does not correspond to the approval of these regions as fully engaged participants of the strategic planning system.

At present different ideas are in place with regard to the ways of strategic solutions of this task. One can say that these ideas are characterized by two extreme positions. In some cases experts emphasize ensuring the priority of subsidiarity principle (i.e. the resources are transferred to the regions with a view to the greatest possible and advisable based on the efficient accomplishment criterion terms of reference for administration of sub-federal level of management) [10; 11]. In other cases experts adopt a priority principle of vertical balance of the budgetary system (i.e. the responsibilities are transferred to the regions strictly based on the size of financial budgetary resources which can be allocated to the sub-federal level of the country’s budgetary system without the threat of exhausting the federal revenue and therefore insufficient funding the national priority objectives).

#### IV. CONCLUSION

A number of issues of modernizing legal and economic basis of strategic planning of the spatial development of the Russian economy could be solved by passing a federal law on the basic principles of state regional policy. The discussion of such a draft law was going on in the State Duma of the Federal Assembly of the Russian Federation for many years, but so far this document has sadly been finally relegated to the archive. However, the need in such an act of law is still obvious, though the contents of the previous draft law requires a considerable update and extension taking into consideration the latest issues of regional development. For example, it concerns the necessity of the legal implementation as a key principle of selectivity and targeting of the state policy of the regional development as well as those borderlines within which such policy can be applied in practice without affecting the integrity of the country’s economic space and the balance of interests of the Federation and the different groups of its regions. It also concerns the legal implementation of specific functions of certain types of federal institutions of spatial development (special economic areas, the territories of forward-looking social-economic development, free ports and others) that currently act as significant tools of the federal Centre’s regional policy.

An issue which is also subject to legislative regulation is that of reasonable degree of decentralization of state fiscal and monetary policies, enhancing the capacity of the Federation entities in the sphere of tax administration as well as the compulsory use of a number of models of inter-budget interactions between the Federal Centre and the Federation entities based on allocating among the latter target groups and corresponding tools of fiscal and monetary policies [12; 13]. Obviously, these innovations in the state regional policy have to be adopted in the Budget Code and the Tax Code of the Russian Federation.

In particular, the practice of full symmetry of the inter-budget interactions between the centre and the regions that is dominating today apparently does not meet today’s challenges and requires some fundamental rethinking. Otherwise the

situation will still be in place whereby the above mentioned inter-budget interactions do not work as an active tool of maintaining priority concerns of the state policy of regional development. Moreover, these interactions even “blur” positive achievements in this field that have been reached at the expense of the use of other economic and financial tools, first of all, regarding an actual economic equalization of Russian regions.

Meanwhile, however, the proposals to solve the above mentioned problem by means of the recurrent inclusion in the Budget Code of the Russian Federation and/or in the legislation on the foundations of State policy of regional development the “fifty-fifty” principle in the course of the initial distribution of all the lucrative sources of the Russian Federation’s consolidated budget can hardly be put to practice. Currently such a harsh measure could hardly have a positive and stimulating impact as not corresponding to a flexible target model of the state regional policy.

We believe that essential corrections in the field of inter-budget relations (in their broad understanding) cannot solely on a simple transfer of budgetary funds from one level of the budget system to another. These corrections, above all, have to provide the positions of the Federation entities as rightful and economically viable participants of the strategic planning practice. These adjustments have to lead to the creation of powerful economic and, above all, fiscal incentives for the regions aimed at extending and a greater use of their budget and revenue base, not in general terms but based on the economic transition of the regions in question to the innovative-oriented development trend.

It is with due regard for the priorities of innovative modernization of the economy in Russia and its regions the return to paying a fixed rate of value-added tax to the budgets of the federation entities can be recommended as a catalytic measure. This step is obviously viable in view of the fact that the modern innovative economy is indeed characterized by a high share of added value in GDP and GRP [14]. Accordingly, established by tax legislation the normative participation rate of regional budgets in inter-budget distribution of added value tax will best award the Federation entities as innovative leaders providing such a trend of their economic development.

With the purpose of creating the conditions and incentives for the “self-development” of the Federation’s entities it makes sense not only to diversify the tax base of regional and local budgets, but also expand considerably the rights on the sub-federal level of management in the field of tax administration. For now, these rights are extremely restricted and this does not allow considering the Federation’s entities as fully engaged participants of tax regulation policy in certain social and economic processes. In state and municipal management practice, it leads to the impoverishment of the instrumental apparatus, which can be put into action by regions and municipalities to implement the targets of their strategies of social-economic development.

In the sphere of inter-budget relations, the practice of identifying among the Federation’s entities a few groups of participants of such relations has to be established. For example, within the system currently in place of financial

equalization, supported by state programmes and the institutes of territorial development, there have to remain only medium- and high-endowment country's regions. With the fixation of the parameters of equalization for a medium-term prospect, it will provide the sustainability of the fiscal base for these Federation's entities and will create favourable fiscal terms for efficient strategic planning of their social-economic development.

Consequently, regions-donors and low-endowment regions have to create such opportunities mainly based on the model of the so-called "fissionable" taxes, for instance, based on the involvement of the regional budgets in the value-added tax distribution (up to 5% of the population). For that group of regions there has to be such a source of resources available as the attraction (based on co-funding) of the funds from state sector-specific programmes, as well as on the part of federal institutes of industrially innovative development.

In such a significant document as "The basic principles of the state policy of regional development in the Russian Federation over the period of up to 2025" [15] there is another important proposal to strengthen the role of inter-budget relations as a tool of the federal policy of regional development. This proposal is about partial directing to the budget of the federation's entities and local budgets the incomes of taxes and fees that are subject to payment to federal and regional budgets respectively. This is about the share of those taxes and fees, which was obtained additionally as a result of focused work by government authorities of the Federation's entities and local self-governing bodies aimed at increasing the more efficient use of the territories' tax potential.

The practical implementation of this model of inter-budget interactions could considerably enhance the role of these relations as the state's regional policy instrument and as an incentive for the self-development of the Federation's entities. But to do that, one has to legislate on how to raise correctly from methodological point of view additional tax receipts into regional and local budgets that are to do with the activities of government authorities of the Federation's entities and local self-governing bodies rather than positive (or negative!) impact of all other economic and non-economic factors.

Similarly, one can and should incorporate in law on the basic principles of the state policy of regional development as system of criteria to select regions (macro regions) which are the target for state programmes of spatial nature. Traditionally a "priority" criterion that is currently being used for this purpose allows for subjective interpretations whose influence could be substantially minimised, however, if the law establishes the meaning of that criterion. According to the law on the state regional policy, the prospective beneficiaries of target state programmes of territorial development, based on the experience of overseas countries, certain regions have to be identified which are officially declared "the areas of economic distress" or priority territories of "pioneer exploration", based on criteria established by the law. This will create a legal foundation for those territories within state programmes to be the recipients of additional forms of financial aid as well as target tax benefits etc.

It is necessary to legally establish a provision in the law on the state policy of regional development regarding the fact that an indispensable part (object) of this policy is small forms of territorial organisation of settlement and economic activities. First of all, these are Russia's single-industry towns and cities. According to the latest estimates the number of single-industry towns and cities accounts for 319, while approximately half of them are small towns (i.e. towns and urban settlements with the population of up to 50,000 people). With regard to the actual number of small towns as such, they amount to 800 (in respect of municipal organization those are either metropolitan districts or urban settlements).

Now within the federal policy of regional development single-industry cities, which are the prospective recipients of aid from Single-Industry City Development Fund, are mainly positioned. Besides, currently it is possible to create Priority Social and Economic Development Areas (PSEDA) in single-industry cities. But small towns as an independent object of the regional policy are still clearly not "observed". Actually, the final draft of the spatial development strategy restrains from an unequivocal emphasis on mega-cities as the "locomotives" of economic growth and a priority object of the state policy of spatial regulation. Technically the support has been promised to everyone: both to towns and the cities, but in respect of small towns it has not been done in a specific and compulsory way. We suppose that the support for small towns according to the law should have been drafted as a separate part of regional policy at the level of the Federal Centre and territorial planning at the level of the Federation's entities. In this policy, it is advisable to combine the opportunities and capacity of federal and regional state programmes, the institutes of territorial development, the methods of fiscal incentives, target regulation of social-demographic processes (settlement) and others.

Finally, the legislation on the basic principles of the state policy of regional development has to decide on the nature and the mode of action of such an innovation in a strategic solution to the key tasks of the country's social-economic development as national projects. However, with this certain difficulties are connected with the fact that in Federal Law 172 there are no indications to national projects as one of the types of documents of strategic planning. It causes some uncertainty in determining the place of those projects in the strategic management system. Whether it is an alternative or addition to other documents concerning strategic planning, or some foundation of purpose which has to be further extended and specified, including within the "basic" Strategy of social-economic development" in the Russian Federation. At last, national projects may be interpreted as a special form of structuring and management of state programmes on priority areas of the country's community and social development, including the programmes with territorial focus. It is obvious that for the distinct positioning of national projects in strategic planning practice including its spatial "section" it is necessary to carry out considerable legislative promotions. In particular, it concerns the formalization of the legal status of the regional dimension (programmes) within each of national projects; the coordination of the mentioned projects and programmes within the framework of the Russian Strategy of Spatial

Development as well as the coordination of different forms of participation of the Federation's entities in implementing national projects with the activities aimed at the realisation of their strategies of social-economic development.

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