Abstract. The paper considers improving the financial competitiveness of the regional economy. It looks into the economy of Yaroslavl, a Russian region, as an example. The paper urges the regional government to increase regional budget revenues and the federal authorities to change the macroeconomic policy in managing the federation subjects.

Keywords: regional economic competitiveness, regional budget, regional budget replenishment advice, macroeconomic policy on regional governance.

JEL codes: R11, R53, R58


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Introduction

Russia is a federal state with a very important task to increase the competitiveness of each of its subjects as a factor in increasing the competitiveness of the national economy as a whole. Three years ago, Vladimir Putin, the President of the Russian Federation, tasked the country to become one of the five strongest economies in the world. This required switching over to the exhausting country development, which meant, as the experts showed, to improve annual economic growth rates over 6 percent. The government obviously required the same growth rates of gross regional product (GRP) from the regions. Unfortunately, it is well known that the country ignores the plan, as well as the absolute majority of its regions. The real economic growth rate in Russia is within one percent, i.e., within the statistical margin of error, several times lower than the global average rate, which creates even a larger gap between the leading countries and Russia (Zyuganov, 2021). Naturally, the dynamics of GRP in most regions of Russia, including the Yaroslavl region, which is the object of our study, demonstrates the same quasi-zero rates.

Is this task even possible? Almost all publications of experts show that this task not only reflects an objective need of the country, its economy, and population, but is actually possible due to our huge natural and relatively good human resources. As for the regions, we should also point out real examples of achieving a six percent increase in GRP, even if they are still exceptions, but very real. One of such examples is the Irkutsk region during S.G. Levchenko’s governorship (2015-2019).

The mentioned region is quite similar to Yaroslavl region in terms of a number of socio-economic parameters. But why did Irkutsk region overcome the 6% GRP growth rate during those years, while it seems unattainable for Yaroslavl region? The experience of the Siberian region can provide many components of the answer to this question, but an important one among them, we believe, is to the financial component. When Levchenko took the Governor office, the revenues and the total budget of the Irkutsk region amounted to 97 billion rubles, and when he left the office, it was already 212 billion. But in the Yaroslavl region, approximately in the same years (Governor D.Yu. Mironov in 2016-2021), the revenues of the regional budget were just under 70 billion when he took the office and remained approximately the same in each of the next five years, while the budget debt amounted to 40 billion, which means that the Yaroslavl regional budget had 86% less funds for all expenses than the Irkutsk budget. Of course, it provides no way to finance the urgent tasks of the region’s development and the quality of life of Yaroslavl citizens.

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Main Part

Over the years, for example, one of the experts was giving interviews and comments to the reporters of the regional version of Argumenty i Fakty newspaper on some social and economic problems of the Yaroslavl region (Arkhipova, 2016; Danilova, 2016), the comments reflected that it was almost impossible to solve these problems due to insufficient revenues of the regional budget.

For example, the public transport fare is a tough topic for Yaroslavl citizens. In the post-Soviet period, it grew five times faster than the wages in the region – 6900% fare growth rate against 1250% wage growth rate (Loseva, 2021). When in 2017, the local authorities decided to renew the minibus fleet, and as a result, the fare increased once again, the passengers were not fond of it. Many of them reminded that in other regional centers, the fare is noticeably cheaper. One of the notes mentioned that even the increased fare does not fully cover the costs of the carrier, they must either raise the fare even higher, or the local government must compensate them for the costs. But there are no funds in the local budget for such compensation. This happened because the region has almost no high-tech and highly competitive manufacturing enterprises being built that would pay tax on profits to the local budget to improve the well-being of people, including the abolition of fares.

The problem of public transport fares became even more acute in 2019, when the Governor and regional Duma (Council) elections set in stone the names of the regional managers, and the local government raised the fare on both the tram, trolleybus, and bus to 28 rubles instead of 23. The reporter who asked to comment on the situation believed that it was only a matter of inaccurate calculation of the tariff by the authorities (Loseva, 2021). Then we shall keep in mind that the calculation of the fare leads to the same numbers as the authorities, in a sense, because carriers themselves expected them to 32–33 rubles. Another thing is that the local authorities have the right to cancel the fare, reimbursing the costs of carriers from regional and municipal budgets (for example, Moscow does it for the retired citizens of the capital, and so did the Yaroslavl region in the first post-Soviet years, which was decided by the last regional Council of People’s Deputies). If only the local treasury had the money to do it. But it lies barren. Therefore, it is just and necessary to criticize local administration for their poor work in filling the budget, and not for the specific fare, as suggested by the reporter and some region residents.

It is not by accident that Yaroslavl citizens are increasingly dissatisfied with the transport reform recently carried out by the administration of the regional center. The minibuses were removed as a result, people have to wait for their bus longer now, there is no way to squeeze into buses during rush hours, and in the evenings or at weekends, they might never arrive at all. The citizens comment the Instagram post of the new interim Governor M. Evraev, and rightfully so, in our opinion: «Bring everything back the way it was before the reform, and don’t try to improve what has already been a resounding fiasco» (Denisov, 2021).

Another large issue is the level of income, salaries, retirement money of the Yaroslavl region citizens. In 2018, the Institute of Nutrition published a paper on the unhealthy obesity of an increasing share of Russians due to irrational diet. It noted that the Yaroslavl region citizens are, on average, significantly more obese than an average Russian, and the share of the obese people grows ever larger (Savicheva, 2019). In the financially difficult times, the Yaroslavl citizens have to survive, save money, not eat healthy food. The population consumes not the healthy food products, but their cheaper counterparts or even counterfeit. In this regard, let us note that the income of the Russians, including Yaroslavl citizens, within different demographic groups (not the average statistics), is falling for the absolute majority of people, while the income of the already rich ones are earning even more, and fast. Russia is now virtually the leader among two hundred countries in the world in terms of the gap between the rich and the poor. A top manager of a large oil and gas company earns in one day what a teacher or a doctor is able to earn in 400 years, i.e., 10 working lives. What’s a poor man’s diet to worry about? Besides, 1,986 factory canteens that fed cheap and fresh domestic meat without any preservatives are gone with the Soviet Union – now they have been replaced by irregular stressful eating and dubious sweetened sodas instead of a proper meal (Losev, 2021).

Another issue is the quality of life – the results of the study in Russian cities conducted by the Financial University under the Government of the Russian Federation showed that Yaroslavl was 7th to last in terms of quality of life (Vasilyeva, 2019). The reporter’s question to one of the experts was: why Yaroslavl residents...
are not satisfied with the components of urban life, nor with the level of their own income. Admittedly, local officials have to look for the reason in themselves, in the relatively low level of managerial professionalism of the Yaroslavl authorities. For example, for 30 post-Soviet years, it cannot refurbish the roads in the regional center; only 17% of Yaroslavl citizens are satisfied with their condition. Moreover, the construction of one kilometer of roads in Yaroslavl costs more than 900% of what Finland spends on it, for instance, and more than 3900% of Canada’s spending, although they also have to deal with snow, ice, and rain, which Yaroslavl administration prefers to name as the number one reason for issues with roads in Russia. But the Canadians never pave the road in rain and snow – the quality of the road is maintained for 15 years, and within this period, any crack or a pothole is fixed solely at the expense of the contractor, and not the authorities. Of course, we can blame our legislators that any swindler without technology and appropriate staff can win a construction contract through a competition. But even amid this madness all over the country, in terms of road quality, Yaroslavl managed to become worse than others, which means that monitoring the quality of construction work, unfortunately, is skipped or done worse than in other regions of the country. By the end of 2021, this had even resulted in the non-disbursement of significant money allocated from the federal budget for road construction and repair in the region.

According to the same study, only 19% of Yaroslavl residents believe that we have enough medical facilities and they provide adequate medical care. And the public health budget, even in the midst of a coronavirus pandemic, is being slashed compared to its already impoverished state. Why? Because the budget itself is awfully small. And why is it small? Because we the investments in the real sector of the Yaroslavl economy and manufacturing are negligible and stale, resulting in reduced tax revenues to the regional budget from the profits of enterprises, which, among all things, are used for public health. The result of the mentioned study is shocking – 91% of respondents in Yaroslavl in the coming years are moving to another place – it is an indicator of social disadvantage of the city and the region (Vasilyeva, 2019). Note that the region center is located on the banks of the beautiful Volga River and is deservedly recognized as the capital of the Golden Tourist Ring of Russia.

And even earlier, RIA Rating agency experts analyzed the level of spending on housing and utility services in different regions of Russia and noted that the Yaroslavl region was among the regions where household payments hit the family budget the hardest. The expert had to tell the reporters (Zverev & Patrusheva, 2018) that the reason for such unaffordable prices for utility services is the social and economic policy of regional authorities under unfavorable objective conditions. For example, retired citizens began to spend 33% of their pensions on utilities, and some even more, and there is not enough money for medicine. This happens mainly because the regional and city authorities have no clear aim and are only asking «what do you want?» from the state government instead of answering to the people. For example, the local administration likes to boast about Yaroslavl’s pharmaceutical cluster in various reports to the top brass – is it really a starting point for the region’s socio-economic development? After all, tens of thousands of people from the defunct machine-building plants have been unemployed for three post-Soviet decades, and the cluster solves the problem of just a few hundred jobs – so the mountain is in a proverbial labor. And the medicine prices have not been reduced, although it was promised by officials. Moreover, the laziness of officials, as convincingly demonstrated by experts, leads to unused federal funds allocated for cluster development. In addition, in the first two post-Soviet decades, the material level of the average Yaroslavl resident was higher than in neighboring regions: Kostroma, Vologda, Ivanovo, Tver regions – and now Yaroslavl residents have sagged in revenues with a higher percentage, although in absolute terms they are still superior to their neighbors. What’s next? If the officials now leave the population with their problem alone, people will refuse to pay the bills for utilities, and as a result, many will simply find themselves on the street, without a roof over their heads. And this process is already underway, with families being evicted from their apartments by court order for non-payment (Grishin, 2021).

Yaroslavl residents were also surprised by the data of the Regional Statistics Committee on the average incomes (Vasilyeva, 2019), as the absolute majority did not even reach that average. The reporter who asked to comment on the regional statistics report referred to the fact that, for example, in rural areas in our
region, there are traditionally low salaries, and there are still many retired people who have low incomes, so naturally the question is, where did the statisticians get a favorable figure. While agreeing that salaries in agriculture and pensions of our veterans are indeed miserable, the experts had to note that the data of regional statistics officers on average incomes are beyond doubt. After all, there are billionaires in our region (although in rubles), there are many of them among the officials of regional, city, and district administrations, top managers of banks and other private firms. Their monthly incomes are orders of magnitude higher than those of retired and rural population. This is where the prosperous average income came from. Unfortunately, this negative situation with huge income inequality, and thus social tension, did not change because of the local administration even though the head of the region was replaced (Gordeev, 2020). In addition, since the average income of Yaroslavl residents has been declining for the past eight years, the prices keep increasing, especially for food products, according to the data of the Regional Statistics Committee (Tsapurina, 2015).

A reporter had a similar question about statistical ambiguities when the leader of Yaroslavl trade unions S. Solovyov complained that the official statistics with its favorable socio-economic picture of the region's development does not correspond to the real situation (Vasilyeva, 2019). The experts had to note that, indeed, one can and should be offended by statistics in some respects and demand from the authorities to bring less political and ideological assignment to this purely calculated-economic affair. Still, the new industrialization plan announced by the President is not being implemented; it brings no new high-tech and well-paid jobs in the region, no increase in the tax inflow to the local budget from growing production. The reporter also drew attention to the confession of the trade union leader: in recent years, the number of workplace injuries with serious consequences has been growing in the region. To this, the experts had to say that the injury rate always increase in private organizations – they need to squeeze the maximum out of the employee to increase its profits. Economic science and world practice prescribe appropriate controls so that «the private sector does not get too aggressive». This is also controlled by trade unions. On the other hand, any business owner is interested in keeping unions out of such control. So, the authorities, the Duma members, and the government, should control it.

To answer the question about the income of Yaroslavl residents, one needs to refer to the general features of the region's economy (Savicheva, 2019). However, in terms of GRP, the Yaroslavl region is in the middle class among the Russian regions. But the region still has its own quirks: for example, although the income in our country keeps declining, it is more accelerated in the Yaroslavl region; the whole country is suffering because of terrible roads, but we have almost the worst roads. The situation is not getting any better. For example, the official website of the regional government states that the region is exceeding its housing construction plan. It is a pleasure both to have such a plan and to exceed it. However, the government does not mention that thousands of apartments that have already been built have no buyers – there is no money to buy them. Yaroslavl residents in need of apartments are entangled in credit traps and simply in loan debt. It turns out that local officials suffer from unsystematic decisions and failure to bring things to their logical conclusion. Another example – the website of the Department of Industrial Policy mentions an excellent regional target program for industrial development and improvement of its competitiveness. But how is this program executed? If only a quarter of the funding from the regional budget is actually used to promote investment activity and increase production of high technology products in the first six months, when it should be half the money planned for the whole year, it means that we work twice worse than planned, «cutting under the tree» for tomorrow’s results. The same result – less than a quarter of the yearly target in six months – for subsidies for reimbursement of research and development costs in industrial production. And not a single penny was allocated for one item of the above program, which is called «Subsidizing reimbursement of a portion of costs for investment projects of modernization and development of enterprises in civilian industry)! Another item, «Promotion of research and development in the regional industry», also saw no funding. Where should the desired socio-economic development come from?

Lately, the officials prefer to write off the negatives in the economy to the impact of the coronavirus pandemic. But these negatives were there before the pandemic and, of course, got even worse during it. Back in 2019, for its first half, as reported by the Yaroslavlstat, the index of industrial production in the region
fell by almost 5% compared to the same period of the previous year (Vasilyeva, 2019). This turned out to be the largest decrease among the regions of the Central Federal District. But this index was insufficient a year ago too, and the regional budget gets almost a third of its filling from the profits of industrial enterprises. A third of manufacturing enterprises in the region are unprofitable; what profit tax to the local treasury is that? The conditions for business development are deteriorating. Thus, even three years before the coronavirus, six thousand small and medium-sized enterprises were closed (deregistered). The drop in the construction industry over the same years is appalling, there is virtually no industrial construction. And the necessary breakthrough for the region is in new high-tech and highly competitive manufacturers which can contribute to the regional budget through taxes. Our prices are rising faster than in neighboring regions. According to Yaroslavlstat, the real disposable income of Yaroslavl citizens has dropped by more than 5%, while almost one third of the regional budget is filled by taxes on individuals. Of course, these and other negative trends became worse with the pandemic. Thus, at the meeting of the regional Duma on November 19, 2021, the heads of agricultural enterprises and farmers complained to the Duma members about their distress and asked for help. Sergey Ivanov, General Director of Pakhma Agrofirm, spoke on behalf of all agricultural producers of the region. «Dear Deputies! We ask you to pay attention to the catastrophic state of our industry. What the department heads reported to you today is not true. Every second enterprise is in bankruptcy. For 2021, the target numbers for the main crops were not reached. Grain, potatoes, livestock feed is not fully stocked. For the first time in 10 months, the region failed to produce 4,200 tons of milk. Prices of grain, mixed fodder, oil cake have doubled, but the price of milk has risen by 5 per cent».

Thus, even by addressing individual socio-economic issues of the region, it is impossible to solve them without significant budget replenishment. In November 2018 one of the experts received an invitation from S.V. Berezkin, the former Chairman of the Public Chamber of Yaroslavl region, to discuss the draft regional budget for 2019-2021 and become an expert of the Chamber on economy and finance. They received the draft budget and its numerous annexes on specific expenses from the regional branch of the Department of Finance. Their study revealed even more acute financial problems of the region, although, in our view, largely typical enough for most subjects of the Russian Federation. When the expert proposed to review the new draft budget, the mentioned problem appeared in all its complexity and consistency, exposing the unacceptably low regional budget. At the time of the discussion, it was 65 billion rubles in total; 40 billion was owed mostly to commercial banks. Horrified by the paltry nature of the budget expenditures on some social issues, trying to propose an increase in these expenditures, one invariably had to leave their noble aspirations, because there were no budget items to skim money from in favor of other items. Even worse: in each item, expenditures were planned below the allowable level. It could not even ensure satisfactory survival; the necessary breakthrough was simply unreachable.

The situation seemed bleak, because back in the 1970s-1980s, the Yaroslavl region, which occupies only 37 thousand. sq. km., surpassed 9 out of 15 republics of the Soviet Union in terms of manufacturing: Estonia, Latvia, Lithuania, Moldavia, Armenia, Georgia, Tajikistan, Kyrgyzstan, Turkmenistan. And now this region has long been subsidized, unprofitable, and its regional budget can only imitate active socio-economic development.

However, 90% of the Russian regions are also subsidized, the remaining ones are two capitals and several gas and oil producing regions. Regrettably, our macroeconomic policy on regional governance in general is unfavorable. And this is expressed primarily in the financial aspect. Instead of relying on the experience of Western developed countries and the 50:50 system, which has been proven by economics, when a half of all taxes collected in the region goes to the national budget, and the other half remains for the needs of the region, the Yaroslavl region pays two thirds to the national budget and keeps only a third. Clearly, at 33%, the socio-economic needs are satisfied 1.5 times worse than at 50%. In addition, the federal government continually adopts laws that require spending from regional and local budgets – there are dozens of them each year on average. As a result, the goal set by President Putin of overtaking development and becoming one of the top five advanced countries sees little progress towards it: most regions do not provide anything innovative and are simply miserable. Hence the recommendation for the federal government: radically change
macroeconomic policy on the regional management, bringing most of them up to the level of capitals and oil and gas providers. It is not a question of one-off spontaneous handouts, but of different but stable rules of the game, incorporating lessons from global best practices.

I. Danilova, the reporter of the Argumenty i Fakty newspaper, asked why our towns had debts of several million rubles, and one of the experts had to answer that. For example, a small town called Rostov, which has annual revenues of 120 million rubles, has a debt of 135 million rubles (Danilova, 2015). And although this happened in 2015, it happened again in Yaroslavl, the regional capital, three years later. The expert had to explain that Russia is building a policy of intergovernmental fiscal relations, contrary to the experience of other federal states (USA, Germany, Canada). Instead of leaving the region with half of the taxes collected on its territory, for example, the Yaroslavl region, as already noted, receives only one third, i.e., 1.5 times less. They also mentioned that 90 percent of the regions have become subsidized, steadily heading towards bankruptcy and becoming debtors to banks, including foreign ones. And, of course, the municipal budgets turned out to be even more disastrous than the regional budgets. What happened in Rostov then also happened in Yaroslavl later, and then the entire region, and 90% of the Russian regions as well. In municipal districts like Rostov and its region, where the money is even tighter, of course, the entire budget barely covers the most necessary of current expenses, and it is unthinkable to start any major projects there at all. Of course, the Rostov administration of that time (led by its head K. Shevkoplyas) is less qualified than similar in other cities and regions. Basically, to solve the problem, the whole course of the inter-budget macroeconomic policy in Russia shall be revised as a whole.

**Conclusion**

But the main advice, of course, goes to the regional authorities. They have been expressed and published (Danilova, 2015b).

First, high-tech factories shall be built. To do this, the officials will have to predict the demand, determine what kind of plants will be needed in the coming years, and work with investors, oligarchs specifically and convincingly (propose to invest billions to get even more billions faster). It is clear that today’s regional officials are not ready and not capable of doing it. It requires a fundamentally new system of personnel selection, training, and retraining for work in the regional government.

Second, this government shall interact more actively with the economic council consisting of the heads of leading enterprises to find additional, extra-budgetary funds for the social improvement. The regional authorities prefer saying that in the 1990s, when the economic council was created by then-governor A.I. Lisitsyn, this council consisted of the full-time owners and directors, while the current managers of the enterprises cannot disobey their masters from Moscow or abroad. It proves that today it is much more difficult to solve this problem, but this makes it objectively more necessary to solve it in the socio-economic interests of the regional population. It is necessary to learn how to «get to answer» Moscow and foreign masters of local managers and effectively solve the specified problems with them, as it was done by the Irkutsk regional administration and its leader S.G. Levchenko.

Third, the authorities shall persuade the State Duma members from Yaroslavl Oblast not to support the bills that are detrimental to the regional budgets and convince their colleagues from other regions. For many months before and after the September 2021 elections, promotional pictures of V. Tereshkova, the first woman in space, were hanging around Yaroslavl and its region saying she is the pride of the Yaroslavl land. So why not use her authority and influence in socio-economic interests of Yaroslavl and other regions?

Fourth, each of the many-thousand-strong staff of the regional administration shall constantly seek opportunities to replenish the regional budget, and the heads of departments should ensure a system of their reporting. This task, as reported at one time by S.V. Berezkin, was supported and continually raised by the former Governor D.Y. Mironov at staff meetings, but the department heads never provided the required reporting system. Although the budget was bumped to 75 billion rubles by the end of 2019, which was 10 billion more than the year before, it was only thanks to the Governor himself. At the very beginning of the year, he asked the federal government for help with Yaroslavl’s budget. The management of the finance
The department also helped him prepare the documents to justify the request. Despite this, no one in the region’s administration is interested in replenishing the budget, and the system of reporting to the heads of departments was absent a year ago, did not appear a year later, and unfortunately, there is no system even now. In addition, for 2020 and 2021, it was planned to reduce the revenue increase of the regional budget by more than half. Thus, the advice is still valid today.

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