

## The mechanism of State regulation of the development of manufacturers as part of the socio-economic policy

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**Abstract.** The regional policy of Russia has its own history and its own distinctive features. In the initial period of the Russian reforms most popular became the liberal model of the economic system based on the monetary principles of state regulation and declining the necessity of the state's wide involvement into the economy of the country. Within the framework of the given concept, the regional component as a sphere of state regulation was practically reduced to zero.

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### Introduction

The experience of territorial planning and administration accumulated during the period of command economy was to have greatly facilitated the regionalization of general economic reform policy and made it natural, but that did not happen, on the contrary, regional specific features in the implementation of the programme of market reforms were in fact not regarded by the government. As a result, during the first half of the 90s the economic aspect of regional policy was almost faded and transformed mainly into the political aspect of relations between the (federal) centre and the subordinate entities of the Federation. In the absence of state policy regional executive authorities with the help of the legislative assemblies boosted up their own economic models of development (or rather, survival) often resorting to the actual violation of the current legislation, and even the Constitution.

It should be noted that the possibility of using the budget model of the "balancing" regional policy as the main means of influencing the economic dynamics under modern Russian conditions is quite limited. And not only because of the weakness of the consolidated budget, but also due to the theoretical impossibility to reach the state of perfect balance with the existing differences in the dynamics of the market reforms itself and the differences in the economic potentials of the subordinate entities of the Federation. Therefore, in our opinion, state regional policy should focus not on the alignment of budget revenues between the regions by financing their deficits, but mainly on equalizing the level of consumption of public services and government contracts, thereby creating a basis for interregional competition for federal transfers and terminating the leading-strings mentality at the

grassroots level [1]. In practice, this means that the state's regional policy is not to focus on the problems of survival of the regions, it should create conditions for the economic revival of the regions. The ideology of ensuring the development of depressed regions by budget funds should be replaced in practice by conceptual market-based approaches aimed at promoting the leading regions, the so-called "locomotive regions", or "regions with the prerequisites for accelerated economic development", in favour of which funds from the federal budget should be allocated on a first-priority basis and by these means it is necessary to create the so-called "centres of growth" of the national socio-economic system.

However, it should be noted that the budgetary administration of spatial economics (as well as budget regulation at large) can be effective, but only when the subject of administration (the state) has to deal with stable economic and social processes. This is demonstrated not only by the practice of largest economies, but also the practice of Eastern Europe and the former Soviet Union. Therefore, in our view, the discussion about the effectiveness of the budget model of state regional "balancing" policy should further concentrate on the formation of an optimal structure of the tax system enabling the regions to maintain the own production operations of their territories. The focus of attention should be the issue of fairness of intergovernmental relations in the framework of the existing concept of fiscal federalism. For regions with critical socio-economic conditions it is reasonable to work out special investment programmes of development, presupposing in the first place precisely the increase of their economic potential.

There follow a number of principal conclusions. Firstly, the economic policy in the regional aspect must be to a large extent the policy of the regional government itself, and the core of this policy should be activities aimed at the institutional provision for the specific advantages of each region in the business environment (including the investment climate) [2]. Secondly, the role of the federal government should be to create the optimal structure of intergovernmental relations, which would not exclude, but promote the development of regional opportunities, including the ability of regions for self-development on the basis of the active use of the potential of all forms of ownership.

The effectiveness of the regional policy of any state is determined not only by the presence of theory, methodology, legal framework, but also the financial resources [3].

Obviously, the scope, forms and mechanisms of formation and spending of financial resources of the regional policy are largely dependent on general economic factors and conditions for the development of the country, the political stability in the country and its regions, the state of the federal budget, the availability of an appropriate legal framework [4]. Under the current conditions it is appropriate to consider the question of the financial resources of the state's regional policy.

The formation and the use of financial resources in the implementation of regional policy can be effective conditional upon the observation of the following principles:

- the transition from the budget form of federal support for the current costs of the subordinate entities of the Federation, to a long-term policy of state redistribution of financial resources with the purpose of the consistent development of the institutional framework of the market economy of the regions, stimulating investment and entrepreneurial activity;

- discontinuing the practice of dominance of political motivation in making decisions about the provision of financial assistance to the subordinate entities of the Federation;

- the concentration of financial resources of the regional policy only on the most important spheres of economy, the transition to the principles of earmarked financing for specific programmes with the appropriate socio-economic grounds submitted by the recipients of aid (subordinate entities of the Federation);

- direct involvement of the regions (subordinate entities of the Federation, administrative regions, municipalities) in the formation of the financial resources of the federal regional policy. It concerns the forming of the financial resources of

regional policy mutually – both at the federal and the regional levels;

- the introduction of strict principles of “transparency” of the use of financial resources of the regional policy with a clear responsibility of the federal centre for commitments to provide financial support reasonably required by the needy regions; and of the regions - for its intended use;

- the use of a competitive base in making decisions on the allocation of federal financial support;

- the improving of the legal framework in the area of fiscal relations between the federal centre and the subordinate entities of the Federation with due regard to the above-mentioned statements;

- the practicing of the corporate approval by all the subordinate entities of the Federation of special support programmes for depressed and backward regions.

In consideration of the foregoing, in the Russian Federation there was taken a decision to reform the financial system. The main purpose of the reform of public finance administration system of the Republic of Tatarstan is a more efficient use of budget funds, which implies:

- the use of budget funds according to the needs in the provision of public services while improving the quality of the latter;

- improving the forms of governance of the budget system of the Republic of Tatarstan;

- developing tools of interaction between the state and the private sectors in the field of public finance;

- improving financial relationships with the municipal level.

To achieve the mentioned goals it is necessary to address the following key objectives of reforming the financial system at the mesolevel:

- modernization of budgeting in connection with the introduction of new information technologies making it possible to provide a higher level of financial planning and financial control;

- standardization of public services and the development of alternative methods of their delivery;

- optimization of the range and the efficiency of use of the republic property;

- increase in transparency of budgeting;

- ensuring the manageability of debt;

- the development of administration tools for public funding;

- improving the quality of financial administration of the municipalities of the republic;

- increase in the efficiency of the administrative staff;

- ensuring the transparency of information on the use of public resources and the regard for

public opinion in determining the focus of fiscal policy;

- achieving the fairness and the transparency of the mechanisms of distributing financial aid to local budgets;

- consistency between the administrative reform and the financial reform;

- the introduction of advanced methods of financial administration, including the transition to the principles of result-oriented budgeting.

The given problems are solved within the framework of the republic's finance reform programme, which presupposes that the following key results should be achieved:

- the administration of the budget should be raised to a qualitatively higher level in the interests of the population of the region at the most efficient use of financial resources;

- the increase in transparency of debt and investment policies should create favourable conditions for attracting investments into the economy of the republic;

- greater responsibility should be assumed by state and local governments for the implementation of their pursued fiscal policy;

- reduction of wasteful budget spending should be achieved as a result of increased competition among providers of public services and the improvement of the economic efficiency of budget spending;

- customers' satisfaction with public services should increase as a result of the consideration of their preferences in the planning and provision of services;

- social protection of the population should be strengthened, conditions for the gradual balancing of access to basic public services should be created;

- the raising of the awareness of taxpayers and other concerned parties about the state of public finance in the region should increase the transparency of public finance administration and the accountability for the taken decisions;

- the independence and the responsibility of local governments should increase.

In the longer term, one should expect the positive effects of the indicated factors, as well as the getting of additional results. The expected results should make a positive impact on the socio-economic development of the region, which will involve:

- the description of transparent mechanisms of relation between budget spending and the expected results for the socio-economic development of the republic and its citizens, which will make possible the assessment of the consequences of decisions taken by the authorities;

- the detailing of the parties responsible and the liabilities for the achieving of aims set by the entities of budget planning;

- the improvement of quality of budget planning;

- the development of the legal framework regulating the governance of spending and the extent of expenditure obligations of the region;

- the development of the market of additional services in the public sector, the moving of non-core assets out of the government sector, the cessation of hidden forms of support for public institutions and the increasing of competition in the market of public services.

The structural effect of the programme of reforming the financial system in the region, as a rule, consists in:

- the optimization of spending patterns of the regional budget, ensuring the reduction of inefficient budget spending and boosting the coordination of the ongoing spending and the achievement of specific eventual outcomes;

- the expansion of the scope of ear-marked financing;

- the streamlining and improvement of the efficiency of the public sector of the economy at the mesolevel;

- adapting to the established standards of quality of public services.

The economic impact of the implementation of the programme measures to reform the regional financial system, as the generalization of the programmes of financial reform shows, will reveal itself in:

- the increase in the revenue base of the regional budget by promoting the investment activities, the development of small business, improving the efficiency of property governance;

- the reduction of ineffective budget spending, payable accounts of public institutions and state-owned unitary enterprises of the region.

The main immediate results of the reform programme consist in changing the administration tools, increasing the publicity of the financial authority and other bodies of executive power of the republic. The effect of the implementation of the reform programme can only be assessed by experts, as it is indirect in relation to measurable financial index numbers, which involves the use of fairly accurate tools of expert estimation [5].

Thus, the best estimate of the effect of the programme is the change in scores for quality of regional financial governance according to the estimation criteria developed by the Russian Ministry of Finance for the purposes of competitive selection of subordinate entities of the Russian Federation.

Good governance of the competitiveness of the manufacturing enterprises in the region, based on the concept of promoting the development of mesolevel socio-economic system within a Keynesian approach, necessitates improving the efficiency of public spending undertaken to create the most favourable conditions for the production of competitive goods and services by the manufacturers of the region [6]. The solution to the indicated problem is not possible without the development of specialized tools for the analysis of effectiveness and risks alongside with measures of state support for the development of the region's manufacturers, which will make it possible to carry out the ranking of the measures and the selection of the most efficient approach to the formation of the corresponding sequence of measures to regulate the competitiveness of economic entities in circumstances where the resources are limited. Under the current conditions, the most relevant for solving the given problem is the margin analysis tool that allows for the analysis of the economic effect resulting from the performance of governing actions taking into account only the direct costs or also the overhead costs [7].

The use of marginal analysis in the practice of mesolevel administration implies the need to adapt it to the conditions of regional governance in the framework of the concept of "region as a quasi-corporate enterprise". In such a case as income should be considered the total revenue of the state, associations of public-private partnership, the business community, households and non-profit organizations of the region arising from the implementation of the measures of state administration of manufacturers' competitiveness as part of the socio-economic policy[8]. As variable costs are considered the direct costs of the above mentioned subsystems of the mesolevel socio-economic system, incurred in connection with the implementation of measures to regulate the competitiveness of manufacturers; whereas as constant costs should be regarded the expenses of public authorities involved in the administration of the competitiveness of manufacturers specifically pertaining to the regulation of the activities of organizations of the given type, as well as the extra costs and the opportunity costs arising from the implementation of these measures at the sublevel of the regional economic system[9].

The comparison of the indicated categories of income and spending makes it possible to determine a minimum set of measures to control the competitiveness of manufacturers in the region, implemented within the framework of socio-economic policy[10]. The given set allows for the payoff of the maintenance of specialized executive

authorities, as well as institutions of management of the competitiveness of economic entities, established by the executive authorities, which is formalized by the following equation:

$$SFC_{reg} = R_{reg} - SVC_{reg\ sub} \quad (1)$$

where  $SFC_{reg}$  – the semi-fixed costs of the region for managing the competitiveness of manufacturers as part of the socio-economic policy followed, mn. Rub.;

$R_{reg}$  - the region's total revenue from the measures taken to manage the competitiveness of manufacturers as part of the socio-economic policy pursued, mn. Rub.;

$SVC_{reg\ sub}$  – the semi-variable costs of the regional subsystems associated with the implementation of measures to manage the competitiveness of manufacturers as part of the socio-economic policy carried out, mn. Rub.

If the given equation does not hold in the longer term, the list of measures to manage the competitiveness of enterprises at the regional level should be reconsidered in light of the current financial and time restrictions. In its turn, the efficiency of the given set of measures can be determined in the following formula:

$$Ef_{reg\ adm} = ((R_{reg} - SVC_{reg\ sub}) - SFC_{reg}) / R_{reg} \quad (2)$$

Accordingly, the ranking of the sets of measures of regional competitiveness administration of manufacturers should be carried out by applying the formula of the efficiency criterion (2).

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