

## **Tools and Institutions of Interregional Convergence: the case of Russian Federal Policy**

This work is executed within the framework of the cycle of the studies, undertaken after the assertion of the federal target program "Reduction of differences in the social and economic development of the regions of Russian Federation".

The basic purpose of this research is to study the existing regional political and economic institutions, and their role in decreasing the gap between the average and given level of the economic and social indicators.

### **1. Methodological approach of the study and the necessity of reinterpretation of old regional concepts**

The task of the deep integration of political and economic sciences in Russian regional studies thus far remains unrealized. One of the priority directions for its solution is the study of the economic behavior of regional authority, which never earlier in the Soviet regional science was the object of analysis. It is necessary to recognize the personified nature of the contemporary regional development of Russia. In the world of non-zero transaction costs the distribution of political authority (executive, legislative, judicial), the personality of political leader and the quality of institutions, created by regional authority, do have economic value.

In the transitional economy with its gigantic expenses of contracting in view of significant uncertainty, widespread opportunism (nonobservance of the contract conditions) of the majority of participants, authority can play the determining role in the regional development even with the fact that its economic behavior is shaped under the conditions for the exogenous assigned limitations, e.g. federal standards, rules and the framework.

The economic behavior of authority is the same complex phenomenon of regional development, which exerts direct and indirect influence on all social and economic processes of territory as the budgetary flows. However, the second phenomenon in view of the presence of the branched budgetary statistics is studied today considerably more complete. As shows experience of ten years of Russian reform, regional authority, playing the role of the active coordinator of basic economic processes in the region, is capable of considerably decreasing the information asymmetry (uncertainty) to form the clear and specific signals for the participants of the regional economy.

From the other side, there are the numerous examples, when the intentional maintenance of information uncertainty, the domination of nonformal standards and rules in the economic behavior of regional authority destroy the long-term oriented economic activity.

Another direction of efforts in realizing of the synthesis of the political and economic factors in regional development consists in the reinterpretation of old conceptual apparatus, procedure and methodology, entire problems of regional science (economic geography and regional economy). And if with the economic factors in the Soviet science significant reserves were created, with the political the situation is much more complicated. There were no fundamental works on the political development of the regions of the USSR.

And only now methodology, conceptual apparatus for regional political and economic experiments are formed. Traditional concepts of the Soviet regional science - geographic position, industrial center, territorial and productive complex, territorial structure of economy - under the new conditions changed their nature, but as before reflect objective laws governing the territorial development and can be analyzed by micro-economic tools.

Contract understood territorial problem acquires more than colors, since it reflects no longer only processes of technological, production gravity, but also economic interests of wider than earlier agents (regional authority, non-governmental organizations, the integrated business- structures), the concrete schemes of the rights of the property, the role of transaction costs in the determination of its structural shell. For example, if territorial and productive complex, industrial center was understood earlier as the localized predominantly technological combination of the economic cells, control by which is accomplished along the departmental channels, then now - it is substantially wider as the financial, organizational and technological vertical and horizontal integration of the individual economic subjects, scientific and educational establishments, and combined with the structures of civil society.

Role of regional authority is to coordinate this process for decreasing the transaction costs of interaction. In the Soviet time the method of division into districts was leading in the economic geography. With its aid the areas of the action of planned norms were established determining uniform cells for administrative control and producing the regional state policy. Its exceptional popularity at that time was based on the long-standing stability of the social and economic parameters of the national and regional economy.

The micro-economic analysis of the phenomena of regional development will claim this method, also, under the new market conditions, when the social and economic parameters of regional development change considerably more dynamically than it is earlier, as the tool of the space detachment of uniform economic institutions for the determination of the boundaries of the action of one type contracts in the forest, the petroleum, the gas, agrarian and other resource chains.

In the Soviet time economic geographic position (EGP) was understood as economic and infrastructural phenomenon, in the essence the materialized relation, object; the factor of the formation of the economic connections/communications of Soviet enterprises. Now EGP becomes political and economic category, beam of the absolute and residual rights of control after the communications of territory and transit channels of transport, i.e., political and simultaneously economic institution.

EGP is examined in the context of the schemes of the rights of property prevailing in the region. And as the contract problem of the relations of region with the basic neighbors. In the economy of many regions of Russia today there is the main contract, which renders system influence on the stability of its functioning, stability of economic complex and social sphere. As a rule, this contract determines the conditions for interaction of local infrastructural monopoly (department of railroad, AO-energy, or Gazprom) and the basic users of its services in the region.

The multi-aspect study of this contract and basic conflicts, which appear between its participants, in whom the key special features of nature of regional economy are manifested, is exceptionally important for purposes of institutional analysis.

The task of the geographical review of all-Union and regional planned norms from the point of view of their correspondence to the social and economic conditions of concrete territories was set in the Soviet time before the regional science. In the institutional approach this problem is treated as the study of regional specific institutions, first of all standards and the rules of inter-firm coordination.

## **2. Regional authority as the object of the regional economic analysis**

The economic behavior of regional authority structures the cooperation of political and economic institutions and results in the united political and economic process of regional development. Primary attention is paid to its role in the determination of the schemes of property and concrete forms of the contract device of the main resource

chains, generated in the region. The authorities of any region are always forced to solve several fundamental problems: decrease of information uncertainty and transaction costs; agency cost problem; the optimization of the schemes of the property rights. The number of solutions of these problems is limited.

As a rule, authorities select the compromise outcomes, which are located between the maximum poles. That are instructive the cases, when the policy of regional authority falls under the category of marginal case, in which compromises are rejected and all its characteristic attributes vividly are manifested.

Regional authority and the problem of economic coordination. Force of authority - this is the ability to resolve contract conflicts between the basic players of regional economy, to establish the mutually acceptable rules of game for them - formal and/or nonformal standards and the framework of behavior.

Regional authority and transaction costs. Regional transaction costs - this is the expenditure of time, energy, information, financial and natural resources to coordinate the economic activity between the basic economic subjects inside the regional economy. The physical expression of the most essential part of the regional transaction costs consists of the losses in the volumes of the obtained in the region natural resources in the process of their displacement over the resource chains from the places of output to the processing and the sale inside the region due to the natural losses, the withdrawal into the "shadow", the delays in movement etc.

Regional development is effective, when it contributes to reduction in the transaction costs. In the limit the resetting to zero of transaction costs ensures self-execution of the contracts concluded inside the region, automatism of the functioning of the entire regional economy.

The role of regional authority lies in the fact that to lower transaction costs to such an extent as to lead to the situation of its further nonintervention into the regional economy. Then the problem of economic coordination will be solved by market, price mechanism.

However, in the indeterminate medium of the transitional economy in view of the weak work of market coordination the interference of regional authority in the processes of economic coordination is necessary. Regional authority comes forward as the agent of reduction in the regional transaction costs under the conditions for the exogenous assigned limitations. When it does not manage this mission, it cannot deal with an increase in the expenses of the contracting, on the elections it is changed by another, "corporate structure" of which proves to be more adequate to the specific character of regional economy. Elections make it possible to accomplish a passage from one model of corporate structure of regional authority to another. Changes in the structure of regional authority lead to molding of the new principles of interaction between the economic agents, to the new schemes of the arrangement of resources.

Regional authority solves the problems of the coordination of basic economic agents by different tools: by federal target programs, by agreements with the basic enterprises, infrastructural monopolies, etc. Regional authority at the stage of the reformation of natural monopolies is capable of becoming the agent of integrated inter-firm interactions, of creating as a result of its economic activism the integrated structures from the fragments of natural monopolies and local economic subjects.

In the Western countries the authority plays the different role. It limits vertical contracts, fighting with the monopoly. Here, it organizes the vertical contracting of subsidiaries in the stage of the reformation of natural monopolies.

Regional authority and the problem of agency costs. Within entire variety of the versions of this problem there are only three cases. First, principal can organize the competition of managers and their frequent rotation. Second, the key posts of the control of resource chains can be set to the nearest relatives, e.g. people, to which the

regional leader undoubtedly entrusts. Third, principal can serve the basic frames of the regional structure of authority.

Relations with the local self-government entities is one of the faces of the problem of agency costs. And again here each regional leader has several versions of the solutions. The first, taken today in many national republics, consist of the suppression of democracy in various forms. The second, the encouragement of capital municipal formation by special transfers from the regional budget for the fulfillment of capital functions and simultaneously the stringent requirements of transparency in the budget relations. The third solution, probably, consists of controlled democracy - the encouragement of the acceptable for the regional authority forms of local self-guidance.

Regional authority as quasi-corporation. There is a correspondence between corporate structure of the authority, which can be to a certain degree compared with the forms of the organization of business (individual possession, closed type joint-stock company or open type joint-stock company), and ratio of nonformal and formal standards and rules, "manufactured" by authority.

Dynamic relationship of formal and nonformal standards and rules in the main branches of regional economy, generated by regional authority, is the important indicator of its economic behavior. Depending on the domination of formal or nonformal standards in the economic behavior regional authority is separated on rule-based or discretion-based model.

In the republic of Tyva and Mordovia the model of the organization of authority is closed type joint-stock company and therefore there predominate nonformal standards and rules. From other side, in the Kemerovskaya province the authority is constructed according to the type of the open joint-stock company and that here formal standards and rules prevail.

The arrival into the region of the integrated business-groups forces regional authorities to transform institutional matrix to the side of formal standards and rules. In this case the rigidity of regional authorities leads to their regular replacement on the elections to others, whose institutional matrix is more adequate to the formed corporate structure.

Regional authority and the search for rent. Rent behavior are the intentional shortening of resource chains, the decrease of the maximum depth of processing for rapid resource realization on the external markets. Under these conditions inter-firm disbalances both in the territorial and in the branch aspects has regular nature because only supporting political and economic fragmentation authority can not spend the obtained economic rent. Otherwise they will have to adjust its redistribution and thus decrease its appropriated portion. With the decrease of fragmentation looking for rent could not be so successful.

Regional authority regularly attempts by different tools to grasp rent from the resources and locations and shapes the regional institutions in regard to this forms. The search for rent by strong regional authority is capable to regulate and to structure of the regional institutions. On the other side, the search for rent by weak authority, on the contrary, provokes the conflicts of its branches and the rapid development of nonformal standards and rules, on which it is appropriated by shady structures.

Example of the Kurils Islands. In the last decade on the islands were formed two political and economic models, as the generator of each of which protrude the unique properties of sea biological resources. The first, northern, it is extended in the North-Kurils and Kurils regions. It is based on the operation of deep-sea biological resources not extremely profitable. The investment activity of firms is oriented to middle- and the long-term purposes, and imperative requirements for the municipal, provincial and federal authority consist of the guarantee of stable rules of game on the fish market

The southern model of looking for rent is extended in the Southern Kurils region. It is based on the rapid, to a considerable degree of illegal activity, oriented for the Japanese market for fresh seafood produced by small enterprises

The destructive action of southern model on the local economy confirms the dynamics of basic social and economic indicators in the last decade: Southern Kurils region now lost its economic position. The vicious circle appears: shadow economy renders the effect on local political system, converting authority into the decoration, since the business community is not experienced the need for the establishment of strict rules of game.

### **3. National-economic balance against the the intra-regional**

In each large region of Russia the task of local inter-firm coordination exists now. In the Soviet time regions solved national problems, their enterprises participated in the inner-union division of labor, but very weakly worked on the harmony of the development of their own regional economy. The industry of many fields and republics was created as extra-regional, in no way connected with the territory of position - which was used in the essence as the transit area with factors of production flowing in and final production flowing out.

Today inter-firm gaps and seams lead to the loss of the taxation base for the regions, the draining of financial resources and other problems. The problem of the intra-regional "closing" of the activity of the major enterprises (but, naturally, not to complete autarky) sharply stands for many Russian regions. The way of each of them to the intra-regional economic integration is specific. For many subjects of the Russian federation (Volga Region, the Urals, Western Siberia), in which the primary location of industrial enterprises dated back to the war years, now it is necessary to solve the problems of the intra-regional integration of old industrial enterprises with the new, the already local, suppliers of the factors of production (natural, technological, intellectual resources/lifetimes. On achievement of intra-regional balance the following task consists of import-substitution and export-expansion.

### **4. Cost of quality measurement as the factor of contract changes**

The expenses of measurement render systematic influence on the structure of contracts and organization of the markets: when the expenses of measurement grow, the economic forces of competition come into action in the direction of the new versions of economic organization, with which the expenses of measurement (transaction costs) will be reduced.

The functioning of resource chains in the regions of Russia is combined with the significant losses of participants in the contracts in view of their insufficient isolation according to the qualitative characteristics. In those chains, in which new institutional formulation at the federal and regional level is achieved rapidly, the need for the contract and according to the schemes of rights property the detachment of the natural active memberships of different quality appears more sharply than in the chains, in which prevail the standards and the rules, inherited in the essence even from the Soviet time.

For example, in the forest chain, until now, are not specified the competences of particular owner, are not separated the regulated and economic authorities of the forest service of Russia, which prevents the technologically already prepared and economically justified passage from the continuous to the more efficient selected style of logging. In the petroleum chain the presence in one pipe of oil of different quality no

longer satisfies its new owners and is produced a change in the contracting, to ensure its differentiation and to decrease the expenses of quality control.

The problem of the differentiation of fine-wooled and coarse wool sheep acquired the contract economic nature: insufficient specification increases the expenses of control (quality measurement of the obtained fur by its buyer) and increases the risk of the adverse selection of fur. The growing expenses of measurement cause the need for passage to the new contract between the producers and the processors.

In the Soviet time stock-breeding work had technological value as the method of increasing the productivity of animals. Under the new conditions it is intended to improve the quality of information for the subjects of the market for sheep-breeding production and to decrease the risks of the adverse selection of animals (for example, the related pairing) for the sheep-breeding farm- buyers.

Thus, in many regions of the functioning of different resource chains we observe in the essence the processes of one nature: the high expenses of not strictly established resources of different quality and significant efforts/forces on the formation of new institutions (standards, rules, the framework and special structures), which ensure the clearness of differentiation and schemes of the rights of property.