

# SOCIO-ECONOMIC DEVELOPMENT STRATEGY

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## Public Nature of the Concepts for Economic Development in the Northern and Arctic Regions of Russia



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**Abstract.** In a situation when Russia's economic development is unbalanced by factors and financial sources, there emerges a threat of depletion of its natural resources in the Northern and Arctic regions, which does not bring any apparent benefit to Russia itself, and especially to its northern dwellers. In order to work out a proper policy with relation to the North, it is necessary to consider not only the specifics of the raw material specialization of the Northern and Arctic territories and their structural-functional organization, but also the crucial public nature of this specialization and this organization. It is from the point of view of public interest and national security of our country that residents of the North should be viewed not as a tool to provide the world economy with raw materials and fuel, but as an inherently valued reality, competing for their "place under the sun" and capable of equipping this place based on their own abilities, needs and perceptions of well-being. The purpose of the present paper is to show the social character of the interdependence between internal and external factors in the development of the North and the Arctic: the national and world market of mineral raw materials and fuel, the transcontinental, regional and local environmental functions of the tundra and taiga, the general trends of improving economic federalism and a special approach to stimulating regions

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<sup>1</sup> The North includes the Far North and the territories equated to the Far North; the Arctic is the part of the Far North established by the Presidential Decree no. 296, dated 2nd May, 2014.

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that have extreme and difficult conditions of life and production, the priority of social welfare of the population rooted in the North and in the Arctic along with the desire for national socio-territorial equity.

**Key words:** social change, northern specifics, concepts, development and improvement, economic incentives, environmental factor, systemwide upgrade.

Guided by the idea that *a region is its developing population*, O.S. Pchelintsev wrote: “The leading role of the regions in the economic system of sustainable development is implemented through the functions of organizing quality resource reproduction using the methods of spatial planning and infrastructure development” [10, p. 9]. This is true, since the quality of life of each person and the society as a whole determines the meaning of our intentions to assess the present and shape the future of a particular region.

The theoretical concepts of socio-economic geography and regional economy (in Russia and other developed countries) currently assign the primary role to historical acquisitions (including the diversity of natural and cultural landscapes) and intellectual resources. Social forms of household management (concentration, specialization, combination, cooperation, integration) are given new content. The crucial role is assigned to the spatial concentration of knowledge and innovation; specialists’ intellectual capacities are spatially combined, their cooperation takes place within regional clusters aimed at addressing specific problems of innovative development; inter-country and inter-

regional integration is widely implemented as a manageable correlation of different spheres of activity. Human, money and information flows have become important actors of the society, as well as high mobility of organizational management structures and the strengthening associated effect from one type of activity to other types [5, 6].

All these innovations can also be applied to the Russian North. Guided by this very idea of improving the quality of life, the Northern policy should be aimed at solving specific problems related to the metropolitan functions of regional, national and district centers, the margins of the population’s attraction from the periphery to these centers and large cities and maintaining their high cultural and technological level, etc. Cities and regions of oil, gas and mining specialization have their own “quality issues”, including those regarding their relation to reindeer breeding and agriculture. With the “attenuation” of mining and oil enterprises reindeer herdsman and service workers are also in a critical situation due to reducing demand for their products and services. It should be noted that a quarter of the population of the North live in the cities and districts of the forestry and agricultural specialization. Sustainable

development of these territories becomes a primary issue in terms of choosing new forms of social insurance of the population of forest settlements and villages, rather than in terms of production. The relatively autonomous areas of reindeer, sheep and horse breeding outside the cities living on subsistence farming should, according to the idea of post-industrial development, be transformed on a new technological and social basis which would not infringe the traditional way of life [3].

About 15% of the country's gross domestic product is produced in the North of Russia, including the Arctic zone – 10%. These proportions are gradually decreasing for two reasons: a positive one is a relatively slow economic growth of the central and southern regions of the country; a negative one – the stagnation (from the standpoint of macroeconomics) of all Northern regions, with the exception of Yamalo-Nenets Autonomous Okrug, which does not demonstrate any noticeable progress at all.

Development forecasts, strategies and programs of the Northern and Arctic regions reflect the problems of economic growth amid the declining international prices for hydrocarbons and minerals and lack of

capacities for their processing in Russia; GRP and labor capacity dynamics for the next 5–10 years is recorded at 2–3% per year [1]. The slow rate of economic growth is related to the output of core products of industry and agriculture, but not to the sphere of energy, transport, construction, housing and other social services, banking and financial activities, public and municipal administration. Here, the level of technology and labor organization is even lower; however, the prices and tariffs are high. Such balance of high and low helps individual organizations to survive, but drag down the overall economy of the regions and the country as a whole.

In this respect, the example of the Komi Republic is illustrative. *Table 1* indicates that the population and the number of the employed are declining; GRP production fluctuates around the base 100%; labor capacity is growing very slowly.

There is no place for science and technological progress in the structure of production created by the forecasts. The problems of transition from low to higher technological and economic level are not reflected, as well as the problems of improving public relations. Somehow it

Table 1. Socio-economic dynamics of the Komi Republic in 2010–2018, %\*[13]

Indicators	2010	2011	2012	2013	2014	2015	2016	2017	2018
Population	100.0	99.8	98.7	97.7	96.9	95.9	95.1	93.9	93.1
Number of the employed in the economy	100.0	98.6	97.6	95.2	92.7	91.0	89.8	88.6	87.8
GRP in fixed prices of 2010	100.0	105.7	107.6	104.0	102.4	98.5	99.9	101.6	103.1
GRP per one employee	100.0	107.2	110.2	109.2	110.4	108.2	111.2	114.7	117.4
* Regions of Russia [11], 2016–2018. Author's assessment.									

becomes possible to avoid the issues of optimal land use with a view to organizing organic farming, maximizing the amount of the distributed land fund and its structuring by proprietary types: federal, sub-federal (oblast, regional and national), municipal, private. This also applies to forest plans and programs of subsurface use. Progress in managing households and small-scale farms has not been considered in any state document yet.

This is the result of the fact that amid peripheral capitalism, the society is seriously influenced by political and economic crises, various transformations and deformations. The main attention has to be paid to macroeconomic indicators such as GRP, rather than to vital functioning conditions of regional and local communities. The dispersion of estimates of this indicator even when two variants are available (minimum – maximum) in the Northern regions is 2.5 – 3 times. These crises are not easy to predict, which makes it extremely difficult to get used to them as something inevitable. However, it is in times of crisis that we have to overestimate the past experience of forecasting with a focus on the positive trend only.

#### **Change of development concepts**

The economy of the Russian North has always been associated mainly with the development of its natural resources, transport construction and traditional economic sectors of low-numbered peoples.

Natural resource specialization within the national economy is historically entrenched and relevant. In modern conditions, the problems of expanded social reproduction cannot be solved without the resources of the North. However, the principles of their involvement into the global economy appear to be mixed.

The circumstances of the national economy are reflected in three approaches to the North, which are based on the ideas of: 1) further colonization of the North as a raw material appendage of both Russian and world economy with its transnational corporations; 2) free (market) trade in natural resources of the North by domestic and “mixed” enterprises under the Russian jurisdiction, but without the limitations (except for strategic scarce resources) and according to the rules of the World Trade Organization; 3) attaching resources of the North primarily to the Russian manufacturing industry, the market with restrictions on the export of mineral raw materials, oil, gas, coal and timber.

In our view, priority should be given to the third option, i.e. to the full development of the national economy with a balanced combination of extractive and manufacturing industries. This predetermines the interaction of economic subjects located in the North with their domestic and foreign agents regarding the distribution of resource earning (profit), rather than of resources (goods).

The development concept of the Russian North – “the development of natural resources for foreign exchange earnings” – is gradually acquiring a new interpretation: “the development of natural resources, production and transport modernization, physical planning of the population’s residence in order to ensure Russia’s national security and sustainable development of its national economy”. From a public perspective, the natural course of socio-economic development of the North (including the continental part of the Russian Arctic) with the formation of historical and cultural centers of relatively stable living as parts of a unified state is more important than domestic colonization for the sake of capital accumulation. This provision is also necessary to be emphasized because another position currently prevails, which is focused on almost full export of potential capital to Moscow and abroad. It is no coincidence that RAS researchers and the experts in regional management, who are familiar with the economy of the North, distinguish at least two groups of socially significant factors in sustainable development of the Northern territories: “The first is the redistribution of rental payments which would provide an adequate standard of living for people living and working under extreme conditions. The second is the diversification and innovative restructuring of the economy which would increase the competitiveness of economic systems in the near future” [14, p. 40].

In view of this concept, in recent years there have been intensified scientific research on comprehensive socio-economic development of the Northern regions and territorial systems which “are beyond administrative boundaries”: the Karelia-Kola, Dvina-Pechora, Ob-Irtysh, Angara-Yenisei, North-East and other systems. The role of social aspects of development and ethnic culture are due to the “selfworth” character of the lifestyle, language, culture and economies of the peoples inhabiting the Northern territories. An attempt has been made to provide a scientific basis for the models of the welfare of the population of the Northern territories. Various options to optimize the size of resident population and the number of people working in on a rotational or seasonal basis have been offered.

The essence of a correct approach to the solution of the Northern problems is as follows: first, it is necessary to identify the patterns in the natural and historical development of the population and economic systems of the North; second, facilitate the implementation of these patterns through indirect social and economic mechanisms. In this regard, it should be noted that in the late 1980s all regions of the European North and some regions of the Asian North of Russia had demographic capacity sufficient for the self-reproduction of the population and labor resources with minimal external migration. But economic crises recurring under the influence of external

conditions and internal policy mistakes have considerably reduced the population of the North of Russia: from 12,654 thousand people in 1990 to 9,954 thousand people in 2015, including the Arctic zone, from 3,178 to 2,383 thousand people respectively. Now this is not a question of population “at all costs”, but of enhancing human capacity (primarily health), further training of the employed in all areas of economic activity, the transformation of natural resource revenues into social, infrastructural and financial capital. Only in this case would the focus of the Northern regions on self-development and evolutionism be justified.

The Russian North is historically ready to diversify the structure of production on the basis of extensive processing of natural resources and wide cooperation in the framework of the national and global economy. The problem of reproduction of natural and economic complexes is very relevant in this case [2, 13].

In order to be able to ensure the resettlement of the northerners, their economic activity requires special technologies suitable for extreme and adverse climates, namely: territorial “correlation” of standard projects subject to the conditions of increased construction costs; the use of urban zone design basics; the development and use of machinery in the North; the minimization of auxiliary and service production facilities, wide technological cooperation; the use of rotational, district

and field methods of mineral resource development; the establishment of complex industrial and transport companies capable of developing “multi-resource” mineral deposits and territory according to a single plan using the latest technology.

From a public point of view, the most important socio-economic problems are:

- for the Arctic zone and the Far North – the poor state of the communities of low-numbered peoples and the complexity of the organization of labor and living management when using field, rotational and district methods of natural resource development;
- for the Middle North – the strategic uncertainty regarding the formation of the industrial and commercial support bases along with the qualified staff training centers for the entire Northern region.

Special attention should now be paid to loading spare capacities, providing a higher level of equipment for the existing enterprises, particularly in terms of enrichment and reprocessing of minerals. The level of final productive and individual consumption should be sufficient in order to ensure efficient social reproduction in Russia. Domestic consumer must not be subject to discrimination to serve the interests of western countries and individual corporations. It is a question of the benefits of gasoline export instead of, for example, crude oil, as well as the fact that gasoline and other operational resources would serve the cause of economy modernization and high-tech industries development.

The reduction in unit capital costs for the development and construction of the Northern territories is due to two main factors: technological progress, including the development and adoption of engineering and technology in the North and territorial organization of the economy (transportation network optimization, auxiliary and service industries minimization, the use of rotational and district methods of resource development, etc.). However, the appropriateness of production costs should be brought under a more systematic control, especially in terms of transaction costs.

Business must not only be controlled, but also protected against the destructive effects of informal market taking into account the distinctiveness of the Northern economy within the organized state-controlled market. Such protectionism should be implemented by the “classic” market regulation methods, i.e. through the reduction of transportation, electricity and heat tariffs, tax rates, through the allocation of targeted grant-in-aid and concessional export crediting of the Northern regions. In fact, these “classic” methods are currently not implemented; on the contrary, there is an opposite trend: rates and taxes are being raised; financial resources are redistributed in profit of Moscow, the republics of the North Caucasus and the Volga region; the patterns of interaction between corporations and the budget system of the country “drain” territorial budgets.

The problem of investments in the economy of the North has now become multiple-aspect, but more often it is caused by the “decumulation” of the accumulation fund. The mandatory opening of private (for enterprises) and regional investment accounts with transfer of the entire amount of depreciation and a share (for example, 15%) of foreign exchange earnings as one of the steps towards the solution of this problem. It is advisable to establish state control over targeted use of funds from these accounts.

The phased solution to the problems of the North is associated with the improvement of economic relations between the federal government, regional governments, municipalities and business. The mismatch between the Federation’s fiscal system composition and the needs of its Northern (and not only northern ones) territories puts the latter at a disadvantage. In addition, financial distortions lead to imbalance of value proportions in extractive and manufacturing economic sectors of the country and thereby break the technological consistency of interrelated industries.

**The environmental factor** in the development of the North is as important as the production factor. It is clear that the state of the environment of the Northern territories determines the level of the Earth’s population safety, primarily, of the northerners. This conception should not only be abstract. It can change the historical trend of natural resource management in

the North. This trend is still reflected in the following: as soon as the organization of natural resource management is an internal matter of the native population, ecological problems are local rather than frontal; but once natural resources become a commodity for external owners, a means of capital accumulation which is transferred to the central Russia and abroad, a commodity not associated with the multipurpose use of natural resources, environmental protection and the preservation of the best aspects of life of the native population, the environmental issues are multiply complicated and become regional, interregional and even global. These issues are currently clearly manifested in the deterioration of public health, reproductive disorder of the population, the loss of traditional activities and cultural heritage in some regions and in the contradictions between the commodity and rental and ecological functions of tundra and taiga. With the transition to the stability and growth of the industry the tendency of over-exploited natural resources of the North is emerging. They occupy the first place as a source of capital accumulation including that the former “free” sources – denationalization and privatization – have already been exhausted. Such a prospect leads to the recognition of the need for environmental protection as a key direction of the global policy based on the positive experience of economy organization in the territory of the foreign North.

Taking into consideration the environmental factor in public reproduction reflects the real picture of our lives. For example, according to official data, before the crisis of 2008–2010 the annual GDP growth in Russia was 6–7%. But according to the data of the World Bank, the environmental correction (accounting for natural capital depletion and environmental pollution) led to negative changes during this period – minus 10–13% [12, p. 17].

The North “demonstrates” the diversity of the world order where economic indicators are in line with social and environmental indicators. The crucial role of nature in the human activity is evident here, as well as the necessity to strengthen the economy as a means of evaluation of socially necessary costs, including a monetary equivalent of natural risks [7, 8]. It should be born in mind that many ecological safety issues now have to be addressed to financially low-efficient municipal units, and this often determines the dead-end nature of their consideration.

#### **Northern appreciation and the public nature of its essence**

In order to solve the problems of the North, a proper evaluation of the prime production costs appreciation and maintaining the average standard of living by discomfort zones (the Far North and the territories adjacent to it) is considered sufficient. In fact, a more fractional differentiation in accordance with the economic and geographical position of the



settlements and enterprises is required: in the main and the peripheral development direction. For example, according to the calculations made by T.E. Dmitrieva, the budgeted cost variation coefficients of construction and assembly works on the axis of economic development are (relative to the Moscow Oblast) as follows: in Syktyvkar – 1.43; in Ukhta – 1.56; in Pechora – 1.70; in Vorkuta – 1.83. In peripheral areas adjacent to these cities these coefficients equal respectively: 1.63; 1.82; 2.00; 2.50 [4, pp. 117, 127].

The strategic way to solve the problems of improvement of financial compensatory mechanism of northern appreciation is to offset the appreciation by the market price under strictly standardized private expenditures, the level of profitability and the social component of commodity value. The “public component” is becoming increasingly important and is considered in the national economy as an integral part of expanded social reproduction.

The theoretical concept that the value of national and even world commodity turnover is ultimately determined by a complex of people’s needs, including the need for decent environment, is now practical in nature. The value of a single product is not generated from separate parts (certain types of expenditures), as it first seems, based on financial calculation; it is initially formed in the market as a single unit which is then decomposed into parts, including nature conservation and the renovation of natural resources.

### **Economic incentives**

Taking into account the abovementioned circumstances, the state’s obligation is to compensate the regions and the population of the North for the lost income. The principle of compensation can be implemented in different ways, but it should always be done according to the rules and regulations of economic incentives. However, the probability of a false interpretation of regional incentives should also be born in mind. It should be reminded that the variety of ideas about the improvement of economic federalism includes both positive and negative aspects. For example, in the 1990s, some national republics initiated a particularly dangerous course towards full fiscal independence of Russia’s federal subjects with the use of the so-called “commingled method” of collection and distribution of all taxes and other financial resources. This is despite the negative experience of the USSR, when the method which implied that the USSR republics became the taxpayers to the state budget, contributed to its collapse. There is another method which is very similar to the previously described one – the method of regulatory tax allocation between the federal and territorial budgets based on a preset ratio, for example 50:50. This would further increase the already excessive social inequality of the territories. The principle of primary taxation sources allotment to a certain level of governance on a full-scale basis or with subsequent splitting in certain proportions must remain unchangeable.

This principle is fundamental in the system of economic federalism and does not limit the ability to provide incentives for territorial development.

In Soviet times, the issue of the provision of economic incentives for the regions was also relevant, especially during the years of reforms and crises. This was mentioned by academician E.M. Primakov: “...*During the government meetings chaired by me (after the default of August 1998 – V. L.), it was suggested that beneficiary federal subjects are allotted a fixed rate on the national budget replenishment for the period between government elections. The amount of the rate was established as the difference between the transfers from the centre and the regional tax liabilities to the federal budget. The difference was determined as the average for the previous inter-election period. All the extra funds earned and collected beyond that were supposed to be left at the disposal of the regions. This scheme, which could limit both the subjectivity of the center and the lobbying of the Federation, was supported by a number of governors during the conversations with me. Their statements indicated that the introduction of such a scheme would create a strong incentive to boost the tax collection capacity and, ultimately, stimulate socio-economic development in the regions*” [9].

The situation in the Northern regions that are highly differentiated by budget revenues suggests that this recommendation is acceptable not only for beneficiary regions, but it can also be applied to the

entire system of fiscal federalism with some small modifications. The currently applied incentive schemes do not yet produce the desired result. For example, inciting the regions to the implementation of the federal programs on the basis of halving the costs of their implementation (half federal, half regional). The use of such a scheme could really encourage a more vigorous regional activity. However, most of the regions lack the funds for their “half”.

At present, the most important is the shift of economic resources of the country towards the regions and municipal units. The existing depleted territorial budgets and their constant and widespread deficits and the excessive government debt of Russia’s constituent entities cannot be considered a normal condition; such a condition is contrary to the principles and standards of constitutional federalism; it can be interpreted not as forced, but as artificially created for the sake of exaggerating the role of the federal government.

The strengthening of the economic base of territorial development is also possible through the increase in regional and municipal property and its management. For example, regions and municipal units could replenish their land funds through socializing private areas and land shares which are not involved in economic turnover for a long time. It seems reasonable to transfer at least small areas of state forest resources to municipal units. The latter could also create general purpose property

complexes more actively and earn money in their economic use.

### **Northern territories' tactics of economy regulation based on public interests**

This tactics is related primarily to taxation and cost restructuring. Previously, the exception from the tax base of costs, based on objective factors in the Northern appreciation and the part of income which is allocated to investment in technological modernization of production was considered appropriate. Rental income was expected to be fully and adequately included in the economic turnover. In accordance with the structure of natural and resource rent as the main in extractive industries, two types of taxes were considered: "mineral replacement tax" – type of tax similar to property tax, "rental tax" amounting to 70% of rental income (30% of the rent as part of the extra profit should remain at

the enterprises' disposal for technological modernization). The situation is currently following this very model, but the extent and the scheme remain unknown to the public. Highly confidential "internal accounting" makes it impossible to know the true product value, which, in turn, does not allow to assess legally its social component.

### **On regional coefficients and northern allowances for the length of service in the Northern regions (Tab. 2)**

To a certain extent, they reflect the correlation between social and economic aspects of life within specific geographic boundaries. But this extent should not be exaggerated. In fact, the North has little in common with extrabudgetary economic sectors where they are only nominally present as an integral part of the already fixed payroll budget. If there were no northern allowances, each employee

Table 2. Regional coefficients and northern allowances in the North of Russia (excluding the islands of the Arctic Ocean)\*, %

North Zone	Minimum			Maximum		
	Regional coefficient	Northern allowance for the length of service	Total amount	Regional coefficient	Northern allowance for the length of service	Total amount
European North						
Arctic Zone	50	80	130	80	80	160
Far North	40	80	120	50	80	130
Near North	15	50	65	20	50	70
Asian North						
Arctic Zone	50	80	130	100	80	180
Far North	50	80	130	100	80	180
Near North	30	50	80	40	80	120
* The regional coefficient in the islands of the Arctic Ocean amounts to 2.0 (100%), northern allowance – 100%; the total amount is – 200%, which indicates a triple increase. Source: <a href="http://bushminsergey.blogspot.ru/2013/01/blog-post.html">http://bushminsergey.blogspot.ru/2013/01/blog-post.html</a> (accessed: July 5th, 2016).						

would still receive his\her share of the budget under the contract. Another thing is state employees. For them, the regional coefficient and northern allowance for the length of service in the North is a significant addition to the standard salary. Therefore, it is necessary to consider whether there is hope to increase the amount of northern allowances, especially for those of state employees who live in the Arctic and the areas adjacent to it.

Even taking into account these coefficients and allowances it is difficult to give a reasonable explanation for the growth of the ratio of average income per capita and subsistence minimum as real incomes are declining and subsistence minimum is increasing due to the rising prices. It should be noted that this ratio in the Komi Republic is 1.2 times lower than the Russian average, and 1.6 times lower than in Moscow. Northern coefficients and allowances do not compensate for the high cost of living in the Northern regions. Northern allowances only slightly level the indicators of social stratification by income: the average national R\P 10% coefficient in 2014 amounted to 16 (which characterizes the ratio of the average income of the richest 10% to the poorest 10%), in the republics of Karelia – 10.3, Komi – 14.9, Sakha (Yakutia) – 14.5; in the oblasts: Murmansk – 12.5, Arkhangelsk – 11.3, Magadan – 14.0, Sakhalin – 16.1; in autonomous okrugs: Nenets and Yamalo-Nenets – 17.6, Khanty-Mansiysk – 16.9, Chukotka – 16.1; in Kamchatka Krai –

11.5 [11, p. 227]. Economic science and sociology have declared the impermissibility of such a situation in the social stratification both in Russia and in its regions, referring to the example of European countries where the indicator comprises 7–8.

#### **The issues of the Arctic region and public interest**

Russia's federal government considers the development of the Arctic in two main directions: 1) improvement of the Northeast Passage as a major component of the overall transportation system of the country and as a geopolitical factor in Russia's strengthening in the global maritime industry; 2) establishment of coastal defense and economic infrastructure. Attempts are made to implement both directions through special-purpose program formation of "core support zones" of socio-economic development. The key increase points in each zone are those focused on the development of the two directions mentioned above.

Governments and municipal units of the Arctic areas, as well as other Russian regions, are related to the whole structural-functional spectrum of economic and social sphere. Their specific interest in the Arctic vector of development lies in the hopes of acquiring additional federal resources in order to improve the population's standard of living. Thus, the contents of the Arctic policy is defined by the development issues of specific regional communities of people and, therefore, is not limited by a single type

of objectives – geopolitical, transportation, military, energy, bio-resource, ethnic and cultural, etc., it is focused on the complex of these objectives, which corresponds to the general methodology of sustainable development.

### Conclusion

Public benchmarks of regional development indicate that current socio-economic issues of the North and the Arctic region of Russia need to be shifted from “in-breadth” natural resource development to the integrated “in-depth” development, i.e., to the modernization of the already established economy, the restructuring of the system of population settlement, transport,

industry and agriculture. The update of the Arctic issues highlights the necessity of social and environmental improvement of the already formed territorial and economic complexes, individual industrial centers and the rural periphery; the necessity of life extension of the existing crafts, mines and mining plants using the latest technology of extraction, enrichment and processing of raw materials; the balanced use of biological resources of the tundra and northern seas; the establishment of scientific and technological infrastructure of the Northeast Passage and the Arctic enterprises; and the introduction of the local economy to the needs of defense facilities.

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