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## ECONOMIC AUTONOMY OF REGIONS IN THE NEW REALITY<sup>1</sup>

*The article expands on the concept of new reality (new normal) for Russia, which includes the increased role of individuals and larger economic autonomy of territories in their interaction with the federal center. The rationale is based on the hypothesis that, in the new reality, the improved wellbeing of people and elimination of economic disparities between the territories can be ensured by expanding their economic autonomy, because it leads to the increase in their intellectual, industrial and technological capacity. In this study, the author used the basic provisions of the classical economic theory, the theory of behavioral economics, interdisciplinary approach, and the method of statistical groupings. The article presents the trends in the economic autonomy of the territories, which include a decrease in the number of donor regions and differentiation of territories in terms of their socio-economic indicators. It substantiates the assumption that the differentiation of territories puts constraints on their socio-economic development and may lead to the emergence of a "regional peripheral economy," the attribute of which is the dependence of the periphery from the center, reduced local initiative, and slowdown of technological development. The article identifies the need to use the mindset of people, their psychological attitudes in the economic development, the "second invisible hand of the market" and "soft power" in order to move beyond the "regional peripheral economy."*

*The conducted study demonstrates that the expansion of economic autonomy of the territories is not the increased self-isolation of regions and municipal entities, but consists in the need to retain a significant part of the income from the production of goods and services created by local people, so that it could be autonomously used by regional and municipal authorities and directed to improving the wellbeing of territory's residents. The author proposes to prepare a regulatory and legal document in order to ensure and strengthen the economic autonomy of the territories, and makes specific proposals on the principles of its content and structure.*

**Keywords:** new reality (new normal), economic autonomy of regions, municipal entity, federal center, wellbeing of people, consolidated budget, socio-economic differentiation of territories, "regional peripheral economy", psychological attitudes for economic development, "soft power"

### Problem Formulation

The current socio-economic situation in Russia requires a transition to a new format of interaction between the federal center and the territories. This is caused both by the high level of territorial disparity in terms of wellbeing and by the conditions of new reality.

Preserving the past administrative relationship between the center and the regions may lead to a slowdown in scientific, intellectual and technological development of Russia.

A practical step to overcome a socio-economic slowdown in the development of territories must be the implementation of internal transformations that lead to a transition to a new economic development model and their confirmation in the concept and measures for the development strategy of the Russian Federation until 2030.

We proceed from the hypothesis that, in the new reality, the improved wellbeing of people and elimination of economic disparities between the territories can be ensured by expanding their economic autonomy, because it leads to the increase in their intellectual, industrial and technological capacity.

The task is not to miss the meaning of the new reality, new technological and social breakthroughs associated with it, and be able to timely understand them and make an appropriate response.

### New Reality for Russia

New concepts often greatly increase the cognitive function of science and, thereby, sharpen the understanding of ongoing changes by the leaders and the public, enable them to more vividly and quickly realize the importance of transformations, and timely implement the appropriate practical steps. One of such concepts is "New Reality (New Normal)."

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The concept came into an active use in Russia following the publication by Dmitry Medvedev of his article "New Reality: Russia and Global Challenges." In particular, the article states that "the term new normal is being increasingly used in discussions of current and future challenges of global development. It came about five years ago after the end of an acute phase of the global crisis and quickly gained ground. New normal means a new normality and perhaps even a new reality." [1, p. 8]. The proposed concept clearly distinguishes (separates) the familiar economic development model that existed before the crisis of 2008–2009 from the emerging new trajectory of economic maturing. In our view, its required elements should be increased the economic autonomy of regions and municipal entities, a new quality of their growth, and overcoming the socio-economic disparities.

This new reality (new normal) requires new approaches to explain the processes in a substantially changed world. Their substance is determined by the fact that "first, there is a shift in our understanding of the nature of organization—from a biological to socio-cultural model, second, there is a shift (a significant one) in our views on the method of acquiring scientific knowledge, on the tools of acquiring such knowledge—from analytical thinking (scientific study of independent sets of variables) to integrated, holistic thinking (art and science of handling interdependent sets of variables)" [2, p. 31].

The basic condition for the implementing of the change caused by the new reality is a change in the attitude of the society (the state) to an individual in general and individual worker in particular.

For financial issues in the regional development, the new reality (new normal) implies the renewal of relations in the area of fiscal federalism. This issue attracted the attention of Ye. Buchwald. He noted that the federal reform aimed at improving the Russian model of fiscal federalism "was unable to fully reconcile the formal equality of subjects of the Federation with the ability to provide additional development incentives to the regions that can play the role of locomotives in the modernization of the Russian economy; in inter-budgetary relations, there is still a marked predominance of the leveling function over the stimulating function" [3, p. 73].

In the paper "The Outlines of New Economic Space" [4], the need to build new economic relations between the federal center and the regions is associated with the problem of territorial disparity. In this regard, the authors put forward the idea of building a "society of creators."

An integral part of this new reality in Russia is the fact that "the general trend in the spatial development of the Russian economy is the growing number and absolute predominance of stagnant regions." This was pointed out by the group of authors in the article "The Development Trends of Russian Regions" [5, p. 13]. They believe that such situation is related to insufficient internal resources and absence of long-term development trends in the regions. Other authors draw attention to the relationship between the crisis and "large scale intellectual challenge that requires a profound rethinking of its causes, deployment mechanisms and ways out" [6, p. 6]. This means that we need not only financial resources, but also the corresponding human resources, technologies and development strategies.

Russia should respond to this new reality by setting new development priorities, including occupational and moral intellectualization of people, development of green economy components and additive technologies, and building a new quality of life.

An effective way to mitigate the negative impacts on the national economy and overcome them in the future should lie in the increase in production, economic and social importance of the territories, their higher economic autonomy, strengthening the focus on self-development, and shifting the regulatory socio-economic measures from the federal to regional level.

These measures can enhance the adaptive capacity of territorial socio-economic systems in relation of today's challenges and increase the "capitalization" (value) of local areas where people live.

Expanding the economic autonomy of regions and municipalities is only a part of steps that can ensure the transition to a new socio-economic development model. Other measures include a solution to the issues of ownership, institutions, innovation, governance, strategic planning, education, science, renewal of relations in the area of fiscal federalism.

### **The Substance of Economic Autonomy of the Territories (Regions, Municipal Entities)**

When we consider the problem of economic autonomy of territories, it necessary to highlight, first, the objective foundations of its existence and second, the need to change the level of economic autonomy of the territories under the impact of external and internal factors.

The objective basis for the economic autonomy of territories is the territorial division of labor, which implies, on the one hand, the specialization of regions and municipal entities in the manufacture of specific products and, on the other hand, the existence of close economic ties between them.

Since each territory within a state has a legal status, it takes the form of administrative-territorial unit. Such units are provided with the government bodies, i.e. they have both the administrative rights and obligations, and economic functions, including those related to disposing of a part of the value added. As a result, the administrative-territorial units not only accumulate a part of value added (another part goes for the needs of the entire society), but also spend it on their own needs. This sets the territories apart economically, which can be seen in their economic autonomy.

The concepts of "administrative-territorial unit" and "economic autonomy of the territories" are not synonymous. Administrative-territorial units can exist even at zero level of economic autonomy, that is, when they have the rights of a government department, "shop" or other subdivision of the state. In its turn, the economic autonomy of the territories cannot exist without the administrative-territorial units.

The economic autonomy of the territories can be viewed in two aspects. The first one associates the economic autonomy of the territory with the effective use of territorial property (state and municipal). According to Articles 214 and 215 of the Civil Code of the Russian Federation, it includes the property assigned to the relevant enterprises and institutions, as well as the funds in the corresponding budget and other property not assigned to the state or municipal enterprises and institutions, which constitutes the treasury of the subject of the Russian Federation or municipal treasury<sup>2</sup>. In this case, the territory acts as a business entity in the form of a certain corporation. In view of this, the territorial development can be seen as "a process of balanced and efficient use of natural resources, technical and human capacities" [7, p. 41], that is, as a rationalization of creating and multiplying material wealth.

The second aspect in the consideration of economic autonomy of territories is associated with the fact that a territory cannot restrict itself to the role of material wealth creator. It should serve the human development. Therefore, the main characteristic of the economic autonomy of the territory is not only a multiplication of its material wealth measured in terms of the Gross Regional Product (GRP), but also the gain in the quality of human wellbeing and personal development of each individual in occupational and spiritual terms. This approach is based on our understanding of the territory as "any space of human activity, in which the system of knowledge and moral and cultural values is deployed through the use of existing elements of national wealth, as well as through reproduction and development of individuals" [9, p. 7].

To realize the function of personal development, each territory should be able, first, to retain the main part of the gross value added produced by the activities of its population and second, to act in the interests of the local community and not under the external constraints when using such value added. Any failure to meet these two conditions results in unjustified redistribution of wealth from some territories to the benefit of others.

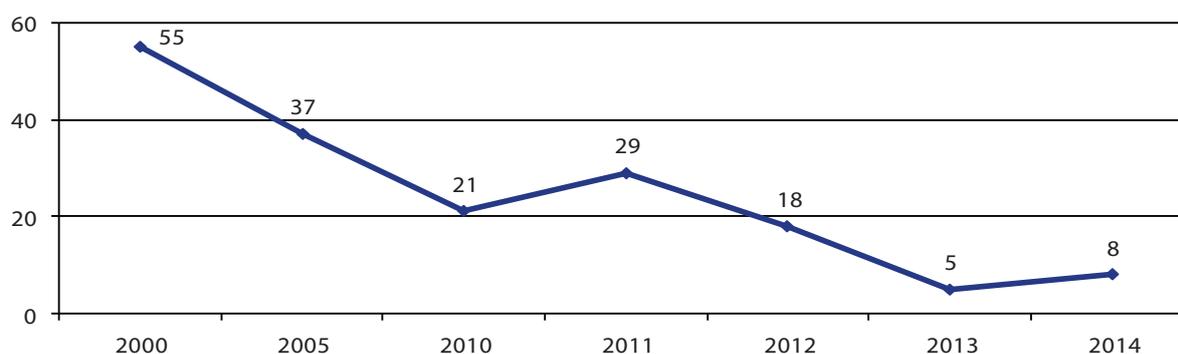
The underlying reason for the insufficient use of the value added created by the local population to meet the needs of the same people is rooted in established state economic policy, which consists in the implicit (hidden) centralized regulation of territorial relations. Since this policy is implemented through certain institutions, the roots of problems in the successful or unsuccessful development of the territories should be sought in the quality of established institutions.

When describing the expansion of economic autonomy of the territories, we do not reduce it to increased self-isolation of regions and municipal entities or to strengthening their economic sovereignty. We are not talking about the establishment of economic barriers between the territories for the flow of goods, capital and labor, but we argue that a significant part of the income from production of goods and services created by local population should be left for discretionary use by the regional and municipal authorities and directed to improving wellbeing of the residents in the territory.

We consider the economic autonomy of the territories as an effective way to incorporate the collective mind in the vital activity of the entire national community.

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<sup>2</sup> The Civil Code of the Russian Federation. Adopted by the State Duma on October 21, 1994 (last revised by the Federal Law No. 268-FZ of 7/13/2015).



**Fig.** The changes in the number of donor regions in the Russian Federation in 2000–2014

### Dynamics of the Extent of Economic Autonomy of Territories

The extent of economic autonomy of territories is constantly changing. It depends on the institutions regulating the financial and tax policies in Russia. To confirm this thesis, we present data on the trends in the development of donor regions. The calculations are based on the ratio of revenues and expenses in the consolidated budgets of the constituent subjects of the Russian Federation, which according to the Budget Code of the Russian Federation (Art. 6) include the budget of the subject of the Russian Federation and the aggregate of the budgets of its municipal entities (excluding inter-budgetary transfers between them).

Lower economic autonomy of the territories can be seen in the reduced number of regions, where the revenues of consolidated budget exceed their expenses (Fig.). Hereinafter, the presented calculations are based on statistical sources<sup>3</sup>.

The diagram shows that, in 2000, Russia had 55 donor regions; in 2005, 37; and, in 2010, 21. In 2011, the figure increased to 29. This was followed by a further decline in 2012 (18) and 2013 (5). In 2014, Russia had 8 donor regions.

The decline in the number of donor regions is not the result of lower Gross Regional Product (GRP). GRP continues to grow not only in terms of the current, but also constant prices. Moreover, in the Gross Regional Product, the share of final consumption by households on the territory of the subject of the Russian Federation also remains high. For Sverdlovsk Region, it was 77.73 % in 2005 and, in 2013, it reached 87.69 %. In Chelyabinsk Region, these figures were respectively 67.06 % and 88.02 %. These data demonstrate that the regions do not consume less, but there is more dependence on superior authorities in organizing the use of earned funds.

The mechanism of reducing the number of donor regions does not consist in absolute decrease of funds remaining in the territory in the form of taxes, duties and other charges, but in delaying their growth while increasing the share of non-repayable receipts coming from federal sources, which squeezes the economic autonomy of the regions.

Let's illustrate this thesis with the example of consolidated regional budgets in the Urals Federal District. In 2000, the share of non-repayable receipts in the total consolidated budget of industrially developed Sverdlovsk Region was 1.81 %; in 2005, 6.13 %; in 2010, 15.25 %; and in 2014, 10.12 %. This means that over 14 years it had grown by 5.59 times.

Similar processes involving a change in the share of non-repayable receipts in the total consolidated budget were taking place in Chelyabinsk Region. In 2000, it was 3.76 %; in 2005, 9.47 %; in 2010, 21.90 %; and in 2014, 17.66 %. Over 14 years, the share had grown by 4.69 times.

In Kurgan Region, which is predominantly an agricultural one and, for many years, was receiving assistance from the federal center, the share of non-repayable receipts in the total consolidated budget was 23.71 % in 2000; 48.63 % in 2005; 47.25 % in 2010, and 40.78 % in 2014. Here, over 14 years, the share had grown by 1.72 times.

It should be noted that the decline in the share of non-repayable receipts in the total consolidated budgets of the regions observed in 2014 was not associated with a change in financial policy with regard to the regions, but with general economic problems in Russia. This is confirmed by the data

<sup>3</sup> The calculations are based on: *Regiony Rossii. Sotsialno-ekonomicheskie pokazateli. 2006: stat. sb. [Russian Regions. Socio-economic indicators. 2006 : Statistical book].* (2007). Rosstat. Moscow, 826–834; *Regiony Rossii. Sotsialno-ekonomicheskie pokazateli. 2015: stat. sb. [Russian Regions. Socio-economic indicators. 2015 : Statistical book].* (2015). Rosstat. Moscow, 1020–1039.

for entire Russia, where the share of non-repayable receipts in the total consolidated budgets of the regions was 9.54 % in 2000, 14.74 % in 2005, 23.12 % in 2010, and 19.41 % in 2014.

### Socio-Economic Differentiation of Territories in Russia

In Russia, the issue of economic autonomy of the territories is closely associated with the problem of differentiation of territories in terms of their socio-economic indicators. These processes lead not only to the migration of people from depressed communities, but also to neglecting of vast living spaces, and flow of the total wealth to the largest cities and more industrially developed regions and municipal entities.

The international science views the problem of disparity as differentiation of society by income, which occurs, first, between the regions within a country, and second, between the countries. Given its large expanses, the problem of socio-economic differentiation (disparity) of the territories (regions and municipal entities) is also important for Russia.

One of the main indicators illustrating differentiation of the territories in Russia, i.e., their disparity, is the Gross Regional Product per capita (Table 1).

Table 1

**The differentiation of the Gross Regional Product per capita by the subjects of the Russian Federation in 2000 and 2013<sup>4</sup>**

Constituent subject of the Russian Federation	2000		2013	
	Gross Regional Product per capita, rubles	Differentiation of the Gross Regional Product per capita	Gross regional product per capita, rubles	Differentiation of the gross regional product per capita
Russian Federation	42,902.1		376,383.0	
Chukotka Autonomous Okrug	56,760.6	4.6 times	927,403.5	9.2 times
The Republic of Ingushetia	12,271.6		100,910.7	
Moscow	151,594.1	4.9 times	965,842.7	2.7 times
Moscow Region	30,976.2		359,799.4	
St. Petersburg	43,848.3	1.3 times	491,449.5	1.2 times
Leningrad Region	35,223.4		394,189.0	
Sverdlovsk Region	36,094.1	2.0 times	367,331.1	2.0 times
Kurgan Region	17,912.0		18,7361.2	

Among the subjects of the Russian Federation, the difference between the highest (Chukotka Autonomous Okrug) and lowest (Republic of Ingushetia) Gross Regional Product (GRP) per capita was 4.6 times in 2000 and, in 2013, it increased to 9.2 times. At the same time, GRP also substantially varies between the neighboring territories. The difference between Moscow and Moscow Region was 4.9 times in 2000 and 2.7 times in 2013. Two neighboring regions (Sverdlovsk Region and Kurgan Region) had a 2 times difference in terms of their GRP per capita.

The uneven development of Russian regions can be also seen in the differentiation of average per capita money income and expenses. The data in Table 2 show that, overall in Russia, the average monthly income per capita was 27,755 rubles in 2014. However, between the subjects of the Russian Federation, it ranged from 67,687 rubles in the Nenets Autonomous Okrug to 12,309 rubles in the Republic of Kalmykia (i.e., a 5.5 times difference). There is a differentiation not only between distant territories, but also neighboring ones, including those that are highly developed. For example, the residents of Moscow Region had an average per capita income that was 1.56 times lower than the similar indicator for the Muscovites. There was a 1.64 times difference between the income of people in Leningrad Region and St. Petersburg. In Sverdlovsk Region, the income of residents was 1.7 times higher than in the neighboring Kurgan Region.

<sup>4</sup> Based on: *Regiony Rossii. Sotsialno-ekonomicheskie pokazateli. 2003: stat. sb. [Russian Regions. Socio-economic indicators. 2003 : Statistical book].* (2003). State Statistics Committee of the Russian Federation. Moscow, 321–322; *Regiony Rossii. Sotsialno-ekonomicheskie pokazateli. 2015: stat. sb. [Russian Regions. Socio-economic indicators. 2015 : Statistical book].* (2015). Moscow, 478–479.

The differentiation of average monthly money income and expenses per capita in 2014 by the subjects of the Russian Federation<sup>5</sup>

Constituent subject of the Russian Federation	Average per capita money income (monthly), rubles	Differentiation by income, times	Average per capita money expenses (monthly), rubles	Differentiation by expenses, times
Russian Federation	27,755		27,688	
The Nenets Autonomous Okrug	67,687	5.5 times	33,697	3.4 times
The Republic of Kalmykia	12,309		9,917	
Moscow	54,921	1.56 times	63,693	2.1 times
Moscow Region	34,608		30,624	
St. Petersburg	34,758	1.64 times	39,632	1.91 times
Leningrad Region	21,243		20,689	
Sverdlovsk Region	32,036	1.7 times	32,183	1.87 times
Kurgan Region	18,884		17,211	

The average per capita expenses provides a more accurate indicator of territorial disparity. For example, if we consider the above list of subjects of the Russian Federation and view it in terms of household expenses, we will see a somewhat different picture. It turns out that, first, the standard of living in the Nenets Autonomous Okrug is not 5.5 times higher than in the Republic of Kalmykia, but only 3.4 times. Second, when we take into account the expenses, the standard of living in Moscow would be much higher than in the Nenets Autonomous Okrug (33,697 rubles and 63,693 rubles.) compared to what it initially seemed in terms of income (67,687 rubles and 54,921 rubles). Third, the expenses in major cities and industrial regions exceed the income figures for neighboring territories. This is due to the fact that in the industrially and financially developed territories, people are more actively using the borrowed funds and savings to further meet their needs. For example, in 2014, the monthly share of borrowed funds and spent savings in the total amount of available resources was 1.3 % on average per household member in the Nenets Autonomous Okrug; 5.4 % in Moscow; 10.9 % in Sverdlovsk Region; and 11.3 % for the Russian Federation in general<sup>6</sup>.

Inequality of income is also typical for the municipalities located within the region. For example, in Sverdlovsk Region in 2014, the difference between the highest average monthly salary in the municipal entities (city district of Pelym, 44,892.8 rubles) and the lowest average monthly salary (municipal entity of Krasnoufimsky district, 17,767.3 rubles) was 2.53 times. Moreover, the differences in average monthly salary were observed not only in the territories located far from each other, but also between bordering municipal entities that are close in terms of transportation, production and technology. For example, Kamyshlovsky city district and Kamyshlovsky municipal district were previously parts of a single administrative entity, which means that geographically they are very close, yet the average monthly salaries in them are different. In 2013, the average monthly salary in Kamyshlovskysky city district was 26,612.8 rubles, while in Kamyshlovsky municipal district, it was only 20,477.2 rubles, i.e., 1.3 times lower. The situation was similar in neighboring municipal entities such as the city of Kamensk-Uralsky (28,633.0 rubles) and Kamensky city district (22,680.7 rubles), the difference between them in terms of the average monthly salary was 1.26 times. There are significant differences between major cities of Sverdlovsk Region in terms of the average monthly salary. In Yekaterinburg (40,224.8 rubles), it was 1.3 times higher than in Nizhny Tagil (30,817.7 rubles), and 1.4 times higher compared to Kamensk-Uralsky (28,633.0 rubles)<sup>7</sup>.

This leads to an important conclusion that the economic disparity of the territories is an objective fact and does not depend on selected indicators.

<sup>5</sup> Based on: *Rossiya v tsyfrakh. 2015. Krat. stat. sb. [Russia in Figures. 2015. Brief Statistical Book]*. (2015). Rosstat. Moscow, 40–47.

<sup>6</sup> Retrieved from: [http://www.gks.ru/bgd/regl/b14\\_102/Main.htm](http://www.gks.ru/bgd/regl/b14_102/Main.htm) / (date of access: 12/09/2015).

<sup>7</sup> *Sverdlovskaya oblast v 2010–2014 godakh : stat. sb. [Sverdlovsk Region in 2010–2014 : Statistical Book]*. (2015). Territorialnyy organ Federalnoy sluzhby gosudarstvennoy statistiki po Sverdlovskoy oblasti. [Territorial body of the Federal State Statistics Service in and for Sverdlovsk Region]. Ekaterinburg, 221–222.

## **Effects of Differentiation (Disparity) of the Territories**

The main effects of differentiation (disparity) of the territories are constraints on their socio-economic development. This is pointed out by the world's leading scientists. In his book "The Conscience of a Liberal" (2008) Paul Krugman, Nobel laureate in economics (2008), takes the example of the hundred years of US history to show that a significant economic polarization in the society leads to bitterness and intransigence in the public debate on the issues of state regulation, taxation and antitrust laws. He believes that inequality becomes a factor of self-destruction of society and economy. In his opinion, "sharp inequality is detrimental to society and democracy ... corrodes social relations and policy, ... makes a very negative impact on the way people live" [9, p. 263–265]. This view on inequality is shared by Robert B. Reich, an American scholar. In his book "Aftershock: The Next Economy and America's Future" (2010), he writes that the growing economic inequality coupled with instability leads the economy to a decline [10, p. 7].

Joseph Stiglitz, Nobel laureate in economics (2001), pointed out in his book "The Price of Inequality" (2013) that "all over the world, there is increasing concern caused by the multiplication of inequalities and reduced opportunities" and that "the connection between the policy and inequality is becoming the main topic of recent studies." He showed that such distribution of income hampers the economic development by restricting the access of middle class and the poor to better education and health care. The government plays a major role in increasing inequality through market regulation mechanisms and innovation. As Joseph Stiglitz writes, "Policy has a direct impact on innovation. We cannot consider as inevitable the fact that innovation is associated only with new smart technology" [11, p. 11, 49, 121].

The problem of inequality is considered by Thomas Piketty, a French economist, in his popular book "Capital in the Twenty-First Century" (2013). By analyzing an extensive statistical material, he came to a number of conclusions, such as "capitalism automatically creates intolerable, arbitrary inequality," "the history of wealth distribution always has many politically motivated underlying reasons and cannot be reduced only to economic mechanisms," "the dynamics of wealth distribution enables powerful mechanisms that move alternately towards the convergence and divergence, and there is no natural, random process that can neutralize for a long time the trends leading to instability and inequality" [12, p. 20, 39–40].

In his book "The Great Escape" (2013), Angus Deaton, an Anglo-American economist and Nobel laureate in economics, showed that "inequality is often a consequence of progress," and that "inequality, in its turn, has an impact on progress. And this impact can be beneficial" [13, p. 17], because it creates among other people the desire to catch up.

Kaushik Basu, an Indian economist, focuses on economic inequality between the countries. He writes that "in Norway, the per capita income is 43,400 US dollars, while in Ethiopia and Burundi, it is 90 US dollars. Adjusted for purchasing power parity, the figures will come slightly closer, but the gap will still be huge. The average Norwegian is approximately sixty times richer than the average inhabitant of Burundi, even when the income is adjusted for purchasing power." [14, p. 308–309].

The problems of inequality in the socio-economic development of the areas have also been considered in the studies conducted by many Russian economists. The most prominent among them include the research of A.V. Molodchik [15], G.A. Gershanok [16], A.S. Suspitsin [17].

As we can see, the leading economists agree that high-income differentiation becomes to act as a brake on social progress, as it leads to conservative economic behavior both among the rich and the poor. Thorstein Veblen (1857–1929), an American economist, argued that "people who are wretchedly poor and those, whose strengths are absorbed by daily struggle for subsistence are conservative because they cannot afford to take care of the day after tomorrow; in the same way as the very rich are conservative because they have little reason to be dissatisfied with today's situation" [18, p. 212].

### **The Threat of "Regional Peripheral Economy" in Russia**

A consequence of contraction in the economic autonomy of the regions is a lower initiative of territorial leaders aimed at implementing local activities that contribute to earning monetary funds. In the long-term, this process can lead to a decline in the intellectual and technological development of the territory, which will result in the emergence of so-called "regional peripheral economy."

The theory of "peripheral economy" was proposed in the 1950s by Raul Prebisch (1901–1986), an Argentinian economist, to explain the problems of economic development in third world countries, particularly, in Latin America. It was used along with the concepts of "dependent development" and

"peripheral capitalism." The theory is extensively described in foreign and Russian scientific literature [19–21]. The main attributes of the peripheral economy (peripheral capitalism) were the dependence of technological progress on industrialized countries, development based on agriculture and raw materials, poor diversification of manufacturing, underdeveloped domestic market, low standards of living. The theory of peripheral economy viewed the world economy as a combination of centers (industrially developed countries) that generate ideas and periphery (developing countries) acting as their consumer.

Researchers described the peripheral economy as a dead-end development model, because opposed to real innovative capitalism, "the peripheral is imitation in its essence" [22, p. 164], as far as it involves the development of trade and consumption like in the developed countries, but does not create its own manufacturing sphere based on new technology.

However, by 1990s, the opinion on the peripheral nature of economies in developing countries had been overcome by economic liberalization and openness to the world economy. Today, the eminent economists believe that underdevelopment is not related to internal flaws of capitalism, but to a lower stage of its development in these countries. For example, Hernando de Soto, a contemporary Peruvian economist, wrote: "I am not an ardent supporter of capitalism. For me, capitalism is not an ideological framework or creed. What is much more important for me is freedom, compassion for the poor, respect for the social contract, and equality of opportunity. But, currently, only capitalism can help to achieve these goals. This is the only known system that allows to create a significant amount of surplus product" [23, p. 230]. When analyzing the departure of developing countries from the concept of peripheral economy, Francis Fukuyama, an American philosopher and sociologist, pointed out that, for them, "privatization and free trade have become the new watchwords in place of nationalization and import substitution" [24, p. 84].

While the concept of "peripheral economy" refers to interstate relations, some of its provisions can be applied to explaining the uneven development of the territories within Russia given its vast geographic expanses, a variety of economic conditions and may be described as "regional peripheral economy."

A common feature in the attributes of the peripheral economies in the developing countries and Russian regions is the dependence of periphery from the center, which reduces local initiative, the need for intellectually developed human resources and acts as a brake on the technological development of the territories. The particular aspects of the peripheral economy in Russia consist in the fact that all Russian territories (both underdeveloped and highly developed) are forced to build their economic development under the impact of the federal center, which, by controlling the amount of funds received by the regions, makes their economic development highly dependent on the state of affairs within the federal authorities.

To overcome the threat of establishment of the "regional peripheral economy" in Russia, it is necessary to expand the economic autonomy of the territories and implement the measures to intellectualize their population and develop knowledge-intensive industries.

### **Inception of National Measures to Prevent the Emergence of "Regional Peripheral Economy"**

In the 1980s, Soviet economists and policy makers began to develop the measures aimed at preventing the emergence of "regional peripheral economy" in the country. Even though they did not specifically use this term, they actually worked on resolving the same problem. The scientists made the case to create the conditions for developing the economic autonomy of the territories by establishing their own revenue base and knowledge-intensive production facilities.

The legislative bodies of the country planned a "transition from predominantly administrative methods to economic methods of management at all levels, to the management of interests and through interests, to the general democratization of management, comprehensive intensification of the human factor" [25, p. 84]. At the same time, there was an attempt to align the activities of enterprises with the economic development of the territory. For example, clause 4 of Article 9 of the Law on the State Enterprise (Association) specified that enterprises should actively participate "in the formation of the local budget in accordance with the established standards."<sup>8</sup> This was used as the basis for setting the

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<sup>8</sup> О государственном предприятии (объединении). Закон СССР от 30 июня 1987 [On the State Enterprise (Association). The Law of USSR of June 30, 1987]. (1987). *О коренной перестройке управления экономикой. Сб. документов [On radical restructuring of economic management. Collection of documents]*. Moscow: Politizdat, 178.

task to link the revenues of local budgets with the volume of net income produced in the relevant region and to match the investments in the economy of each region with its output to the national economy.

The search for the options to ensure the knowledge-intensive self-development of the territories and their self-sufficiency resulted in the idea of regional (territorial) cost accounting. In 1987, the Institute of Economics of the Ural Scientific Center of the Soviet Academy of Sciences conducted a research project on the theoretical and methodological problems of enhancing the planning and management of the region, which included a section on elaborating the main directions for establishment and development of cost accounting relations at the regional level of government. The academic supervisor of this study was a doctor of economic sciences A.I. Tatarkin, and the principal executive was E.N. Sadomatnikova (E.N. Sidorova). The study noted that "at the regional level of government, the cost accounting relations are based on establishing the dependence between the performance achieved in a particular territory and the conditions for people and for the development of economic production system created in it." It also proposed the ideas on the organization of territorial financial planning as part of the territorial national economy planning by making changes in the scheme of contributions to the budget through the introduction of the principles of stability and durability of standards. In this case, "the consolidated financial plan of the territory should be prepared on the basis of balancing the provision of resources with their use, including their structural differentiation by sources and areas" [26, p. 36, 55]. The key idea of territorial cost accounting in terms of the distribution of revenues was the proposal to direct them to improving the quality of human resources and developing the sectors of the local economy related to public services. It was suggested to establish the full responsibility of the regions for the development of their non-production sphere.

Practical elaboration of the mechanism for the regional (territorial) cost accounting was provided for by the Law "On the State Plan for Economic and Social Development of the USSR in 1989." It included plans for an economic experiment in Byelorussia, Latvia, Lithuania, Estonia, Tatar ASSR, Sverdlovsk region and the city of Moscow on the restructuring of national economy management on the principles of local self-government and self-financing.

The study of the problems of the self-development of territories and territorial cost accounting held at the Institute of Economics of the Ural Branch of the Soviet Academy of Sciences in the 1980s resulted in a number of publications, including the monograph "Regional Economy: New Nature of Territorial Relations" (1990). In their analysis of the financing source for social and economic development of the territory, the authors wrote that "the current system for establishing financial resources of the region does not meet the requirements of the cost accounting mechanism of territorial management. Not only it fails to create the interest of local authorities in improving regional economy, ... but it is also contrary to the fundamentals of rational economic management." It was further noted that the "lack of interest of local authorities in the development of their own revenue base led to a decline of its share in the total budget revenues." The authors considered the relation of cost accounting in the territories to the cost accounting within the economic enterprises and organizations the initial condition for developing the cost accounting system. They wrote that "no cost accounting of the territory can exist without the full cost accounting at the primary level of social production" [27, p. 109, 110, 158].

Making the case for the ways and methods of territorial self-development continues at the present time. One of the major publications in this area is the two-volume work "The Self-Developing Socio-Economic Systems: Theory, Methodology, Forecast Estimates" published in 2011 [28].

### **Contemporary methods of increasing economic autonomy of territories and preventing the emergence of "regional peripheral economy"**

Since the main methods of increasing economic autonomy of the territories and preventing the emergence of "regional peripheral economy" coincide with the main measures aimed at improving the efficiency of production in the regions and municipal entities described in many scientific publications, we will only mention them without providing any specific line of argument. These measures are aimed at overcoming the main contradiction in the development of territories, which exists between their relatively prosperous current state and emerging degradation of sectoral and territorial structure of production that in the future will lead to negative consequences.

We believe that the substance of economic space is evolving amid the new Russian reality. This space acts not so much as the location of productive forces but as the sphere of economic wellbeing for the

people who live in it. The main criterion of success in the development of a territory is the satisfaction with life (economic happiness) [29]. Therefore, the measures aimed at expanding economic autonomy of the territories should focus on improving the quality of education and professional competence of workers. This is determined by the fact that social progress, where the individual becomes an inexhaustible source of wellbeing, is the main driver of spatial development.

In the new reality, professional and managerial intellectualization is no longer just a part of human life but becomes the life itself. This implies the need for lifelong education. Such education acts as a form of social protection as it is focused not so much on preserving old jobs but on retaining employees by establishing flexible conditions of changing the job for them.

In this case, the territory should focus on two leading areas of training. The first includes the formation of highly skilled workforce capable not only to install and operate technologically new equipment but also to create it when needed. The second area involves improving professional competence of regional and municipal officials. One cannot assume that they are automatically endowed with the gift of technological insight with regard to performance of their functions and will always find, on their own, the "only right methods" for implementing the instructions.

An important way to achieve economic autonomy of the territories is the development of the domestic market. It should proceed through the increase in the output of local products, expansion of local cooperative links and synchronization of investments in various sectors of the economy.

The territories should not limit their activities to copying the measures of economic development, but create their own original platforms. Using someone else's experience should not be a way of life, but only a stage in implementing transformations. The constant use of something that was not created by the collective mind of local people and their leaders weakens people's desire for independent creative search and turns them into passive performers implementing someone else's knowledge and desires. In addition, "imported ideas" are not always suited to local conditions and mentality. The same applies to import substitution.

It is important not to engage in the endless cosmetic improvement of familiar management techniques, but regularly replace them with new ones. The desire to maintain current successful technology as long as possible because it gives good results will lead over time to a "loss of tempo" in mastering new technology, and the region will start falling behind in the competition with other territories.

To reduce the gap in the socio-economic development of the territories, it is necessary to strengthen regional integration by sharing successful experiences and establishing cooperative industrial ties. This will not only increase institutional community, but also help to find joint solutions for social and infrastructural issues.

In the strategy of territorial development we would like to particularly emphasize the measures aimed at enhancing the quality of regulatory institutions and stimulating the production activity caused by technological change, which can lead to the growth of labor productivity. It is worth paying attention to the assertion made by Vladimir Bazarov (1874–1939), a well-known economist, who wrote in his paper on "The Capitalist Cycles and Recovery Process in the Economy of the USSR" (1927) that "the economic development is measured not by the volume but by the level of productive forces, not by the gross output but by labor productivity" [30].

### **Mindset of people, psychological attitudes, "second invisible hand of the market" and "soft power" in overcoming the challenges of "regional peripheral economy"**

A new approach to the development of economic autonomy in the new reality (new normal) is the need for further inclusion of social and psychological factors in the research and practical process. From the methodological standpoint, it is called interdisciplinary approach.

Its importance and necessity are determined by the fact that there is a relationship between economic interests and perceptions of people (ideas) on what they maximize and how they use the appropriate tools to pursue their interests. Dani Rodrik, an American economist, noted that "in the current political and economic models, for some reason no attention is paid to the ideas" [31, p. 22]. However, the new reality, which increased the complexity of production, organizational, financial and economic processes and connected them to socio-cultural relations demonstrates that, while the interests are the driving force of economic behavior, they only motivate the actions, and the actions themselves are determined by the ideas generated by the individual on the way to achieve the goal

(benefit, economic interest). Aspects of human behavior, especially of the irrational one, are studied by the theory of behavioral economics. One of its proponents is George Akerlof, a Nobel laureate (2001), who together with Robert Shiller wrote a book on how the human psychology, its irrational side are managing the economy [32].

The traditional approach based on managing people and territories as "factors of production," i.e., as machines and capital, is already inadequate. The new reality requires researchers and practitioners to go beyond the economics (income and expenses) in their assessment of economic processes and perceive people as individuals. This means that it is necessary to consider not only social and economic changes, but also beliefs of individuals, collective public opinion, civil society actions. They should be included in the analysis of territorial development because today they become an integral part of social progress.

One of the ways to address the issues of territorial development on the basis of ideas is to use the social psychology of people, including motivation, trust, treatment of a person as individual, etc. Considering culture and historical memory in the form of customs, traditions, norms of behavior, the commitment of local people to territorial values has become an integral part of analyzing the territorial behavior of people. Its role increases along with the development of information technology, which makes a stronger communicative impact on people and contributes to the reformatting of their views and sentiments on addressing social and economic problems. Targeted communicative impact is so strong that under its influence the public opinion can be shifted both towards creativity and destruction.

Each area (region, municipal entity) builds itself by using a system of socio-economic, production and technical actions and, thereby, creates its identity, which is a set of attributes and key features that express the cultural and socio-psychological belonging to the community of those who live in that territory. Their existence makes regions and municipal entities different from other territories or their corresponding aggregate.

In order to enable a territory to strengthen and reinforce its identity, its leaders should establish its economic and socio-cultural code in the form of specific documents and actions aimed at its implementation, such as a long-term development strategy for the territory. The leading social-psychological element of the territory should be the conscious shaping of the public opinion by its leaders in order to achieve a complete positive outcome. In their substance, such actions by the leaders of regions and municipal entities represent the formation of corresponding psychological attitude, the theory of which was developed by Dmitry Uznadze (1886–1950), a well-known psychologist and philosopher, in the 1920–40s. When describing the essence of psychological attitude, he wrote that it is "a certain holistic state (hereinafter, the emphasis made by N.D. Uznadze) of the subject," "which can best be described as an attitude of the subject towards a particular direction," i.e. the state implying that the actions taken by the subject are aimed at a particular direction and particular activity. "In summary, he wrote, we can affirm that we have uncovered the phenomena, which unambiguously indicate the presence, in our psyche, of not only conscious but also pre-conscious processes that, as it turns out, we can use to describe the area of our attitudes" [33, p. 25, 28].

The term "second invisible hand of the market" is used with regard to the information economy (new economy), which enhances interpersonal communication and encourages the purchase of those goods and services that are preferred by the established public opinion. It was proposed by Professor A. Dolgin, who noted that "in addition to the famous "hand" described by Adam Smith, a parallel mechanism may be enabled, which will be based not on monitoring the prices but who buys the products, for what purpose and with what effect. This mechanism is none other than the second invisible hand" [34, p. 45]. As we know, Adam Smith called price competition as the first "invisible hand" of the market.

In the recent years, one more force have emerged that affects the public opinion and social behavior of people. It is called the "soft power." This term was introduced into scientific use in 1990 by Joseph Nye, an American political scientist, to describe non-violent influence on international relations. He described its essence as follows: "Soft power is an ability to affect others through the search of allies, framing the agenda, persuading, and eliciting positive attraction in order to obtain preferred outcomes." This definition is cited in a comprehensive monograph published by the Institute of Philosophy and Law of the Ural Branch of the Russian Academy of Sciences in 2015 [35, p. 1718]. The book also describes the expanded definitions of this terms that appeared later by including into soft power not only international, but also domestic space to create ideas consolidating local community.

We believe that approaches specific for soft power can be applied to shaping a positive public opinion when implementing the measures aimed at developing territories. Specific methods of soft power to influence the public opinion of the territories may include the display of successful models of economic development that allowed the regions to become thriving areas, and attractive management schemes identifying new possibilities of science and education in the new environment, ways to improve the quality of life, advanced management practices.

The case for using the soft power as the creative force for establishing the economic autonomy of the territories is based on the replacement of solid management hierarchy by network structures that takes place in the new reality. Indeed, a comprehensive vision of the future and understanding the role of collective mind and collective psychology in the transformation of the territory can effectively change the behavior of people. At the same time, it is important that the agents of soft power have a logically complete and practicable algorithm of action.

If the heads of regions and federal agencies, as well as the scientists considering this issue, are unable to properly make the case and explain to the people in the territory the benefits of its economic autonomy, then the planned process will not give positive results, as the people will assume that someone simply tries to advance his own interests at their expense.

People's comprehension of common benefits coming from the actions that they understand and agree with can serve as a basis not only for addressing the social conflicts, but also for multiplying the efforts of the local community to further develop their territory. The formula for success is not in coercion but in the persuasion of people in the benefits of transformations on their territory.

The overall conclusion of this section is as follows. Addressing the issues of economic autonomy of the territories requires more active use of existing tools of informational impact on people, such as social mindset of people, their psychological attitudes, "second invisible hand of the market" and soft power. These should become a force of positive solutions that is as mighty as power and money.

### **Conclusion**

As the boundaries of the economic autonomy of the territories (regions, municipalities) are determined today by the level of political expediency established by the central government, the best option for ensuring and strengthening the economic autonomy of the territories would be the adoption of a federal law on self-sufficiency and self-development of the territories of the Russian Federation.

One of its key clauses would be the provision on registering enterprises on the same territory where they are directly making their products. This would allow to address the issue of justified distribution of regional value added generated in the territory between the federal budget and regional budgets, as well as between the regional and municipal budgets.

Another key provision should include the distribution of national financial revenues into three blocks. The first block of revenue distribution is ensuring national state functions. It should be based on the principle of financial responsibility of the territory, i.e. on the allocation to the state of agreed amount of funds for carrying out national objectives, including defense, prevention and elimination of emergency situations, education and health care, as well as for transfers. The second block is the centralized provision of modern technological development. It should be based on the principle of ensuring social progress. Some elements of this block have always existed in the national economic system. For example, after the World War II, the enterprises had a fund for mastering new equipment. During the economic reforms of the 1960s, there was a production development fund. But these funds were created at the enterprise level. A new reality and rapid technological change in the world require a national approach to ensuring modern technological development by creating a special national fund of technological development. It will serve as a source for financing the priority research and support national institutes for retraining technical and administrative personnel. The third block is ensuring the development of the territories (regions and municipal entities). Its existence comes from the principle of financial interest of the local community, i.e., its ability to independently use additional financial resources to develop local infrastructure, address social problems, create and maintain facilities in the area of health care, culture, and children's facilities.

The distribution of the value added, that was created in the territories, through the fiscal system should be implemented in such a way that 60–70 % of total revenues remain at the disposal of the authorities of the subjects of the Russian Federation. The same principle (60–70 %) should be observed in the distribution of financial revenues remaining in the region and distributed between the subject of

the Russian Federation and municipalities. We believe that the approach, under which the distribution system of all revenues generated in the country would be built on the principle of the golden section used for the creation of elegant proportions of sculptures and works of architecture at the time of Leonardo da Vinci, would be sound both economically and socially.

Finally, the last idea. The higher economic autonomy of the territories supported legal and regulatory documents is only a prerequisite for improving the wellbeing of people. Such improvement will be caused by innovative activities of the residents and their leaders. When such activities slow down, the compensatory role of economic autonomy of the territories will tend to zero.

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