

**Research article**

# Specific Features of Economic Federalism From the Standpoint of Regional Economics

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**Abstract.** In the modern Russian space, the socio-economic role of the regions is increasing. The region, first, is part of the system of a federal state, and second, it is a relatively independent economic system that has its own political, economic, social and cultural characteristics. Analyzing the essence of economic federalism from the perspective of various branches of economic science will allow a more systematic study of federal and regional development interests. Therefore, the purpose of this article was to identify the specific features of economic federalism from the standpoint of regional economic science. Comparative analysis was used as the research method. It was found that economic federalism, from the standpoint of regional economics, represented a system of relationships and a mechanism for interaction between the central core and the territories of the country regarding the provision of economic resources for state functions at different levels of government. The formation of an effective model of economic federalism should be based on the organization of interactions between the federal center and the regions, and not on strengthening the 'power vertical', which will allow combining the interests of the federation with the interests of its subjects and municipalities, ensuring the sustainability of territorial development.

**Keywords:** economic federalism, regional economy, mesoeconomics, territorial development

## 1. Introduction

At the present stage, there are significant changes in the importance of regional socio-economic systems in the Russian economy. Regions, having objective opportunities for carrying out economic activities, begin to determine the territorial policy of the state. As a result, there is an increasing interest in regional topics in scientific circles.


Regions are not only a structural unit of a federal state but also a relatively independent system that has its own political, economic, social, cultural, and other characteristics. In this perspective, the region as an entity of a federal state can be considered as "a mesosystem, a partial unit of the federal system, whose political and economic

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**Dates**

4 February 2022

 Publishing services provided by  
**Knowledge E**
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Selection and Peer-review under the responsibility of the Culture, Personality, Society Conference Committee.



potential is based on the territory, population, national economic complex and the federal organization of the political and territorial space” [1].

The economic component of the region is associated with the characteristic direction of the development of productive forces. In this interpretation, the region is understood as “a geographically specialized part of the national economy of the country, characterized by the unity and integrity of the reproductive process” [2]. The regional economy considers the region as a spatially limited part of a single national economic complex, that is, as a structural element of the economic complex of the country [3]. From the standpoint of economic nature, a region is understood as the “territorial development of production forces and production relations” [4].

The political and administrative component of the region reflects its political content, political goals, and values. Since all economic relations are permeated by power relations, the political and administrative structure of the region coincides with its economic structure. It is the levels of administrative division that provide the region with the necessary conditions for socio-economic functioning.

The ethnic component is related to the multinational composition of Russia. The Russian Federation is a complex state that includes nations, ethnic groups, and state-like entities that have lost part of their sovereignty in favor of the federation. A third of Russia's regions are formed on a national basis; such regions include republics, autonomous regions, and autonomous districts. The territorial-national principle of territorial division has its roots in the national composition of the Soviet Union and reflects the need to preserve national identity.

From a socio-cultural point of view, the region represents people who live on its territory and form a certain historical and cultural community with a unique character, lifestyle, and their own ideas in solving life problems [5].

The legal component of the region is related to the fact that activities in the region are necessarily subject to legal regulation; law-making in the regional area is of great importance for the normal functioning of the region, and the interaction of the federal and regional legislative authorities can be a source of both conflicts and the normal life of the region.

Based on the above, the region is a complete system, clothed in a spatially organized form, which has all the above-mentioned characteristics.

## 2. Methodology and methods

*Application of the method of comparison in the study of the relationship between the concepts of “federation” and “region”*

When studying the relations of federalism, the question of the relationship between the concepts of “federation entity” and “region” is debatable.

One should agree with those authors who believe that the practice of organizing the Russian federal space allows distinguishing and identifying these concepts [1].

Regions in the modern federal system are full participants in the political process. The starting postulate in comparing the concepts of “region of the state” and “federation entity” is the functions assigned to each entity. These functions can be fully and effectively carried out only by a certain historically, politically, and economically integral unit, which is the region of Russia.

In the scientific literature, the relationship between the concepts of “region” and “federation entity” is interpreted in several ways. Some authors believe that they can be considered identical under certain conditions; others think that the concepts of “region” and “federation entity” can exist in parallel and complement each other; others suppose that the substitution and identification of these concepts complicate the relationship between the federation and its entities.

Proponents of the approach on the legality of using the concept of “region” to designate a federation entity believe that the basis for this position is laid in Russian regulatory legal acts. Thus, in chapter 3 of the Constitution, which establishes the federal structure of Russia, Article 71 uses the term “regional development funds” in relation to the financial funds of the federation entities used to activate economic processes on their territory. This position is also supported by the Tax Code of the Russian Federation, which establishes the term “regional taxes” in relation to taxes established and regulated by a federation entity. This approach can also be seen in the decree of the President of the Russian Federation dated January 16, 2017 No. 13 “Fundamentals of the state policy of regional development of the Russian Federation for the period up to 2025”, in which these concepts are also identified: “the region is part of the territory of the Russian Federation in the territory of the Russian Federation’s entities”.

Consider the second approach, in which the concepts of “region” and “federation entity” can exist simultaneously and complement each other. The concept of “region”, according to Mezhevich, is more universal and large-scale in comparison with the concept of “federation entity” [6]. Klimanov adheres to the position that a region can be considered not only an internal territorial entity that coincides with the borders of

the territories of the federation entity but also a supra-entity political and legal space (federal districts, territories of regional development programs, investment projects (the Far East, the Urals, Western Siberia, Trans-Baikal Region, etc.) [7].

Potapov [8], in contrast to the position of Klimanov [7], believes that “the territory of the federal district or a vast geographical region, which includes several of Russian Federation entities, is a macroregion, which does not implement its own economic management through the use of district tools of regional management, does not create its own legislative (representative), judicial authorities of federal districts, executive bodies perform only the functions of individual federal bodies of state power, without giving them special district functions of these organs”. At the level of the federal district, its own regulatory legal regulation is not carried out since the territorial bodies of the federal executive authorities do not perform standard-setting functions. A similar opinion is shared by Minakir, who calls the macro-regions of the Far East and the Baikal region “exotic objects of regional policy” [9].

The composition of macroregions may not always coincide with the composition of federal districts. This category, according to Miroshnikov, is economic, not administrative [10]. At the same time, “the macroregion is of strategic importance for the regional development of Russia, ensuring the implementation of such powers of the federation as the formation of interregional coordination in the control, personnel, and information spheres in the territorial aspect” [8].

Proponents of the approach of the fundamental difference between the concepts of “region” and “federation entity” proceed from a formal legal position. These researchers believe that the Constitution gives a clear definition of the composition of the Russian Federation and calls its constituent parts entities, classifying them further depending on the order of formation, geographical features and ethnic differentiation into republics, regions, territories, autonomous districts, autonomous regions, cities of federal significance. The term “region”, according to proponents of this approach, received a legal framework with the adoption of Presidential Decree dated May 13, 2000 No. 849 “On the Plenipotentiary Representative of the President of the Russian Federation in the federal district”, which identified federal districts that do not change the structure of the Russian Federation, but update it and give a new impetus to the economic and political development of entities within the “new regions” — federal districts.

Other authors who support this position believe that the term “region” of a country reflects the entire range of economic, historical, political, social, spiritual, and moral ties and relations that arise within the framework of the spatial organization of people’s lives, and does not simply emphasize the administrative and legal aspects of issues

as a “federation entity”. Based on this understanding, in their opinion, some entities of the Russian Federation are not regions at all. For example, Tsyganok believes that “the Jewish Autonomous Region, created artificially, the unity of which has no historical evidence, cannot be attributed to the regions”. He writes: “Only a few entities of Russia are regions according to the above criteria, while most entities are only administrative-territorial units. It is necessary to strive to ensure that the remaining entities become regions or merge into them. This will make it possible not only to develop intra-federal relations but also to harmoniously increase the pace of economic and socio-cultural growth in the country as a whole” [11].

### 3. Results

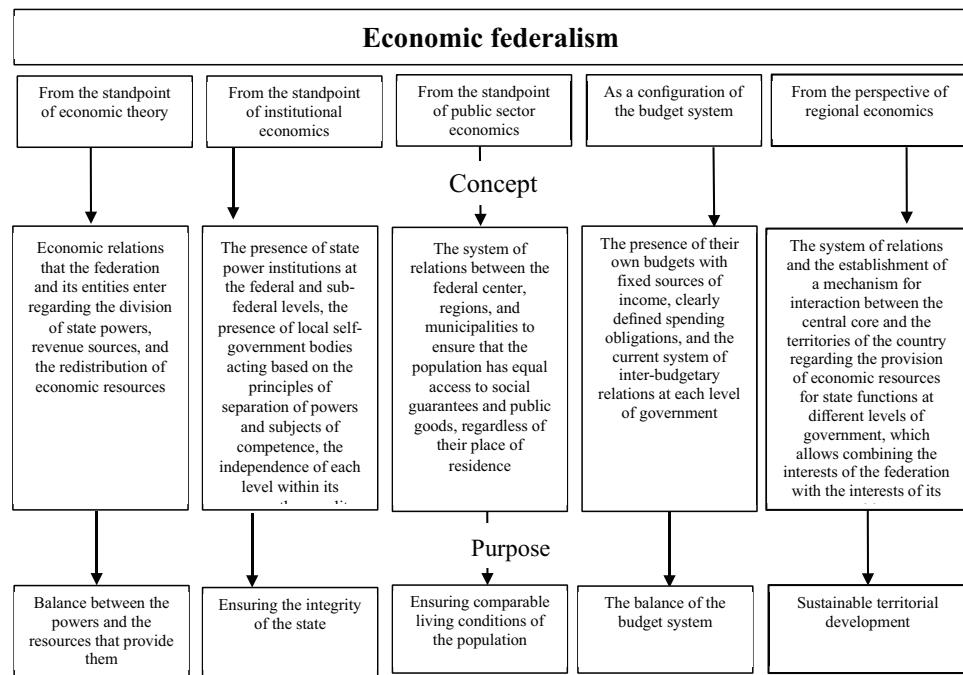
Despite the fact that the concept of “region” and “federation entity” are almost identical, and in some cases coincide, such synonymy is not always justified because of the high degree of polysemes of the term “region”. The use of the term “region” allows focusing not only on the territorial borders of the federation entity, allocated in a formal legal way but also on a certain territorial community that arises within the framework of economic, political, or historical interaction.

In the authors’ opinion, from the point of view of the regional economy, the federation entity is an administrative-territorial unit of the state, which represents the subnational level of the economic process, being both a participant in the economic relations of federalism and a territorial space, which in turn is also subject to administrative-territorial division.

The use of the terms “region” and “federation entity” in the theory of federalism as synonyms allows emphasizing the special order of organization of state power, reflecting such a specific way of interaction between the state and its constituent nations, ethnic groups, local communities, which allows preserving and implementing part of national and state sovereignty at the subnational level. The identification of the above-mentioned terms allows emphasizing that in the territory where state administration is carried out, a certain socio-economic system has developed, life activities are carried out, specific political, economic, and social functions are implemented.

Thus, when the study deals with regional policy and the regional level of government, including the study of issues of federalism, the identification of the concepts of “region” and “federation entity” seems appropriate.

Due to the specifics of the institute of federalism, it is necessary to conduct interdisciplinary developments. The features of economic federalism are studied by such



**Figure 1:** Features of approaches to the study of economic federalism from the standpoint of economic sciences.

sciences as economic theory, institutional economics, economics, and finance of the public sector. Also, in the authors’ opinion, certain aspects of economic federalism are studied by regional economics (Figure 1).

Economic theory considers economic federalism from the standpoint of the essential characteristics and content of economic relations that the federation and its subjects enter in the process of delineating state powers, accompanied by delineations of revenue sources and inter-budgetary redistribution of funds.

From an institutional point of view, economic federalism is a set of institutions of federal and sub-federal power: norms, rules, laws, organizations, institutions from the point of view of the interests of independent authorities at each level within their powers, in order to ensure the integrity of the state. From the standpoint of institutional economics, the economic aspects of federalism are studied in close connection with social, political, and legal problems.

From the standpoint of public economics, economic federalism is regarded as a system of relations between the federal center and the regions to ensure the population equal access to social protection and public goods, regardless of the place of residence. The specifics of the composition and volume of public services is determined at the territory level, not the state as a whole, so the economics of the public sector explores the optimal structure of the involvement of various levels of government in the creation and provision of public goods, the provision of public services.

From the point of view of public sector finance, economic federalism is implemented in the configuration of building a budget system and implies that each level of government has its own budgets with fixed sources of income, clearly defined spending obligations, and a functioning system of inter-budgetary relations.

The Russian Federation is characterized by a significant territory, so considering the regional component is a necessary attribute of the study of socio-economic processes. The increasing importance of regional aspects in the development of the Russian economy leads to a significant expansion of scientific research in the field of the functioning of regional economic subsystems.

The successful implementation of federalism in the country is ensured by the development of the regions [12]; therefore, within the framework of this study, the relations of economic federalism are of interest in connection with their location or flow within certain spatial boundaries. When considering economic federalism from the standpoint of regional economics, the spatial aspect of the complex structure of federalism is considered, and specific territorial features are highlighted, without which any research becomes a “banal study of individual parts of the national economy” within geographical boundaries [13, 14].

From the standpoint of regional economics, not only the general patterns of development and organization of relations of economic federalism with the participation and on the territory of the region are studied, but also their features are identified, the territorial diversity of these relations is fixed, an objective assessment of the dynamics of changes is given, specific features, connections, processes occurring as a result of the action of economic policy in a particular territory are determined, hypotheses are proposed and strategies for the future development of relations of federalism in time and space are selected.

## 4. Discussion

At the center of the regional features of economic federalism there is the specificity of providing resources for the implementation of state functions at the level of territories, and not at the level of the state. The study of federalism from the standpoint of regional economics allows determining the reasonable proportions in the differentiation of state functions and financial powers not only along the vertical of the state structure but also along its horizontal in the single economic space.

Regional economy allows paying attention to the significant role of regional and municipal socio-economic systems in the harmonization of relations of federalism.

Therefore, economic federalism from the standpoint of the regional economy considers the possibility of creating conditions for sustainable socio-economic development for each region through a balanced division of functional powers, sources of their financing, and equalization of regional opportunities for financial support of such development.

According to Thomas Jefferson, the third president of the United States, one of the authors of the US Declaration of Independence, "federalism is a territorial form of democracy". This thesis was taken as a basis by the authors I. Busygina and Filippov, who rightly believe that states that use federal forms of organization and management create the best conditions for the implementation of democracy, and such states can be considered politically mature [15]. The position on the democratic nature of federalism suggests that federalism provides more opportunities for the realization of economic interests and considering regional peculiarities of socio-economic development.

That is why the federal center, together with the regional authorities, should understand and find solutions in regulating the central issues of economic relations of federalism, not to implement the model of "centralist solutions", but to build civilized relations of economic federalism. The approach to the relations of economic federalism from the standpoint of regional economy will allow coordinating national, regional, and municipal economic interests.

The formation of an effective model of economic federalism should be based on the organization of interaction between the federal center and the regions, and not on the strengthening of the "vertical of power". This is based on the constitutional status of regions as subjects of federalism, in which they are not subordinate to the "center" administrative-territorial units, but are full participants in federal relations based on the principles of differentiation of subjects of competence and powers and equal interaction in the areas of joint competence. It is the independence of the regions in decision-making, their organizational and financial support, the ability to influence the processes of territorial administration that allows speaking about the effectiveness of the existing system of federalism in the country.

At present, an important task for all subjects of federal relations is to create conditions for the fullest realization of their economic interests. These interests are characterized by a set of needs of the subjects of federal relations and economic relations that mediate the process of their satisfaction and are in contradictory unity with each other [16].

It should be noted that national economic interests cannot be fully decomposed into regional interests, and, conversely, regional economic interests do not add up to national interests.



Within the framework of a single federal state, the regions, while preserving their own economic interests, are united to meet the common interests of all regions, which the regions are not able to effectively solve without the participation of a single central government. Regional interests are transformed into national interests in a single system.

The economic interests of the regions are to ensure the stable functioning and progressive development of the territory.

The main regional interests within the framework of the system of economic federalism are related to the following points:

1. ensuring the standard of living and the quality of life of the population, its individual layers, and groups at a level not lower than the national average;
2. existence of their own regional economic sources of development;
3. availability of opportunities to use all types of the potential of the region (financial, labor, production, intellectual, natural resource, environmental, etc.), considering the interests of the population of the region;
4. functioning of the system of intra-and inter-regional economic relations;
5. stability of the socio-political and national-ethnic situation.

Currently, in the Russian Federation, it is important that the economic interests of the regions are not transformed into the interests of administrative centers. This is especially true in conditions when the state and the main participants in the economic process (economic entities, consumers) operate administrative and command centers of the federation entities, which consider themselves authorized representatives of regional interests.

The coincidence of national and regional interests is noted in such areas as the growth of the regional product, the growth of exports of finished products, the reduction of inflationary processes, and unemployment. There is a discrepancy and contradiction of interests in the issues of redistribution of spheres of authority and competence, redistribution of income sources, differentiation of ownership rights to property and resources.

The current mechanism of economic federalism in Russia, designed to coordinate the economic interests of the federal center and the regions, is currently not able to effectively ensure such coherence, real integration of territories, coordination of actions of federal and regional authorities, and consideration of the interests of all population groups.

The coordination of the economic interests of the participants in the relations of federalism and their implementation is complicated by the existing asymmetry at the regional level.

Buchwald notes that during the federal reform in terms of improving the Russian model of economic federalism, “it was not possible to fully coordinate the formal equality of the federation entities with the possibility of giving additional incentives to the regions that can serve as locomotives of modernization of the Russian economy; there is a noticeable predominance of equalizing federal regulation over stimulating” [17].

Bochko draws attention to the fact that “the preservation of the former relations between the center and the regions can become a brake on the scientific, intellectual and technological development of our state” [18].

Thus, to ensure the socio-economic growth of the Russian regions, it is necessary to renew the relations of economic federalism in the country.

An effective model of federalism implies that the regions are capable of independent sustainable economic development, the necessary conditions for which must be provided by the federal center. To do this, the center should implement system-wide regional regulation aimed at creating prerequisites for the favorable development of the regions.

## 5. Conclusions

Thus, according to the authors, in order to achieve an effective and sustainable model of economic federalism in Russia, it is necessary to focus on a set of measures aimed at a consistent and significant reduction of centralization in the adoption and implementation of decisions on regional development problems that are being solved by the following methods:

First, through a balanced differentiation of functional regional authorities and their own resources to cover them. Such important issues as the delineation of the subjects of competence and powers, their real budget support, the establishment of schemes and mechanisms for the financial relations of the participants in the relations of federalism are the subject areas of budget federalism.

Second, this is achieved by solving the problems of attracting investment without the intervention of various federal bodies, in which the levers of managing territorial processes are concentrated. This question is the subject area of economic federalism.

Third, it is solved by the legislative establishment and practical control of compliance with the requirement of mandatory consideration of regional conditions and assessment of regional consequences of decisions taken by all federal authorities. Currently, neither the federal government nor any single federal agency has a complete and reliable idea of how their decisions are superimposed on the “grid of regions”. Meanwhile, any of these decisions necessarily have regionally mediated effects and consequences. This immutable fact is still little or not taken into account by the federal authorities in the practice of making and implementing their decisions, which reduces their validity and effectiveness, does not contribute to the harmonization of relations between the “center” and the regions. This issue is the subject of the legal support of federalism.

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